



Autumn Statement 1989



NATIONAL
INSTITUTE
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1989

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1 Public expenditure plans

Main points

1.01 Public spending (excluding privatisation proceeds) fell as a proportion of national income from $46\frac{3}{4}$ per cent in 1982–83 to under 40 per cent last year. The ratios in the next two years are expected to be 39 per cent and $38\frac{3}{4}$ per cent, unchanged from last year's Autumn Statement. For the current year the outturn is expected to be $38\frac{3}{4}$ per cent, lower than previously projected. After a small rise from this year's unexpectedly low level, the downward trend will continue as projected last year. By 1992–93 the ratio is expected to reach its lowest level since 1965–66.

1.02 The public expenditure planning total (on the new definition described in paragraph 1.14 below) has been set at £179 billion in 1990–91, with totals of £192.3 billion and £203.4 billion in the following two years. These figures include Reserves of £3 billion, £6 billion, and £9 billion respectively. The estimate of privatisation proceeds is unchanged, at £5 billion a year.

1.03 In real terms, public spending excluding privatisation proceeds will rise by an average $1\frac{3}{4}$ per cent a year between 1988–89 and 1992–93, the same as the rate of growth projected in the last Autumn Statement.

1.04 Extra resources have been allocated to priority areas. The plans provide funds for implementing the NHS Review as well as for continuing growth in patient services. Spending on national roads is planned to double between 1988–89 and 1992–93. Extra finance is being made available for British Rail and London Regional Transport. There is provision for a new initiative to tackle homelessness, for real increases in benefits for less well-off families and long term sick and disabled people, and for extra spending on the arts and higher education.

1.05 About £1½ billion has been added to planned capital spending by central government and public corporations in 1990–91. This provides for a substantial real increase compared with 1989–90.

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

1.07 The latest forecast for the current year, 1989–90, is that expenditure on the old definition of the planning total will be about £168.2 billion, £1.1 billion (0.7 per cent) higher than the plans in the last public expenditure White Paper, Cm 621. The public spending ratio is however expected to be $38\frac{3}{4}$ per cent, about $\frac{1}{2}$ per cent lower than envisaged when the plans were set.

Public spending trends

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

1.09 General government expenditure (GGE), excluding privatisation proceeds, has now fallen as a share of gross domestic product from $46\frac{3}{4}$ per cent in 1982–83 to under 40 per cent last year (see Table 1.1 and Chart 1.1). In the current year, it is expected to be $38\frac{3}{4}$ per cent, lower than the $39\frac{1}{4}$ per cent previously forecast.

Table 1.1 Trends in public spending

	General government expenditure (excluding privatisation proceeds)		Money GDP ²	General government expenditure (excluding privatisation proceeds)
	Cash £ billion	Real terms ^{1,2} £ billion	£ billion	Per cent of GDP ²
1963–64	11.3	94.7	31.4	$36\frac{1}{4}$
1964–65	12.3	98.0	34.2	$35\frac{3}{4}$
1965–66	13.6	103.8	36.6	$37\frac{1}{4}$
1966–67	15.1	110.2	38.9	$38\frac{3}{4}$
1967–68	17.5	124.3	41.2	$42\frac{1}{4}$
1968–69	18.2	123.7	44.6	$40\frac{3}{4}$
1969–70	19.3	124.6	48.0	$40\frac{1}{4}$
1970–71	21.6	128.7	53.2	$40\frac{3}{4}$
1971–72	24.4	132.8	59.3	41
1972–73	27.6	139.6	67.6	41
1973–74	32.0	150.6	74.9	$42\frac{3}{4}$
1974–75	42.9	169.3	89.3	48
1975–76	53.8	169.0	111.0	$48\frac{1}{2}$
1976–77	59.6	165.1	129.7	46
1977–78	64.4	156.8	151.1	$42\frac{3}{4}$
1978–79	75.0	164.8	173.4	$43\frac{1}{4}$
1979–80	90.3	170.1	208.1	$43\frac{1}{2}$
1980–81	108.8	173.1	237.2	$45\frac{3}{4}$
1981–82	121.0	175.4	260.4	$46\frac{1}{2}$
1982–83	133.1	179.8	284.9	$46\frac{3}{4}$
1983–84	141.6	182.8	309.2	$45\frac{3}{4}$
1984–85	152.6	187.7	331.1	46
1985–86	160.8	187.7	361.9	$44\frac{1}{2}$
1986–87	168.9	190.8	387.7	$43\frac{1}{2}$
1987–88	177.7	190.5	429.5	$41\frac{1}{4}$
1988–89	185.7	185.7	476.1	39
1989–90	200.5	187.4	517	$38\frac{3}{4}$
1990–91	215.4	191.7	552	39
1991–92	227.2	195.4	587	$38\frac{3}{4}$
1992–93	239.1	199.6	621	$38\frac{1}{2}$

¹ Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by 7 per cent in 1989–90, and by 5, $3\frac{1}{2}$ and 3 per cent respectively in the years 1990–91 to 1992–93.

² To avoid discontinuities in the series, in this Table and elsewhere in the Autumn Statement, GDP at market prices and the GDP deflator do not take account of the effect on GDP of the change from rates to the community charge in England and Wales from April 1990—see footnote 2 to Table 2.12.

1.10 The ratios for 1990–91 and 1991–92 are unchanged from those in the previous Autumn Statement—39 per cent and 38 $\frac{3}{4}$ per cent respectively (see Table 1.2). GGE excluding privatisation proceeds is projected at £215 billion in 1990–91 (£5 billion higher than in last year's Autumn Statement) and £227 billion in 1991–92. This means that, after rising slightly from the unexpectedly low figure this year, the downward trend in the ratio is expected to continue over time. By 1992–93, the ratio should decline to 38 $\frac{1}{2}$ per cent, its lowest level since 1965–66, and 8 percentage points lower than 10 years earlier.

Chart 1.1 General government expenditure (excluding privatisation proceeds)

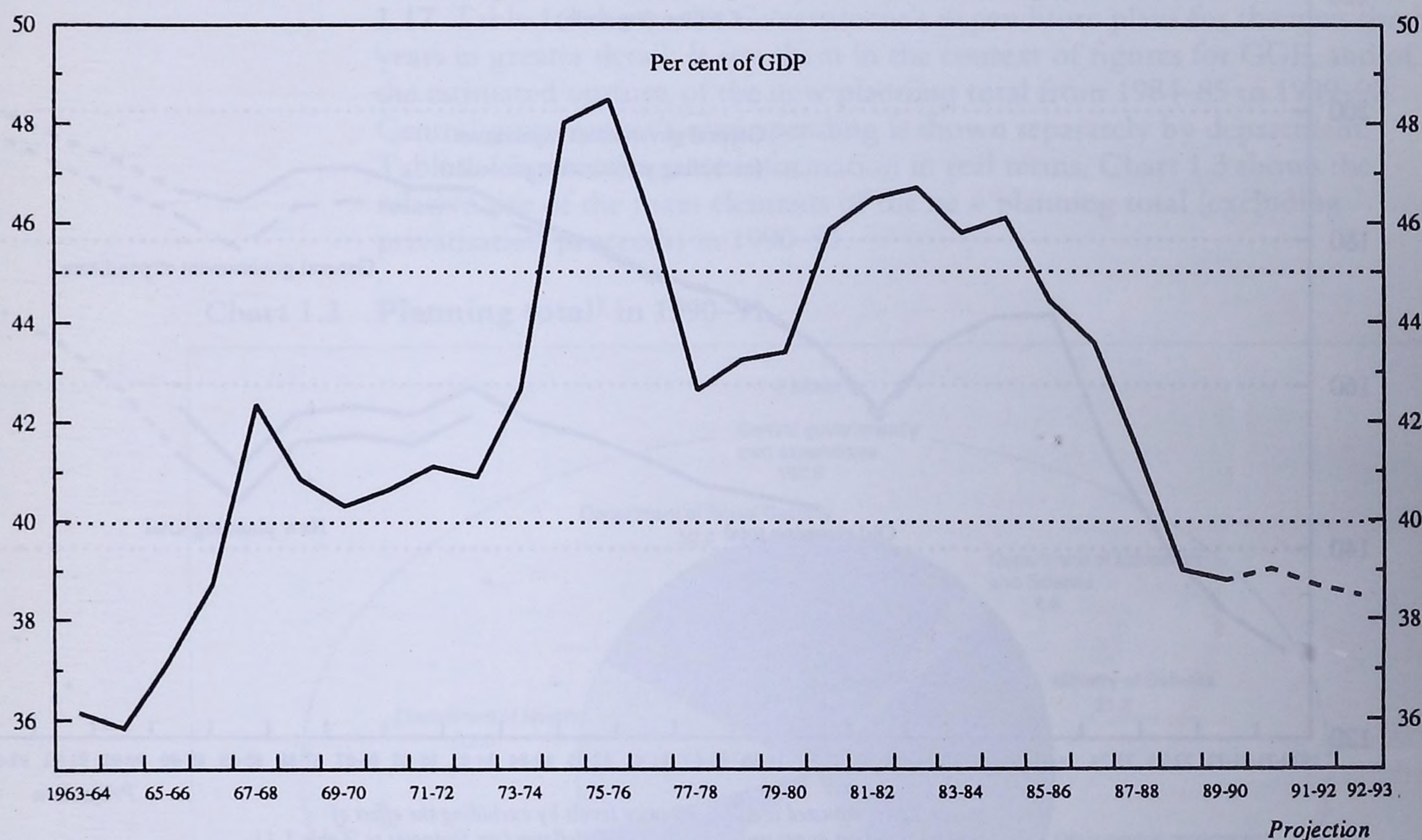


Table 1.2 General government expenditure¹; plans and outturn

	Per cent of GDP								
	1984–85	1985–86	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93
March 1985 FSBR ²	46 $\frac{1}{4}$	45 $\frac{3}{4}$	44	43					Plans
January 1986 White Paper (Cmnd 9702)	46 $\frac{1}{4}$	45	44	43	42 $\frac{1}{4}$				Outturn
January 1987 White Paper (Cm 56)	46 $\frac{1}{4}$	44 $\frac{3}{4}$	44 $\frac{1}{2}$	44	42 $\frac{3}{4}$	42 $\frac{1}{4}$			
January 1988 White Paper (Cm 288)	46 $\frac{1}{4}$	44 $\frac{1}{2}$	44	42 $\frac{1}{2}$	42	41 $\frac{3}{4}$	41 $\frac{1}{4}$		
January 1989 White Paper (Cm 621)	46 $\frac{1}{4}$	44 $\frac{1}{2}$	43 $\frac{3}{4}$	41 $\frac{3}{4}$	39 $\frac{3}{4}$	39 $\frac{1}{4}$	39	38 $\frac{3}{4}$	
This Autumn Statement	46	44 $\frac{1}{2}$	43 $\frac{1}{2}$	41 $\frac{1}{4}$	39	38 $\frac{3}{4}$ ³	39	38 $\frac{3}{4}$	38 $\frac{1}{2}$

¹Excluding privatisation proceeds.

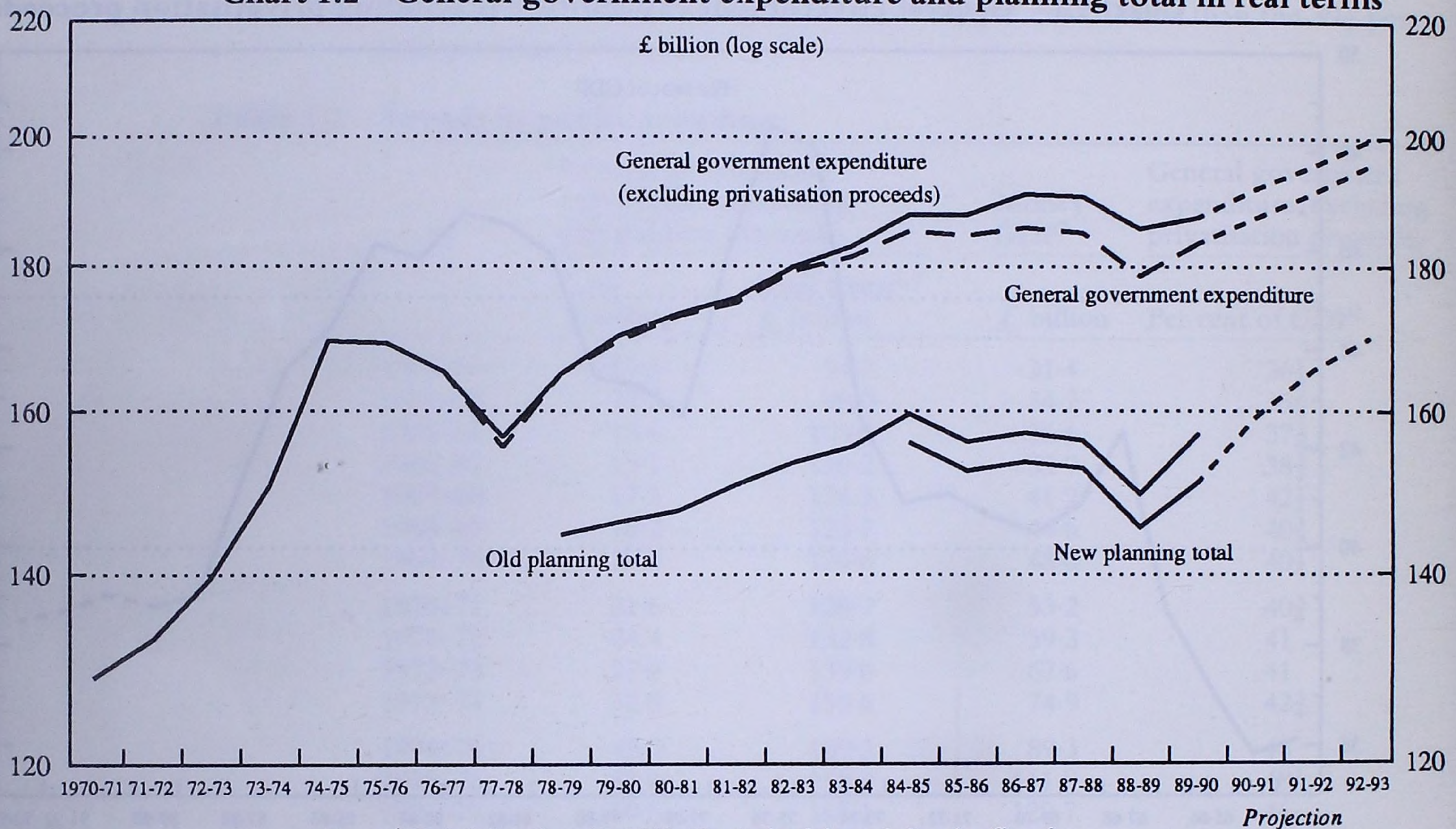
²Financial Statement and Budget Report.

³Estimated.

1.11 Chart 1.2 and Table 1.1 show the trend of public spending in real terms. GGE excluding privatisation proceeds grew between 1978–79 and 1988–89 by around $1\frac{1}{4}$ per cent a year on average, compared with nearly 3 per cent a year in the decade to 1978–79.

1.12 Between 1988–89 and 1992–93, the real growth in spending is expected to average around $1\frac{3}{4}$ per cent a year. This continues, for the period to 1992–93, the average real growth projected in the last Autumn Statement between 1988–89 and 1991–92.

Chart 1.2 General government expenditure and planning total in real terms¹



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

The new spending plans

1.13 The trends above are described in terms of GGE which is the main expenditure aggregate in the Medium Term Financial Strategy, and is a broad measure of the amount that must be raised through taxes or borrowing to finance central and local government expenditure, including debt interest.

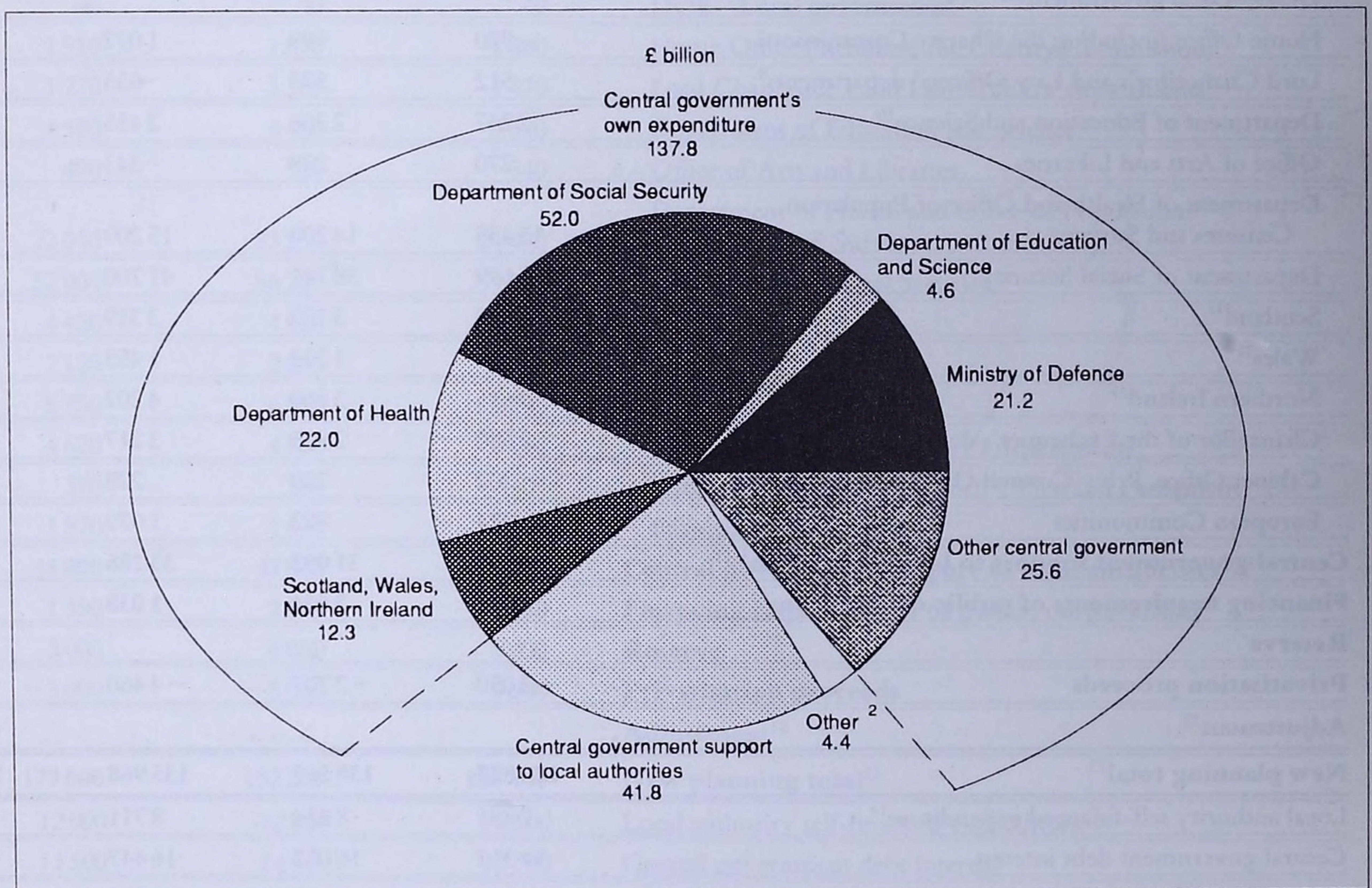
1.14 For the purposes of planning and control, the Government uses a narrower measure—the planning total. This will in future be defined to cover only those areas of spending for which central government is responsible. It will thus include central government support for local authorities through grants, credit approvals, and non-domestic rate payments; but it will exclude the spending which local authorities finance from their own resources (including the community charge) and their inflow of capital receipts. It will still include central government's own spending, the financing requirements of public corporations, privatisation proceeds, and a Reserve.

1.15 The new planning total, and the difference between it and the old planning total, is explained in more detail in the Annex to this Chapter. The change of definition coincides with the introduction of new arrangements for local government finance, described in paragraph 1.61 below.

1.16 The planning totals for the three Survey years, 1990–91 to 1992–93, have been set on this new definition at £179 billion, £192.3 billion and £203.4 billion respectively. These totals include Reserves of £3 billion, £6 billion and £9 billion. The estimate of privatisation proceeds is £5 billion in each year.

1.17 Table 1.3 shows the Government's expenditure plans for the next three years in greater detail. It sets them in the context of figures for GGE, and of the estimated outturn of the new planning total from 1984–85 to 1989–90. Central government's own spending is shown separately by department. Table 1.12 gives the same information in real terms. Chart 1.3 shows the relative size of the main elements of the new planning total (excluding privatisation proceeds) in 1990–91.

Chart 1.3 Planning total¹ in 1990–91



¹ Excluding privatisation proceeds.

² Reserve and financing requirements of public corporations.

1 Public expenditure plans

Table 1.3 Planning total and general government expenditure^{1, 2, 3}

	£ million				
	Outturn				
	1984–85	1985–86	1986–87	1987–88	1988–89
Central government's own expenditure—	93 188	99 551	106 104	111 188	116 330
of which:					
Ministry of Defence	17 108	17 929	18 168	18 853	19 073
FCO—Diplomatic wing	593	608	648	687	739
FCO—Overseas Development Administration	1 175	1 211	1 271	1 291	1 507
Ministry of Agriculture, Fisheries and Food ⁴	1 808	2 266	1 578	1 790	1 559
Trade and Industry ⁵	1 154	1 065	1 838	933	1 672
Export Credits Guarantee Department	532	345	288	151	109
Energy ⁶	484	860	894	553	538
Department of Employment	3 026	3 154	3 586	3 634	3 587
Department of Transport	1 154	1 218	1 269	1 379	1 405
DOE—Housing	1 145	1 188	1 305	1 303	1 376
DOE—Other environmental services and Ordnance Survey ⁷	285	285	328	473	529
DOE—PSA Services					
DOE—Local government ⁸					
Home Office (including the Charity Commission)	920	999	1 072	1 184	1 364
Lord Chancellor's and Law Officers' departments ⁹	512	573	655	777	902
Department of Education and Science ¹⁰	2 247	2 356	2 455	2 696	2 961
Office of Arts and Libraries	270	288	343	368	414
Department of Health and Office of Population Censuses and Surveys	13 435	14 200	15 209	16 672	18 431
Department of Social Security	35 699	38 741	41 700	43 578	44 473
Scotland ¹¹	2 959	3 152	3 319	3 466	3 827
Wales ¹¹	1 249	1 333	1 453	1 546	1 730
Northern Ireland ¹¹	3 615	3 860	4 202	4 471	5 142
Chancellor of the Exchequer's departments	2 640	2 875	3 217	3 471	3 713
Cabinet Office, Privy Council Office and Parliament	202	220	228	251	274
European Communities	974	822	1 079	1 661	1 006
Central government support to local authorities^{3, 11}	30 707	31 083	33 286	35 654	36 450
Financing requirements of public corporations¹¹	4 981	2 634	1 038	793	– 183
Reserve					
Privatisation proceeds	– 2 050	– 2 707	– 4 460	– 5 140	– 7 065
Adjustment¹²					
New planning total¹³	126 827	130 561	135 968	142 495	145 532
Local authority self-financed expenditure ¹⁴	7 881	8 334	8 711	8 999	10 161
Central government debt interest	14 313	16 052	16 447	17 032	17 597
Accounting adjustments	1 532	3 130	3 355	3 997	5 304
General government expenditure	150 553	158 077	164 481	172 523	178 594

¹ The rounding and other conventions used in this table and in Tables 1.4, 1.6, 1.7, 1.10, 1.11, 1.13, 1.14 and Table 1.15 for future years are as follows: departmental totals are rounded to the nearest £10 million (except for social security, which is rounded to £100 million); the planning total, spending sector totals (except public corporations) and general government expenditure are rounded to the nearest £100 million. In the case of general government expenditure, this does not imply accuracy to this degree. Local authority self-financed expenditure, debt interest and other national accounts adjustments for future years are rounded to the nearest £500 million. Outturn figures for 1989–90 have been rounded similarly to reflect their provisional nature, but with items between the planning total and general government expenditure rounded to £100 million. The changes and totals are based on the unrounded figures. They may therefore

differ from the changes and sums of the rounded figures. Some figures may be subject to detailed technical amendment before the publication of the 1990 public expenditure White Paper.

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

³ Proxies have been used for some of the new local authority elements of the planning total for years before 1990–91: see footnotes 1 and 8 to Table 1.5.

⁴ Includes Intervention Board for Agricultural Produce and Forestry Commission.

⁵ Includes Office of Fair Trading and Office of Telecommunications.

1 Public expenditure plans

Estimated outturn	New plans			
	1990-91	1991-92	1992-93	
1989-90				
126 500	137 800	145 300	152 200	Central government's own expenditure—
				of which:
20 310	21 200	22 350	23 430	Ministry of Defence
840	890	940	970	FCO—Diplomatic wing
1 570	1 680	1 780	1 850	FCO—Overseas Development Administration
1 560	1 910	2 120	2 220	Ministry of Agriculture, Fisheries and Food ⁴
1 210	1 220	1 090	1 000	Trade and Industry ⁵
340	240	70	- 30	Export Credits Guarantee Department
460	450	410	410	Energy ⁶
3 530	3 460	3 340	3 370	Department of Employment
1 970	2 310	2 410	2 510	Department of Transport
1 540	2 250	2 560	2 680	DOE—Housing
550	600	550	490	DOE—Other environmental services and Ordnance Survey ⁷
	30	0	- 10	DOE—PSA Services
	40	40	40	DOE—Local government ⁸
1 670	1 910	1 870	1 880	Home Office (including the Charity Commission)
1 120	1 270	1 380	1 470	Lord Chancellor's and Law Officers' departments ⁹
4 310	4 580	4 460	4 590	Department of Education and Science ¹⁰
440	490	520	540	Office of Arts and Libraries
				Department of Health and Office of Population Censuses and Surveys
20 010	22 040	23 350	24 470	
47 200	52 000	56 200	59 500	Department of Social Security
4 010	4 420	4 620	4 760	Scotland ¹¹
1 890	2 120	2 200	2 260	Wales ¹¹
5 520	5 750	6 050	6 290	Northern Ireland ¹¹
4 160	4 620	4 880	5 140	Chancellor of the Exchequer's departments
320	370	380	400	Cabinet Office, Privy Council Office and Parliament
2 030	1 870	1 670	1 990	European Communities
38 100	41 800	43 800	44 900	Central government support to local authorities^{3, 11}
1 540	1 390	2 310	2 320	Financing requirements of public corporations¹¹
	3 000	6 000	9 000	Reserve
- 4 250	- 5 000	- 5 000	- 5 000	Privatisation proceeds
- 200				Adjustment¹²
161 700	179 000	192 300	203 400	New planning total¹³
13 200	12 000	12 000	12 500	Local authority self-financed expenditure ¹⁴
17 300	15 500	14 000	13 500	Central government debt interest
4 100	4 500	4 000	4 500	Accounting adjustments
196 300	210 400	222 200	234 100	General government expenditure

⁶ Includes Office of Gas Supply and, from 1990-91, Office of Electricity Regulation.

⁷ Includes Office of Water Services and Property Services Agency up to 1989-90.

From 1990-91 includes Property Holdings.

⁸ The central government component of DOE—Local government comprises non-domestic rate collection costs.

⁹ Includes the Crown Prosecution Service, the Crown Office, the Northern Ireland Court Service, the Serious Fraud Office, the Land Registry, the Public Record Office and the Treasury Solicitor's Department.

¹⁰ Comparisons between years up to and including 1988-89 and later years are affected by the transfer of PCFC to central government; figures for 1990-91 and beyond are affected by the transfer of student fees (see paragraph 1.49).

¹¹ See paragraph 1.58.

¹² An adjustment for the difference between the assessment of the likely outturn for 1989-90 and the sum of the other items shown.

¹³ Plans for years up to 1989-90 were set using the old planning total: outturn data on this basis for 1988-89 and 1989-90 are shown in Tables 1.13-1.15.

¹⁴ Figures shown for local authority self-financed expenditure, net of capital receipts, are derived by deducting central government support for local authorities from figures for total local authority expenditure, including debt interest, for 1984-85 to 1992-93 respectively of £38½ billion, £39½ billion, £42 billion, £44½ billion, £46½ billion, £51½ billion, £53½ billion, £55½ billion and £57½ billion. No adjustments have been made for changes in local authority functions over this period. This affects in particular comparisons between 1988-89 and 1989-90 but also other comparisons.

1 Public expenditure plans

Table 1.4 Public expenditure planning total by department¹

	£ million					
	Latest estimates of outturn			New plans		
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90	1990-91	1991-92	1992-93
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430
FCO—Diplomatic wing	739	840	100	890	940	970
FCO—Overseas Development Administration	1 541	1 620	80	1 710	1 810	1 880
Ministry of Agriculture, Fisheries and Food	1 636	1 540	-90	1 830	2 040	2 140
Trade and Industry	1 306	1 150	-160	1 280	1 030	930
Export Credits Guarantee Department	109	340	230	240	70	-30
Energy	-419	150	570	-160	670	670
Department of Employment	3 850	3 880	30	3 790	3 680	3 720
Department of Transport	2 743	3 600	860	4 230	4 490	4 600
DOE—Housing ²	2 638	2 560	-80	6 270	6 720	6 920
DOE—Other environmental services and Ordnance Survey	882	1 320	440	1 380	1 270	1 220
DOE—PSA Services				30	0	-10
DOE—Local government ³	18 782	19 480	690	20 480	21 340	21 670
Home Office (including the Charity Commission)	3 710	4 280	570	4 840	5 010	5 160
Lord Chancellor's and Law Officers' Departments	902	1 120	220	1 270	1 380	1 470
Department of Education and Science	4 270	5 710	1 440	6 590	6 770	6 920
Office of Arts and Libraries	431	460	30	490	520	540
Department of Health and Office of Population Censuses and Surveys	18 488	20 130	1 640	22 180	23 480	24 610
Department of Social Security ⁴	49 430	52 600	3 100	55 600	59 900	63 500
Scotland ³	8 464	8 980	520	9 570	10 080	10 390
Wales ^{2,3}	3 567	3 860	290	4 460	4 590	4 720
Northern Ireland	5 469	5 760	290	5 970	6 240	6 460
Chancellor of the Exchequer's departments	3 706	4 160	450	4 610	4 880	5 140
Cabinet Office, Privy Council Office and Parliament	274	320	40	370	380	400
European Communities	1 006	2 030	1 020	1 870	1 670	1 990
Reserve				3 000	6 000	9 000
Privatisation proceeds	-7 065	-4 250	2 820	-5 000	-5 000	-5 000
Adjustment		-200	-200			
New planning total	145 532	161 700	16 200	179 000	192 300	203 400

¹ Departmental totals include central government support for local authorities and financing requirements of public corporations. For departmental groupings and other conventions see footnotes to Table 1.3.

² See footnote 3 to Table 1.6.

³ DOE—Local government includes Revenue Support Grant and non-domestic rate payments in England and certain transitional grants associated with the change from rates to the new system of local authority finance (see footnote 4 to Table 1.6). (Comparable items are included in the figures for Scotland and Wales.)

⁴ See footnote 5 to Table 1.6.

1.18 Table 1.4 gives an alternative departmental breakdown of the new planning total with central government support to local authorities and the financing requirements of public corporations attributed to their respective departments.

Comparison with previous plans

1.19 Previous public expenditure plans were set in terms of the old definition of the planning total. In particular, there were no previous plans for central government support for local authorities for 1990–91 and later years. It is therefore possible to compare the new plans with previous plans only in those areas where the two definitions overlap, for example for central government's own expenditure. The comparison is not possible for the local authority elements in the plans. The differences between the new plans and previous plans, in so far as the comparison can be made, are shown in Tables 1.10, 1.11 and 1A.1. For 1988–89 and 1989–90, where the plans were both set and monitored on the old planning total basis, a comparison of plan and estimated outturn is given in Tables 1.13, 1.14 and 1.15.

The new plans—departmental detail

1.20 Over the last five years, substantial growth in spending on the Government's priorities has been made possible by declining requirements elsewhere, including improvements in efficiency and a decline in the burden of debt interest. Central government expenditure on transport, housing, environmental services, law and order, education and health has risen by over 15 per cent in real terms, while the financing requirements of public corporations, the numbers of unemployed people on social security benefits, and debt interest payments have fallen. The new plans show further real growth in spending on priority programmes.

1.21 The following paragraphs briefly describe the new plans.

Defence **1.22** The Government's aims for defence are to ensure the security of the nation and maintain its freedom, in particular by maintaining the effectiveness of its contribution to the NATO alliance.

1.23 The plans for 1990–91 and 1991–92 are consistent with last year's three year settlement. The defence budget will rise to £23.4 billion in 1992–93. The provision will continue to provide a firm framework within which to plan for the UK's defence commitments over the next three years.

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

Foreign and Commonwealth Office (Diplomatic Wing)

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

Overseas Development Administration

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

1.27 Within overall provision for ODA of £1,710 million in 1990–91, the aid programme is now set at £1,590 million. This will give an 11 per cent cash increase over 1989–90 plans—a significant increase in real terms. The aid programme will increase to £1,680 million in 1991–92 and to £1,750 million in 1992–93. There is provision for increases in bilateral aid, particularly to support economic reform in Nigeria; and for protecting the environment in developing countries, especially by forestry conservation. Within the overall total, there is also provision for a know-how fund for Poland.

Agriculture

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

1.29 Within the domestic agriculture programme, there are increases for new measures to ensure food safety and for further work to improve flood defences, especially along the East Coast. Additional provision has been made for increased take up of the set-aside scheme to encourage reduction of agricultural surpluses; for a pilot scheme to reduce the use of nitrates in sensitive areas; for compensation to farmers whose animals are slaughtered because of infection by salmonella or bovine spongiform encephalopathy; and for departmental administration. These increases are partly offset by savings in other areas.

Trade and Industry

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

Export Credits Guarantee Department

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

Energy

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

Employment

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

Transport

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

1.35 The Department's programme also includes credit approvals and capital grants in support of local authorities' capital expenditure on roads and other transport facilities. These have been set at a level which should enable local authorities to undertake construction of a light railway in Greater Manchester, to expand Manchester airport's terminal capacity to handle up to 18 million passengers a year by 1993, and to carry out a £2 billion programme of road improvements over the period 1990-91 to 1992-93. Transport capital grants will be 24 per cent higher in 1990-91 than in 1989-90.

1.36 The departmental totals also include the external financing requirements of British Rail, London Regional Transport and the Civil Aviation Authority. British Rail's external finance limit is increased by £220 million in 1990-91 and £250 million in 1991-92. This covers provision for investment in 1990-91 of £1,070 million, 88 per cent higher than in 1988-89; there are substantial increases for investment in rail services for the Channel Tunnel, in improvements in the quality of service on Network SouthEast and in modernising the freight sector. London Regional Transport's external finance limit is increased by £165 million in 1990-91 and £250 million in 1991-92, with provision for investment in 1990-91 of £540 million. This will fund further measures to help deal with congestion and improve safety, in particular on London Underground. As announced by the Secretary of State for Transport on 16 November 1989, additional provision of approximately £40 million in 1990-91 and £150 million and £240 million in the following two years will be made available from the Reserve for the extension of the Jubilee Line through Docklands to Stratford in east London. This provision is not included in the departmental totals. The Civil Aviation Authority's investment programme includes provision for a new air traffic control centre to increase capacity over England and Wales by 40 per cent.

Housing **1.37** The Government's housing policy aims include increasing home-ownership, giving greater choice to those wishing to rent accommodation and encouraging local authorities to ensure the provision, from a range of suppliers, of adequate housing in their areas.

1.38 The new plans provide £250 million over the next two years for a new Government initiative to help local authorities and housing associations relieve homelessness. In addition, extra funding now planned will enable the Housing Corporation to support an increase of £370 million (45 per cent) between 1989-90 and 1990-91 in provision of new homes by housing associations. The Housing Corporation's capital programme will more than double from £815 million this year to £1,730 million in 1992-93. Government support for local authorities next year will include credit approvals and capital grants of £1,815 million for renovation and other capital investment by local authorities and grants for the improvement of private sector housing. Partially offsetting the planned increases in expenditure is a projected increase in net receipts from disposals of New Towns housing and housing sites.

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

Other Environmental Services **1.40** This programme covers a wide range of services, including the Government's priority areas of the environment and urban regeneration.

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

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

Property Services Agency

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

1.44 Property Holdings will become part of DOE (Central) and will continue to manage the Government's civil estate. The plans for expenditure have been raised by £35 million net next year, mainly to cover increases in rent payments and major new works on the estate and also the Parliamentary works at Bridge Street and the Victoria Tower.

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

Home Office and legal departments

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

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

Education and Science

1.48 The Government's aims, as set out in the 1988 Education Reform Act, are to raise standards of achievement at all levels of ability, to increase parental choice, and to widen access to further and higher education and make them more responsive to the needs of the economy. Central government support for local authorities' current expenditure on schools is provided through Aggregate External Finance (in England and Wales) and Aggregate Exchequer Grant (in Scotland) (see paragraph 1.64 below). Provision for credit approvals within the Department of Education's programme will allow a substantial programme of local authority capital expenditure on schools and further education colleges. There is also extra provision for grant-maintained schools and for City Technology Colleges.

1.49 Resources available for higher education will rise by about £500 million between 1989–90 and 1990–91, after taking account of the reduction in rates payable by the institutions concerned. Participation in higher education is expected to rise from its present record level. The number of first degrees awarded is projected at around 140,000 in 1991, 40 per cent higher than in 1979. More money has been made available for universities, polytechnics and colleges both to finance the costs of teaching these extra students and to provide for increased spending on maintenance and equipment. There is provision both for student awards for a record number of students, and in addition for the Government's proposals for introducing student loans. Within the total funding provided for higher education, a greater proportion will in future be channelled through student fees paid by local authorities, with a smaller proportion coming from central grants to institutions. This is intended to make the provision of higher education more responsive to student demand. As a result, sums rising to about £½ billion a year will be transferred from central government's own expenditure to grants to local authorities. Substantial extra spending on the science budget is planned (see paragraph 1.79).

Arts and Libraries

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

Health

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

1.52 An increase of £1,150 million has been made on the previous plans for the NHS in England in 1990–91, with an addition of £1,510 million in 1991–92. Cash provision will be £2 billion higher in 1990–91 than 1989–90 in England (and £2.4 billion in the UK). In addition, the health service will have available extra cash released by a new round of cost improvement programmes and income generation. Taking these further factors into account, the resources available to the NHS in England will be over £2.2 billion (over 5½ per cent in real terms) higher in 1990–91 than 1989–90, and £2.6 billion for the UK as a whole.

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

1.54 Total current expenditure on hospital and community health services in England is planned to rise from £13,650 million in 1989–90 to £14,810 million in 1990–91 and £15,540 million in 1991–92. This increase provides scope for health authorities to continue to expand services. Increases will also allow for faster changeover of nursing training schools to the new Project 2000 arrangements. Provision for net capital expenditure on hospital and

community health services has been increased by £140 million in 1990–91, to a level 18 per cent higher than in 1989–90. Provision for the family practitioner service allows for higher forecast demand and for service developments. There are also additional funds for special hospitals, health education and disablement services.

Social Security

1.55 The programme provides for expenditure on social security benefits (except rent rebates in England and Wales which, from April 1990, are part of the DOE and Welsh Office programmes) and for the administration costs of paying benefits and collecting contributions. The new plans reflect the latest estimate of expenditure over the Survey period. Including rent rebates in England and Wales, they imply an average increase in total benefit expenditure of some 4 per cent a year in real terms. They take account of the statement by the Secretary of State on 25 October 1989 on benefit rates to apply from April 1990. This proposed that child benefit should not be uprated next year, but that additional resources should be focused on less well-off families with children, including lone parents, and others with special needs such as the disabled. Ten new measures were announced which are expected to help $\frac{1}{2}$ million long term sick and disabled people. Within the next few months further proposals will be brought forward to improve the balance and structure of social security provision for this group.

1.56 The new plans provide for grants to local authorities in support of community charge benefit at higher levels of expenditure than on rate rebates. Extra provision is also included for the cost of special assistance to $2\frac{1}{2}$ million of the least well-off pensioners and the abolition of the pensioners' earnings rule, both implemented in October 1989.

1.57 The plans also provide for further upratings of benefits in April 1991 and April 1992. For this purpose the RPI is assumed to rise by $6\frac{1}{2}$ per cent in the year to September 1990 (for the upratings in April 1991) and by 3 per cent in the year to September 1991 (for the upratings in April 1992). The number of unemployed in Great Britain is assumed to average 1.75 million in 1990–91, 1991–92 and 1992–93.

Scotland, Wales and Northern Ireland

1.58 The net changes in these programmes mainly reflect the effects of changes in comparable programmes for England. As in former years the decisions of the Secretaries of State for Scotland, Wales and Northern Ireland on the distribution of resources within their responsibilities will be shown in the public expenditure White Paper. For the purpose of the analysis in Tables 1.3, 1.5, 1.6, 1.7, 1.10, 1.11 and 1.12 in this Statement, a notional split between and within spending authorities has been assumed, taking account of the pattern of expenditure in 1989–90.

Chancellor's Departments

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

European Community 1.60 The increase in the United Kingdom's net payments stems from a number of factors, including higher VAT contributions and customs duties, reflecting recent strong economic growth, and higher imports from third countries.

Local authorities

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

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

1.63 The Government's expenditure plans in the new planning total will, as explained in paragraph 1.14 and in more detail at the Annex, cover this central government support for local authorities. Table 1.3 shows the planned levels of total support, while Table 1.5 breaks the total down into its main components.

Table 1.5 Central government support for local authorities

	£ million			New plans		
	Latest estimates of outturn			1990–91	1991–92	1992–93
	1988–89 outturn	1989–90 estimated outturn	Changes 1988–89 to 1989–90			
Non-domestic rates payments ¹						
England	8 788	9 620	830	10 430	25 940 ³	26 670 ⁴
Scotland	1 290	1 220	–70	1 190		
Wales	368	410	50	450		
Revenue support grants ²						
England	9 824	9 610	–210	9 490		
Scotland	2 007	2 340	330	2 450		
Wales	1 015	1 050	30	1 130		
Transitional grants ⁵				670	840	540
Other current grants ^{5,6}	8 918	9 800	900	10 900	11 700	12 400
Capital grants ^{6,7}	544	620	80	1 300	1 300	1 300
Credit approvals ^{6,7,8}	3 697	3 410	–290	3 800	4 000	4 000
Total	36 450	38 100	1 600	41 800	43 800	44 900
of which AEF ⁹	26 079	27 500	1 400	28 800	30 100	30 800

¹ For years before 1990–91 the estimated yield of non-domestic rates has been used as a proxy for non-domestic rates payments.

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

³ Comprising £20 550 million (England), £3 760 million (Scotland), £1 630 million (Wales).

⁴ Comprising £21 130 million (England), £3 860 million (Scotland), £1 680 million (Wales).

⁵ Transitional and other current grants are shown in more detail in Table 1.6.

⁶ See paragraph 1.58.

⁷ Table 1.7 shows a departmental breakdown of capital grants and credit approvals.

⁸ Includes net capital allocations in Scotland. For years before 1990–91 capital allocations less capital grants has been used as a proxy for credit approvals in England and Wales.

⁹ Including non-domestic rates in Scotland.

1.64 Table 1.5 identifies figures for the "Aggregate External Finance" (AEF) which the Government provides in support of local authorities' general current expenditure. AEF comprises payments from the national non-domestic rate (NNDR) pool, Revenue Support Grant (RSG) and certain specific grants in support of local authority current expenditure. In July, the Secretaries of State for the Environment and Wales announced the proposed AEF totals for next year, and the Secretary of State for Scotland announced corresponding proposals for the Aggregate Exchequer Grant (AEG) total for Scotland. Revenue Support Grant and national non-domestic rate (NNDR) payments for England are included in the DOE-local government line of Table 1.4. The comparable items for Scotland and Wales are included within the lines for the Scottish and Welsh Offices. Excluded from AEF are some other specific grants financing all or almost all of local authority expenditure on certain services (for instance, housing benefit, mandatory student awards, community charge benefit).

Table 1.6 Other current grants to local authorities by department¹

	£ million			New plans		
	Latest estimates of outturn			1990-91	1991-92	1992-93
	1988-89 outturn	1989-90 estimated outturn	Changes 1988-89 to 1989-90			
Ministry of Agriculture, Fisheries and Food ²	29	- 50	- 80	- 110	- 120	- 120
Trade and Industry	0	0	0	10	10	10
Department of Employment	256	350	90	320	330	340
Department of Transport	2	0	0	0	0	0
DOE-Housing ³	22	20	0	2 260	2 410	2 550
DOE-Other environmental services	20	20	0	20	20	20
DOE-Local government ⁴	169	250	80	520	750	490
Home Office	2 226	2 430	200	2 690	2 870	2 990
Department of Education and Science ⁴	904	1 020	120	1 550	1 840	1 860
Department of Health	25	40	20	50	30	30
Department of Social Security ⁵	4 958	5 400	400	3 500	3 700	4 100
Scotland ^{4,6}	232	250	20	400	380	380
Wales ^{3,4,6}	33	40	0	220	230	230
Northern Ireland ⁶	41	40	0	50	50	50
Total	8 918	9 800	900	11 500	12 500	12 900

¹ Comprises mainly specific grants in support of local authorities' current expenditure. Excludes Revenue Support Grant and non-domestic rates payments, which provide the bulk of this support. These are shown in Table 1.5.

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

³ Includes central government support for rent rebates from 1990-91.

⁴ Includes transitional grants to assist with the transfer of responsibility for education to Inner London boroughs (included in Department of Education and Science), and with the introduction of the community

charge (included in DOE-Local government, Scotland and Wales), as follows:

	1990-91 £ million	1991-92 £ million	1992-93 £ million
Inner London education grant	100	70	50
Low rateable values grant	87	490	283
Area protection grant	30		
Transitional relief	449	276	212
Total	666	836	545

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

⁶ See paragraph 1.58.

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

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

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

Table 1.7 Credit approvals¹ and capital grants in support of local authority capital expenditure

	£ million				
	Latest estimates of outturn ²		New plans		
	1988–89 outturn	1989–90 estimated outturn	1990–91	1991–92	1992–93
Ministry of Agriculture, Fisheries and Food ³	29	30	30	40	40
Trade and Industry ³	2	0	0	0	0
Department of Employment ³	5	0	0	0	0
Department of Transport	682	640	760	840	830
DOE—Housing ⁴	1 341	1 110	1 930	1 900	1 830
DOE—Other environmental services ³	450	470	430	450	470
Home Office	120	180	240	270	280
Department of Education and Science	405	370	460	470	470
Office of Arts and Libraries ³	17	20	0	0	0
Department of Health	81	80	90	100	110
Scotland ⁵	787	790	790	830	890
Wales ⁵	316	340	400	410	430
Northern Ireland ⁵	5	10	10	10	10
Total	4 241	4 030	5 100	5 300	5 400
of which					
capital grants	544	620	1 300	1 300	1 300
credit approvals	3 697	3 410	3 800	4 000	4 000

¹ Net capital allocations in Scotland.

² Proxies have been used for credit approvals for years before 1990–91: see footnote 8 to Table 1.5.

³ For 1990–91 and later years DOE are responsible for issuing credit approvals for local environmental services within the English local authority block, for MAFF (smallholdings), DTI, Employment and Office of Arts and Libraries.

⁴ The inclusion in the planning total of capital grants for certain housing improvements from 1990–91 affects the comparisons with earlier years.

⁵ See paragraph 1.58.

1.68 In 1989–90 local authority current expenditure, excluding debt interest payments, is now expected to exceed provision by about £1 billion, while gross local authority capital expenditure is estimated to be some £1 $\frac{3}{4}$ billion in excess of provision, at about £9 $\frac{1}{2}$ billion. The large excess on total gross capital expenditure is thought to reflect a very high level of expenditure financed from capital receipts this year, before a proportion of authorities' accumulated capital receipts is required to be set aside for debt redemption under the new regime from April 1990.

1.69 Under the new arrangements being introduced next year, the Government will no longer make plans for total local authority current and capital expenditure—only for grants, NNDR payments and credit approvals which provide support for total local authority spending. The level of total expenditure by local authorities in 1990–91 and beyond will reflect the spending decisions which local councils will take themselves in the light of the support provided by central government, the finance that they have available from their own resources, and the implications for the community charge.

1.70 In order to provide a path for GGE it is necessary to project total local authority expenditure, net of capital receipts, including expenditure which local authorities finance from their own resources. The projections in this Autumn Statement assume that, in general, local authority spending will rise next year broadly in line with past trends, but that gross capital expenditure will fall from its exceptionally high level in 1989–90 to a level more in line with earlier years, perhaps around £8 billion; and that there will be some reduction in the inflow of capital receipts. Starting from this base, total local authority spending is projected to grow more slowly in 1991–92 in real terms and to remain broadly flat in 1992–93.

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

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

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

Nationalised industries

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

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

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

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

	£ million		
	1990–91	1991–92	1992–93
British Coal	385	270	280
British Railways Board	646	760	760
London Regional Transport	448	440	430
Civil Aviation Authority	67	40	70
British Shipbuilders	8	0	–20
British Waterways Board	49	50	50
Caledonian MacBrayne Ltd	7	10	10
Post Office	38	–60	–70
Scottish Bus Group	–7		
Electricity (England and Wales) ¹	–1 000		
Electricity (Scotland) ¹	–122		
Total	520	1 510	1 510

¹ Allowance for external financing for Electricity. Figures will depend on actual timing of privatisations in 1990 and 1991.

1.77 Provision has been increased for the external financing requirements of the industries remaining in the public sector throughout the period. This mainly reflects substantial increases in the levels of investment planned by London Regional Transport, British Rail (see paragraph 1.36) and the Post Office. By 1992–93, provision for capital investment by those industries remaining in the public sector will be nearly 50 per cent higher in real terms than in 1988–89.

Other public corporations

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

Science and technology

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

Capital spending

1.80 Within the departmental plans described above, extra provision of about £1 billion has been made for central government's own capital spending in 1990–91. This includes large increases for investment in roads, hospitals, education and science, and housing. Provision for investment by public corporations has been increased by some £½ billion in 1990–91.

Privatisation

1.81 The estimate of net proceeds for 1989–90 from the privatisation programme is £4¼ billion. For 1990–91 and 1991–92, the estimate of net proceeds is £5 billion as in the public expenditure White Paper. These proceeds are netted off the planning total and general government expenditure. However, in order to show the underlying trends in expenditure more clearly, Chart 1.2 shows trends in expenditure both including and excluding privatisation proceeds.

Reserves

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

Debt interest

1.83 General government gross debt interest is projected to fall from about £18 billion in 1988–89 to about £14 billion in 1992–93 (see Table 1.9). For 1990–91 to 1992–93, the figures are the same as projected in the FSBR. Following the reduction in government borrowing and the move into Budget surplus in recent years, debt interest payments have declined as a proportion of GDP from 5 per cent in 1981–82 to about $3\frac{3}{4}$ per cent in 1988–89 and are projected to fall further to $2\frac{1}{4}$ per cent by 1992–93.

Table 1.9 General government debt interest

	1987–88 Outturn	1988–89 Outturn	1989–90 Projection	1990–91 Projection	1991–92 Projection	1992–93 Projection
	£ billion					
General government gross debt interest ¹	17.7	18.1	17.8	15½	14½	14
Of which:						
Central government	17.0	17.6	17.3	15½	14	13½
General government interest and dividend receipts	6.1	6.5	6.9	6½	6½	6
General government net debt interest	11.6	11.6	10.9	9	8	8
	Per cent of GDP					
General government gross debt interest ¹	4	$3\frac{3}{4}$	$3\frac{1}{2}$	$2\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{1}{4}$
General government net debt interest	$2\frac{3}{4}$	$2\frac{1}{2}$	2	$1\frac{3}{4}$	$1\frac{1}{4}$	$1\frac{1}{4}$
¹ Of which: Servicing of indexed securities (gilts plus national savings)	1.3	1.5	2.1	2.1	1.6	1.6

Value for money

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

1.85 Since 1979 efficiency scrutinies have saved over £1.3 billion on a cumulative basis. Departments have achieved value for money improvements in purchasing and supply worth about £350 million in 1988–89, equivalent to over 5 per cent of their purchasing expenditure; market testing and contracting out are now saving some £50 million a year in the Civil Service. The Government's programme ("The Next Steps") to create agencies to carry out the executive functions of Government will lead to further improvements in Civil Service efficiency. So far, ten agencies have been set up, covering 7,700 employees, and a further 38 activities have been identified as agency candidates, covering nearly 200,000 staff (over a third of the Civil Service).

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

Outturn in 1989–90

1.87 In the last public expenditure White Paper, Cm 621, the planning total for 1989–90 was set, on the old definition, at £167.1 billion, including a Reserve of £3.5 billion. As Table 1.13 shows, the estimated outturn is £168.2 billion. This implies claims on the Reserve totalling £4.6 billion.

1.88 Within this total, additional expenditure by local authorities looks likely to account for some £2 $\frac{3}{4}$ billion (see Table 1.14). New arrangements for the planning and financing of local government expenditure are to be introduced in England and Wales from April 1990 (see paragraph 1.61 above).

1.89 Additional financing requirements of the nationalised industries (mainly costs associated with restructuring British Coal) are expected to account for £ $\frac{3}{4}$ billion. Privatisation proceeds are £ $\frac{3}{4}$ billion lower as a result of the subscription by the Government for shares in the ten water companies of England and Wales.

1.90 Table 1.15 shows the estimated outturn for 1988–89 and 1989–90 for local authority expenditure within the old planning total. On the same basis, Table 1.16 compares the outturn for the planning total for 1984–85 to 1989–90 with the plans published in previous years.

Table 1.10 Central government's own expenditure^{1, 2}

	£ million								
	Latest estimates of outturn			New plans			Changes from 1989 White Paper ³		
	1988-89 Outturn	1989-90 Estimated outturn	Changes 1988-89 to 1989-90	1990-91 Plans	1991-92 Plans	1992-93 Plans	1989-90	1990-91	1991-92
Ministry of Defence	19 073	20 310	1 240	21 200	22 350	23 430	170	10	250
FCO—Diplomatic wing	739	840	100	890	940	970	40	50	60
FCO—Overseas Development Administration	1 507	1 570	60	1 680	1 780	1 850	60	80	110
Ministry of Agriculture, Fisheries and Food	1 559	1 560	0	1 910	2 120	2 220	-240	-170	-160
Trade and Industry	1 672	1 210	-460	1 220	1 090	1 000	-120	-80	-70
Export Credits Guarantee Department	109	340	230	240	70	-30	160	120	10
Energy	538	460	-80	450	410	410	-20	40	50
Department of Employment	3 587	3 530	-60	3 460	3 340	3 370	-150	-110	-220
Department of Transport	1 405	1 970	560	2 310	2 410	2 510	190	430	460
DOE—Housing	1 376	1 540	160	2 250	2 560	2 680	100	560	550
DOE—Other environmental services	529	550	20	600	550	490	20	60	50
DOE—PSA Services				30	0	-10		30	0
DOE—Local government				40	40	40		40	40
Home Office	1 364	1 670	300	1 910	1 870	1 880	-10	80	20
Lord Chancellor's and Law Officers' departments	902	1 120	220	1 270	1 380	1 470	20	80	120
Department of Education and Science	2 961	4 310	1 350	4 580	4 460	4 590	30	190	0
Office of Arts and Libraries	414	440	20	490	520	540	0	40	40
Department of Health	18 431	20 010	1 580	22 040	23 350	24 470	260	1 170	1 530
Department of Social Security	44 473	47 200	2 700	52 000	56 200	59 500	-300	700	1 800
Scotland	3 827	4 010	180	4 420	4 620	4 760	20	260	290
Wales	1 730	1 890	160	2 120	2 200	2 260	20	160	180
Northern Ireland	5 142	5 520	370	5 750	6 050	6 290	340	310	380
Chancellor's departments	3 713	4 160	450	4 620	4 880	5 140	10	290	350
Other departments	274	320	40	370	380	400	10	30	30
European Communities	1 006	2 030	1 020	1 870	1 670	1 990	60	-80	90
Total	116 330	126 500	10 200	137 800	145 300	152 200	700	4 300	6 000

¹ See footnotes to Table 1.3.² Figures exclude financing for public corporations and support for local authorities.³ Plans as set out in the last public expenditure White Paper, adjusted for changes of classification and allocation, including those described in footnote 1 to Table 1A.1.

Table 1.11 Public corporations¹

	£ million								
	Latest estimates of outturn			New plans			Change from 1989 White Paper ²		
	1988-89 Outturn	1989-90 Estimated outturn	Changes 1988-89 to 1989-90	1990-91 Plans	1991-92 Plans	1992-93 Plans	1989-90	1990-91	1991-92
FCO—Overseas Development Administration	34	50	20	30	30	30	20	0	0
Ministry of Agriculture, Fisheries and Food	19	10	-10	0	0	0	-10	0	0
Trade and Industry	-368	-70	300	50	-70	-80	0	90	10
Energy ³	-957	-310	650	-610	260	270	430	310	0
Department of Employment	2	0	0	0	0	0	0	0	0
Department of Transport	654	990	340	1160	1 240	1 260	220	400	500
DOE—Housing	-102	-110	-10	-170	-150	-140	-70	-160	-190
DOE—Other environmental services ³	-117	290	400	330	250	250	200	100	0
Department of Health	-49	0	50	0	0	0	0	0	0
Scotland ³	321	370	50	330	490	500	10	100	30
Wales	105	130	30	120	120	120	10	20	10
Northern Ireland	282	190	-90	160	140	120	-60	0	-10
Chancellor's departments	-7	0	0	-10	0	0	0	0	0
Total	-183	1 540	1 720	1 390	2 310	2 320	760	860	330
of which:—									
Nationalised industries	-471	670	1 140	520	1 510	1 510	700	910	530
Other public corporations	288	860	570	870	800	800	60	-60	-200

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

² See footnote 3 to Table 1.10.

³ For nationalised industries to be privatised, provision is included as follows: Water (England and Wales) up to and including 1989-90; Scottish Bus Group (Scotland) and Electricity (England, Wales and

Scotland) up to and including 1990-91. Precise external financing requirements will depend on the timing of privatisations.

1 Public expenditure plans

Table 1.12 Planning total and general government expenditure in real terms^{1, 2}

	£ billion				
	Outturn				
	1984-85	1985-86	1986-87	1987-88	1988-89
Central government's own expenditure—	114.6	116.2	119.8	119.3	116.3
of which:					
Ministry of Defence	21.0	20.9	20.5	20.2	19.1
FCO—Diplomatic wing	0.7	0.7	0.7	0.7	0.7
FCO—Overseas Development Administration	1.4	1.4	1.4	1.4	1.5
Ministry of Agriculture, Fisheries and Food	2.2	2.6	1.8	1.9	1.6
Trade and Industry	1.4	1.2	2.1	1.0	1.7
Export Credits Guarantee Department	0.7	0.4	0.3	0.2	0.1
Energy	0.6	1.0	1.0	0.6	0.5
Department of Employment	3.7	3.7	4.0	3.9	3.6
Department of Transport	1.4	1.4	1.4	1.5	1.4
DOE—Housing	1.4	1.4	1.5	1.4	1.4
DOE—Other environmental services and Ordnance Survey	0.4	0.3	0.4	0.5	0.5
DOE—PSA Services					
DOE—Local government					
Home Office (including the Charity Commission)	1.1	1.2	1.2	1.3	1.4
Lord Chancellor's and Law Officers' departments	0.6	0.7	0.7	0.8	0.9
Department of Education and Science	2.8	2.8	2.8	2.9	3.0
Office of Arts and Libraries	0.3	0.3	0.4	0.4	0.4
Department of Health and Office of Population Censuses and Surveys	16.5	16.6	17.2	17.9	18.4
Department of Social Security	43.9	45.2	47.1	46.7	44.5
Scotland	3.6	3.7	3.7	3.7	3.8
Wales	1.5	1.6	1.6	1.7	1.7
Northern Ireland	4.4	4.5	4.7	4.8	5.1
Chancellor of the Exchequer's departments	3.2	3.4	3.6	3.7	3.7
Cabinet Office, Privy Council Office and Parliament	0.2	0.3	0.3	0.3	0.3
European Communities	1.2	1.0	1.2	1.8	1.0
Central government support to local authorities	37.8	36.3	37.6	38.2	36.5
Financing requirements of public corporations	6.1	3.1	1.2	0.9	-0.2
Reserve					
Privatisation proceeds	-2.5	-3.2	-5.0	-5.5	-7.1
Adjustment					
New planning total	156.0	152.4	153.6	152.8	145.5
Local authority self-financed expenditure	9.7	9.7	9.8	9.7	10.2
Central government debt interest	17.6	18.7	18.6	18.3	17.6
Accounting adjustments	1.9	3.7	3.8	4.3	5.3
General government expenditure	185.2	184.6	185.8	185.0	178.6

¹ See footnotes to Table 1.3.

² Real terms figures are cash figures adjusted to 1988-89 price levels by excluding the effect of general inflation as measured by the GDP deflator.

1 Public expenditure plans

Estimated Outturn	New Plans			
	1989-90	1990-91	1991-92	
118.3	122.6	124.9	127.1	Central government's own expenditure—
				of which:
19.0	18.9	19.2	19.6	Ministry of Defence
0.8	0.8	0.8	0.8	FCO—Diplomatic wing
1.5	1.5	1.5	1.5	FCO—Overseas Development Administration
1.5	1.7	1.8	1.9	Ministry of Agriculture, Fisheries and Food
1.1	1.1	0.9	0.8	Trade and Industry
0.3	0.2	0.1	0.0	Export Credits Guarantee Department
0.4	0.4	0.4	0.3	Energy
3.3	3.1	2.9	2.8	Department of Employment
1.8	2.1	2.1	2.1	Department of Transport
1.4	2.0	2.2	2.2	DOE—Housing
0.5	0.5	0.5	0.4	DOE—Other environmental services and Ordnance Survey
	0.0	0.0	0.0	DOE—PSA Services
	0.0	0.0	0.0	DOE—Local government
1.6	1.7	1.6	1.6	Home Office (including the Charity Commission)
1.0	1.1	1.2	1.2	Lord Chancellor's and Law Officers' departments
4.0	4.1	3.8	3.8	Department of Education and Science
0.4	0.4	0.4	0.5	Office of Arts and Libraries
18.7	19.6	20.1	20.4	Department of Health and Office of Population Censuses and Surveys
44.1	46.3	48.3	49.6	Department of Social Security
3.7	3.9	4.0	4.0	Scotland
1.8	1.9	1.9	1.9	Wales
5.2	5.1	5.2	5.3	Northern Ireland
3.9	4.1	4.2	4.3	Chancellor of the Exchequer's departments
0.3	0.3	0.3	0.3	Cabinet Office, Privy Council Office and Parliament
1.9	1.7	1.4	1.7	European Communities
35.6	37.2	37.6	37.5	Central government support to local authorities
1.4	1.2	2.0	1.9	Financing requirements of public corporations
	2.7	5.2	7.5	Reserve
-4.0	-4.5	-4.3	-4.2	Privatisation proceeds
-0.2				Adjustment
151.1	159.3	165.4	169.9	New planning total
12.4	10.5	10.3	10.3	Local authority self-financed expenditure
16.1	13.6	12.1	11.4	Central government debt interest
3.8	3.8	3.3	3.9	Accounting adjustments
183.4	187.3	191.1	195.5	General government expenditure

Table 1.13 Old planning total, 1988–89 and 1989–90¹

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper ²
Ministry of Defence	19 073	20 310	1 240	170
FCO—Diplomatic wing	712	810	100	40
FCO—Overseas Development Administration	1 541	1 620	80	80
Ministry of Agriculture, Fisheries and Food	1 772	1 690	– 80	– 260
Trade and Industry	1 393	1 250	– 150	– 110
Export Credits Guarantee Department	109	340	230	160
Energy	– 420	140	560	410
Department of Employment	3 919	3 880	– 30	– 160
Department of Transport	4 721	5 900	1 180	550
DOE—Housing	1 819	2 430	610	720
DOE—Other environmental services and Ordnance Survey	3 783	5 140	1 360	780
Home Office (including the Charity Commission)	6 304	7 170	860	260
Lord Chancellor's and Law Officers' departments	893	1 110	220	30
Department of Education and Science	18 436	20 230	1 800	660
Office of Arts and Libraries	974	1 060	90	80
Department of Health and Office of Population Censuses and Surveys	21 764	23 740	1 980	560
Department of Social Security	47 162	50 200	3 100	– 700
Scotland	8 649	9 310	660	340
Wales	3 549	3 910	360	130
Northern Ireland	5 532	5 810	280	290
Chancellor of the Exchequer's departments	3 706	4 160	450	10
Cabinet Office, Privy Council and Parliament	274	320	40	10
European Communities	1 006	2 030	1 020	60
Reserve				– 3 500
Privatisation proceeds	– 7 065	– 4 250	2 820	750
Adjustment		– 200	– 200	– 200
Old planning total	149 605	168 200	18 600	1 100

¹ See footnotes 1, 4–7, 9 and 12 to Table 1.3.

² Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.

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

	£ million		
	Plans in 1989 White Paper ¹	Estimated outturn	Changes from 1989 White Paper ¹
Central government ²	123 718	124 300	600
Local authority expenditure ²			
—current	41 413	42 400	1 000
—capital	2 596	4 300	1 700
Public corporations	826	1 590	760
Reserve	3 500		-3 500
Privatisation proceeds	-5 000	-4 250	750
Adjustment ³		-200	-200
Old planning total	167 053	168 200	1 100
General government gross debt interest	17 000	17 800	600
Other national accounts adjustments	9 500	10 300	900
General government expenditure	193 700	196 300	2 600
General government expenditure (excluding privatisation proceeds)	198 700	200 500	1 800

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

² Excluding finance for public corporations.

³ See footnote 12 to Table 1.3.

Table 1.15 Local authority expenditure, 1988–89 and 1989–90 (old planning total basis)^{1, 2}

	£ million			
	Latest estimates of outturn			
	1988–89 Outturn	1989–90 Estimated outturn	Changes 1988–89 to 1989–90	1989–90 Changes from 1989 White Paper ³
Ministry of Agriculture, Fisheries and Food	194	210	10	– 10
Trade and Industry	94	110	10	10
Department of Employment	137	140	0	0
Department of Transport	2 652	2 890	240	140
DOE—Housing	544	1 000	460	700
DOE—Other environmental services	3 371	4 310	940	560
Home Office	5 148	5 730	590	270
Department of Education and Science	15 462	15 920	460	630
Office of Arts and Libraries	560	620	60	80
Department of Health	3 382	3 730	350	310
Department of Social Security	3 837	4 300	500	– 400
Scotland	4 510	4 940	430	300
Wales	1 715	1 890	170	100
Northern Ireland	840	900	60	0
Total	42 445	46 700	4 200	2 700
of which:—				
Current	39 588	42 400	2 800	1 000
Capital	2 857	4 300	1 400	1 700

¹ Figures exclude debt interest and finance for public corporations.

² See footnotes 1 and 4 to Table 1.3.

³ Adjusted for minor classification changes other than those described in footnote 1 to Table 1A.1.

1 Public expenditure plans

Table 1.16 Old planning total¹; plans and outturn

	£ billion					
	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90
March 1982 White Paper (Cmnd 8494)	127.8					
February 1983 White Paper (Cmnd 8789)	126.6	132.4				
February 1984 White Paper (Cmnd 9143)	126.6	132.2	136.8			
January 1985 White Paper (Cmnd 9428)	128.3	132.2	136.9	141.7		
January 1986 White Paper (Cmnd 9702)	129.7	134.3	139.2	144.0	148.8	
January 1987 White Paper (Cm 56)	129.9	133.7	140.5	148.7	154.3	161.5
January 1988 White Paper (Cm 288)	129.9	133.8	139.3	147.4	156.9	167.1
January 1989 White Paper (Cm 621)	129.9	133.8	139.3	145.7	153.4	167.1
This Autumn Statement	129.8	133.7	139.3	145.8	149.6	168.2²

¹Planning total on 1989 White Paper definition adjusted for minor classification changes, other than those described in footnote 1 to Table 1A.1.

²Estimated.

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

	£ billion						
	Latest estimates of outturn						New plans
	1984-85 outturn	1985-86 outturn	1986-87 outturn	1987-88 outturn	1988-89 outturn	1989-90 estimated outturn	1990-91 plans ¹
Central government ²	0.0	0.1	0.2	0.1	0.3	0.3	$\frac{1}{2}$
Local authority							
Housing	1.3	1.2	1.4	1.9	3.1	3.3	} 4
Other	0.4	0.5	0.6	1.1	1.5	1.0	
Total	1.7	1.7	2.0	2.9	4.6	4.3	
Total general government	1.8	1.8	2.2	3.1	4.9	4.6	4

¹Projected local authority receipts for 1990-91 and the total are rounded to the nearest £ billion.

²Excluding receipts included in privatisation proceeds (Forestry Commission, land settlement, motorway service leases—see Table 21.1.18 of Cm 621).

Annex to Chapter 1

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

1A.2 This change is being made at the same time as the reform of local government finance in England and Wales, from 1 April 1990. A new system of local government finance was introduced in Scotland in April 1989. Further details are given in paragraph 1.61 of this Autumn Statement.

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

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

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

- the grants, current and capital, central government provides to local authorities;
- payments to local authorities from the yield of non-domestic rates; and
- credit approvals.

Local authority spending financed from local taxation, use of capital receipts and trading and other income will be excluded.

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

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

The new plans 1A.8 Table 1.3 shows the new plans in summary, on the new definition of the planning total. Table 1.3 also shows estimates of the outturn for 1984–85 to 1989–90 on the new basis. For local authority elements of the new planning total, proxy figures have been used for non-domestic rate payments and for credit approvals, neither of which existed in the same form under the old arrangements for local government finance. Figures for local authority self-financed expenditure, net of capital receipts, are derived by subtracting from the figures for total local authority expenditure (including debt interest) the support made available by central government (ie the sum of the local authority elements of the new planning total). Figures for total local authority expenditure are given in footnote 14 to Table 1.3.

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

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

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

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

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

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

	£ billion			
	1990–91		1991–92	
	White Paper	New Plans	White Paper	New Plans
Central government's own expenditure				
<i>White Paper plans</i>	131.2		136.9	
Classification changes ¹		+2.3		+2.4
Survey changes		+4.3		+6.0
New plans		137.8		145.3
Public corporations				
<i>White Paper plans</i>	0.6		2.0	
Classification changes ¹		-0.1		-0.1
Survey changes		+0.9		+0.3
New plans		1.4		2.3
Local authority current				
<i>White Paper plan (expenditure)</i>	43.1		44.7	
R.SG and NDR		25.1		25.9
Other current grants		11.5		12.5
Local authority capital				
<i>White Paper plan (net expenditure)</i>	2.4		2.4	
Capital grants		1.3		1.3
Credit approvals		3.8		4.0
Privatisation proceeds	-5.0	-5.0	-5.0	-5.0
Reserve				
<i>Old planning total</i>	7.0		10.5	
New planning total		3.0		6.0
Planning total				
<i>Old definition</i>	179.4		191.6	
New definition		179.0		192.3
Local authority self-financed expenditure (net of capital receipts) ²		12		12
<i>General government debt interest</i>	16		15½	
Central government debt interest		15½		14
Other adjustments ³	9½	4½	9	4
General government expenditure	205	210½	216	222¼

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

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

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

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

	£ billion						GDP deflator (1988–89 = 100)
	Planning total				General government expenditure ¹		
	Old definition ²		New definition				
	Cash	Real ³	Cash	Real ³	Cash	Real ³	
1978–79	65.7	144.6			75.0	164.8	45.5
1979–80	77.6	146.1			90.3	170.1	53.1
1980–81	92.7	147.4			108.8	173.1	62.9
1981–82	104.0	150.7			121.0	175.4	69.0
1982–83	113.6	153.5			133.1	179.8	74.0
1983–84	120.4	155.5			141.6	182.8	77.4
1984–85	129.8	159.7	126.8	156.0	152.6	187.7	81.3
1985–86	133.7	156.1	130.6	152.4	160.8	187.7	85.7
1986–87	139.3	157.3	136.0	153.6	168.9	190.8	88.5
1987–88	145.8	156.3	142.5	152.8	177.7	190.5	93.2
1988–89	149.6	149.6	145.5	145.5	185.7	185.7	100.0
1989–90	168.2	157.2	161.7	151.1	200.5	187.4	107.0
1990–91			179.0	159.3	215.4	191.7	112.4
1991–92			192.3	165.4	227.2	195.4	116.3
1992–93			203.4	169.9	239.1	199.6	119.8

¹Excluding privatisation proceeds.

²Excluding the major classification changes made along with move to new planning total: see footnote 1 to Table 1A.1.

³Cash figures adjusted to 1988–89 price levels by excluding the effect of general inflation as measured by the GDP deflator (see footnotes to Table 1.1).

2 Economic prospects for 1990

Summary

2.01 GDP is forecast to grow by $1\frac{1}{4}$ per cent in 1990. RPI inflation should fall to $5\frac{3}{4}$ per cent by the end of next year.

Demand and activity **2.02** After rapid growth of more than 4 per cent in both 1987 and 1988 the economy has slowed in 1989 in response to tighter monetary policy; GDP is likely to grow by 2 per cent this year. Growth would have been higher but for disruptions to North Sea oil production; non-oil GDP is forecast to rise by 3 per cent in 1989. Most of the slow-down in spending so far has occurred in the personal sector. In 1990 companies are also expected to adjust their spending after exceptionally strong growth in investment between 1986 and 1989.

Inflation **2.03** Retail price inflation is expected to be $7\frac{1}{2}$ per cent in the fourth quarter of 1989. It is likely to remain above 7 per cent in the first half of 1990, but to fall to $5\frac{3}{4}$ per cent by the fourth quarter.

Labour market **2.04** Employment has continued to rise rapidly over the past year while unemployment has fallen sharply. With the slow-down in output growth, unemployment could level off in the coming months.

Trade and current account **2.05** The current account deficit is expected to be around £20 billion in 1989. It should fall in 1990 as domestic demand growth slows further.

World economy **2.06** World trade and GNP in the major economies have continued to grow rapidly in 1989, but are forecast to grow a little less strongly in 1990. Inflation in the major industrialised countries has picked up in 1989, but is forecast to moderate a little in 1990.

Assumptions **2.07** The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that both North Sea oil prices and sterling remain close to recent levels. The public sector debt repayment (PSDR) is forecast to be about £12½ billion in the current year. The forecast for 1990 assumes that the PSDR in 1990–91 will be the same as in the 1989 MTFS (£10 billion, $1\frac{3}{4}$ per cent of GDP); the actual PSDR will be set in the 1990 Budget.

World economy

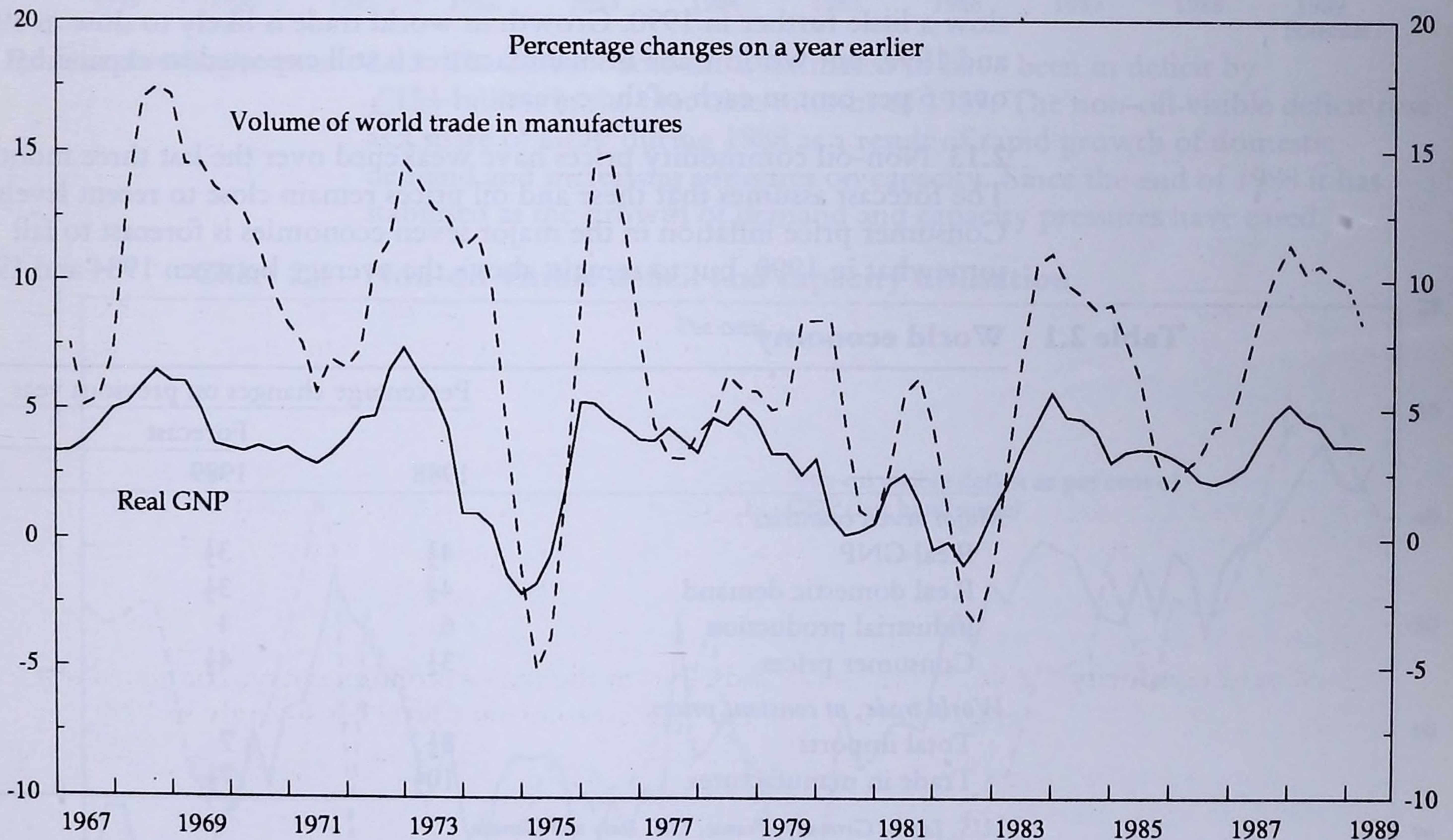
Recent developments

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

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

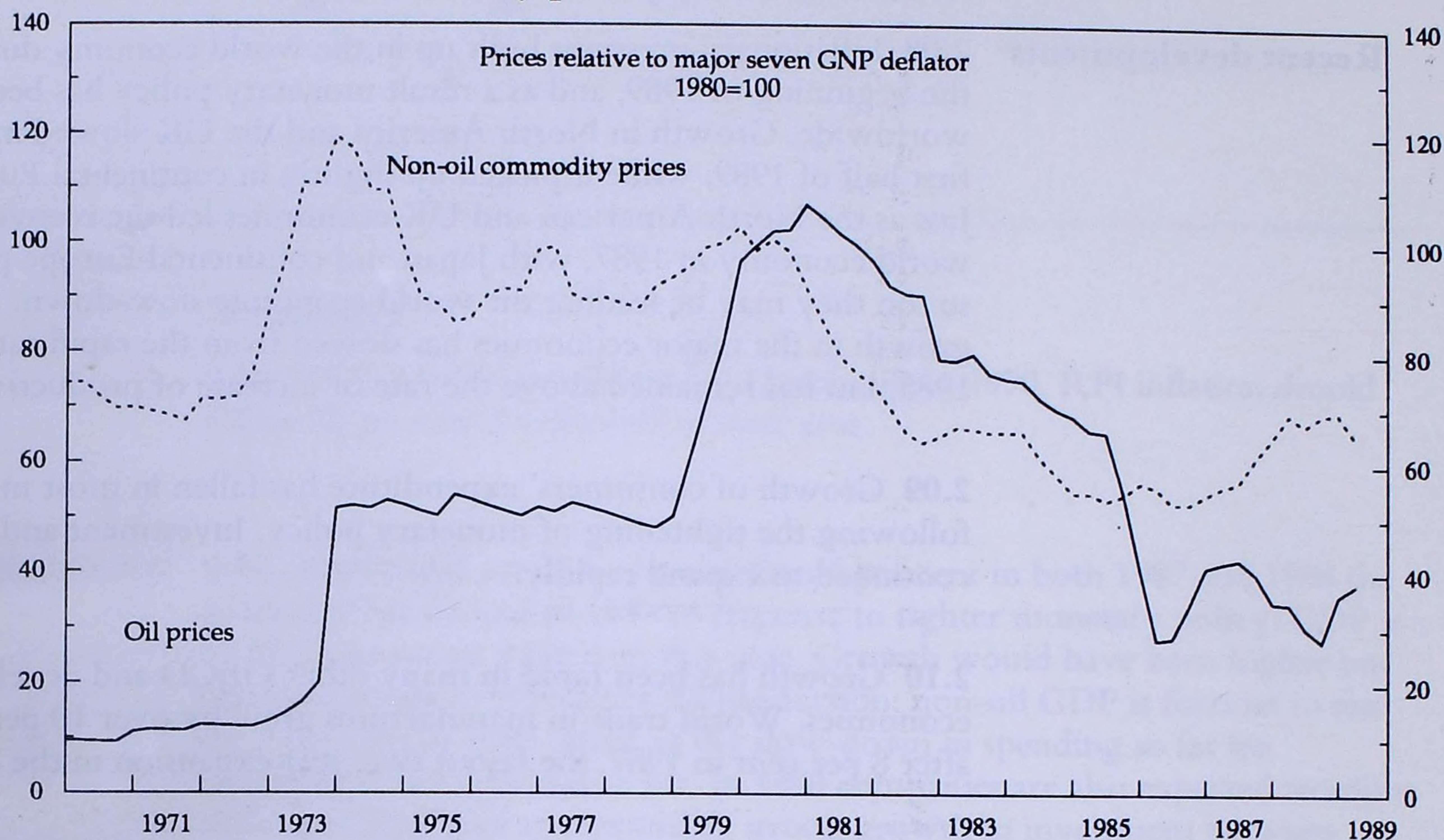
2.10 Growth has been rapid in many other OECD and developing economies. World trade in manufactures grew by over 10 per cent in 1988, after 8 per cent in 1987, the fastest two year expansion in the 1980s.

Chart 2.1 Major seven economies' real GNP and world trade in manufactures



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

Chart 2.2 Real commodity prices



Forecast 2.12 Real GNP is forecast to grow less rapidly in 1989 than in 1988 and to slow a little further in 1990. Growth in world trade is likely to slow in 1989 and 1990, but world trade in manufactures is still expected to expand by over 6 per cent in each of these years.

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

Table 2.1 World economy

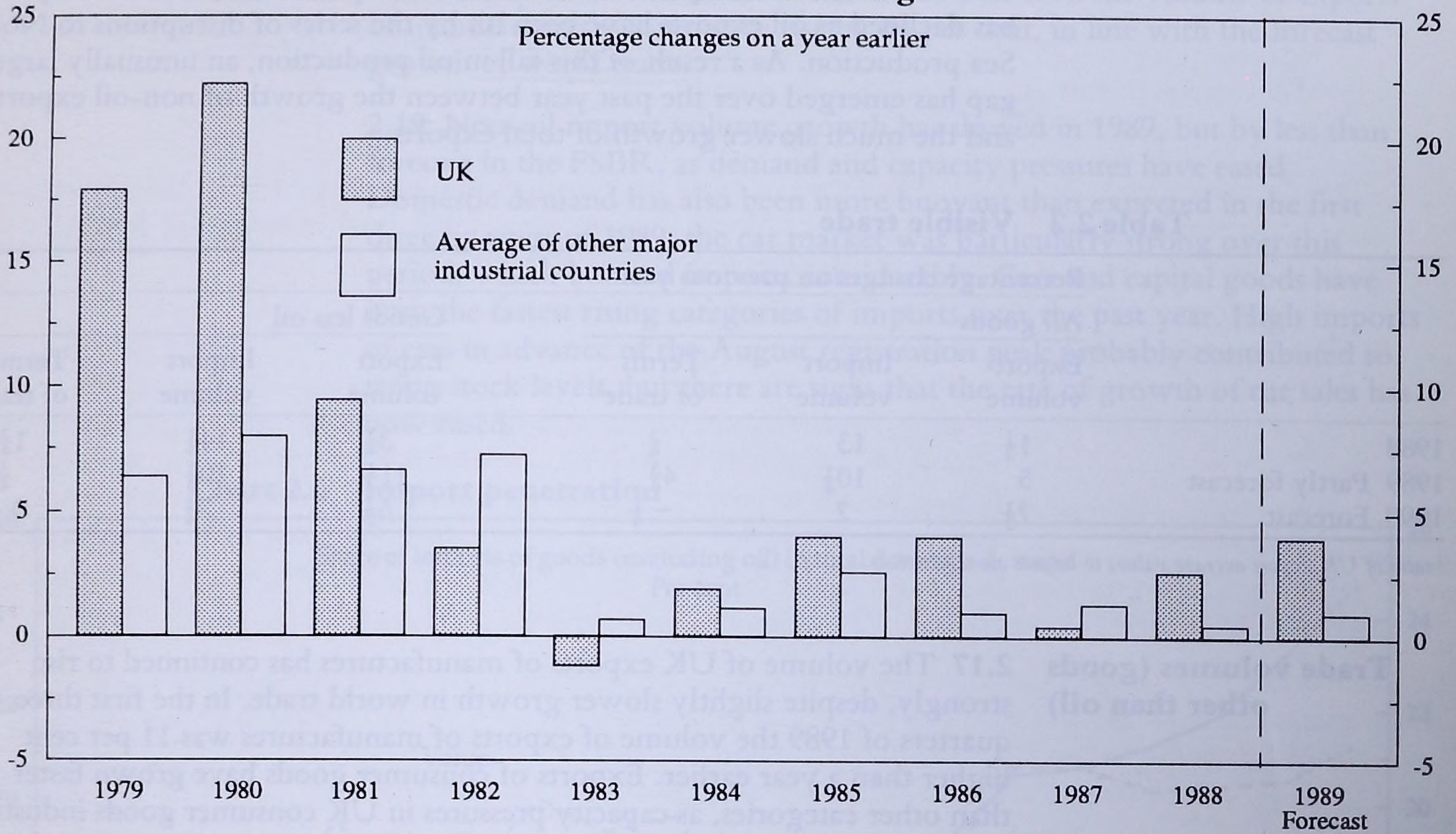
	Percentage changes on previous year		
	1988	Forecast 1989	1990
<i>Major seven countries¹:</i>			
Real GNP	4½	3½	2¾
Real domestic demand	4¾	3½	2¾
Industrial production	6	4	3
Consumer prices	3¼	4½	4
<i>World trade, at constant prices</i>			
Total imports	8½	7	5
Trade in manufactures	10½	7½	6½

¹ US, Japan, Germany, France, UK, Italy and Canada.

Trade and the balance of payments

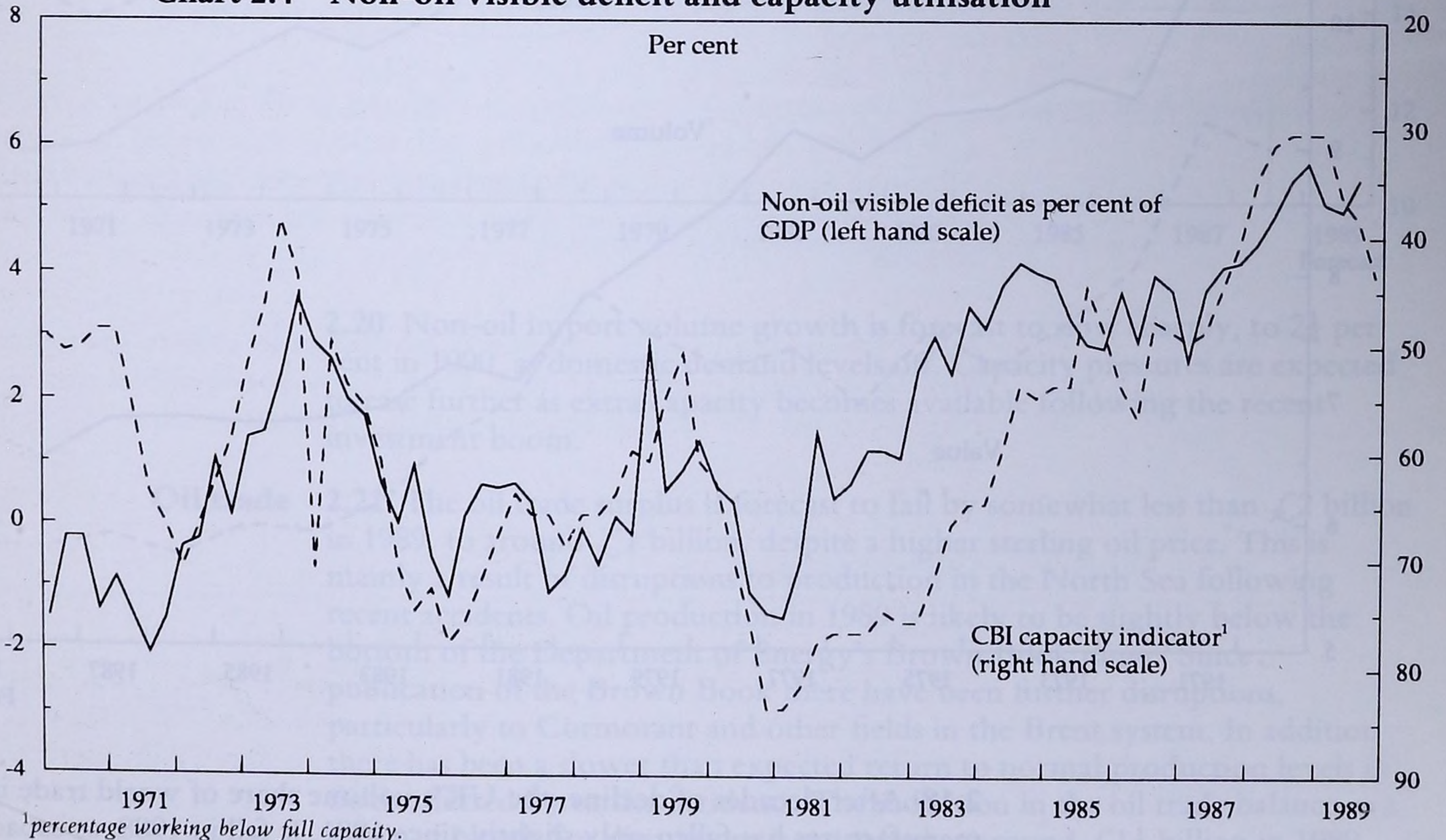
Relative costs 2.14 Unit labour costs in manufacturing have risen more rapidly in the UK than in other major industrial countries in 1988 and 1989. Cost competitiveness remains more favourable than in 1985, before the fall in world oil prices. But, with unit labour costs forecast to grow slowly in other major countries, the maintenance of UK competitiveness in the year ahead will depend on success in restraining cost increases.

Chart 2.3 Unit labour costs in manufacturing



Recent developments 2.15 The current account is estimated to have been in deficit by £15½ billion in the first nine months of 1989. The non-oil visible deficit rose as a share of GDP during 1988 as a result of rapid growth of domestic demand and increasing pressures on capacity. Since the end of 1988 it has stabilised as the growth of demand and capacity pressures have eased.

Chart 2.4 Non-oil visible deficit and capacity utilisation



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

Table 2.2 Visible trade

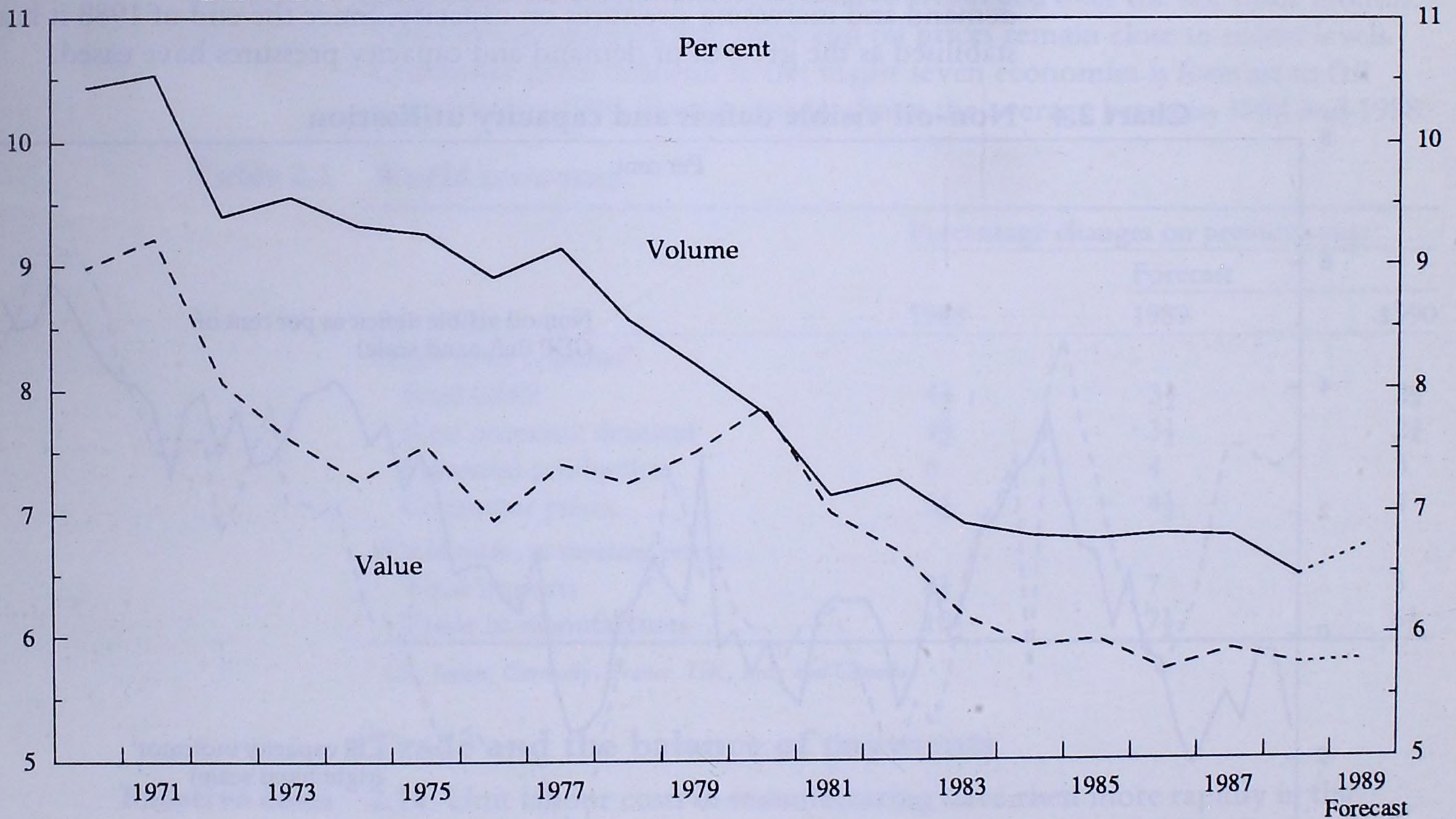
	Percentage changes on previous year					
	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade ¹	Export volume	Import volume	Terms of trade ¹
1988	1½	13	¾	3¼	14¼	1¾
1989 Partly forecast	5	10¼	4¾	11½	10¼	¾
1990 Forecast	7½	2	-¼	6½	2¼	0

¹ratio of UK export average values to import average values.

Trade volumes (goods other than oil)

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

Chart 2.5 UK share of world trade in manufactures

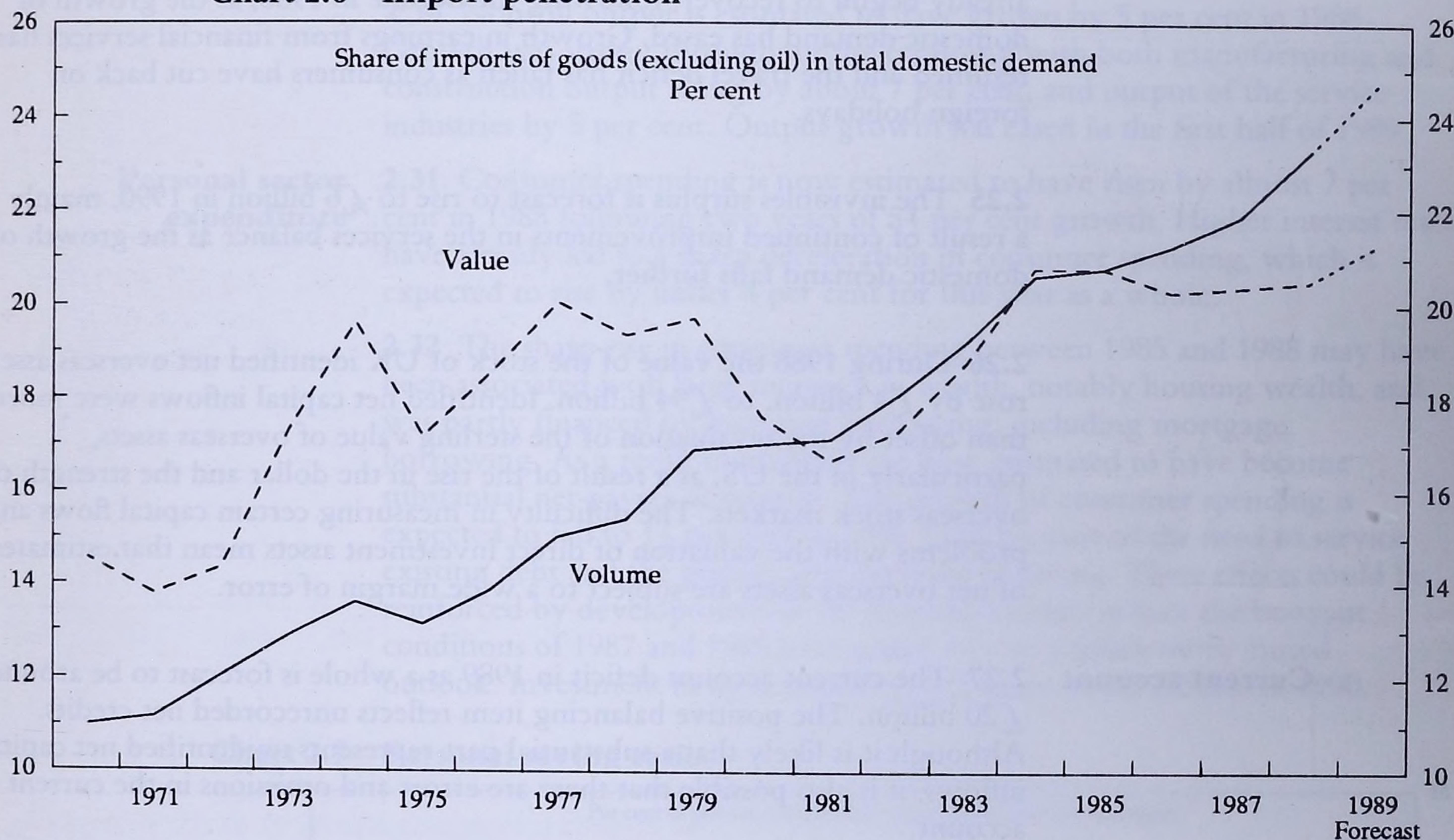


2.18 After decades of decline, the UK's volume share of world trade in manufactures has fallen only slightly since 1981. It fell in 1988, as capacity pressures led some manufacturers to divert production from exports to the

home market, but is forecast to rise in 1989. In 1990 the volume of exports of manufactures is forecast to rise by $6\frac{1}{2}$ per cent, in line with the forecast growth of world trade.

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

Chart 2.6 Import penetration



2.20 Non-oil import volume growth is forecast to slow sharply, to $2\frac{1}{4}$ per cent in 1990, as domestic demand levels off. Capacity pressures are expected to ease further as extra capacity becomes available following the recent investment boom.

Oil trade **2.21** The oil trade surplus is forecast to fall by somewhat less than £2 billion in 1989, to around £1 billion, despite a higher sterling oil price. This is mainly a result of disruptions to production in the North Sea following recent accidents. Oil production in 1989 is likely to be slightly below the bottom of the Department of Energy's Brown Book range. Since publication of the Brown Book there have been further disruptions, particularly to Cormorant and other fields in the Brent system. In addition there has been a slower than expected return to normal production levels in fields affected by earlier incidents. The reduction in the oil trade balance as a result of North Sea disruptions is estimated at around £1½ billion in 1989, compared with £½ billion in 1988.

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

Trade prices and the terms of trade

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

Invisibles and overseas assets

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

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

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

Current account

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

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

Table 2.3 Current account

	£ billion					
	Manufactures	Other	Oil	Invisibles	Current balance	Balancing item
1988	-15	-8½	3	6	-14½	12½
1989 Partly forecast	-17	-8	1	4	-20	15½ ¹
1990 Forecast	-15	-8	2	6	-15	

¹ first half of 1989 at annual rate.

Demand and activity

GDP data 2.29 Recent revisions and adjustments by the CSO to the individual components of expenditure have brought the growth of the expenditure measure of GDP in 1988 and the first half of 1989 broadly into line with movements in the output measure. The output measure is normally regarded as the most reliable indicator of movements in aggregate activity in the recent past. For 1988, the CSO has adjusted consumers' expenditure up by £1¼ billion, investment by £¾ billion, stockbuilding by £1¼ billion and net exports of services by £½ million, all at 1985 prices. Proportionately more of the adjustment in the first half of 1989 has been allocated to stockbuilding. These adjustments are, of necessity, judgemental and there remains some uncertainty over the precise allocation to individual expenditure components.

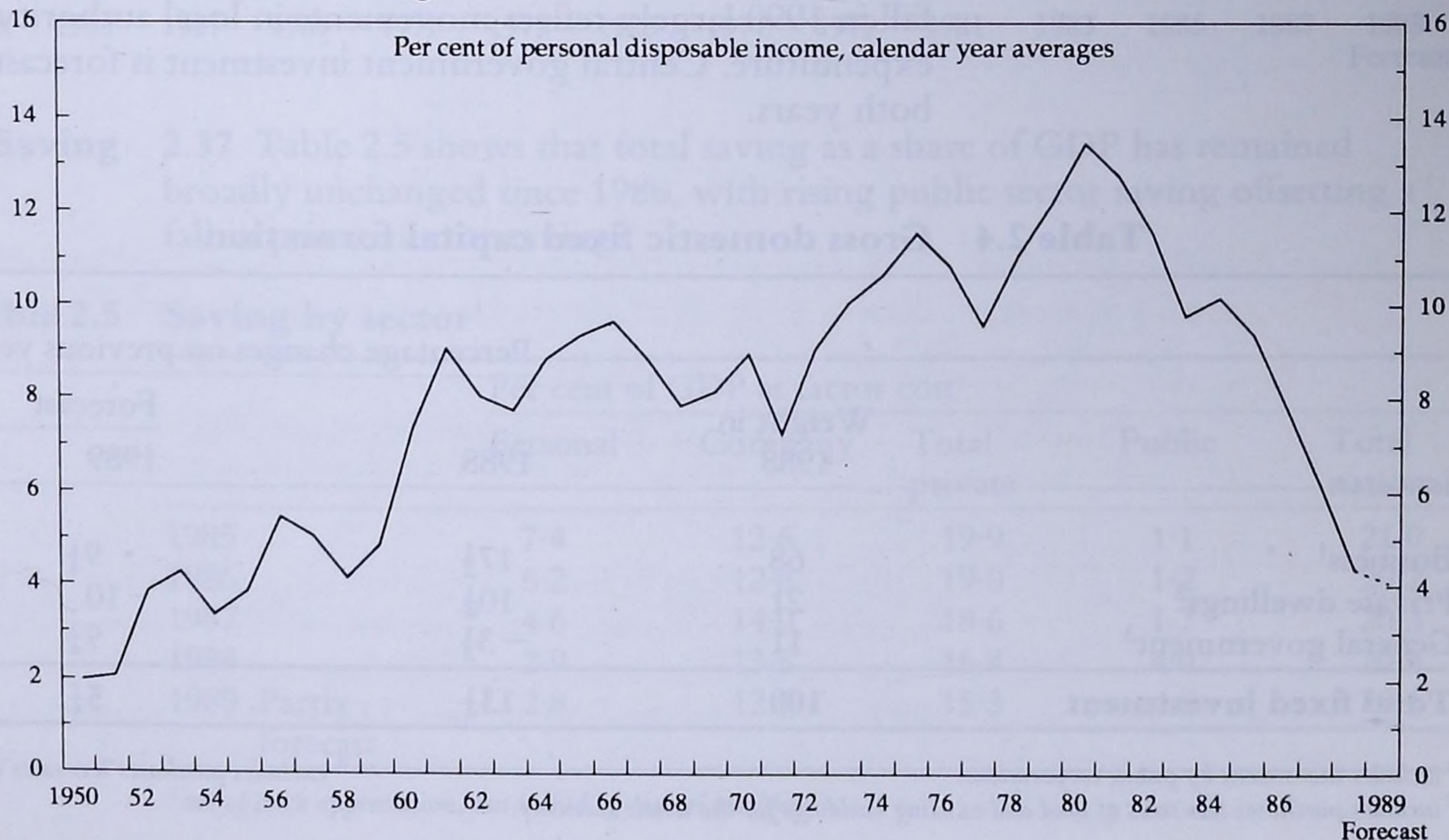
2.30 Non-oil output is estimated to have grown by 5 per cent in 1988. Growth was strong throughout the economy with both manufacturing and construction output rising by about 7 per cent, and output of the service industries by 5 per cent. Output growth has eased in the first half of 1989.

Personal sector expenditure

2.31 Consumer spending is now estimated to have risen by almost 7 per cent in 1988 following two years of 5½ per cent growth. Higher interest rates have already led to a sharp deceleration in consumer spending, which is expected to rise by under 4 per cent for this year as a whole.

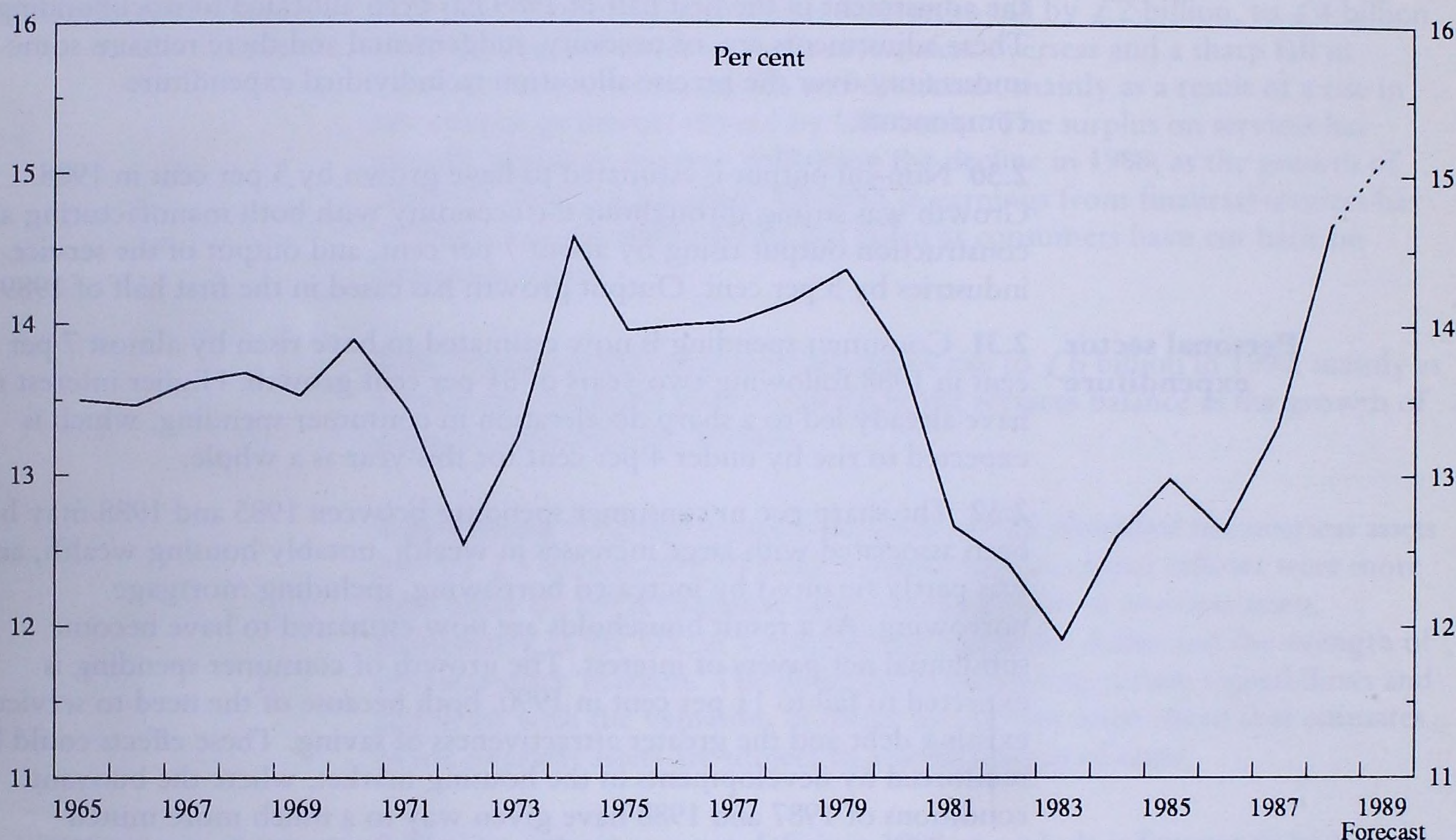
2.32 The sharp rise in consumer spending between 1985 and 1988 may have been associated with large increases in wealth, notably housing wealth, and was partly financed by increased borrowing, including mortgage borrowing. As a result households are now estimated to have become substantial net payers of interest. The growth of consumer spending is expected to fall to 1¼ per cent in 1990, both because of the need to service existing debt and the greater attractiveness of saving. These effects could be reinforced by developments in the housing market, where the buoyant conditions of 1987 and 1988 have given way to a much more muted outlook. Investment in new dwellings is forecast to fall further in 1990.

Chart 2.7 Personal saving ratio



Fixed investment 2.33 Business investment rose 30 per cent in real terms between 1986 and 1988, buoyed up by strong business confidence and high profitability. Total business investment is expected to increase by a further $9\frac{1}{4}$ per cent in 1989. As a share of GDP this year it is likely to be the highest ever. Growth in business investment is expected to slow to $4\frac{1}{2}$ per cent in 1990 as companies adjust to tighter monetary conditions and slower growth of domestic demand.

Chart 2.8 Share of business investment in GDP



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

Table 2.4 Gross domestic fixed capital formation

	Weight in 1988	Percentage changes on previous year		
		1988	Forecast	
			1989	1990
Business ¹	68	17 $\frac{1}{2}$	9 $\frac{1}{4}$	4 $\frac{1}{2}$
Private dwellings ²	21	10 $\frac{1}{4}$	-10	-5 $\frac{1}{2}$
General government ³	11	-3 $\frac{1}{2}$	9 $\frac{3}{4}$	-3 $\frac{3}{4}$
Total fixed investment	100	13$\frac{1}{4}$	5$\frac{1}{4}$	1$\frac{3}{4}$

¹ includes investment by public corporations.

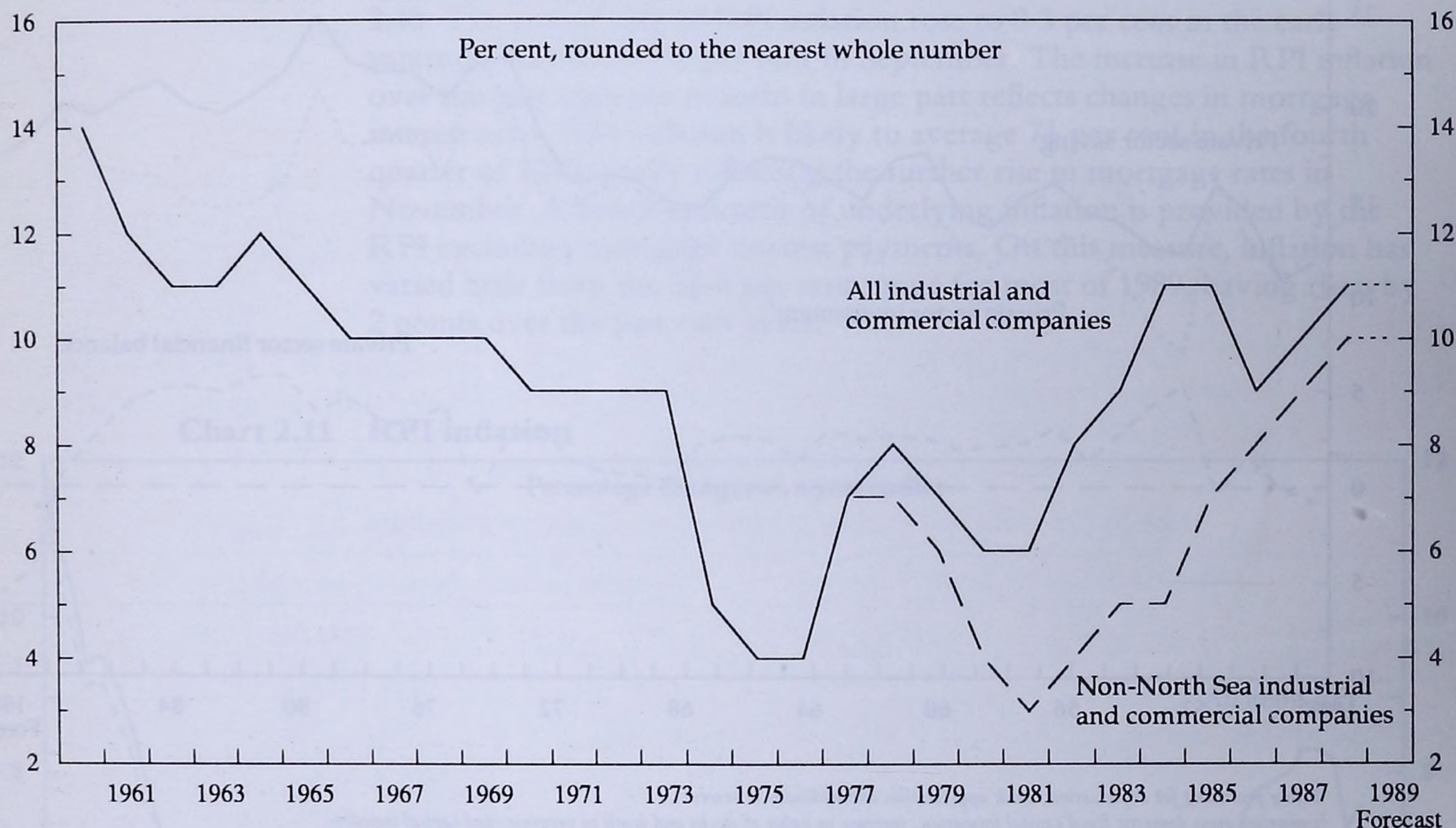
² includes purchases less sales of land and existing buildings for the whole economy.

³ excludes purchases less sales of land and existing buildings.

Stockbuilding 2.35 Company stockbuilding is estimated to have picked up sharply in 1988 and early 1989. Much of the CSO adjustment to aggregate expenditure in early 1989 has been concentrated in this category; it accounts for some £2¼ billion (at 1985 prices) of the £3¼ billion recorded stockbuilding in the first half of 1989. There must therefore be considerable uncertainty about the precise extent of recent stockbuilding. This adds to the margin of error around the forecast for 1990, which assumes very little change in stock levels during the year.

Profitability 2.36 The net real rate of return of non-North Sea industrial and commercial companies rose further in 1988 to the highest level for twenty years. With profit growth likely to remain high in 1989, real rates of return are expected to have been sustained at high levels.

Chart 2.9 Real rates of return



Saving 2.37 Table 2.5 shows that total saving as a share of GDP has remained broadly unchanged since 1986, with rising public sector saving offsetting a fall in private sector saving.

Table 2.5 Saving by sector¹

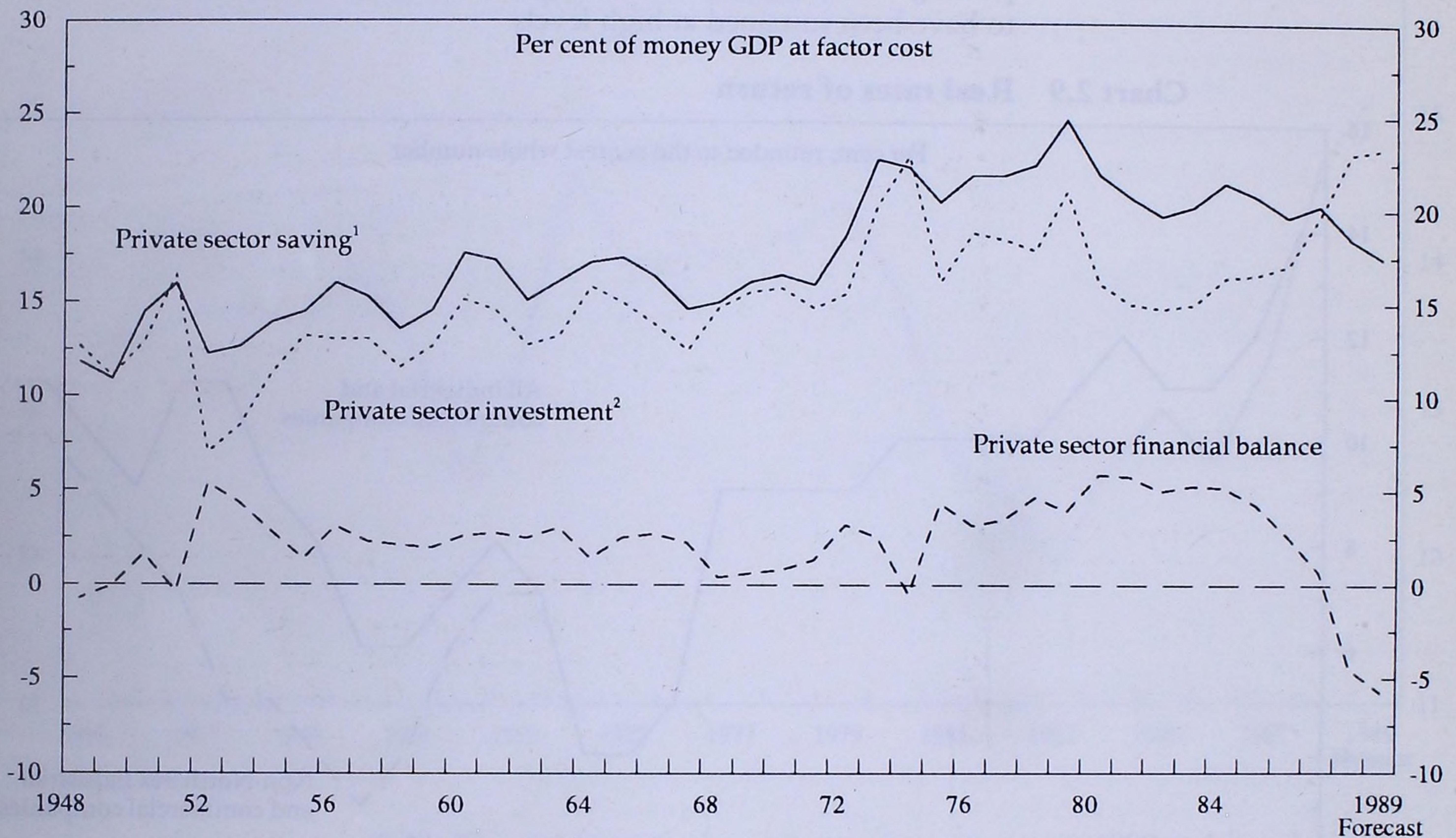
	Per cent of GDP at factor cost				
	Personal	Company	Total private	Public	Total national
1985	7.4	12.6	19.9	1.1	21.0
1986	6.2	12.8	19.0	1.2	20.2
1987	4.6	14.0	18.6	1.7	20.3
1988	2.9	13.5	16.4	4.0	20.4
1989 Partly forecast	2.8	12.5	15.3	4.8	20.1

¹ net of stock appreciation, but including capital transfers.

Private sector financial position

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

Chart 2.10 Private sector financial position



¹before providing for depreciation, stock appreciation and additions to reserves.

²comprises gross domestic fixed capital formation, increase in value of stocks and work in progress, and capital transfers.

Prospects for demand and activity

2.39 Growth in the average measure of GDP is forecast to be around 2 per cent in 1989. With domestic demand forecast to level off, GDP is expected to rise by 1¼ per cent in 1990.

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

Table 2.6 Domestic demand and GDP

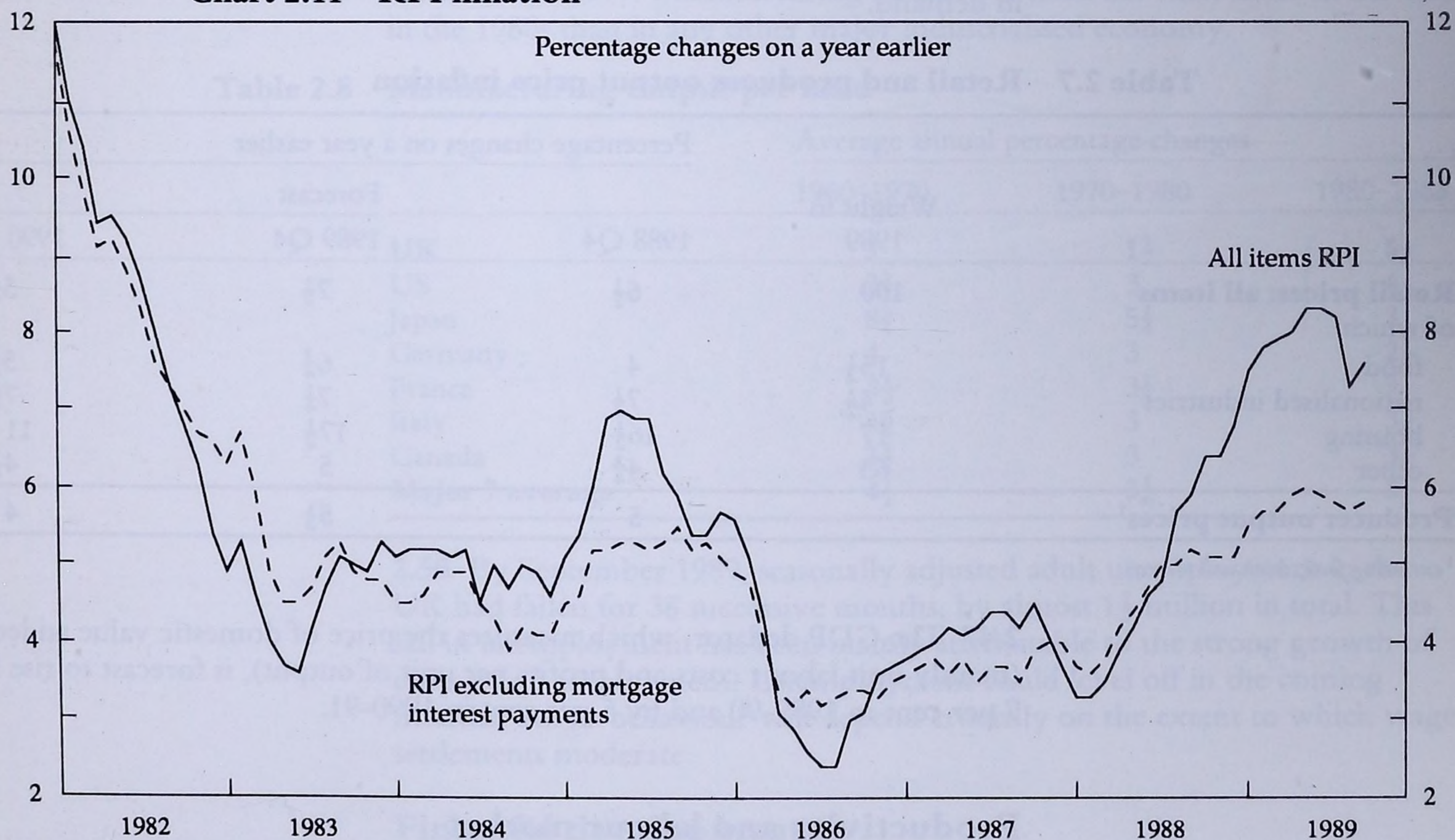
	Percentage changes on previous year		
	1988	Forecast 1989	1990
Domestic demand	7 $\frac{1}{4}$	3 $\frac{3}{4}$	0
Exports of goods and services ¹	3 $\frac{3}{4}$ (2)	4 $\frac{3}{4}$ (9 $\frac{1}{4}$)	6 $\frac{1}{4}$ (5 $\frac{1}{2}$)
Imports of goods and services ¹	12 $\frac{1}{4}$ (13)	9 $\frac{1}{4}$ (9)	1 $\frac{1}{4}$ (1 $\frac{1}{2}$)
Gross domestic product ^{1,2}	4 $\frac{1}{4}$ (5)	2 (3)	1 $\frac{1}{4}$ (3 $\frac{3}{4}$)
Manufacturing output	7	4 $\frac{1}{2}$	1 $\frac{1}{2}$

¹ non-oil shown in brackets.² average measure.

Inflation

2.41 The annual rate of RPI inflation rose to 8.3 per cent in the early summer, but fell to 7.6 per cent in September. The increase in RPI inflation over the past eighteen months in large part reflects changes in mortgage interest rates. RPI inflation is likely to average 7 $\frac{1}{2}$ per cent in the fourth quarter of 1989, partly reflecting the further rise in mortgage rates in November. A better indicator of underlying inflation is provided by the RPI excluding mortgage interest payments. On this measure, inflation has varied little from the 5 $\frac{3}{4}$ -6 per cent range for most of 1989, having risen by 2 points over the past two years.

Chart 2.11 RPI inflation



2.42 Producer output price inflation (excluding food, drink and tobacco) picked up a little in early 1989, but has since remained stable. It is likely to average close to 5 $\frac{1}{2}$ per cent in 1989, as forecast at Budget time.

With sustained growth in demand over the six years to 1988, manufacturers' profit margins rose substantially and were a major factor behind the recent rise in producer price inflation.

2.43 The annual rate of increase in underlying average earnings in the whole economy rose to $9\frac{1}{2}$ per cent in March 1989 and fell to $8\frac{3}{4}$ per cent in the period June to August. In the manufacturing sector the increase has averaged $8\frac{3}{4}$ per cent in the first eight months of 1989. The fall in whole economy earnings growth since March is mainly accounted for by declining bonus payments in the retail sector. Pay settlements, on the other hand, have picked up over the past year as labour markets have continued to tighten and inflation has risen.

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

Prospects 2.45 The recent and projected slow-down in demand and activity means that profit margins may be squeezed over the next year compared to recent historically high levels. Producer output price inflation is expected to fall in 1990.

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

Table 2.7 Retail and producer output price inflation

	Weight in 1989	Percentage changes on a year earlier		
		1988 Q4	Forecast 1989 Q4	1990 Q4
Retail prices: all items	100	$6\frac{1}{2}$	$7\frac{1}{2}$	$5\frac{3}{4}$
of which:				
food	$15\frac{1}{2}$	4	$6\frac{3}{4}$	$5\frac{1}{2}$
nationalised industries	$4\frac{1}{2}$	$7\frac{1}{2}$	$7\frac{1}{4}$	$7\frac{3}{4}$
housing	17	$16\frac{1}{2}$	$17\frac{1}{2}$	11
other	63	$4\frac{3}{4}$	5	$4\frac{1}{4}$
Producer output prices¹		5	$5\frac{1}{2}$	4

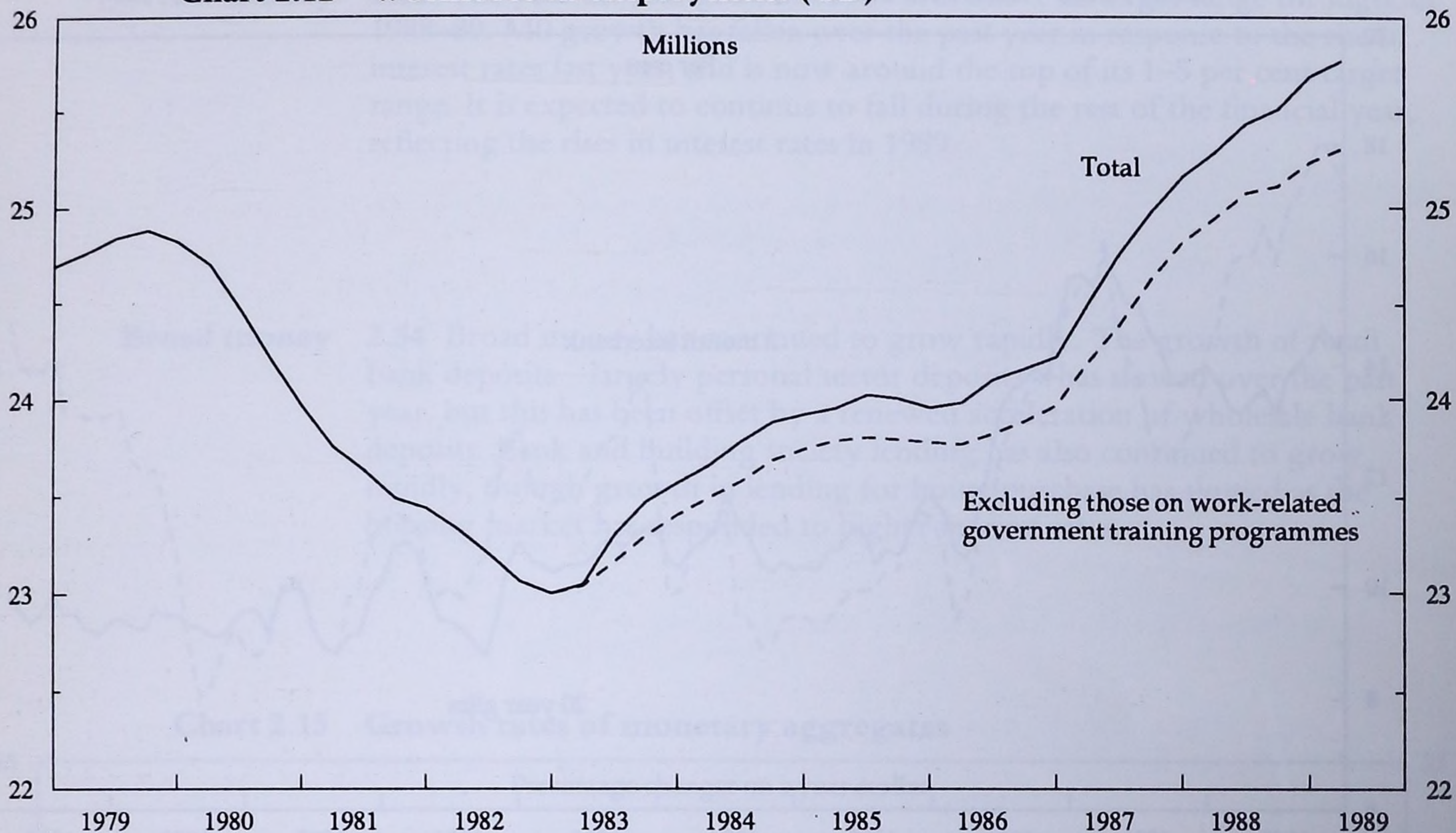
¹ excluding food, drink and tobacco.

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

Productivity and labour market

2.48 The workforce in employment in Great Britain has continued to rise strongly over the last year. In the twelve months to June 1989 it is estimated to have risen by over 470,000. Since 1983 there has been an increase of $2\frac{3}{4}$ million in the workforce in employment.

Chart 2.12 Workforce in employment (GB)



2.49 Productivity has grown strongly over the past ten years, with manufacturing productivity rising by an average of over 4 per cent per annum since 1979. Manufacturing output per head has risen faster in the UK in the 1980s than in any other major industrialised economy.

Table 2.8 Manufacturing output per head

	Average annual percentage changes		
	1960-1970	1970-1980	1980-1988
UK	3	1½	5¼
US	3½	3	4
Japan	8¾	5¼	3
Germany	4	3	2¼
France	4½	3¼	3
Italy	5¼	3	3¾
Canada	3½	3	3½
Major 7 average	4½	3¼	3½

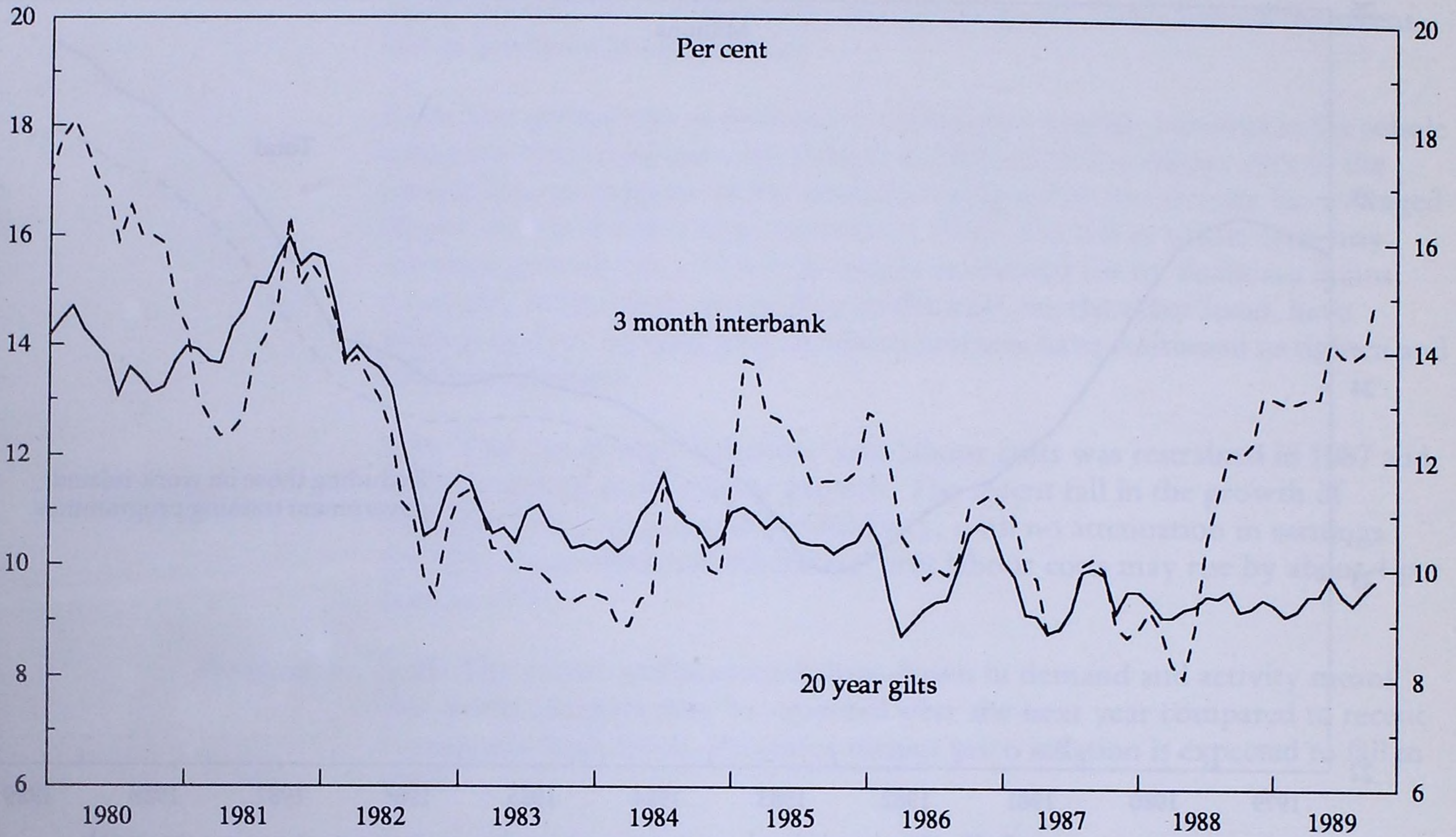
2.50 By September 1989, seasonally adjusted adult unemployment in the UK had fallen for 38 successive months, by almost 1½ million in total. This fall in unemployment has been mainly attributable to the strong growth of output and employment. Unemployment could level off in the coming months, but its behaviour will depend crucially on the extent to which wage settlements moderate.

Financial developments

Interest rates

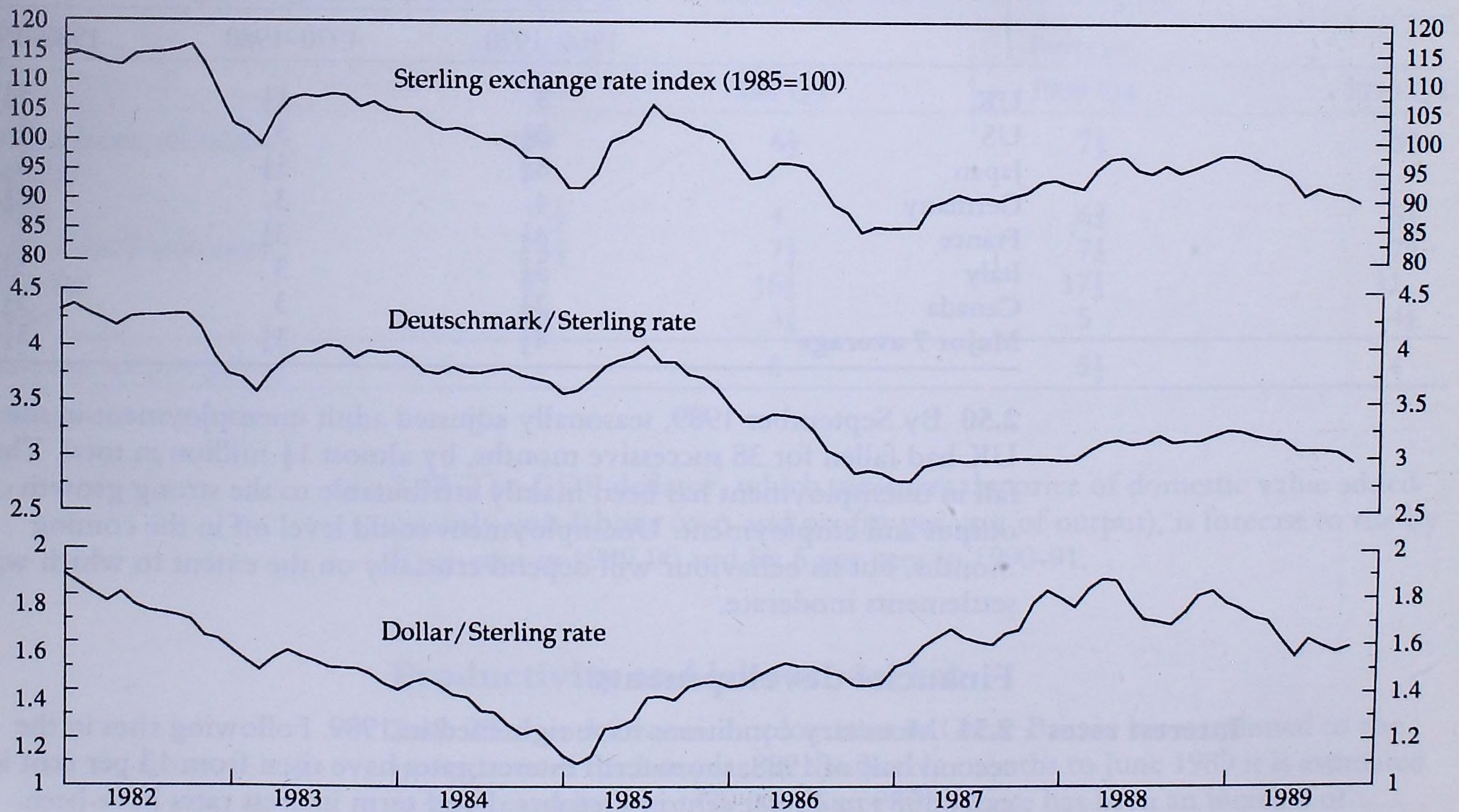
2.51 Monetary conditions have tightened in 1989. Following rises in the second half of 1988, short-term interest rates have risen from 13 per cent in early 1989 to 15 per cent in October. Long term interest rates have been relatively stable.

Chart 2.13 Interest rates



Exchange rates 2.52 The sterling effective exchange rate and the rate against the Deutschmark have fallen in recent months, following rises over the previous two years. This brings them back close to their levels in the first half of 1987.

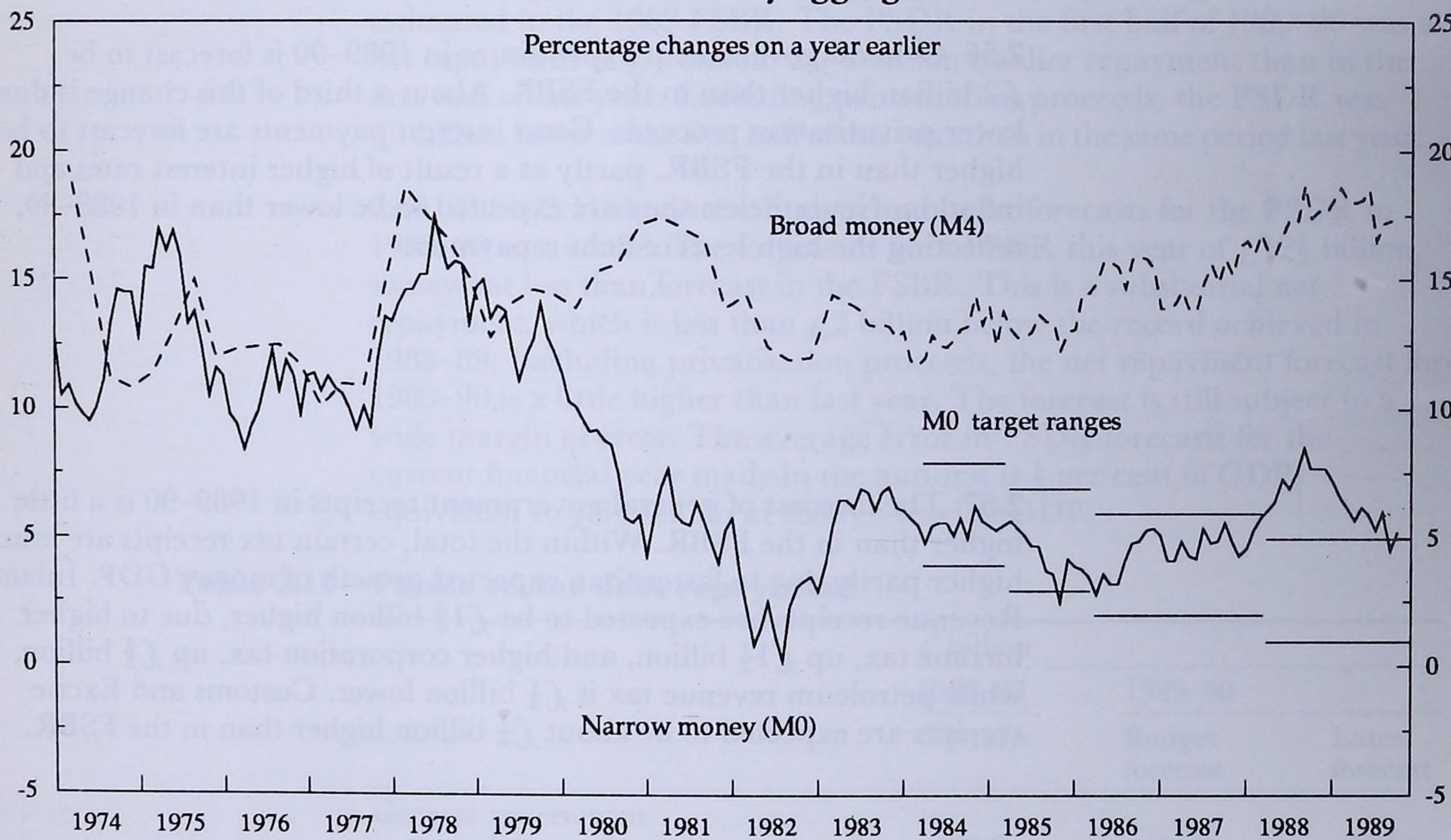
Chart 2.14 Sterling exchange rates



Narrow money 2.53 The year on year growth of M0 was above its target range throughout 1988–89. M0 growth has fallen over the past year in response to the rise in interest rates last year, and is now around the top of its 1–5 per cent target range. It is expected to continue to fall during the rest of the financial year, reflecting the rises in interest rates in 1989.

Broad money 2.54 Broad money has continued to grow rapidly. The growth of retail bank deposits—largely personal sector deposits—has slowed over the past year, but this has been offset by a renewed acceleration of wholesale bank deposits. Bank and building society lending has also continued to grow rapidly, though growth in lending for house purchase has slowed as the housing market has responded to higher interest rates.

Chart 2.15 Growth rates of monetary aggregates



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

Fiscal developments

2.55 Tables 2.9 to 2.11 show both the Budget projections and latest forecasts for general government expenditure and receipts and for the public sector debt repayment (PSDR).

Table 2.9 General government expenditure

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

2.56 General government expenditure in 1989-90 is forecast to be £2 billion higher than in the FSBR. About a third of this change is due to lower privatisation proceeds. Gross interest payments are forecast to be higher than in the FSBR, partly as a result of higher interest rates and inflation. Nevertheless they are expected to be lower than in 1988-89, reflecting the high level of debt repayment.

2.57 The forecast of general government receipts in 1989-90 is a little higher than in the FSBR. Within the total, certain tax receipts are much higher partly due to faster than expected growth of money GDP. Inland Revenue receipts are expected to be £1¾ billion higher, due to higher income tax, up £1½ billion, and higher corporation tax, up £½ billion, while petroleum revenue tax is £¼ billion lower. Customs and Excise receipts are expected to be about £¼ billion higher than in the FSBR.

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

Table 2.10 General government receipts

	£ billion		
	1988-89	1989-90	
	Outturn	Budget forecast	Latest forecast
Taxes on income, expenditure and capital ¹	144.3	156.9	159.7
National insurance and other contributions ²	33.0	34.3	32.7
Interest and dividends	6.5	7.0	6.9
Other receipts including accruals adjustments ²	6.2	8.1	7.7
Total receipts	190.0	206.4	206.9
of which:			
North Sea revenues	3.2	2.9	2.6

¹ includes community charge

² figures have been adjusted to reflect a change to the treatment of personal pensions which the CSO will make when publishing 1989Q3 national accounts.

2.59 The PSDR in 1988-89 was £14½ billion, slightly higher than estimated in the 1989 FSBR. The PSDR in the first half of 1989-90 was a net repayment of £½ billion, a £3 billion smaller repayment than in the first half of last year. Excluding privatisation proceeds, the PSDR was £1 billion lower in the first half of this year than in the same period last year.

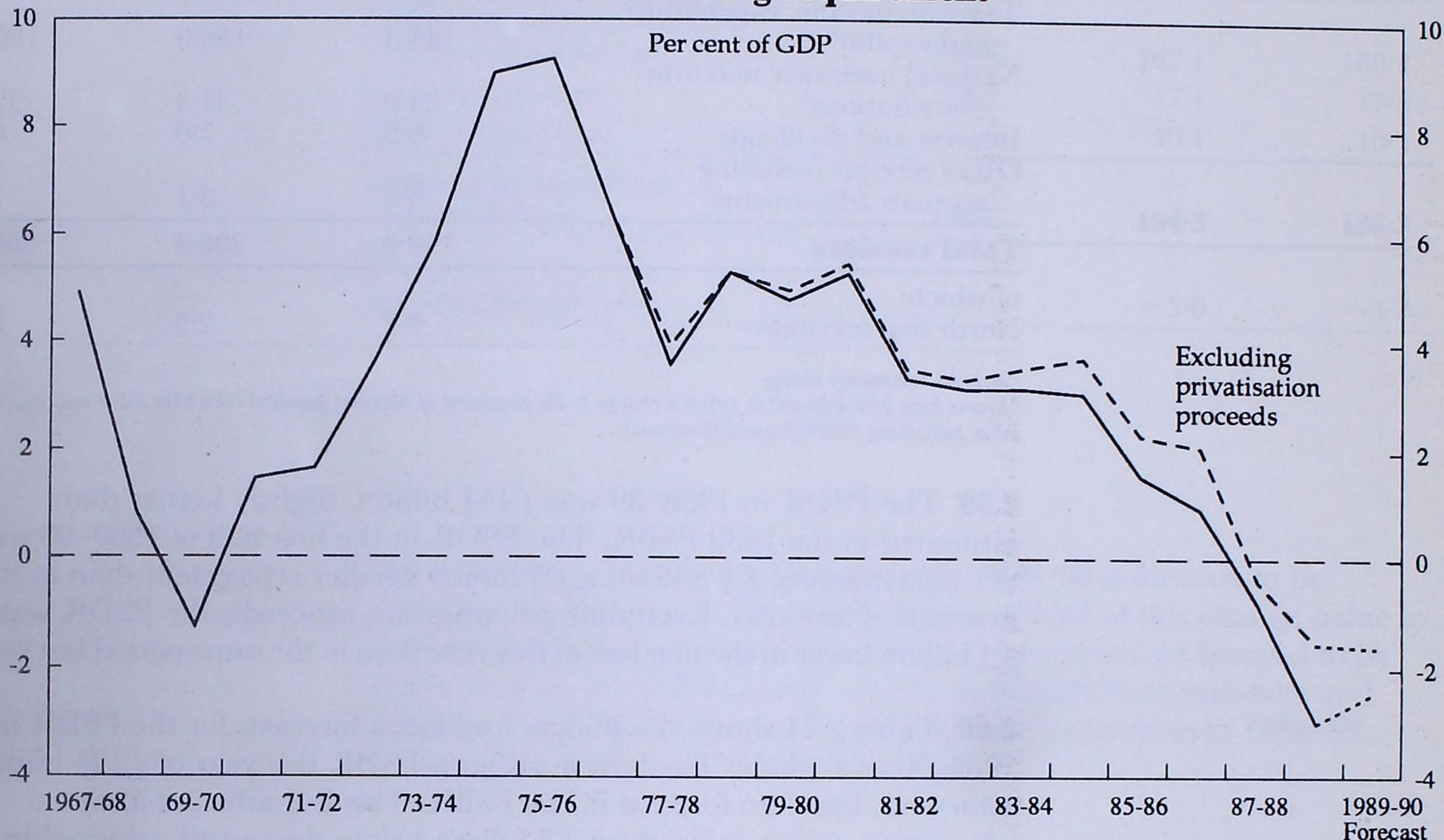
2.60 Table 2.11 shows the Budget and latest forecasts for the PSDR in 1989-90 as a whole. The forecast is for a PSDR this year of £12½ billion, somewhat less than forecast in the FSBR. This is a substantial net repayment, which is less than £2 billion below the record achieved in 1988-89. Excluding privatisation proceeds, the net repayment forecast for 1989-90 is a little higher than last year. The forecast is still subject to a wide margin of error. The average error in PSDR forecasts for the current financial year made in the autumn is ½ per cent of GDP, equivalent to £3¼ billion at today's level of GDP.

Table 2.11 Public sector debt repayment

	£ billion		
	1988-89	1989-90	
	Outturn	Budget forecast	Latest forecast
General government expenditure	178.6	194.3	196.3
General government receipts	190.0	206.4	206.9
General government debt repayment	11.4	12.1	10.6
Public corporations' market and overseas debt repayment	3.0	1.7	1.9
PSDR	14.3	13.8	12.6
PSDR as per cent of GDP	3	2¾	2½
PSDR excluding privatisation proceeds as per cent of GDP	1½	1¾	1½

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

Chart 2.16 Public sector borrowing requirement



Risks and uncertainties

2.62 Economic forecasts are subject to large uncertainties, and should be assessed in the context of the margins of error around each element of the forecast. Table 2.12 sets out the average absolute errors over the last ten years on forecasts made at this time of year.

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

Table 2.12 Economic prospects: summary

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

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

² The introduction of the community charge in Scotland has reduced both the GDP deflator and money GDP by about $\frac{1}{4}$ per cent from 1989–90. There will be a larger reduction in 1990–91 following the introduction of the community charge in England and Wales, which is not allowed for in this table or elsewhere in the Autumn Statement.

Table 2.13 Gross domestic product and its components¹

£ billion at 1985 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption ²	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less Imports of goods and services	Less Adjustment to factor cost	Plus Statistical adjustment	GDP at factor cost (average measure)	GDP index 1985 = 100
1985	217.0	73.9	60.3	102.6	0.6	454.5	99.2	49.5	0.0	305.9	100.0
1986	229.1	75.5	61.5	106.9	0.7	473.6	105.8	52.0	-0.2	315.6	103.2
1987	241.4	76.3	66.9	112.4	1.1	498.0	113.9	55.2	0.9	329.8	107.8
1988	257.9	76.7	75.7	113.2	3.6	527.0	127.8	56.9	1.8	344.1	112.5
1989	267.6	76.6	79.7	118.4	5.4	547.6	139.5	59.0	1.8	350.8	114.7
1990	271.1	76.8	81.1	125.9	-0.3	554.6	141.4	59.5	1.8	355.4	116.2
1988 H1	127.2	38.3	37.2	57.0	-0.3	259.5	61.6	28.2	0.8	170.6	111.5
H2	130.7	38.3	38.4	56.2	3.8	267.5	66.2	28.7	1.0	173.6	113.5
1989 H1	133.2	38.3	39.4	58.3	3.4	272.6	69.1	29.5	0.9	174.9	114.3
H2	134.4	38.3	40.2	60.2	2.0	275.1	70.4	29.6	0.9	176.0	115.1
1990 H1	134.8	38.3	40.4	62.3	-0.2	275.6	70.3	29.6	0.9	176.6	115.5
H2	136.3	38.5	40.6	63.6	-0.1	279.0	71.1	29.9	0.9	178.9	117.0
Percentage changes on previous year ³											
1988	6 $\frac{3}{4}$	$\frac{1}{2}$	13 $\frac{1}{4}$	$\frac{3}{4}$	$\frac{3}{4}$	5 $\frac{3}{4}$	12 $\frac{1}{4}$	3 $\frac{1}{4}$	$\frac{1}{4}$	4 $\frac{1}{4}$	4 $\frac{1}{4}$
1989	3 $\frac{3}{4}$	- $\frac{1}{4}$	5 $\frac{1}{4}$	4 $\frac{3}{4}$	$\frac{1}{2}$	4	9 $\frac{1}{4}$	3 $\frac{3}{4}$	0	2	2
1990	1 $\frac{1}{4}$	$\frac{1}{4}$	1 $\frac{3}{4}$	6 $\frac{1}{4}$	-1 $\frac{1}{2}$	1 $\frac{1}{4}$	1 $\frac{1}{4}$	$\frac{3}{4}$	0	1 $\frac{1}{4}$	1 $\frac{1}{4}$

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

² The growth of general government consumption is reduced by about 1 per cent in 1989 and $\frac{1}{4}$ - $\frac{1}{2}$ per cent in 1990 by the transfer of polytechnics from the local authority sector to the personal sector, and by the phasing out of the Community Programme.

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

3 National Insurance Contributions

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

- the Class 1 insurance rates for employees and employers should remain unchanged for 1990-91.
- the lower earnings limit should be increased from April 1990 from the present level of £43 a week to £46 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £325 a week to £350 a week.
- the earnings limits for the employers' reduced rate brackets should also be increased from £75, £115 and £165 a week to £80, £125 and £175 a week

This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate	
	Employees	Employers ¹
Below £46	0	0
£46 to £80	2% of £46 plus 9% of earnings between £46 and £350	5
£80 to £125		7
£125 to £175		9
£175 to £350		10.45
Above £350		10.45

¹ Rates apply to all earnings.

3.02 The necessary order 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) averages 1.67 million in 1989-90 and 1.75 million in 1990-91
- the increase in average earnings on a year earlier is about 9¼ per cent in 1989-90 and about 8½ per cent in 1990-91. Figures for settlements are of course lower than these earnings figures in both years.

The report will also allow for an uprating of benefits in April 1990 on the basis of the 7.6 per cent increase in the RPI over the year ending in September 1989, as announced by the Secretary of State on 25th October 1989.

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

Table 3.1 Estimated total payments by employers and employees of national insurance contributions, 1989-90 and 1990-91¹

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

¹ Figures are rounded to the nearest £10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-rating) Order 1989. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include NHS Allocation contributions. Employers' contributions are net of deductions in respect of statutory sick pay and statutory maternity pay.

² Including population and employment changes.

4 Tax revenue ready reckoner

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

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

4.03 An illustrative rate of inflation of $7\frac{1}{2}$ per cent has been used to show the effects of indexation and revalorisation in 1990–91. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1989.

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

Indexation of allowances, thresholds and bands for 1990–91

4.05 Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1990–91 after $7\frac{1}{2}$ per cent indexation. Estimates of the revenue effects of indexation are shown in Table 4.4. For income tax, rounding of the indexed amounts follows the rules laid down in the 1980 Finance Act, and for inheritance tax and capital gains tax those laid down in the 1982 Finance Act.

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

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

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

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

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

Table 4.1 Income tax

	£	
	1989-90	1990-91
Allowances:		
Personal allowance	2 785	2 995
Personal allowance (age 65-74)	3 400	3 660
Personal allowance (age 75 and over)	3 540	3 810
Married couple's allowance	1 590	1 710
Married couple's allowance (age 65-74)	1 985	2 135
Married couple's allowance (age 75 and over)	2 025	2 185
Additional personal and widow's bereavement allowance	1 590	1 710
Aged income limit	11 400	12 300
Income tax rates		
	Bands of taxable income	
	£	
Per cent	1989-90	1990-91
25	0-20 700	0-22 300
40	over 20 700	over 22 300

Table 4.2 Inheritance tax

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

Table 4.3 Capital gains tax

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

Table 4.4 Costs of indexation for 1990-91

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

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

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax¹

	£ million cost/yield	
	1990-91	1991-92
Income tax		
<i>Rates</i>		
Change basic rate by 1p ²	1 500	1 900
Change higher rate by 1p	130	270
<i>Allowances³</i>		
Change personal allowance by £100	465	635
Change age-related personal allowances ⁴ by £100	35	50
Change married couple's allowance by £100 ⁵	215	295
Change age-related married couple's allowances ⁴ by £100	15	22
Change aged income limit by £200	2	4
Change all main allowances by 1 per cent ⁶	180	250
Change all main allowances by 10 per cent: ⁶		
increase (cost)	1 775	2 475
decrease (yield)	1 850	2 550
<i>Basic rate limit</i>		
Change basic rate limit by 1 per cent ⁶	25	44
Change basic rate limit by 10 per cent: ⁶		
increase (cost)	225	415
decrease (yield)	275	495
<i>Allowances and basic rate limit</i>		
Change all main allowances and basic rate limit by 1 per cent ⁶	205	295
Change all main allowances and basic rate limit by 10 per cent: ⁶		
increase (cost)	2 000	2 875
decrease (yield)	2 125	3 050
Corporation tax⁷		
Change full rate by 1 percentage point	390	570
Change small companies' rate by 1 percentage point ⁸	35	45

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

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

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

⁴ Allowances for those aged 65-74 and aged 75 and over.

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

⁶ Percentage changes are calculated with reference to 1989-90 levels.

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

⁸ These figures ignore effects arising from the imputation system.

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

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

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

Table 4.6 Revenue effects of indirect tax changes¹

	Current level of duty on typical items	7½% Revalorisation ²		Illustrative changes				
		Price change ³	£m yield ⁴		Price change ³	Associated percentage change in duty	£m cost/yield ⁴	
			1990-91	1991-92			1990-91	1991-92
Beer (pint)	19.4p	1.7p	155	180	1p	4.5	90	110
Wine (75 cl bottle of table wine) ⁵	76.8p	6.6p	50	60	5p	5.7	40	45
Spirits (bottle)	£4.73	40.8p	80	90	10p	1.8	20	20
Cigarettes (20 kingsize) ⁶	96.7p	7.2p	260	295	1p	1.0	35	40
Petrol (gallon) ⁷	89.8p	7.8p	465	515	1p	1.0	60	70
Derv (gallon)	78.6p	6.8p	110	115	1p	1.1	15	20
VED (cars and light vans)	£100.00	£7.50	170	190	£1.00	1.0	25	25

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

² An 'across the board' revalorisation by 7½ per cent (including the minor duties not shown above) would yield about £1 360m in 1990-91 and £1 515m in 1991-92 and the impact on the RPI would be to raise it by 0.5 per cent.

³ The price change is assumed to equal the change in duty plus the consequential change in VAT except in the case of VED where VAT is not payable.

⁴ Assuming implementation on 1 April 1990.

⁵ Revenue effects include all wines.

⁶ The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.

⁷ Weighted average of leaded and unleaded petrol at current level of sales. Unleaded petrol currently bears a rate of duty which is 12.4 pence per gallon less than that on leaded, and the revenue effects given here assume no change in this differential save for that arising from revalorisation.

Table 4.7 VAT¹

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

¹ The revenue effects of changes in the rate of VAT are estimated on the assumption that total consumers' expenditure at factor cost does not change.

² Assuming implementation on 1 April 1990.

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