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# Autumn Statement 1988

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# Autumn Statement

## 1988

Return to an Order of the House of Commons dated 8 November 1988: for

*Copy of the Autumn Statement 1988  
as laid before the House of Commons by  
the Chancellor of the Exchequer on 8 November 1988*

Treasury Chambers  
8 November 1988



Nigel Lawson

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# Contents

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Chapter 1	Public expenditure plans	5
Chapter 2	Economic prospects for 1989	29
Chapter 3	National insurance contributions	52
Chapter 4	Tax revenue ready reckoner	54

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## Tables and charts

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### Chapter 1: tables

1.1	Trends in public spending	7
1.2	Public expenditure	10
1.3	External financing limits for the nationalised industries, 1989-90	19
1.4	General government debt interest	20
1.5	Public expenditure totals	22
1.6	Central government spending	23
1.7	Local authority spending	24
1.8	Public corporations	25
1.9	Public expenditure by department, 1978-79 to 1991-92	26
1.10	Public expenditure in real terms by department, 1978-79 to 1991-92	27
1.11	Public expenditure planning total; plans and outturn	28
1.12	General government expenditure; plans and outturn	28

### charts

1.1	General government expenditure as a percentage of GDP	6
1.2	General government expenditure in real terms	8
1.3	General government expenditure in 1989-90	9

### Chapter 2: tables

2.1	World economy	31
2.2	Visible trade	35
2.3	Current account	36
2.4	Gross domestic fixed capital formation	37
2.5	Domestic demand and GDP	38
2.6	Costs in manufacturing	40
2.7	Retail prices index	40
2.8	Changes in employment	41
2.9	Output per head of the employed labour force	41



2.10	General government expenditure	43
2.11	General government receipts	44
2.12	Public sector debt repayment	45
2.13	Economic prospects: summary	46
2.14	Gross domestic product and its components	47

charts

2.1	Major seven economies' real GNP and industrial production	30
2.2	Real commodity prices	31
2.3	Exchange rates	32
2.4	Unit labour costs in manufacturing	33
2.5	Export volumes (goods less oil)	33
2.6	Share of UK exports in total world trade in manufactures	34
2.7	Share of imports of goods (excluding oil) in total domestic demand	35
2.8	Personal savings ratio	37
2.9	Companies' real rates of return	38
2.10	RPI inflation	39
2.11	Growth rates of monetary aggregates	42
2.12	Interest rates in the UK	43
2.13	Public sector borrowing requirement	45
2A.1	Growth of different GDP measures	48
2A.2	Residual error	49
2A.3	Sectoral balancing items	49

Chapter 3: tables

3.1	Estimated total payments by employers and employees of national insurance contributions, 1988–89 and 1989–90	53
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Chapter 4: tables

4.1	Income tax	55
4.2	Inheritance tax	55
4.3	Capital gains tax	55
4.4	Costs of indexation for 1989–90	55
4.5	Direct effects of illustrative changes in income tax and corporation tax	56
4.6	Revenue effects of indirect tax changes	57
4.7	VAT	57



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# 1 Public expenditure plans

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## Main points

**1.01** In the current year, and excluding privatisation proceeds, government spending as a proportion of national income is expected to be below 40 per cent for the first time in over 20 years. The proportion will have fallen by some 7 percentage points since 1982–83. Over the next three years, it is expected to fall further.

**1.02** The public expenditure planning total for 1989–90 is unchanged from previous plans at £167.1 billion. The planning total for 1990–91 has been set at £179.4 billion, an increase of £3.3 billion on previous plans; and that for 1991–92 at £191.6 billion. As last year, these totals include Reserves of £3.5 billion, £7 billion and £10.5 billion respectively. They also include an unchanged estimate of privatisation proceeds, at £5 billion a year.

**1.03** In real terms, the plans for the next three years allow growth in spending on programmes averaging  $3\frac{1}{4}$  per cent a year. This can be afforded because of the fall in the burden of debt interest brought about by the improvement in the Government's finances from Budget deficit to Budget surplus. As a result, overall public spending, excluding privatisation proceeds, will rise by only  $1\frac{3}{4}$  per cent a year, well within the prospective growth of the economy.

**1.04** Compared with the plans published in the last public expenditure White Paper, Cm 288, further resources have been provided to meet the Government's priorities, including substantial additional sums for health, law and order, defence and roads. Provision for local authority current spending and the UK's net contribution to the European Communities is also higher.

**1.05** Extra provision of about £2 $\frac{1}{4}$  billion in 1989–90 has been made for capital spending. This includes increased investment in hospitals, roads, housing, and prisons, and by the nationalised industries.

**1.06** The fall in unemployment makes savings possible on the social security and employment and training programmes. These savings, together with the savings on debt interest, lower costs of agricultural market support, higher housing receipts and continuing improvements in value for money, help to make room for the increases for priority programmes while still ensuring that total government spending continues to decline as a proportion of national income.

**1.07** The latest forecast of the planning total in the current year, 1988–89, is £153.6 billion, £3.3 billion lower than the plans in Cm 288.



### Aims and objectives

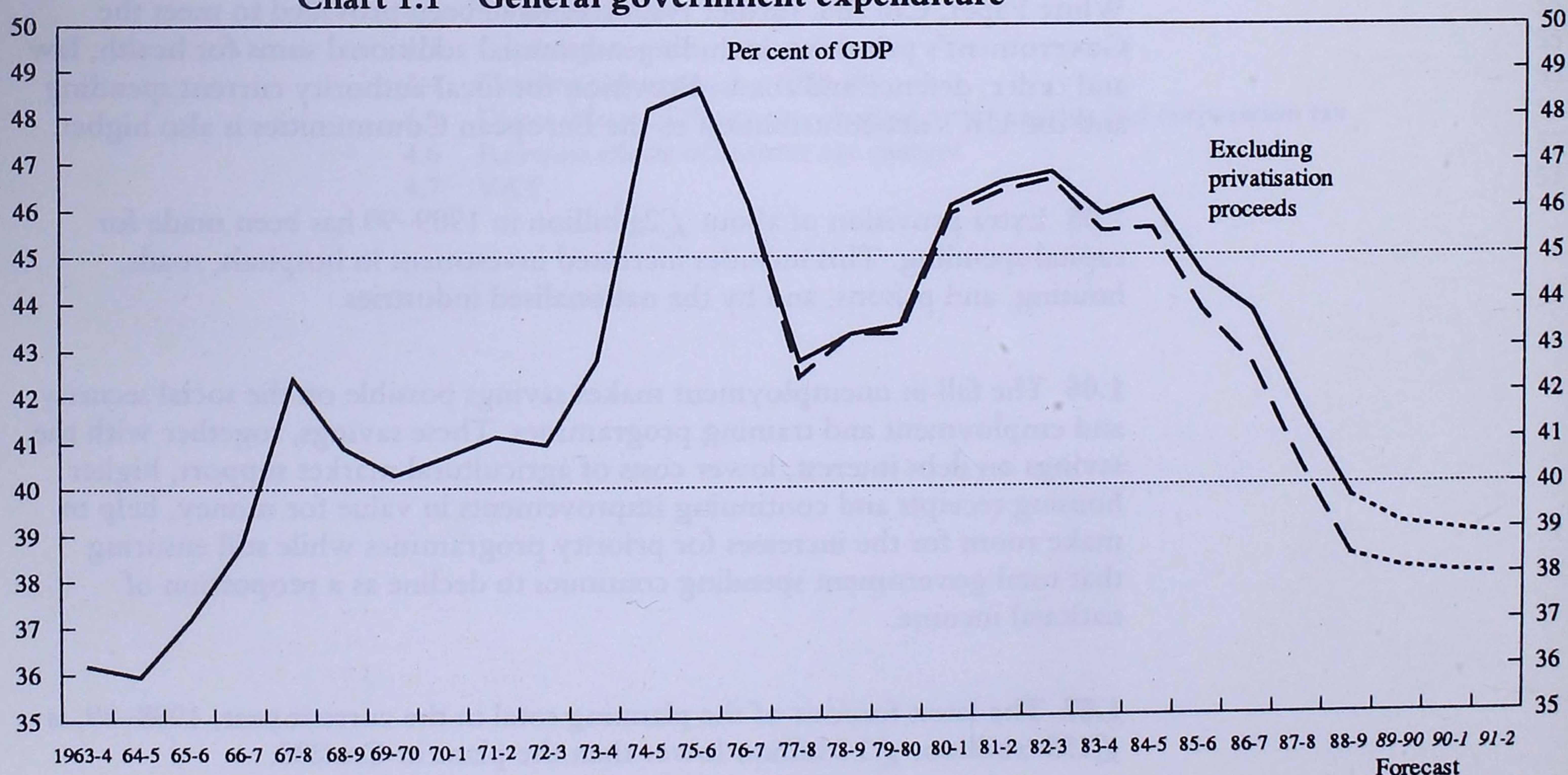
1.08 Within the framework of the Medium Term Financial Strategy (MTFS), the Government's overall objective for public expenditure is to hold its rate of growth below the growth of the economy as a whole, thus reducing public spending as a proportion of national income, while constantly improving value for money. Reducing public expenditure as a proportion of national income leaves scope for reducing taxation when it is prudent to do so, while maintaining a strong fiscal position.

1.09 This objective for public spending is expressed in terms of general government expenditure (GGE) as a proportion of gross domestic product (GDP). GGE is a comprehensive measure of the amount which has to be raised by taxation or borrowing to finance the combined spending of central and local government, including debt interest. It is the main expenditure aggregate used in the formulation of macro-economic policy and thus in the MTFS.

1.10 For the purposes of planning and control, however, the Government uses the public expenditure planning total. By controlling expenditure within this cash total, the Government seeks to achieve its wider medium term objective specified in terms of GGE.

1.11 The planning total is built up from the control totals set for individual departmental programmes, together with an unallocated Reserve. It differs from GGE in a number of respects, of which the most important is the exclusion of debt interest. The planning total and the departmental plans within it are set in cash, as are the various control totals which are derived from it, such as Supply Estimates, cash limits, running costs limits and external financing limits of public corporations.

Chart 1.1 General government expenditure





**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 <sup>1</sup> (£ billion)	(£ billion)	(Per cent of GDP)
1963-64	11.3	87.9	31.4	36½
1964-65	12.3	91.7	34.1	36
1965-66	13.6	96.8	36.6	37½
1966-67	15.1	102.8	38.8	38¾
1967-68	17.5	115.5	41.2	42½
1968-69	18.2	115.2	44.6	41
1969-70	19.3	115.6	48.0	40½
1970-71	21.6	119.8	53.1	40¾
1971-72	24.4	123.3	59.2	41
1972-73	27.6	129.9	67.5	41
1973-74	32.0	140.5	74.8	42¾
1974-75	42.9	157.6	89.1	48½
1975-76	53.8	157.5	110.8	48½
1976-77	59.6	154.1	129.4	46
1977-78	64.4	146.3	150.8	42¾
1978-79	75.0	153.8	173.1	43½
1979-80	90.3	158.6	207.6	43½
1980-81	109.0	161.5	236.6	46
1981-82	121.0	163.3	259.9	46½
1982-83	133.1	167.6	284.6	46¾
1983-84	141.6	170.5	308.6	45¾
1984-85	152.8	175.2	330.5	46½
1985-86	160.9	175.0	361.1	44½
1986-87	168.9	177.8	385.7	43¾
1987-88	176.7	176.7	424.5	41½
1988-89	186.9	175.9	471	39¾
1989-90	198.7	178.1	508	39½
1990-91	210.0	181.9	539	39
1991-92	221.0	185.8	569	38¾

<sup>1</sup> Cash figures adjusted to 1987-88 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 6½ per cent in 1988-89, and by 5, 3½ and 3 per cent respectively in the years 1989-90 to 1991-92.

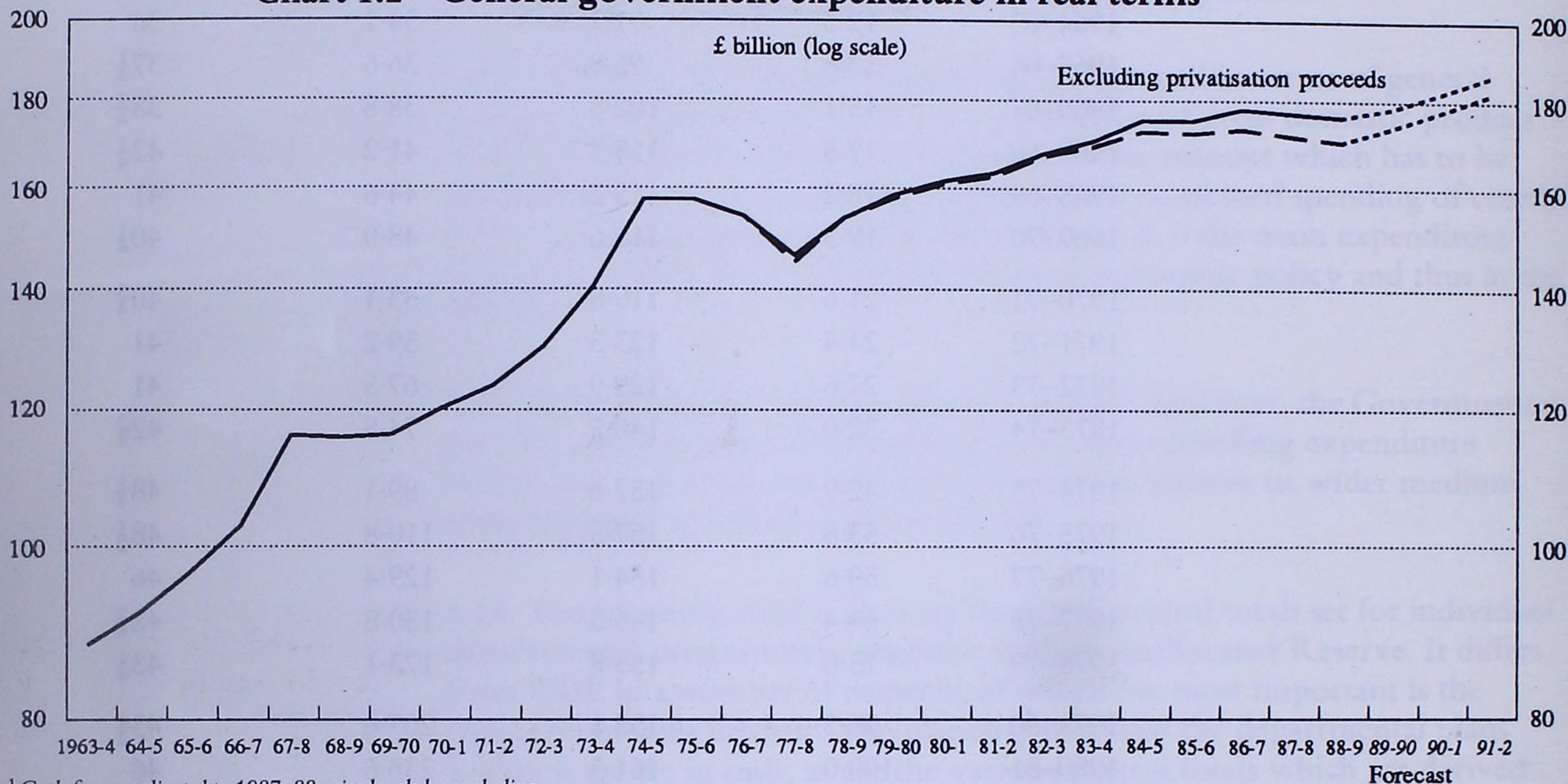
### Trends in public spending

**1.12** The ratio of general government expenditure to GDP has fallen sharply since 1982-83, and the plans set out in this Autumn Statement should ensure that the downward trend continues. This is shown in Chart 1.1 and Table 1.1. Excluding privatisation proceeds, the ratio has declined from a peak of nearly 47 per cent in 1982-83 to just under 40 per cent in 1988-89, the lowest level since 1966-67, and is expected to decline further to just under 39 per cent in 1991-92.



1.13 Table 1.1 and Chart 1.2 show the trend of public spending in real terms. Between 1978–79 and 1988–89, the average real growth in general government expenditure excluding privatisation proceeds was around 1½ per cent, compared with nearly 3 per cent in the decade before that. In the three years from 1988–89 to 1991–92, the rate of growth is expected to average 1¾ per cent a year, well within the prospective rate of growth of the economy as a whole.

**Chart 1.2 General government expenditure in real terms<sup>1</sup>**



<sup>1</sup> Cash figures adjusted to 1987–88 price levels by excluding the effect of general inflation as measured by the GDP deflator

**1988–89 outturn**

1.14 The estimated outturn for the planning total in 1988–89 is £153.6 billion, £3.3 billion below the plans in Cm 288. A number of additions have been made to programmes during the current year, including an increase of over £1 billion in health expenditure. These have been offset by higher privatisation proceeds; higher than expected local authority and new town receipts, largely under the right to buy programme, which more than offset the overspend on local authority capital expenditure; and lower social security spending resulting from the fall in unemployment.

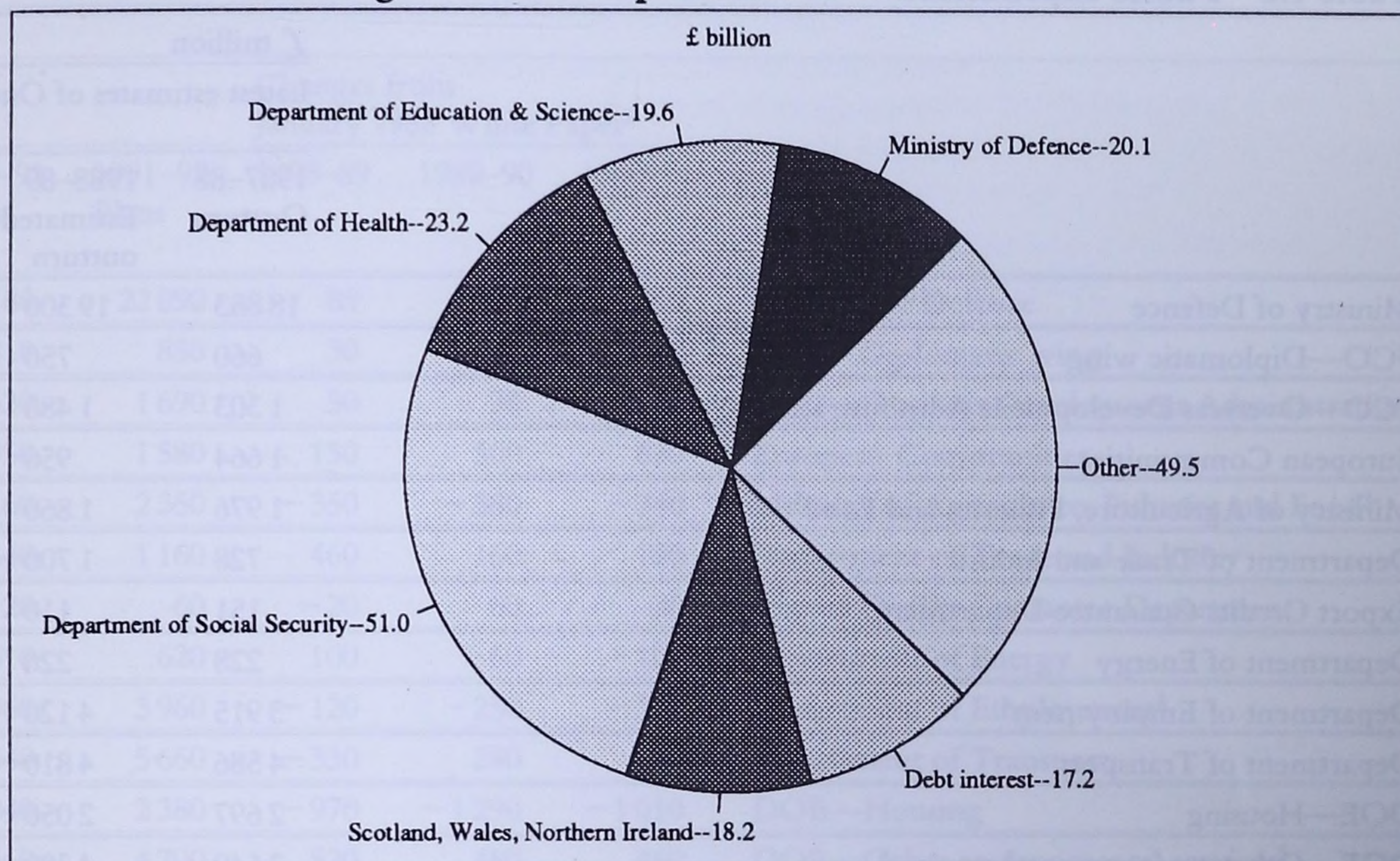
**The new plans**

1.15 Table 1.2 sets out the revised spending plans and the changes since Cm 288 for each departmental programme, including associated expenditure by local authorities and public corporations. Chart 1.3 shows the relative size of the main elements of GGE in 1989–90. The following paragraphs briefly describe the new plans.

1.16 There have been substantial increases in provision for the Government’s priority programmes. Within the unchanged planning total for 1989–90, £1¼ billion extra has been allocated to the National Health Service in England, £290 million for law and order and £220 million for roads in England. Appropriate additions have been made to the block budgets of Scotland, Wales and Northern Ireland. In total, after allowing for



Chart 1.3 General government expenditure in 1989–90



<sup>1</sup> Excluding privatisation proceeds

sales of surplus land, cost improvement savings, and lower NHS employers' superannuation contributions, the increase in resources for the Health Service in the UK will be over £2 billion. The plans provide for major investment programmes for those nationalised industries remaining in the public sector; but also reflect, in 1991–92 in particular, the disappearance from the public expenditure figures, following privatisation, of the substantial net repayments of external finance by the electricity and water industries. In addition, the plans for each year contain higher provision for local authority current expenditure, and substantial Reserves.

**1.17** These increases have been made possible, within a declining trend for public expenditure as a proportion of national income, by a rigorous reassessment of priorities, coupled with savings elsewhere. These savings stem, in particular, from the improved performance of the economy and continuing improvements in value for money. Falling unemployment reduces the rate of growth of social security expenditure, and makes savings possible on employment and training programmes. Progress in reform of the Common Agricultural Policy of the European Community is contributing to reductions in provision for agricultural market support. In addition, the nationalised industries have continued to strengthen their businesses and reduce the burden they place on tax payers; and the success of the Government's right to buy policy for local authority housing allows a reduction in net public expenditure provision to be combined with increased gross expenditure on housing by local and central government.

**1.18** Finally, the Government is now repaying the national debt and thus reducing the burden of debt interest. This allows spending on programmes to grow in real terms over the next three years at an average rate of 3¼ per cent, while total spending increases by only 1¾ per cent.



# 1 Public expenditure plans

**Table 1.2 Public expenditure<sup>1</sup>**

	£ million		
	Latest estimates of Outturn		
	1987-88 Outturn	1988-89 Estimated outturn	Changes 1987-88 to 1988-89
Ministry of Defence	18 853	19 300	450
FCO—Diplomatic wing	660	750	90
FCO—Overseas Development Administration	1 303	1 480	180
European Communities	1 664	950	- 710
Ministry of Agriculture, Fisheries and Food <sup>3</sup>	1 976	1 860	- 110
Department of Trade and Industry	728	1 700	980
Export Credits Guarantee Department	151	110	- 40
Department of Energy	228	220	- 10
Department of Employment <sup>4</sup>	3 915	4 120	210
Department of Transport	4 586	4 810	230
DOE—Housing	2 697	2 050	- 640
DOE—Other environmental services <sup>5</sup>	3 640	4 380	740
Home Office	5 702	6 280	580
Legal departments <sup>6</sup>	793	960	160
Department of Education and Science	17 081	18 440	1 360
Office of Arts and Libraries	889	980	90
Department of Health	19 716	21 740	2 020
Department of Social Security <sup>4</sup>	46 249	47 600	1 400
Scotland	8 087	8 720	630
Wales	3 330	3 600	270
Northern Ireland	4 926	5 160	240
Chancellor's departments	3 432	3 670	240
Other departments	296	360	70
Reserve			
Privatisation proceeds	- 5 161	- 6 000	- 840
Adjustment <sup>7</sup>		330	330
<b>Planning total</b>	<b>145 740</b>	<b>153 600</b>	<b>7 800</b>
General government gross debt interest	17 526	17 700	200
Other national accounts adjustments	8 230	9 600	1 400
<b>General government expenditure</b>	<b>171 496</b>	<b>180 900</b>	<b>9 400</b>

<sup>1</sup> The rounding and other conventions used in this table and Tables 1.6-8 are as follows: plan figures are rounded to the nearest £10 million, except for social security (in this table and Table 1.6), the planning and spending authority 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. Debt interest and other national accounts

adjustments for future years are rounded to the nearest £500 million. Outturn figures for 1988-89 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. In this Table and Tables 1.6, 1.7 and 1.8 some figures may be subject to detailed technical amendment before the publication of the 1989 public expenditure White Paper.



# 1 Public expenditure plans

New plans			Changes from January 1988 White Paper <sup>2</sup>			
1989-90 Plans	1990-91 Plans	1991-92 Plans	1988-89	1989-90	1990-91	
20 120	21 180	22 090	80	150	600	Ministry of Defence
770	810	850	30	30	50	FCO—Diplomatic wing
1 540	1 630	1 690	50	30	80	FCO—Overseas Development Administration
1 970	1 950	1 580	150	500	630	European Communities
1 950	2 160	2 350	-350	-380	-340	Ministry of Agriculture, Fisheries and Food <sup>3</sup>
1 360	1 340	1 160	460	160	190	Department of Trade and Industry
180	120	60	-20	60	30	Export Credits Guarantee Department
-250	-510	620	100	-60	-100	Department of Energy
4 020	3 960	3 960	-120	-250	-370	Department of Employment <sup>4</sup>
5 360	5 540	5 660	-330	240	330	Department of Transport
1 710	2 040	2 380	-970	-1 290	-1 010	DOE—Housing
4 480	4 560	4 700	520	480	460	DOE—Other environmental services <sup>5</sup>
6 900	7 220	7 390	230	610	760	Home Office
1 080	1 170	1 240	-20	30	60	Legal departments <sup>6</sup>
19 570	20 240	20 770	470	870	1 000	Department of Education and Science
980	1 010	1 050	70	30	30	Office of Arts and Libraries
23 160	24 380	25 390	1 060	1 460	1 700	Department of Health
51 000	55 300	58 700	-900	-100	1 700	Department of Social Security <sup>4</sup>
8 970	9 140	9 680	210	410	410	Scotland
3 790	3 900	4 010	140	240	230	Wales
5 470	5 690	5 910	20	140	180	Northern Ireland
4 080	4 280	4 490	-130	40	90	Chancellor's departments
320	340	350	100	70	70	Other departments
3 500	7 000	10 500	-3 500	-3 500	-3 500	Reserve
-5 000	-5 000	-5 000	-1 000	0	0	Privatisation proceeds
			330			Adjustment <sup>7</sup>
<b>167 100</b>	<b>179 400</b>	<b>191 600</b>	<b>-3 300</b>	<b>0</b>	<b>3 300</b>	<b>Planning total</b>
17 000	16 000	15 500	-500	-700	-1 300	General government gross debt interest
9 500	9 500	9 000	1 600	1 300	900	Other national accounts adjustments
<b>193 700</b>	<b>205 000</b>	<b>216 000</b>	<b>-2 200</b>	<b>600</b>	<b>2 900</b>	<b>General government expenditure</b>

<sup>2</sup> Plans as set out in the last public expenditure White Paper (Cm 288) adjusted for changes of classification and allocation.

<sup>3</sup> Includes Intervention Board for Agricultural Produce and Forestry Commission.

<sup>4</sup> Takes account of a transfer from Department of Employment to Department of Social Security of £50 million in 1989-90 and £80 million in 1990-91 to cover certain increased expenditure on administering benefits for the unemployed.

<sup>5</sup> Includes Water Services Office.

<sup>6</sup> Legal departments comprise: the Lord Chancellor's Department, the Northern Ireland Court Service, the Crown Prosecution Service, the Serious Fraud Office and the Crown Office.

<sup>7</sup> An adjustment for the difference between the assessment of the likely outturn for 1988-89 and the sum of the other items shown.



**Defence** 1.19 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. Provision for defence is being increased by about £150 million in 1989–90 to £20.1 billion, and will rise to £22.1 billion in 1991–92. This budget will provide a firm framework within which to plan for the UK's defence commitments over the next three years.

1.20 The UK's defence capability will continue to benefit from the substantial real increase in provision since 1978–79. Equipment orders since 1979 have included 64 major ships, 7 regiments of Challenger tanks and over 500 aircraft for the Royal Air Force.

1.21 A wide range of measures have been implemented to improve efficiency and value for money, particularly through more competitive procurement practices, and the contracting out of support services to the private sector. The latter has led to a reduction of over 13,000 posts since 1979 and an annual saving of some £50 million. Service manpower resources continue to be switched from support to front-line tasks. Further improvements in efficiency are planned to achieve specified targets over the three years to 1990–91.

**Foreign and  
Commonwealth Office  
(Diplomatic Wing)**

1.22 The FCO is responsible for the overseas representation of UK interests. It maintains 208 overseas posts, including delegations to international organisations, covering 165 countries. The Diplomatic Wing also administers expenditure on scholarships, information services and military training, and provides subscriptions to international organisations, and grants to non-governmental organisations including the British Council and the BBC external services.

1.23 Increased resources are being provided for scholarships and training of overseas students, for the BBC external services and for the running costs of the diplomatic service, offset by a reduction in the estimated sterling cost of overseas operations.

**Overseas Development  
Administration**

1.24 The net aid programme in 1989–90 is now set at £1,430 million. The new plans represent growth of almost 18 per cent by 1991–92 over previous plans for 1988–89, allowing significant real terms growth. The increases include provision for the full costs of the United Kingdom's interest subsidy contribution to the IMF Enhanced Structural Adjustment Facility, the expected costs of the recently agreed programme to alleviate the burden of debt on the poorest sub-Saharan African countries, and additions to bilateral aid. Provision is also made, outside the aid programme, to give credit for war service in the pensions of former colonial servants.

1.25 About 60 per cent of the aid programme is spent on bilateral aid, including both financial aid and technical co-operation, to over 120 countries. Over three-quarters of this goes to countries with an annual income per head of under \$800, many of which are in the Commonwealth. The main focus is on long term development, but emergency relief, including food aid for countries suffering from famine, is also provided. Approximately 40 per cent of the programme is provided as multilateral aid through channels such as the World Bank Group, the European Community and various United Nations agencies. Increasingly, efforts focus on assisting developing countries, particularly in sub-Saharan Africa, to undertake economic policy reforms to provide for sustainable growth.



- European Communities** 1.26 The increase in the projection of the United Kingdom's net payments to Community institutions reflects revised arrangements for the future financing of the Community, higher VAT contributions (reflecting the buoyancy of the economy) and higher customs duties (resulting from higher imports from third countries).
- Agriculture** 1.27 Spending on agriculture is largely determined by the Common Agricultural Policy (CAP) of the European Community. The Government's objective in Community negotiations is to bring spending under control and to continue to foster an efficient and competitive agricultural industry, taking account of the interests of producers, consumers and the rural economy and environment.
- 1.28 Provision for market support has been reduced as a result of the progress in reforming the CAP, the likely short term effects on agricultural prices of the drought in North America and the smaller than expected 1988 harvest in the United Kingdom. There are also savings from the lower than expected take-up of capital grants under the Agricultural Improvement Scheme; increased cost recovery from the chargeable advisory services; and reduced Government expenditure on near market research and development in favour of higher priority science and technology. Provision has been made for increased spending on flood prevention and forestry.
- Trade and Industry** 1.29 The Department's main objective is to encourage enterprise and wealth creation. Expenditure on business development under the Enterprise Initiative is expected to build up to £160 million by 1991-92. The new plans reflect the privatisation proposals for British Steel and the disposal of shipbuilding works. There are increases in provision for regional assistance, as a result of a surge in applications for Regional Development Grants before the scheme's closure. There are further increases for the Shipbuilding Intervention Fund and capital works for the relocation of some of the Department's activities away from London. Planned spending falls in 1991-92 principally because of the ending of launch aid commitments.
- Export Credits Guarantee Department** 1.30 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 of export finance at fixed rates of interest. These give rise to interest support costs, representing the difference between the fixed rate offered to exporters and the cost of funds to the banks as providers of the finance. The changes to the plans reflect the latest estimates of the cost of interest support and of tender to contract cover.
- Energy** 1.31 The plans for 1989-90 and 1990-91 provide for net reductions in the energy nationalised industries' external finance requirements. The increase in 1991-92 reflects the disappearance from the public expenditure figures (following the privatisation of the electricity industry in England and Wales) of the substantial net repayments of external finance by the industry. The changes in the departmental programme reflect the decisions on the fast reactor programme; there are also increases in provision for handling nuclear waste, offset by reductions in other nuclear research and development expenditure.



**Employment** 1.32 Most of the Department's expenditure is on programmes to help young people and the unemployed to find work, through training and in other ways. Some reductions in planned expenditure have been made to take account of the substantial and continuing fall in unemployment, but in real terms expenditure will still be about 60 per cent higher in 1989-90 than in 1978-79. The new plans include provision of £1.4 billion a year for the new Employment Training Scheme and around £1 billion a year for the Youth Training Scheme. There is increased provision for running costs, including measures to achieve better targeting of help for the unemployed.

**Transport** 1.33 The Department's aims are to increase efficiency and reduce unit costs of transport in both the public and private sectors, to protect and improve safety, to conserve the environment, and to advance UK transport interests abroad. Increases of over £100 million in 1989-90 and £140 million in 1990-91 have been allocated to build new trunk roads and motorways. Starts are planned for about 40 schemes in 1989-90 which will add more than 200 miles of new road. There are increases of about £70 million in 1989-90 and 1990-91 for trunk road maintenance. Nearly £50 million extra has been provided for bridge strengthening in 1989-90.

1.34 Capital provision for new local authority roads has also been increased, as has provision for public transport and airport facilities.

1.35 The departmental totals also include the external financing requirements of British Rail, London Regional Transport and the Civil Aviation Authority. For all three industries, the plans include substantial increases in provision for investment. The plans for British Rail include £200 million extra provision in 1989-90, for an investment programme covering in particular quality of service improvements on Network South East, electrification and preparations for Channel Tunnel services. Investment by London Regional Transport is increased by £150 million in 1989-90 over previous plans, to help deal with congestion and improve safety; and plans for the Civil Aviation Authority provide for accelerated investment to enhance the capacity of air traffic control.

**Housing** 1.36 Provision for gross capital investment in public sector housing has been set at over £4 billion a year, an increase of about £450 million on previous plans for 1989-90 and of about £350 million for 1990-91. Plans include increased spending by the Housing Corporation on new homes for rent, and by local authorities on renovation of their own stock through Estate Action.

1.37 The increase in gross provision is more than offset by higher forecast local authority receipts from council house sales to tenants under the Government's right to buy policy. Receipts are forecast at around £3½ billion a year, a substantial increase over previous forecasts.

**Other Environmental Services** 1.38 The plans include provision for expenditure on inner city regeneration and other environmental and recreational services. Provision has been increased by £50 million in 1989-90 for inner cities (including the Urban Development Corporations and City Grant), the countryside, heritage and environmental research.



**1.39** Additional provision is included for local authorities to meet the capital costs of preparing for the introduction of the community charge. The figures also reflect the effects of setting up the National Rivers Authority in 1989–90. Since the water industry will be privatised in that year, external finance for it is included for 1989–90 only. Increases in gross spending are offset in part by higher local authority and new town receipts.

**Home Office** **1.40** The Government's main aim is to sustain the rule of law by preventing crime, securing conviction of the guilty and giving proper effect to the sentences or orders imposed by the courts. An extra £260 million has been provided for central government spending in 1989–90, with £370 million in 1990–91, principally for a further expansion of the prison building programme. This will provide 3,000 extra places between 1988–89 and 1991–92 in new prisons and in extra accommodation at existing prisons. In addition, the Government published in July a consultation paper on the development of measures to extend alternatives to custody (Cm 424). Provision for local authority expenditure, largely for the police, has also been substantially increased (by £350 million in 1989–90).

**Legal departments** **1.41** Spending on legal aid is expected to increase, and additional resources have been provided for this and also for court building and handling of court business. Planned spending on the Crown Prosecution Service and the Serious Fraud Office has also been increased.

**Education and Science** **1.42** Total spending of about £19.6 billion is planned for 1989–90, most of it by local authorities. In the schools, expenditure per pupil has risen by some 30 per cent in real terms since the beginning of the decade. The Government's education reforms will help to ensure that full value is obtained for this expenditure. Increased allocations for local authority capital spending on schools will allow a continued programme of school improvements.

**1.43** In higher education, participation is expected to go on rising from its present record level. The number of first degrees awarded is expected to be around 135,000 in 1990, more than 25 per cent up on a decade earlier. More money has been made available for universities and to put the polytechnics and colleges on a sound footing for their new independent status. Substantial extra spending on the science budget is planned (see paragraph 1.68).

**Arts and Libraries** **1.44** The Government's policy of encouraging greater private sector sponsorship of the arts has achieved substantial results. The three year expenditure plan has been rolled forward, with additions, to 1991–92 and there are further increases in incentive funding. There is extra provision for the British Library's new building project. Increased provision has also been made for local authority expenditure on libraries, museums and galleries.

**Health** **1.45** An increase of £1,250 million has been made on the previous plans for the NHS in England in 1989–90, with an addition of £1,470 million in 1990–91. In addition, the health service will have available extra cash released by a new round of cost improvement programmes, income generation schemes and higher receipts from land and property sales. The Government is also implementing a recommendation by the Government Actuary that employers' contributions to the NHS superannuation scheme in England and Wales should be reduced from 7½ per cent to 4 per cent. Taking all these factors into account, the resources available to the NHS in



England have been increased by £1¼ billion in 1989–90 and over £2 billion in 1990–91, and will be about 4½ per cent higher in real terms in 1989–90 than in 1988–89. The corresponding increases for the UK as a whole are over £2 billion and over £2½ billion respectively.

**1.46** Total current expenditure on hospital and community health services in England is planned to rise from £12,640 million in 1988–89 to £13,500 million in 1989–90 and £14,650 million in 1991–92. This increase will allow health authorities to expand services significantly while keeping their income and expenditure in balance. Full provision has been made for the costs of the 1988 pay review body awards and the nurses' clinical grading review. Increases have also been made on account of rising costs associated with AIDS and for the introduction of new nurse training courses following the Government's response to the 'Project 2000' proposals.

**1.47** Provision for gross capital expenditure on hospital and community health services has been increased by £170 million next year, so that health authorities will have 16 per cent more resources for capital spending in 1989–90 than previously planned.

**1.48** Provision for the Family Practitioner Service allows for higher forecast demand and further service improvements. There is also increased provision for local authority spending on personal social services of about £210 million in 1989–90 and £230 million in 1990–91.

### Social Security

**1.49** The new plans reflect the latest estimate of benefit expenditure over the Survey period. They imply an average increase of some 2 per cent a year more than the assumed increase in prices, and take account of the statement on benefits by the Secretary of State on 27 October 1988. In his statement the Secretary of State announced that all benefits, with the exception of child benefit, would be uprated in April 1989 at least in line with the increase in prices for the year to September 1988. This uprating more than meets the Government's pledge to correct the effect on benefit rates of the RPI error discovered in November 1987. The plans also provide for further upratings of benefits in April 1990 and April 1991. For this purpose the RPI is assumed to rise by 5½ per cent in the year to September 1989 (for the upratings in April 1990) and by 4 per cent in the year to September 1990 (for the upratings in April 1991). The number of unemployed (GB, excluding school leavers etc) is assumed to average 2.1 million in 1988–89 and 1.9 million in 1989–90, 1990–91, and 1991–92.

**1.50** The lower unemployment assumption (and the tightening up of the benefit regime) saves over £1½ billion in each year. However, there are offsetting increases in the programme. Notably, provision is included for the extra cost of special assistance to low income families announced by the Secretary of State on 27 October 1988; changes to housing benefit announced by the Secretary of State on 27 April 1988; and help for income support claimants towards their average 20 per cent payments of rates (in England and Wales in 1989–90) and community charge. The provision for disability benefits has also increased substantially to meet the cost of the expected increase in take-up. These increases offset the savings from lower unemployment leaving the programme broadly unchanged in 1989–90 compared with provision in Cm 288, and £1.7 billion higher in 1990–91.



### Scotland, Wales and Northern Ireland

**1.51** The net changes in these programmes mainly reflect the effects of changes in comparable programmes for England. The Secretaries of State will allocate this expenditure taking account of local factors. The allocation between central government, local authorities and public corporations is based on previous patterns of expenditure and may be varied, except in the case of local authority relevant expenditure in 1989–90, where the provision for Scotland and Wales is as announced in July in the RSG settlement for that year. For the later years the Scottish and Welsh local authority relevant figures reflect changes in the comparable totals for England.

### Chancellor's departments

**1.52** The main changes to spending by the Chancellor's departments are in Inland Revenue and Customs running costs. Most of the increase for Inland Revenue is to provide for the introduction of Independent Taxation and for the continued development of the Revenue's successful computer systems. The increase required is offset by substantial efficiency savings. The growth in the provision for Customs is to meet the growth in forecast workload (particularly to combat drug trafficking) but subsumes cumulative efficiency savings of about 2½ per cent a year.

### Other departments

**1.53** This includes a miscellany of minor departments and programmes. There is provision for expenditure on the 1991 Census by the Office of Population Censuses and Surveys.

## Local authorities

### Current

**1.54** Local authorities' public expenditure relevant for Aggregate Exchequer Grant accounts for over three-quarters of total local authority spending in Great Britain. Authorities have budgeted to exceed provision for this spending in the 1988 public expenditure White Paper by £1.2 billion in 1988–89. Provision for the three forward years shows annual increases of 4.8 per cent, 3.5 per cent and 3.0 per cent from the estimated outturn for 1988–89, adjusted for changes in local authority responsibilities. The allocation to services is based broadly on authorities' budgets for 1988–89.

**1.55** Aggregate Exchequer Grant to local authorities of £17.4 billion for 1989–90 has been proposed, as the Secretaries of State for the Environment, Scotland and Wales announced in July 1988.

**1.56** Local authorities' other current expenditure consists largely of Housing Benefit and Student Awards which are supported by specific grants from central government. The plans reflect estimates of the costs of Housing Benefit. They take into account the proposed changes in benefit entitlement announced by the Secretary of State for Social Services on 27 October 1988.



**Capital** 1.57 Local authority gross capital spending in Great Britain in 1988–89 is forecast to be £8.1 billion. After allowing for capital receipts, net spending is forecast to be £3.4 billion.

1.58 Gross provision in 1989–90 has been increased by £0.6 billion to £7.4 billion and gross provision of £6.9 billion and £6.8 billion has been set for 1990–91 and 1991–92. Within this provision the amount issued as allocations will take account of the expected use by local authorities of increased spending power available to them from other sources, notably capital receipts.

1.59 For the main local authority capital block in England, allocations of £2.5 billion will be issued in 1989–90. Of the total, housing authorities will receive £1.1 billion. Allocations for other services include £135 million to allow for the costs of implementing the community charge.

### Nationalised industries

1.60 The estimated outturn for nationalised industries' external finance for 1988–89 is £400 million, £290 million lower than the plans in Cm 288. The decrease reflects a number of changes, notably an improved trading performance, which has led in particular to lower than expected external financing requirements for British Rail and British Steel.

1.61 External financing limits (EFLs) for the nationalised industries in 1989–90 are listed in Table 1.3. Investment plans have been substantially increased, particularly in the water and transport industries: for 1989–90 the increase is over £650 million. Over the period 1988–89 to 1991–92, investment by those industries remaining in the public sector throughout the period is expected to increase by over £500 million (about 30 per cent).

1.62 Despite the substantial level of investment planned, total provision for nationalised industries' EFLs is expected to decline in 1989–90 and 1990–91, with net repayments of debt overall in these two years (Table 1.8). The increase in 1991–92 reflects the disappearance from the public expenditure figures, following privatisation, of the substantial negative external finance of the electricity industry. However, the trend excluding the effects of privatisation remains downward (see footnote 3 to Table 1.8).

1.63 This trend is in line with the Government's objective of minimising the burden which the industries place on the taxpayer, and strengthening them as businesses earning an adequate rate of return. External finance for nationalised industries has already been significantly reduced, from nearly £3 billion in 1979–80 to an estimated £400 million in 1988–89. The Government will continue to require improvements in the industries' profitability and will encourage progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.



Table 1.3 External financing limits for the nationalised industries, 1989–90

	£ million <sup>1</sup>
British Coal	560
British Railways Board	439
British Shipbuilders	– 1
British Waterways Board	48
Civil Aviation Authority	47
Electricity (England and Wales)	– 1300
Electricity (Scotland) <sup>2</sup>	– 60
London Regional Transport	287
Post Office	– 91
Scottish Transport Group	– 5
Water (England and Wales) <sup>3</sup>	40
<b>Total</b>	<b>– 35</b>

<sup>1</sup> Figures are shown rounded to the nearest £1 million.

<sup>2</sup> Separate EFLs for the two Scottish Electricity Boards will be determined in due course.

<sup>3</sup> Allowance for external financing for the regional Water Authorities. Figures will depend on the actual timing of the establishment of the National Rivers Authority (see paragraph 1.39) and privatisation during 1989–90.

## Other public corporations

**1.64** This includes 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 and the Northern Ireland Housing Executive. Substantial increases to provision have been made for UDCs. These are more than offset in 1989–90 by an increased estimate of receipts by new towns.

## Privatisation

**1.65** The estimate of net proceeds for 1988–89 from the privatisation programme is £6 billion. The estimate of net proceeds is £5 billion for 1989–90 and 1990–91, 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, Charts 1.1 and 1.2 show trends in expenditure both including and excluding privatisation proceeds.

## Reserves

**1.66** The plans include Reserves of £3.5 billion in 1989–90, £7 billion in 1990–91 and £10.5 billion in 1991–92. These will be available to meet unforeseen requirements.

## Debt interest

**1.67** General government gross debt interest is projected to fall from about £17¾ billion in 1988–89 to about £15½ billion in 1991–92 (see Table 1.4). Following the reduction in government borrowing in recent years, and now the move into Budget surplus, 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 2¾ per cent by 1991–92.



**Table 1.4 General government debt interest**

	1986-87 Outturn	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Projection	1990-91 Projection	1991-92 Projection
	£ billion					
General government gross debt interest <sup>1</sup>	17.6	17.5	17.7	17	16	15½
General government interest and dividend receipts	6.0	6.0	6.4	6½	6½	6½
General government net debt interest	11.6	11.6	11.3	10½	9½	9
	Per cent of GDP					
General government gross debt interest	4½	4¼	3¾	3½	3	2¾
General government net debt interest	3	2¾	2½	2	1¾	1½
<sup>1</sup> Of which: Servicing of indexed securities (gilts plus national savings)	1.1	1.3	1.4	1.6	1.7	1.8

### Science and technology

**1.68** Science and technology expenditure within departmental programmes has been reviewed in the Survey. The new plans reallocate resources towards increased funding of basic and long term strategic research by the universities and Research Councils. Overall an extra £130 million a year has been added to planned spending on civil science and technology in 1989-90. Most of the increase benefits the DES science budget, which will grow by 16 per cent between 1988-89 and 1989-90.

### Capital spending

**1.69** Extra provision of about £2¼ billion has been made for capital spending in 1989-90. This includes large increases for investment in hospitals, housing, prisons and roads. In addition, increased investment by the nationalised industries includes expenditure on measures by the water authorities to combat pollution and by London Regional Transport to reduce congestion and improve safety.

### Value for money

**1.70** The Government attaches very 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 1989, will include information on the output and performance of departmental programmes and will include details of performance against specific targets.



**1.71** Since 1979 efficiency scrutinies have saved over £1.4 billion on a cumulative basis. In 1988–89 departments aim to achieve value for money improvements in purchasing and supply totalling some £340 million, while market testing and contracting out are now saving some £40 million a year. In February 1988 the Government announced that it had accepted four main recommendations in the Efficiency Unit's report "Improving Management in Government: The Next Steps". The resulting programme to create agencies to carry out the executive functions of Government will lead to further improvements in civil service efficiency.

**1.72** The Government will continue to encourage improvements in value for money throughout the public sector. This is already producing results and pointing the way to achieving more. For example, in the National Health Service cost improvement programmes are expected to yield over £700 million in England by the end of the current financial year. In local authorities, value for money improvements of over £200 million a year have been achieved following work by the Audit Commission; and the Commission has identified scope for achieving a further £½ billion. 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 growth in the economy as a whole.

### **Changes in the presentation of public spending plans**

**1.73** Two new developments have been announced over the past year. First, in a White Paper published in May 1988 ("Financial Reporting to Parliament" Cm 375), the Government put forward proposals for restructuring the Autumn Statement and public expenditure White Paper (PEWP). This Autumn Statement accordingly now contains most of the general information on the Government's spending plans previously contained in Chapter 1 of the PEWP.

**1.74** The 1989 PEWP will be published as usual in January, but its role will be principally to spell out the details of individual departmental programmes. The individual chapters will be published in separate volumes. This will provide a stepping stone to the eventual production of departmental reports, which will replace the PEWP. It will also enable those interested in a particular department to obtain only that volume.

**1.75** Secondly, a White Paper published in July 1988 ("A New Public Expenditure Planning Total", Cm 441) proposed a new definition of the planning total, to include only those elements of spending for which central government is responsible, and exclude that expenditure which local authorities finance or determine themselves. The new planning total is to be introduced in the 1989 public expenditure Survey and will first appear in the 1989 Autumn Statement.



### Further information

1.76 Tables 1.5 to 1.8 show the new plans broken down into spending by the three spending authorities: central government, local authorities and public corporations (including nationalised industries). Table 1.5 shows in addition the differences between the planning total and general government expenditure. Tables 1.9 and 1.10 show expenditure by department, from 1978–79 to 1991–92, in cash and real terms. Table 1.11 shows how the new plans compare with those published in previous years. Table 1.12 shows how the ratios of GGE to GDP projected on the basis of the new plans compare with those projected in previous plans.

**Table 1.5 Public expenditure totals**

	£ billion					
	1986–87 Outturn	1987–88 Outturn	1988–89 Estimated outturn	1989–90 Plans	1990–91 Plans	1991–92 Plans
Central government <sup>1,2</sup>	104.7	109.4	115.0	123.5	131.0	136.6
Local authorities <sup>1,2</sup>	38.0	40.7	43.2	44.1	45.7	47.3
Public corporations <sup>1,2</sup>	1.1	0.8	1.0	0.9	0.8	2.2
Reserve				3.5	7.0	10.5
Privatisation proceeds Adjustment <sup>3</sup>	-4.5	-5.2	-6.0	-5.0	-5.0	-5.0
<b>Planning total</b>	<b>139.3</b>	<b>145.7</b>	<b>153.6</b>	<b>167.1</b>	<b>179.4</b>	<b>191.6</b>
General government gross debt interest	17.6	17.5	17.7	17.0	16.0	15.5
Other national accounts adjustments	7.5	8.2	9.6	9.5	9.5	9.0
<b>General government expenditure</b>	<b>164.4</b>	<b>171.5</b>	<b>180.9</b>	<b>193.7</b>	<b>205.0</b>	<b>216.0</b>

<sup>1</sup>The figures for spending authorities for 1989–90, 1990–91 and 1991–92 make no allowance for allocations from the Reserve.

<sup>2</sup>Central and local government finance for public corporations is included in the public corporations line.

<sup>3</sup>See footnote 7 to Table 1.2.



Table 1.6 Central government spending<sup>1</sup>

	£ million								
	Latest estimates of outturn			New plans			Changes from January 1988 White Paper		
	1987-88 Outturn	1988-89 Estimated outturn	Changes 1987-88 to 1988-89	1989-90 Plans	1990-91 Plans	1991-92 Plans	1988-89	1989-90	1990-91
Ministry of Defence	18 853	19 300	450	20 120	21 180	22 090	80	150	600
FCO—Diplomatic wing	660	750	90	770	810	850	30	30	50
FCO—Overseas Development Administration	1 304	1 450	150	1 510	1 600	1 660	50	30	80
European Communities	1 664	950	-710	1 970	1 950	1 580	150	500	630
Ministry of Agriculture, Fisheries and Food	1 795	1 650	-140	1 710	1 930	2 120	-340	-400	-340
Department of Trade and Industry	900	1 820	920	1 330	1 280	1 130	560	70	80
Export Credits Guarantee Department	151	110	-40	180	120	60	-20	60	30
Department of Energy	575	530	-50	490	410	360	20	30	-20
Department of Employment	3 783	3 990	200	3 880	3 810	3 810	-120	-250	-380
Department of Transport	1 373	1 430	60	1 780	1 880	1 940	-30	290	350
DOE—Housing	1 301	1 380	80	1 410	1 630	1 920	60	20	160
DOE—Other environmental services	468	510	40	650	670	670	20	190	200
Home Office	992	1 150	160	1 430	1 570	1 560	30	260	370
Legal departments	793	960	160	1 080	1 170	1 240	-20	30	60
Department of Education and Science	2 694	2 970	280	4 280	4 400	4 460	30	270	280
Office of Arts and Libraries	369	420	50	440	450	480	0	0	0
Department of Health	16 654	18 380	1 730	19 720	20 830	21 730	840	1 250	1 470
Department of Social Security	42 522	43 600	1 100	46 300	50 200	53 200	-800	-500	1 100
Scotland <sup>2</sup>	3 459	3 800	350	3 850	4 060	4 220	110	130	190
Wales <sup>2</sup>	1 539	1 710	180	1 860	1 920	1 980	50	140	140
Northern Ireland <sup>2</sup>	3 799	4 060	260	4 290	4 480	4 650	60	110	140
Chancellor's departments	3 438	3 670	230	4 090	4 290	4 500	-130	40	90
Other departments	296	360	70	320	340	350	100	70	70
<b>Total</b>	<b>109 380</b>	<b>115 000</b>	<b>5 600</b>	<b>123 500</b>	<b>131 000</b>	<b>136 600</b>	<b>700</b>	<b>2 500</b>	<b>5 400</b>

<sup>1</sup> Figures exclude finance for public corporations. See also footnotes to Table 1.2.<sup>2</sup> See paragraph 1.51.



Table 1.7 Local authority spending<sup>1</sup>

	£ million								
	Latest estimates of outturn			New plans			Changes from January 1988 White Paper		
	1987-88 Outturn	1988-89 Estimated outturn	Changes 1987-88 to 1988-89	1989-90 Plans	1990-91 Plans	1991-92 Plans	1988-89	1989-90	1990-91
Ministry of Agriculture, Fisheries and Food	179	190	10	220	230	230	-10	20	20
Department of Trade and Industry	86	100	10	100	100	110	0	0	10
Department of Employment	127	140	10	140	150	150	10	0	0
Department of Transport	2 530	2 560	30	2 750	2 820	2 900	-90	30	20
DOE—Housing	1 406	730	-670	310	380	390	-960	-1 230	-1 080
DOE—Other environmental services	3 230	3 870	640	3 750	3 660	3 780	500	280	120
Home Office	4 710	5 130	420	5 470	5 660	5 830	200	350	390
Department of Education and Science	14 387	15 470	1 080	15 290	15 840	16 310	440	600	720
Office of Arts and Libraries	520	560	40	540	560	570	60	20	30
Department of Health	3 050	3 340	290	3 430	3 550	3 660	220	210	230
Department of Social Security	3 727	3 970	250	4 640	5 080	5 470	-30	390	590
Scotland <sup>2</sup>	4 253	4 580	320	4 760	4 860	5 010	170	260	230
Wales <sup>2</sup>	1 714	1 780	70	1 820	1 870	1 930	100	90	100
Northern Ireland <sup>2</sup>	782	820	40	870	900	940	0	20	30
<b>Total</b>	<b>40 701</b>	<b>43 200</b>	<b>2 500</b>	<b>44 100</b>	<b>45 700</b>	<b>47 300</b>	<b>600</b>	<b>1 100</b>	<b>1 400</b>
of which:—									
Relevant expenditure <sup>3</sup>	31 985	34 400	2 500	35 200	36 500	37 500	1 200	1 700	2 000
Other current	5 071	5 400	300	6 100	6 600	7 000	0	400	600
Capital	3 645	3 400	-200	2 800	2 600	2 700	-600	-1 100	-1 200

<sup>1</sup> Figures exclude finance for public corporations. See also footnotes to Table 1.2<sup>2</sup> See paragraph 1.51.<sup>3</sup> Public expenditure relevant for Aggregate Exchequer Grant.



Table 1.8 Public corporations<sup>1</sup>

	£ million								
	Latest estimates of outturn			New plans			Changes from January 1988 White Paper		
	1987-88 Outturn	1988-89 Estimated outturn	Changes 1987-88 to 1988-89	1989-90 Plans	1990-91 Plans	1991-92 Plans	1988-89	1989-90	1990-91
FCO—Overseas Development Administration	0	30	30	30	30	30	0	0	0
Ministry of Agriculture, Fisheries and Food	2	20	20	20	0	0	0	0	-20
Department of Trade and Industry	-258	-210	50	-70	-50	-70	-110	80	100
Department of Energy	-347	-310	30	-740	-920	270	80	-100	-80
Department of Employment	5	0	0	0	0	0	0	0	0
Department of Transport	682	820	140	830	840	810	-220	-70	-40
DOE—Housing	-10	-60	-50	-10	20	70	-80	-90	-90
DOE—Other environmental services	-57	10	60	80	230	250	10	0	140
Department of Health	12	10	0	0	0	0	0	0	0
Scotland <sup>2</sup>	375	340	-40	350	220	450	-60	20	-10
Wales <sup>2</sup>	78	100	20	110	100	100	0	10	-10
Northern Ireland <sup>2</sup>	345	280	-60	310	310	320	-40	10	10
Chancellor's departments	-7	0	0	-10	-10	-10	0	0	0
<b>Total<sup>3</sup></b>	<b>820</b>	<b>1 020</b>	<b>200</b>	<b>900</b>	<b>770</b>	<b>2 220</b>	<b>-420</b>	<b>-140</b>	<b>10</b>
of which:—									
Nationalised industries	268	400	130	-30	-400	980	-290	0	-10
Other public corporations	552	630	70	930	1 170	1 240	-130	-140	20

<sup>1</sup> See footnotes to Table 1.2. For nationalised industries and most public corporations, the planning total includes their external finance. For nationalised industries' external financing limits for 1989-90, see Table 1.3.

<sup>2</sup> See paragraph 1.51.

<sup>3</sup> For nationalised industries to be privatised, provision is included in plans as follows: Water (England and Wales) up to and including 1989-90; Electricity (England, Wales and Scotland) up to and including 1990-91. Precise external financing requirements

will depend on the timing of reorganisation and privatisations. Excluding these industries figures for the remaining industries are: 1989-90 £1,280m; 1990-91 £1,120m; 1991-92 £980m.



Table 1.9. Public expenditure by department, 1978-79 to 1991-92<sup>1</sup>

	£ billion										
	1978-79 Outturn	1982-83 Outturn	1983-84 Outturn	1984-85 Outturn	1985-86 Outturn	1986-87 Outturn	1987-88 Outturn	1988-89 Estimated outturn	1989-90 Plans	1990-91 Plans	1991-92 Plans
Ministry of Defence	7.5	14.4	15.5	17.2	18.0	18.2	18.9	19.3	20.1	21.2	22.1
FCO—Diplomatic wing	0.3	0.5	0.5	0.6	0.6	0.6	0.7	0.8	0.8	0.8	0.8
FCO—Overseas Development Administration	0.8	1.0	1.2	1.2	1.2	1.3	1.3	1.5	1.5	1.6	1.7
European Communities	0.8	0.6	0.8	1.0	0.8	1.1	1.7	1.0	2.0	1.9	1.6
Ministry of Agriculture, Fisheries and Food	0.8	1.8	2.0	2.0	2.4	1.8	2.0	1.9	1.9	2.2	2.4
Department of Trade and Industry	1.8	1.9	1.5	1.6	1.5	2.1	0.7	1.7	1.4	1.3	1.2
Export Credits Guarantee Department	0.4	0.3	0.3	0.5	0.3	0.3	0.2	0.1	0.2	0.1	0.1
Department of Energy	0.6	0.9	1.1	2.6	0.7	-0.2	0.2	0.2	-0.2	-0.5	0.6
Department of Employment	1.1	2.4	2.9	3.1	3.4	3.9	3.9	4.1	4.0	4.0	4.0
Department of Transport	2.6	4.3	4.3	4.6	4.6	4.7	4.6	4.8	5.4	5.5	5.7
DOE—Housing	3.6	2.7	3.2	3.3	3.0	2.8	2.7	2.1	1.7	2.0	2.4
DOE—Other environmental services	2.3	3.6	3.8	4.0	3.9	4.0	3.6	4.4	4.5	4.6	4.7
Home Office	1.9	3.8	4.1	4.7	4.7	5.1	5.7	6.3	6.9	7.2	7.4
Legal departments	0.2	0.4	0.4	0.5	0.6	0.7	0.8	1.0	1.1	1.2	1.2
Department of Education and Science	7.7	12.7	13.4	13.9	14.4	15.7	17.1	18.4	19.6	20.2	20.8
Office of Arts and Libraries	0.3	0.6	0.6	0.7	0.7	0.8	0.9	1.0	1.0	1.0	1.1
Department of Health	7.4	13.9	14.7	15.8	16.6	17.9	19.7	21.7	23.2	24.4	25.4
Department of Social Security	16.4	32.5	35.2	38.1	41.5	44.4	46.2	47.6	51.0	55.3	58.7
Scotland	3.9	6.5	6.8	7.1	7.2	7.7	8.1	8.7	9.0	9.1	9.7
Wales	1.6	2.5	2.7	2.7	2.8	3.1	3.3	3.6	3.8	3.9	4.0
Northern Ireland	2.2	3.6	3.8	4.1	4.4	4.6	4.9	5.2	5.5	5.7	5.9
Chancellor's departments	1.4	2.6	2.5	2.6	2.8	3.2	3.4	3.7	4.1	4.3	4.5
Other departments	0.4	0.6	0.1	0.2	0.2	0.2	0.3	0.4	0.3	0.3	0.3
Reserve									3.5	7.0	10.5
Privatisation proceeds		-0.5	-1.1	-2.2	-2.7	-4.5	-5.2	-6.0	-5.0	-5.0	-5.0
Adjustment								0.3			
<b>Planning total</b>	<b>65.7</b>	<b>113.6</b>	<b>120.4</b>	<b>129.9</b>	<b>133.8</b>	<b>139.3</b>	<b>145.7</b>	<b>153.6</b>	<b>167.1</b>	<b>179.4</b>	<b>191.6</b>
General government gross debt interest	7.4	13.9	14.5	16.1	17.7	17.6	17.5	17.7	17.0	16.0	15.5
Other national accounts adjustments	1.8	5.2	5.5	4.7	6.7	7.5	8.2	9.6	9.5	9.5	9.0
General government expenditure	75.0	132.6	140.4	150.6	158.2	164.4	171.5	180.9	193.7	205.0	216.0
General government expenditure (excluding privatisation proceeds)	75.0	133.1	141.6	152.8	160.9	168.9	176.7	186.9	198.7	210.0	221.0

<sup>1</sup> The departmental figures for 1989-90, 1990-91 and 1991-92 make no allowance for allocations from the Reserve. See also footnotes to Table 1.2.



**Table 1.10 Public expenditure in real terms<sup>1</sup> by department, 1978–79 to 1991–92<sup>2</sup>**

	£ billion (at 1987–88 prices)										
	1978–79 Outturn	1982–83 Outturn	1983–84 Outturn	1984–85 Outturn	1985–86 Outturn	1986–87 Outturn	1987–88 Outturn	1988–89 Estimated outturn	1989–90 Plans	1990–91 Plans	1991–92 Plans
Ministry of Defence	15.4	18.1	18.6	19.7	19.5	19.1	18.9	18.2	18.0	18.3	18.6
FCO—Diplomatic wing	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
FCO—Overseas Development Administration	1.6	1.3	1.4	1.4	1.4	1.4	1.3	1.4	1.4	1.4	1.4
European Communities	1.5	0.7	1.0	1.1	0.9	1.1	1.7	0.9	1.8	1.7	1.3
Ministry of Agriculture, Fisheries and Food	1.6	2.3	2.4	2.3	2.6	1.9	2.0	1.8	1.7	1.9	2.0
Department of Trade and Industry	3.7	2.4	1.8	1.8	1.7	2.2	0.7	1.6	1.2	1.2	1.0
Export Credits Guarantee Department	0.7	0.4	0.3	0.6	0.4	0.3	0.2	0.1	0.2	0.1	0.1
Department of Energy	1.1	1.1	1.3	3.0	0.7	−0.2	0.2	0.2	−0.2	−0.4	0.5
Department of Employment	2.2	3.0	3.5	3.6	3.7	4.1	3.9	3.9	3.6	3.4	3.3
Department of Transport	5.4	5.5	5.2	5.3	5.0	4.9	4.6	4.5	4.8	4.8	4.8
DOE—Housing	7.3	3.4	3.8	3.7	3.2	3.0	2.7	1.9	1.5	1.8	2.0
DOE—Other environmental services	4.6	4.5	4.6	4.5	4.3	4.2	3.6	4.1	4.0	3.9	4.0
Home Office	3.8	4.7	5.0	5.3	5.2	5.4	5.7	5.9	6.2	6.3	6.2
Legal departments	0.3	0.5	0.5	0.6	0.6	0.7	0.8	0.9	1.0	1.0	1.0
Department of Education and Science	15.9	16.0	16.2	16.0	15.7	16.5	17.1	17.4	17.5	17.5	17.5
Office of Arts and Libraries	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Department of Health	15.2	17.5	17.7	18.1	18.1	18.9	19.7	20.5	20.8	21.1	21.3
Department of Social Security	33.7	40.9	42.4	43.7	45.1	46.8	46.2	44.8	45.7	47.9	49.3
Scotland	8.0	8.2	8.2	8.2	7.9	8.1	8.1	8.2	8.0	7.9	8.1
Wales	3.2	3.2	3.2	3.1	3.0	3.2	3.3	3.4	3.4	3.4	3.4
Northern Ireland	4.4	4.5	4.6	4.7	4.8	4.8	4.9	4.9	4.9	4.9	5.0
Chancellor's departments	3.0	3.3	3.0	3.0	3.1	3.3	3.4	3.5	3.7	3.7	3.8
Other departments	0.8	0.8	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3
Reserve									3.1	6.1	8.8
Privatisation proceeds		−0.6	−1.4	−2.5	−2.9	−4.7	−5.2	−5.6	−4.5	−4.3	−4.2
Adjustment								0.3			
<b>Planning total</b>	<b>134.9</b>	<b>143.0</b>	<b>145.0</b>	<b>148.9</b>	<b>145.6</b>	<b>146.7</b>	<b>145.7</b>	<b>144.6</b>	<b>149.7</b>	<b>155.4</b>	<b>161.1</b>
General government expenditure	153.8	167.0	169.2	172.7	172.1	173.1	171.5	170.2	173.6	177.5	181.6
General government expenditure (excluding privatisation proceeds)	153.8	167.6	170.5	175.2	175.0	177.8	176.7	175.9	178.1	181.9	185.8
GDP deflator (% increase on previous year)		7.1	4.6	5.1	5.4	3.3	5.3	6½	5	3½	3
(1987–88 = 100)	48.7	79.4	83.0	87.2	91.9	95.0	100.0	106.2	111.6	115.5	118.9

<sup>1</sup> Cash figures adjusted to 1987–88 price levels by excluding the effect of general inflation as measured by the GDP deflator.

<sup>2</sup> The departmental figures for 1989–90, 1990–91 and 1991–92 make no allowance for allocations from the Reserve. See also footnotes to Table 1.2.



# 1 Public expenditure plans

**Table 1.11 Public expenditure planning total<sup>1</sup>; plans and outturn**

	£ billion										
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92		
March 1982 White Paper (Cmnd 8494)	120.8	127.8									Plans
February 1983 White Paper (Cmnd 8789)	119.7	126.6	132.4								
February 1984 White Paper (Cmnd 9143)	<b>120.5</b>	126.6	132.2	136.8							Outturn
January 1985 White Paper (Cmnd 9428)	<b>120.4</b>	<b>128.3</b>	132.2	136.9	141.7						
January 1986 White Paper (Cmnd 9702)	<b>120.4</b>	<b>129.7</b>	<b>134.3</b>	139.2	144.0	148.8					
January 1987 White Paper (Cm 56)	<b>120.4</b>	<b>129.9</b>	<b>133.7</b>	<b>140.5</b>	148.7	154.3	161.5				
January 1988 White Paper (Cm 288)	<b>120.4</b>	<b>129.9</b>	<b>133.8</b>	<b>139.3</b>	<b>147.4</b>	156.9	167.1	176.1			
This Autumn Statement	<b>120.4</b>	<b>129.9</b>	<b>133.8</b>	<b>139.3</b>	<b>145.7</b>	<b>153.6<sup>2</sup></b>	167.1	179.4	191.6		

<sup>1</sup>Public expenditure planning total on current definitions.

<sup>2</sup>Estimated.

**Table 1.12 General government expenditure<sup>1</sup>; plans and outturn**

	per cent of GDP										
	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92		
March 1984 FSBR <sup>2</sup>	<b>46</b>	45	44	43							Plans
March 1985 FSBR <sup>2</sup>	<b>46</b>	<b>46½</b>	<b>45¾</b>	44	43						
January 1986 White Paper (Cmnd 9702)	<b>46½</b>	<b>46½</b>	<b>45</b>	44	43	42½					Outturn
January 1987 White Paper (Cm 56)	<b>46½</b>	<b>46½</b>	<b>44¾</b>	<b>44½</b>	44	42¾	42½				
January 1988 White Paper (Cm 288)	<b>46</b>	<b>46½</b>	<b>44½</b>	<b>44</b>	<b>42½</b>	42	41¾	41½			
This Autumn Statement	<b>45¾</b>	<b>46½</b>	<b>44½</b>	<b>43¾</b>	<b>41½</b>	<b>39¾<sup>3</sup></b>	39½	39	38¾		

<sup>1</sup>Excluding privatisation proceeds.

<sup>2</sup>Financial Statement and Budget Report.

<sup>3</sup>Estimated.



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# 2 Economic prospects for 1989

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## Summary

**2.01** GDP is forecast to grow by 3 per cent in 1989, following growth of  $4\frac{1}{2}$  per cent this year. Inflation is expected to peak in mid-1989, and fall back by the end of the year.

## Assumptions

**2.02** The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy. It assumes that both North Sea oil prices and sterling remain close to their recent levels. The public sector debt repayment (PSDR) is expected to be about £10 billion in the current financial year, equivalent to 2 per cent of GDP. The forecast assumes a similar PSDR in 1989–90 as in 1988–89; the actual PSDR for that year will, as usual, be set in the Budget.

## World economy

**2.03** GNP in the major industrialised countries has grown faster than expected and is forecast to rise by 4 per cent in 1988; growth is forecast to slow down slightly, to 3 per cent, in 1989. World trade in manufactures has also picked up strongly and should grow by  $8\frac{1}{2}$  per cent in 1988. Inflation in the major industrialised countries is expected to remain low.

## Demand and activity

**2.04** The economy has grown strongly over the past year, though major inconsistencies in the official statistics (discussed in the annex) make it difficult to assess the precise extent of growth. The average measure of GDP, which may understate the true position, is forecast to grow by about  $4\frac{1}{2}$  per cent in 1988, with manufacturing output rising by 7 per cent. Non-oil export volumes have recovered strongly after falling in early 1988. Domestic demand growth has risen sharply over the past year as investment has boomed and consumers' expenditure has continued to grow rapidly. It is expected to moderate in 1989.

## UK trade and current account

**2.05** The UK current account is forecast to be in deficit by £13 billion in 1988. This is considerably larger than forecast at Budget time, due mainly to stronger growth in both investment and consumption. The current account deficit should show some reduction during 1989.

## Inflation

**2.06** Retail price inflation is expected to be  $6\frac{1}{4}$  per cent in the fourth quarter of 1988. It is likely to rise further in the first half of 1989 before falling to 5 per cent in the fourth quarter of 1989. Manufacturing unit labour costs have risen slowly over the past year, since productivity has continued to grow at a very fast rate.

## Labour market

**2.07** Employment has increased rapidly over the past year. Unemployment fell by half a million in the year to September. It should continue to fall over the next year, though probably at a slower rate than recently.



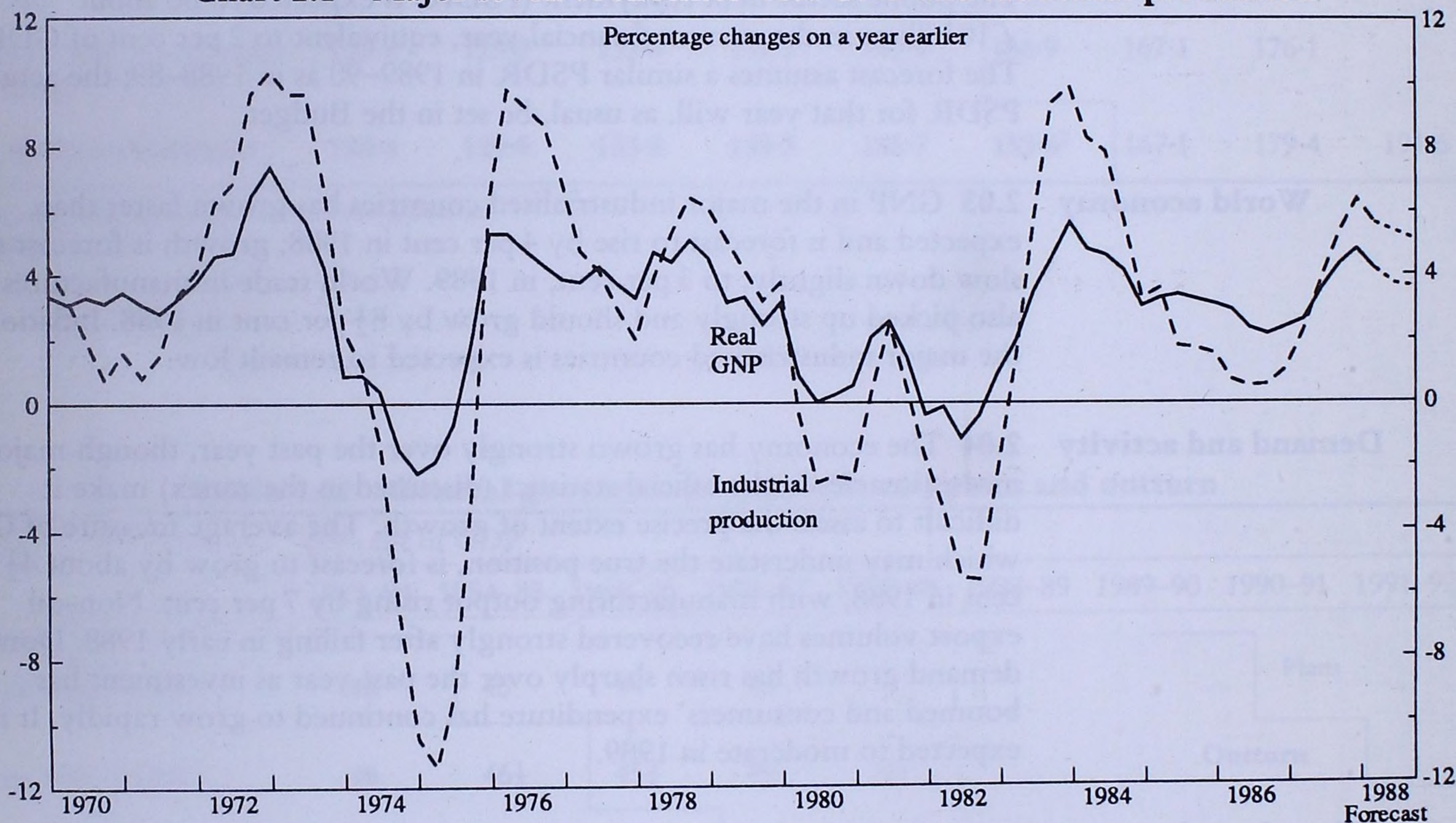
## World economy

### Recent developments

**2.08** Since the recession in 1982 the major seven OECD countries have experienced six years of steady growth, with real GNP growing at an average rate of  $3\frac{1}{2}$  per cent a year and the unemployment rate falling by  $2\frac{1}{2}$  per cent.

**2.09** Growth in these countries is estimated to have increased to over 4 per cent over the past year. Exports have grown strongly, especially to those developing countries which benefited from the rise in real commodity prices in 1987 and the first half of 1988. Greater exchange rate stability following the Louvre accord and rising capacity utilisation have strengthened business confidence and contributed to a resurgence of investment.

**Chart 2.1 Major seven economies' real GNP and industrial production**

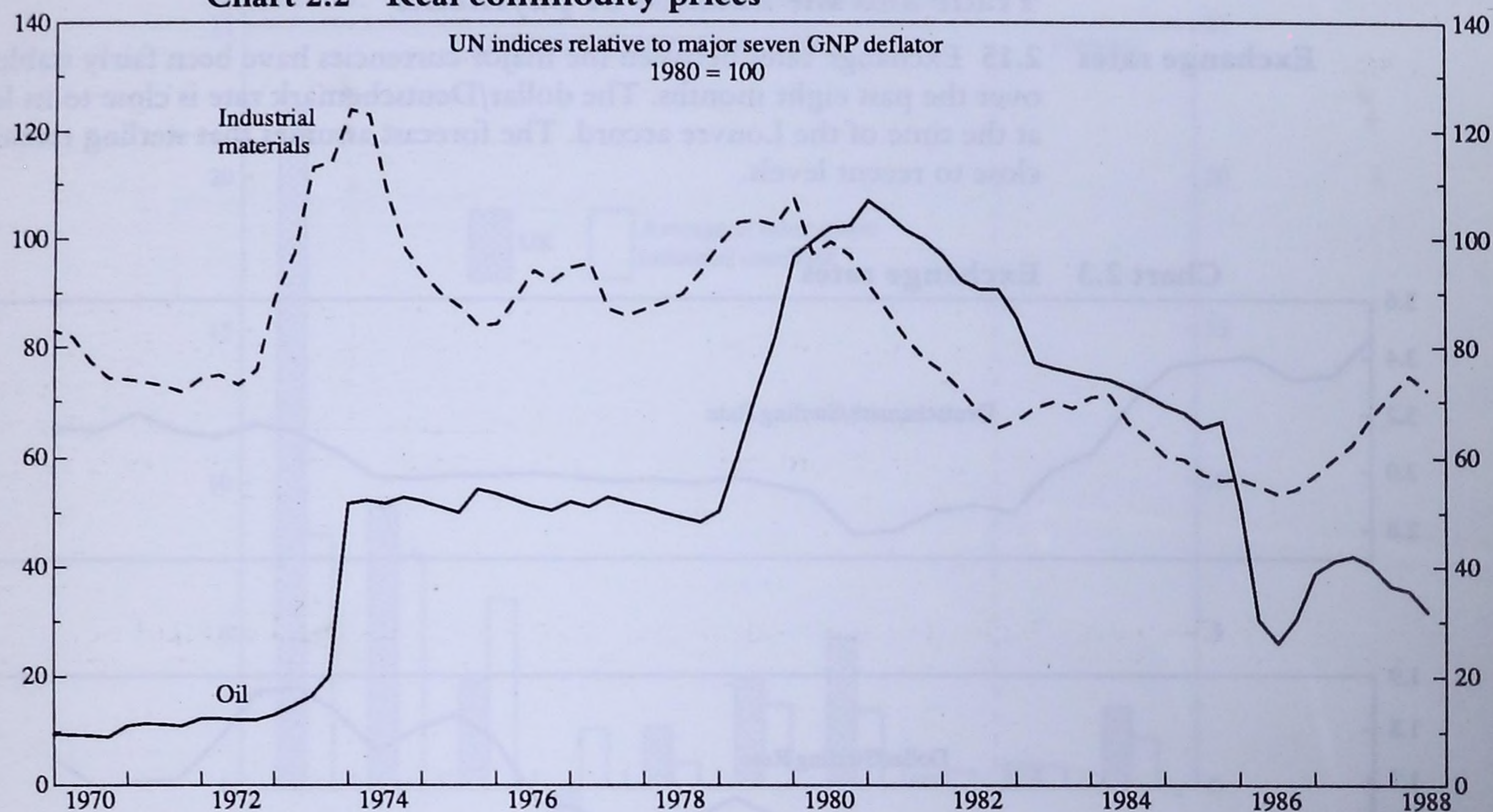


**2.10** In contrast to 1984, when the strength of activity in the major seven mainly reflected developments in the United States, the latest spurt in activity has been experienced in all these countries. This is reflected in the pick up in total trade and in world trade in manufactures, both of which are rising at around 9 per cent a year. All the major countries are currently experiencing an investment boom.

**2.11** Although non-oil commodity prices rose by nearly 20 per cent in real terms over the last year, oil prices fell by rather more. The net effect on aggregate costs in industrial countries is likely to be small. Consumer price inflation in the major seven countries has remained around 3 per cent.



Chart 2.2 Real commodity prices



**Forecast 2.12** Table 2.1 shows the forecasts for world trade and activity and inflation in the major seven countries. Real GNP is expected to grow a little less strongly in 1989 than in 1988, with some slow-down in consumer spending.

Table 2.1 World economy

	Percentage changes on previous year		
	1987	1988	1989
<i>Major seven countries<sup>1</sup>:</i>			
Real GNP	3½	4	3
Real domestic demand	3½	4	3
Industrial production	3	5½	4½
Consumer prices	3	3	4
<i>World trade, at constant prices</i>			
Total imports	5	9	6½
Trade in manufactures	5½	8½	7½

<sup>1</sup> US, Japan, Germany, France, UK, Italy and Canada.

**2.13** Growth in world trade may also slow a little in 1989, but will probably still remain high since the imports of some developing countries are expected to be buoyant.

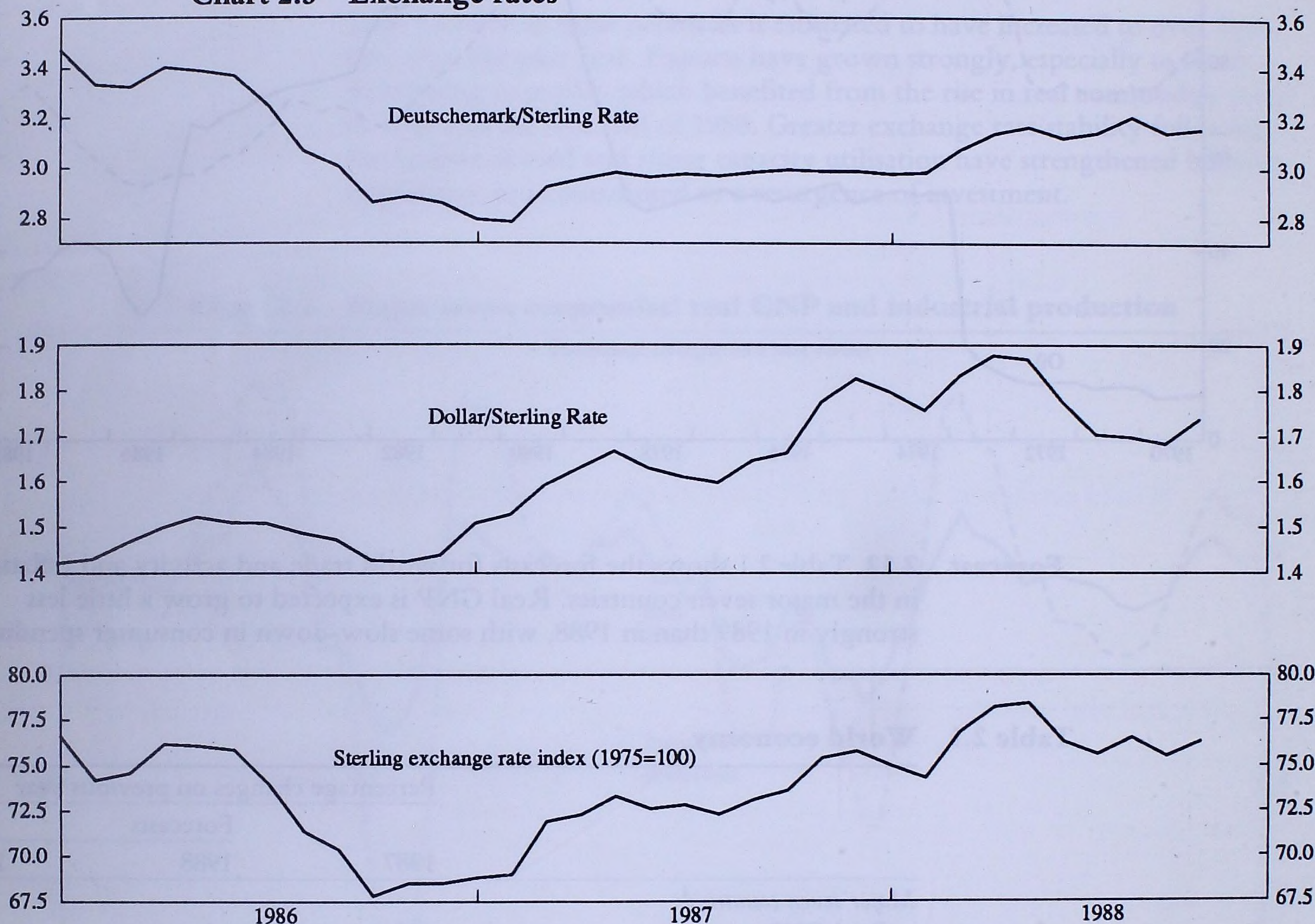
**2.14** Spot prices of non-oil commodities have weakened recently, but the continued strength of industrial activity makes a further fall doubtful. There is likely to be a modest rise in consumer price inflation in 1989.



## Trade and the balance of payments

**Exchange rates** 2.15 Exchange rates between the major currencies have been fairly stable over the past eight months. The dollar/Deutschemark rate is close to its level at the time of the Louvre accord. The forecast assumes that sterling remains close to recent levels.

**Chart 2.3 Exchange rates**



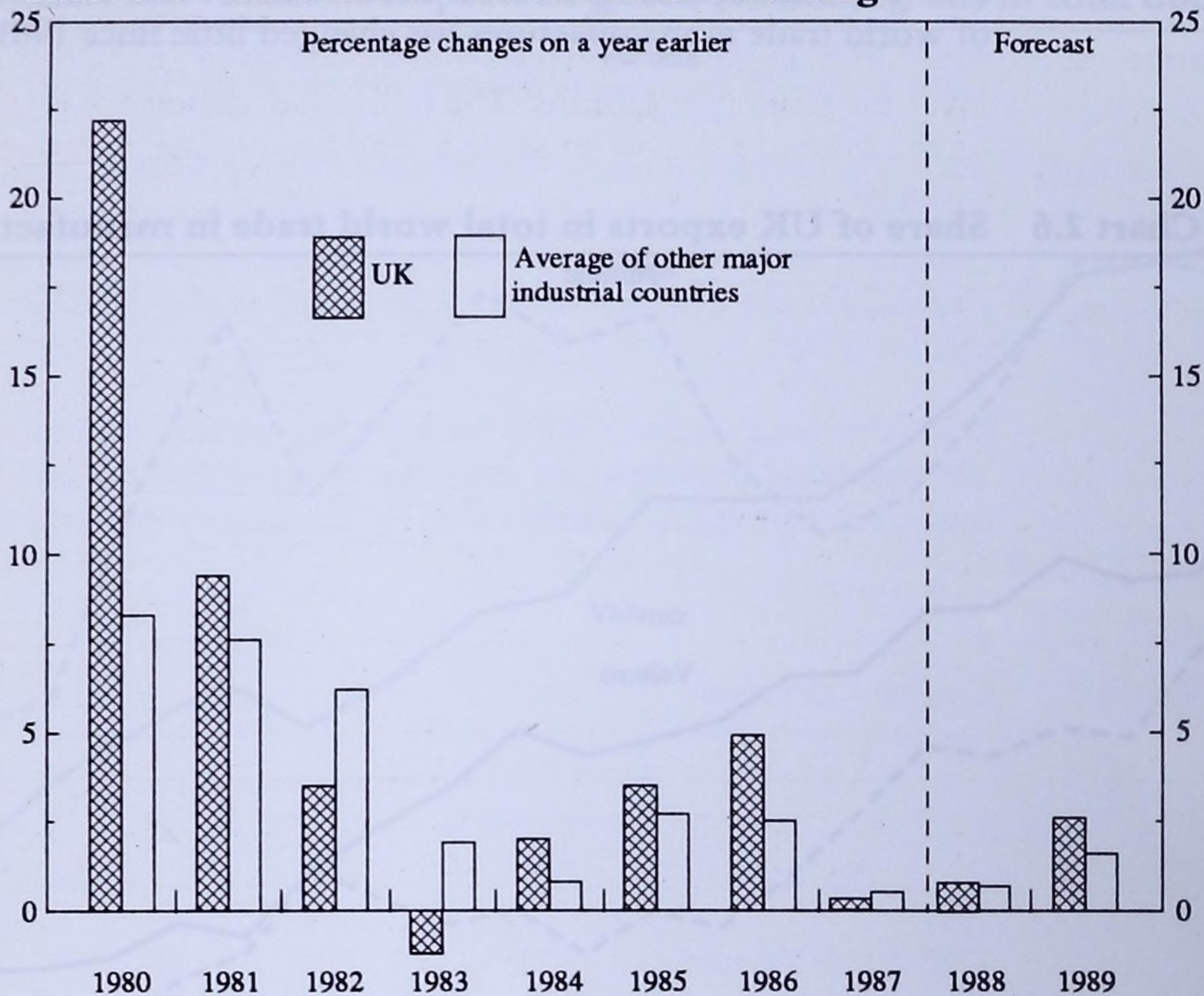
**Relative costs and prices** 2.16 Manufacturing unit labour costs in the UK have risen only slightly over the past year. In 1987 and 1988, growth in unit labour costs in both the UK and in other major industrial countries has been low.

2.17 It is the rapid increase in domestic demand that explains most of the deterioration in the current account. Recent CBI surveys suggest that some industries have been facing capacity constraints, so it is likely that part of the unexpected domestic demand has been satisfied by imports. Some potential exports may also have been diverted to the domestic market.

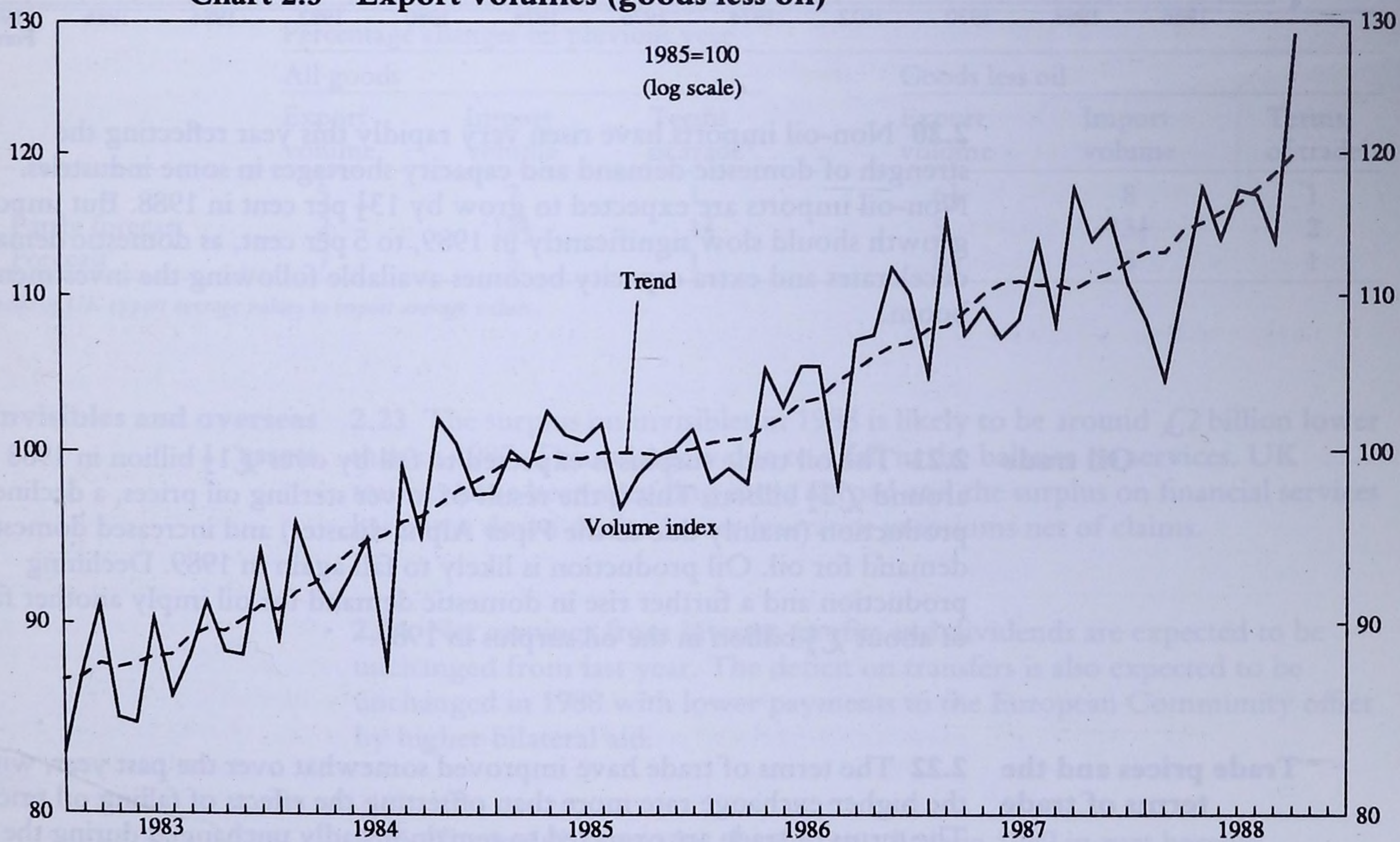
**Trade volumes (goods other than oil)** 2.18 After erratically low figures in early 1988, the volume of UK manufactured exports has since risen as world trade has continued to expand. In the third quarter of 1988 the volume of exports of manufactures was 7½ per cent higher than a year earlier. Manufactured export volumes are forecast to rise by over 8 per cent in 1989, close to the projected growth of world trade.



**Chart 2.4 Unit labour costs in manufacturing**

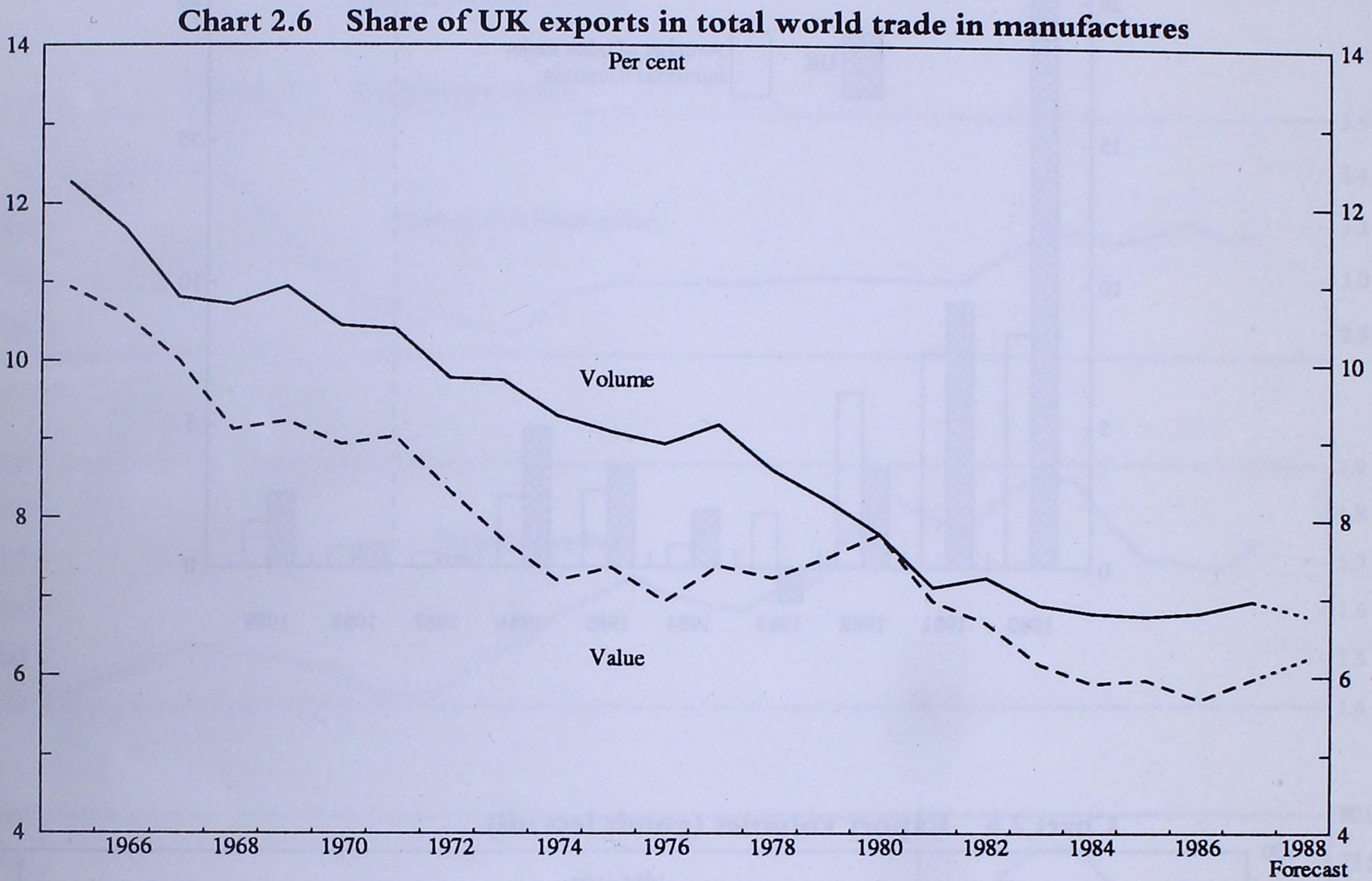


**Chart 2.5 Export volumes (goods less oil)**





2.19 Chart 2.6 shows how, after decades of decline, the UK's volume share of world trade in manufactures has changed little since 1981.



2.20 Non-oil imports have risen very rapidly this year reflecting the strength of domestic demand and capacity shortages in some industries. Non-oil imports are expected to grow by 13½ per cent in 1988. But import growth should slow significantly in 1989, to 5 per cent, as domestic demand decelerates and extra capacity becomes available following the investment boom.

**Oil trade** 2.21 The oil trade surplus is expected to fall by over £1½ billion in 1988 to around £2½ billion. This is the result of lower sterling oil prices, a decline in production (mainly due to the Piper Alpha disaster) and increased domestic demand for oil. Oil production is likely to fall again in 1989. Declining production and a further rise in domestic demand for oil imply another fall of about £½ billion in the oil surplus in 1989.

**Trade prices and the terms of trade** 2.22 The terms of trade have improved somewhat over the past year, with the higher exchange rate more than offsetting the effects of falling oil prices. The terms of trade are expected to remain broadly unchanged during the rest of 1988 and in 1989.



Chart 2.7 Share of imports of goods (excluding oil) in total domestic demand

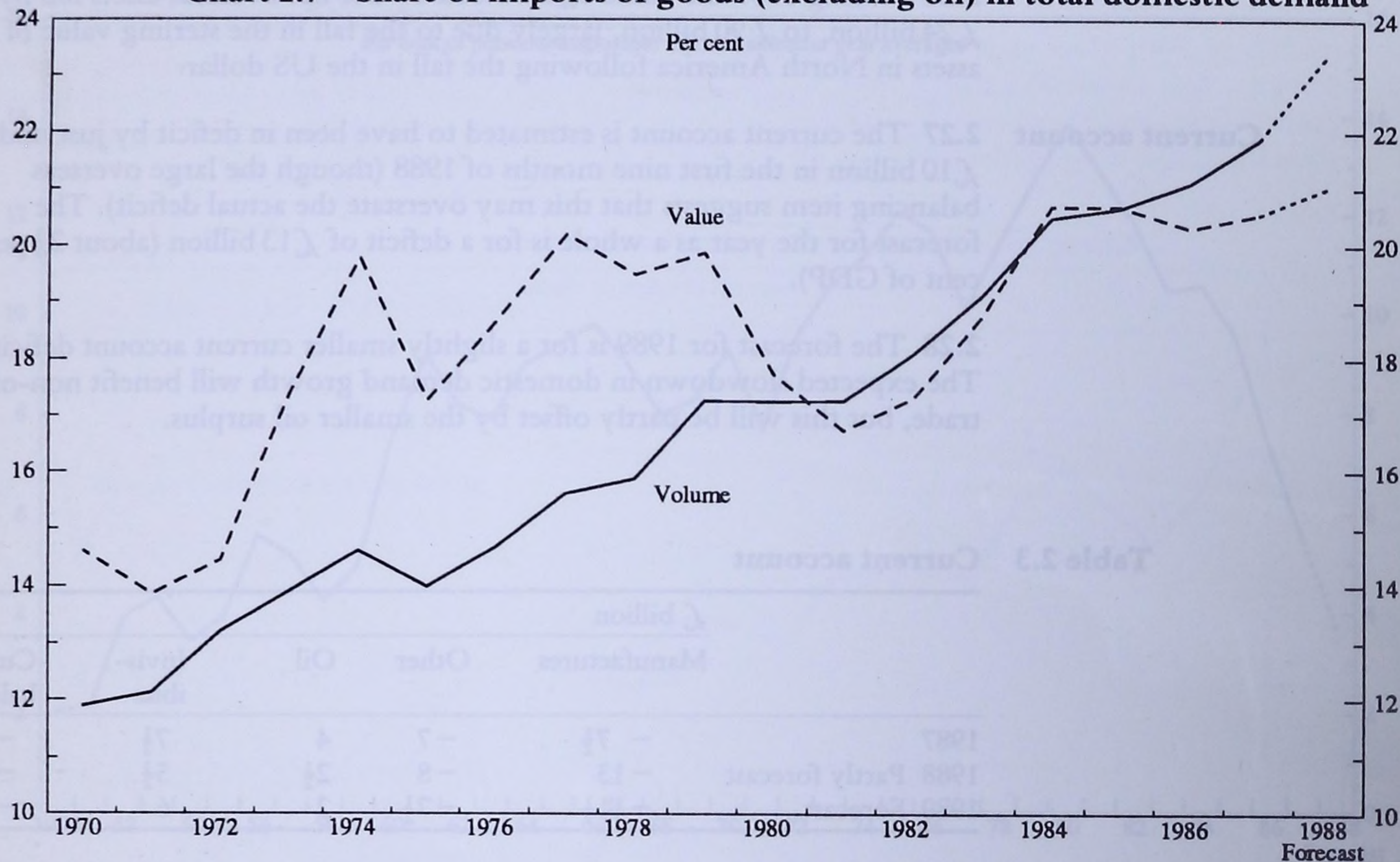


Table 2.2 Visible trade

	Percentage changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade <sup>1</sup>	Export volume	Import volume	Terms of trade <sup>1</sup>
1987	5	7	1	6½	8	1
1988 Partly forecast	2	12½	1½	5	13½	2
1989 Forecast	7	5	1	8½	5	1

<sup>1</sup> The ratio of UK export average values to import average values.

### Invisibles and overseas assets

**2.23** The surplus on invisibles in 1988 is likely to be around £2 billion lower than in 1987. This is largely due to a fall in the balance on services. UK tourists have been spending more abroad and the surplus on financial services has come down due to lower insurance premiums net of claims.

**2.24** Net earnings from interest, profits and dividends are expected to be unchanged from last year. The deficit on transfers is also expected to be unchanged in 1988 with lower payments to the European Community offset by higher bilateral aid.

**2.25** The invisibles surplus should rise a little in 1989 in part because payments abroad by North Sea companies continue to fall.



**2.26** During 1987 the value of the stock of UK net overseas assets fell by £24 billion, to £90 billion, largely due to the fall in the sterling value of UK assets in North America following the fall in the US dollar.

**Current account** **2.27** The current account is estimated to have been in deficit by just under £10 billion in the first nine months of 1988 (though the large overseas balancing item suggests that this may overstate the actual deficit). The forecast for the year as a whole is for a deficit of £13 billion (about  $2\frac{3}{4}$  per cent of GDP).

**2.28** The forecast for 1989 is for a slightly smaller current account deficit. The expected slowdown in domestic demand growth will benefit non-oil trade, but this will be partly offset by the smaller oil surplus.

**Table 2.3** Current account

	£ billion				
	Manufactures	Other	Oil	Invisibles	Current balance
1987	- 7½	-7	4	7½	- 2½
1988 Partly forecast	-13	-8	2½	5½	-13
1989 Forecast	-11½	-7½	2	6	-11

### Demand and activity

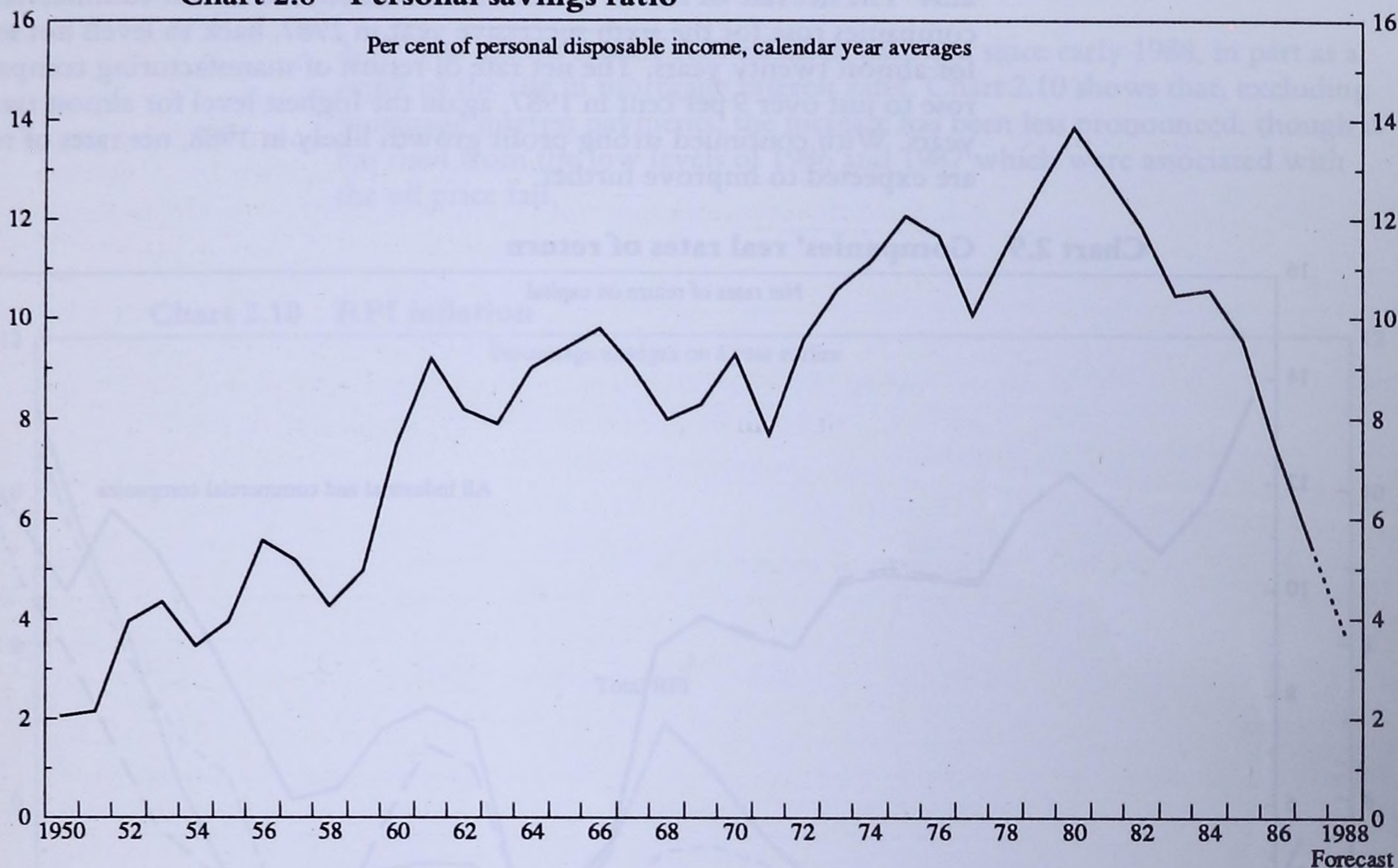
**Personal sector expenditure** **2.29** Consumer spending is estimated to have risen by  $5\frac{1}{2}$  per cent in 1986 and by 5 per cent in 1987. This is considerably faster than the growth in real personal disposable income, and the recorded savings ratio fell from an estimated  $9\frac{1}{2}$  per cent in 1985 to  $5\frac{1}{2}$  per cent in 1987. In 1988 consumer spending is likely to increase by about  $5\frac{1}{2}$  per cent, a similar rate to that in 1986 and 1987. The savings ratio is likely to fall to about  $3\frac{1}{2}$  per cent.

**2.30** Several factors may explain the substantial fall in the savings ratio since 1980. Most important has been greater confidence in the future, with people having lower inflation expectations and greater wealth, especially following the large rise in house prices. In addition, employers' contributions to pension funds have been falling in recent years as companies have reacted to the surpluses that many funds have been running; this scores in the official statistics as lower personal savings.

**2.31** The fall in the savings ratio has been associated with an increase in borrowing—particularly mortgage borrowing—following the ending of mortgage rationing and other restrictions. But householders will not wish to go on accumulating debt at the same rate as recently: levels of borrowing are already high relative to income. Moreover, households are now for the first time substantial net payers of interest and higher interest rates are therefore particularly likely to reduce consumer spending. This should be reinforced by a slowdown in the growth of house prices and, hence, of housing wealth. Consumer spending is expected to rise by  $3\frac{1}{2}$  per cent in 1989 with a deceleration through the year. The savings ratio should recover slowly during 1989.



Chart 2.8 Personal savings ratio



**2.32** The housing market has been particularly buoyant over the past year, though the fall in building society mortgage commitments in August and September suggests that the pressure of demand is easing. Nonetheless, private sector investment in dwellings and improvements is likely to increase substantially in 1988 as a whole. It is likely to rise much more slowly in 1989.

### Company incomes and expenditure

**2.33** Developments so far in 1988 confirm the investment boom predicted by recent CBI surveys and DTI Investment Intentions Surveys. Business investment is expected to rise a little faster in 1988 than the June DTI Intentions Survey suggested. Manufacturing investment, including leased assets, is likely to rise by 18 per cent and total non-oil business investment by over 13 per cent. Further growth in business investment is expected in 1989. Recorded stockbuilding is expected to continue on only a modest scale in 1988 and 1989.

Table 2.4 Gross domestic fixed capital formation

	£billion at 1985 prices	Percentage changes on previous year		
			Forecast	
	1987	1987	1988	1989
Business <sup>1</sup>	41.1	6½	13½	7½
of which: non-oil business	39.2	8½	13½	7
manufacturing	10.1	5	18	10
Private dwelling <sup>2</sup>	15.2	7	13	2½
General government	8.1	-½	½	2½
<b>Total fixed investment</b>	<b>64.2</b>	<b>5½</b>	<b>12</b>	<b>5½</b>

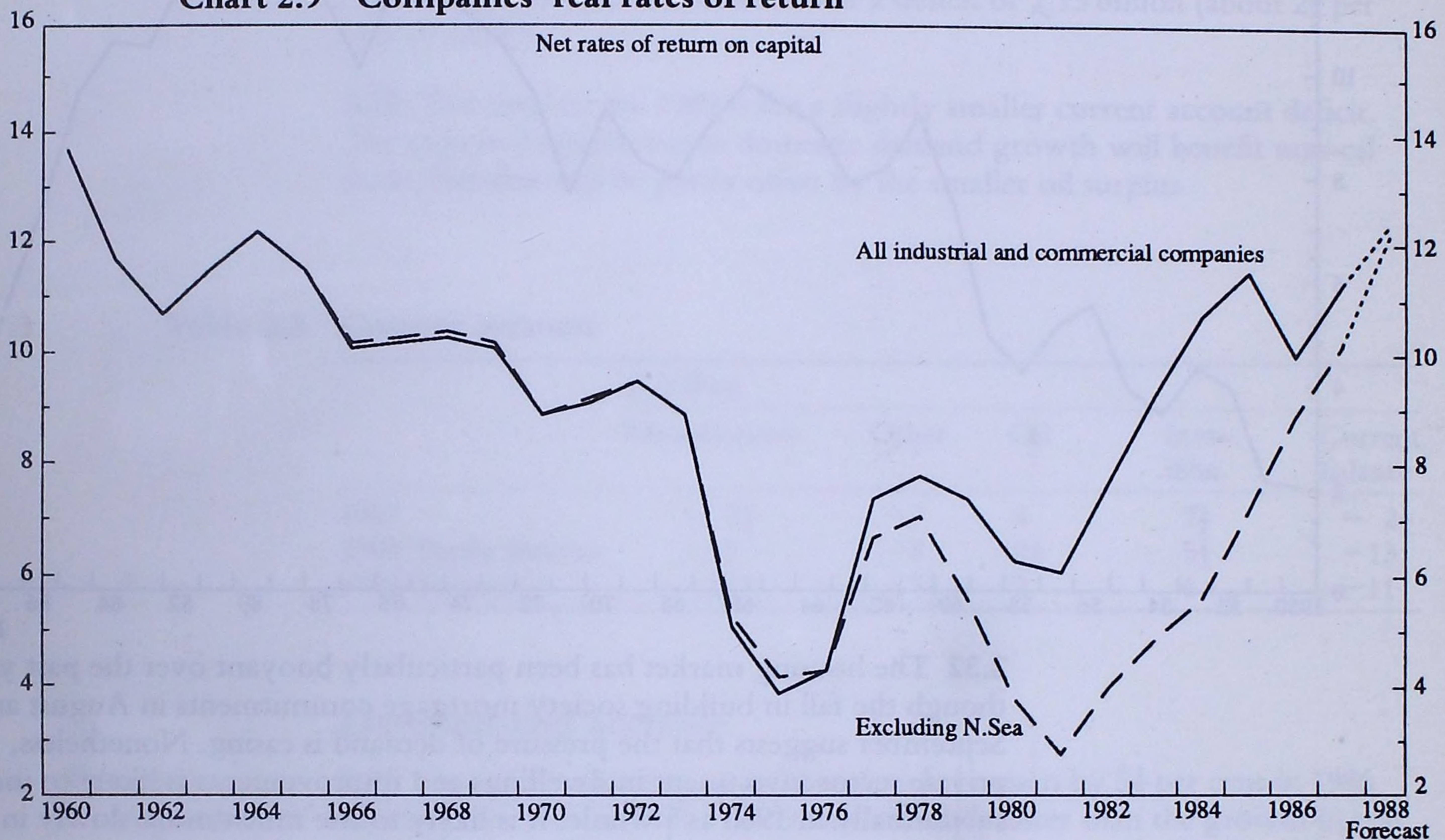
<sup>1</sup> Includes investment by public corporations.

<sup>2</sup> Includes purchase less sales of land by persons, companies and public corporations, other than purchases of council houses.



**2.34** The net rate of return of non-North Sea industrial and commercial companies rose for the sixth successive year in 1987, back to levels not seen for almost twenty years. The net rate of return of manufacturing companies rose to just over 9 per cent in 1987, again the highest level for almost twenty years. With continued strong profit growth likely in 1988, net rates of return are expected to improve further.

**Chart 2.9 Companies' real rates of return**



**Prospects for demand and activity**

**2.35** Growth of the average measure of GDP is forecast to be around 4½ per cent in 1988. It could turn out to be even higher if, as seems likely, the expenditure measure is subsequently revised up. With the forecast slow-down in domestic demand, GDP is expected to rise more slowly in 1989.

**2.36** North Sea output fell by some 3 per cent between the first half of 1987 and the first half of 1988, and is expected to decline further in the second half of 1988. In 1989 declining output in the North Sea may reduce GDP growth by ½ percentage point. Manufacturing output is forecast to rise faster than total non-North Sea GDP in both 1988 and 1989.

**Table 2.5 Domestic demand and GDP**

	Percentage changes on previous year		
	1987	Forecast 1988	1989
Domestic demand	4½	6	3
Exports of goods and services <sup>1</sup>	5½ (6½)	1½ (4)	5½ (6½)
Imports of goods and services <sup>1</sup>	7½ (8)	12 (13)	4½ (5)
Gross domestic product <sup>1,2</sup>	4 (4½)	4½ (5)	3 (3½)
Manufacturing output	6	7	4½

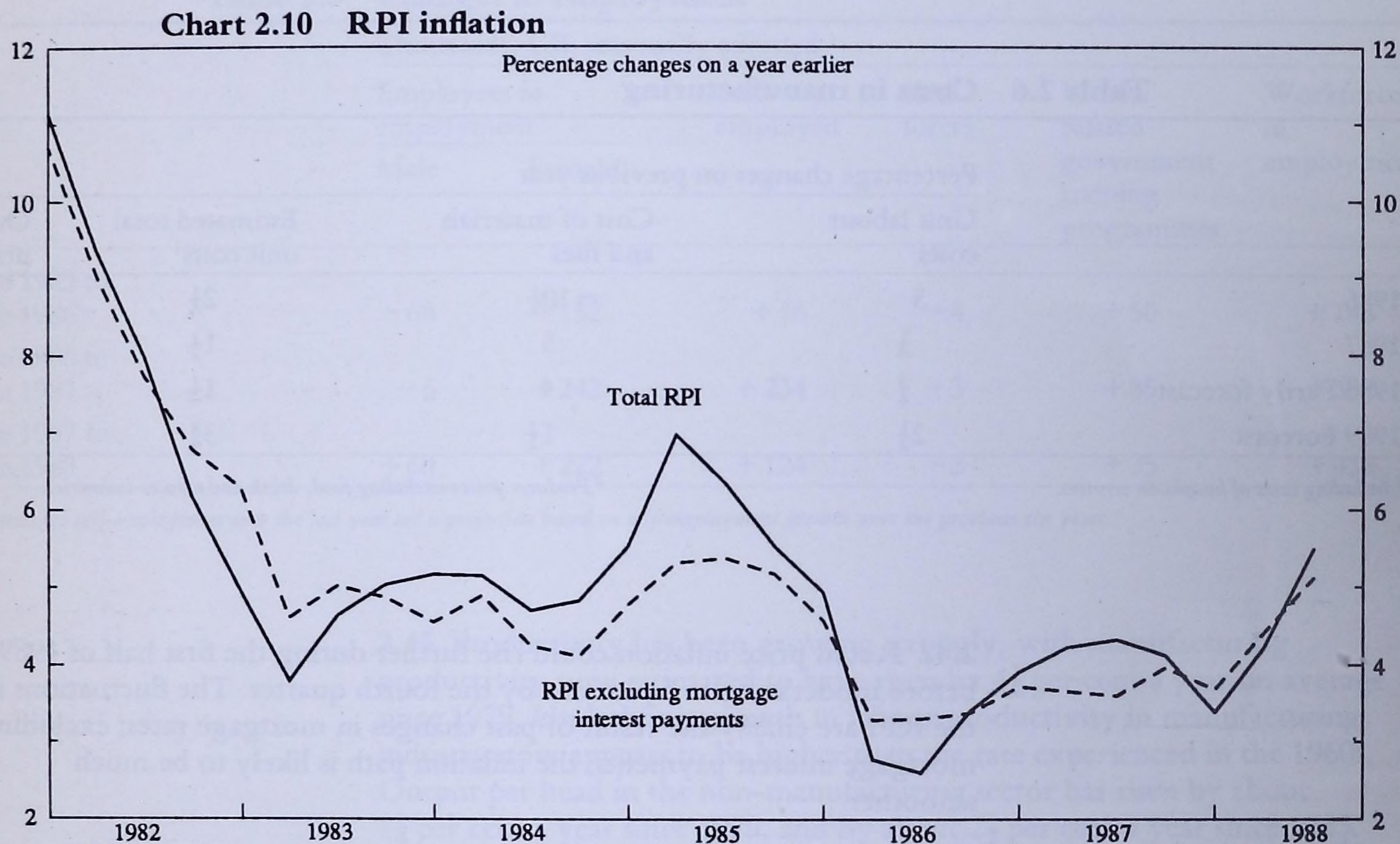
<sup>1</sup> Non-oil shown in brackets.

<sup>2</sup> Average measure.



## Inflation

**2.37** The annual rate of RPI inflation has risen since early 1988, in part as a result of the rise in mortgage interest rates. Chart 2.10 shows that, excluding mortgage interest payments, the increase has been less pronounced, though it has risen from the low levels of 1986 and 1987 which were associated with the oil price fall.



**2.38** Retail price inflation is likely to average  $6\frac{1}{4}$  per cent in the fourth quarter of 1988; excluding mortgage interest payments the figure is expected to be 5 per cent. Producer price inflation has also edged up during 1988. Though higher than expected at Budget time, the underlying rate of increase in prices has been lower than in periods of fast demand and output growth in the 1970s.

**2.39** The underlying increase in average earnings has risen from  $8\frac{1}{2}$  per cent at the start of the year to  $9\frac{1}{4}$  per cent in August 1988. Pay settlements have edged up as labour markets have tightened, but high overtime payments and performance related bonuses have also played an important part.

**2.40** Despite high earnings increases, growth in manufacturing unit labour costs has been kept down by the rapid growth in productivity, and they are expected to rise by just under 1 per cent in 1988.



**Prospects 2.41** The low growth in costs over the last two years has not been fully reflected in producer output prices. With fast growth in demand, UK manufacturing industry has increased profit margins substantially. The projected slow-down in demand and activity may mean that profit margins will show less growth in 1989 and that labour costs will grow more rapidly (because of a likely cyclical slow-down in productivity growth). Producer output price inflation may rise by only a little less in 1989 than in 1988.

**Table 2.6 Costs in manufacturing**

	Percentage changes on previous year			
	Unit labour costs	Cost of materials and fuel	Estimated total unit costs <sup>1</sup>	Output prices <sup>2</sup>
1986	5	-10½	2¼	4
1987	¼	5	1½	4¼
1988 Partly forecast	¾	4	1¼	4¾
1989 Forecast	2½	1½	3¼	4¼

<sup>1</sup> Including costs of bought-in services.

<sup>2</sup> Producer prices excluding food, drink and tobacco industries.

**2.42** Retail price inflation could rise further during the first half of 1989 before moderating to 5 per cent by the fourth quarter. The fluctuations in the RPI are chiefly the result of past changes in mortgage rates; excluding mortgage interest payments, the inflation path is likely to be much smoother.

**Table 2.7 Retail prices index**

	Weight in 1988	Percentage changes on previous year		
		1987 Q4	Forecasts	
			1988 Q4	1989 Q4
Food	16¼	3½	3¼	3¼
Nationalised industries	5½	2¼	7¼	6¼
Housing	15¼	7	16¼	7
Other	63	3¾	4½	4¾
<b>Total</b>	<b>100</b>	<b>4</b>	<b>6¼</b>	<b>5</b>

**2.43** The GDP deflator, which measures the price of domestic value added (principally unit labour costs and profits per unit of output), is forecast to rise by 6¼ per cent in 1988–89 and 5 per cent in 1989–90.



## Productivity and the labour market

**2.44** The workforce in employment in Great Britain has continued to rise strongly over the last year: in the twelve months to June 1988 it is estimated to have risen by 440,000. Since 1983, there has been an increase of over 2 million in the workforce in employment.

**Table 2.8** Changes in employment

	Thousands, GB, seasonally adjusted					Workforce in employment
	Employees in employment		Self-employed	HM forces	Work-related government training programmes	
	Male	Female				
June 1985 to June 1986	-68	+152	+16	-4	+50	+145
June 1986 to June 1987	-6	+242	+234	-3	+85	+552
June 1987 to June 1988	+60	+222	+124 <sup>1</sup>	-3	+35	+438

<sup>1</sup> Figures for self-employment over the last year are a projection based on self-employment growth over the previous six years.

**2.45** Productivity has been growing strongly, with manufacturing productivity now estimated to have risen by 4½ per cent a year on average since 1979. Underlying growth in labour productivity in manufacturing industry now appears to be higher than the rate experienced in the 1960s. Output per head in the non-manufacturing sector has risen by about 1¾ per cent a year since 1979, and by about 2½ per cent a year since 1983.

**Table 2.9** Output per head of the employed labour force

	Annual average percentage changes		
	1964-73	1973-79	1979-88 <sup>2</sup>
Manufacturing	3¾	¾	4½
Non-manufacturing <sup>1</sup>	3	½	1¾
Whole economy	2¾	1	2¼
Non-North Sea economy	2¾	½	2

<sup>1</sup> Excludes public services and North Sea oil and gas extraction.

<sup>2</sup> Includes estimate for 1988.

## Unemployment

**2.46** By September 1988, seasonally adjusted adult unemployment in the UK had fallen for 26 successive months, by some 940,000 in total. The fall in unemployment over the past year is mainly attributable to the strong growth of output and employment. A further, though slower, fall in unemployment is likely over the year ahead. The main threat to achieving this would be excessive pay settlements.



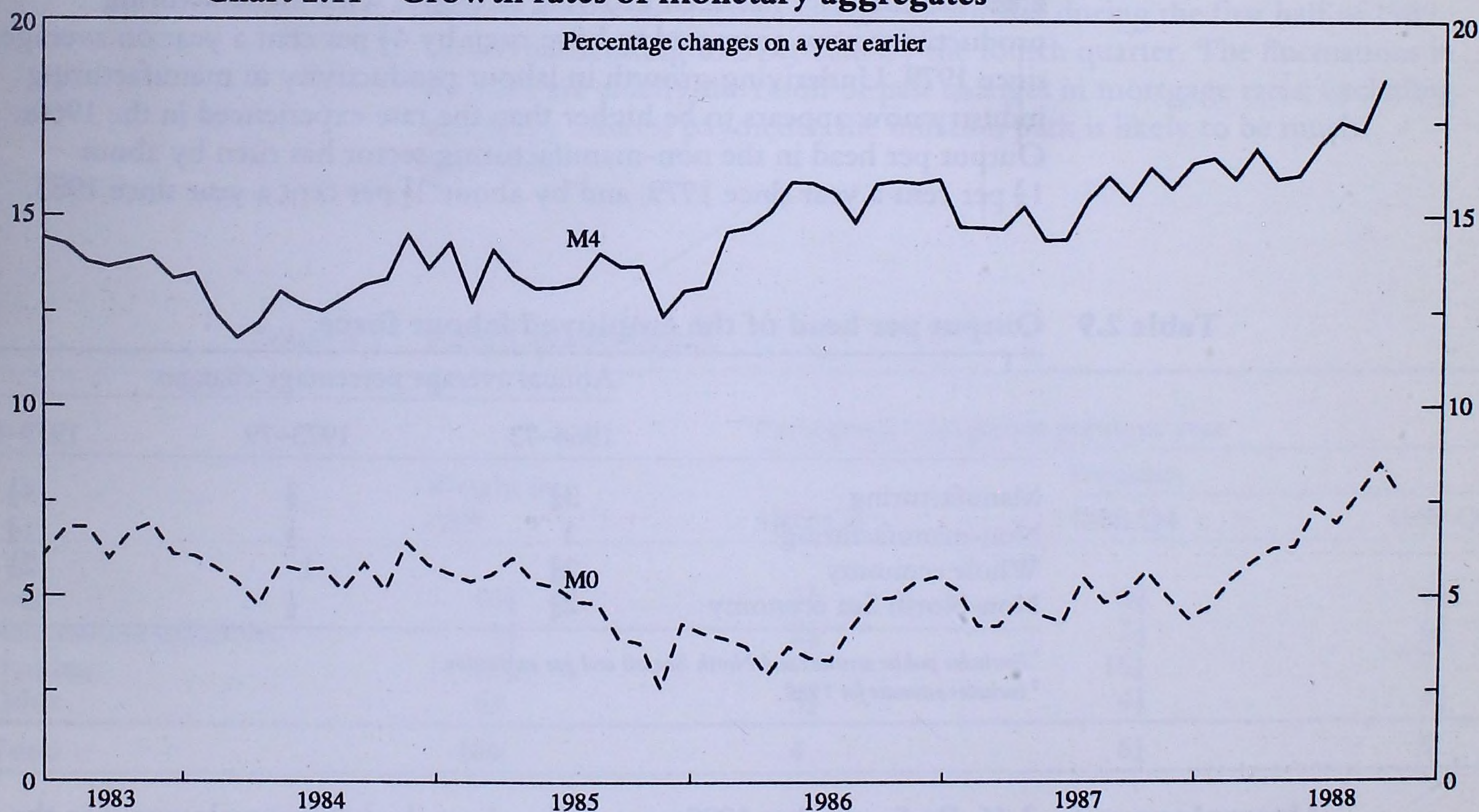
### Financial developments

2.47 Over the past year, with the exception of a short-lived upsurge in April and May, the sterling index has varied by less than 3 per cent from its present level. In the year to September, the reserves have increased by an underlying \$5 billion, net of official borrowing.

**Narrow money** 2.48 The year on year growth of M0 has remained above the top of its 1-5 per cent target range. Increases in interest rates since the summer are expected to slow the growth of M0 considerably over the next six months, although it may not return within its target range by the end of the financial year.

**Broad money** 2.49 Broad money has continued to grow rapidly. There has been a marked increase in personal and financial sector deposits, as the stock market crash led to a move away from new investment in equities and unit trusts. Financial innovation and liberalisation continues to contribute to the growth of broad money.

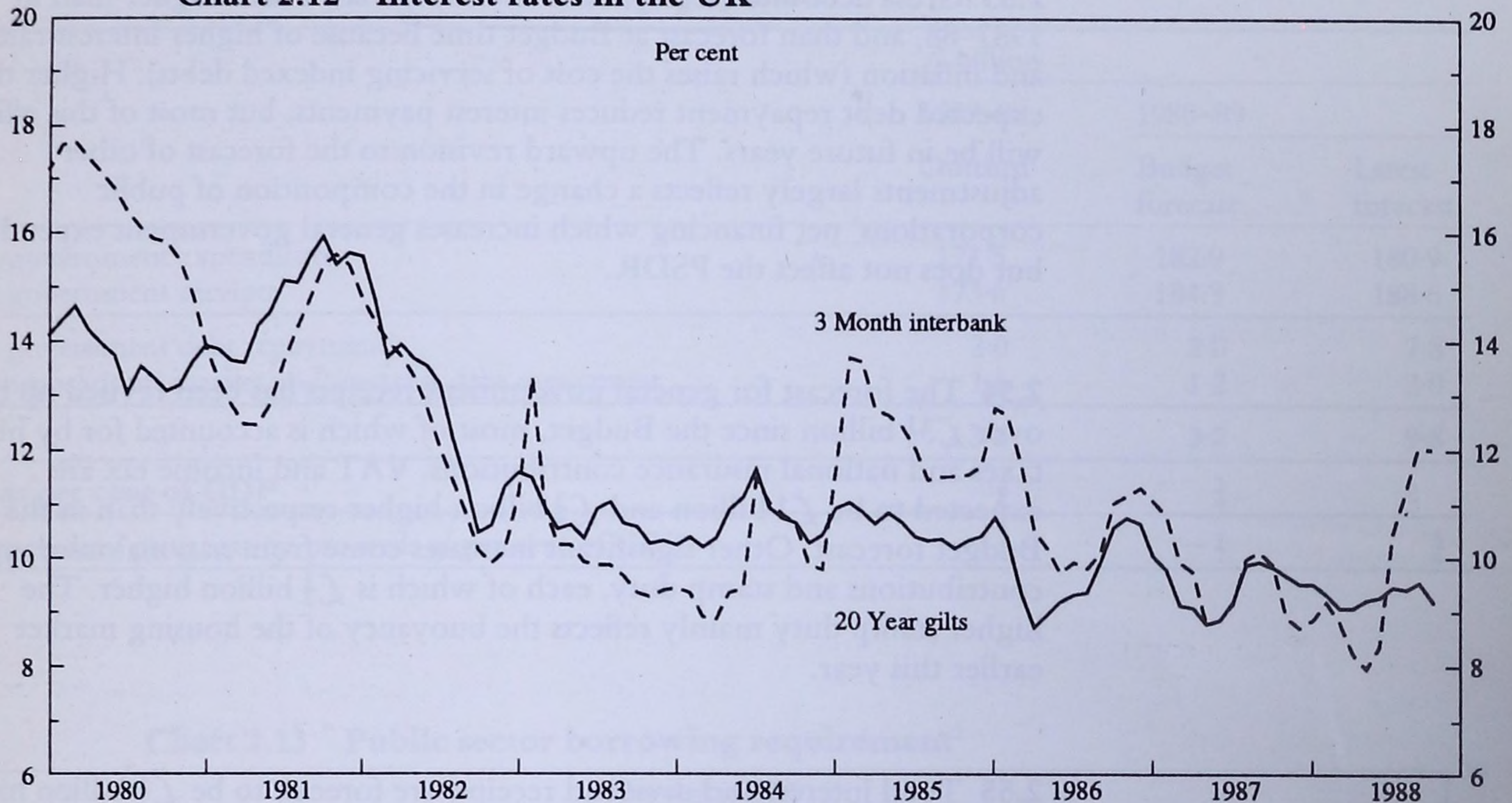
Chart 2.11 Growth rates of monetary aggregates



2.50 Chart 2.12 shows the recent path of interest rates. Monetary conditions have tightened considerably during this year.



Chart 2.12 Interest rates in the UK



### Fiscal developments

**2.51** Tables 2.10 to 2.12 show both the Budget projections and latest forecasts for general government expenditure and receipts and the public sector debt repayment (PSDR). The PSDR in 1987–88 was £3½ billion, slightly higher than estimated in the 1988 Financial Statement and Budget Report.

**2.52** In the first half of 1988–89 there was debt repayment of just over £3½ billion, compared with public sector borrowing of about £2 billion in the first half of 1987–88. The revised forecast for 1988–89 as a whole is a PSDR of £10 billion, £6½ billion higher than forecast in the FSBR. This is due in roughly equal amounts to higher than expected receipts and lower than expected expenditure. The revisions on the receipts side largely reflect the higher than expected growth of money GDP.

Table 2.10 General government expenditure

	£ billion		
	1987–88	1988–89	
	Outturn	Budget forecast	Latest forecast
Public expenditure planning total	145.7	156.8	153.6
Interest payments	17.5	17.5	17.7
Other adjustments	8.2	8.6	9.6
<b>General government expenditure</b>	<b>171.5</b>	<b>182.9</b>	<b>180.9</b>
of which			
Privatisation proceeds	-5.2	-5.0	-6.0



2.53 Gross debt interest payments in 1988–89 are a little higher than in 1987–88, and than forecast at Budget time because of higher interest rates and inflation (which raises the cost of servicing indexed debts). Higher than expected debt repayment reduces interest payments, but most of this effect will be in future years. The upward revision to the forecast of other adjustments largely reflects a change in the composition of public corporations' net financing which increases general government expenditure, but does not affect the PSDR.

2.54 The forecast for general government receipts has been revised up by over £3½ billion since the Budget, most of which is accounted for by higher taxes and national insurance contributions. VAT and income tax are expected to be £1 billion and £¾ billion higher respectively than in the Budget forecast. Other significant increases come from national insurance contributions and stamp duty, each of which is £½ billion higher. The higher stamp duty mainly reflects the buoyancy of the housing market earlier this year.

2.55 Total interest and dividend receipts are forecast to be £½ billion higher in 1988–89 than in 1987–88. Within this, dividends are about £¼ billion lower due to the sale of the government's remaining shares in British Petroleum, and interest receipts £¾ billion higher. General government receipts in total are now forecast to increase by 8½ per cent in 1988–89, much the same rate of increase as in 1987–88.

Table 2.11 General government receipts

	£ billion		
	1987–88	1988–89	
	Outturn	Budget forecast	Latest forecast
Taxes on income, expenditure and capital	132.7	141.2	143.8
National insurance and other contributions	29.1	31.6	32.2
Interest and dividends	6.0	5.6	6.4
Other receipts	5.8	6.5	6.3
<b>Total receipts</b>	<b>173.6</b>	<b>184.9</b>	<b>188.6</b>
of which			
North Sea revenues	4.7	3.3	3.3

2.56 Table 2.12 shows the Budget and latest forecasts for the PSDR. 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, or nearly £3 billion. On the basis of this forecast, the budget surplus in 1988–89 will be larger as a proportion of money GDP than in any year since the beginning of the 1950s, the earliest date for which figures on this basis are available.



**Table 2.12 Public sector debt repayment**

	£ billion		
	1987-88	1988-89	
	Outturn	Budget forecast	Latest forecast
General government expenditure	171.5	182.9	180.9
General government receipts	173.6	184.9	188.6
General government debt repayment	2.0	2.0	7.8
Public corporations' market and overseas debt repayment	1.6	1.2	2.0
<b>PSDR</b>	<b>3.6</b>	<b>3.2</b>	<b>9.8</b>
<b>PSDR as per cent of GDP</b>	$\frac{3}{4}$	$\frac{3}{4}$	2
PSDR excluding privatisation proceeds as per cent of GDP	$-\frac{1}{4}$	$-\frac{1}{2}$	$\frac{3}{4}$

**Chart 2.13 Public sector borrowing requirement<sup>1</sup>**

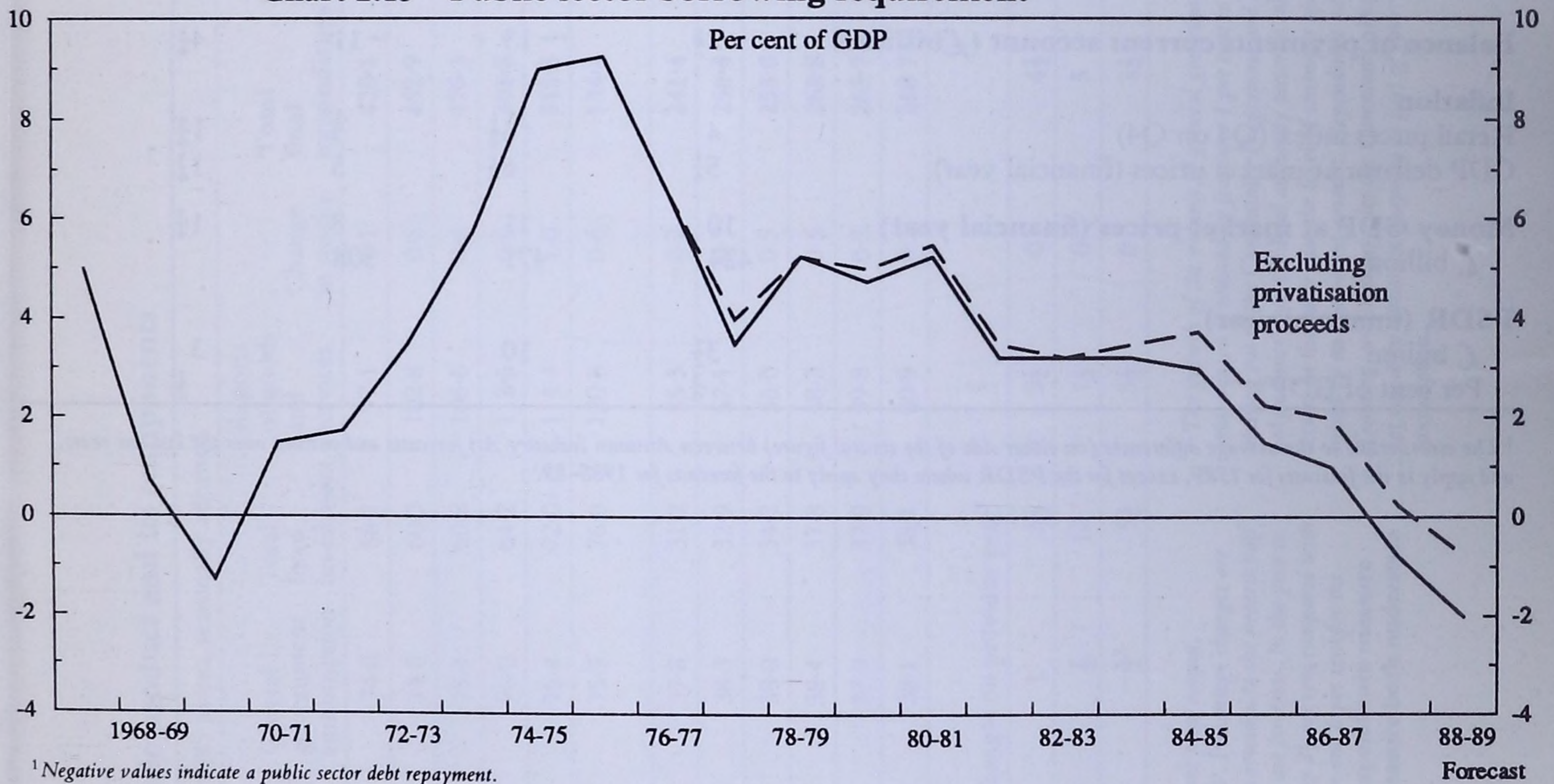




Table 2.13 Economic prospects: summary

	Percentage changes on previous year unless otherwise stated			Average errors from past forecasts <sup>1</sup>
	1987	Forecast 1988	1989	
<b>GDP and domestic demand at constant prices</b>				
Domestic demand	4½	6	3	1
of which:				
Consumers' expenditure	5	5½	3½	1¼
General government consumption	1	½	-½	¾
Fixed investment	5½	12	5½	2¼
Change in stockbuilding (as per cent of GDP)	0	0	0	¾
Exports of goods and services	5½	1½	5½	2¼
Imports of goods and services	7½	12	4½	2¾
Gross domestic product	4	4½	3	¾
Manufacturing output	6	7	4½	2
<b>Balance of payments current account (£billion)</b>	-2½	-13	-11	4¼
<b>Inflation</b>				
Retail prices index (Q4 on Q4)	4	6¼	5	1¾
GDP deflator at market prices (financial year)	5¼	6¼	5	1¾
<b>Money GDP at market prices (financial year)</b>	10	11	8	1¾
£ billion	424	471	508	
<b>PSDR (financial year)</b>				
£ billion	3½	10		3
Per cent of GDP	¾	2		½

<sup>1</sup> 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 1989, except for the PSDR where they apply to the forecasts for 1988-89.



Table 2.14 Gross domestic product and its components

£ billion at 1985 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption	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) <sup>1</sup>	GDP index (average measure) 1985 = 100
1984	207.9	74.0	58.1	97.1	1.1	438.1	96.7	48.7	0.8	293.5	96.3
1985	215.3	74.0	60.3	102.8	0.6	452.9	99.2	49.5	0.5	304.7	100.0
1986	226.8	75.4	60.8	106.6	0.6	470.3	105.6	51.8	1.1	314.0	103.0
1987	238.5	76.0	64.2	112.5	0.6	491.8	113.3	54.5	3.1	327.1	107.4
1988	251.9	76.4	72.0	114.4	1.0	515.8	126.8	56.7	8.9	341.2	112.0
1989	261.1	75.9	76.0	120.8	0.6	534.4	132.8	59.4	9.9	352.1	115.6
1987 H1	117.0	37.8	31.2	55.5	-0.2	241.4	53.9	26.7	0.9	161.6	106.1
H2	121.4	38.3	32.9	57.1	0.7	250.4	59.4	27.8	2.3	165.5	108.6
1988 H1	124.2	38.0	34.2	56.0	0.5	253.0	60.9	27.8	4.1	168.5	110.6
H2	127.8	38.4	37.8	58.3	0.5	262.8	65.9	29.0	4.8	172.7	113.4
1989 H1	129.8	37.9	37.9	59.8	0.3	265.7	65.9	29.5	4.9	175.2	115.0
H2	131.3	38.1	38.1	60.9	0.3	268.7	66.9	29.9	5.0	176.9	116.1
Percentage changes on previous year <sup>3</sup>											
1987	5	1	5½	5½	0	4½	7½	5	½	4	4
1988	5½	½	12	1½	0	5	12	4	2	4½	4½
1989	3½	-½ <sup>2</sup>	5½	5½	0	3½	4½	4½	½	3	3

<sup>1</sup> The GDP figures are averages of constant price output, expenditure and income estimates of GDP. Percentage changes are calculated from unrounded levels and then rounded to the nearest half per cent. Figures for 1988H2 and beyond are forecasts. In the year to 1988H1, the expenditure measure grew by 2½ per cent compared with 4½ per cent growth for the income measure and 6 per cent for the output measure. **It is likely that the expenditure measure and, consequently, the average measure both understate recent growth.**

<sup>2</sup> The growth of the volume of general government consumption is reduced by just over 1 per cent in 1989 by the phasing out of the Community Programme and the transfer of polytechnics from the local authority sector to the personal sector. In the latter case the level of consumer spending will be raised by an equivalent amount. Expenditure on Employment Training, which supersedes the Community Programme, does not count for statistical purposes as part of government consumption.

<sup>3</sup> Changes as a per cent of GDP for stockbuilding and statistical adjustment.



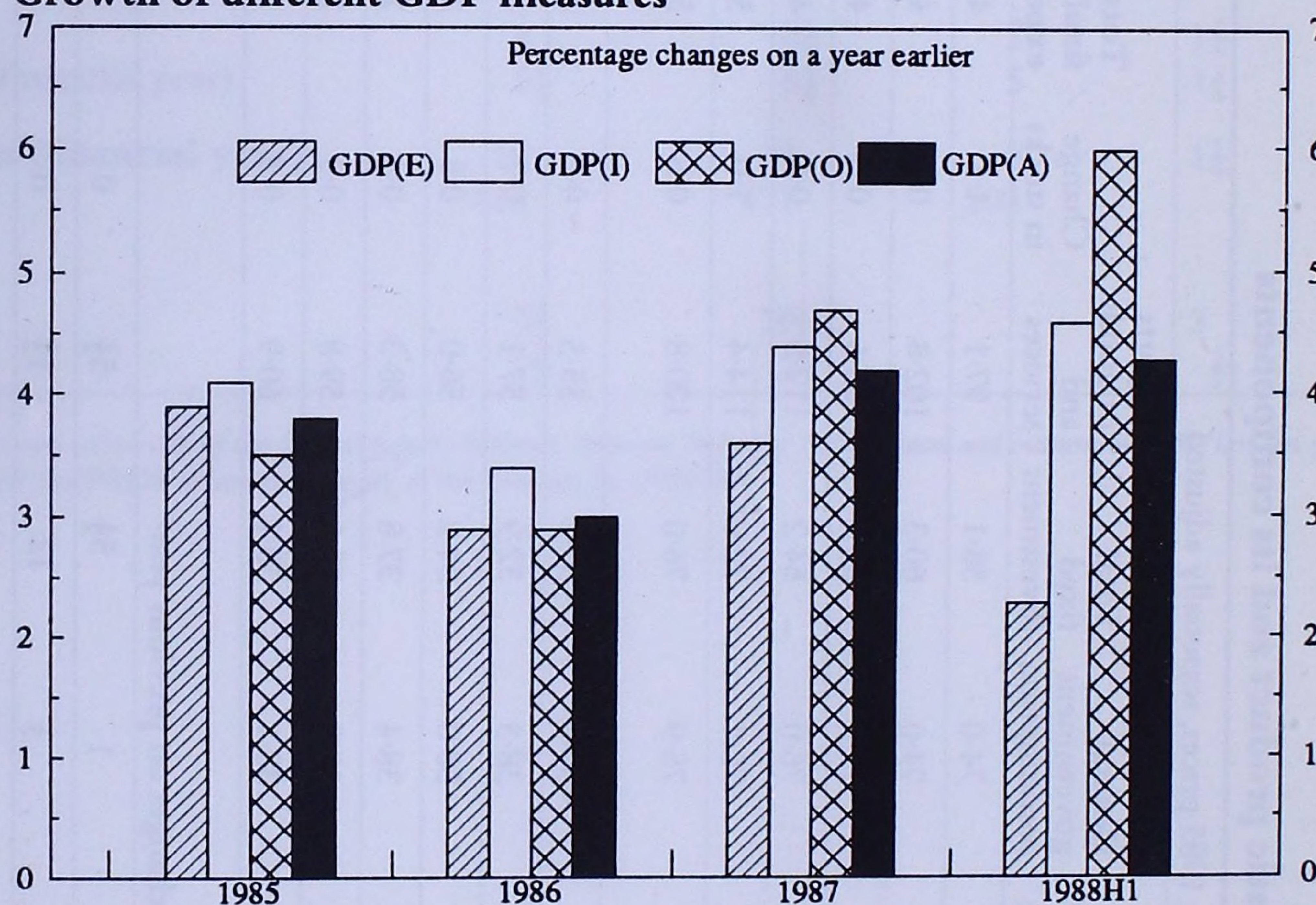
# Annex to Chapter 2

## National and sectoral accounts

**2A.1** It is difficult to assess how strongly the UK economy has grown over the past two years because of the considerable disparity between the various measures of real GDP. This disparity is particularly marked for the first half of 1988. Chart 2A.1 illustrates the differences between the separate measures since 1985.

**2A.2** The output measure, which is the most reliable short-term indicator, grew by 6 per cent in the year to the first half of 1988. The income measure has also shown strong growth. By contrast, the expenditure measure of GDP grew by only 2½ per cent over the same period. It seems likely that aggregate expenditure has been underrecorded over the past two years, and maybe over a longer period.

Chart 2A.1 Growth of different GDP measures



**2A.3** There are related problems with the current price national accounts figures, reflected in a rising residual error (the difference between the current price income and expenditure measures of GDP), especially in the first half of 1988.

**2A.4** At the same time large balancing items have emerged in the sectoral financial accounts. Sectoral balancing items are the differences between net acquisitions of financial assets as measured from financial data and as measured from national income and expenditure data. The sum of the balancing items is equal to the difference between the income and expenditure measures of GDP.



Chart 2A.2 Residual error as a proportion of GDP(E)

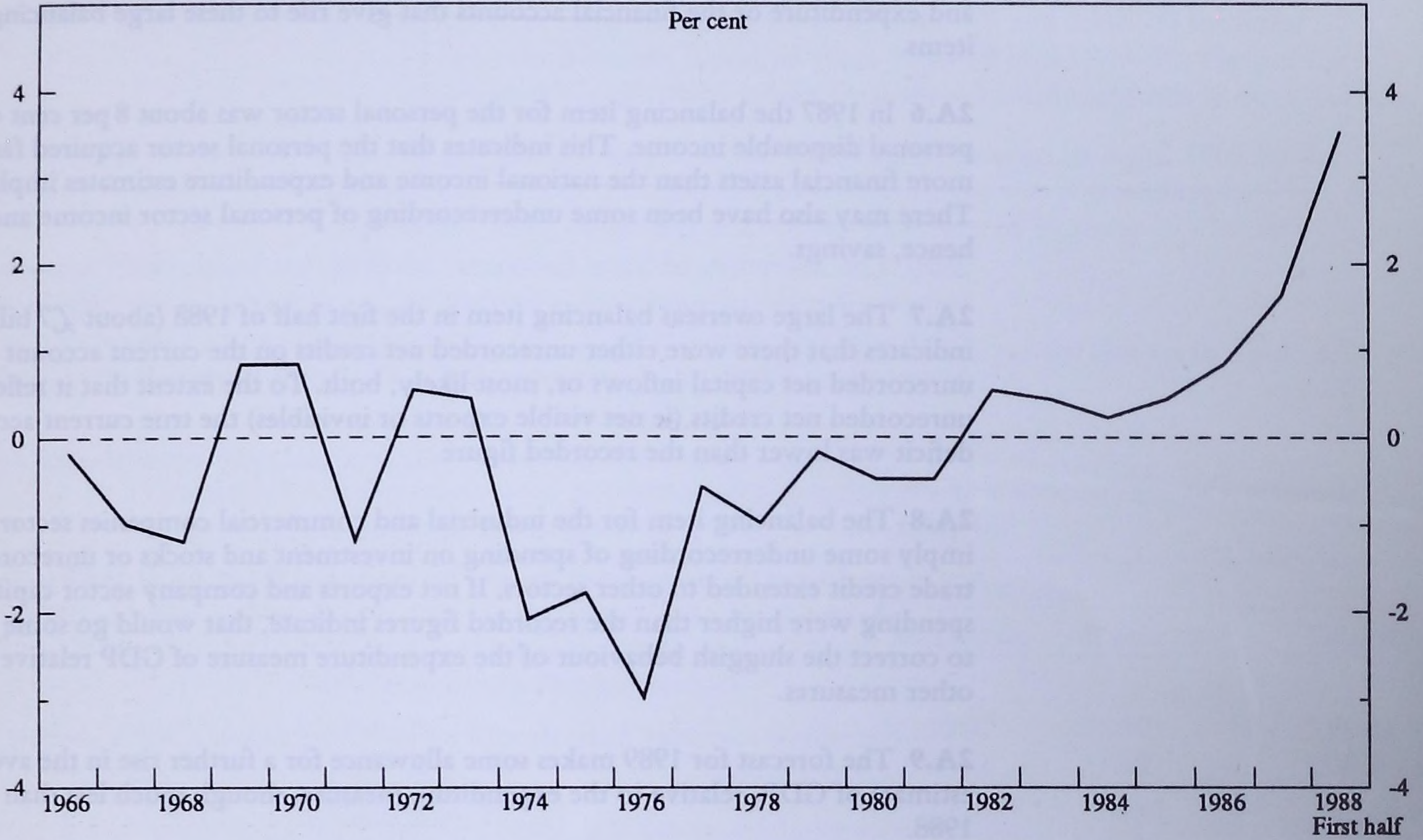
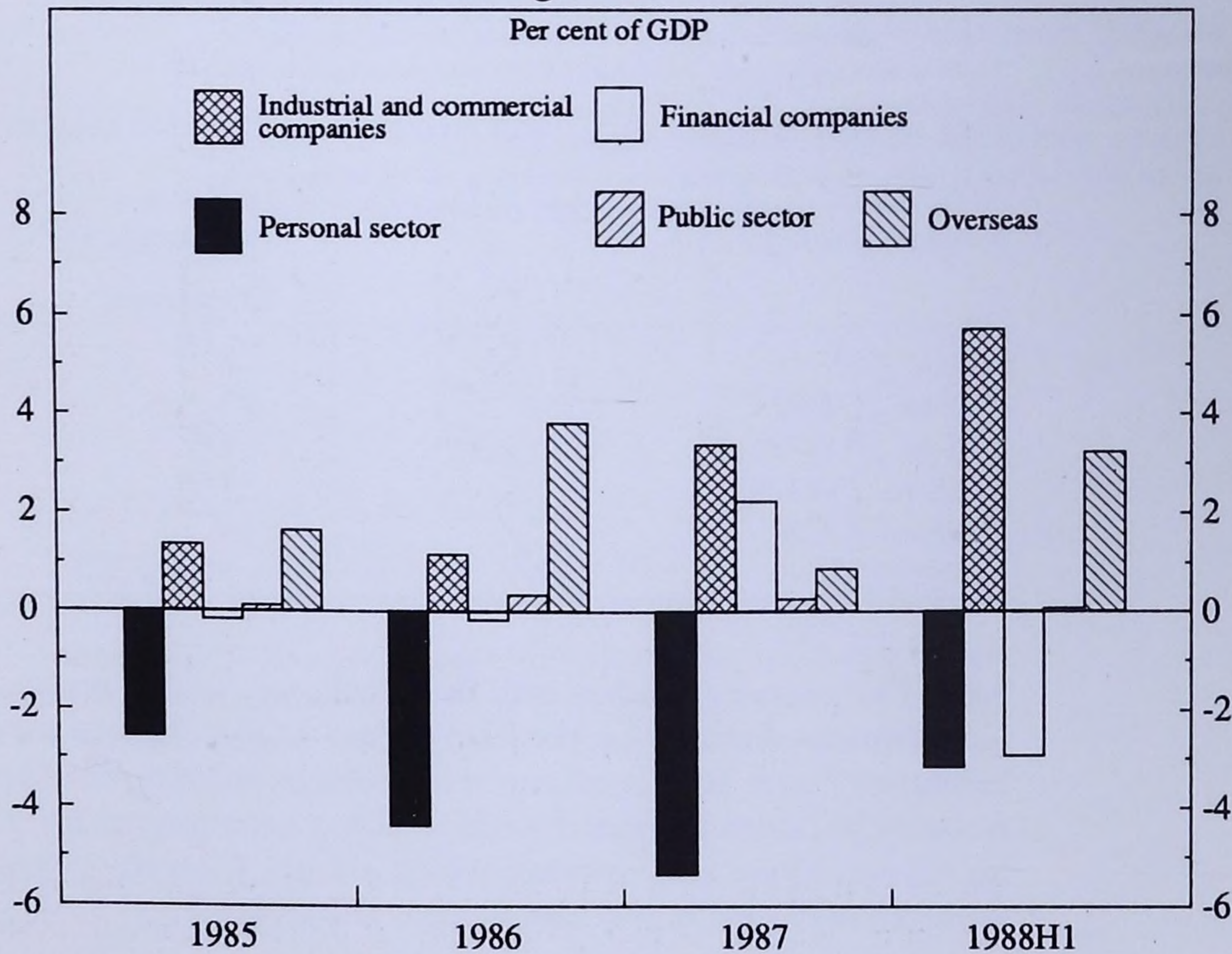


Chart 2A.3 Sectoral balancing items





**2A.5** There is little information on the nature or size of the errors in the income and expenditure or the financial accounts that give rise to these large balancing items.

**2A.6** In 1987 the balancing item for the personal sector was about 8 per cent of personal disposable income. This indicates that the personal sector acquired far more financial assets than the national income and expenditure estimates imply. There may also have been some underrecording of personal sector income and, hence, savings.

**2A.7** The large overseas balancing item in the first half of 1988 (about £7 billion) indicates that there were either unrecorded net credits on the current account or unrecorded net capital inflows or, most likely, both. To the extent that it reflects unrecorded net credits (ie net visible exports or invisibles) the true current account deficit was lower than the recorded figure.

**2A.8** The balancing item for the industrial and commercial companies sector may imply some underrecording of spending on investment and stocks or unrecorded trade credit extended to other sectors. If net exports and company sector capital spending were higher than the recorded figures indicate, that would go some way to correct the sluggish behaviour of the expenditure measure of GDP relative to the other measures.

**2A.9** The forecast for 1989 makes some allowance for a further rise in the average estimate of GDP, relative to the expenditure measure, though much less than in 1988.







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# 3 National insurance contributions

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**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 1 November 1988. The main proposals are as follows:

- the Class 1 insurance rates for employees and employers should remain unchanged for 1989–90.
- the lower earnings limit should be increased from April 1989 from the present level of £41 a week to £43 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £305 a week to £325 a week.
- the earnings limit for the reduced rate brackets should also be increased from £70, £105 and £155 a week to £75, £115, and £165 a week.
- the Treasury supplement, subject to Parliamentary approval of the necessary legislative changes, should be abolished. The supplement is currently equivalent to 5 per cent of contributions.

This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate on all earnings	
	Employees	Employers
Below £43	0	0
£43 to £74.99	5	5
£75 to £114.99	7	7
£115 to £164.99	9	9
£165 to £325	9	10.45
Above £325	9 on £325	10.45

**3.02** The necessary orders 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:

- the number of unemployed (GB, excluding school leavers etc) averages 2.1 million in 1988–89 and 1.9 million in 1989–90.



—the increase in average earnings is expected to decline from about  $8\frac{3}{4}$  per cent between financial years 1987–88 and 1988–89 to about  $7\frac{1}{2}$  per cent between financial years 1988–89 and 1989–90. 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 1989 on the basis of the 5.9 per cent increase in the RPI over the year ending in September 1988, as announced by the Secretary of State on 27 October 1988.

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, 1988–89 and 1989–90<sup>1</sup>**

	£ million		
	Employers	Employees	Total
National insurance contributions:			
1988–89	15 280	13 900	29 180
1989–90	16 410	14 580	30 990
Total change	1 130	680	1 810
<i>of which:</i>			
Change in contributions from increased earnings, etc <sup>2</sup>	1 350	550	1 900
Change in contributions from increase in earnings limits	– 220	+ 130	– 90

<sup>1</sup> 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 1988. 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.

<sup>2</sup> Including population and employment changes.



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# 4 Tax revenue ready reckoner

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**4.01** The tables below show the effects of various illustrative tax changes on tax receipts in 1989–90 and 1990–91. Where appropriate, they allow for the introduction in 1990–91 of independent taxation of husband and wife.

**4.02** The effects of tax changes 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  $6\frac{1}{4}$  per cent has been used to show the effects of indexation and revalorisation in 1989–90. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1988.

**4.04** The tables show estimates of the direct effects of tax changes. 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 1989–90**

**4.05** Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1989–90 after  $6\frac{1}{4}$  per cent indexation. For income tax, rounding follows the rules laid down in the 1980 Finance Act; for inheritance tax and capital gains tax those laid down in the 1982 Finance Act. Estimates of the revenue effects of these changes are shown in Table 4.4.

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

**4.06** Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax from April 1989. For income tax allowances and the basic rate limit, these are changes from an indexed base.

**4.07** 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.

**4.08** 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**

	£	
	1988-89	1989-90
Allowances:		
Single and wife's earned income allowance	2 605	2 775
Married allowance	4 095	4 355
Additional personal and widow's bereavement allowance	1 490	1 580
Single age allowance (age 65-79)	3 180	3 380
Married age allowance (age 65-79)	5 035	5 355
Single age allowance (age 80 and over)	3 310	3 520
Married age allowance (age 80 and over)	5 205	5 535
Aged income limit	10 600	11 300
<hr/>		
Income tax rates	Bands of taxable income	
	£	
Per cent	1988-89	1989-90
25	0-19 300	0-20 600
40	over 19 300	over 20 600

**Table 4.2 Inheritance tax**

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1988-89	1989-90
Nil	0-110	0-117
40	over 110	over 117

**Table 4.3 Capital gains tax**

	£	
	1988-89	1989-90
Annual exempt amount:		
Individuals	5 000	5 400
Trusts	2 500	2 700

**Table 4.4 Costs of indexation for 1989-90**

	£ million	
	1989-90	1990-91
Indexation of income tax allowances and basic rate limit <sup>1</sup>	1 370	1 745
Of which:		
Increases in main personal allowances	1 200	1 470
Increase in the basic rate limit <sup>2</sup>	170	275
Indexation of inheritance tax threshold	35	70
Indexation of capital gains exempt amounts	—	10

<sup>1</sup> Cost includes the consequential effects on capital gains tax.<sup>2</sup> Additional cost after previous change has been introduced.



Table 4.5 Direct effects of illustrative changes in income tax and corporation tax<sup>1</sup>

	£ million	
	1989-90 Cost/yield	1990-91 Cost/yield
<b>Income tax</b>		
<i>Rates</i>		
Change basic rate by 1p <sup>2</sup>	1 400	1 725
Change higher rate by 1p	100	205
<i>Personal allowances<sup>3</sup></i>		
Change single and wife's earned income allowance by £100	275	340
Change married allowance by £100	225	295
Change single age allowance <sup>4</sup> by £100	22	33
Change married age allowance <sup>4</sup> by £100	18	20
Change aged income limit by £200	3	3
Change all main personal allowances by 1 per cent <sup>5</sup>	180	235
Change all main personal allowances by 10 per cent: <sup>5</sup>		
increase (cost)	1 800	2 300
decrease (yield)	1 875	2 375
<i>Basic rate limit</i>		
Change basic rate limit by 1 per cent <sup>5</sup>	23	36
Change basic rate limit by 10 per cent: <sup>5</sup>		
increase (cost)	215	340
decrease (yield)	270	420
<i>Allowances<sup>3</sup> and basic rate limit</i>		
Change all main personal allowances and basic rate limit by 1 per cent <sup>5</sup>	205	270
Change all main personal allowances and basic rate limit by 10 per cent: <sup>5</sup>		
increase (cost)	2 000	2 625
decrease (yield)	2 150	2 825
<b>Corporation tax<sup>6</sup></b>		
Change full rate by 1 percentage point	420	650
Change small companies' rate by 1 percentage point <sup>7</sup>	30	50

<sup>1</sup> The estimated revenue effects of changes in the basic rate of income tax and in the main personal 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 1989.

<sup>2</sup> Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.

<sup>3</sup> Estimated effects in 1990-91 assume equivalent changes in the corresponding allowances under Independent Taxation. (For details see page 39 of the FSB 1988-89).

<sup>4</sup> Including higher age allowance for those aged 80 or over.

<sup>5</sup> Percentage changes are calculated with reference to 1988-89 levels.

<sup>6</sup> 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 1988.

<sup>7</sup> These figures ignore any possible associated changes in the imputation system.



**Indirect taxes** 4.09 Table 4.6 shows estimates of the effects of changes in excise duties from April 1989. The first part shows the extra revenue from the individual duties if they were to be increased by  $6\frac{1}{4}$  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.

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

4.11 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<sup>1</sup>**

	Current level of duty on typical items	6 $\frac{1}{4}$ % Revalorisation <sup>2</sup>		Changes from present levels of duty				
		Price change inc. VAT <sup>3</sup>	£m yield in <sup>4</sup>		Price change inc. VAT <sup>3</sup>	Actual percentage change	£m cost/yield <sup>4</sup>	
			1989-90	1990-91			1989-90	1990-91
Beer (pint)	19.4p	1.4p	125	135	1p	4.5	90	100
Wine (70 cl bottle of table wine) <sup>5</sup>	71.7p	5.2p	45	50	5p	6.1	45	50
Spirits (bottle)	£4.73	34.0p	60	65	10p	1.8	20	20
Cigarettes (20 kingsize) <sup>6</sup>	96.7p	6.0p	215	235	1p	1.0	35	40
Petrol (gallon)	92.9p	6.7p	400	435	1p	0.9	60	70
Derv (gallon)	78.6p	5.6p	90	100	1p	1.1	15	20
VED (cars and light vans)	£100.00	£6.25	145	155	£1.00	1.0	25	25

<sup>1</sup> These are estimated on the assumption that total consumers' expenditure at factor cost does not change.

<sup>2</sup> An 'across the board' revalorisation by  $6\frac{1}{4}$  per cent (including the minor duties not shown above) would yield about £1 130m in 1989-90 and £1 225m in 1990-91 and the impact on the RPI would be to raise it by 0.4 per cent.

<sup>3</sup> VAT is payable in addition to the duty except in the case of VED.

<sup>4</sup> Assuming implementation on 1 April 1989.

<sup>5</sup> Revenue effects include all wines.

<sup>6</sup> 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.

**Table 4.7 VAT<sup>1</sup>**

	£m cost/yield in	
	1989-90	1990-91
1% change in rate of VAT <sup>2</sup>	1 300	1 830

<sup>1</sup> 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.

<sup>2</sup> Assuming implementation on 1 April 1989.



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