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Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

16 November 1989

Paul Gray Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

Dear Paul,

I attach the briefing sheets that were in the Chancellor's folder for his oral statement in the House yesterday. I gather that the Prime Minister asked for these. They were put together in some haste and I cannot guarantee that they are accurate in every single respect.

Yours,

Duncan.

DUNCAN SPARKES
Assistant Private Secretary

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ECONOMY - GENERAL

<u>Economy in a mess</u>

Enormous improvement

- productivity + manufacturing grew faster since 1980 in UK than other major economies
- profitability highest since 1960s
- business start-ups 1600 a week in 1989
- employment up $2^3/_4$ million since 1983

Led to a surge of confidence and a problem of too much growth.

<u>Lowest growth rate in Europe/G7?</u>

- Our cycle is ahead of theirs
- over 10 years to 1990 highest growth in EC
- 4 years to 1990 average growth about 3 per cent
- need a slowdown to return to growth without inflation.

<u>No sign of slowdown</u>

- Retail sales fallen over last 3 months
- house prices stopped rising and falling in some areas.

<u>Why are inflation and trade deficit so high?</u>

- Surge in borrowing in last 2-3 years
- with hindsight demand growing too fast in late 1987 and 1988
- expected Stock Market crash to lead to slowdown - as did Opposition [eg Smith 14 November "growth will inevitably slowdown. Now is the time for cuts in interest rates to stimulate the economy"].
- it didn't happen, economy roared on.

<u>Unemployment to rise</u>

- Hope not but largely in hands of wage negotiators
- excessive wage claims threaten not just own jobs but other peoples'
- (like Labour government) no forecast of unemployment.

<u>Recession and bankruptcies</u>

- Not forecasting a fall in GDP
- but firms need to keep their costs under control
- industry has more to fear from high inflation.

<u>More mortgage misery/reposessions</u>

- Understand difficulties
- but inflation must be brought down
- 85 per cent of household borrowing is mortgages
- repossessions in H1 1989 less than 0.1 per cent of loans
- average monthly payments on mortgages have risen £52 since June 1988 (low point).

<u>Result of tax cuts</u>

- Ludicrous
- fiscal policy as tight here as in than any other major country
- 1988 Budget cut taxes by £4 billion compare £54 billion increase in personal borrowing and the £11 billion increase in imports that year.

FORECAST SUMMARY

	1988	1989	1990
GDP - total	4¼	2	1¼
- non-oil	5	3	¼
Current Account	-14½	-20	-15
Exports	¼	4 3/4	6¼
Imports	12¼	9¼	1¼
Domestic demand	7¼	3¼	0
Money GDP	10¾	8½	6¼
RPI Q4	6½	7½	5¼

PSDR

- PSDR 1989-90 forecast at £12.6 billion (£8.3 ex pp) compared to £13.8 billion (£8.8 ex pp) in FSBR
- no forecast for 1990-91 until next FSBR; working assumption in AS that same as in last FSBR (£10 billion)

Demand slowing?

- retail sales virtually flat: in last three months show ½ per cent fall on previous three months and 1¼ per cent higher than year earlier. Slowest annual growth since June 1982
- housing market cooled off markedly; latest RICS survey shows 95 per cent of estate agents reporting stagnant or lower prices over last quarter
- company spending takes longer to adjust but is clearly slowing, as recent intentions surveys show

MONETARY POLICY

What is interest rate policy?
To set whatever interest rates are needed to bring down inflation.

Why is M0 above its target range?
- reflects growth of inflationary pressures
- coming back now towards target range

How will you get it within it?
- clear signs that high interest rates are bringing monetary growth back towards range

Credit controls?
- credit controls not the right way
- disadvantage British banks
- unenforceable in today's global markets

If Monetary Policy works, why are we in such a mess?
- because, with hindsight, monetary policy was not tight enough in the past
- underestimated the surge in confidence which led to unprecedented borrowing by consumers and an investment boom at the same time
- can't always predict these things exactly, bound to be cycle but need determination to get on top of inflation

New or broad money targets?
- no plans for new targets. M0 proven track record
- take broader money changes into account
- but velocity trend has been too unstable to make suitable for target
- difficult to interpret eg in 1980-81 and now gives no sign of tightening policy and impending slowdown

Funding policy?
- aim is for Government to conduct affairs to have a broadly neutral effect on funding
- but Mansion House Speech repeated that we do not offset all currency interventions within year so in practice likely to be some over-funding this year
- [full Funding:- to fund total of maturing debt, PSBR and change in Foreign Exchange Reserves
- by sale of debt outside banking and building society sectors].

What is exchange rate policy?
To take exchange rate into account in setting interest rates and to stop a fall in the exchange rate undermining our counter inflationary policy

£ overvalued?
- 1989 exports of manufactures up 11 per cent and profitability up
- shows firms can compete but certainly need to watch costs and look for opportunities

Let it float?
- No government can be indifferent to exchange rate
- a fall in exchange rate increases inflationary pressure
- I therefore favour a strong £

ERM now?
- not a panacea, still need high interest rates to bring down inflation
- not right to join now
- but when not whether and during Stage 1
- conditions clear - when UK inflation is significantly lower, there is capital liberalisation in Community and real progress has been made towards completion of single market, freedom of financial services and strengthened competition policy

Why has £ fallen?
- £ still around its level in 1987
- bound to be movements up and down
- tight fiscal and monetary policy will keep it firm

MONETARY POLICY - FACTS

Exchange rate movements

	£/ERI	$	DM
1978	101	1.92	3.85
1980/81 peaks	131.9	2.47	5.07
1985 (£/$ trough)	90.9	1.04	3.61
1986 average	91.5	1.47	3.19
1987 "	90.1	1.64	2.94
1988 "	95.5	1.77	3.12
Budget day 1989	96.1	1.72	3.20
5 Oct (last interest rate rise)	91.6	1.62	3.03
25 Oct (pre Lawson)	90.1	1.61	2.96
14 November (close in London)	89.1	1.58	2.93

MTFS framework

Last MTFS published at Budget time in March

Main points:

	1989-90	1990-91	1991-92	1992-93
Money GDP	7¾	6	6	5½
Real GDP %	2½	2	3	3
Inflation %	5½	4	3	2½
M0 %	1-5	0-4	0-4	-1-3
PSDR (£ billion)	14	10	6	3

Monetary aggregates

	End 87	End 88	Sep 89
M0	+4.3	+7.7	+4.5*
M4	+16.3	+17.6	+17.3
Bank and Building Society Lending	+19.0	+24.6	+22.0

* ½-1 per cent higher adjusted for postal strike.

Money GDP

- Three measures - Expenditure, Income, Output
- should be equal but never are
- so CSO use GDP(A) on average
- CSO recently made adjustments so that GDP(E) grows in line with GDP(O) which they think is best short term measure
- volume (real terms) GDP figure inflated by GDP deflator to give money GDP.

Interest rates

	Base rates	10 year gilt
Oct 76 Labour high	15	
Oct 77 Labour low	5	
Oct 87 (Black Monday)	10	10.5
May 88 (low point)	7½	9.4
25 November 1988	13	10.1
24 May 1989	14	10.3
5 October 1989	15	10.5
14 November 1989	15	10.5

INFLATION

Inflation not coming down

Bound to take time but clear that demand is slackening.

Inflation already peaked in May (8.3).

Mortgage interest distorts level but still as good as Labour's best month.

Interest rates forcing up inflation?

- perverse impact on RPI
- but encourage saving and discourage borrowing
- reduce demand pressure
- in time bring down inflation.

Why did inflation rise?

- rise in inflation is worldwide over last two years
- underestimated surge in confidence which led to unprecedented borrowing by consumers and investment book
- with hindsight, should have tightened monetary policy at end-1987, early 1988
- but post-Stock Market crash, concerned at collapse in confidence

Forecast

Percentage change on year earlier

	1988 Q4	1989 Q4	1990 Q4
RPI	6½	7½	5¼
Food	4	6¼	5½
Nat.Ind.	7½	7¼	7¼
Housing	16½	17½	11
Other	4¼	5	4¼

Public sector prices to blame

- National industries need to finance investment.
- But their prices not big factor in RPI (4½ per cent weight).
- Main problem is housing where impact of interest rates is clear.

Housing?

- reflects mainly interest changes and rising house prices
- we expect growth in this component to fall next year
- never publish interest rates assumptions

Community Charge?

- level of community charge is up to LAs
- will be included in RPI
- PES figures based on past trends not on any assumption about community charge. But consistent with £278

Nationalised industries

- rises for rail (announced for February 10 per cent LRT, 9 per cent BR) reflect need to finance massive investment programmes
- industries should earn commercial return

History

	Average	Low	High
Labour 74-79	15.5	7.4	26.9
Conservative	7.6	2.4	21.9

[illegible]

BALANCE OF PAYMENTS

Deficit serious problem?

- Does indicate economy has been overheating
- Must come down
- Forecast - £20 billion in 1989, £15 billion in 1990
- Fall of 1 per cent of GDP
- Hope and expect to see it fall further in later years
- Only ¼ of manufacturing imports are for consumption, ¾ for production and investment
- Private sector deficit does not reflect unsustainable government spending

Structural problem?

- Rise in manufacturing deficit reflects growth and demand and, particularly, investment
- Investment will help bring down future deficit
- Manufacturing exports rising strongly (11 per cent in 1989, 6½ per cent in 1990) shows we can compete.

Need to devalue?

- Key to competitiveness is unit costs - in industry's own hands
- Cannot allow depreciation to undermine our fight against inflation
- Exports growth shows British industry can compete
- But, as capacity constraints ease, industry needs to look for opportunities at home where imports could be displaced.

Forecast optimistic?

- No [uncertain but best guess]
- One per cent of GDP full forecast 1990 over 1989
- Larger year on year improvements

  1968-9   1.6%
  1974-5   2.4%

Deficit will weaken sterling?

- No
- Markets ~~[illegible]~~ support Government's sound policies and commitment to lower inflation
- Favour a firm exchange rate.

When will we get back to balance?

- Present level of deficit is too high
- But no presumption that we need exact balance; plenty of investment opportunities in UK
- Bound to be times of deficit and of surplus
- Expect a continuing decline in deficit beyond 1990

Invisibles

1989 - surplus down to £4 billion (from £6 billion) because:

(a) lower earnings from interest/profit dividends as result of interest payments abroad

(b) net transfers overseas 1990

Recovery of tourism and financial services forecast in 1989 and 1990 so £6 billion surplus in 1990

Current Account figures £billion

	1979	1985	1986	1987	1988	1989	1990
Manufacturing	2.7	-3½	-6	-8	-15	-17	-15
Oil	-½	8	4	4	3	1	2
Visibles	-3½	-3½	-9½	-11	-21	-24	-21
Invisibles	3	6½	9½	7½	6	4	6
Current Account	-½	3	-	-3½	-14½	-20	-15
Balancing item	1.1	6½	11	11½	12½	15½	

ECONOMIC ASSUMPTIONS

North Sea Oil Prices and Exchange rate

Close to recent levels

Exchange rate November 14 89.1 ERI

Brent spot oil price of around $18 a barrel.

Inflation

	Sept 89	Sept 90	Sept 91
RPI	7.6	6½	3

	89-90	90-91	91-92	92-93
GDP deflator	7	5	3½	3

Unemployment (GB adult)

1.67 89-90
1.75 90-91 - 92-93

Assuming increase in unemployment?

- Stylised assumption
- Never forecast unemployment (nor did Labour)
- depends on negotiations on pay
- with slow down in output growth unemployment could level off in coming months
- fallen by nearly 1½ million since July 1986
- employment up since 1983 by 2¾ million
- 1.75 assumption set in summer for survey discussions, quicker than expected decline in unemployment since then but prudent not to adjust assumption lower for PES purposes

PSDR

Forecast:	1989-90	£12½ billion
	(Budget	£13¾ billion)
Assumption: (MTFS)	1990-91	£10 billion

Reduction in PSDR 1989-90

- £¾ billion lower privatisation proceeds
- higher take up of personal pensions.

Fiscal adjustment

- have not published fiscal adjustment in AS for four years
- tax changes and review of MTFS matters for the Budget
- have not thought about the Budget yet
- but determined to keep fiscal policy tight as part of anti-inflationary strategy

Assumptions on North Sea oil production

- accidents - Piper Alpha, Fulmer, Brent D., Cormorant
- reduced GDP growth by 1 per cent in 1989; forecast to boost growth by ½ per cent in 1990
- Depress trade balance by £¾ billion in 1988 and £1½ billion in 1989
- oil surplus forecast to rise to £2 billion in 1990

MANUFACTURING

Output increase

1989 Q3	Manufacturing	Industrial
1979H1	+12½	+11¼
1981H1	+33	+25
1988Q3	+3¼	-
1988 on 1987	6¾	
1989 on 1988	4½	
1990 on 1989	1½	

Share of GDP

30½ per cent in 1974

28½ per cent in 1979

23½ per cent in 1988

- long run decline in share of GDP with the development of services
- but has grown faster than non-North Sea GDP in 1987 and 1988 and forecast to do so in 1989 and 1990

Investment 1989 H1 (including leased assets)

	%age increase over
1988H1	6½
1983H1	63
1979H1	6
1988 on 1987	10¼

- strong growth also in 1989, now at record level
- quality much improved too

Trade

Exports

- our share of world trade (in volume and value) falling over 20 years (all Governments)

BUT

A. The 1989 UK share volume of world trade forecast to rise

AND

B. volume of exports forecast to rise 6½ per cent next year in line with world trade

Imports

- share of imports in total demand rising for 20 years. (Value + Volume)
- growth will slow with domestic demand

Productivity

- up 5¼ per cent a year since 1980
- fastest growth of all large industrialised countries (same is true from 1979-1989)

Profitability

- risen strongly since 1981
- industrial and commercial companies profitability highest for 20 years

<u>Why did Lawson go?</u>

Question for him.

I have had less time than anyone to think about it.

<u>Lawson saw the books and went?</u>

- Wholly unfair
- no-one who knows my RHF would believe that for a moment
- temporary slowdown but long-term prospect is sustained growth without inflation.

PUBLIC SPENDING PLANS

You've lost control of it?

No. Ratios unchanged from last year.

Real growth in GGE averages 1¼ per cent 88-89 to 92-93; same as increase from 88-89 in last plans.

GGE only 2¼ per cent higher in real terms in 90-91 than in 84-85.

Faster growth of programme spending possible due to lower debt interest.

Government accommodating inflation?

No. Costs have risen but no across-the-board automatic compensation.

Key priorities show substantial real growth; some programmes show cash fall.

Reserves inadequate?

Reserves prudent; slightly lower than recent years reflecting NPT.

Additions to previous plans?

Impossible to say. Previous plans didn't include forward figures for some key elements of NPT such as central government grants to LAs. New plans together with projections of items outside NPT imply additions to total GGE of £5¼/6¼ billion next year and year after. (Probably similar increases on OPT basis.)

Planning total up sharply in 90-91?

Reflects introduction of new system of LG finance: huge swing from LA spending outside NPT to CG support for LAs within it.

Abandoned planning totals for GGE?

No change to GGE or overall public spending policy or objectives.

NPT simply a better instrument for achieving those objectives, allowing better planning and control.

Identifies more clearly differing responsibilities of CG and LAs.

1989 SURVEY: CHANGES TO GGE (ex pp)

	1988-89	1989-90	1990-91	1991-92	1992-93
£ billion	185.7	200.5	215.4	227.2	239.1
Survey increase			5½	6½	-
% Real increase on previous years		1.0	2.3	1.9	2.2
Average		1¾	1988-89 to 1992-93		
GGE (ex pp) % of GDP	39	38¾	39	38¾	38½
[Last Autumn Statement	39¼	39¼	39	38¾	-]
Debt Interest	18.1	17.8	15½	14½	14

SECRET

(vii) Main Changes to Departmental Programmes from 1989 PEWP

Central Government Own Expenditure

Main Changes from 1989 PEWP	£ million 1990-91	1991-92	1989-90 - 1990-91 increase £m
Dept of Health	+1170	+1540	+2030
Dept of Social Security	+670	+1800	+4870
DOE - Housing	+570	+550	+710
Dept of Transport	+430	+460	+340
Northern Ireland	+330	+390	+230
Chancellor's Departments	+290	+350	+460
Trade and Industry	-80	-70	0
Department of Employment	-110	-220	-70
Memo:			
Total CG Own Expenditure	+4200	+6000	+11,250

Public Corporations

£ million

Main Changes from 1989 PEWP	1990-91	1991-92	1989-90 - 1990-91 increase £m
Department of Transport	+400	+500	+170
Department of Energy	+310	-20	-300
Memo:			
Total Public Corporations	+840	+330	-150
of which:			
Nationalised Industries	+910	+530	-160

(viii) Local Authorities

New planning total includes only local authorities expenditure financed by central government support. Local authorities self-financed expenditure now outside planning total, though still counted within GGE.

New plans for central government support to local authorities:

1989-90	1990-91	1991-92	£ billion 1992-93
9.8	41.8	43.8	44.9

Comparison of OPT/NPT

OLD	NEW
Central government's own expenditure	Central government's own expenditure
Public corporations	Public corporations
Local authorities spending (net of capital receipts) - current - capital	Central Government support for local authorities - Revenue Support Grant - Non-domestic rate payments - Specific grants - Credit approvals
Privatisation proceeds	Privatisation proceeds
Reserve	Reserve
	New Planning Total
Old Planning Total	
	Local authority self-financed expenditure (net of capital receipts)
General government debt interest	Central government debt interest
Other adjustments	Other adjustments

LOCAL AUTHORITY EXPENDITURE

Plans consistent with C.Charge of £278?

- projection of total (ie current + capital) LA spending based on past trends and slow modest real growth
- not based on any assumptions on how LAs will finance it
- up to LAs to set C.Charge
- £278 (England) charge for Total Standard Spending

LA self-financed expenditure unrealistic?

- Simply residual based on trends in total spending and plans for CG support
- surge in capital spending in 1989-90 distorts the trends (expected fall of £1.5 billion in 1990-91)

Unrealistic?

- 1990-91 figures in line with past trends taking account of fall in capital spending following surge in 1989-90
- falling real growth reflects greater discipline of C.Charge + fall in debt interest as authorities redeem debt

Main figures (£ billion)

	89-90	90-91	91-92	92-93
CG Support	38.1	41.8	43.8	44.9
Total LA expend.	51.5	53.5	55.5	57.5
Self-financed	13.2	12	12	12.5

Local authorities

Forecasts of LA spending unrealistic, so GGE projections incredible

Spending projected to rise in line with trends of past 10 years,(with some adjustment for lower capital spending next year) Lower increases in 91-92 and 92-93, reflecting fall in debt interest payments, some moderating of plans in line with greater accountability, and consistent with lower spending from receipts.

Forecasts of self financed spending imply community charge above £278?

Consistent with wide range of CCs (if pressed including £278)

Forecast derived from top down projection of LA spending, in line with past trends

Self financed expenditure not equivalent to community charge income. LAs can finance expenditure from variety of sources (cc, use of receipts, trading profits, balances, HRA surpluses, fees, charges, rents, interest receipts) so projections consistent with wide range of community charges.

Increase in central government support to las in 90-91?

Reflects:

- transitional relief
- community charge benefit higher than rates
- credit approvals increase as spending from receipts falls
- real increase in AEF

- difficulty of comparing old and new systems of LG finance, functional changes in LA responsibilities.

Fall in LA self financed spending in 90-91 Implausible?

Reflects:

- increase in central government support for las within total spending in line with past trends

- reduction in spending from receipts following surge in 89-90.

LA projections show £278 cc does mean massive cuts in LA services?

- huge overspending this year reflects anticipation of new capital control regime. Reduces need to spend next year.

- projections imply broadly constant LA spending

What if LAS overspend next year. Will GGE be overshot?

- GGE not control total

- NPT White Paper said take LA spending into account in fixing PT next year (could tighten CG own spending or CG support to LAs)

NHS

Huge increase in resources

- £2.4 billion cash increase in UK 1990-91 over 1989-90 (UK)
- £2.6 billion increase in resources - 5½ per cent real increase (includes £150 million new cost improvement programmes and £25 million income generation)

  gross spending in NHS (England) in 1990-91 up 45 per cent real increase over 1978-79, compared with 6 per cent increase under Labour
- resources for NHS rising as percentage of GDP in 1989-90 and 1990-91 and well up on 1978-79
- Gross capital spending in 1990-91 up over 55 per cent real over 1978-79; fell by 30 per cent under Labour. HCHS (England) capital provision up 18 per cent (12½ per cent real) in 1990-91 over 1989-90

Cuts this year

- 9 per cent increase in cash allocations in 1989-90
- taking account of cost improvements etc., 4 per cent real increase in resources
- waiting lists 6 per cent lower than 10 years ago
- £86 million invested over three years to improve problem
- 100 extra consultant posts to be created over three years (35 in 1989-90)

Review costs

- £257 million in 1990-91 (England) for specific recommendations of Review
- these include 100 extra consultant posts over three years, medical audit, etc. which will improve services
- but leaving that aside remaining increase in resources is 4 per cent in real terms in 1990-91

Pay

- Management's offer to ambulancemen (6.5 per cent nationally; 9.3 per cent in London) reasonable; no provision for binding arbitration
- the question of pay for nurses and doctors must await Review Bodies reports
- no comment on funding implications before reports are available in January

Community Care White Paper

- expected shortly (Thursday)
- Main discussion of resource implications will be for next year's Survey.

PUBLIC EXPENDITURE - OTHER PRIORITY PROGRAMMES.

Transport

Roads: cash spending on national roads planned to double from 88-89 to 92-93; by 90-91 capital spending on trunk roads and motorways will be nearly double 78-79 level in real terms; fell by over 40 per cent under Labour.

- Rail: extra £400-500 million a year for rail to upgrade services, relieve congestion and improve safety. BR investment now at highest level since switch from steam. LRT at highest ever.

Education

- 10 per cent real increase in education and science provision between 89-90 and 90-91; large increase in support for students and fabric/equipment in schools/ colleges
- record numbers entering higher education
- capital spending per school pupil up 8 per cent in real terms since 78-79. LA capital spending on education up 25 per cent in real terms in last 2 years.

Housing

- Central government support for provision of new homes by HAs will more than double 89-90 to 92-93
- extra £¼ billion over next two years to tackle homelessness.

Capital Spending

- extra £1¼ billion for gross capital by CG/PCs in next two years
- CG capital spending plans imply 30 per cent increase from 78-79 to 92-93.

Science

- international comparisons do not reflect additions in 1989 Survey
- extra £110 million for civil S&T; DES science budget up 11 per cent in real terms next year and will then be 25 per cent higher than 1978-79
- basic research and environmental projects main beneficiaries of extra resources
- number of scientists and engineers employed on industrial R&D up 10,000 in six years to 1987
- academic staff in universities doing full time research in science and engineering up over 50 per cent in six years to 1987-88

PUBLIC EXPENDITURE - LESSER PROGRAMMES

Defence

- 3 year deal provides firm framework
- plans show £1 billion increase each year on previous year
- 1 per cent annual rise in real terms (but falls as percent of GDP)
- 1992-93 almost 20 per cent up in real terms over 78-89
- UK spending second highest as per cent of GDP among major Nato allies
- no question of a defence review. Trident is on schedule and less than 6 per cent of defence budget.

Agriculture

- UK expenditure £2 billion in 89-90 rising to £2.6 billion in 92-93
- IBAP and CAP provision reduced by £150 million in 90-91 and 91-92 due partly to continuing CAP reform
- extra provision for food safety measures eg salmonella and cows (bovine spongiform encephalopathy)
- provision for devaluation of green £ as agreed in Agriculture Council last year
- farmers' income fall in 1988 partly reflects weather. Overall support for agriculture remains very substantial.

DTI

- Plans allow for increase on space including UK contribution to ESA
- Post Office provision includes substantial increase in investment to improve service quality
- net reductions in DTI programme largely reflect realistic view of take-up and spending on schemes such as RDG (now closed), RSA, Business Development Initiative
- DTI has major role to ensure markets work better; doesn't require major programme spending
- net reduction on S&T more than offset by S&T increases on other programmes.

FCO

- Substantial real increase in 89-90 and 91-92
- UK contribution to peace-keeping, boat people, drugs
- expanded programmes for British Council and FCO scholarships and exchanges
- BBC External Services 3 year deal reviewed next year.

ODA

- 9 per cent real increase 92-93 over original 89-90 plan (4 per cent over outturn)
- UK aid 3.2 per cent of GDP; close to OECD average
- £5 million a year for Polish Know-how Fund
- UK private investment in developing countries (£1.4 billion in 88) greater than rest of EC combined
- Extra £100 million over 3 years in bilateral aid for tropical forestry.

EC

- Budget discipline proving effective eg 1989 Budget £1.4 billion below ceiling
- UK gross contribution after abatement below 1 per cent of GNP
- Minor estimating changes to previous plans.

Energy

- Provision up next year to reflect loss of negative electricity EFL and additional funding for AEA decommissioning and waste operations.
- no change in Coal EFL pending outcome of Coal/ESI negotiations
- restructured Coal in good shape
- increases for research into cleaner power generation.

Employment

- Reductions reflect 25 per cent fall in unemployment in past year
- employers responsibility to train those in work: are spending £18 billion a year on training; most recent data suggests UK employers in line with Germans
- YTS will be developed; full provision for Business Growth Training programme; extra help for disabled; funding for 80 TECs; provision for streamlining Employment Service.

Environment

- 25 per cent rise in spending on environmental research by 92-93, including Climate Change Centre
- substantial support for LAs to tackle waste disposal problems
- doubling UK's contribution to UN Environmental programme.

Home Office

- Continuing real growth in law and order spending on top of 70 per cent since 78-79
- huge acceleration of prison refurbishment; anti-drugs initiative; programme to divert offenders from custody; increased number of policemen, police civilians, probation staff and courts' staff.

Arts

- 3 year programme provides firm basis for forward planning by subsidised bodies
- 3 year programme reviewed in Survey and provision increased by £33 million in both 90-91 and 91-92.
- allows real growth of 7 per cent in 90-91 and 2 per cent in 91-92.

Social Security

- Large rise in spending; averages 4 per cent per year in real terms, 89-90 to 92-93
- ½ million long-term sick and disabled will gain from disability package
- 200,000 people deferring pension now able to draw it whatever earnings following abolition of earnings rule.
- 2¼ million poorer pensioners gain from October 89 IS/HB increases
- real increase in FC/IS for poorer families next April; third year of real benefit increases for poorer families.

Territories

- SoSs all issuing press notices and will make detailed statements once allocations made
- for all expenditure identifiable by territory in 88-89, each territory has higher per capita spending than England.

Chancellor's Departments

- Extra provision for IR including independent taxation, computers, relocation
- extra provision for Customs including Single Market and Chunnel preparations, anti-drugs effort, computers, relocation.

Running Costs

- Running costs figures published as usual in PEWP.

ANNEX A

(i) Programme bull points

[Totals represent additions to programmes unless otherwise stated]

[More detail on capital in E4]

ENVIRONMENT	National Rivers Authority (DOE)	£20 million in 1990-91
	Bilateral aid for tropical forestry initiatives (ODA)	£100 million over 3 years
	Flood defence (MAFF)	£37/42/47 million in total
	Pilot schemes to test measures to reduce nitrate leaching into water (MAFF)	£1/2/3 million
	Combating nitrates (MAFF)	
	Capital grants to farmers to improve local environment (MAFF)	£3 million in 1990-91
	Earth Remote Sensing satellite (DTI)	£12/13/11 million per year
	Research into renewable energy resources (DEn)	)
	Energy efficiency	) £8.2/3.4/6.2million
	Development of cleaner power generation (DEn)	)
	Environmental research (DOE)	£8¼ million per year including £4/5/5million for establishment of climatic change centre
	Antarctic logistics and research vessel (DES)	£17 million in 1990-91
	Countryside (DOE)	£6 million per year
	More resources for Pollution Inspectorate (DOE)	£0.7 million per year
	Remedial works on waste disposal landfill and waste incineration (DOE)	£43 million in total 1990-91
HEALTH	Full costs of NHS review proposals on top of expansion of services	£260 million in 1990-91 (England only)
	First 70 of 100 extra consultants	£25 million in 1990-91
	Action on food safety and animal health (MAFF)	£4 million per year
DISABLED	- more benefits (DSS) - better wheelchair service (DH)	full year cost: £100 million

wpu

SECRET
until 15 November 1989
then UNCLASSIFIED

TRANSPORT	Start on major new roads programme	£65/65/90 million
	Manchester Metrolink	£93 million in total
	Clear maintenance backlog by 1992-93	£60/90/85 million
	Docklands road and rail links (DOE)	£200 million in 1990-91
SOCIAL SECURITY		Pensions £575 million in 1990-91
		Widows £5 million in 1990-91
		Lone parents £10 million in 1990-91
		Poorer families £150 million in 1990-91
		War pensioners £4 million in 1990-91
		16-17 years olds £4 million in 1990-91
EDUCATION	Top-up student loans	£130 million in 1990-91
	City Technical Colleges	£10 million in 1990-91
	Grant-maintained schools	£17 million per year
	Increasing supply of teachers	£5 million in 1990-91
	Extra grant for education authorities taking over from ILEA	£100 million in 1990-91
	Improving fabric and equipment of Higher Education colleges	£30 million per year
	Improving fabric and equipment of schools (to implement national curriculum):	
	- Voluntary aided Schools	£15 million in 1990-91
	- LEA Schools	£43 m in total in 1990-91
	Provision for more students	
HOUSING	Homelessness initiative	£250m in total
	More subsidised rented housing	£710 million in total
LOCAL GOVT	Community charge transitional relief	£450 m in total in 1990-91
	Area protection grant for community charge	) £120/490/280m
	Grant for areas of low rateable value	) in total
LAW AND ORDER	Diversion from custody	£7m in 1990-91
	Anti drugs measures	£5m in 1990-91
	1100 more policemen	full year cost: £17m
	Prison refurbishment	
	Procedural changes in order to make the courts more cost effective	£2.75 million in 1990-91
	Legal aid	£9 million in 1990-91

wpu

DEFENCE	Held to 3 year plan. Substantial additions in 1992-93	Provision in 1992-93 £1.1 billion higher than 1991-92
OVERSEAS AID	Know-how fund for Poland Economic reform in Nigeria	£5 million per year £47.5 million per year

Capital Spending: main increases

£ million (cash)

	1990-91	1991-92	Real increase in 1990-91 compared with 1989-90 (per cent)	1990-91 increase compared with 1989 PEWP (per cent)
Central government*				
Transport (roads)	+350	+375	+34	+26
Housing	+190	+240	+44	+13
Education	+100	+80	+6	+24
Health	+120	+110	+7	+14
Urban development corporations	+250	+150	+19	[+100]
Rail (BR and London Regional Transport)	[+195]	[+360]	[+21]	[+16]
Total (£ billion)	+1¼	+1¼	[+10]	[+9]

* England only. Expenditure in Scotland, Wales and Northern Ireland depends on decisions to be taken by relevant Secretaries of state.

Capital spending: long-term trends

Percentage real terms changes

	1978-79 over 1973-74	1988-89 over 1978-79	1990-91 over 1978-79	1992-93 over 1988-89 (approx)
Railways (BR)	+8	+32	[ ]	[+110]
Motorways and trunk roads (England)	-41	+30	+120	+60
Prisons	-64	+219	[ ]	+10
NHS capital (England, gross)	-29	+31	+58	+10
Total Central Government	n/a	+21	+32	+10

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DIFFICULT QUESTIONS

<u>public spending out of control</u>?

- held to ratios as in 88AS

- growth in GGE 88-89 to 92-93 1¾% real a year, same as 88 AS

- record of firm control - GGE in 90-91 risen only 2¾% in real terms compared with 84-85.

<u>how much have you added to plans</u>?

Short answer is GGE £5½bn higher in 90-91 than expected last year.

Planning total changed so direct comparisons not possible, but do know:

- central government and public corporations 90-91 up £5bn on previous plans due to increases in priority programmes

- substantial increases in projections of LA expenditure

- drawn down Reserve

- broadly additions to OPT same as to GGE

<u>Why 5¾% real increase in NPT 89-90 to 90-91</u>

- increase exaggerated by move to new planning total, which is sensitive to change in <u>financing</u> of LA spending from self financed to CG support within broadly constant overall total.

- more meaningful figure: 3¾% real increase in central government due to increased spending on priority programmes.

<u>why declining ratio</u>?

- enables lower taxes and borrowing

- reflects reduced scope of public sector

- as economy grows possible to have real growth in services without rising ratios.

<u>still policy to reduce ratio?</u>

- over time, yes

- but CX said consistent with rise, if growth slowed down (TCSC)

<u>cuts in training?</u>

- lower provision flows directly from fall in numbers of unemployed and tighter youth labour market, YTS guarantee fully met.

- plans permit improvements in quality of training, and more provision to help people into jobs

- still spending £2bn a year on YTS and ET. Main role is employers'-spending £18bn a year.

<u>cuts in DTI</u>?

- provision reflects <u>realistic forecast of take-up</u> of support schemes eg RDGs (closed in 1988) and business development initiative. No policy changes.

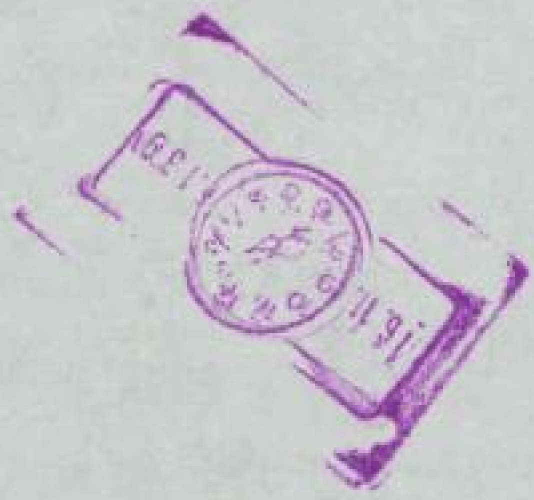
<u>R&D</u>

R&D spending by British industry up 27% real 1983-1987

no of projects supported by innovation prgramme will rise to 340 in 90-91, twice the number in 88-89.

<u>war widows</u>?

age allowance for war widows increased in real terms by up to £3.55 a week..



DRAFT AUTUMN STATEMENT

1 Public Expenditure Plans

Main Points

1.01 Public spending (excluding privatisation proceeds) fell as a proportion of national income from nearly 47 per cent in 1982–83 to under 40 per cent last year. This ratio is expected to decline further over time, reaching by 1992–93 its lowest level since 1965–66.

1.02 The public expenditure planning total (on the new definition described below) has been set at £179 billion in 1990–91, including a Reserve of £3 billion. Planning totals for the following two years have been set at £192 billion and £203 billion.

1.03 In real terms, public spending excluding privatisation proceeds will rise by an average 1¾ per cent a year between 1988–89 and 1992–93, maintaining the rate of growth projected in the last Autumn Statement.

1.04 Further resources have been allocated to key priority areas. The plans allow for significant growth in health service activity, as well as meeting the costs of the NHS review. They also provide for new initiatives to tackle homelessness, to meet the needs of the disabled and less well-off families, and for substantial extra spending on the arts, higher education and science.

1.05 There will also be major increases in planned investment in road, rail, housing and hospitals.

1.06 These improvements have been made possible by reduced provision for some other programmes and by increased efficiency in programmes generally.

1.07 The latest forecast for the current year, 1989–90, is that expenditure on the old definition of the planning total will be about £168.2 billion, some 0.7 per cent higher than the plans in the last public expenditure White Paper, Cm 621 ~~will be exceeded by £1.1 billion, or 0.7 per cent~~. The public spending ratio is however expected to be 38¾ per cent, about ½ per cent lower than envisaged when the plans were set.

Public spending trends

1.08 Within the framework of the Medium Term Financial Strategy (MTFS), the Government's overall aim for public spending is that it should take a declining share of national income, while value for money is constantly improved. This leaves scope for reducing taxation when it is prudent to do so, while still maintaining a strong fiscal position.

1.09 General government expenditure (GGE), excluding privatisation proceeds, has now fallen as a share of gross domestic product from nearly 47 per cent in 1982–83 to under 40 per cent last year. In the current year, it is expected to be 38¾ per cent, lower than the 39¼ per cent previously forecast.

Table 1.1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP	General government expenditure (excluding privatisation proceeds)
	Cash (£ billion)	Real terms[1] (£ billion)	(£ billion)	(Per cent of GDP)
1963–64	11·3	94·6	31·4	36¼
1964–65	12·3	97·9	34·2	35½
1965–66	13·6	103·7	36·6	37¼
1966–67	15·1	110·2	38·9	38¾
1967–68	17·5	124·1	41·2	42¼
1968–69	18·2	123·4	44·6	40¾
1969–70	19·3	124·3	48·0	40¼
1970–71	21·6	128·5	53·2	40¾
1971–72	24·4	132·7	59·3	41
1972–73	27·6	139·2	67·6	41
1973–74	32·0	150·6	74·9	42¾
1974–75	42·9	168·7	89·3	48¼
1975–76	53·8	168·8	111·0	48½
1976–77	59·6	164·7	129·7	46
1977–78	64·4	156·5	151·1	42¼
1978–79	75·0	164·3	173·4	43¼
1979–80	90·3	169·6	208·1	43½
1980–81	108·8	172·6	237·2	46
1981–82	121·0	175·1	260·4	46½
1982–83	133·1	179·7	284·9	46¾
1983–84	141·6	182·6	309·2	45¾
1984–85	152·6	187·4	331·1	46
1985–86	160·8	187·4	361·9	44½
1986–87	168·9	190·6	387·7	43½
1987–88	177·7	190·1	429·5	41¼
1988–89	185·7	185·7	476·1	39
1989–90	200·5	187·4	517	38¾
1990–91	*215·4*	*191·7*[2]	*552*[2]	*39*[2]
1991–92	*227·2*	*195·4*[2]	*587*[2]	*38¾*[2]
1992–93	*239·1*	*199·6*[2]	*621*[2]	*38½*[2]

[1] *Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by 7 per cent in 1989–90, and by 5, 3½ and 3 per cent respectively in the years 1990–91 to 1992–93.*

[2] *To avoid discontinuities in the series, GDP at market prices and the GDP deflator do not take account of the effect on GDP of the change from rates to the community charge—see* footnote 2 to Table 2.13.

1.11 After rising slightly from the unexpectedly low figure this year, the downward trend in the ratio is expected to continue over time, as illustrated in Chart 1.1 and Table 1.1. GGE is projected at £210 billion in 1990–91 (£5 billion higher than in last year's Autumn Statement) and £222 billion in 1991–92. The ratios for those years are unchanged from those in the previous Autumn Statement—39 per cent and 38¾ per cent respectively (see Table 1.2). By 1992–93, the ratio should decline to 38½ per cent, its lowest level since 1965-66 and 8 percentage points lower than 10 years earlier.

Chart 1.1 General government expenditure (excluding privatisation proceeds)

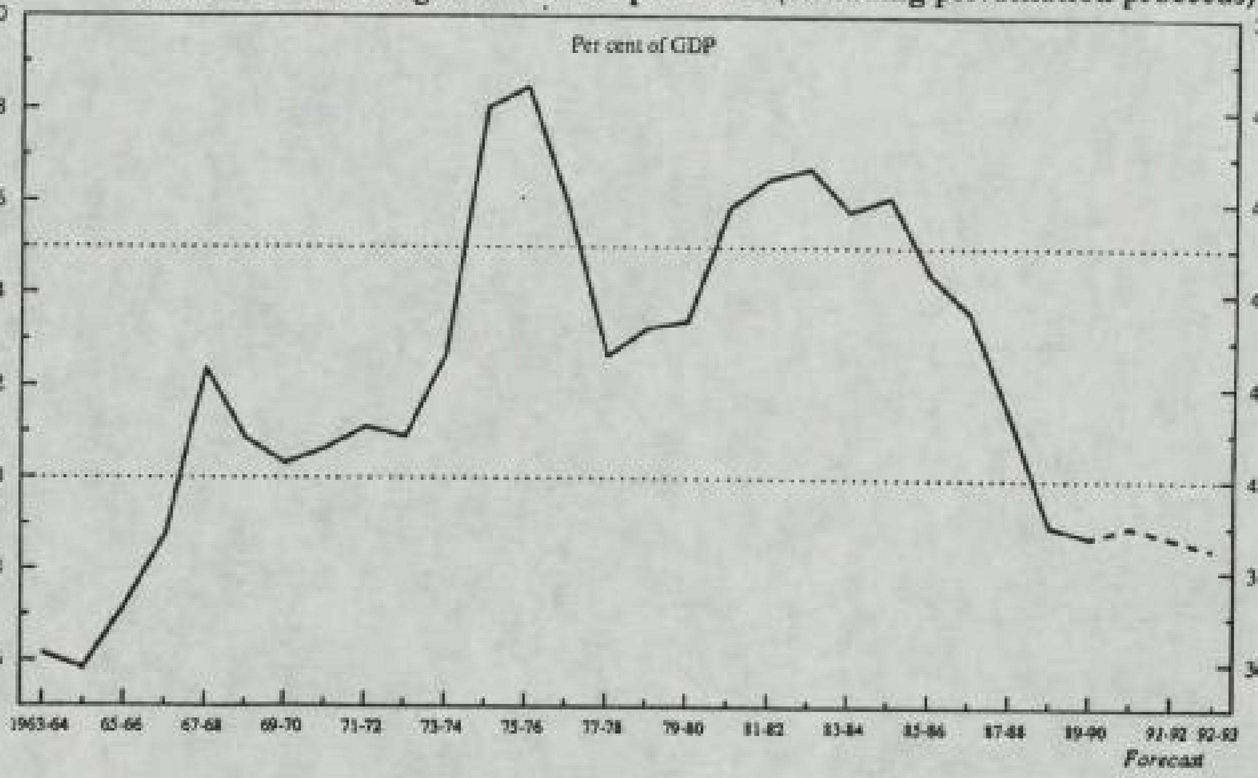


Table 1.2 General government expenditure[1]; plans and outturn

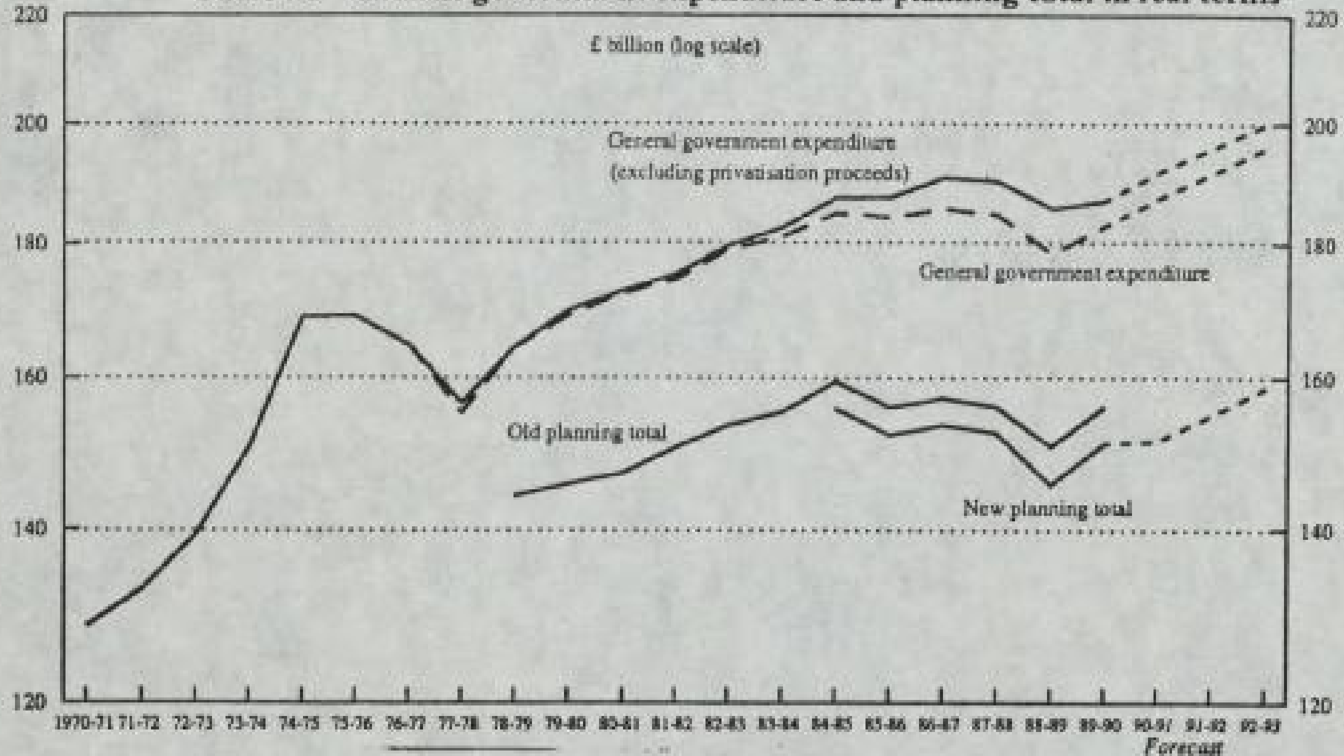
	per cent of GDP								
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93
March 1985 FSBR[2]	46¾	45¾	44	43				Plans	
January 1986 White Paper (Cmnd 9702)	46¼	45	44	43	42¼		Outturn		
January 1987 White Paper (Cm 56)	46¼	44¾	44½	44	42¾	42¾			
January 1988 White Paper (Cm 288)	46¼	44½	44	42½	42	41¾	41¼		
January 1989 White Paper (Cm 621)	46¼	44½	43¾	41¾	39¼	39¼	39	38¾	
This Autumn Statement	46	44½	43½	41¼	39	38¾[3]	39[4]	38¾[4]	38½[4]

[1]*Excluding privatisation proceeds.* [2]*Financial Statement and Budget Report* [3]*Estimated.* [4]*See footnote 2 to Table 1.1.*

1.12 Chart 1.2 and Table 1.1 show the trend of public spending in real terms. GGE excluding privatisation proceeds grew between 1978–79 and 1988–89 on average by around 1¼ per cent, compared with nearly 3 per cent in the decade to 1978–79.

1.13 Between 1988–89 and 1992–93, this real growth rate is expected to average around 1¾ per cent. This continues, for the period to 1992–93, the average real growth projected in the last Autumn Statement between 1988–89 and 1991–92.

Chart 1.2 General government expenditure and planning total in real terms[1]



1. Cash figure adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnote 2 to Table 1.1).

The new spending plans

1.14 The trends above are described in terms of GGE which is the main expenditure aggregate in the MTFS, and is a measure of the amount which has to be raised by taxation or borrowing to finance central and local government expenditure, including debt interest.

1.15 For the purpose of planning and control, the Government uses a narrower measure—the planning total. This will in future be defined to cover . only those areas of spending for which central government is responsible. It will thus include central government support for local authorities through grants, credit approvals, and non-domestic rate payments; but it will exclude the spending which local authorities finance from their own resources (including the community charge) and their inflow of capital receipts. It will still include central government's own spending, the financing requirements of public corporations, privatisation proceeds, and a Reserve. The new planning total, and the difference between it and the old planning total, is explained in more detail in the Annex to this Chapter. The change of definition coincides with the introduction of new arrangements for local government finance, described in paragraph 1.60 below.

1.16 The planning totals for the three Survey years, 1990–91 to 1992–93, have been set on this new definition at £179 billion, £192 billion and £203 billion respectively.

1.17 Table 1.3 shows the Government's expenditure plans for these three years in greater detail. It sets them in the context of projections of GGE and the estimated outturn of the new planning total from 1984–85 to 1989–90. Central government's own spending is shown separately by department. Table 1.12 gives the same information in real terms.

Table 1.3 Planning total and general government expenditure[1, 2, 3]

	£ million Outturn 1984–85	1985–86	1986–87	1987–88	1988–89
Central government's own expenditure—	**93 188**	**99 551**	**106 104**	**111 188**	**116 330**
of which:					
Ministry of Defence	17 108	17 929	18 168	18 853	19 070
FCO—Diplomatic Wing	593	608	648	687	739
FCO—Overseas Development Administration	1 175	1 211	1 271	1 291	1 507
Ministry of Agriculture, Fisheries and Food[4]	1 808	2 266	1 578	1 790	1 559
Trade and Industry[5]	1 164	1 075	1 848	944	1 685
Export Credits Guarantee Department	532	345	288	151	109
Energy[6]	484	860	894	553	538
Department of Employment	3 028	3 156	3 588	3 636	3 591
Department of Transport	1 154	1 218	1 269	1 379	1 405
DOE—Housing	1 145	1 188	1 305	1 303	1 376
DOE—Other environmental services and Ordnance Survey[7]	285	285	328	473	529
DOE—Property Services Agency[8]	0	0	0	0	0
DOE—Local Government[9]	0	0	0	0	0
Home Office (including the Charity Commission)	920	999	1 072	1 184	1 364
Lord Chancellor's and Law Officers' departments[10]	512	573	655	777	902
Department of Education and Science	2 247	2 356	2 455	2 696	2 961
Office of Arts and Libraries	270	288	343	368	414
Department of Health and Office of Population Censuses and Surveys	13 435	14 200	15 209	16 672	18 431
Department of Social Security[11]	35 699	38 741	41 700	43 578	44 473
Scotland	2 959	3 152	3 319	3 466	3 827
Wales	1 249	1 333	1 453	1 546	1 730
Northern Ireland	3 615	3 860	4 202	4 471	5 142
Chancellor of the Exchequer's departments	2 625	2 860	3 201	3 455	3 692
Cabinet Office, Privy Council Office and Parliament	206	224	232	255	278
European Communities	974	822	1 079	1 661	1 006
Central government support to local authorities[3]	**30 707**	**31 083**	**33 286**	**35 654**	**36 450**
Financial requirements of public corporations	**4 981**	**2 634**	**1 038**	**793**	**−183**
Reserve					
Privatisation proceeds	**−2 050**	**−2 707**	**−4 460**	**−5 140**	**−7 065**
Adjustment[12]					
New planning total[13]	**126 827**	**130 561**	**135 968**	**142 495**	**145 532**
Local authority self-financed expenditure[3,*]	7 881	8 334	8 711	8 999	10 191
Central government debt interest	14 313	16 052	16 447	17 032	17 580
Accounting adjustments	1 532	3 129	3 355	4 007	3 283
General government expenditure	**150 553**	**158 077**	**164 481**	**172 533**	**178 586**

[1] The rounding and other conventions used in this table and in Tables 1.4, 1.6, 1.7, 1.10, 1.11, 1.13 and 1.14 are as follows: plan figures are rounded to the nearest £10 million, except for social security, the planning and spending sector totals (except public corporations), and general government expenditure which are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Local authority self-financed expenditure, debt interest and other national accounts adjustments for future years are rounded to the nearest £500 million. Outturn figures for 1989–90 have also been rounded to reflect their provisional nature. The changes and totals are based on the unrounded figures. They may therefore differ from the changes and sums of the rounded figures. Some figures may be subject to detailed technical amendment before the publication of the 1990 public expenditure White Paper.

[2] Changes in the treatment of certain elements of expenditure—other than changes arising from the move to the new planning total and minor changes of classification and allocation—are described in footnote 1 to table 1A.2.

[3] Proxies have been used for some of the new local authority elements of the planning total for years up to 1989–90, within DOE and other departmental programmes: see para 1A.6.

[4] Includes Intervention Board for Agricultural Produce and Forestry Commission.

[5] Includes Office of Fair Trading and Office of Telecommunications.

Estimated Outturn	New Plans			
1989–90	1990–91	1991–92	1992–93	
126 500	137 760	145 260	152 400	**Central government's own expenditure—**
				of which:
20 310	21 200	22 320	23 410	Ministry of Defence
840	890	950	960	FCO—Diplomatic Wing
1 570	1 680	1 770	1 840	FCO—Overseas Development Administration
1 560	1 980	2 190	2 300	Ministry of Agriculture, Fisheries and Food[4]
1 230	1 250	1 120	1 030	Trade and Industry[5]
340	210	60	− 30	Export Credits Guarantee Department
460	440	410	400	Energy[6]
3 530	3 470	3 350	3 380	Department of Employment
1 970	2 280	2 390	2 490	Department of Transport
1 540	2 230	2 560	2 650	DOE—Housing
550	700	720	720	DOE—Other environmental services and Ordnance Survey[7]
0	− 70	− 170	− 260	DOE—Property Services Agency[8]
0	40	40	50	DOE—Local Government[9]
1 670	1 910	1 870	1 890	Home Office (including the Charity Commission)
1 120	1 270	1 380	1 470	Lord Chancellor's and Law Officers' departments[10]
4 310	4 800	4 940	5 080	Department of Education and Science
440	490	520	550	Office of Arts and Libraries
20 010	22 040	23 350	24 480	Department of Health and Office of Population Censuses and Surveys
47 200	51 970	55 670	59 200	Department of Social Security[11]
4 010	4 330	4 510	4 640	Scotland
1 890	2 090	2 170	2 230	Wales
5 520	5 700	5 980	6 170	Northern Ireland
4 140	4 530	4 820	5 050	Chancellor of the Exchequer's departments
320	350	360	370	Cabinet Office, Privy Council Office and Parliament
2 030	1 990	1 550	1 850	European Communities
38 100	41 900	43 800	45 000	**Central government support to local authorities[3]**
1 540	1 490	2 320	2 360	**Financial requirements of public corporations**
	3 000	6 000	9 000	**Reserve**
−4 250	−5 000	−5 000	−5 000	**Privatisation proceeds**
−200				**Adjustment[12]**
161 700	**179 000**	**192 400**	**203 460**	**New planning total[13]**
13 200	*12 000*	*12 000*	*12 500*	Local authority self-financed expenditure[14]
17 300	*15 500*	*14 000*	*13 500*	Central government debt interest
4 100	*4 500*	*4 000*	*4 500*	Accounting adjustments
196 300	**210 400**	**222 200**	**234 100**	**General government expenditure**

[6] Includes Office of Gas Supply and, from 1990–91 Office of Electricity Regulation.
[7] Includes Office of Water Services and Property Agency up to 1989–90. From 1990–91 includes Property Holdings.
[8] From 1990–91, PSA Services.
[9] DOE-local government includes Revenue Support (transitional) Grant and National Non-Domestic Rate payments in England and certain grants associated with the change from rates to the new system of local government finance (see footnote 5 to Table 1.5). (Comparable items are included in the figures for Scotland and Wales).
[10] Includes the Crown Prosecution Service, the Crown Office, the Northern Ireland Court Service, the Serious Fraud Office, the Land Registry, the Public Record Office and the Treasury Solicitor's Department.
[11] Includes grants for rate rebates up to 1989–90, and Community Charge benefit grant from 1989–90.
[12] An adjustment for the difference between the assessment of the likely outturn for 1989–90 and the sum of the other items shown.
[13] Plans for years up to 1989–90 were set using the old planning total (see paragraph 1.x): outturn data on this basis for 1988–89 and 1989–90 is shown in Tables 1.13–1.15.

14 Figures shown for local authority self-financed expenditure, net of capital receipts, are derived on the basis described in paragraph 1.67. For 1988-89 to 1992-93, they are consistent with figures for total local authority expenditure of £46½ billion, £51¼ billion, £53¾ billion, £55¾ billion, and £57¾ billion respectively.

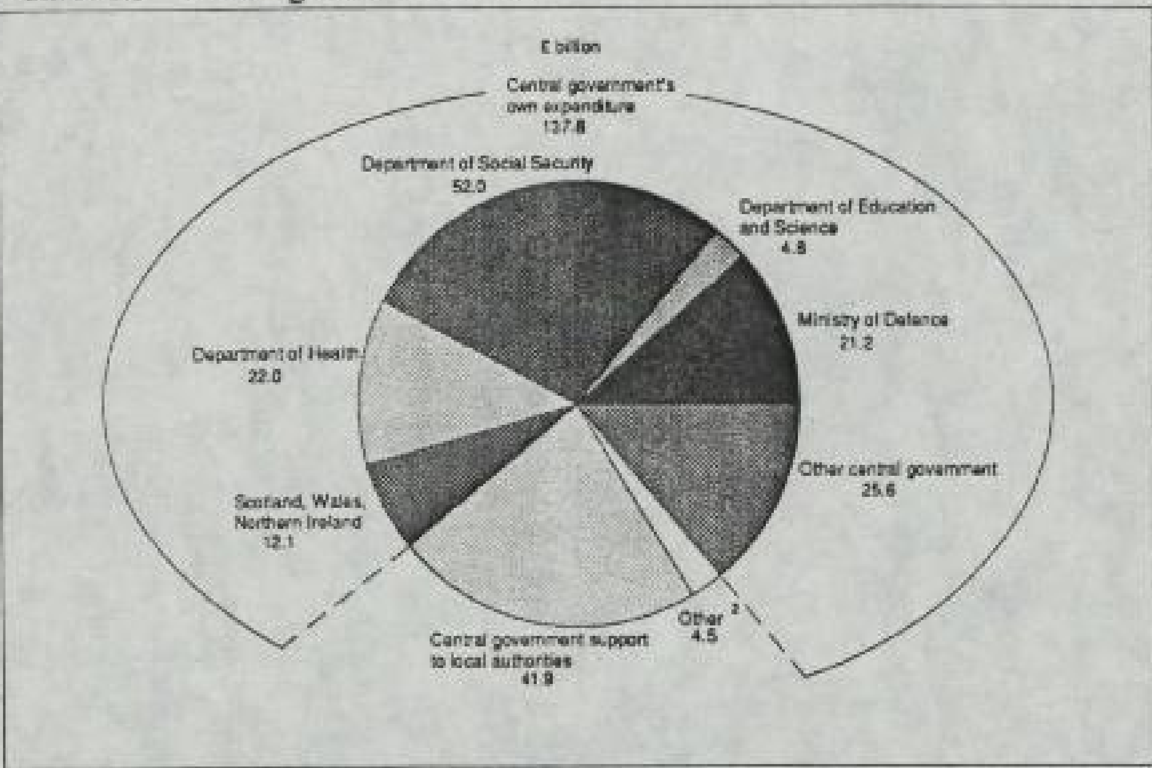
Table 1.4 Public expenditure planning total by department[1]

	£ million					
	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430
FCO—Diplomatic wing	739	840	100	890	940	970
FCO—Overseas Development Administration	1 541	1 620	80	1 710	1 810	1 880
Ministry of Agriculture, Fisheries and Food	1 636	1 540	−90	1 840	2 050	2 140
Department of Trade and Industry	1 319	1 160	−160	1 280	1 030	1 160
Export Credits Guarantee Department	109	340	230	240	70	−30
Department of Energy	−419	150	570	−160	670	670
Department of Employment	3 854	3 880	30	3 790	3 680	3 720
Department of Transport	2 743	3 600	860	4 230	4 490	4 600
DOE—Housing	2 638	2 560	−80	6 270	6 720	6 920
DOE—Other environmental services and Ordnance Survey	882	1 320	440	1 380	1 270	1 220
DOE—Property Services Agency				−30		−10
DOE—Local government	18 782	19 480	690	20 460	21 250	21 560
Home Office (including the Charity Commission)	3 710	4 280	570	4 840	5 010	5 160
Lord Chancellor's and Law Officers' Departments	902	1 120	220	1 270	1 380	1 470
Department of Education and Science	4 270	5 710	1 440	6 590	6 770	6 920
Office of Arts and Libraries	431	460	30	490	520	540
Department of Health and Office of Population Censuses and Surveys	18 488	20 130	1 640	22 180	23 480	24 610
Department of Social Security	49 430	52 600	3 100	55 600	59 900	63 500
Scotland	8 464	8 980	520	9 200	9 670	9 920
Wales	3 567	3 860	290	4 280	4 390	4 490
Northern Ireland	5 469	5 760	290	5 790	6 040	6 240
Chancellor of the Exchequer's departments	3 685	4 140	450	4 610	4 880	5 140
Cabinet Office, Privy Council Office and Parliament	278	320	40	370	380	400
European Communities	1 006	2 030	1 020	1 870	1 670	1 990
Reserve				3 000	6 500	10 000
Privatisation proceeds	−7 065	−4 250	2 820	−5 000	−5 000	−5 000
Adjustments		−200	−200			
New planning total	**145 532**	**161 700**	**16 200**	**179 000**	**192 300**	**203 400**

[1] *See footnotes to Table 1.3.*

1.18 Table 1.4 gives a departmental breakdown of the new planning total with central government support to local authorities and the financing requirements of public corporations attributed to their respective departments. Chart 1.3 shows the relative size of the main elements of the new planning total (excluding privatisation proceeds) in 1990–91.

Chart 1.3 Planning total[1] in 1990–91



[1] Excluding privatisation proceeds.
[2] Reserve and financial requirements of public corporations.

1.19 Previous public expenditure plans were set in terms of the old definition of the planning total. It is therefore possible to compare the new plans with previous plans only in those areas where the two definitions overlap, for example for central government's own expenditure. The comparison is not possible for the local authority elements in the plans. The differences between the new plans and previous plans, in so far as the comparison can be made, are shown in Tables 1.10, 1.11 and 1A.1. For 1988–89 and 1989–90, where the plans were both set and monitored on the old planning total basis, a comparison of plan and estimated outturn is given in Tables 1.13 and 1.14.

The new plans—departmental detail

1.20 Over the last five years, substantial growth in spending on the Government's priorities has been made possible by declining requirements elsewhere. Central government expenditure on transport, housing, environmental services, law and order, education and health has risen by over 15 per cent in real terms, while the financial requirements of public corporations, the numbers of unemployed people on social security benefits, and debt interest payments have fallen.

1.21 The new plans show further real growth in spending on priority programmes.

1.22 Spending on the NHS in the UK in 1990–91 will be £2·4 billion higher than in 1989–90. This provides funds for the NHS review proposals for improving the quality of health care, in addition to the resources needed to meet the rising demand for patient services. for disabled people and less well-off families; and for

1.22A Expenditure on trunk roads and motorways is planned to double between last year and 1992–93, allowing a significant start to be made on the expanded programme of road building announced in the White Paper, "Roads for Prosperity". Substantial extra sums have been provided for transport industries to expand capacity, relieve congestion and improve safety and quality of service.

1.22B Provision is made for a new initiative to alleviate homelessness, and for a major expansion in the supply by housing associations of subsidised homes. The plans provide for substantial investment in the fabric and equipment of schools and colleges, and there is extra provision of £½ billion a year for loans and awards to students. There are also significant additions environmental research and protection.

1.23 Central government support for local authority spending is planned to be substantially higher next year than this, reflecting in particular higher proposed levels of Aggregate External Finance announced in July and the transitional relief for community charge payers announced in October.

1.24 The following paragraphs briefly describe the new plans.

Defence

1.25 The Government's aims for defence are to ensure the security of the nation and maintain its freedom, in particular by maintaining the effectiveness of its contribution to the NATO alliance.

1.26 The plans for 1990–91 and 1991–92 are consistent with last year's three year settlement. The defence budget will rise to £23·4 billion in 1992–93. The provision will continue to provide a firm framework within which to plan for the UK's defence commitments over the next three years.

1.27 UK defence capability will continue to benefit from increased efficiency in the use of resources and from measures taken to increase value for money from the equipment programme.

Foreign and Commonwealth Office (Diplomatic Wing)

1.28 The FCO is responsible for the overseas representation of UK interests. The Diplomatic Wing also provides grants to organisations outside Government, including the British Council and the BBC external services. Increased resources are being provided for additional visa work, for UK contributions to UN peacekeeping and for scholarships and exchanges administered by the British Council. There is also extra provision for moving some FCO and British Council staff away from London.

Overseas Development Administration

1.29 Most of the aid but also provides programme is spent on bilateral aid, which focusses on long term development, emergency relief. The remainder is channelled through various international agencies. Aid is increasingly used to assist economic reform, particularly in sub-Saharan Africa.

1.30 Within overall provision for ODA of £1,710 million in 1990–91, the net aid programme is now set at £1,590 million. This will give an 11 per cent cash increase over 1989–90 plans—a significant increase in real terms. The aid programme will increase to £1,680 million in 1991–92 and to

£1,750 million in 1992–93. There is provision for increases in bilateral aid, particularly to support economic reform in Nigeria; and for protecting the environment in developing countries, especially by forestry conservation. W.?..
x Amongst total, there is also provision for a know-how fund for Poland.

Agriculture **1.31** The Department's aim is to help the agriculture, fisheries and food industries to meet the demands of UK consumers and of export markets. Spending on agriculture is largely determined by the Common Agriculture Policy (CAP) of the European Community. The Government's objective in Community discussions is to bring spending under control and to continue to promote a more efficient and competitive agricultural industry. Provision for market support reflects progress in reforming the CAP, the effect of continued world cereals shortages on prices and expectations of reduced intervention.

1.32 Within the domestic agriculture programme, there are increases for further work to improve flood defences, especially along the East Coast, and for new measures to ensure food safety. Additional provision has been made for increased take up of the set-aside scheme to encourage reduction of agricultural surpluses; for a pilot scheme to reduce the use of nitrates in sensitive areas; for compensation to farmers whose animals are slaughtered because of infection by salmonella or bovine spongiform encephalopathy; and for departmental administration. There are reductions in the net cost of chargeable advisory services and of the registration of pesticides and veterinary medicines; savings from changes to the brucellosis testing programme; and reductions in the Government's contribution to the administrative costs of the Potato Marketing Board.

Trade and Industry **1.33** The prime aim of DTI is to encourage wealth creation through a competitive and open economy. The expenditure of the DTI has fallen since 1978–79 as a result of privatisation, and in response to the increased profitability of industry and the Government's policy of reducing intervention in business. Further reductions have been made to reflect revised forecasts of demand for DTI services. These include reduced levels of provision for Regional Development Grants (following the scheme's closure in 1988) and the Business Development Initiative. Net provision for English Estates has also been reduced in the light of higher forecast receipts. There is an increase in support for UK participation in space projects, including a further European Space Agency earth observation satellite.

Export Credits Guarantee Department **1.34** The Department aims to support UK exports by providing credit insurance facilities. In order to match the support given by other major trading nations, ECGD supports the provision by banks of export finance at fixed rates of interest; it pays the banks the difference between the cost of their funds and the fixed rate they offer to exporters. The new plans reflect the higher estimated cost of interest support and of the scheme offering insurance for exporters against exchange rate movements between the time of tendering and the signing of contracts.

Energy **1.35** The department's aim is to help ensure that the nation's needs for energy are met in a manner which makes the best use of resources. There are increases in the provision for handling nuclear waste, for energy efficiency, and for research into renewable energy sources. The plans for 1990–91 and 1991–92 reflect the disappearance from the public expenditure figures
x (following privatisation)
x of the substantial net repayments of external finance by the electricity industry.

Employment 1.36 The Department's main programmes are directed at training the long term unemployed and young people. The new plans include total provision of £2 billion a year for the Employment Training Scheme and the Youth Training Scheme. Lower unemployment and falling numbers of young people will enable training standards to be maintained and improved while permitting savings in public expenditure. Expenditure is expected to be nearly 45 per cent higher in real terms in 1990–91 than in 1978–79. There is increased provision to help people into jobs, through investment in the Employment Service, targeted measures for the disabled, and further school/industry Compacts for young people. Funding is also being made available for launching the Training and Enterprise Councils.

Transport 1.37 The Department's aims are to provide a cost-effective roads and public transport system. Expenditure on trunk roads and motorways will double from £1,000 million last year to almost £2,000 million in 1992–93. Planned expenditure on roads for 1990–91 is 39 per cent higher than plans for 1989–90 and 80 per cent higher than for 1988–89. Increases of over £320 million in 1990–91 and 1991–92 have been allocated for new road construction and to prepare for motorway widenings and other major new schemes set out in the White Paper, "Roads for Prosperity", published in May 1989. There are increases of £60 million in 1990–91 and £90 million in 1991–92 for capital maintenance of roads and bridges, enabling the road maintenance backlog to be eliminated by the end of 1992–93 . An extra £25 million in 1990–91 and £30 million in 1991–92 has been provided for current maintenance.

1.38 The Department's programme also includes credit approvals and capital grants in support of local authorities' capital expenditure on roads and other transport facilities. These have been set at a level which should enable local authorities to undertake construction of a light railway in Greater Manchester, to expand Manchester airport's terminal capacity to handle up to 18 million passengers a year by 1993 and to carry out a £2 billion programme of road improvements over the period 1990–91 to 1992–93. Transport Supplementary grant will be nearly 15 per cent higher in 1990–91 than in 1989–90.

1.39 The departmental totals also include the external financing requirements of British Rail, London Regional Transport and the Civil Aviation Authority. British Rail's external finance limit is increased by £220 million in 1990–91 and £250 million in 1991–92. This covers provision for investment in 1990–91 of £1,070 million, 88 per cent higher than in 1988–89; there are substantial increases for investment in rail services for the Channel Tunnel, in improvements in the quality of service on Network South East and in modernising the freight sector. London Regional Transport's external finance limit is increased by £165 million in 1990–91 and £250 million in 1991–92, with provision for investment in 1990–91 of £540 million. This will fund further measures to help deal with congestion and improve safety, in particular on London Underground. The Civil Aviation Authority's investment programme includes provision for a new air traffic control centre to increase capacity over England and Wales by 40 per cent.

Housing 1.40 The Government's housing policy aims include increasing home-ownership, giving greater choice to those wishing to rent accommodation and encouraging local authorities to ensure the provision, from a range of suppliers, of adequate housing in their areas.

1.41 The new plans provide £250 million over the next two years for a new Government initiative to help local authorities and housing associations relieve homelessness. In addition, extra funding now planned will enable the Housing Corporation to support an increase of £370 million (45 per cent) between 1989-90 and 1990-91 in provision of new homes by housing associations. The Housing Corporation's capital programme will more than double from £815 million this year to £1729 million in 1992-93. Government support for local authorities next year will include credit approvals and capital grants of £1814 million for renovation and other capital investment by local authorities and grants for the improvement of private sector housing. Partially offsetting the planned increases in expenditure is a projected increase in net receipts from disposals of New Towns housing and housing sites.

1.42 Also included within the new plans is provision for Government subsidy to local authorities' new, ring-fenced housing revenue accounts.

Other environmental services

1.43 This programme covers a wide range of services, including the Government's priority areas of the environment and urban regeneration.

1.44 On the environment, the new plans make provision for a 21 per cent increase in research spending over the next three years, a doubling of the UK contribution to the UN Environmental Programme, establishment of a new Climate Change Centre, extra staff for environmental protection in Her Majesty's Inspectorate of Pollution, substantial support for local authorities to deal with waste disposal problems and landfill gas, a 20 per cent increase in the funding of the Nature Conservancy Council and Countryside Commission, and support for the National Rivers Authority as an effective regulatory organisation.

1.45 On urban regeneration, the plans provide for an extra £260 million next year. This will mainly go towards further investment by Urban Development Corporations, and in particular transport links in London's Docklands. On the heritage, an extra £15 million a year is provided for historic Royal Palaces, the Royal Parks and English Heritage. These increases in expenditure are partially offset by a substantial increase in projected net capital receipts by New Towns.

Property Services Agency

1.46 From 1 April 1990 the Property Services Agency will be divided into Property Holdings and PSA Services.

1.47 Property Holdings will become part of DOE (Central) and will continue to manage the Government's civil estate. The plans for expenditure have been raised by £34 million net next year, mainly to cover increases in rent payments and major new works on the estate and also the Parliamentary works at Bridge Street and the Victoria Tower.

1.48 PSA Services will carry out project management, design, maintenance and estate management services on a project basis for Departments. The plans envisage that PSA Services should cover expenditure other than restructuring costs from fees in 1990-91 and earn small surpluses on these items in 1991-92 and 1992-93. Separately from this, provision is made for £30 million net for restructuring next year, including capital expenditure on information technology, in preparation for privatisation in 1992-93.

Home Office and legal departments

1.44 The aims here are to combat crime by providing adequate resources for the police, prisons, courts and probation service. There is £80 million extra provision in 1990–91 for maintenance, repair and upgrading of prisons. The new plans also provide for an expansion of the programme to divert offenders from custody, for initiatives to combat drug abuse, and for an improved service by the Passport Department. Home Office central government expenditure in 1990–91 is planned to be £550 million higher than its 1988–89 level (25 per cent in real terms). Provision for grants to local authorities will be £340 million higher in 1990–91 than in 1989–90; this will allow in particular for an additional 1,100 police officers.

1.45 There are additions of £80 million in 1990–91 for the legal departments; this includes extra provision for the Government's civil law and competition policy initiatives, legal aid, and the Serious Fraud Office.

Education and Science

1.46 The Government's aims, as set out in the 1988 Education Reform Act, are to raise standards of achievement at all levels of ability, to increase parental choice, and to widen access to further and higher education and make them more responsive to the needs of the economy. Central government support for local authorities' current expenditure on schools is provided through Aggregate External Finance (in England and Wales) and Aggregate Exchequer Grant (in Scotland) (see paragraph 1.65 below). Provision for credit approvals within the Department of Education's programme will allow a substantial programme of local authority capital expenditure on schools and further education colleges. There is also extra provision for grant-maintained schools and for City Technology Colleges.

1.47 In higher education, participation is expected to rise from its present record level. The number of first degrees awarded is projected at around 140,000 in 1991, 40 per cent higher than in 1979. More money has been made available for universities, polytechnics and colleges both to finance the costs of teaching these extra students and to provide for increased spending on maintenance and equipment. £¼ billion extra has been provided in 1990–91 for support for students; this covers both provision for the Government's proposals for loans to top up students' income, and increased provision for student awards. Within the total funding provided for higher education, a greater proportion will in future be channelled through student fees paid by local authorities, with a smaller proportion coming from central grants to institutions. This is intended to make the provision of higher education more responsive to student demand. As a result, sums rising to about £½ billion a year will be transferred from central government's own expenditure to grants to local authorities. Substantial extra spending on the science budget is planned (see paragraph 1.76).

Arts and Libraries

1.48 The aim is to encourage public appreciation of the arts, and the development and preservation of our cultural heritage. The three year settlement has been renewed, with an additional £33 million in 1990–91—an increase of 12 per cent over the current year—and further increases in the later years. This will allow for increased levels of expenditure on the arts bodies supported by the Arts Council. It will enable the National Museums and Galleries to carry out further improvements to their buildings. For the British Library, it will provide for increases both for current spending and for the new building at St Pancras.

Health

1.49 The programme provides for spending on the National Health Service and on personal social services in England.

1.50 An increase of £1,150 million has been made on the previous plans for the NHS in England in 1990–91, with an addition of £1,510 million in 1991–92. Cash provision will be £2 billion higher in 1990–91 than 1989–90 in England (and £2·4 billion in the UK). In addition, the health service will have available extra cash released by a new round of cost improvement programmes and income generation. Taking these further factors into account, the resources available to the NHS in England will be over £2·2 billion (over 5½ per cent in real terms) higher in 1990–91 than 1989–90, and £2·6 billion for the UK as a whole.

1.51 These increases for the NHS include provision for the implementation of the proposals in the White Paper, "Working for Patients", (Cm 555) over and above the funding for the expansion of services.

1.52 Total current expenditure on hospital and community health services in England is planned to rise from £13,650 million in 1989–90 to £14,810 million in 1990–91 and £15,540 in 1991–92. This increase provides scope for health authorities to continue to expand services. Increases will also allow for faster changeover of nursing training schools to the new Project 2000 arrangements. Provision for net capital expenditure on hospital and community health services has been increased by £140 million in 1990–91, to a level 18 per cent higher than in 1989–90. Provision for the family practitioner service allows for higher forecast demand and for service developments. There are also additional funds for special hospitals, health education and disablement services.

Social Security

1.53 The programme provides for expenditure on social security benefits and for the administration costs of paying benefits and collecting contributions. The new plans reflect the latest estimate of benefit expenditure over the Survey period and imply an average increase of some 2½ per cent a year more than the assumed increase in prices. They take account of the statement by the Secretary of State on 25 October 1989 on benefit rates to apply from April 1990. He proposed not to uprate child benefit next year, but to focus additional resources on less well off families with children, including lone parents. He announced ten new measures which are expected to help ½ million long term sick and disabled people. He also announced that he would bring forward within the next few months proposals to improve the balance and structure of social security provision for this group.

and others with special needs such as the disabled.

1.54 The plans also provide for further upratings of benefits in April 1991 and April 1992. For this purpose the RPI is assumed to rise by 6½ per cent in the year to September 1990 (for the upratings in April 1991) and by 3 per cent in the year to September 1991 (for the upratings in April 1992). The number of unemployed in Great Britain is assumed to average 1·75 million in 1990–91, 1991–92 and 1992–93.

1.55 The new plans provide for grants to local authorities in support of community charge benefit at higher levels of expenditure than on rate rebates; the provision made assumes average community charges in line with the community charge for standard spending in 1990–91. Extra provision is also included for the cost of special assistance to 2½ million pensioners and the abolition of the pensioners' earnings rule, both implemented in October 1989.

of the least well off

Scotland, Wales and Northern Ireland

1.56 The net changes in these programmes mainly reflect the effects of changes in comparable programmes for England. As in former years the decisions of the Secretaries of State for Scotland, Wales and Northern Ireland on the distribution of resources within their responsibilities will be shown in the public expenditure White Paper. For the purpose of the analysis in Tables 1.5, 1.7, 1.10 and 1.11 in this Statement, a notional split between and within spending authorities has been assumed, taking account of the pattern of expenditure in 1989–90.

Chancellor's Departments

1.58 There is extra provision for the Inland Revenue for the costs of increasing workloads, including the implementation of independent taxation of husbands and wives; and for continuing investment in information technology. Extra provision for Customs covers some costs associated with the Channel Tunnel, preparing for the move to the Single Market. Provision has been made to meet the costs to both the Inland Revenue and Customs of relocating substantial numbers of civil service posts from London. The new plans take into account substantial continuing efficiency gains. Estimates of expenditure on payments of life assurance premium relief and mortgage interest relief to non-taxpayers have been increased.

and growth in workload

and [illegible]

European Community

1.59 The increase in the United Kingdom's net payments stems from a number of factors, including higher VAT contributions and customs duties, reflecting recent strong economic growth, and higher imports from third countries.

Local authorities 1.60 Under the new systems of local government finance to be introduced in England and Wales in 1990–91, the community charge will replace domestic rates; the new national non-domestic rate (NNDR) will replace the present system of local business rates; the NNDR revenues will be distributed between local authorities on a per head of population basis; revenue support grant will replace the existing rate support grant; and a new capital finance system will be introduced.

x

1.61 Central government support for local authority programmes will comprise payments to local authorities from the yield of non-domestic rates; current and capital grants; and credit approvals, which will be permissions to finance capital spending from borrowing or other forms of credit.

1.62 The Government's expenditure plans in the new planning total will, as explained in paragraph 1.15 and in more detail at the annex, cover this central government support for local authorities. Table 1.3 shows the planned levels of total support, while Table 1.5 breaks the total down into its main components.

Table 1.5 Central government support for local authorities

	£ million					
	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Non-domestic rates payments	8788	9620	830	10430		
England	1290	1220	−70	1190		
Scotland	368	410	50	420		
Wales					25950[3]	26700[4]
Revenue support grants[2]	9824	9610	−210	9490		
England	2007	2340	330	2450		
Scotland	1015	1050	30	1130		
Wales						
Transitional grants[5]	—	—	—	670	840	550
Other current grants[6]	8918	9800	900	11400	12000	12400
Capital grants[7]	544	620	80	1300	1300	1300
Credit approvals[8]	3697	3410	−290	3800	4000	4000
Total	**36450**	**38100**	**1600**	**41800**	**43800**	**44900**
of which AEF/AEG	24789	26240	1390	28800	30130	30810

[1] *Proxies have been used for some elements of the planning total for years before 1990–91: the estimated yield of non-domestic rates for non-domestic rates payments; and capital allocations, less capital grants, for credit approvals. See para 1A.10.*

[2] *Rate Support Grant up to 1 April 1989 in Scotland and 1 April 1990 in England and Wales.*

[3] *Comprising £20 550 million (England), £3 770 million (Scotland), £1 630 million (Wales).*

[4] *Comprising £21 140 million (England), £3 880 million (Scotland), £1 680 million (Wales).*

[5] *Area protection, low rateable value, transitional community charge relief and transitional education support grants for inner London boroughs; see footnote 4 to Table 1.6.*

[6] *See Table 1.6.*

[7] *See Table 1.7.*

[8] *Net capital allocations in Scotland. See Table 1.7.*

1.63 Table 1.6 breaks down by Department the provision made in the plan years for all specific grants in support of local authorities' *current* expenditure, including community charge transitional grants. It also shows the outturn in 1988–89 and 1989–90.

Table 1.6 Other current grants to local authorities by department[1]

	£ million					
	Latest estimates of outturn			New plans		
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90	1990–91	1991–92	1992–93
Ministry of Agriculture, Fisheries and Food[2]	29	−50	−80	−110	−110	−110
Department of Employment	256	350	90	320	330	340
Department of Transport	2	0	0	0	0	0
DOE–Housing[3]	22	20	0	2 260	2 470	2 610
DOE–Other environmental services	20	20	0	10	10	20
DOE–Local government[4]	169	250	80	490	640	360
Home Office	2 226	2 430	200	2 690	2 870	2 990
Department of Education and Science[4]	904	1 020	120	1 780	1 840	1 860
Department of Health	25	40	20	50	30	30
Department of Social Security[5]	4 958	5 400	400	3 840	3 890	3 890
Scotland[4]	232	250	20	430	460	470
Wales[3,4]	33	40	0	300	310	320
Northern Ireland	41	40	0	50	50	50
Total	**8 918**	**9 800**	**900**	**12 100**	**12 800**	**12 800**

x [1] *Includes specific grants in support of local authorities' current expenditure, except for Revenue Support Grant and non-domestic rates payments, which provide the bulk of this support. RSG and* non-~~rate~~ (domestic rate payments) *shown separately in Table 1.5.*

x [2] *Includes Intervention Board for Agricultural Produce, and payments from local authorities to the National Rivers Authority for land drainage.*

x [3] *Includes central government support for rent rebates from 1990–91.*

x [4] *Includes transitional grants to assist with the transfer of responsibility for education to Inner London boroughs, and with the introduction of the community charge, as follows:*

(£ million)	1990–91	1991–92	1992–93
Inner London education grant	100	70	50
Low rateable values grant	87	490	283
Area protection grant	30		
Transitional relief	453	277	212
Total	670	837	545

[5] *Includes central government support for rent rebates in years prior to 1990–91, community charge benefit grant in Scotland from 1989–90, and in England and Wales from 1990–91, and grants for rate rebates in prior years.*

x [put after 1.65]

1.64 Included within the components shown in Tables 1.5 and 1.6 are the transitional grants paid in connection with the introduction of the community charge. In England, these comprise the transitional community charge relief grant announced for England in October, the low rateable value areas grant; and the area protection grant payable from April 1991 when contributions by gaining local authorities to the area safety net will be discontinued. The transitional education grant paid to inner London boroughs will provide further assistance to community charge payers in those authorities.

x

x

x

1.65 Table 1.5 identifies figures for the "Aggregate External Finance" (AEF) which the Government provides in support of local authorities' general current expenditure. AEF comprises payments from the national non-domestic rate (NNDR) pool, revenue support grant and certain specific grants towards local authority expenditure programmes. In July, the

x

Secretaries of State for the Environment and Wales announced the proposed AEF totals for next year, and the Secretary of State for Scotland announced corresponding proposals for the aggregate exchequer grant (AEG) total for Scotland. Revenue support grant and national non-domestic rate (NNDR) payments for England are included in the DOE-local government line of Table 1.4. The comparable items for Scotland and Wales are included within the lines for the Scottish and Welsh Offices.

1.66 Table 1.7 breaks down by Department the totals of *capital* grants and credit approvals in England and Wales, and of capital allocations in Scotland.

Table 1.7 Credit approvals[1] and capital grants in support of local authority capital expenditure

	£ million				
	Latest estimates of outturn		New Plans		
	1988–89 outturn	1989–90 estimated outturn	1990–91	1991–92	1992–93
Ministry of Agriculture, Fisheries and Food	29	30	30	40	40
Department of Transport	682	640	730	820	810
DOE—Housing	1 341	1 110	1 930	1 900	1 860
DOE—Other environmental services[3]	474	490	430	440	460
Home Office	120	180	240	270	280
Department of Education and Science	405	370	460	470	480
Department of Health	81	80	90	100	110
Scotland	787	790	790	830	870
Wales	316	340	380	390	400
Northern Ireland	5	10	20	20	20
Total	**4 241**	**4 030**	**5 100**	**5 300**	**5 300**
of which					
capital grants	544	620	1 300	1 300	1 300
credit approvals	3 697	3 410	3 800	4 000	4 000

[1] *Or territorial equivalents.*
[2] *Proxies have been used for credit approvals for years before 1990–91: see footnote 1 to Table 1.5.*
[3] *Includes credit approvals issued on behalf of Department of Employment, Department of Trade and Industry, and the Office of Arts and Libraries.* [MAFF]

x

1.67 Under the new arrangements being introduced next year, the Government will no longer make plans for total local authority current and capital expenditure - only for grants and credit approvals which provide support for total local authority spending. But in order to provide a path for GGE it is necessary to project total local authority expenditure, net of capital receipts, including expenditure which local authorities finance from their own resources.

1.68 Local authority current expenditure in 1989-90, excluding debt interest payments, is now expected to exceed provision by about £1 billion, while gross local authority capital expenditure is estimated to be some £1¾ billion in excess of provision, at about £9¾ billion (see table 1.14). The large excess on capital expenditure is thought to reflect a very high level of expenditure financed from capital receipts this year, before a proportion of accumulated capital receipts is required to be set aside for debt redemption under the new regime from April 1990.

1.69 The level of total expenditure by local authorities in 1990-91 and beyond will reflect the spending decision which local councils will take in the light of the amounts of central government support made available and the implications for the community charge. The projections in this Autumn Statement assume that, in general, local authority spending will rise year broadly in line with past trends, but that gross capital expenditure will fall from its exceptionally high level in 1989-90 to a level more in line with earlier years, perhaps around £8 billion. Starting from this base, total local authority spending is projected to grow more slowly in 1991-92 in real terms and to remain broadly flat in 1992-93.

1.70 Deducting the support provided by central government from total local authority expenditure gives a measure of the expenditure which local authorities finance from their own resources - community charge income, use of capital receipts, balances and other income. Figures for this local authority self-financed expenditure, net of the inflow of capital receipts, are shown in table 1.3. The profile reflects the exceptionally high levels of expenditure from their own resources (notably use of capital receipts) by local authorities in 1989-90 and the transitional relief for community chargepayers provided by central government from 1990-91.

1.69 The Department of the Environment has published separately the Government's assessment of the level of current expenditure appropriate for all local authorities in England next year to provide a standard level of service ("total standard spending").

1.70 Table 1.17 gives figures for local authority capital receipts from the sale of land and existing buildings (net of purchases) between 1984–85 and 1988–89. It also gives an estimate of outturn in 1989–90 and a broad projection for 1990–91. Within this total, receipts from sales of local authority housing, mainly under the Government's right to buy policy, may amount to some £3 billion. As explained above, local authority capital receipts reduce GGE but do not directly affect the new planning total.

Nationalised industries

1.71 The Government's objective is to minimise the burden which the industries place on the taxpayer and to strengthen them as businesses earning an adequate rates of return . External finance for nationalised industries has been significantly reduced, from nearly £3 billion in 1979–80 to an estimated £670 million in 1989–90. The Government will continue to require improvements in the industries' profitability, efficiency and standards of service and will encourage progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.

1.72 The estimated outturn for nationalised industries' external finance for 1989–90 is £670 million, £700 million higher than the plans in Cm 621. The main increases are for the costs to British Coal of restructuring and to British Rail of the Channel Tunnel services. There are offsetting lower requirements for electricity (England and Wales) because of lower fuel costs and a reduced tax liability.

1.73 External financing limits (EFLs) for the nationalised industries in 1990–91 are listed in Table 1.8, which also shows the plans for the two later years. Up to privatisation, the electricity industry will have substantial negative external financing requirements. But electricity privatisation is planned for 1990 and 1991; EFLs in 1990–91 take account of that, and there are no entries for electricity in the two later years. This is reflected in an increase in the total figures for the nationalised industries between 1990–91 and 1991–92.

Table 1.8 External financing requirements for the nationalised industries, 1990–91 to 1992–93

	£ million		
	1990–91	1991–92	1992–93
British Coal	385	270	280
British Railways Board	646	760	760
London Regional Transport	448	440	430
Civil Aviation Authority	67	40	70
British Shipbuilders	8	0	−20
British Waterways Board	49	50	50
Caledonian MacBrayne Ltd	7	10	10
Post Office	38	−60	−70
Scottish Bus Group	−7		
Electricity (England and Wales)	−1000[1]		
Electricity (Scotland)	122[1]		
Total	**520**	**1,510**	**1,510**

[1] *Allowance for external financing for Electricity. Figures will depend on actual timing of privatisation in 1990 and 1991.*

1.74 Provision has been increased for the external financing requirements of the industries remaining in the public sector throughout the period. This mainly reflects substantial increases in the levels of investment planned by London Regional Transport, British Rail and the Post Office. By 1992–93, provision for capital investment by those industries remaining in the public sector will be some 50 per cent higher in real terms than in 1988–89.

Other public corporations

1.75 Included within the Departmental programme totals is provision for a large number of public corporations including urban development corporations (UDCs), the Scottish and Welsh Development Agencies, the Northern Ireland electricity service, New Towns, Scottish Homes, and the Northern Ireland Housing Executive. The largest increase in provision now planned for next year is for the London Docklands Development Corporation. The planned increases for the Urban Development Corporations in all three years ahead are more than offset by increased estimates of net capital receipts by New Towns.

Science and technology

1.76 The new plans reallocate resources for science and technology towards basic and long term strategic research by the universities and Research Councils. Within the new plans described above, £100 million has been added to planned spending on civil science and technology in 1990–91. Most of the increase benefits the DES science budget, which will grow by 25 per cent between 1988–89 and 1990–91. There is provision for increased environmental research.

Capital spending

1.77 Within the departmental plans described above, extra provision of about £1 billion has been made for central government own capital spending in 1990–91. This includes large increases for investment in roads, hospitals, education and science, and housing. Provision for investment by those nationalised industries remaining in the public sector throughout the period has been increased by some £¼ billion in 1990–91, rising to some £½ billion in 1991–92. Provision for investment by other public corporations has been increased by some £¼ billion in 1990–91. Total additions to provision for capital investment in transport, by both central government and public corporations, amount to over £¾ billion in each of 1990–91 and 1991–92.

Privatisation

1.78 The estimate of net proceeds for 1989–90 from the privatisation programme is £4½ billion. For 1990–91 and 1991–92, the estimate of net proceeds is £5 billion as in the public expenditure White Paper. These proceeds are netted off the planning total and general government expenditure. However, in order to show the underlying trends in expenditure more clearly, Chart 1.2 shows trends in expenditure both including and excluding privatisation proceeds.

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Reserves

1.79 The plans include Reserves of £3 billion in 1990–91, £6 billion in 1991–92 and £9 billion in 1992–93. These will be available to meet unforeseen requirements on items of expenditure within the new planning total.

Debt interest

1.80 General government gross debt interest is projected to fall from about £18 billion in 1988–89 to about £14 billion in 1992–93 (see Table 1.9). For 1990–91 to 1992–93, the figures are the same as projected in the FSBR. Following the reduction in government borrowing and the move into Budget surplus in recent years, debt interest has declined as a proportion of GDP from 5 per cent in 1981–82 to about 3¾ per cent in 1988–89 and is projected to fall further to 2¼ per cent by 1992–93.

Table 1.9 General government debt interest

	1987–88 Outturn	1988–89 Outturn	1989–90 Projection	1990–91 Projection	1991–92 Projection	1992–93 Projection
	£ billion					
General government gross debt interest[1]	17·7	18·1	17½	15½	14½	14
Of which:						
Central government	17·0	17·5	17	15½	14	15½
General government interest and dividend receipts	6·1	6·6	7	6½	6½	5½
General government net debt interest	11·6	11·4	11	9	8	8
	Per cent of GDP					
General government gross debt interest[1]	4¼	3¾	3½	2¾	2½	2¼
General government net debt interest	2¾	2½	2	1¾	1½	1¼
[1]*Of which: Servicing of indexed securities (gilts plus national savings)*	*1·3*	*1·6*	*2·1*	*2·1*	*1·6*	*1·6*

Value for Money

1.81 The Government attaches high priority to getting better value for money from all public expenditure. The improvements in public services that will result from the new public expenditure plans described above will be increased further by continuing improvements in value for money. The public expenditure White Paper, to be published early in 1990, will include information on the output and performance of departmental programmes and will include details of performance against specific targets.

1.82 Since 1979 efficiency scrutinies have saved over £1·3 billion on a cumulative basis. Departments have achieved value for money improvements in purchasing and supply worth about £350 million in 1988–89, equivalent to over 5 per cent of their purchasing expenditure; market testing and contracting out are now saving some £50 million a year in the Civil Service. The Government's programme ("The Next Steps") to create agencies to carry out the executive functions of Government will lead to further improvements in civil service efficiency. So far, ten agencies have been set up, covering 7,700 employees, and a further 38 activities have been identified as agency candidates, covering 200,000 staff (over a third of the Civil Service).

[notably]

1.83 In the National Health Service cost improvement programmes are expected to have yielded savings of about £1 billion by the end of the current financial year. In local authorities, value for money improvements of around £300 million a year have been achieved following work by the Audit Commission: and scope for achieving a further £600 million has been identified. Achievement of these will be encouraged by the present reform of local government finance and by measures in the Local Government Act 1988 to widen the scope of competitive tendering. In the nationalised industries since 1979–80 average productivity has grown significantly faster than recorded productivity in the economy as a whole.

Outturn in 1989–90

1.84 In the last public expenditure White Paper, Cm 621, the planning total for 1989–90 was set, on the old definition, at £167·1 billion, including a Reserve of £3·5 billion. As Table 1.13 shows, the estimated outturn is £168·2 billion. This implies claims on the Reserve totalling £4·6 billion.

1.85 Within this total, additional expenditure by local authorities looks likely to account for some £2¾ billion (see Table 1.14). New arrangements for the planning and financing of local government expenditure are to be introduced in England and Wales from April 1990 (see paragraph 1.60 above).

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1.86 Additional financial requirements of the nationalised industries (mainly costs associated with restructuring British Coal) are expected to account for £[illegible] billion. Lower privatisation proceeds, resulting from the subscription by the Government for shares in the ten water companies of England and Wales, are expected to account for £¾ billion.

1.87 Table 1.15 shows the estimated outturn for 1988–89 and 1989–90 for local authority expenditure within the old planning total. Table 1.16 shows the outturn for the planning total on the old definition for 1984–85 to 1989–90 compared with the plans published in previous years.

Table 1.10 Central government's own expenditure[1, 2]

	£ million								
	Latest estimates of outturn			New plans			Changes from 1989 White Paper[3]		
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1990–91 Plans	1991–92 Plans	1992–93 Plans	1989–90	1990–91	1991–92
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430	170	10	250
FCO—Diplomatic wing	739	840	100	890	940	970	40	50	60
FCO—Overseas Development Administration	1 507	1 570	80	1 680	1 780	1 850	60	80	110
Ministry of Agriculture, Fisheries and Food	1 559	1 630	70	1 910	2 120	2 220	−240	−170	−160
Trade and Industry	1 685	1 230	−460	1 220	1 080	1 000	−120	−80	−70
Export Credits Guarantee Department	109	340	230	240	70	−30	160	120	10
Energy	538	460	−80	450	410	410	−20	40	50
Department of Employment	3 591	3 530	−60	3 460	3 340	3 370	−150	−110	−220
Department of Transport	1 405	1 970	560	2 310	2 410	2 510	190	430	460
DOE—Housing	1 376	1 540	160	2 250	2 560	2 680	100	570	550
DOE—Other environmental services	530	620	120	610	550	480	−30	−70	−130
DOE—Property Services Agency (Services)	0	−80	−100	30	0	−10	60	170	180
DOE—Local government	0	0	0	40	40	40	0	40	40
Home Office	1 364	1 670	310	1 910	1 870	1 880	−10	80	20
Lord Chancellor's and Law Officers' departments	902	1 120	200	1 270	1 380	1 470	20	80	120
Department of Education and Science	2 961	4 310	1 350	4 590	4 460	4 590	30	190	0
Office of Arts and Libraries	414	440	30	490	520	540	0	40	40
Department of Health	18 431	20 060	1 630	22 040	23 350	24 470	260	1 170	1 540
Department of Social Security	44 473	47 180	2 710	52 000	56 200	59 500	−300	+670	1 800
Scotland[4]	3 827	4 010	180	4 370	4 570	4 710	20	210	240
Wales[4]	1 730	1 890	160	2 110	2 190	2 250	20	150	170
Northern Ireland[4]	5 142	5 520	380	5 750	6 050	6 290	340	330	390
Chancellor's departments	3 695	4 150	460	4 620	4 880	5 140	10	290	350
Other departments	278	310	30	370	380	400	60	30	30
European Communities	1 006	2 030	1 020	1 870	1 670	1 990		−80	90
Total	**116 335**	**126 650**	**10 320**	**137 700**	**145 230**	**152 100**	**700**	**4 200**	**6000**

[1] *See footnotes to Table 1.3.*

[2] *Figures exclude finance for public corporations.*

× [3] *Plans as set out in the last public expenditure White Paper, adjusted for changes of classification and allocation, including those described in* footnote 1 to Table 1.A1

λ [4] *See paragraph* 1.56

Table 1.11 Public corporations[1]

£ million	Latest estimates of outturn			New plans			Change from 1989 White Paper[2]		
	1989–90 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1990–91 Plans	1991–92 Plans	1992–93 Plans	1989–90	1990–91	1991–92
FCO—Overseas Development Administration	34	50	20	30	30	30	20	0	0
Ministry of Agriculture, Fisheries and Food	18	10	−10	0	0	0	−10	0	0
Department of Trade and Industry	−343	−70	300	50	−70	−80	0	90	10
Department of Energy	−810	−310	650	−610	260	270	430	310	−20
Department of Employment	4	0	0	0	0	0	0	0	0
Department of Transport	745	990	340	830	1 240	1 260	220	400	500
DOE—Housing	−86	−110	−10	−170	−150	−140	−70	−160	−190
DOE—Other environmental services	−85	350	470	330	250	260	200	100	0
Department of Health	−7	0	50	0	0	0	0	0	0
Scotland[3]	342	370	50	310	470	480	10	80	0
Wales[3]	104	130	20	120	120	110	10	10	0
Northern Ireland[3]	275	190	−90	170	150	150	−60	0	10
Chancellor's departments	−7	0	10	−10	−20	−20	0	0	0
Total[4]	**−183**	**1 590**	**1 790**	**1 370**	**2 300**	**2 340**	**760**	**840**	**330**
of which:—									
Nationalised industries	−471	860	1 330	520	1 510	1 510	700	910	530
Other public corporations	288	730	−440	850	790	830	60	−80	−210

[1] *See footnotes to Table 1.3. For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external finance limits for 1990–91 to 1992–93, see Table 1.8.*

[2] *See footnote 3 to Table 1.10.*

[3] *See paragraph* 1.56

[4] *Provision for Electricity (England, Wales and Scotland) and Scottish Bus Group, which are assumed to be privatised during 1990–91, is included in the outturn years and the plans for that year only.*

Table 1.12 Planning total and general government expenditure[1, 2]

	£ million Outturn				
	1984–85	1985–86	1986–87	1987–88	1988–89
Central government's own expenditure—	**114·6**	**116·2**	**119·8**	**119·3**	**116·3**
of which:					
Ministry of Defence	21·0	20·9	20·5	20·2	19·1
FCO—Diplomatic Wing	0·7	0·7	0·7	0·7	0·7
FCO—Overseas Development Administration	1·4	1·4	1·4	1·4	1·5
Ministry of Agriculture, Fisheries and Food	2·2	2·6	1·8	1·9	1·6
Trade and Industry	1·4	1·3	2·1	1·0	1·7
Export Credits Guarantee Department	0·7	0·4	0·3	0·2	0·1
Energy	0·6	1·0	1·0	0·6	0·5
Department of Employment	3·7	3·7	4·1	3·9	3·6
Department of Transport	1·4	1·4	1·4	1·5	1·4
DOE—Housing	1·4	1·4	1·5	1·4	1·4
DOE—Other environmental services and Ordnance Survey	0·4	0·3	0·4	0·5	0·5
DOE—Property Services Agency	0	0	0	0	0
DOE—Local Government	0	0	0	0	0
Home Office (including the Charity Commission)	1·1	1·2	1·2	1·3	1·4
Lord Chancellor's and Law Officers' departments	0·6	0·7	0·7	0·8	0·9
Department of Education and Science	2·8	2·8	2·8	2·9	3·0
Office of Arts and Libraries	0·3	0·3	0·4	0·4	0·4
Department of Health and Office of Population Censuses and Surveys	16·5	16·6	17·2	17·9	18·4
Department of Social Security	43·9	45·2	47·1	46·7	44·5
Scotland	3·6	3·7	3·7	3·7	3·8
Wales	1·5	1·6	1·6	1·7	1·7
Northern Ireland	4·4	4·5	4·7	4·8	5·1
Chancellor of the Exchequer's departments	3·2	3·3	3·6	3·7	3·7
Cabinet Office, Privy Council Office and Parliament	0·3	0·3	0·3	0·3	0·3
European Communities	1·2	1·0	1·2	1·8	1·0
Central government support to local authorities	**37·8**	**36·3**	**37·6**	**38·2**	**36·5**
Financial requirements of public corporations	**6·1**	**3·1**	**1·2**	**0·9**	**−0·2**
Reserve					
Privatisation proceeds	**−2·5**	**−3·2**	**−5·0**	**−5·5**	**−7·1**
Adjustment					
New planning total	**156·0**	**152·4**	**153·6**	**152·8**	**145·5**
Local authority self-financed expenditure	9·7	9·7	9·8	9·7	10·2
Central government debt interest	17·6	18·7	18·6	18·3	17·6
Accounting adjustments	1·9	3·7	3·8	4·3	5·3
General government expenditure	**185·2**	**184·6**	**185·8**	**185·0**	**178·6**

[1] *See footnote to Table 1.3.*

[2] *Real terms figures are cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnote 2 to Table 1.1).*

Estimated Outturn	New Plans			
1989–90	1990–91	1991–92	1992–93	
118·2	122·6	124·9	127·0	**Central government's own expenditure—**
				of which:
19·0	18·9	19·2	19·6	Ministry of Defence
0·8	0·8	0·8	0·8	FCO—Diplomatic Wing
1·5	1·5	1·5	1·5	FCO—Overseas Development Administration
1·5	1·8	1·9	1·9	Ministry of Agriculture, Fisheries and Food
1·1	1·1	1·0	0·9	Trade and Industry
0·3	0·2	0·1	0	Export Credits Guarantee Department
0·4	0·4	0·3	0·3	Energy
3·3	3·1	2·9	2·8	Department of Employment
1·8	2·0	2·1	2·1	Department of Transport
1·4	2·0	2·2	2·2	DOE—Housing
0·5	0·6	0·6	0·6	DOE—Other environmental services and Ordnance Survey
0	−0·1	−0·1	−0·2	DOE—Property Services Agency
0	0	0	0	DOE—Local Government
1·6	1·7	1·6	1·6	Home Office (including the Charity Commission)
1·0	1·1	1·2	1·2	Lord Chancellor's and Law Officers' departments
4·0	4·1	3.8	3.8	Department of Education and Science
0·4	0·4	0·4	0·5	Office of Arts and Libraries
18·7	19·6	20·1	20·4	Department of Health and Office of Population Censuses and Surveys
44·1	46·3	48.3	49·6	Department of Social Security
3·8	3·8	3·9	3·9	Scotland
1·8	1·9	1·9	1·9	Wales
5·2	5·1	5·1	5·2	Northern Ireland
3·9	4·0	4·1	4·2	Chancellor of the Exchequer's departments
0·3	0·3	0·3	0·3	Cabinet Office, Privy Council Office and Parliament
1·9	1·8	1·3	1·5	European Communities
35·6	37·3	37·7	37·6	**Central government support to local authorities**
1·4	1·3	2·0	2·0	**Financial requirements of public corporations**
	2·7	5·2	7·5	**Reserve**
−4·0	−4·5	−4·3	−4·2	**Privatisation proceeds**
−0·2				**Adjustment**
151·1	159·3	165·4	169·9	**New planning total**

12·4	*10·5*	*10·3*	*10·3*	Local authority self-financed expenditure
16·1	*13·6*	*12·0*	*11·4*	Central government debt interest
3·8	*3·8*	*3·4*	*3·9*	Accounting adjustments
183·4	187.3	191·1	195·5	**General government expenditure**

Table 1.13 Old planning total, 1988–89 and 1989–90[1]

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper[2]
Ministry of Defence	19 073	20 310	1 240	170
FCO—Diplomatic wing	712	810	100	40
FCO—Overseas Development Administration	1 541	1 620	80	80
Ministry of Agriculture, Fisheries and Food	1 772	1 690	−80	−260
Department of Trade and Industry	1 406	1 260	−150	−110
Export Credits Guarantee Department	109	340	230	160
Department of Energy	−420	140	560	410
Department of Employment	3 731	3 890	160	−160
Department of Transport	4 721	5 900	1 180	720
DOE—Housing	1 819	2 430	610	720
DOE—Other environmental services and Ordnance Survey	3 783	5 144	1 360	730
Home Office (including the Charity Commission)	6 304	7 170	860	260
Lord Chancellor's and Law Officers' Department	893	1 110	220	30
Department of Education and Science	18 611	20 230	1 620	660
Office of Arts and Libraries	974	1 060	90	80
Department of Health and Office of Population Censuses and Surveys	21 764	23 740	1 980	560
Department of Social Security	47 162	50 200	3 100	−700
Scotland	8 657	9 310	650	340
Wales	3 559	3 910	350	130
Northern Ireland	5 566	5 810	240	290
Chancellor of the Exchequer's Departments	3 685	4 140	450	10
Cabinet Office, Privy Council and Parliament	278	320	40	−10
European Communities	1 006	2 030	1 020	−60
Reserve	0	0	0	−3 500
Privatisation proceeds	−7 065	−4 150	2 920	850
Adjustment		−200	−200	−200
Old planning total	**149 638**	**168 200**	**18 600**	**1 100**

[1] *See footnotes 1, 4–8, 10 and 12 to Table 1.3.*
[2] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

Table 1.14 Old planning total: differences between plans and estimated outturn by spending sector 1989–90

	£ million		
	Plans in 1989 White Paper[1]	Estimated outturn	Changes from 1989 White Paper[1]
Central government[2]	123 718	124 300	600
Local authority expenditure[2]			
—current	41 393	42 400	1 000
—capital	2 616	4 280	1 670
Public corporations	826	1 590	760
Reserve	3 500	0	−3 500
Privatisation proceeds	−5 000	−4 250	750
Adjustment[3]	0	−200	−200
Old planning total	167 053	168 200	1 100
General government gross debt interest	17 000	17 800	800
Other national accounts adjustments	9 500	10 300	800
General government expenditure	193 700	196 300	2 600
General government expenditure (excluding privatisation proceeds)	198 700	200 500	1 850

[1] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

[2] *Excluding finance for public corporations.*

[3] *See footnote 12 to Table 1.3.*

Table 1.15 Local authority expenditure in 1988–89 and 1989–90 (old planning total basis)[1,2]

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper[3]
Ministry of Agriculture, Fisheries and Food	194	210	10	−10
Department of Trade and Industry	94	110	10	10
Department of Employment	137	140	0	0
Department of Transport	2 652	2 890	240	140
DOE—Housing	544	1 000	460	700
DOE—Other environmental services	3 371	4 310	940	560
Home Office	5 148	5 730	590	270
Department of Education and Science	15 475	15 920	480	630
Office of Arts and Libraries	560	620	60	80
Department of Health	3 382	3 730	350	310
Department of Social Security	3 837	4 300	500	−400
Scotland	4 510	4 940	430	300
Wales	1 715	1 890	170	100
Northern Ireland	840	900	60	0
Old Planning Total	**42 458**	**46 700**	**4 200**	**2 700**
of which:—				
Current	39 601	42 400	2 800	1 000
Capital	2 857	4 280	1 420	1 670

[1] *Figures exclude debt interest and finance for public corporations.*
[2] *See footnotes 1, 4-8 and 10 to Table 1.3.*
[3] *Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.*

Table 1.16 Old planning total[1]; plans and outturn

	£ billion					
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90
March 1982 White Paper (Cmnd 8494)	127·8					
February 1983 White Paper (Cmnd 8789)	126·6	132·4				Plans
February 1984 White Paper (Cmnd 9143)	126·6	132·2	136·8		**Outturn**	
January 1985 White Paper (Cmnd 9428)	**128·3**	132·2	136·9	141·7		
January 1986 White Paper (Cmnd 9702)	**129·7**	**134·3**	139·2	144·0	148·8	
January 1987 White Paper (Cm 56)	**129·9**	**133·7**	**140·5**	148·7	154·3	161·5
January 1988 White Paper (Cm 288)	**129·9**	**133·8**	**139·3**	**147·4**	156·9	167·1
January 1989 White Paper (Cm 621)	**129·9**	**133·8**	**139·3**	**145·7**	**153·4**	**167·1**
This Autumn Statement	**129·9**	**133·7**	**139·3**	**145·8**	**149·5**	**168·2[2]**

[1]Planning total on 1989 White Paper definition adjusted for minor classification changes, other than those described in footnote 1 to Table 1.A1.
[2]Estimated.

Table 1.17 General government receipts from sales of land and buildings (net of purchases)

	£ billion							
	Latest estimates of outturn							New plans
	1984–85 Outturn	1985–86 Outturn	1986–87 Outturn	1987–88 Outturn	1988–89 Outturn	1989–90 Estimated outturn		1990–91 Plans[1]
Central government[2]	—	0·1	0·2	0·1	0·3	0·3		½
Local authority								
Housing	1·3	1·2	1·4	1·9	3·1	3·3	⅛	
Other	0·4	0·5	0·6	1·1	1·5	1·0	¼	4
Total	1·7	1·7	2·0	2·9	4·6	4·3	⅜	
Total general government	1·8	1·8	2·2	3·1	4·9	4·6		4

[1] Projected local authority receipts for 1990–91 and the total are rounded to the nearest £ billion.
[2] Excluding receipts included in privatisation proceeds (Forestry Commission, land settlement, motorway service leases—see Table 21.1.18 of Cm 621).

Annex to Chapter 1

Introduction

1A.1 This Autumn Statement is the first to use the new planning total for public expenditure announced in the White Paper, "A New Public Expenditure Planning Total" (Cm 441, July 1988). This does not affect in any way the Government's wider medium term aims for total public spending. These are expressed, as before, in terms of general government expenditure (GGE), excluding privatisation proceeds. The definition of GGE is unchanged.

1A.2 This change is being made at the same time as the reform of local government finance in England and Wales, from 1 April 1990. A new system of local government finance was introduced in Scotland in April 1989. Further details are given in paragraph 1.60 of this Autumn Statement.

1A.3 Both changes are intended to distinguish more clearly between the responsibilities of central and local government.

The new planning total

1A.4 For operational purposes the Government has for many years set a planning total against which it monitors and seeks to control departmental expenditure. The old planning total, like GGE, covered all local authority expenditure, net of capital receipts, including spending which local authorities finance from their own resources and for which local authorities are responsible. At the same time, it did not count the grants which central government determines and pays to local authorities.

1A.5 The new planning total brings together all the elements of public expenditure for which central government is responsible. The change in definition affects the treatment of local authority expenditure. The new planning total thus includes

—the grants, current and capital, central government provides to local authorities;

—payments to local authorities from the yield of non-domestic rates; and
— credit approvals.

Local authority spending financed from local taxation and other miscellaneous income will be excluded.

1A.6 The new planning total also covers, as did the old, central government's own expenditure; the external finance of the nationalised industries and of most other public corporations; privatisation proceeds (deducted from the planning total); and a Reserve.

1A.7 The Government has, at the same time, taken the opportunity to change the treatment of some other elements of expenditure, bringing the planning total closer into line with national accounts. These changes are noted in footnote 1 to Table 1A.1.

The new plans

1A.8. Table 1.3 shows the new plans in summary, on the new definition of the planning total. Table 1.3 also shows estimates of the outturn for 1984-85 to 1989-90 on the new basis. For local authority elements of the new planning total, proxy figures have been used for non-domestic rate payments and for credit approvals, neither of which existed in the same form under the old arrangements for local government finance. Figures for local authority self-financed expenditure, net of capital receipts,are derived by subtracting from the figures for total local authority expenditure the support made available by central government (ie the sum of the local authority elements of the new planning total). For 1984-85 to 1987-88, they are consistent with figures for total local authority expenditure of £38.6 billion, £39.4 billion, £42 billion, and £44.7 billion respectively.

Comparisons with previous plans

1A.9 The relationship between the old and new planning totals and GGE is as follows:

OLD	NEW
Central government's own expenditure	Central government's own expenditure
Public corporations	Public corporations
Local authorities spending (net of capital receipts) —current —capital	Central Government support for local authorities —Revenue Support Grant —Non-domestic rate payments —Credit approvals
Privatisation proceeds	Privatisation proceeds
Reserve	Reserve
	New Planning Total
Old Planning Total	
	Local authority self-financed expenditure (net of capital receipts)
General government debt interest	Central government debt interest
Other adjustments	Other adjustments
General government expenditure	

1A.10 Table 1A.1 compares in more detail the new plans with those shown in the 1989 public expenditure White Paper (Cm 621), which were based on the old definition of the planning total. Table 1A.2 compares trends in the new and old planning totals and in GGE.

1A.11 The new plans can be compared directly with previous plans only in those areas where the new and old definitions overlap (central government's own expenditure, public corporations, and privatisation proceeds). These comparisons are shown in Tables 1.10, 1.11, and 1.A1.

1A.12 Under the new arrangements the Government is publishing plans for central government support for local authorities for three years ahead for the first time. Comparisons with previous plans are therefore not possible for these new local authority elements of the planning total, nor for the planning total itself.

Table 1A.1 Changes in planning total and general government expenditure for 1990–91 and 1991–92 since 1989 public expenditure White Paper

	£ billion			
	1990–91		1991–92	
	White Paper	New Plans	White Paper	New Plans
Central government's own expenditure				
White Paper plans	*131·2*	—	*136·9*	—
Classification changes[1]	—	+2·3	—	+2·4
Survey changes	—	+4·2	—	+5·9
New plans	—	137·7	—	145·2
Public corporations				
White Paper plans	*0·6*	—	*2·0*	—
Classification changes[1]	—	−0·1	—	−0·1
Survey changes	—	+0·8	—	+0·3
New plans	—	1·4	—	2·3
Local authority current				
White Paper plan (expenditure)	*43·2*	—	*44·6*	—
RSG and NDR	—	25·1	—	26·0
Other current grants	—	12·1	—	12·8
Local authority capital				
White Paper plan (net expenditure)	*2·4*	—	*2·5*	—
Capital grants	—	1·3	—	1·3
Credit approvals	—	3·8	—	4·0
Privatisation proceeds	*−5·0*	−5·0	*−5·0*	−5·0
Reserve				
Old planning total	*7·0*	—	*10·5*	—
New planning total	—	3·0	—	6·0
Old planning total	*179·4*	—	*191·6*	—
New planning total	—	179·0	—	192·3
Local authority self-financed expenditure (net of capital receipts)[2]	—	12·0	—	12·0
General government debt interest	*15½*	—	*14½*	—
Central government debt interest	—	15½	—	14·0
Other adjustments[3]	*10½*	4½	*9½*	4·0
General government expenditure	205·0	210½	*215½*	222¼

[1] *In addition to minor changes of classification and allocation the following changes have been introduced, bringing the planning total closer into line with the national accounts: statutory sick pay and statutory maternity pay are now included in the planning total; receipts from fines, fixed penalties and certain fees are now excluded from the planning total and treated as revenue; spending formerly included in local authority expenditure, on police, education and fire services in Northern Ireland, is now included in central government's own expenditure; expenditure of the National Rivers Authority financed by precepts on local authorities is now similarly treated; expenditure on certain educational initiatives of the Training Agency formerly treated as central government's own expenditure is now included in grants to local authorities; and local authority support for their airport and bus companies is now treated as local authority expenditure rather than public corporations' external finance.*

[2] *In the new plans, local authority self-financed expenditure is derived by subtracting from a projection of total local authority expenditure the support made available by central government (ie the sum of the local authority components of the new planning total). Total local authority expenditure includes local authority debt interest payments to the market and to central government. In the 1989 White Paper local authority debt interest payments to the market were included in general government debt interest.*

[3] *Other adjustments in the new plans are lower than in the White Paper because of the classification changes described in footnote 1 and because, to avoid double counting in general government expenditure, local authority debt interest payments to central government included in local authority expenditure are deducted.*

Table 1A.2 Public expenditure, 1978–79 to 1992–93

	Planning total				General government expenditure (excluding privatisation proceeds)		GDP deflator
	Old definition[1]		New definition				(1988–89 = 1)
	Cash	Real[2]	Cash	Real[2]	Cash	Real[2]	
1978–79	65·7	144·1			75·0	164·3	0·456
1979–80	77·6	145·9			90·3	169·6	0·532
1980–81	92·7	147·1			108·8	172·6	0·630
1981–82	104·0	150·5			121·0	175·1	0·641
1982–83	113·6	153·5			133·1	179·7	0·740
1983–84	120·4	155·4			141·6	182·6	0·775
1984–85	129·8	159·5	126·8	155·7	152·6	187·4	0·814
1985–86	133·7	155·9	130·6	152·2	160·8	187·4	0·858
1986–87	139·3	157·2	136·0	153·4	168·9	190·6	0·886
1987–88	145·8	156·0	142·5	152·4	177·7	190·1	0·935
1988–89	149·5	149·5	145·6	145·6	185·7	185·7	1·0
1989–90	168·2	157·2	161·7	151·1	200·5	187·4	1·07
1990–91			179·0	159·3	215·4	191·7	1·124
1991–92			192·3	165·4	227·2	195·4	1·163
1992–93			203·4	169·9	239·1	199·6	1·198

[1] *Excluding the major classification changes made along with move to new planning total: see footnote to Table 1A.1.*
[2] *Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes 1 and 2 to Table 1.1).*

Chapter 2

ECONOMIC PROSPECTS FOR 1990

Summary

1 GDP is forecast to grow by 1 ¼ per cent in 1990. RPI inflation should fall to ~~6~~ per cent by the end of next year.

5¾

Demand and activity

2 After rapid growth of more than 4 per cent in both 1987 and 1988 the economy has slowed in 1989 in response to tighter monetary policy; GDP is likely to grow by 2 per cent this year. Growth would have been higher but for disruptions to North Sea oil production; non-oil GDP is forecast to rise by 3 per cent in 1989. Most of the slow-down in spending so far has occurred in the personal sector. In 1990 companies are also expected to adjust their spending after exceptionally strong growth in investment between 1986 and 1989.

Inflation

3 Retail price inflation is expected to be 7 ½ per cent in the fourth quarter of 1989. It is likely to remain above 7 per cent in the first half of 1990, but to fall to 5 ¾ per cent by the fourth quarter.

Labour market

4 Employment has continued to rise rapidly over the past year while unemployment has fallen sharply. With the slow-down in output growth unemployment could level off in the coming months.

UK trade and current account

5 The UK current account deficit is expected to be around £20 billion in 1989. The current account deficit should fall in 1990 as domestic demand growth slows further.

World Economy

6 World trade and GNP in the major economies have continued to grow rapidly in 1989, but are forecast to grow a little less strongly in 1990. Inflation in the major industrialised countries has picked up in 1989, but is forecast to moderate a little in 1990.

Assumptions

7 The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that both North Sea oil prices and sterling remain close to recent levels. The public sector debt repayment (PSDR) is forecast to be about £12 ½ billion in the current year. The forecast for 1990 assumes that the PSDR in 1990-91 will be the same as in the 1989 MTFS (£10bn, 1 ¾ per cent of GDP); the actual PSDR will be set in the 1990 Budget.

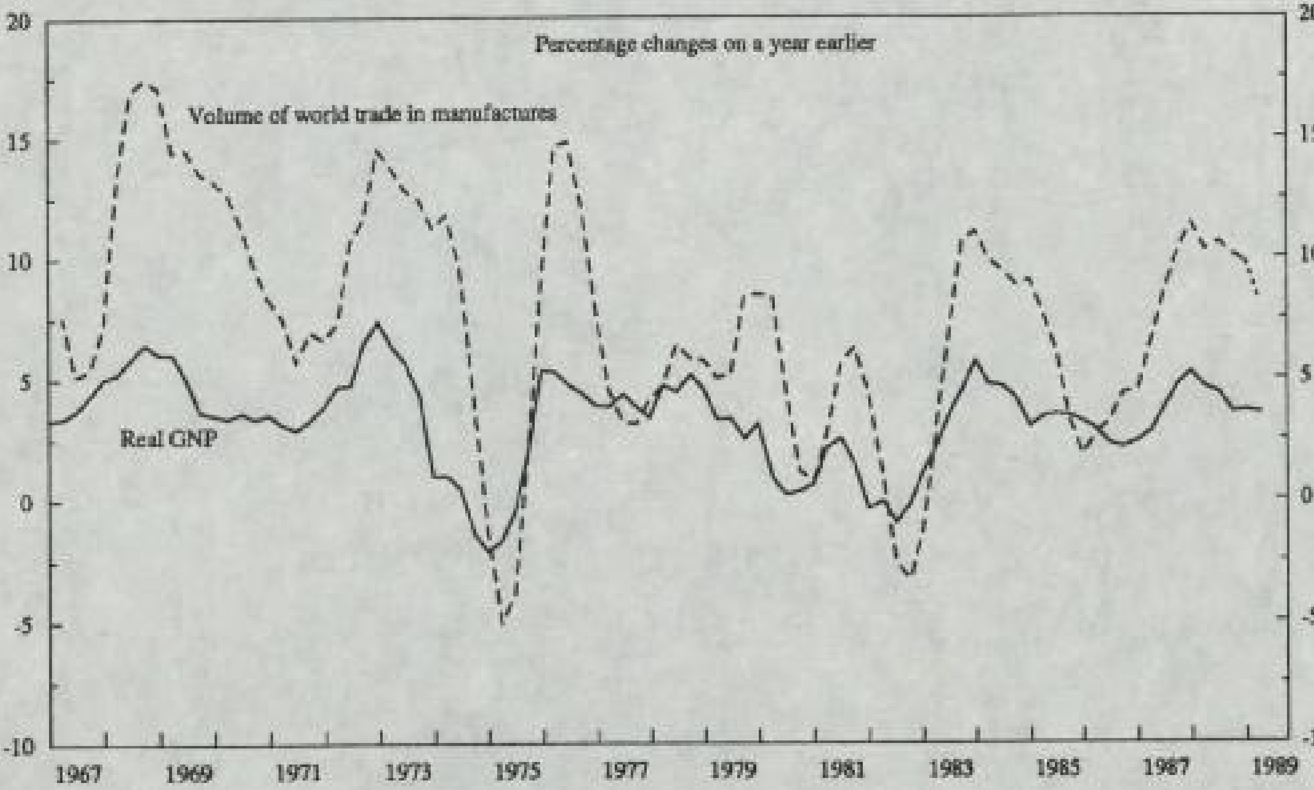
World economy

Recent developments 8 Inflationary pressures built up in the world economy during 1988 and the beginning of 1989, and as a result monetary policy has been tightened worldwide. Growth in North America and the UK slowed markedly in the first half of 1989, while it picked up slightly in continental Europe and Japan. Just as the the North American and UK economies led the recovery in the world economy in 1987, with Japan and continental Europe picking up later , so too they may be leading the world economic slow-down. Average growth in the major economies has slowed from the rapid rate acheived in 1988, but has remained above the rate of increase of productive potential.

9 Growth of consumers' expenditure has fallen in most major economies, following the tightening of monetary policy across the G7. Investment and exports have continued to expand rapidly.

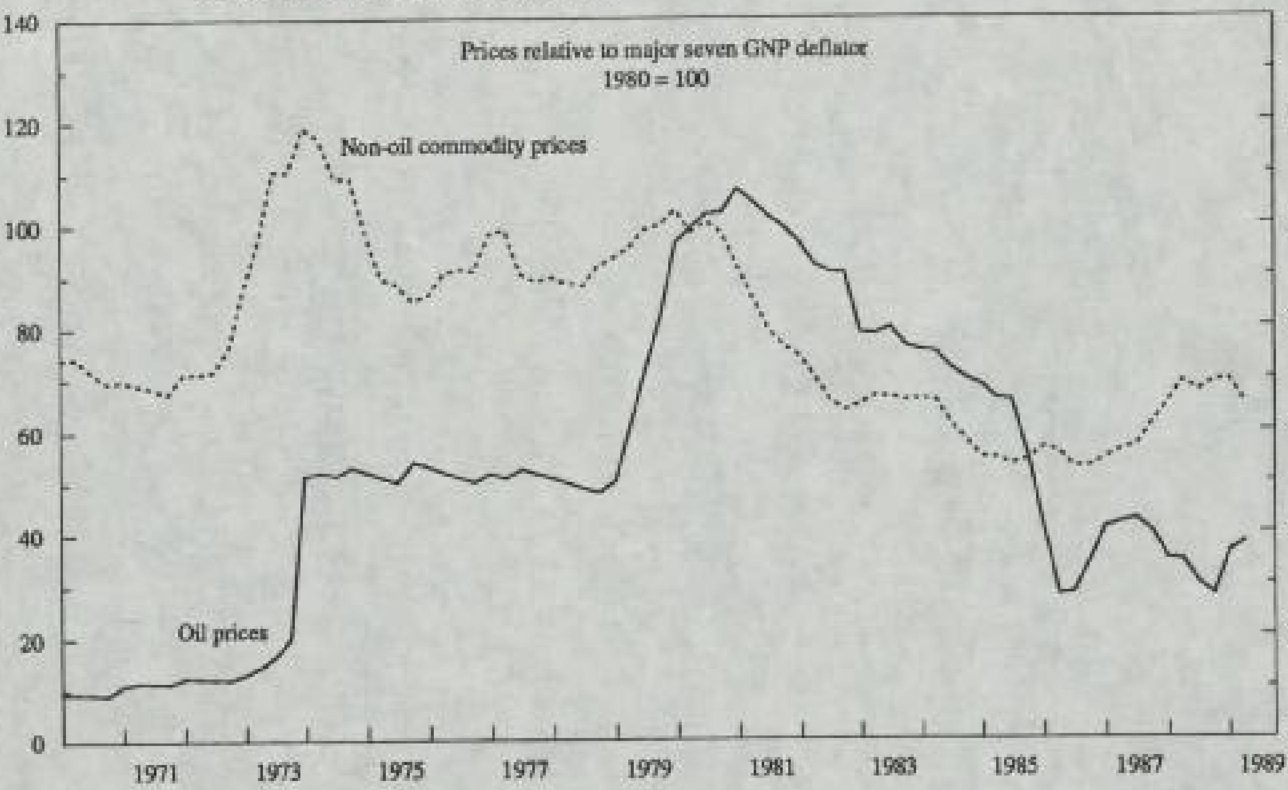
10 Growth has been rapid in many other OECD and developing economies. World trade in manufactures grew by over 10 per cent in 1988, after 8 per cent in 1987, the fastest two year expansion of the 1980s.

Chart 1 Major seven economies' real GNP and world trade in manufactures



11 Increases in non-oil commodity prices through 1988 and in oil prices in early 1989 contributed to a pick up in consumer price inflation in all the major seven economies. Consumer tax increases in a number of countries also boosted prices. Nevertheless, a significant part of the increase probably represented a rise in the underlying rate of inflation. Inflation has now started to edge down.

Chart 2 Real commodity prices



Forecast 12 Real GNP is forecast to grow less rapidly in 1989 than in 1988 and to slow a little further in 1990. Growth in world trade is likely to slow in 1989 and 1990, but world trade in manufactures is still expected to expand by over 6 per cent in each of these years.

Table 1 World economy

	Percentage changes on previous year		
		Forecasts	
	1988	1989	1990
Major seven countries[1]			
Real GDP	4 ½	3 ½	2 ¾
Real domestic demand	4 ¾	3 ½	2 ¾
Industrial production	6	4	3
Consumer prices	3 ½	4 ½	4
World trade, at constant prices			
Total imports	8 ½	7	5
Trade in manufactures	10 ½	7 ½	6 ½

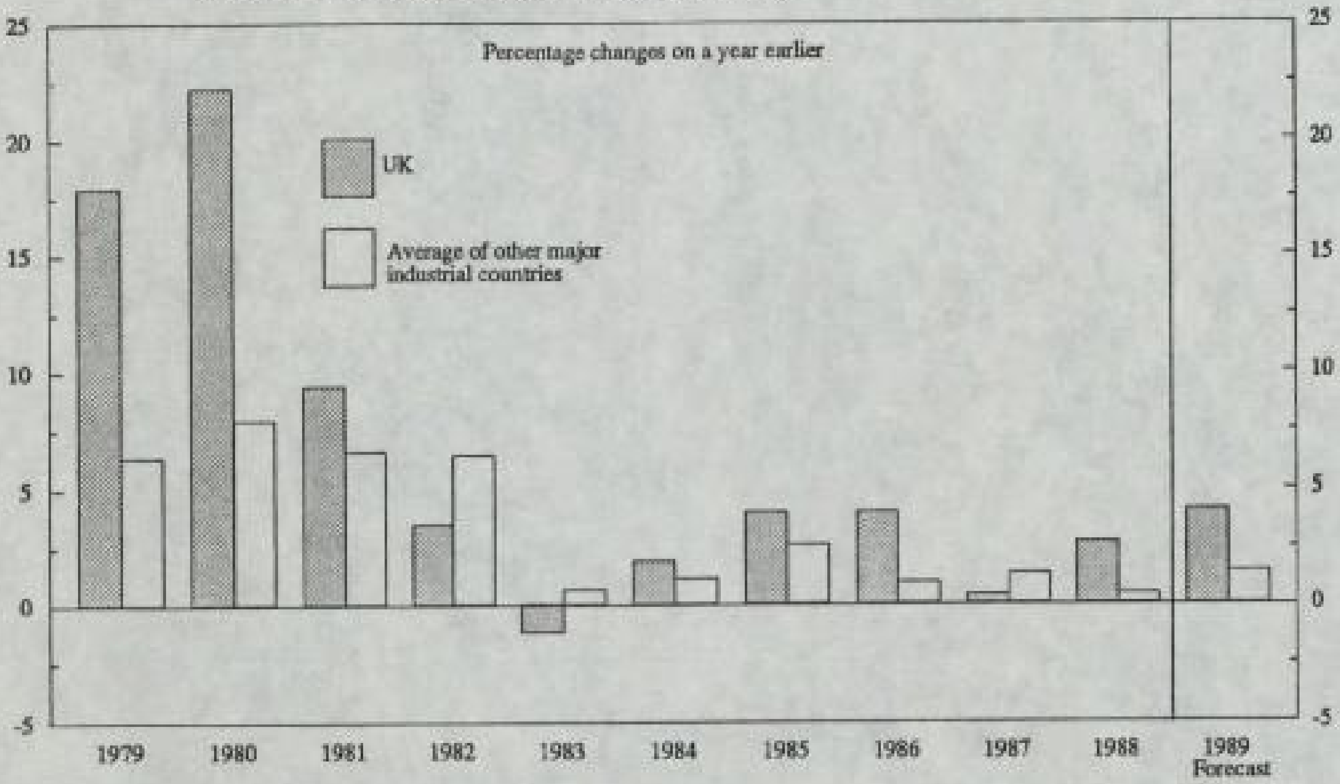
[1]*US, Japan, Germany, France, UK, Italy, and Canada.*

13 Non-oil commodity prices have weakened over the last three months. The forecast assumes that these and oil prices remain close to recent levels. Consumer price inflation in the major seven economies is forecast to fall somewhat in 1990, but remains above the average between 1984 and 1988.

Trade and the balance of payments

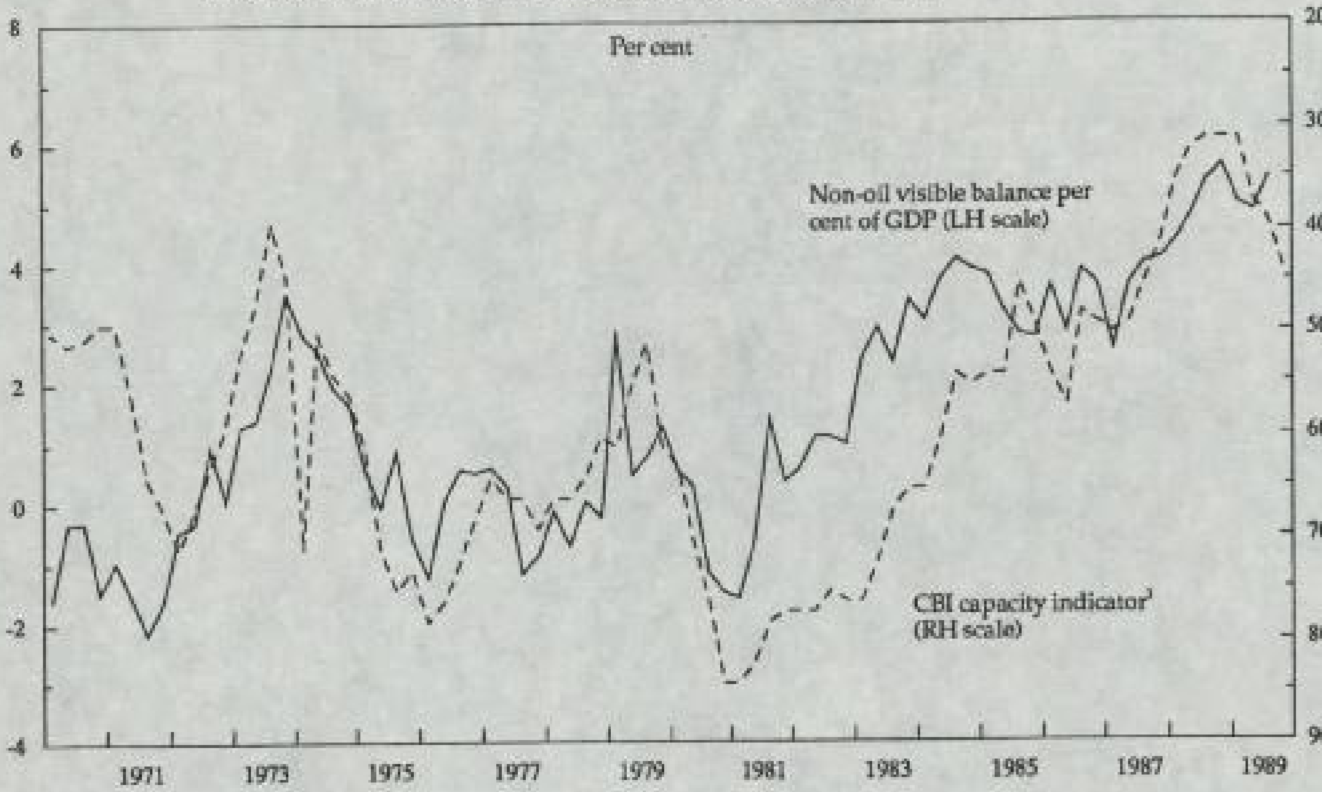
Relative costs 14 Unit labour costs in manufacturing have risen more rapidly in the UK than in other major industrial countries over the past two years. Cost competitiveness remains more favourable than in 1985, before the fall in world oil prices. But, with unit labour costs forecast to grow slowly in other major countries, the maintenance of the UK's competitiveness in the year ahead will depend on success in restraining cost increases.

Chart 3 Unit labour costs in manufacturing



Recent developments 15 The current account is estimated to have been in deficit by £15 ½ billion in the first nine months of 1989. The non-oil visible deficit has fallen slightly as a percentage of GDP since the end of 1988, as domestic demand has slowed and capacity pressures have begun to ease.

Chart 4 Non-oil visible deficit and capacity utilisation



[1] *percentage working below full capacity.*

16 The invisibles surplus has fallen in recent quarters, and the oil surplus has declined as oil exports have been hit by the series of disruptions to North Sea production. As a result of this fall in oil production, an unusually large gap has emerged between the growth of non-oil exports over the past year, and the much slower growth of total exports.

Table 2 Visible trade

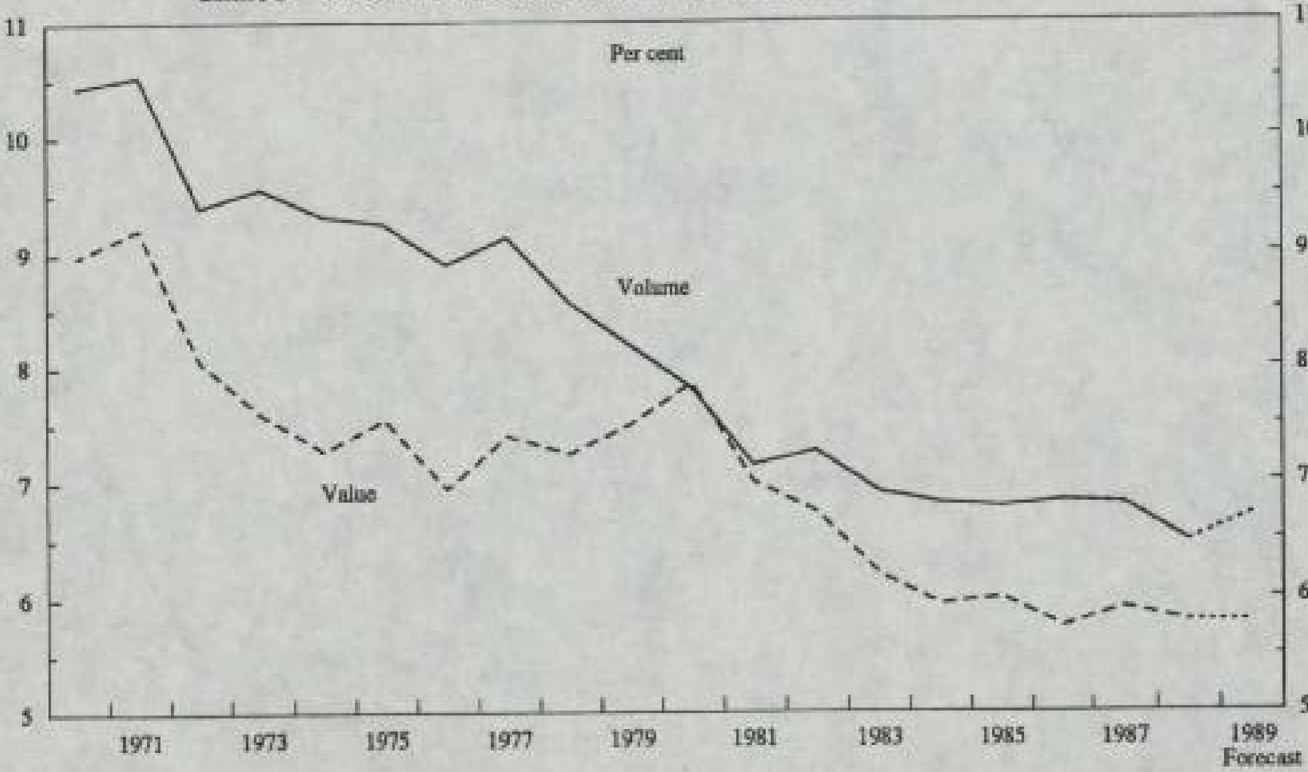
	Percentage changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade[1]	Export volume	Import volume	Terms of trade[1]
1988	1 ½	13	¾	3 ¼	14 ¼	2
1989 Partly forecast	5	10 ¼	4 ½	11 ½	10 ¼	¾
1990 Forecast	7 ½	2 ¼	- ½	6 ½	2 ½	0

[1] *ratio of UK export average values to import average values.*

Trade volumes (goods other than oil)

17 The volume of UK exports of manufactures has continued to rise strongly, despite slightly slower growth in world trade. In the first three quarters of 1989 the volume of exports of manufactures was 11 per cent higher than a year earlier. Exports of consumer goods have grown faster than other categories, as capacity pressures in UK consumer goods industries have eased in response to slower growth of consumer spending.

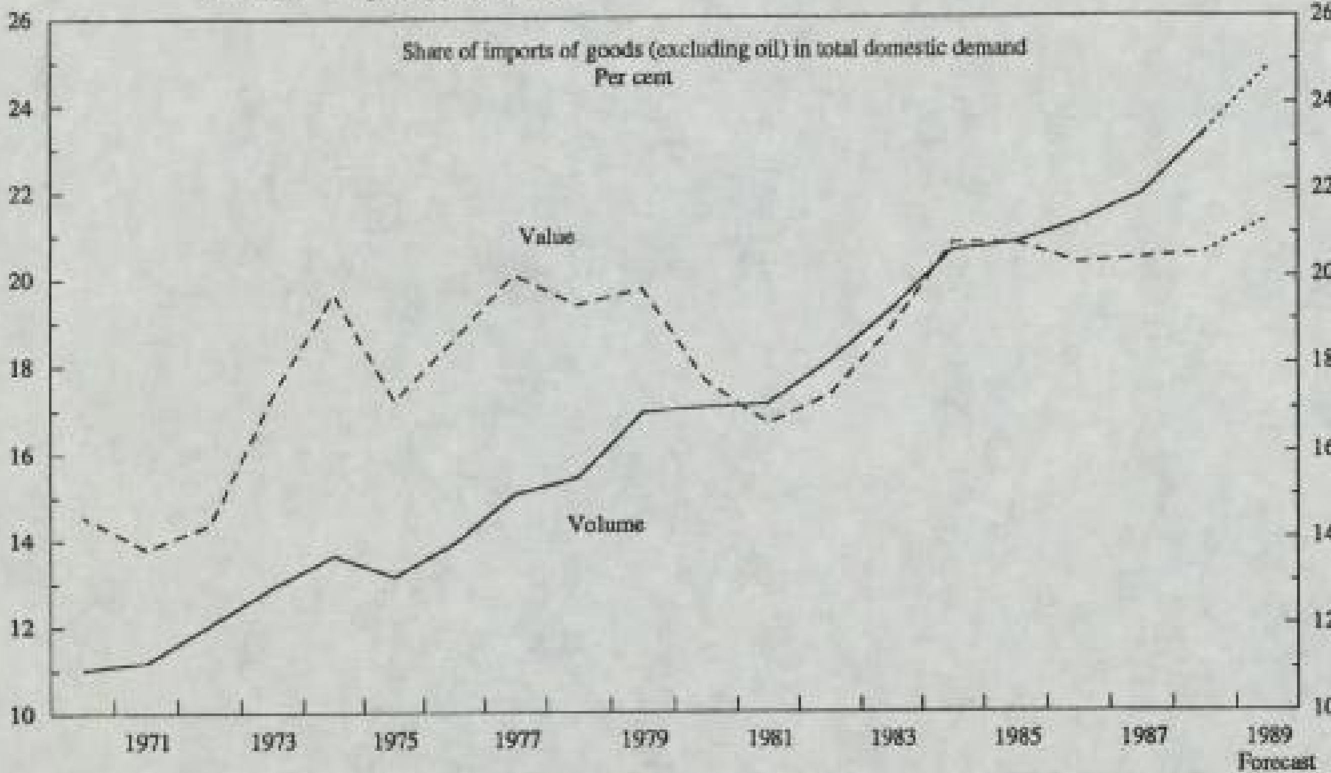
Chart 5 UK share of world trade in manufactures



18 After decades of decline, the UK's volume share of world trade in manufactures has fallen only slightly since 1981. It fell in 1988, as capacity pressures led some manufacturers to divert production from exports to the home market, but is forecast to rise in 1989. In 1990 the volume of exports of manufactures is forecast to rise by 6 ½ per cent, in line with the forecast growth of world trade.

19 Non-oil import volume growth has slowed in 1989 as demand and capacity pressures have eased, but by less than forecast in the FSBR. Domestic demand has also been more buoyant than expected in the first three quarters of 1989: the car market was particularly strong over this period, which boosted imports considerably. Cars, capital and intermediate goods have been the fastest rising categories of imports over the past year. There are signs that the rate of growth of car sales has eased; high imports in advance of the August registration peak probably contributed to rising stock levels.

Chart 6 Import penetration



20 Non-oil import volume growth is forecast to slow sharply, to 2 ½ per cent in 1990, as companies cut their expenditure and as domestic demand levels off. Capacity pressures will continue to ease as extra capacity becomes available following the recent investment boom.

Oil trade

21 The oil trade surplus is forecast to fall by somewhat less than £2 billion in 1989, to around £1 billion, despite a higher sterling oil price. This is mainly a result of disruptions to production in the North Sea. Oil production in 1989 is likely to be slightly below the bottom of the Department of Energy's Brown Book range. This reflects further disruptions, particularly Cormorant Alpha and others affecting the Brent system, and a slower than expected return to normal production levels in fields affected by earlier incidents. The reduction in the oil trade balance as a result of North Sea disruptions is estimated at around £1 ½ billion in 1989, compared with £ ½ billion in 1988.

22 Oil production is likely to recover in 1990 but is forecast to remain towards the lower end of the Brown Book range. Domestic demand for oil is forecast to be restrained by slower economic growth, and the oil trade surplus is forecast to rise to £2 billion.

Trade prices and the terms of trade

23 The terms of trade have improved over the past year, partly because of higher prices for North Sea crude oil. Little further change in the terms of trade is forecast for the rest of 1989 and 1990.

Invisibles and overseas assets

24 The surplus on invisibles is forecast to fall by £2 billion, to £4 billion, in 1989. This reflects increased net transfers overseas and a sharp fall in earnings from interest, profits and dividends, mainly as a result of a rise in net interest payments abroad by UK banks. The surplus on services has already begun to recover, following the decline in 1988, as the growth of domestic demand has eased. Growth in earnings from financial services has resumed and the travel deficit has fallen as consumers have cut back on foreign holidays.

25 The invisibles surplus is forecast to rise to £6 billion in 1990 mainly as a result of continued improvements in the services balance as the growth of domestic demand is forecast to fall further.

26 During 1988 the value of the stock of UK identified net overseas assets rose by £4 billion to £94 billion. Identified net capital inflows were more than offset by the revaluation of the sterling value of overseas assets particularly in the US, as a result of the rise in the dollar and the strength of overseas stock markets. The difficulty in measuring certain capital flows and problems with the valuation of direct investment assets means that estimates of net overseas assets are subject to a very wide margin of error.

Current account

27 The current account deficit in 1989 as a whole is forecast to be around £20 billion. The positive balancing item reflects unrecorded net credits. Although it is likely that a substantial part represents unidentified net capital inflows, it is also possible that there are errors and omissions in the current account.

28 Non-oil trade should respond more sharply in 1990 to the forecast pause in domestic demand growth. With the oil and invisibles surpluses both forecast to rise, the current account deficit is forecast to fall to £15 billion in 1990.

Table 3 Current account

	£ billion					
	Manufactures	Other	Oil	Invisibles	Current balance	Balancing item
1988	-15	-8 ½	3	6	-14 ½	12 ½
1989 Partly forecast	-17	-8	1	4	-20	15 ½[1]
1990 Forecast	-15	-8	2	6	-15	

[1] *first half of 1989 at annual rate*

Demand and Activity

GDP data

29 Recent revisions and adjustments by the CSO to the individual components of expenditure have brought the growth of the expenditure measure of GDP in 1988 and the first half of 1989 broadly into line with movements in the output measure. The output measure is normally regarded as the most reliable indicator of movements in aggregate activity in the recent past. For 1988, the CSO has adjusted consumers' expenditure up by

£1 ¼ billion, investment by £ ¾ billion, stockbuilding by £1 ¼ billion and £½ billion on net exports, all at 1985 prices. Proportionately more of the adjustment in the first half of 1989 has been allocated to stockbuilding. These adjustments are, of necessity, judgemental and there remains some uncertainty over the precise allocation to individual expenditure components.

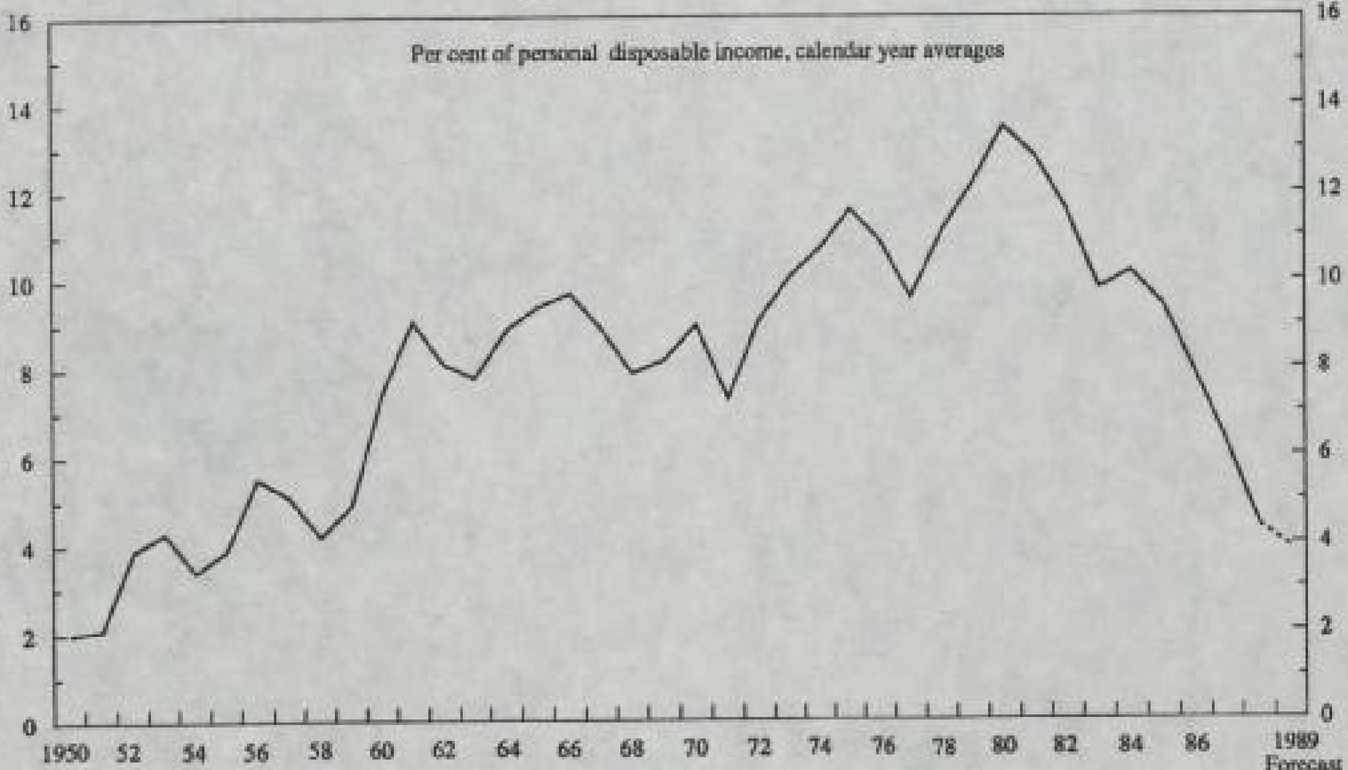
30 Non-oil output is estimated to have grown by 5 per cent in 1988. Growth was strong throughout the economy with both manufacturing and construction output rising by about 7 per cent, and output of the service industries by 5 per cent.

Personal sector expenditure

31 Consumer spending is now estimated to have risen by almost 7 per cent in 1988 following two years of 5 ½ per cent growth. Higher interest rates have already led to a sharp deceleration in consumer spending which is expected to rise by under 4 per cent for this year as a whole.

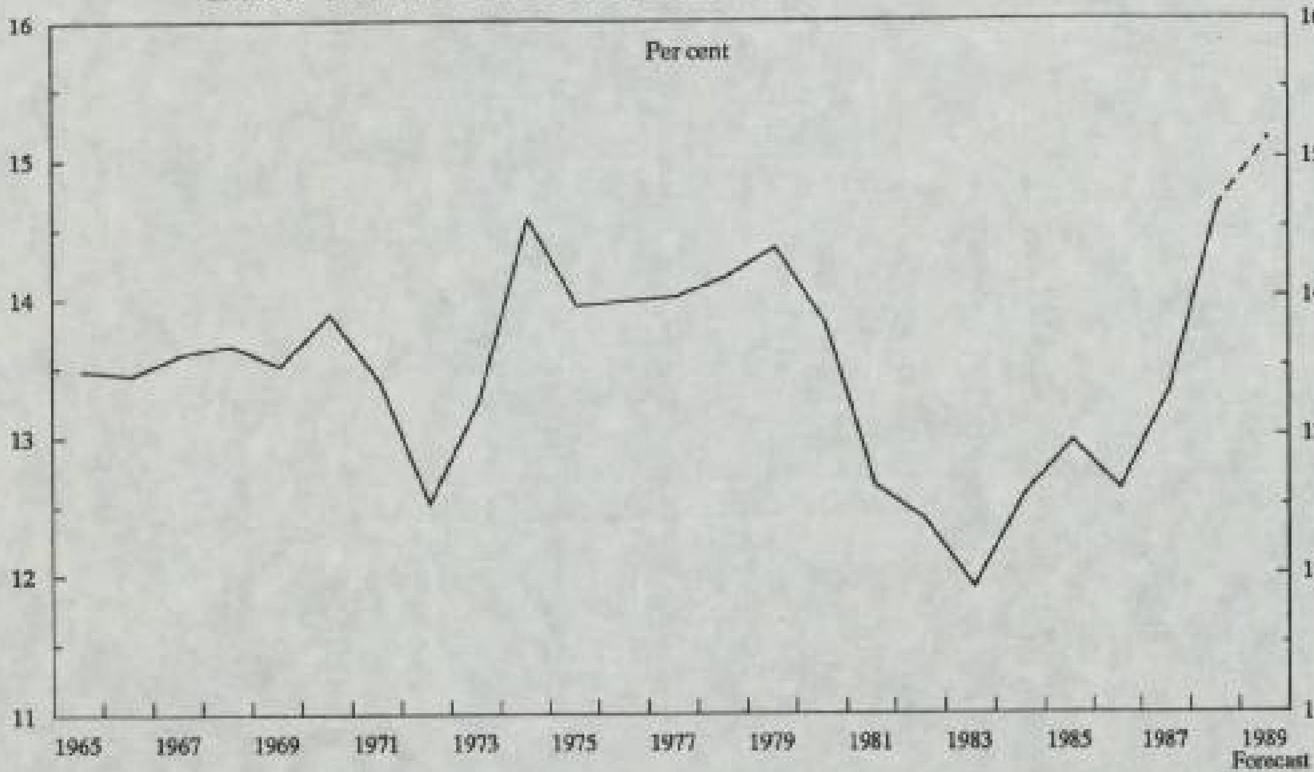
32 The sharp rise in consumer spending between 1985 and 1988 may have been associated with large increases in wealth, notably housing wealth, and was partly financed by increased borrowing, including mortgage borrowing. As a result households are now estimated to have become substantial net payers of interest. They are expected to reduce consumer spending growth to 1 ½ per cent in 1990, both because of the need to service existing debt and because of the greater attractiveness of saving. These effects could be reinforced by developments in the housing market, where the buoyant conditions of 1987 and 1988 have given way to a much more muted outlook. Investment in new dwellings is forecast to fall further in 1990.

Chart 7 Personal savings ratio



Fixed investment 33 Business investment rose 30 per cent in real terms between 1986 and 1988, buoyed up by strong business confidence and high profitability. Total business investment is expected to increase by a further 9 ½ per cent in 1989. As a share of GDP this year it is likely to be the highest ever. Growth in business investment is expected to slow to around 5 per cent in 1990 as companies also adjust to tighter monetary conditions and slower growth of domestic demand.

Chart 8 Share of business investment in GDP



34 The rise in general government investment in 1989 and its subsequent fall in 1990 largely reflect movements in local authority gross capital expenditure. [Central government investment is forecast to rise strongly in both years.]

Table 4 Gross domestic fixed capital formation

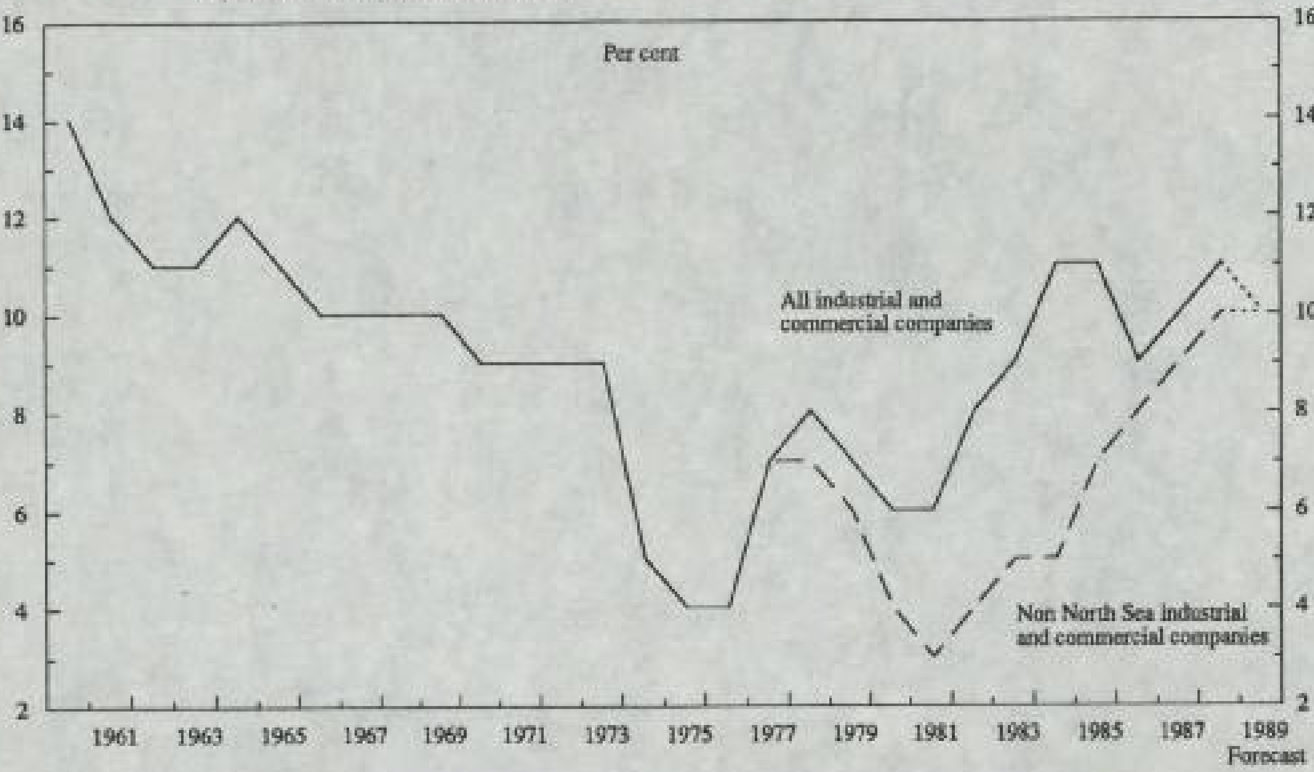
	Weight in 1988	Percentage changes on a year earlier	Forecasts	
		1988	1989	1990
Business[1]	68	17 ½	9 ¼	4 ¾
Private dwellings[2]	21	10 ¼	-10	-5 ½
General government[3]	11	-3 ½	9 ¾	-2
Total fixed investment	100	13 ¼	5 ¼	2 ¼

[1] *includes investment by public corporations.*
[2] *includes purchases less sales of land and existing buildings for the whole economy*
[3] *excludes purchases less sales of land and existing buildings*

Stockbuilding 35 Company stockbuilding is estimated to have picked up sharply in 1988 and early 1989. Much of the CSO adjustment to aggregate expenditure in early 1989 has been concentrated in this category; it accounts for some £2.3 billion (at 1985 prices) of the £3.3 billion recorded stockbuilding in the first half of 1989. There must therefore be considerable uncertainty about the precise extent of recent stockbuilding. This adds to the margin of error around the forecast for 1990 which assumes very little change in stock levels during the year.

Profitability 36 The net real rate of return of non-North Sea industrial and commercial companies rose for the seventh successive year in 1988, to levels not seen for twenty years. With profit growth likely to remain high in 1989, real rates of return are expected to have been sustained at high levels.

Chart 9 Real rates of return



Saving 37 Table 2.5 shows that total saving as a share of GDP has remained unchanged since 1985, with rising public sector saving offsetting a fall in private sector saving.

Table 5 Saving by sector[1]

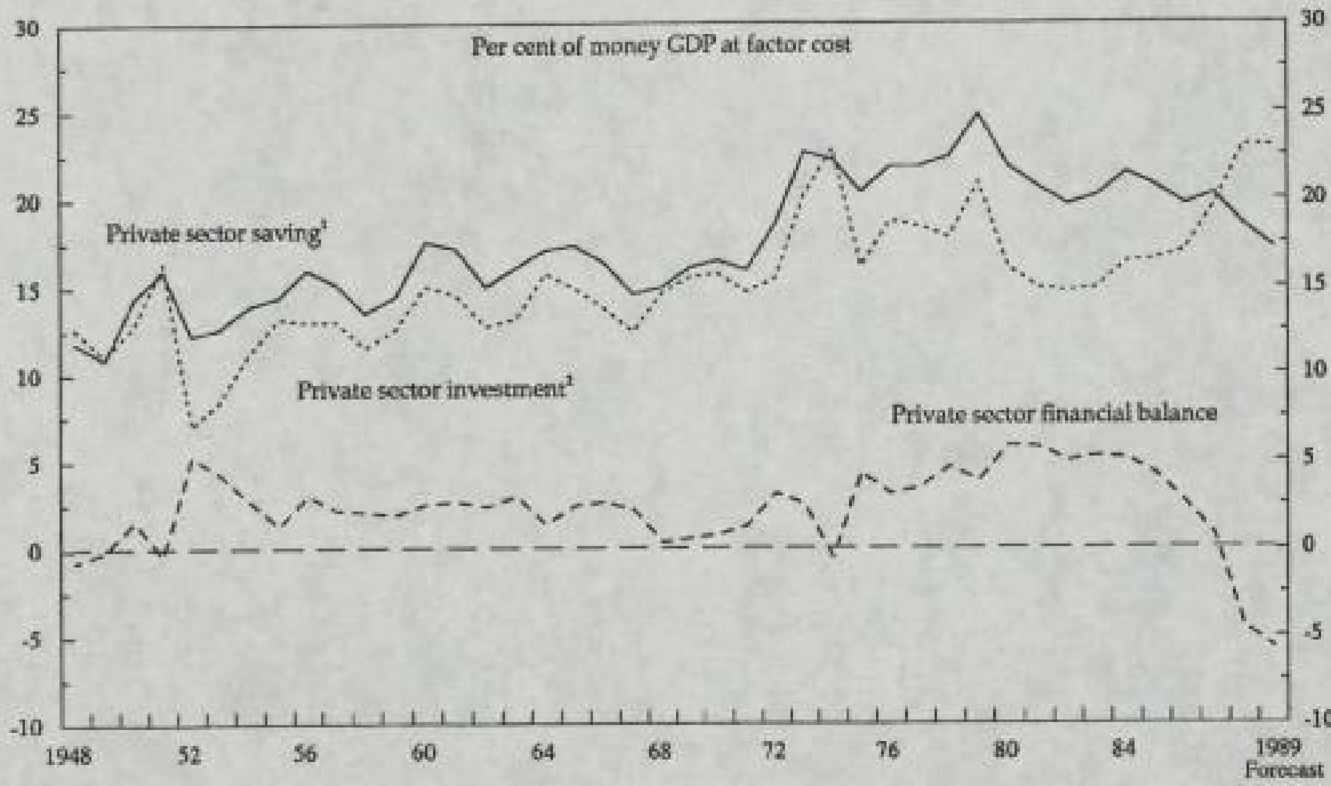
	Per cent of GDP at factor cost				
	Personal	Company	Total private	Public	Total national
1985	7.4	12.6	19.9	1.1	21.0
1986	6.2	12.8	19.0	1.2	20.2
1987	4.6	14.0	18.6	1.7	20.3
1988	2.9	13.5	16.4	4.0	20.4
1989 Partly forecast	2.8	12.4	15.1	5.0	20.1

[1] *net of stock appreciation, but including capital transfers*

Private sector financial position

38 The fall in private sector saving since 1985 has, unprecedentedly, coincided with a sustained increase in investment. As a result, the private sector has switched from its usual financial surplus to a financial deficit in 1988, with a larger deficit expected in 1989. The personal sector has already started to adjust to tighter monetary policy and the company sector is forecast to adjust over the next year. The overall private sector financial deficit is expected to decline in 1990.

Chart 10 Private sector financial position



[1] *before providing for depreciation, stock appreciation and additions to reserves.*
[2] *comprises gross domestic fixed capital formation, increase in value of stocks and work in progress, and capital transfers.*

Prospects for demand and activity

39 Growth in the average measure of GDP is forecast to be around 2 per cent in 1989. With domestic demand forecast to slow down further, GDP is expected to rise by 1 ¼ per cent in 1990.

40 The fall in North Sea production in 1989 has produced a larger than average gap between total and non-oil GDP. Non-oil GDP is estimated to have risen by 3 per cent in 1989. It is expected to grow by ¾ per cent in 1990, a little slower than total GDP because of the recovery of North Sea production. Manufacturing output is forecast to rise faster than non-oil GDP in both 1989 and 1990.

Table 6 Domestic demand and GDP

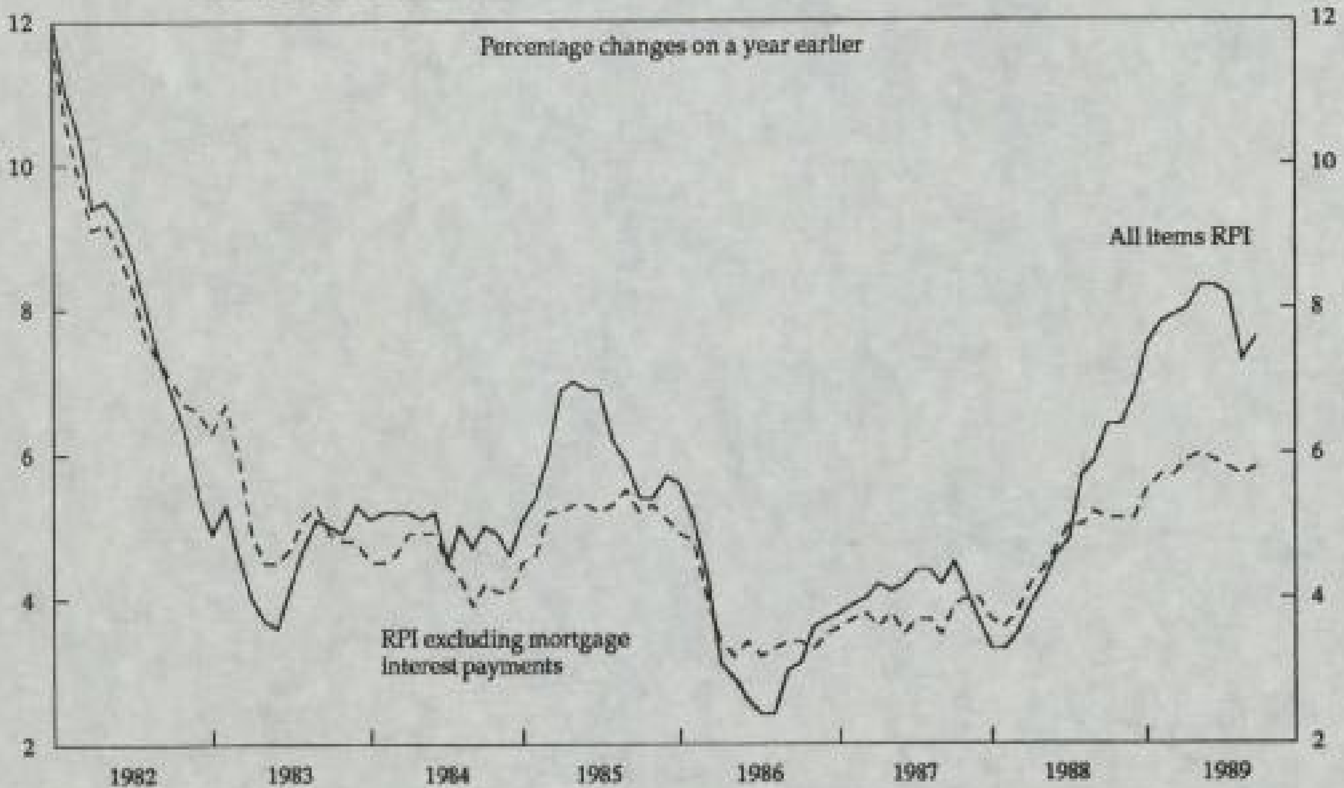
	Percentage changes on a year earlier					
			Forecasts			
	1988		1989		1990	
Domestic demand	7 ¼		3 ¾		0	
Exports of goods and services[1]	¾	(2)	4 ½	(9)	6 ¼	(5 ½)
Imports of goods and services[1]	12 ¼	(13)	9	(9)	1 ½	(1 ½)
Gross domestic product[1,2]	4 ¼	(5)	2	(3)	1 ¼	(¾)
Manufacturing output	6 ¾		4 ½		1 ½	

[1] *non-oil shown in brackets*
[2] *average measure*

Inflation

41 The annual rate of RPI inflation rose to 8.3 per cent in the early summer, but fell to 7.6 per cent in September. The increase in RPI inflation over the past eighteen months has been mainly the result of changes in mortgage interest rates. RPI inflation is likely to average 7 ½ per cent in the fourth quarter of 1989, partly reflecting the further rise in mortgage rates in November. A better indicator of underlying inflation is provided by the RPI excluding mortgage interest payments. On this measure, inflation has varied little from the 5 ¾ - 6 per cent range for most of 1989, having risen by 2 points over the past 2 years.

Chart 11 RPI inflation



42 Producer output price inflation picked up a little in early 1989, but has since remained stable. It is likely to average close to 5 ½ per cent in 1989, as forecast at Budget time. With sustained growth in demand over the six years to 1988, manufacturers' profit margins rose substantially and were a major factor behind the recent rise in producer price inflation.

43 The increase in underlying average earnings in the whole economy rose to 9 ½ per cent in March 1989 and fell to 8 ¾ per cent for the period June to August. The increase in underlying average earnings in the manufacturing sector has averaged 8 ¾ per cent in the first eight months of 1989. The fall in whole economy earnings growth since March is accounted for by declining bonus payments, especially in the retail sector. Pay settlements, on the other hand, have picked up over the past year as labour markets have continued to tighten and inflation has risen.

44 The rise in manufacturers' unit labour costs was restrained in 1987 and 1988 by strong productivity growth. The recent fall in the growth of manufacturing output and productivity, with no attenuation in earnings growth, means that manufacturers' unit labour costs may rise by 4 per cent in 1989.

Prospects

45 The recent and projected slow-down in demand and activity means that profit margins may be squeezed over the next year compared to recent historically high levels. Producer output price inflation is expected to fall in 1990.

46 Retail price inflation is likely to remain above 7 per cent in the first half of 1990, but should moderate thereafter with the continued slowdown in demand.

Table 7 Retail and producer output price inflation

		Percentage changes on a year earlier		
			Forecast	
	Weight in 1989	1988Q4	1989Q4	1990Q4
Retail prices: all items	100	6 ½	7 ½	5 ¾
of which:				
food	15 ½	4	6 ¾	5 ½
nationalised industries	4 ½	7 ½	7 ¼	7 ¾
housing	17	16 ½	17 ½	11
other	63	4 ¾	5	4 ¼
Producer output prices[1]		5	5 ½	4

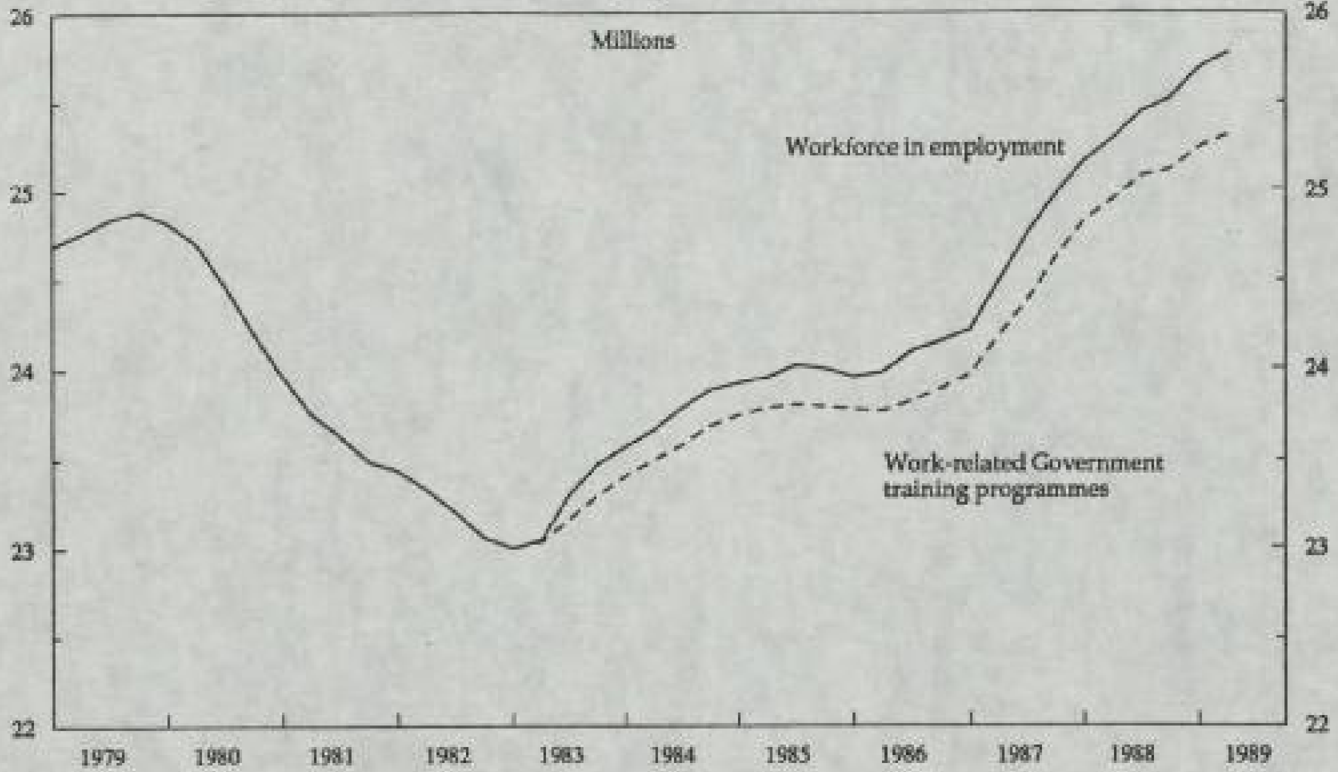
[1] *excluding food, drink and tobacco*

47 The GDP deflator, which measures the price of domestic value added (mainly unit labour costs and profits per unit of output), is forecast to rise by 7 per cent in 1989-90 and by 5 per cent in 1990-91.

Productivity and labour market

48 The workforce in employment in Great Britain has continued to rise strongly over the last year. In the twelve months to June 1989 it is estimated to have risen by over 490,000. Since 1983 there has been an increase of nearly 3 million in the workforce in employment.

Chart 12 GB workforce in employment



49 Productivity has grown strongly over the past ten years, with manufacturing productivity rising by an average of over 4 per cent per annum since 1979. Manufacturing output per head has risen faster since 1979 than in any other major industrialised economy.

Table 8 Manufacturing output per head

	Average annual per cent changes		
	1960-1970	1970-1980	1980-1988
UK	3	1½	5 ¼
US	3 ½	3	4
Japan	8 ¾	5 ¼	3
Germany	4	3	2 ¼
France	4 ½	3 ¼	3
Italy	5 ¼	3	3 ¾
Canada	3 ½	3	3 ½
G7 average	4 ½	3 ¼	3 ½

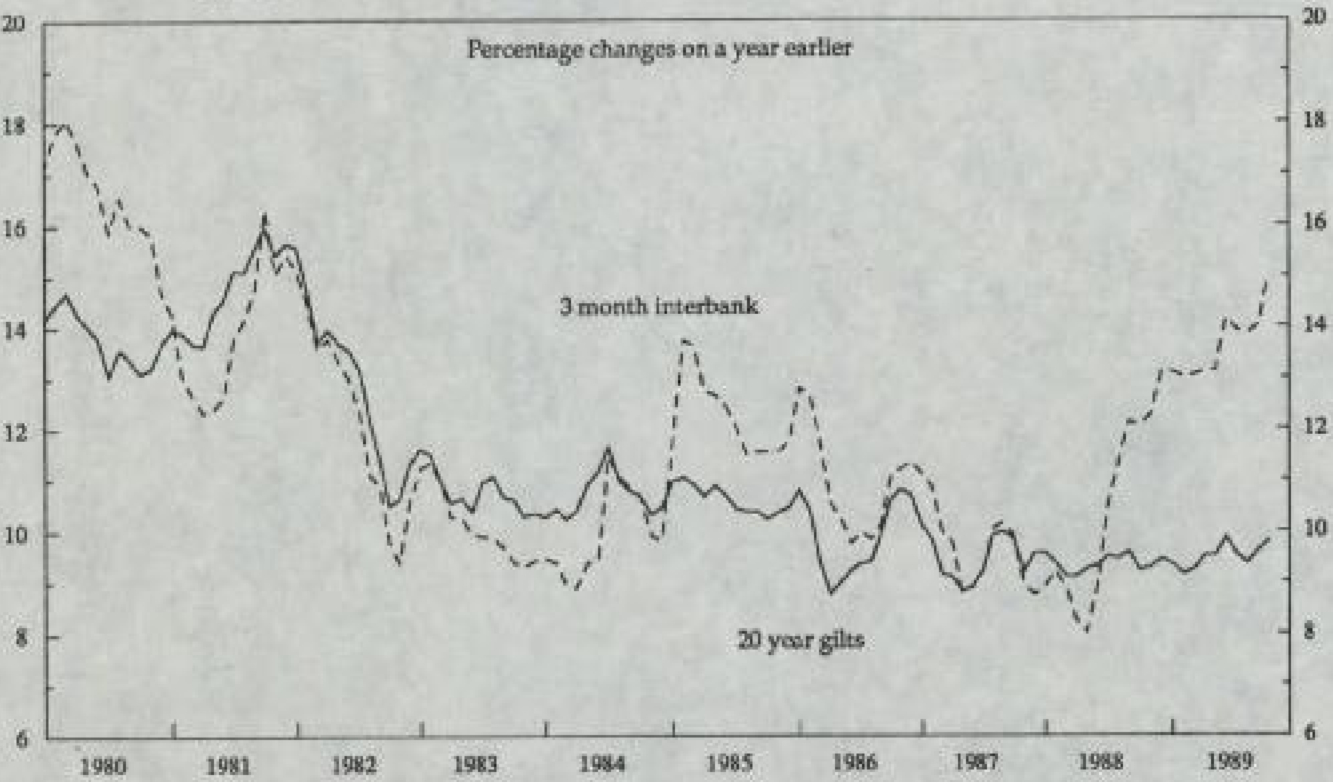
50 By September 1989, seasonally adjusted adult unemployment in the UK had fallen for 38 successive months, by almost 1 ½ million in total. This fall in unemployment has been mainly attributable to the strong growth of output and employment. Unemployment could level off in the coming months, but its behaviour will depend crucially on the extent to which wage settlements moderate.

Financial developments

Interest rates

51 Monetary conditions have tightened in 1989. Following rises in the second half of 1988, short-term interest rates have risen from 13 per cent in early 1989 to 15 per cent in October. Long term interest rates have been relatively stable.

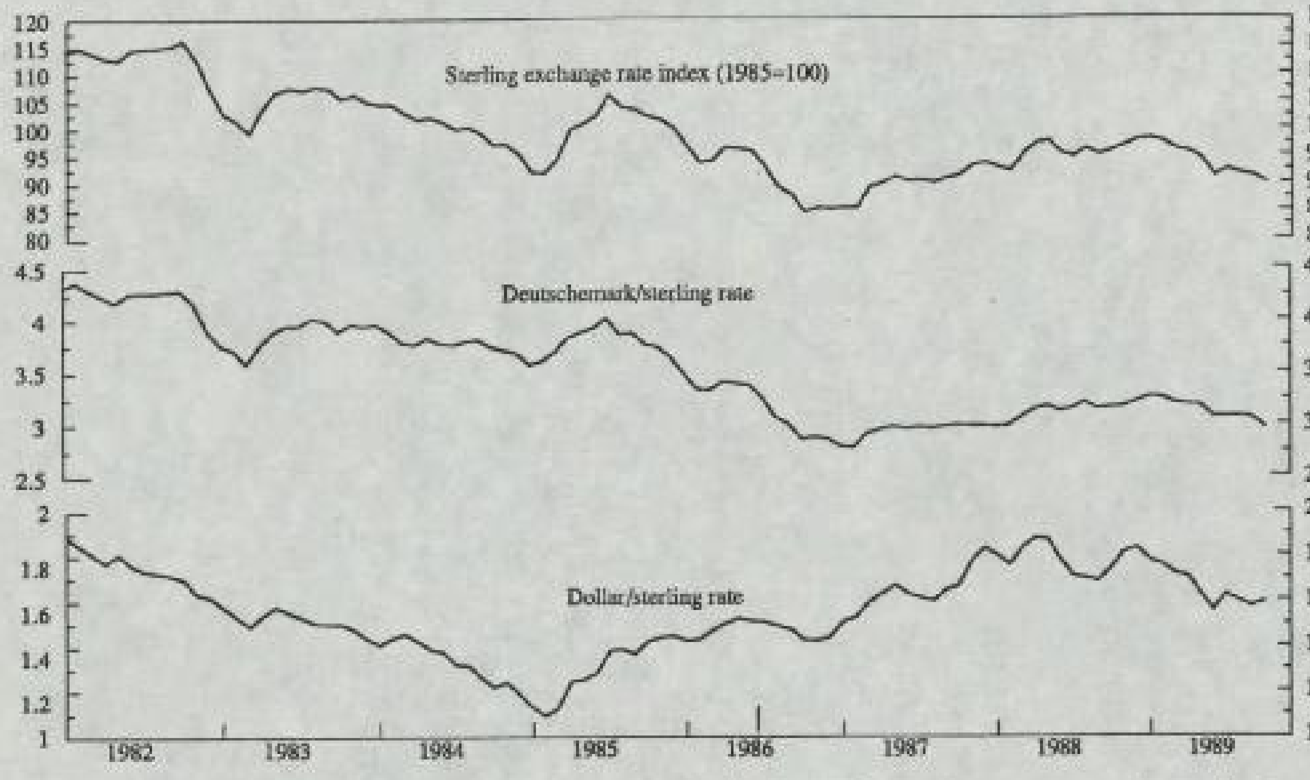
Chart 13 Interest rates



Exchange rates

52 The sterling effective exchange rate and the rate against the Deutschemark have fallen in recent months, following rises over the previous two years. This brings them back close to their average levels in the first half of 1987.

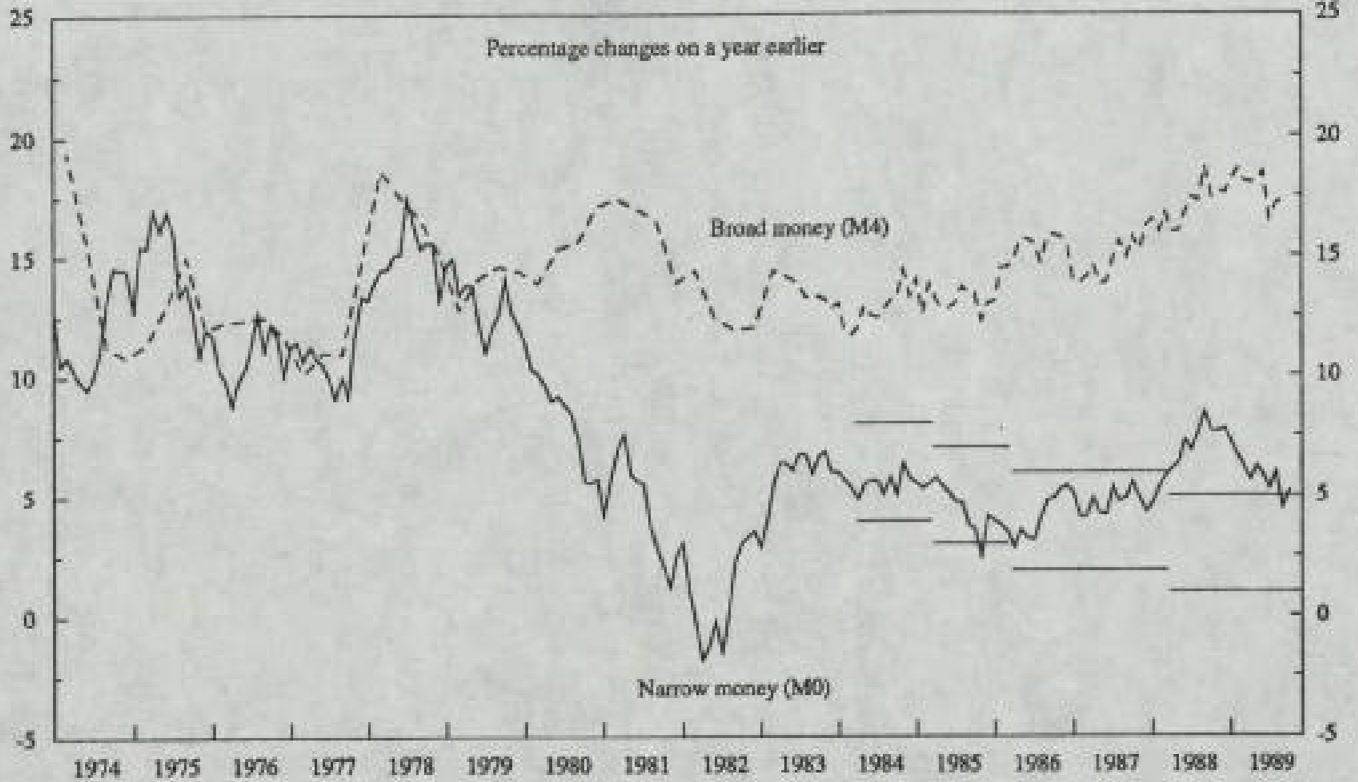
Chart 14 Sterling exchange rates



Narrow money 53 The year on year growth of M0 was above its target range throughout 1988-89. M0 growth has fallen over the past year in response to the rise in interest rates last year, and is now around the top of its 1-5 per cent target range. It is expected to continue to fall during the rest of the financial year, reflecting the rises in interest rates in 1989.

Broad money 54 Broad money has continued to grow rapidly. The growth of retail bank deposits - largely personal sector deposits - has slowed over the past year, but this has been offset by a renewed acceleration of wholesale bank deposits. Bank and building society lending has also continued to grow rapidly, though growth in lending for house purchase has slowed as the housing market has responded to higher interest rates.

Chart 15 Growth rates of monetary aggregates



Note: the fall in the M0 growth rate in September 1989 to within its target range partly reflects the effect of the postal strike a year ago. The October figure is an estimate.

Fiscal developments

55 Tables 9 to 11 show both the Budget projections and latest forecasts for general government expenditure and receipts and for the public sector debt repayment (PSDR).

Table 9 General government expenditure

£ billion	1988-89 Outturn	1989-90 Budget forecast	1989-90 Latest forecast
Public expenditure planning total (old definition)	149.6	167.1	168.2
Interest payments	18.1	17.1	17.8
Other adjustments	10.8	10.1	10.3
General government expenditure	178.6	194.3	196.3
of which:			
Privatisation proceeds	-7.1	-5.0	-4.2

56 General government expenditure in 1989-90 is forecast to be £2 billion higher than in the FSBR. About a third of this change is due to lower privatisation proceeds. Gross interest payments are forecast to be higher than in the FSBR, partly as a result of higher interest rates and inflation.

Nevertheless they are expected to be lower than in 1988-89, reflecting the high level of debt repayment.

57 The forecast of general government receipts in 1989-90 is a little higher than in the FSBR. Within the total certain tax receipts are much higher, largely due to faster than expected growth of money GDP. Inland Revenue receipts are expected to be £1 ¾ billion higher, due to higher income tax, up £1 ½ billion, and higher corporation tax, up £ ½ billion, while petroleum revenue tax is £ ¼ billion lower. Customs and Excise receipts are expected to be about £ ¼ billion higher than in the FSBR.

58 Largely offsetting these upward revisions to taxes is a downward revision to the forecasts of national insurance contributions (NICs) and other receipts. The largest element of this change is an upward revision of £2 billion to the forecast of national insurance rebates associated with the much greater than expected take-up of personal pensions. This is partly offset by an increase in gross contributions arising from faster growth of wages and salaries.

Table 10 General government receipts

	£ billion		
	1988-89 Outturn	1989-90	
		Budget forecast	Latest forecast
Taxes on income, expenditure and capital[1]	144.3	156.9	159.7
National insurance and other contributions[2]	33.0	34.3	32.7
Interest and dividends	6.5	7.0	7.2
Other receipts including accruals adjustments[2]	6.2	8.1	7.4
Total receipts	190.0	206.4	207.0
of which:			
North sea revenues	3.2	2.9	2.6

[1] *includes community charge*
[2] *figures have been adjusted to reflect a change to the treatment of personal pensions which the CSO will make when publishing 1989Q3 national accounts*

59 The PSDR in 1988-89 was £14 ½ billion, slightly higher than estimated in the 1989 FSBR. The PSDR in the first half of 1989-90 was a net repayment of £½ billion, a £3 billion smaller repayment than in the first half of last year. Excluding privatisation proceeds the PSDR was £1 billion lower in the first half of this year than in the same period last year.

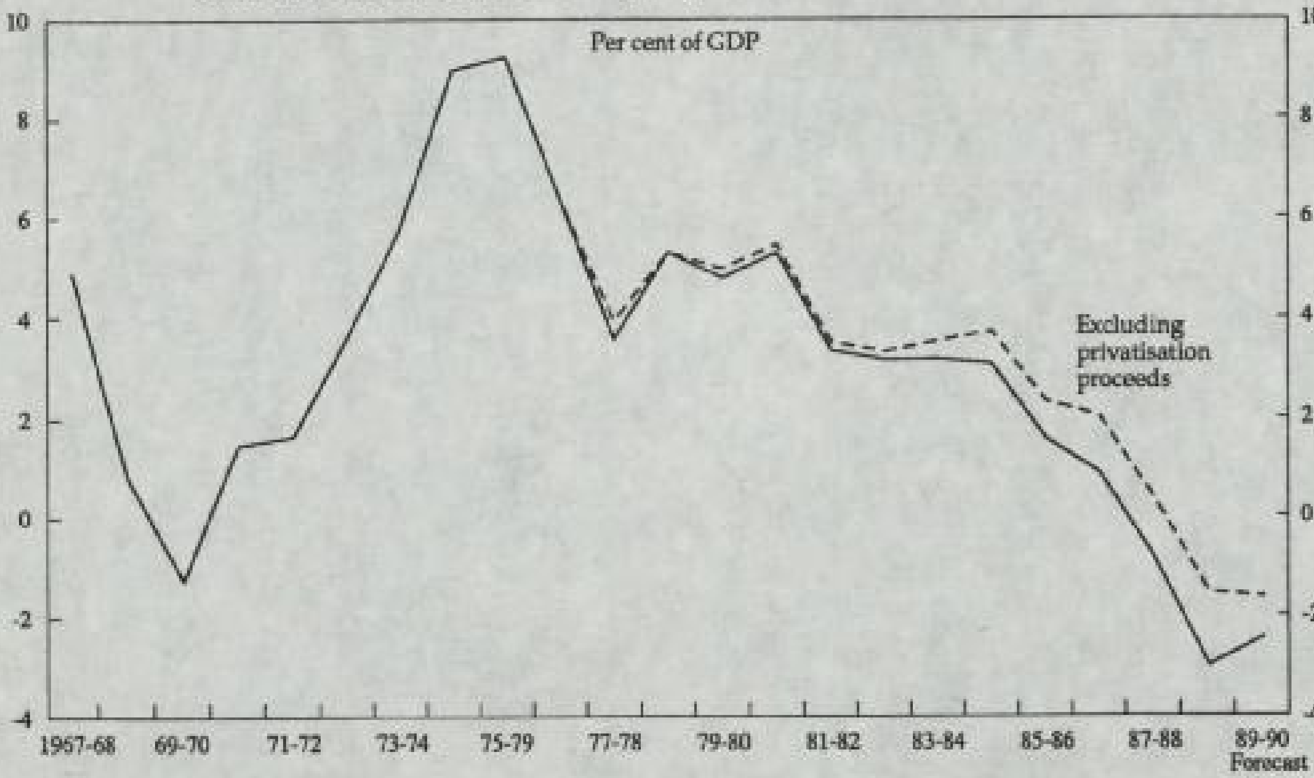
60 Table 11 shows the Budget and latest forecasts for the PSDR in 1989-90 as a whole. With the receipts relatively high in the second half of the year, the forecast is for a PSDR this year of £12 ½ billion, somewhat less than forecast in the FSBR. This is a substantial net repayment, which is less than £2 billion below the record achieved in 1988-89. Excluding privatisation proceeds, the net repayment forecast for 1989-90 is a little higher than last year. The forecast is still subject to a wide margin of error. The average error in PSDR forecasts for the current financial year made in the autumn is ½ per cent of GDP, equivalent to £3 ¼ billion at today's level of GDP.

Table 11 Public sector debt repayment

	£ billion		
	1988-89 Outturn	1989-90	
		Budget forecast	Latest forecast
General government expenditure	178.6	194.3	196.3
General government receipts	190.0	206.4	207.0
General government debt repayment	11.4	12.1	10.8
Public corporations market and overseas debt repayment	2.9	1.7	1.8
PSDR	14.3	13.8	12.6
PSDR as per cent of GDP	3	2 ¾	2 ½
PSDR excluding privatisation proceeds as per cent of GDP	1 ½	1 ¾	1 ½

61 The stock of net public sector debt is provisionally estimated to have been £158 billion at the end of 1988-89, equivalent to 32 per cent of GDP, compared with over 50 per cent in 1979. There is likely to be a further large fall in net public sector debt in 1989-90, in both nominal terms and relative to GDP.

Chart 16 Public sector borrowing requirement



Risks and uncertainties

62 Economic forecasts are subject to large uncertainties, and should be assessed in the context of the margins of error around each element of the forecast. Table 13 sets out the average absolute errors over the last ten years on forecasts made at this time of year.

63 The forecast presented here uses published CSO estimates of GDP up to 1989Q2, including the adjustments to expenditure components - consumers' expenditure, fixed investment, stockbuilding and net exports of services - which were made to bring growth in the expenditure measure of GDP in 1988 broadly into line with that of the output measure. The adjusted data provide a more coherent account of developments in 1988 and the first half of 1989 giving most weight to the output measure of GDP, which the CSO regards as the best indicator of short-term GDP movements. But these adjustments are judgemental and imply considerable uncertainty over the recent movements of the individual components of expenditure and of GDP. Moreover, there remain large balancing items in the sectoral accounts. Together these add to the margin of error around forecasts.

Table 12 Economic prospects: summary

	Percentage changes on year earlier unless otherwise stated			
		Forecast		Average errors from past forecasts[1]
	1988	1989	1990	
GDP and domestic demand at constant prices				
Domestic demand	7 ¼	3 ¾	0	1 ¼
of which:				
Consumers' expenditure	6 ¾	3 ¾	1½	1 ¼
General government consumption	½	- ¼	¼	½
Fixed investment	13 ¼	5 ¼	2 ¼	3 ¼
Change in stockbuilding (as per cent of GDP)	¾	½	-1½	¾
Exports of goods and services	¾	4 ½	6 ¼	1 ¾
Imports of goods and services	12 ¼	9 ¼	1 ½	3
Gross domestic product (average measure)	4 ¼	2	1 ¼	1
Manufacturing output	6 ¾	4 ¼	1 ½	2
Balance of payments current account (£ billion)	-14½	-20	-15	5 ¾
Inflation				
Retail price index (Q4 on Q4)	6 ½	7 ½	5 ¾	2
GDP deflator at market prices (financial year)[2]	7	7	5	2
Money GDP at market prices (financial year)[2]	10 ¾	8 ½	6 ¾	2 ½
£ billion	476	517	552	
PSDR (financial year)				
£ billion	14 ½	12 ½		3 ¼
per cent of GDP	3	2 ½		½

[1] *The errors relate to the average differences (on either side of the central figure) between Autumn Industry Act forecasts and outturn over the last ten years, and apply to the forecasts for 1990, except for the PSDR where it applies to the forecast for 1989-90.*

[2] *The introduction of the community charge in Scotland has reduced both the GDP deflator and money GDP by about ¼ per cent from 1989-90. There will be a larger reduction in 1990-91 following the introduction of the community charge in England and Wales which is not allowed for in this table.*

Table 14 Gross domestic product and its components[1]

£ billion at 1985 prices seasonally adjusted

	Consumers' expenditure	General government consumption[2]	Total fixed investment	Exports of goods and services	Change in stocks	**Total final expenditure**	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	**GDP at factor cost (average measure)**	GDP index 1985=100
1985	217.0	73.9	60.3	102.6	0.6	454.5	99.2	49.5	0.0	305.9	100.0
1986	229.1	75.5	61.5	106.9	0.7	473.6	105.8	52.0	-0.2	315.6	103.2
1987	241.4	76.3	66.9	112.4	1.1	498.0	113.9	55.2	0.9	329.8	107.8
1988	257.9	76.7	75.7	113.2	3.6	527.0	127.8	56.9	1.8	344.1	112.5
1989	267.6	76.6	79.7	118.4	5.5	547.7	139.6	59.0	1.8	351.0	114.8
1990	271.3	76.8	81.4	125.9	-0.3	555.1	141.8	59.4	1.8	355.7	116.3
1988 H1	127.2	38.3	37.2	57.0	-0.3	259.5	61.6	28.2	0.8	170.6	111.5
1988 H2	130.7	38.3	38.4	56.2	3.8	267.5	66.2	28.7	1.0	173.6	113.5
1989 H1	133.2	38.3	39.4	58.3	3.4	272.6	69.1	29.5	0.9	174.9	114.3
1989 H2	134.4	38.2	40.2	60.2	2.1	275.2	70.5	29.5	0.9	176.1	115.2
1990 H1	134.9	38.3	40.7	62.3	-0.2	276.0	70.6	29.5	0.9	176.8	115.6
1990 H2	136.4	38.5	40.8	63.6	-0.1	279.1	71.2	29.9	0.9	179.0	117.0
	Percentage change on previous year[3]										
1988	6 ¾	½	13 ¼	¾	¾	5 ¾	12 ¼	3	¼	4 ¼	4 ¼
1989	3 ¾	-¼	5 ¼	4 ½	½	4	9 ¼	4	0	2	2
1990	1½	¼	2 ¼	6 ¼	-1 ½	1 ¼	1 ½	1	0	1 ¼	1 ¼

[1] *The GDP figures are averages of constant price expenditure, output and income estimates of GDP. Percentage changes are calculated from unrounded levels, then rounded to the nearest quarter per cent. Figures for periods up to and including the first half of 1989 are consistent with latest published CSO national accounts estimates, adjusted to take account of more recent information.*

[2] *The growth of general government consumption is reduced by about 1 per cent in 1989 and ¼- ½ per cent in 1990 by the transfer of polytechnics from the local authority sector to the personal sector, and by the phasing out of the Community Programme.*

[3] *For stockbuilding and the statistical adjustment, changes are as a percentage of GDP.*

4 Tax revenue ready reckoner

4.01. The tables below show the effects of various illustrative tax changes on tax receipts in 1990–91 and 1991–92.

4.02. The effects of tax changes on tax receipts depend on economic variables, such as prices, earnings and consumers' expenditure. The estimates shown are consistent with the economic forecast given in Chapter 2.

4.03. An illustrative rate of inflation of 7½ per cent has been used to show the effects of indexation and revalorisation in 1990–91. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1989.

4.04. The tables show estimates of the direct effects of tax changes on tax receipts. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR.

Indexation of allowances, thresholds and bands for 1990–91

4.05. Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1990–91 after 7½ per cent indexation. Estimates of the revenue effects of indexation are shown in Table 4.4. For income tax, rounding of the indexed amounts follows the rules laid down in the 1980 Finance Act, and for inheritance tax and capital gains tax those laid down in the 1982 Finance Act.

4.06. Table 4.1 shows the structure of income tax allowances as it will be after the introduction of independent taxation of husband and wife in 1990. Husbands and wives will each get the same personal allowance that a single person will receive, and a wife's income (including her investment income) will be taxed separately from that of her husband. In addition, there will be a married couple's allowance which will go to the husband in the first instance, but any unused part of it will be transferable to the wife. For 1989–90 the figures shown are those which would have applied under the new structure if it had been introduced in 1989–90 at levels corresponding to the actual allowances that year.

Direct revenue effects of illustrative changes in income tax and corporation tax

4.07. Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax from April 1990. The income tax allowances are those to be introduced under independent taxation, and changes in these and the basic rate limit are from an indexed base.

4.08. The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, the basic rate limit tends to fall as the allowances or limit rises. For this reason, effects are given for different percentage changes and for reductions as well as increases in allowances.

4.09. The total cost of a group of income tax allowances changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in the basic or higher rate, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Table 4.1 Income tax

	£ 1989–90	£ 1990–91
Allowances:		
Personal allowance	2 785	2 995
Personal allowance (age 65–74)	3 400	3 660
Personal allowance (age 75 and over)	3 540	3 810
Married couple's allowance	1 590	1 710
Married couple's allowance (age 65–74)	1 985	2 135
Married couple's allowance (age 75 and over)	2 025	2 185
Additional personal and widow's bereavement allowance	1 590	1 710
Aged income limit	11 400	12 300

Income tax rates	Bands of taxable income	
	£	
Per cent	1989–90	1990–91
25	0–20 700	0–22 300
40	over 20 700	over 22 300

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1989–90	1990–91
Nil	0–118	0–127
40	over 118	over 127

Table 4.3 Capital gains tax

	£ 1989–90	£ 1990–91
Annual exempt amount:		
Individuals	5 000	5 400
Trusts	2 500	2 700

Table 4.4 Costs of indexation for 1990–91

	£ million 1990–91	£ million 1991–92
Indexation of income tax allowances and basic rate limit[1]	1 610	2 275
Of which:		
Increases in main allowances	1 400	1 905
Increase in the basic rate limit[2]	210	370
Indexation of inheritance tax threshold	30	70
Indexation of capital gains exempt amounts	—	10

[1] *Cost includes the consequential effects on capital gains tax.*
[2] *Additional cost after previous change has been introduced.*

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax[1]

	£ million	
	1990–91 Cost/yield	1991–92 Cost/yield
Income tax		
Rates		
Change basic rate by 1p[2]	1 500	1 900
Change higher rate by 1p	130	270
Allowances[3]		
Change personal allowance by £100	465	635
Change age-related personal allowances[4] by £100	35	50
Change married couple's allowance by £100[5]	215	295
Change age-related married couple's allowances[4] by £100	15	22
Change aged income limit by £200	2	4
Change all main allowances by 1 per cent[6]	180	250
Change all main allowances by 10 per cent:[6]		
increase (cost)	1 775	2 475
decrease (yield)	1 850	2 550
Basic rate limit		
Change basic rate limit by 1 per cent[6]	25	44
Change basic rate limit by 10 per cent:[6]		
increase (cost)	225	415
decrease (yield)	275	495
Allowances and basic rate limit		
Change all main allowances and basic rate limit by 1 per cent[6]	205	295
Change all main allowances and basic rate limit by 10 per cent:[6]		
increase (cost)	2 000	2 875
decrease (yield)	2 125	3 050
Corporation tax[7]		
Change full rate by 1 percentage point	390	570
Change small companies' rate by 1 percentage point[8]	35	45

[1] *The estimated revenue effects of changes in the basic rate of income tax and in the main allowances of 10 per cent are rounded to the nearest £25m; other effects over £50m are rounded to the nearest £5m; effects of less than £50m are rounded to the nearest £1m. The figures for income tax changes include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 1990.*

[2] *Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.*

[3] *The full year revenue effect of changing all the income tax allowances by the same proportion is broadly the same under independent taxation as under the present regime, but because of the reform of the structure of allowances the effects of changing individual allowances are not directly comparable with previous figures.*

[4] *Allowances for those aged 65–74 and aged 75 and over.*

[5] *Figures include revenue effects of changing additional personal allowance and widow's bereavement allowance by £100.*

[6] *Percentage changes are calculated with reference to 1989–90 levels.*

[7] *Assessment to corporation tax normally relates to the preceding year. These estimates are, therefore, the changes to revenue that would occur if the changed rates were applied to incomes from 1 April 1989.*

[8] *These figures ignore effects arising from the imputation system.*

Indirect Taxes

4.10. Table 4.6 shows estimates of the effects of changes in excise duties from April 1990. The first part shows the total extra revenue (including VAT) if the individual duties were to be increased by 7½ per cent, together with the price increase that would result (after allowing for consequential VAT). The second part shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.

4.11. Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.

4.12. Within limits the illustrative changes for specific duties can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively larger, and scaled estimates will be less reliable.

Table 4.6 Revenue effects of indirect tax changes[1]

		7½% Revalorisation[2]			Illustrative changes			
	Current level of duty on typical items	Price change[3]	£m yield in[4]		Price change[3]	Associated percentage change in duty	£m cost/yield[4]	
			1990–91	1991–92			1990–91	1991–92
Beer (pint)	19·4p	1·7p	155	180	1p	4·5	90	110
Wine (70 cl bottle of table wine)[5]	71·7p	6·2p	50	60	5p	6·1	45	50
Spirits (bottle)	£4·73	40·8p	80	90	10p	1·8	20	20
Cigarettes (20 kingsize)[6]	96·7p	7·2p	260	295	1p	1·0	35	40
Petrol (gallon)[7]	89·8p	7·8p	465	515	1p	1·0	60	70
Derv (gallon)	78·6p	6·8p	110	115	1p	1·1	15	20
VED (cars and light vans)	£100·00	£7·50	170	190	£1·00	1·0	25	25

[1] *These are estimated on the assumption that total consumers' expenditure at factor cost does not change.*
[2] *An 'across the board' revalorisation by 7½ per cent (including the minor duties not shown above) would yield about £1 360m in 1990–91 and £1 515m in 1991–92 and the impact on the RPI would be to raise it by 0·5 per cent.*
[3] *The price change is assumed to equal the change in duty plus the consequential change in VAT except in the case of VED where VAT is not payable.*
[4] *Assuming implementation on 1 April 1989.*
[5] *Revenue effects include all wines.*
[6] *The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.*
[7] *Weighted average of leaded and unleaded petrol at current level of sales. Unleaded petrol currently bears a rate of duty which is 12·4 pence per gallon less than that on leaded, and the revenue effects given here assume no change in this differential save for that arising from revalorisation.*

Table 4.7 VAT[1]

	£m cost/yield in	
	1990–91	1991–92
1% change in rate of VAT[2]	1 515	2 070

[1] *The revenue effects of changes in the rate of VAT are estimated on the assumption that total consumers' expenditure at factor cost does not change.*
[2] *Assuming implementation on 1 April 1990.*

3 National Insurance Contributions

x **3.01** The Secretary of State for Social Security has conducted his annual review of national insurance contributions, as required by the provisions of the Social Security Act 1975. Full details were set out in a statement by the Secretary of State on [15] November 1989. The main proposals are as follows:

—the Class 1 insurance rates for employees and employers should remain unchanged for 1990-91.

—the lower earnings limit should be increased from April 1990 from the present level of £43 a week to £46 a week in line with the single person's rate of retirement pension.

—the upper earnings limit should be increased from £325 a week to £350 a week.

—the earnings limits for the employers' reduced rate brackets should also be increased from £75, £115 and £165 a week to £80, £125 and £175 a week

This would give the following structure of national insurance contributions:

Weekly earnings	Employees amount paid on earnings up to £350 per week	Employers percentage NIC rate on all earnings
Below £46	0	0
£46 to £80	2% of £46	5
£80 to £125	plus	7
£125 to £175	9% of earnings	9
£175 to £350	between £46	10·45
Above £350	and £350	10·45

57 **3.02** The necessary order~~s~~ will be laid shortly with a report by the Government Actuary on the likely effect of the changes on the National Insurance Fund. In accordance with normal practice, the Government Actuary has been provided with working assumptions for use in preparing his report. These assumptions, which are not forecasts or predictions, will be summarised in his report and include the following:

/7 —the number of unemployed (GB) averages 1·6[illegible] million in 1989-90 and 1·75 million in 1990-91

57 / —~~the increase in~~ average earnings ~~is expected to decline from~~ rise by about 9¼ per cent ~~between financial years~~ in 1989-90 compared to 1988-89 and ~~1989-90 to~~ by about 8½ per cent ~~between financial years~~ in 1990-91 compared to 1989-90 ~~and 1990-91~~. Figures for settlements are of course lower than these earnings figures in both years

The report will also allow for an uprating of benefits in April 1990 on the basis of the 7·6 per cent increase in the RPI over the year ending in September 1989, as announced by the Secretary of State on 25th October 1989.

3.03 The estimated effects of the proposed changes are shown in Table 3.1.

Table 3.1 Estimated total payments by employers and employees of national insurance contributions, 1989–90 and 1990–91[1]

	£ million		
	Employers	Employees	Total
National insurance contributions:			
1989–90	[16 220]	[12 880]	[29 100]
1990–91	[17 980]	[12 770]	[30 750]
Total change	[1 760]	[−110]	[1 650]
of which:			
Change in contributions from increased earnings, etc[2]	[2 010]	[−230]	[1 780]
Change in contributions from increase in earnings limits	[−250]	[120]	[−130]

57

[1] *Figures are rounded to the nearest £10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-rating) ~~(No. 2)~~ Order 1989. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include NHS Allocation contributions. Employers' contributions are net of deductions in respect of statutory sick pay and statutory maternity pay.*
[2] *Including population and employment changes.*

P/A D

AUTUMN STATEMENT - PUBLISHED FORECAST

10(a)

% change at constant prices	1989	1990
Domestic demand	3¼	0
Fixed investment	5¼	2
GDP (excluding oil)	3	¾
GDP	2	1¼
Current account deficit £billion	20	15
RPI Q4 on Q4	7½	~~6~~ 5¾

	1988-89	1989-90	1990-91	1991-92	1992-93
Money GDP					
% increase	10¾	8½	7	[6½]	[6]
£ billion	476	516½	552	[587]	[621]
PSDR					
£ billion	14.3	12.6	[10]	-	-
GGE £ billion (ex privatisation proceeds)	185.7	200.0	215.4	227.6	239.5
£ billion increase on previous plans	-	+0.7	+5.4	+6.6	-
% of GDP	39	38¾	39	38¾	38½

Figures in square brackets are working assumptions chex.ps/jg/1

C

CHANCELLOR'S AUTUMN STATEMENT: 15 NOVEMBER 1989

With permission, Mr Speaker, I should like to make a statement.

2. Cabinet agreed the Government's expenditure plans this morning. I am now able to inform the House of the public expenditure outturn for this year; the plans for the next three years; proposals for national insurance contributions in 1990-91; and the forecast of economic prospects for 1990 required by the 1975 Industry Act.

3. The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I sit down. The printed Autumn Statement will be published next Wednesday.

PUBLIC EXPENDITURE

4. Mr Speaker, tight control of public expenditure remains a central element of the Government's economic strategy. Over the past seven years this has led to a sharp fall in the ratio of public spending, excluding privatisation proceeds, to national income. This fall has made it possible to dramatically improve the

Government's finances while still making substantial reductions in tax rates.

5. The ratio of public spending to GDP was nearly 47 per cent in 1982-83. In the current year, it is likely to be $38^3/_4$ per cent, significantly below the level expected at the time of the last Autumn Statement.

6. For the next two years the plans I am announcing today show ratios of 39 and $38^3/_4$ per cent. These are unchanged from the ratios published in last year's Autumn Statement, and permit a cash increase in general government expenditure in 1990-91 of around £5½ billion. By 1992-93 the ratio is expected to fall further to its lowest level since the mid-1960s.

7. For the current year, the outturn of expenditure is expected to be about £168 billion, £1 billion higher than the original planning total. This partly reflects a lower estimate of privatisation proceeds, but its principal cause is massive overspending by local authorities on both current and capital account. As the House knows, new arrangements for the finance and control of local authority expenditure in England and Wales are being introduced on 1 April 1990. This year's outturn shows how necessary these new measures are.

Central government spending remains firmly under control.

8. The plans for the next three years have been set on the new definition of the planning total which the Government announced in July last year and which was welcomed by the TCSC. This <u>includes</u> central government support for local authorities, but <u>excludes</u> their self-financed expenditure. The composition of general government expenditure is unchanged.

9. For 1990-91, the new planning total has been set at £179 billion and, in the following two years, at £192 billion and £203 billion respectively. Within this the estimates of privatisation proceeds are unchanged, at £5 billion a year. There are also substantial Reserves, rising from £3 billion in 1990-91 to £6 billion and £9 billion in the following two years.

10. The new plans also show continued real growth in spending on the Government's priorities.

11. Thus, between this year and next, spending on the NHS in the UK will rise by £2,400 million. Taking account of income generation and cost savings, this is equivalent to a £2,600 million increase in resources, or

$5^1/_2$ per cent in real terms. These plans will finance the improvements in the management of the service that are outlined in the NHS Review. They provide more than £200 million extra for hospital building and other capital expenditure next year. And they will finance a continuing growth in services for patients. They are the clearest possible evidence of the Government's practical commitment to improving the care available in the NHS.

12. There will be substantial increases also for investment in transport. Spending on national roads is planned to double between 1988-89 and 1992-93. Extra financing of £400 million to £500 million a year is being made available for the railways and London Regional Transport, including upgrading the services on Network South-East and the London Underground, to relieve congestion and improve safety, and for rail services for the Channel Tunnel. In total we have added £1.8 billion to the planned spending on transport in the next two years.

13. The plans provide an extra £250 million over the next two years for a new initiative to tackle homelessness, to be announced today by my Rt Hon Friend the Secretary of State for the Environment. And central

government support for the provision of new homes by housing associations will more than double from £800 million in 1989-90 to £1,700 million in 1992-93.

14. My RHF the Secretary of State for Social Security has already announced real increases in benefits which will help $1^1/_2$ million families and $^1/_2$ million long-term sick and disabled people.

15. There will be an increase of over £500 million in the total resources available for higher education in 1990-91 compared with this year. This will provide for the continuing growth in the number of students, which has risen by 30 per cent since 1979, and is now at a record level; and cover the cost of the Government's proposals on top-up loans. There is provision for more environmental research, including the new climate change centre and the doubling of our contribution to the UN Environmental Programme.

16. About £$1^1/_2$ billion has been added to planned capital spending by central government and public corporations in 1990-91. This represents a real increase of around 10 per cent compared with 1989-90.

17. The new plans include the money central government provides to support local authority spending. The Government's proposals for Aggregate External Finance in 1990-91 were announced to the House in July. Measures have also been announced which will ease the transition from rates to community charge. The cost to the taxpayer of these measures will be nearly £700 million in 1990-91, with further substantial sums in each of the following two years.

18. Capital grants and credit approvals will provide central government support for local authority capital expenditure under the new arrangements. The new plans provide support for a sustained programme of school and college building and modernisation, for local authorities to contribute to the homelessness package, for transport projects, as well as capital spending on other local services, including local roads and environmental improvement.

19. As in the past, these improvements have been possible only through a rigorous selection of priorities; substantial gains in value for money; and a very welcome reduction in the burden of debt interest. They have been found within an affordable level of total public spending. Overall public spending excluding

privatisation proceeds is expected to grow on average by $1^{3}/_{4}$ per cent a year in real terms throughout the period between 1988-89 and 1992-93. This was the rate of growth projected in last year's Autumn Statement and we have stuck to it. Over the 1970's, a decade of high borrowing and high inflation, as well as high public spending , it grew by 3 per cent a year.

20. Mr Speaker, the Government's new plans demonstrate its continuing commitment to two vital principles. First, to maintain firm control over total spending. And second, to increase efficiency, in order to provide more resources where they are most needed.

21. I should like to congratulate my Rt Hon Friend the Chief Secretary for his skilful and successful conduct of the public spending round.

NATIONAL INSURANCE

22. I turn next to national insurance contributions. As the House knows, we have now implemented the reform of employee contributions announced by my Rt Hon Friend the member for Blaby in the Budget. From last month, two of the three step increases in contribution rates have been abolished. This means that employees who get pay

increases taking them just above these steps can no longer lose more in higher contributions than they gain in extra pay. And the initial step at earnings of £43 a week, where people first enter the contribution system, has been more than halved. These measures have reduced contributions by up to £3 a week for nearly 19 million employees and are of particular help to many employees on modest incomes; they have also removed some important disincentives.

23. The usual autumn review of contributions has been conducted in the light of advice from the Government Actuary on the prospective income and expenditure of the national insurance fund, and taking account of the statement on benefits made in October by my Right Hon. Friend the Secretary of State for Social Security.

24. Next year, the initial class 1 contribution rate payable on earnings up to the lower earnings limit will remain at only 2 per cent. This means that a payment of only 92p per week will buy entitlement to the basic pension and other contributory benefits for those who earn just enough to pay contributions. On additional earnings, up to the upper earnings limit, the rate will remain unchanged at 9 per cent. For employers, the main rate will also be unchanged at 10.45 per cent.

25. The lower earnings limit will be increased to £46 a week, in line with the single person's pension, and the upper earnings limit will be raised to £350 a week. For employers, the upper limits for the three reduced rate bands will be increased broadly in line with prices.

ECONOMIC PROSPECT

26. I am also publishing today the economic forecast required by the 1975 Industry Act.

27. It is clear beyond any doubt that the economy has greatly strengthened over the last decade. We have experienced eight years of strong and sustained growth with inflation at moderate levels. This has brought an increase in employment of about $2^3/_4$ million since March 1983 and a sustained rise in living standards.

28. However it is also clear that in the last two years, 1987 and 1988, demand, and with it output, rose at a rate which exceeded expectations and could not be sustained. That became apparent in increased inflationary pressures and the growth of the current account deficit.

29. These pressures had to be reduced and monetary policy was tightened accordingly. The effects of this tightening are already apparent in recent retail sales figures, and the turnaround in the housing market.

30. The Government's fiscal position is also very strong. I now expect this year's fiscal surplus to be about £12$^{1}/_{2}$ billion, equivalent to 2$^{1}/_{2}$ per cent of GDP. That represents a very tight fiscal stance by any standards.

31. Both tax yield and expenditure are higher than forecast at Budget time. But lower proceeds from privatisation and the high take up of personal pensions mean that the Public Sector Debt Repayment will be slightly below the Budget projections.

32. Looking at the wider economy, as always, a great deal depends on the actions of individuals and companies. So there is bound to be uncertainty about the speed with which the economy will adjust to the present tight stance of policy. Our forecast is that growth in domestic demand will be a little over 3$^{1}/_{2}$ per cent in the current year, a sharp, but inevitable, slowdown from over 7 per cent recorded in 1988.

33. Non-oil GDP is expected to grow by 3 per cent this year. GDP growth as a whole for the current year looks like turning out at 2 per cent, a little below the forecast published at Budget time. This results from lower than expected North Sea oil production, which is taking longer than expected to recover from the serious accidents of the last two years.

34. Business investment is likely to increase by $9^1/_4$ per cent this year, giving a total of over 40 per cent in the three years to 1989. This is the largest ever rise in business investment over a three year period and is $2^1/_2$ times as fast as the growth of personal consumption over the same period. This has inevitably contributed to strong import growth and a higher current account deficit in the short run. Notwithstanding this unwelcome effect, the resulting increase in productive capacity will help to sustain the growth of output and in due course bring the deficit down.

35. Looking ahead to 1990, our tight fiscal and monetary policy will have an increasing impact both on household spending and on company spending, which typically reacts later than the personal sector.

Investment should continue to grow, but it will do so more slowly.

36. The slowdown in the economy means that GDP is forecast to increase by only $1^1/_4$ per cent in 1990. This will bring the average growth in the four years to 1990 to 3 per cent a year.

37. As domestic demand slows, import growth should moderate. At the same time, the strong rise in exports, which has been one of the most welcome developments in 1989 is forecast to continue. Non-oil visible exports are expected to rise by over 11 per cent this year, the highest rate since 1973, and we expect a further substantial increase next year. As a result, we now forecast that the current account deficit will fall from some £20 billion in the current year to about £15 billion in 1990.

38. We will also see a further reduction in inflation. The headline measure of retail price inflation has already peaked at over 8 per cent in May and June this year, and has since come down a little. Following the recent rise in mortgage rates, it will remain high for some months. But our forecast is for it to fall to

Junk bond economy.

~~[illegible]~~. 5.

$5^3/_4$ per cent by the fourth quarter of 1990. And I expect to see it fall still further after that.

39. Mr Speaker, our main priority must be to bring inflation decisively down, and keep it down. To achieve this, the economy must slow down for a while. This does mean that 1990 may not be an easy year. But the economy enters the 1990s in incomparably better shape than it entered the 1980s. The supply side reforms of the last decade have left business and industry better able to handle both the short-term difficulties before us and the longer-term opportunities to come. I have no doubt that we must stick to the policies that have turned the British economy around. And that we are determined to do.

J.S. Trade Deficit £20bn

88 –14½

High interest rates not working.

Deficit Britain – gravest econ problem

Structural deficit.

Public Exp. 89-90.

£187.6 – Hardly being switched

N.H.S. +£2.6bn – Real terms increase 1 5%

Housing – Plummeted 15,000 [illegible]

Edn – Real increase.

Output down
8% P [illegible]

Lab Cap Spending Bill

Manufacturers 4%

T.H. Prudence plus right priorities

MTFS | I.R.

[Arts]
Overseas Aid

Prospects – ± growth.

Public Services – ~~[illegible]~~ [illegible]

Balanced Budget £50bn. – Demand –

Xchange rate. –

Deficit £16.8 → 20.3 5½bn

Autumn Statement

3.31 pm

The Chancellor of the Exchequer (Mr. John Major): With permission, Mr. Speaker, I should like to make a statement.

Cabinet agreed the Government's expenditure plans this morning. I am now able to inform the House of the public expenditure outturn for this year; the plans for the next three years; proposals for national insurance contributions in 1990-91; and the forecast of economic prospects for 1990 required by the Industry Act 1975.

The main public expenditure figures, together with the full text of the economic forecast, will be available from the Vote Office as soon as I sit down. The printed Autumn Statement will be published next Wednesday.

Tight control of public expenditure remains a central element of the Government's economic strategy. In the past seven years this has led to a sharp fall in the ratio of public spending, excluding privatisation proceeds, to national income. This fall has made it possible to improve dramatically the Government's finances while still making substantial reductions in tax rates. The ratio of public spending to gross domestic product was nearly 47 per cent. in 1982-83. In the current year, it is likely to be 38¾ per cent., significantly below the level expected at the time of the last Autumn Statement. For the next two years the plans I am announcing today show ratios of 39 and 38¾ per cent. Those are unchanged from the ratios published in last year's Autumn Statement, and permit a cash increase in general Government expenditure in 1990-91 of around £5½ billion. By 1992-93 the ratio is expected to fall further to its lowest level since the mid-1960s.

For the current year, the outturn of expenditure is expected to be about £168 billion—£1 billion higher than the original planning total. This partly reflects a lower level of privatisation proceeds, but its principal cause is massive overspending by local authorities on both current and capital account. As the House knows, new arrangements for the finance and control of local authority expenditure in England and Wales are being introduced on 1 April 1990. This year's outturn shows how necessary those new measures are. Central Government spending remains firmly under control.

The plans for the next three years have been set on the new definition of the planning total which the Government announced in July last year and which was welcomed by the Treasury and Civil Service Select Committee. This includes central Government support for local authorities, but excludes their self-financed expenditure. The composition of general Government expenditure remains unchanged.

For 1990-91, the new planning total has been set at £179 billion and, in the following two years, at £192 billion and £203 billion respectively. Within that, the estimates of privatisation proceeds are unchanged, at £5 billion a year. There are also substantial reserves, rising from £3 billion in 1990-91 to £6 billion and £9 billion in the following two years.

The new plans also show continued real growth in spending on the Government's priorities. Thus, between this year and next, spending on the National Health Service in the United Kingdom will rise by £2,400 million. Taking account of income generation and cost savings, that is equivalent to a £2,600 million increase in resources, or 5½ per cent. in real terms. These plans will finance the improvements in the management of the service outlined in the National Health Service review. They provide more than £200 million extra for hospital building and other capital expenditure next year; and they will finance continuing growth in services for patients. They are the clearest possible evidence of the Government's practical commitment to improving the care available in the National Health Service.

There will be substantial increases also for investment in transport. Spending on national roads is planned to double between 1988-89 and 1992-93. Extra financing of £400 million to £500 million a year is being made available for the railways and London Regional Transport, including upgrading the services on Network SouthEast and the London Underground, to relieve congestion and improve safety, and for rail services for the Channel tunnel. In total we have added £1·8 billion to the planned spending on transport in the next two years.

The plans provide an extra £250 million over the next two years for a new initiative to tackle homelessness, to be announced today by my right hon. Friend the Secretary of State for the Environment. Central Government support for the provision of new homes by housing associations will more than double from £800 million in 1989-90 to £1,700 million in 1992-93.

My right hon. Friend the Secretary of State for Social Security has already announced real increases in benefits which will help 1½ million families and ½ million long-term sick and disabled people.

There will be a further increase of over £500 million in the total resources available for higher education in 1990-91 compared with this year. It will provide for the continuing growth in the number of students, which has risen by 30 per cent. since 1979, and is now at a record level and it will cover the cost of the Government's proposals on top-up loans. There is provision for more environmental research, including the new climate change centre and the doubling of our contribution to the United Nations environmental programme.

About £1½ billion has been added to planned capital spending by central Government and public corporations in 1990-91. That represents a real increase of around 10 per cent. compared with 1989-90.

Mr. Eric S. Heffer (Liverpool, Walton): On a point of order, Mr. Speaker. I have been a Member for a long time, but I wish to know whether I am allowed to ask the Chancellor of the Exchequer a question. He is making a long statement. Am I allowed to ask a question and, if not, when can I ask him a question?

Mr. Speaker: Order. Surely, the hon. Member does not need to pose that question. If I call him later, he can ask the Chancellor a question then.

Mr. Major: The new plans include the money central Government provide to support local authority spending. The Government's proposals for aggregate external finance in 1990-91 were announced to the House in July. Measures have also been announced which will ease the transition from rates to community charge. The cost to the taxpayer of these measures will be nearly £700 million in 1990-91, with further substantial sums in each of the following two years.

Mr. Hayward: Does my right hon. and learned Friend find it amazing that Opposition Members stand up and plead on behalf of factories in their constituencies, when the Labour party has voted for a reduction in defence expenditure of as much as one third which would put at risk 7,000 jobs in Scotland alone?

Mr. Rifkind: Those who work in defence industries in Scotland, or in the United Kingdom as a whole, have never been in any doubt about the disastrous implications for their employment of the Labour party coming to office with its old policies, its new policies or any future shred of policy it may care to put before them.

Local Government Finance

12. **Mr. Douglas:** To ask the Secretary of State for Scotland if he will make a statement on the consequences for local authority manpower and expenditure of the recently announced changes in poll tax payments and exemptions.

Lord James Douglas-Hamilton: The manpower and expenditure consequences of all but one of the amendments to the community charge legislation included in the Local Government and Housing Bill are expected to be minor. The one exception is the transitional relief scheme. The Government have already undertaken to reimburse reasonable administrative costs incurred by local authorities.

Mr. Douglas: Does the Minister have the figures which would show the massive increase in the cost of collecting the poll tax, compared with the rating system, and the massive increase in personnel involved? Will he take time to read yesterday's excellent editorial in *The Scotsman*, which said that no matter what the Government try to do with the tax, it is becoming a shambles and ought to be completely removed from the statute book?

Lord James Douglas-Hamilton: Of course the collection of the community charge will be more expensive because it applies to more people. Before the hon. Member criticises that form of taxation he should remember what his own environment spokesman had to say. He said:

> "The two tax idea had a great deal of merit but when it was approved by the Home Policy Committee I took a lead in expressing concern about the difficulty of selling two taxes".

The hon. Member should also make representations to his own Front Bench.

Sir Nicholas Fairbairn: Does my hon. Friend think that if the hon. Member for Dunfermline, West (Mr. Douglas) is worried about an increase in expenditure on the collection of the tax falling on those who have to pay it, he should obey the law and pay his own?

Lord James Douglas-Hamilton: Yes, I would say to my hon. and learned Friend that those who refuse to pay community charge when they are well able to do so are sponging of the rest of the community.

Mr. Maxton: Is the Minister yet able to tell us what the recalculated allocation to Glasgow district council will be? Does it not illustrate the obscurity of the poll tax system that on 1 April there will be a massive increase in the poll tax for my deprived constituency in Castlemilk, while the wealthy citizens of Eastwood, Bearsden and Milngavie may have a cut in their poll tax? Is it not quite absurd, in the year when Glasgow is the city of culture, representing the United Kingdom throughout the world, that the Secretary of State is cutting the amount of money which he will give it?

Lord James Douglas-Hamilton: I am glad to say that this is being sorted out as a matter of urgency. The revised distribution proposals will be issued to COSLA and to local authorities within the next few days. I must make it clear that the figures issued in the statement earlier this week were provisional and that the grant is not payable until next April. Therefore, things will be sorted out quickly.

A9

13. **Sir Russell Johnston:** To ask the Secretary of State for Scotland what improvements he proposes for the A9 between Perth and Inverness.

Lord James Douglas-Hamilton: The A9 has been fully reconstructed between Perth and Inverness to the great benefit of the economy of Inverness and the surrounding areas. I hope to make a statement on an agreed package of further improvements in the near future.

Sir Russell Johnston: Is the Minister aware that the recent spate of accidents on the A9 has caused a great deal of concern? Part of the cause of those accidents must be the road's design—alternate dual and single carriageway, long slow curves where overtaking is difficult and many crossing points. I look forward to hearing the statement that the Minister has promised us.

Lord James Douglas-Hamilton: We have consulted the hon. Gentleman's chief constable and his regional council and we shall introduce a package of accident remedial measures that could involve signposting, markings on the road and improving its surface in various parts. In the past few weeks I have travelled up and down the A9 to his constituency and, overall, it is an extremely good road. Certain parts of it, however, need urgent attention and that will be put in hand.

3.30 pm

Mr. Speaker: I have a short statement to make about the operation of the 4 o'clock shuffle, which determines the order of oral questions due for answer two weeks ahead.

With effect from the start of next Session the shuffle will be done by computer, instead of manually as at present. [HON. MEMBERS: "Hear, hear."] Order. I have inspected the new system and I am fully satisfied that it is more efficient than the present arrangements, and, more importantly, equally fair.

If any hon. Member wishes to see the new system in operation, the Table Office will be glad to arrange this.

9

PRIME MINISTER

CABINET: PUBLIC EXPENDITURE

You briefly discussed the handling of the Cabinet discussion on public expenditure with the Chancellor this afternoon.

The Chief Secretary's Cabinet paper is at Flag A. And a Cabinet Office handling brief is at Flag B. The latter covers all the main points, including the proposed form of words that Bernard should use following the meeting.

The one point not covered is the order in which Cabinet members might speak. You will want to adopt your usual approach of interleaving speakers. You may find it helpful to have to hand the lists below: I've put likely strong supporters in the left hand column. You will want to start and end with some speakers from this list; and to bring in those from the other two lists in the middle of the discussion.

Trade and Industry	Health	Wales
Defence	Scotland	Chancellor of the Duchy
Education	Foreign Secretary	
Transport	Social Security	
Northern Ireland	Environment	
Lord Chancellor	Lord Privy Seal	
Agriculture	Lord President	
Home Secretary		
Energy		
Employment		

PG.

PAUL GRAY
14 November 1989