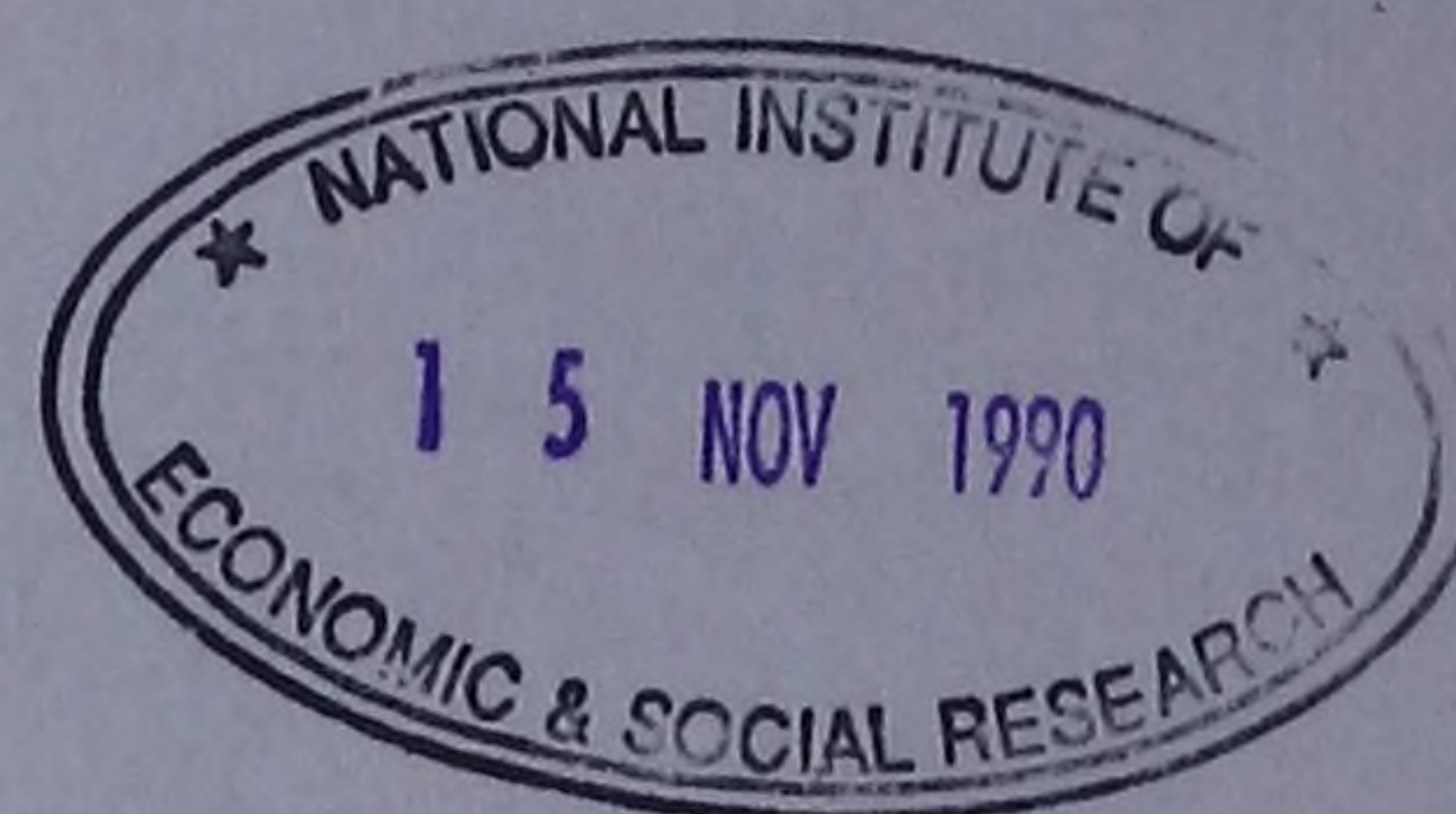

Autumn Statement 1990

HM TREASURY
NOVEMBER, 1990



ANDERTON ✓



Autumn Statement

1990

*Presented to Parliament by the Chancellor of the Exchequer
by Command of Her Majesty November 1990*

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1 Public spending plans

Main points

1.01 The public expenditure planning total has been set at £200.3 billion in 1991–92 and £215.0 billion in 1992–93, increases of £7.9 billion and £11.6 billion over previous plans. The planning total for 1993–94 is £226.1 billion. These totals include Reserves of £3½ billion, £7 billion and £10½ billion, higher than in last year's plans. The estimate of privatisation proceeds is £5½ billion a year.

1.02 The new plans demonstrate the Government's firm commitment to maintaining tight control over public expenditure. In real terms the planning totals are 1 per cent below those set a year ago. The average growth in the planning total between 1989–90 and 1993–94 is 2¾ per cent a year in real terms, compared with about 4 per cent over the 1989 Survey period.

1.03 Nearly two-thirds of the additions to cash plans are for social security programmes, for the extra central government support for Local Authority current spending announced in July, and for Health. There are also limited increases elsewhere, including public transport, education, and the environment. Some programmes are virtually unchanged in cash terms, and there are real reductions in spending on Defence over the Survey period.

1.04 About £1½ billion has been added to planned investment by central government and nationalised industries in 1991–92.

1.05 The latest forecast of the planning total in 1990–91 is £180.6 billion, £1.6 billion (less than 1 per cent) higher than the plans in Cm 1021. In real terms, the estimated outturn is 2 per cent lower than implied by last year's plans.

1.06 General government expenditure (GGE), excluding privatisation proceeds, fell as a proportion of gross domestic product¹ by over 8 percentage points between 1982–83 and 1988–89. Since then the ratio has stabilised at around 39½ per cent and is expected to stay close to this level in the next two years. In 1993–94 the ratio is set to fall to 39 per cent—the lowest level since 1965–66.

1.07 GGE is projected to rise by an average 1¾ per cent a year in real terms between 1989–90 and 1993–94, the same rate of growth as projected between 1988–89 and 1992–93 in the last Autumn Statement and well within the underlying growth of the economy.

1.08 The forecast outturn for 1990–91 and the new planning totals for the three Survey years are shown in Table 1.1, together with projections for expenditure outside the planning total, for GGE and for the ratio of GGE to GDP. The main components of the planning total in 1991–92 are shown in Chart 1.1.

¹See Annex C.

Table 1.1 The planning total and general government expenditure¹

	£ million							
	Estimates of outturn		New plans and projections ^{2,3}			Changes from 1990 White Paper ⁴		
	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Central government expenditure ¹	127 554	140 900	152 100	161 600	168 000	2 200	6 000	8 800
Central government support for local authorities ¹	38 212	42 700	47 900	49 700	51 100	900	4 000	4 700
Financing requirements of nationalised industries	1 113	2 100	2 330	2 140	1 970	1 580	820	630
Reserve			3 500	7 000	10 500	-3 000	-2 500	-2 000
Less privatisation proceeds	-4 224	-5 300	-5 500	-5 500	-5 500	-300	-500	-500
Adjustment ¹		300				300		
Planning total	162 656	180 600	200 300	215 000	226 100	1 600	7 900	11 600
Local authority self-financed expenditure ¹	14 639	13 900	13 500	15 500	17 000	2 000	1 500	3 000
Central government debt interest	17 845	17 800	16 500	16 000	15 500	2 500	2 500	2 500
Accounting adjustments	3 688	3 400	3 500	5 000	5 500	-800	0	500
General government expenditure	198 827	215 700	233 700	251 100	263 900	5 300	11 500	17 000
GGE excluding privatisation proceeds as a percent of GDP ⁵	39½	39½	39½	39½	39			

¹For definitions, rounding and other conventions, see notes in Annex A.

²The table shows new plans for the planning total and its constituents and projections for the other items in general government expenditure.

³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

⁴Changes from the White Paper are the differences from the figures set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁵Adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C for a description of the GDP figure used in the calculation of the ratio for 1989-90.

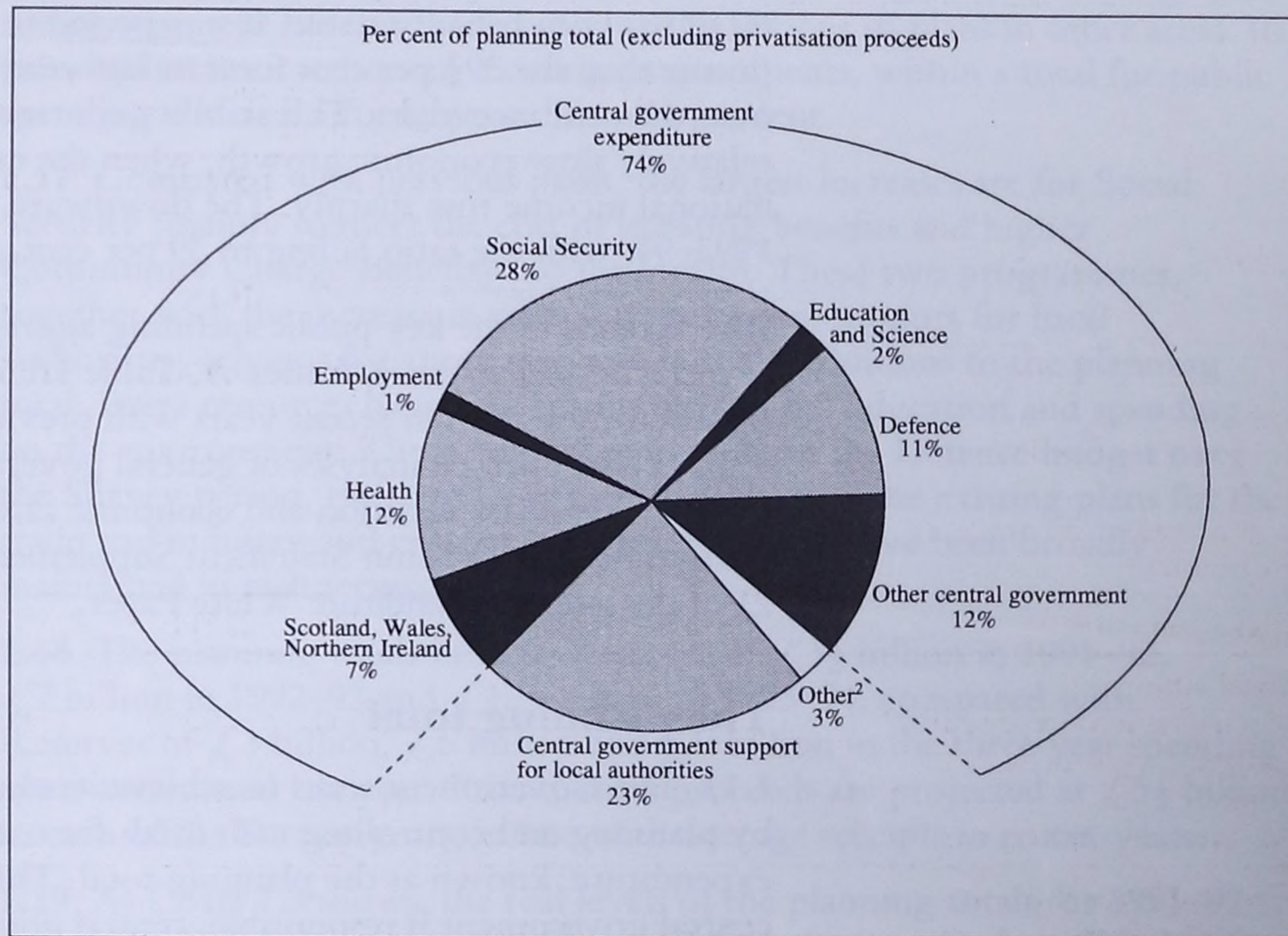
Public spending trends¹

1.09 The Government's medium term objective for public spending is that, over time, it should take a declining share of national income, while value for money is constantly improved. This is consistent with the policy of maintaining a balanced budget over the medium term and reducing taxation when it is prudent to do so.

1.10 The public spending objective is expressed in terms of general government expenditure (GGE), excluding privatisation proceeds, the main spending aggregate used in the Medium Term Financial Strategy. Between 1984-85 and 1988-89, years of exceptionally strong economic growth, real GDP rose by nearly 18 per cent, while GGE was virtually unchanged in real terms. The ratio of GGE to GDP fell sharply over this period (see Chart 1.2), to some 5 percentage points below its level in 1978-79.

¹The abolition of domestic rates in April 1990 has led to discontinuities in the series for money GDP and the GDP deflator. To show underlying trends in expenditure more clearly, the figures for spending in real terms and as a percent of GDP have been computed using series prepared by the CSO which remove these discontinuities by rescaling the past (pre-1990-91) data for money GDP and the GDP deflator. The adjusted series are described in Annex C.

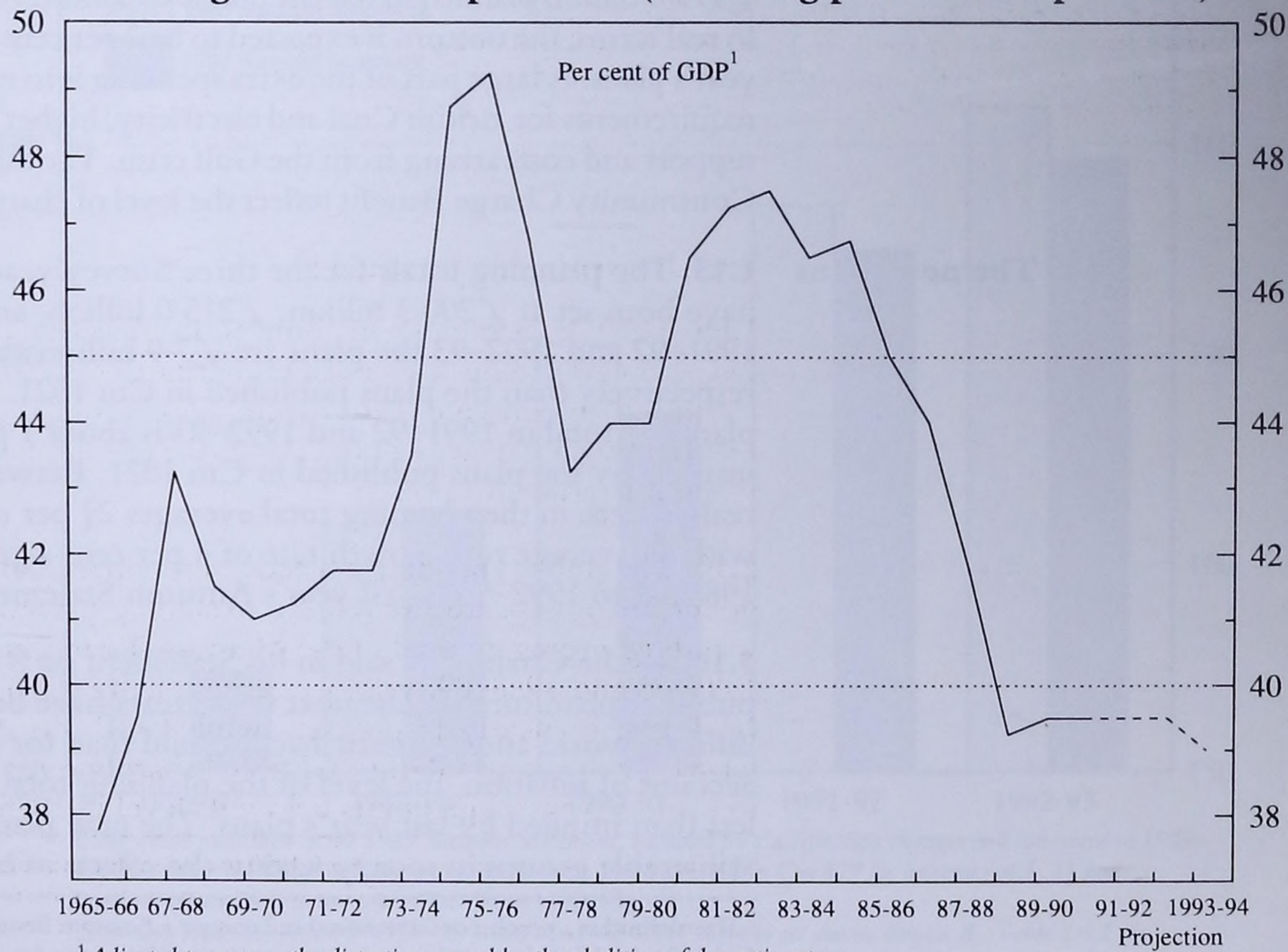
Chart 1.1 Planning total¹ in 1991-92



¹ Excluding privatisation proceeds.

² Reserve and financing requirements of nationalised industries.

Chart 1.2 General government expenditure (excluding privatisation proceeds)



¹ Adjusted to remove the distortion caused by the abolition of domestic rates.

See Annex C.

1.11 Since 1988–89, the ratio of GGE excluding privatisation proceeds to GDP has been broadly stable. It is expected to be $39\frac{1}{2}$ per cent this year (lower than the $39\frac{3}{4}$ per cent forecast last year), and to stay at about this level over the next two years. This stability contrasts with previous periods of relatively slow economic growth, when the ratio of public spending to national income rose sharply. The downward trend is projected to resume in 1993–94, with the ratio falling to 39 per cent, the lowest level since 1965–66.

1.12 Trends in the key public spending aggregates since 1963–64 are set out in cash and real terms in Annex A, Table 1A.1. Comparison of the outturn figures for the ratio in recent years with previous plans is given in Annex A, Table 1A.2. Further analyses of general government expenditure for years up to 1990–91, by function and economic category, will be published early next year in the Autumn Statement Supplement, which will replace Chapter 21 of the public expenditure White Paper.

The planning total

1.13 The Government seeks to achieve its medium term objective for GGE by planning and controlling cash totals for a narrower measure of expenditure, known as the planning total. This covers expenditure for which central government is responsible: central government's spending, central government support for local authority expenditure, the financing requirements of nationalised industries, privatisation proceeds and a Reserve.¹

1990–91 outturn

1.14 The latest estimate of the planning total for the current year, 1990–91, is £180.6 billion, some £1.6 billion (under 1 per cent) higher than the £179.0 billion planned in the last public expenditure White Paper (Cm 1021). In real terms, the outturn is expected to be 2 per cent less than implied in last year's plans. A large part of the extra spending is to meet higher financing requirements for British Coal and electricity, higher costs of agricultural market support and costs arising from the Gulf crisis. The higher expected costs of Community Charge Benefit reflect the level of charges set by local authorities.

The new plans

1.15 The planning totals for the three Survey years 1991–92 to 1993–94 have been set at £200.3 billion, £215.0 billion, and £226.1 billion. For 1991–92 and 1992–93 the plans are £7.9 billion and £11.6 billion higher respectively than the plans published in Cm 1021. The real level of the planning total in 1991–92 and 1992–93 is about 1 per cent below that implied by the plans published in Cm 1021. Between 1989–90 and 1993–94 real growth in the planning total averages $2\frac{3}{4}$ per cent a year. This compares with an average real growth rate of 4 per cent a year over the period 1988–89 to 1992–93 in last year's Autumn Statement.

1.16 As the Chancellor said in his Statement on 8 November, decisions on public expenditure for the next three years have been taken against a more difficult world and domestic background than for some time. After taking account of inflation, the level of the planning total next year will be rather less than implied by last year's plans. The new plans protect the most vulnerable groups in society against the effects of higher inflation and

¹This definition, which was introduced in last year's Autumn Statement, is discussed in more detail in Cm 1021. In this document, central government spending includes the financing requirements of public corporations other than the nationalised industries.

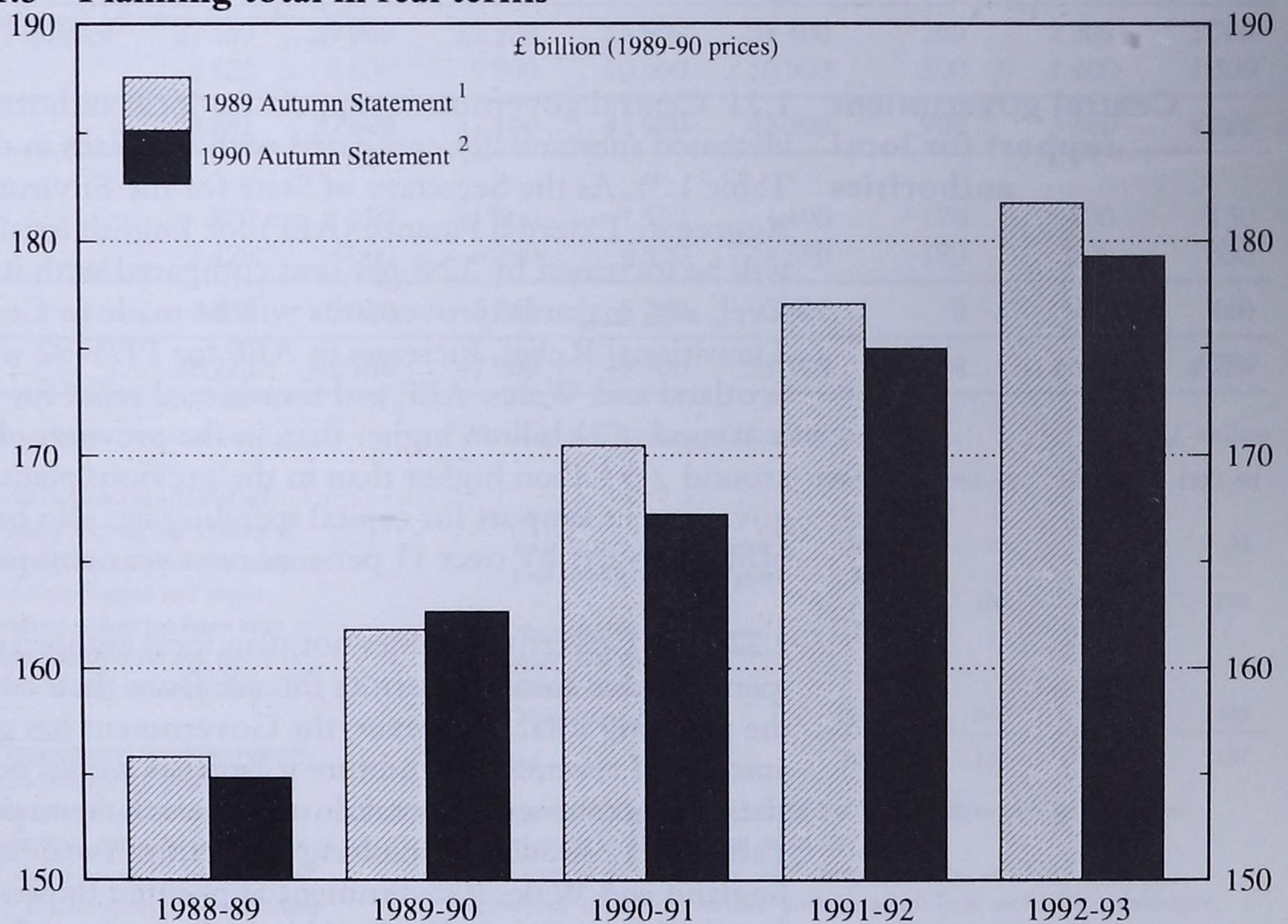
maintain longer term policies to improve the working of the economy. But the government has not made substantial additions to plans in other areas. Its priority has been to honour existing commitments, within a total for public spending which is affordable and fiscally prudent.

1.17 Compared with previous plans, the largest increases are for Social Security (mainly to meet the cost of uprating benefits and higher Community Charge Benefit) and for Health. These two programmes, together with the increase in central government support for local authorities, account for about two thirds of the additions to the planning total. Extra resources have also been provided for Education and spending on the environment. There are real reductions in the Defence budget over the Survey period, rising to 6 per cent in 1993–94. The existing plans for the trade and industry and employment programmes have been broadly maintained in cash terms.

1.18 The planning totals include Reserves of £3½ billion in 1991–92, £7 billion in 1992–93 and £10½ billion in 1993–94, compared with Reserves of £3 billion, £6 billion and £9 billion in the three year spending plans announced last year. Privatisation proceeds are projected at £5½ billion in each of the Survey years, in line with average receipts in recent years.

1.19 As Chart 1.3 shows, the real levels of the planning totals for 1991–92 and 1992–93 are about 1 per cent lower than in last year's plans. In other words, the cash additions to the planning total are less than the increase in the expected price level.

Chart 1.3 Planning total in real terms¹



¹Cash totals published in the 1989 Autumn Statement, adjusted for classification changes and converted to 1989–90 prices using the GDP deflator set out in footnote 1 to Table 1.1 in Cm 879 (ie increases of 5, 3½ and 3 per cent respectively in the years 1990–91 to 1992–93).

²New cash totals converted to 1989–90 prices using the GDP deflator set out in Annex A, Table 1A.1 (ie increases of 8, 6 and 4¾ per cent respectively in the years 1990–91 to 1992–93). See Annex C for a description of the GDP deflator series used for years before 1990–91.

Central government spending 1.20 Compared with the plans in Cm 1021 central government spending has been increased by £6.0 billion in 1991–92 and £8.8 billion in 1992–93. The new plans for central government spending are set out, by main department, in Table 1.2 and set out in full in Annex A, Table 1A.5 and (in real terms) in Table 1A.6.

Table 1.2 Central government expenditure¹: main departments²

	£ million							
	Estimates of outturn		New plans ³			Changes from plans in 1990 White Paper ⁴		
	1989–90	1990–91	1991–92	1992–93	1993–94	1990–91	1991–92	1992–93
Social Security	46 892	51 700	58 200	62 600	66 700	– 400	2 000	3 100
Defence	20 760	21 580	22 800	23 350	23 390	380	300	– 230
Health	19 918	22 420	24 930	26 330	27 510	360	1 550	1 830
Territories	12 016	13 070	14 600	15 420	16 080	70	660	1 040
Education and Science	4 291	4 550	4 600	4 720	4 860	– 40	280	350
Employment	3 410	3 450	2 960	2 950	3 010	0	– 120 ⁵	– 120 ⁵
Other departments	20 268	24 120	23 970	26 260	26 470	1 780	1 340	2 780
Total	127 554	140 900	152 100	161 600	168 000	2 200	6 000	8 800

¹For definitions, rounding and other conventions, see notes in Annex A.

²See Annex D for the composition of each departmental grouping.

³The new plans for 1991–92 to 1993–94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

⁴Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁵The reductions in 1991–92 and 1992–93 reflect increased support for local authorities under the European Social Fund.

Central government support for local authorities 1.21 Central government support for local authorities' spending has been increased substantially compared with the plans in the 1990 White Paper (see Table 1.3). As the Secretary of State for the Environment announced in July, Aggregate External Finance (AEF) for English local authorities in 1991–92 will be increased by 12.8 per cent compared with its 1990–91 settlement level, and major improvements will be made to Community Charge Transitional Relief. Increases in AEF for 1991–92 were also announced for Scotland and Wales. AEF and transitional relief for Great Britain as a whole is around £2½ billion higher than in the previous plans in 1991–92 and around £3 billion higher than in the previous plans in 1992–93. Central government support for capital spending has also been increased and is planned to rise by over 11 per cent next year compared with this year.

1.22 The Government does not plan local authority expenditure and the spending that local authorities finance from their own resources falls outside the planning total. However, the Government has given an indication of the amount of revenue expenditure it believes would be appropriate for the year ahead, together with a breakdown between the main services. Annex A, Table 1A.11 shows the resulting figures for Total Standard Spending in England and Wales (Government Supported Expenditure in Scotland). Total Standard Spending in England has been set about 7 per cent above this year's budgets (after capping), which are some 13 per cent above comparable budgets in 1989–90. The new projections for total local authority expenditure, including expenditure financed from authorities' own resources, are described in paragraphs 1.72 to 1.78.

1 Public spending plans

Table 1.3 Central government support for local authorities¹

	£ million							
	Estimates of outturn		New plans ²			Changes from plans in 1990 White Paper ³		
	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Current								
Aggregate External Finance⁴								
England								
National non-domestic rate payments ⁵	9 493	10 430	12 410	} 23 040	23 740	0	} 1 530	1 900
Revenue support grant	9 613	9 490	9 670		0			
Specific grants	2 846	3 160	3 410	3 660	3 890	160	250	370
Transitional grants ⁶		190	560	360	210	0	10	40
Total England	21 953	23 260	26 050	27 070	27 840	160	1 790	2 320
Scotland								
Non-domestic rates payments	1 219	1 190	} 4 040	4 130	4 250	0	} 270	260
Revenue support grant ⁷	2 346	2 480		0				
Specific grants	238	280	310	320	330	-10	10	10
Total Scotland	3 803	3 950	4 350	4 450	4 580	-10	280	280
Wales								
National non-domestic rate payments ⁵	414	440	520	} 1 750	1 740	0	} 130	80
Revenue support grant	1 049	1 150	1 240		10			
Specific grants	140	190	180	180	200	40	10	20
Total Wales	1 603	1 780	1 940	1 940	1 940	40	150	90
Total Aggregate External Finance⁴	27 359	29 000	32 300	33 500	34 400	200	2 200	2 700
Other current grants ⁸	6 522	8 600	9 800	10 500	10 900	800	1 400	1 500
Total current	33 881	37 600	42 100	43 900	45 300	900	3 600	4 200
Capital								
Capital grants	902	1 150	1 460	1 460	1 490	-170	120	130
Credit approvals	3 428	4 000	4 280	4 320	4 330	180	290	330
Total capital	4 331	5 150	5 740	5 780	5 820	0	420	460
Total	38 212	42 700	47 900	49 700	51 100	900	4 000	4 700

¹For definitions, rounding and other conventions, see notes in Annex A.

²The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. See Annex B.

³Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁴Aggregate External Finance (AEF) encompasses revenue support grant, non-domestic rate payments and a number of specific grants which fund part of the expenditure on a specific service or activity. AEF also includes the transitional grants to assist with the transfer of responsibility for education to Inner London boroughs and with the introduction of the new local authority finance system (Low rateable value areas grant and Area protection grant). Community Charge Transitional Relief is outside AEF.

⁵For 1989-90, the estimated yield of non-domestic rates has been used as a proxy for non-domestic rate payments.

⁶The transitional grants (GB totals) are:

	£ million			
	1990-91	1991-92	1992-93	1993-94
<i>Inside AEF</i>				
Inner London education grant	100	70	50	20
Low rateable value areas grant	90	} 500	320	190
Area protection grant	30			
<i>Outside AEF (included in Other current grants)</i>				
Transitional Relief	360	540	480	340
Total	570	1,110	850	550

⁷Area protection grant in Scotland has been amalgamated with revenue support grant for distribution purposes.

⁸Most current grants outside AEF finance wholly, or almost wholly, expenditure on certain national policies which local authorities administer, such as community charge benefit, housing benefit, and student awards. Community Charge Transitional Relief (see notes 4 and 6 above) is also included in this line.

Nationalised Industries 1.23 Extra provision has been made for the external financing requirements of nationalised industries remaining in the public sector (see Annex A, Table 1A.8). This reflects substantially increased investment in public transport and the costs to British Coal of new supply contracts with electricity generating companies. The figures after 1990–91 reflect the privatisation of electricity, planned for 1990 and 1991. Nuclear Electric and Scottish Nuclear will remain in the public sector over the Survey period. Nuclear Electric is expected to have a positive cash flow and thus a negative external financing requirement.

The new plans: departmental detail

1.24 Table 1.4 analyses the planning totals by department. Central government support for local authorities and the financing requirements of nationalised industries have been attributed to appropriate departments. Payments of Revenue Support Grant and National Non-Domestic Rates to English local authorities which finance, at local authorities' discretion, a range of local services, including education, social services and other environmental services, are included within the entry for the Department of the Environment—Local government. Details of central government support by department are shown in Annex A, Table 1A.7.

1.25 The External Financing Limits (EFLs) for the nationalised industries in 1991–92, and plans for the two later years, are included within the departmental totals in Table 1.4 and are set out separately in Annex A, Table 1A.8. The departmental totals also include provision for a large number of other public corporations, such as Urban Development Corporations, Scottish Enterprise and the Welsh Development Agency, Northern Ireland Electricity and the New Towns. Provision for these public corporations is included in the departmental totals set out in Annex A, Table 1A.5 and is shown in total as a memo at the foot of that table.

1.26 The following paragraphs briefly describe the new plans, which will be set out in more detail in the new Departmental Reports, to be published for the first time early next year. Further details of the new provisions are set out in Annex A. Spending by each department since 1985–86 is set out in Annex A, Tables 1A.9 (cash terms) and 1A.10 (real terms).

Defence 1.27 The Government's aims for defence are to ensure the security and freedom of the nation, in particular by continuing to make an effective contribution to the NATO alliance. In July 1990 the Defence Secretary announced the Government's proposals, known as "Options for Change", for reductions of about 18 per cent in the Armed Forces by 1995 following recent welcome improvements in security in Europe. Those proposals allowed for a continuing ability to deploy forces outside Europe, as has proved necessary in the Gulf.

Table 1.4 Planning total by department^{1,2}

	£ million							
	Estimates of outturn		New plans ³			Changes from plans in 1990 White Paper ⁴		
	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Defence	20 760	21 580	22 800	23 350	23 390	380	300	- 230
Foreign Office	864	950	1 020	1 090	1 130	50	80	120
Overseas Development	1 669	1 750	1 910	1 980	2 050	40	100	100
Agriculture, Fisheries and Food	1 532	2 270	2 280	2 390	2 390	440	230	250
Trade and Industry	1 291	1 230	980	930	880	- 40	- 40	10
ECGD	358	390	250	130	30	140	180	160
Energy	474	1 420	970	690	640	1 580	300	20
Employment	3 770	3 770	3 400	3 380	3 440	0	0	- 30
Transport	3 562	4 380	5 210	5 420	5 430	160	740	820
DOE—Housing	2 938	6 880	7 280	7 220	7 440	590	500	270
DOE—Environment	1 387	1 560	1 430	1 400	1 530	100	70	100
DOE—PSA		70	90	40	10	40	90	50
DOE—Local government	19 358	20 430	23 260	24 000	24 450	- 60	1 810	2 210
Home Office	4 206	5 050	5 400	5 630	5 940	200	370	450
Legal departments	1 137	1 360	1 460	1 580	1 660	90	80	110
Education and Science	5 689	6 580	7 250	7 540	7 730	20	520	670
Arts and Libraries	446	490	560	580	570	0	30	30
Health	20 009	22 540	25 090	26 510	27 690	360	1 610	1 900
Social Security	52 159	55 900	62 800	67 700	72 200	400	2 900	4 100
Scotland	8 908	9 740	11 060	11 470	11 780	160	660	790
Wales	3 790	4 460	4 920	5 080	5 250	0	330	360
Northern Ireland	5 732	5 910	6 420	6 860	7 170	- 20	210	430
Chancellor's departments	4 222	4 700	4 990	5 290	5 510	90	400	460
Cabinet Office, etc	302	340	400	420	440	- 20	20	20
European Communities	2 316	1 890	1 050	2 870	2 340	20	- 620	880
Reserve			3 500	7 000	10 500	- 3 000	- 2 500	- 2 000
Privatisation proceeds	- 4 224	- 5 300	- 5 500	- 5 500	- 5 500	- 300	- 500	- 500
Adjustment ¹		300				300		
Planning total	162 656	180 600	200 300	215 000	226 100	1 600	7 900	11 600

¹For definitions, rounding and other conventions, see notes in Annex A.²See Annex D for the composition of each departmental grouping.³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.⁴Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

1.28 The estimated outturn for Defence in 1990-91 is higher than previous plans, partly because a proportion of Gulf costs cannot be absorbed within the existing budget.

1.29 Within previously announced plans some £150 million has been transferred from 1992-93 to enhance provision for 1991-92 to match the latest estimated profile of expenditure. Net savings on previous plans from the first phases of implementing "Options for Change" start in 1992-93; there are larger savings in 1993-94, for which cash provision has been set broadly the same as the revised plans for 1992-93. In all years extra provision of about £120 million has been made for additional payments to certain war widows, announced in December 1989.

1.30 Overall the cash plans imply a reduction of 6 per cent in Defence spending in real terms over the next three years. Spending will be 3.4 per cent of GDP by 1993–94, down from 3.9 per cent in 1990–91 and 4.3 per cent in 1978–79. For the first time since World War II, spending is planned to be significantly less than one tenth of all Government spending and falling.

1.31 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 Office **1.32** The Foreign and Commonwealth Office (Diplomatic Wing) is responsible for representing the UK overseas. It also provides grants to organisations outside Government, including the British Council and the BBC World Service. Increased resources are being provided for running costs, activities in Eastern Europe, and for the BBC World Service for the next three year period.

Overseas Development **1.33** The Overseas Development Administration's spending covers aid to developing countries, economic assistance to Eastern Europe and global environmental assistance. Spending on these programmes is set at £1,790 million in 1991–92 and £1,860 million and £1,930 million in the following two years. The increase between 1990–91 plans and 1993–94 is 21 per cent, or 5½ per cent in real terms. The programme also includes spending on overseas superannuation.

1.34 Aid to developing countries will increase by 17 per cent (2 per cent in real terms) between 1990–91 plans and 1993–94 and will be used to support, in particular, economic reform and environmental programmes. Separate provision has been made to assist poorer countries to address global environmental issues.

1.35 Provision has been made for the bilateral Know How Fund for Eastern Europe and for the UK's contribution to the European Bank for Reconstruction and Development.

Agriculture, Fisheries and Food **1.36** The Department's main aims are to seek improvements to the European Community's Common Agricultural Policy (CAP) and to create the conditions in which efficient agriculture, fisheries and food industries can flourish, to protect the public, to enhance the environment and to prevent flooding. Spending on agriculture is largely determined by the CAP. The Government's objectives in Community discussions are to keep spending under control, and to secure worldwide reductions in agricultural support and protection through the Community's participation in the General Agreement on Tariffs and Trade (GATT). The increased provision for market support reflects current market difficulties, particularly in the livestock sector, and lower world cereal prices.

1.37 There is increased provision for flood defence and coast protection, to cope with damage caused by last winter's storms and to improve coastal defences. Additional provision has also been made for the programme to eradicate bovine spongiform encephalopathy (BSE), and for food safety including dissemination of information to the public. There are also increases for environmental schemes, for the Royal Botanic Gardens, Kew, and for departmental administration. These increases are partly offset by savings in other areas.

Trade and Industry

1.38 The Department's aim 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 improved competitiveness 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, including reduced levels of provision for Regional Selective Assistance.

1.39 The planned reduction in expenditure between 1990–91 and 1991–92 reflects in particular substantial changes, as previously planned, on aerospace support where levy receipts will now exceed payments and on the Post Office which will have a negative financing requirement next year. Within a broadly unchanged baseline, reordering priorities has allowed some increases to be made including provision for shipbuilding credit support, regulation of trade and consumer protection and departmental administration. The Post Office's capital expenditure will be increased within its existing external financing limit in order to improve quality of service.

Export Credits Guarantee Department

1.40 The Department provides credit insurance facilities for UK exports. To match the support given by other major trading nations, ECGD supports the provision by banks of export finance at fixed rates of interest, paying the banks the difference between the cost of their funds and the fixed rate they offer to exporters. The new plans largely reflect the higher estimated cost of interest support.

Energy

1.41 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. Central government plans for 1991–92 to 1993–94 reflect increases in expenditure for decommissioning and radioactive waste management programmes, for energy efficiency, and for research and development on renewables and work related to climate change.

1.42 The plans provide for increases in British Coal's external financing limits from previous provisional estimates, and a cash surplus for Nuclear Electric for which no separate allowance was previously made. The other electricity companies in England and Wales will be privatised in 1990–91.

Employment 1.43 The Department's main programmes are directed at providing help, including training, for the unemployed and training for young people, largely through the recently created Training and Enterprise Councils (TECs) and the Employment Service. The new plans provide for total spending by the Department of £3.4 billion in 1991-92. This figure is net of a transfer from 1 April 1991 to Scottish Enterprise and Highlands and Islands Enterprise. Allowing for that transfer and other minor technical adjustments, it represents a slight increase on the provision for 1991-92 in last year's plans. There will be some rearrangement of priorities within the total. It includes an increase in planned expenditure on Youth Training and more provision for EC payments made under the European Social Fund; new provision for training credit pilot schemes, and Local Initiative Funds available to the TECs; and a reduction in spending on Employment Training following reappraisal of measures to help the long term unemployed. There is also increased provision for redundancy rebates and payments.

Transport 1.44 The Department's aims are to provide a safe, cost-effective and environmentally friendly road and public transport system. Expenditure on trunk roads and motorways will more than double from £1,000 million in 1988-89 to £2,117 million in 1993-94. Increases of nearly £60 million have been allocated in the two years 1991-92 and 1992-93 to allow for the Red Routes and environmental improvements in London; better driver information; and faster progress with the motorway widening programme. In addition £10 million has been provided for the Child Safety Campaign.

1.45 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 complete the Manchester Metrolink and carry out a £2.4 billion programme of road improvements over the period 1991-92 to 1993-94. Transport Supplementary Grant will be 36 per cent higher in 1991-92 than in 1990-91, supporting the new eligibility of safety-related minor road schemes (as announced last January) and structural maintenance of bridges.

1.46 The departmental totals include the external financing requirements of British Rail, London Transport and the Civil Aviation Authority. The external finance limits (EFLs) for these industries in 1991-92 are over 50 per cent more than in 1990-91. British Rail's EFL is increased by £360 million over previous plans for 1991-92, and by £310 million for 1992-93. This should enable BR to finance investment of £1,350 million in 1991-92, nearly 60 per cent higher than in 1990-91, including further increases in investment in rail services for the Channel tunnel. London Transport's EFL is increased by £230 million in 1991-92 and £340 million in 1992-93, with provision for investment in 1991-92 of £800 million. This will fund further measures to improve safety, in particular on London Underground, and provides for the proposed extension of the Jubilee Line

via London Bridge and Docklands to Stratford in East London, at a cost (in June 1989 prices) of over £1 billion over several years. The settlement also provides for the cost of the proposed East-West Crossrail as announced by the Secretary of State for Transport on 5 October. This will connect Paddington and Liverpool Street with stations in between, at a cost (in March 1990 prices) of £1.4 billion over a number of years. Finally, the settlement will allow BR and LT to spend some £730 million on safety-related projects over the next three years.

DOE—Housing

1.47 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 area.

1.48 The new plans provide for the continued expansion of the Housing Corporation's capital programme into 1993–94 to support the provision of new homes by housing associations. Gross capital expenditure by the Corporation will increase by 65 per cent from £1,225 million this year to £2,020 million in 1993–94. The plans also provide £80 million over the next two years for the Government's initiative to tackle the problem of roofless people in London.

1.49 Government support for local authorities through credit approvals and capital grants for renovation will increase by £110 million in 1991–92. The new plans also include an increase of £220 million in subsidy to local authorities' ring-fenced housing revenue accounts in 1991–92. This is largely to provide for the effects of higher borrowing costs than previously expected.

DOE—Environment

1.50 This programme covers a wide range of services, mainly for environmental protection, the heritage, inner cities and local authority environmental services, and includes a number of policy areas discussed in the recently published White Paper on the Environment "This Common Inheritance" (Cm 1200).

1.51 The new plans provide for expenditure of £1,430 million in 1991–92, rising to £1,530 million in 1993–94. There are increases for environmental research and protection, for the National Rivers Authority and the Countryside Commission, for the reorganisation of the Nature Conservancy Council into separate territorial bodies, for the heritage (including cathedrals and the National Heritage Memorial Fund) and for support for local authorities to deal with environmental problems, particularly waste disposal; and for City Grants, for Derelict Land Grant and for the Urban Development Corporations outside London.

DOE—PSA Services

1.52 The settlement provides for a rationalisation programme aimed at streamlining the organisation, in preparation for privatisation.

Home Office 1.53 The Department's aim is to combat crime cost-effectively by providing for the needs of the police, prisons, courts and probation services. Central government expenditure will increase in 1991–92 by £150 million on previous plans, over 25 per cent up on the 1989–90 level. This will allow an increase in the programme to divert offenders from custody, meet increased demand for immigration and passports, provide for a new immigration detention centre, and provide for additional work on the maintenance, repair and upgrading of prisons (including Strangeways). Three prisons are to be dropped from the prison building programme to take account of the slower rate of increase forecast for the prison population.

1.54 Provision for local authorities in 1991–92 will be over £200 million higher than in previous plans. This will allow for an additional 700 police officers and a significant increase in spending on police vehicles, plant and equipment.

Legal departments 1.55 There are additions of £80 million in 1991–92 for the legal departments. This includes extra provision for the Government's civil law and competition initiatives, for legal aid, and for accommodation costs.

Education and Science 1.56 The Government's aims 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. Support for higher education institutions will rise by around £300 million between 1990–91 and 1991–92 and provision for student maintenance will rise by £190 million. This will finance a 5½ per cent increase in student numbers. In 1991–92 one in five of the 18–19 age group will be able to participate in higher education, compared to one in eight a decade ago. Differential tuition fees ranging from £1,775 to £4,770 per student, paid via local authorities as part of mandatory student awards, will be introduced from September 1991 so that a greater proportion of the funding for higher education institutions will be channelled through fees, with a smaller proportion coming from central government grants to institutions. Student loans will be increased so that the total support available to students, including grants, parental contributions and loans, is 6 per cent higher next year. There is no increase in parental contributions.

1.57 Support for local authorities' capital spending through credit approvals within the Department of Education and Science's programme will grow by 13 per cent between 1990–91 and 1991–92. This should allow capital spending on local authority schools and further education colleges to continue at the substantial level provided for last year.

Arts and Libraries 1.58 The Government's aim is to encourage public appreciation of the arts, and the development and preservation of our cultural heritage. An additional £19 million has been provided in 1991–92 for the three year programme—an increase of 11 per cent over the current year—with further increases in the later years. This will allow for increased levels of expenditure on the arts bodies supported by the Arts Council, on the National Museums and Galleries, and on the British Library. Increased provision has also been made for construction work in 1991–92 and 1992–93 on the British Library's new building at St. Pancras. The annual grant to the National Heritage Memorial Fund, funded jointly with DOE, is also being increased.

Health 1.59 The programme covers spending on the National Health Service and on personal social services in England.

1.60 The previous plans for the programme have been increased by £1,610 million in 1991–92 and £1,900 million in 1992–93. Cash provision for the NHS in England will be nearly £2.5 billion higher in 1991–92 than 1990–91 (and £3 billion higher in the UK). In addition, the NHS will have 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 around £2.6 billion higher in 1991–92 than 1990–91, and £3.2 billion higher for the UK as a whole (more than 5 per cent higher in real terms).

1.61 Total current expenditure on hospital and community health services in England is planned to rise from £15.2 billion in 1990–91 to £16.9 billion in 1991–92 and £17.9 billion in 1992–93. This increase represents 5 per cent real growth in 1991–92 and provides scope for health authorities to continue to expand services. The programme contains provision to fund the implementation from 1 April 1991 of the health reforms in the National Health Service and Community Care Act 1990. Provision for net capital expenditure on hospital and community health services in 1991–92 will increase by over £180 million over 1990–91, or almost 8 per cent in real terms. Provision for the family health services allows for forecast demand and for service developments. There are also additional funds for centrally financed services and for targeted payments to local authorities for services for the mentally ill.

Social Security 1.62 The programme provides for expenditure on social security benefits (including Community Charge Benefit), except rent rebates in England and Wales, and on the administration of paying benefits and collecting contributions. Provision for 1991–92 is 6 per cent higher in real terms than in 1990–91, with 3 per cent a year real growth in 1992–93 and 1993–94. The plans allow for the higher benefit rates from April 1991 announced by the Secretary of State on 24 October 1990.

1.63 The new plans also include extra benefit for pensioners receiving income support, helping some 2¼ million people, together with a £45 increase in the income support limits for elderly people in nursing homes, a rise of over 21 per cent. Child Benefit is to be adjusted to give an additional £1 per family each week, helping nearly 7 million families. The plans include higher expenditure on Community Charge Benefit (allowing in 1991–92 for community charges at standard spending levels), and they allow for the 1990 Budget decisions for higher capital limits in the income related benefits, which help some ¼ million people. They also reflect the proposals to improve maintenance for lone parents, announced on 29 October in the White Paper “Children Come First” (Cm 264). These improvements, taken with the changes in statutory sick pay below, will not add to the overall cost of uprating benefits.

1.64 The plans provide for uprating the lower rate of statutory sick pay but not the higher rate; and allow for a reduction to 80 per cent in the support paid to employers for the costs of making payments of statutory sick pay to their employees from April 1991. The net change in employers’ costs will,

however, be limited by cuts in the employers' rates of national insurance contributions (see Chapter 3). These cuts will particularly help employers of the lower paid.

1.65 The plans allow for the latest estimates of claimant numbers, and provide for further upratings of benefits in April 1992 and 1993. For the purposes of the calculations the RPI is assumed to rise by $5\frac{1}{2}$ per cent in the year to September 1991 (for upratings in April 1992) and by 4 per cent in the year to September 1992 (for upratings in April 1993). The number of unemployed in Great Britain is assumed to average 1.75 million in each of the three Survey years. The same assumptions have been used in assessing the impact on the National Insurance Fund (see Chapter 3).

Scotland, Wales and Northern Ireland

1.66 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 announced later. For the purpose of this Statement, a notional split between and within spending authorities has been assumed taking account of the pattern of expenditure in 1990–91.

Chancellor's departments

1.67 There is extra provision for the Inland Revenue for the costs of increasing workloads, including the costs of additional work responding to claims for tax repayments following the abolition of composite rate tax from April 1991, and for continuing investment in information technology. Extra provision for Customs and Excise includes the costs of preparing and administering new controls associated with the Single Market and the Channel Tunnel. 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

1.68 Higher contributions, mainly the result of higher Commission expenditure, are partly offset by higher abatement and higher receipts. The uneven profile results from adjustments to previous years' contributions and subsequent corrections to the UK's abatement.

Science and technology

1.69 The new plans described above continue the policy of switching resources for science and technology towards basic and strategic research. Spending on civil science and technology, excluding launch aid, will be £3.2 billion in 1991–92, some 21 per cent higher than in 1988–89 when the strategy was decided. The Department of Education and Science budget to support basic and strategic science will be £930 million in 1991–92.

Capital spending

1.70 The new plans include extra provision for investment by central government (excluding Defence) and nationalised industries amounting to some £1½ billion a year. This includes increases for hospitals, education and housing. Planned investment in rail is to be increased by more than £1 billion over the three years. The new plans also include provision for extra support for local authority capital spending on schools, local transport schemes and housing renovation.

Other public expenditure

1.71 In addition to expenditure within the planning total, general government expenditure also includes local authorities' spending financed from their own resources, and debt interest, neither of which central government plans. (See Table 1.1.) The following paragraphs describe the projections of these items, which are needed to provide a path for GGE in the three Survey years. Other technical adjustments needed to relate the planning total to GGE (national accounts adjustments) were described in Cm 1021 (Annex C) and will be set out in detail in the Autumn Statement Supplement early next year.

Local authorities

1.72 Expenditure financed by local authorities out of their own resources (local authority self-financed expenditure) is a residual derived by deducting the planned level of central government support from a projected level of total local authority expenditure.

1.73 Annex A, Table 1A.12 shows local authority current and capital expenditure in the UK from 1985–86 to 1990–91, broken down by territory. Over this period local authority current expenditure grew by about 50 per cent, whereas central government expenditure grew by about 40 per cent.

1.74 In 1990–91, total local authority expenditure, including debt interest payments, is now expected to be about £56.6 billion. This is some £3 billion higher than projected in the 1989 Autumn Statement. This is mostly due to the much higher than expected level of revenue spending, which local authorities in England budgeted to increase by over 5 per cent in real terms, before capping. This was taken into account in the projections of total expenditure in the 1990 FSBR. The estimated outturn is about £ $\frac{3}{4}$ billion above the FSBR projection, mainly because of higher than expected levels of capital spending.

1.75 The level of total local authority expenditure in future years is largely for local authorities themselves to decide, in the light of the support provided by central government, the finance they have available from their own resources, and in particular the implications for the community charge. As the Environment Secretary announced on 31 October, however, the Government is prepared to make full use of its powers to cap authorities' revenue budgets if necessary. The Government's provisional intention is to regard year-on-year increases of 9, 7 or 5 per cent as excessive, depending on how far the resulting budget exceeds an authority's Standard Spending Assessment (SSA). Any budget more than 12½ per cent above the SSA would also be considered excessive.

1.76 The projections in Table 1.5 assume that total local authority spending will rise by some 2 per cent in real terms next year. Spending is projected to grow more slowly in real terms in the later years, as the accountability of the community charge and the new capital finance system become increasingly effective. The projections assume real growth of 1½ per cent in 1992–93 and 1 per cent in 1993–94.

1.77 Gross capital expenditure in 1991–92 may be around £8 billion, following the higher than expected spending in 1990–91. Capital receipts, mainly from Right To Buy sales, are projected to be around £3½ billion in 1991–92, giving net capital expenditure of around £4½ billion.

1.78 The new projection for total local authority expenditure next year is some £5½ billion above the level projected in last year's Autumn Statement and some £2½ billion above the projection made at the time of the 1990 Budget. The increase since the last Autumn Statement results mainly from the much higher than expected levels of local authority budgets in 1990–91. In addition, the inflation projection for next year is now higher and the projections have sought to make realistic allowance for likely increases in spending. The planned level of central government support next year has likewise risen sharply, leaving a level of self-financed expenditure which is some £1½ billion above last year's Autumn Statement projection but some £½ billion below the FSNR projection. The proportion of local authority expenditure financed by central government is set to increase next year. The higher level of spending now projected for next year carries through to later years.

Table 1.5 Local authority expenditure¹

	£ million							
	Estimates of outturn		Projections ²			Changes from 1990 White Paper ³		
	1989–90	1990–91	1991–92	1992–93	1993–94	1990–91	1991–92	1992–93
Total local authority expenditure⁴	52 851	56 600	61 000	65 000	68 000	3 000	5 500	7 500
Less central government support equals	38 212	42 700	47 900	49 700	51 100	900	4 000	4 700
Local authority self-financed expenditure	14 639	13 900	13 500	15 500	17 000	2 000	1 500	3 000

¹For definitions, rounding and other conventions, see notes in Annex A.

²The new figures for 1991–92 to 1993–94 include the effect of all transfers between departments and spending sectors. See Annex B.

³Changes from the White Paper are the differences from the figures set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁴Includes local authority debt interest payments.

Debt interest **1.79** Central government gross debt interest is projected to fall from about £17.8 billion in 1989–90 to about £15½ billion in 1993–94. 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 5¼ per cent in 1981–82 to about 3¾ per cent in 1988–89 and are projected to fall further to 2¼ per cent by 1992–93.

1.80 Annex A, Table 1A.13 shows the totals for gross and net general government debt interest.

Sales of land and existing buildings

1.81 In accordance with national accounts conventions, general government expenditure is measured net of sales of land and existing buildings. Estimated sales in 1991–92 by central government of £½ billion are deducted from relevant programme expenditure within the planning total. Local authorities' self-financed expenditure is shown after deducting proceeds from the sales of land and buildings (mainly Right To Buy receipts): such sales are broadly estimated at £3 billion next year, rather below the levels recorded in recent years. Details are given in Annex A, Table 1A.14.

Value for money

1.82 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. For central government spending, the continued development of the purchasing initiative and the setting up of Executive Agencies will contribute towards this result. The Departmental Reports to be published early in 1991 will include information on the output and performance of departmental programmes, including performance against specific targets. Such information will also appear in the reports of Executive Agencies. For local authorities, and now the NHS, the Audit Commission has an important continuing role in spreading best practice and improving efficiency.

Annex A to Chapter 1

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Table 1A.1 Public expenditure, 1963-64 to 1993-94

	Planning total ¹		General government expenditure			General government expenditure (excluding privatisation proceeds)		Money GDP ²	Adjusted GDP deflator ³		
	£ billion	Real terms ³ £ billion	Spending on goods and services £ billion	Total £ billion	Privatisation proceeds £ billion	£ billion	Real terms ³ £ billion	per cent of GDP ²	£ billion	Adjusted series, Index (1990-91 = 100) ²	Index (1989-90 = 100)
1963-64			6.5	11.3		11.3	101.1	36 $\frac{3}{4}$	31.4	5.5	11.2
1964-65			7.0	12.3		12.3	104.6	36 $\frac{1}{2}$	34.2	6.0	11.7
1965-66			7.7	13.6		13.6	110.8	37 $\frac{3}{4}$	36.6	6.4	12.3
1966-67			8.5	15.1		15.1	117.7	39 $\frac{1}{2}$	38.9	6.8	12.8
1967-68			9.4	17.5		17.5	132.6	43 $\frac{1}{4}$	41.2	7.2	13.2
1968-69			9.9	18.2		18.2	131.9	41 $\frac{1}{2}$	44.6	7.9	13.8
1969-70			10.4	19.3		19.3	132.8	41	48.0	8.4	14.6
1970-71			11.9	21.6		21.6	137.2	41 $\frac{1}{4}$	53.2	9.4	15.7
1971-72			13.4	24.4		24.4	141.8	41 $\frac{3}{4}$	59.3	10.4	17.2
1972-73			15.2	27.6		27.6	148.7	41 $\frac{3}{4}$	67.6	11.9	18.6
1973-74			17.9	32.0		32.0	160.8	43 $\frac{1}{2}$	75.0	13.2	19.9
1974-75			22.9	42.9		42.9	180.2	48 $\frac{3}{4}$	89.4	15.7	23.8
1975-76			29.4	53.8		53.8	180.2	49 $\frac{1}{4}$	111.2	19.6	29.9
1976-77			32.9	59.6		59.6	175.8	46 $\frac{3}{4}$	130.1	22.9	33.9
1977-78			35.2	63.9	-0.5	64.4	167.1	43 $\frac{1}{4}$	151.4	26.6	38.5
1978-79			39.0	75.0		75.0	175.4	44	173.8	30.6	42.7
1979-80			46.5	89.9	-0.4	90.3	181.1	44	208.6	36.7	49.9
1980-81			56.7	108.6	-0.2	108.8	184.3	46 $\frac{1}{2}$	237.8	41.8	59.0
1981-82			61.1	120.5	-0.5	121.0	187.0	47 $\frac{1}{4}$	260.9	45.9	64.7
1982-83			67.4	132.6	-0.5	133.1	192.0	47 $\frac{1}{2}$	285.7	50.2	69.3
1983-84			72.9	140.4	-1.1	141.6	195.3	46 $\frac{1}{2}$	309.8	54.5	72.5
1984-85	127.0	166.7	78.4	150.6	-2.1	152.6	200.3	46 $\frac{3}{4}$	331.9	58.4	76.2
1985-86	130.7	162.6	82.4	158.2	-2.7	160.9	200.2	45	363.1	63.8	80.3
1986-87	136.0	163.7	87.1	164.4	-4.5	168.9	203.2	44	390.8	68.7	83.1
1987-88	142.6	162.7	94.1	172.9	-5.1	178.0	203.2	41 $\frac{3}{4}$	432.9	76.1	87.6
1988-89	145.5	154.8	99.7	179.4	-7.1	186.5	198.4	39 $\frac{1}{4}$	482.9	84.9	94.0
1989-90	162.7	162.7	111.4	198.8	-4.2	203.1	203.1	39 $\frac{1}{2}$	523.0	92.1	100.0
1990-91	180.6	167.2	⁴	215.7	-5.3	221.0	204.7	39 $\frac{1}{2}$	558	100.0	108.0
1991-92	200.3	175.0	⁴	233.7	-5.5	239.2	209.0	39 $\frac{1}{2}$	604		114.5
1992-93	215.0	179.3	⁴	251.1	-5.5	256.6	214.0	39 $\frac{1}{2}$	649		119.9
1993-94	226.1	182.2	⁴	263.9	-5.5	269.4	217.1	39	690		124.1

¹ Figures for the planning total are only available on a consistent basis for the years shown. Figures are estimated outturn for 1990-91 and plans for 1991-92 onwards.

² See Annex C for a description of the GDP series used in the calculation of the ratio to 1989-90.

³ Cash figures adjusted to 1989-90 prices by excluding the effect of general inflation. The deflator series used is that for GDP

at market prices adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C. The GDP deflator series is assumed to increase by 8 per cent in 1990-91, and by 6, 4 $\frac{3}{4}$ and 3 $\frac{1}{2}$ per cent respectively in the years 1991-92 to 1993-4.

⁴ Figures are available on a consistent basis for outturn years only.

Table 1A.2 General government expenditure^{1, 2}: plans and outturn

	Per cent of GDP								
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
March 1986 FSBR ³	45½	44¾	43¾	42½					
January 1987 White Paper (Cmnd 56)	45½	45¼	44¾	43½	43¼				
January 1988 White Paper (Cm 288)	45¼	44¾	43¼	42¾	42½	42			
January 1989 White Paper (Cm 621)	45¼	44½	42½	40½	39¾	39¾	39½		
January 1990 White Paper (Cm 1021)	45¼	44¼	42	39¾	39½	39¾	39½	39¼	
This Autumn Statement	45	44	41¾	39¼	39½	39½ ⁴	39½	39½	39

¹Excluding privatisation proceeds.

²The ratios are based on the adjusted series for money GDP to avoid the distortion caused by the abolition of domestic rates (see Annex C).
The figures from earlier publications are based on the figures underlying

those publications, but the GDP figures on which they were based have been similarly adjusted.

³Financial Statement and Budget Report.

⁴Estimated.

Table 1A.3 The planning total and general government expenditure¹

	£ million											
	Outturn					Estimated outturn	New plans and projections ^{2,3}			Changes from 1990 White Paper ⁴		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Central government expenditure ¹	100 486	106 709	111 683	116 456	127 554	140 900	152 100	161 600	168 000	2 200	6 000	8 800
Central government support for local authorities ¹	31 183	33 393	35 760	36 588	38 212	42 700	47 900	49 700	51 100	900	4 000	4 700
Financing requirements of nationalised industries	1 702	344	271	- 430	1 113	2 100	2 330	2 140	1 970	1 580	820	630
Reserve							3 500	7 000	10 500	- 3 000	- 2 500	- 2 000
Privatisation proceeds	- 2 706	- 4 458	- 5 140	- 7 069	- 4 224	- 5 300	- 5 500	- 5 500	- 5 500	- 300	- 500	- 500
Adjustment ¹						300				300		
Planning total	130 665	135 988	142 574	145 544	162 656	180 600	200 300	215 000	226 100	1 600	7 900	11 600
Local authority self-financed expenditure ¹	8 391	8 706	9 366	10 462	14 639	13 900	13 500	15 500	17 000	2 000	1 500	3 000
Central government debt interest	16 052	16 447	17 033	17 548	17 845	17 800	16 500	16 000	15 500	2 500	2 500	2 500
Accounting adjustments	3 061	3 251	3 876	5 886	3 688	3 400	3 500	5 000	5 500	- 800	0	500
General government expenditure	158 169	164 393	172 850	179 440	198 827	215 700	233 700	251 100	263 900	5 300	11 500	17 000
GGE excluding privatisation proceeds as a percent of GDP ⁵	45	44	41 $\frac{3}{4}$	39 $\frac{1}{4}$	39 $\frac{1}{2}$	39 $\frac{1}{2}$	39 $\frac{1}{2}$	39 $\frac{1}{2}$	39			

¹For definitions, rounding and other conventions see notes at the end of this Annex.

²The table shows new plans for the planning total and its constituents and projections for the other items in general government expenditure.

³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. See Annex B.

⁴Changes from the White Paper are the differences from the figures set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁵Adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C for a description of the GDP series used in the calculation of the ratio to 1989-90.

Table 1A.4 The planning total and general government expenditure¹ in real terms²

	£ billion									
	Outturn					Estimated				
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	New plans and projections ³			
							1991-92	1992-93	1993-94	
Central government expenditure ¹	125.1	128.4	127.5	123.9	127.6	130.4	132.9	134.8	135.4	
Central government support for local authorities ¹	38.8	40.2	40.8	38.9	38.2	39.6	41.8	41.5	41.2	
Financing requirements of nationalised industries	2.1	0.4	0.3	-0.5	1.1	1.9	2.0	1.8	1.6	
Reserve							3.1	5.8	8.5	
Privatisation proceeds	-3.4	-5.4	-5.9	-7.5	-4.2	-4.9	-4.8	-4.6	-4.4	
Adjustment ¹						0.2				
Planning total	162.6	163.7	162.7	154.8	162.7	167.2	175.0	179.3	182.2	
Local authority self-financed expenditure ¹	10.4	10.5	10.7	11.1	14.6	12.8	11.5	13.0	13.5	
Central government debt interest	20.0	19.8	19.4	18.7	17.8	16.5	14.5	13.5	12.5	
Accounting adjustments	3.8	3.9	4.4	6.3	3.7	3.2	3.0	4.0	4.5	
General government expenditure	196.9	197.9	197.3	190.9	198.8	199.7	204.1	209.4	212.6	

¹For definitions, rounding and other conventions, see notes at the end of this Annex.²Cash figures adjusted to 1989-90 levels by excluding the effects of general inflation. The deflator series used is that for GDP at market prices, adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C.³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. See Annex B.

Table 1A.5 Central government expenditure by department¹

	£ million											
	Outturn					Estimated outturn	New plans ²			Changes from plans in 1990 White Paper ³		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Defence	17 966	18 156	18 856	19 079	20 760	21 580	22 800	23 350	23 390	380	300	- 230
Foreign Office	608	649	687	739	864	950	1 020	1 090	1 130	50	80	120
Overseas Development	1 245	1 295	1 290	1 541	1 669	1 750	1 910	1 980	2 050	40	100	100
Agriculture, Fisheries and Food	2 266	1 577	1 777	1 555	1 551	2 340	2 360	2 480	2 480	430	240	260
Trade and Industry	1 064	1 850	938	1 675	1 302	1 220	1 030	1 010	950	0	- 50	10
ECGD	347	292	153	116	358	390	250	130	30	140	180	160
Energy	860	903	549	514	444	520	510	460	450	60	110	70
Employment	3 167	3 591	3 640	3 579	3 410	3 450	2 960	2 950	3 010	0	- 120 ⁴	- 120 ⁴
Transport	1 218	1 269	1 379	1 405	1 890	2 420	2 460	2 590	2 710	110	60	70
DOE—Housing	1 290	1 306	1 281	1 194	1 496	2 660	2 910	2 870	3 070	530	440	310
DOE—Environment	345	340	365	363	670	980	770	690	810	110	10	0
DOE—PSA						70	90	40	10	40	90	50
DOE—Local government						40	170	180	180	0	20	20
Home Office	1 002	1 077	1 200	1 361	1 602	1 990	2 040	2 020	2 080	70	150	110
Legal departments	569	655	777	906	1 137	1 360	1 460	1 580	1 660	90	80	110
Education and Science	2 356	2 455	2 696	2 952	4 291	4 550	4 600	4 720	4 860	- 40	280	350
Arts and Libraries	288	343	368	414	446	490	560	580	570	0	30	30
Health	14 239	15 253	16 726	18 401	19 918	22 420	24 930	26 330	27 510	360	1 550	1 830
Social Security	38 744	41 686	43 530	44 439	46 892	51 700	58 200	62 600	66 700	- 400	2 000	3 100
Scotland	3 398	3 542	3 708	4 022	4 390	4 960	5 760	6 000	6 210	90	300	390
Wales	1 370	1 496	1 608	1 826	1 943	2 260	2 480	2 620	2 760	0	140	210
Northern Ireland	4 237	4 462	4 776	5 389	5 683	5 860	6 370	6 800	7 110	- 10	220	430
Chancellor's departments	2 868	3 210	3 464	3 706	4 222	4 700	4 990	5 290	5 510	90	400	460
Cabinet Office, etc	220	228	251	274	302	340	400	420	440	- 20	20	20
European Communities	819	1 074	1 661	1 006	2 316	1 890	1 050	2 870	2 340	20	- 620	880
Total	100 486	106 709	111 683	116 456	127 554	140 900	152 100	161 600	168 000	2 200	6 000	8 800
of which:												
financing requirements of trading funds and public corporations	925	652	523	290	791	1 180	1 210	1 090	1 240	310	360	320

¹ For definitions, rounding and other conventions, see notes at the end of this Annex. See Annex D for the composition of each departmental grouping.

² The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

³ Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁴ The reductions in 1991-92 and 1992-93 reflect increased support for local authorities under the European Social Fund.

Table 1A.6 Central government expenditure by department¹ in real terms²

	£ billion									
	Outturn					Estimated				
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	New plans ³
Defence	22.4	21.9	21.5	20.3	20.8	20.0	19.9	19.5	18.8	
Foreign Office	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	
Overseas Development	1.5	1.6	1.5	1.6	1.7	1.6	1.7	1.7	1.7	
Agriculture, Fisheries and Food	2.8	1.9	2.0	1.7	1.6	2.2	2.1	2.1	2.0	
Trade and Industry	1.3	2.2	1.1	1.8	1.3	1.1	0.9	0.8	0.8	
ECGD	0.4	0.4	0.2	0.1	0.4	0.4	0.2	0.1	0.0	
Energy	1.1	1.1	0.6	0.5	0.4	0.5	0.4	0.4	0.4	
Employment	3.9	4.3	4.2	3.8	3.4	3.2	2.6	2.5	2.4	
Transport	1.5	1.5	1.6	1.5	1.9	2.2	2.2	2.2	2.2	
DOE—Housing	1.6	1.6	1.5	1.3	1.5	2.5	2.5	2.4	2.5	
DOE—Environment	0.4	0.4	0.4	0.4	0.7	0.9	0.7	0.6	0.7	
DOE—PSA						0.1	0.1	0.0	0.0	
DOE—Local government						0.0	0.1	0.1	0.1	
Home Office	1.2	1.3	1.4	1.4	1.6	1.8	1.8	1.7	1.7	
Legal departments	0.7	0.8	0.9	1.0	1.1	1.3	1.3	1.3	1.3	
Education and Science	2.9	3.0	3.1	3.1	4.3	4.2	4.0	3.9	3.9	
Arts and Libraries	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	
Health	17.7	18.4	19.1	19.6	19.9	20.8	21.8	22.0	22.2	
Social Security	48.2	50.2	49.7	47.3	46.9	47.8	50.9	52.2	53.7	
Scotland	4.2	4.3	4.2	4.3	4.4	4.6	5.0	5.0	5.0	
Wales	1.7	1.8	1.8	1.9	1.9	2.1	2.2	2.2	2.2	
Northern Ireland	5.3	5.4	5.5	5.7	5.7	5.4	5.6	5.7	5.7	
Chancellor's departments	3.6	3.9	4.0	3.9	4.2	4.4	4.4	4.4	4.4	
Cabinet Office, etc	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	
European Communities	1.0	1.3	1.9	1.1	2.3	1.7	0.9	2.4	1.9	
Total	125.1	128.4	127.5	123.9	127.6	130.4	132.9	134.8	135.4	
of which:										
financing requirements of trading funds and public corporations	1.2	0.8	0.6	0.3	0.8	1.1	1.1	0.9	1.0	

¹For definitions, rounding and other conventions, see notes at the end of this Annex. See Annex D for composition of each departmental grouping.

²Cash figures adjusted to 1989-90 price levels by excluding the effect of general inflation. The deflator series used is that for GDP at market prices, adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C.

³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE—Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

Table 1A.7 Central government support for local authorities by department¹

	£ million											
	Outturn					Estimated outturn	New plans ²			Changes from plans in 1990 White Paper ³		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Current												
Agriculture, Fisheries and Food	27	29	31	29	-55	-110	-130	-130	-130	0	-10	-10
Trade and Industry	0	0	0	0	0	0	0	10	10	0	-10	0
Employment	116	238	255	263	358	320	440	420	420	0	120	90
Transport	2	2	2	2	2	0	0	0	0	0	0	0
DOE—Housing	17	21	22	26	26	2 320	2 380	2 460	2 520	60	-30	-90
DOE—Environment	89	93	75	66	67	60	70	70	70	0	0	0
DOE—Local government ⁴	15 686	17 047	18 203	18 782	19 358	20 390	23 090	23 820	24 270	-60	1 790	2 190
Home Office	1 660	1 852	2 066	2 206	2 451	2 830	3 050	3 300	3 540	140	180	310
Education and Science	655	674	823	875	1 031	1 570	2 140	2 310	2 350	60	190	270
Health	0	0	0	7	21	30	60	60	70	0	50	50
Social Security	4 496	4 905	5 221	4 958	5 267	4 300	4 600	5 100	5 500	700	900	1 000
Scotland	2 878	3 029	3 160	3 528	3 815	4 020	4 390	4 510	4 620	0	280	300
Wales	1 119	1 207	1 315	1 416	1 498	1 810	2 000	2 000	2 000	20	160	110
Northern Ireland	29	31	41	41	42	40	50	50	50	0	0	0
Total current	26 773	29 126	31 212	32 196	33 881	37 600	42 100	43 900	45 300	900	3 600	4 200
Capital												
Defence	2											
Agriculture Fisheries and Food	32	36	30	28	29	40	40	40	40	0	10	10
Trade and Industry	1	1	1	1	1	0	0	0	0	0	0	0
Employment	4	3	4	3	3	0	0	0	0	0	0	0
Transport	540	489	596	671	627	750	910	930	910	0	90	100
DOE—Housing	1 721	1 613	1 584	1 507	1 417	1 890	1 990	1 880	1 850	0	100	60
DOE—Local government	665	575	650	487	517	460	540	600	610	-10	60	100
Home Office	100	111	124	120	154	230	310	310	320	0	40	30
Education and Science	367	361	363	399	367	450	510	510	530	0	50	50
Health	66	65	69	74	69	90	110	120	120	0	20	20
Scotland	659	706	800	778	806	830	860	910	950	20	50	60
Wales	246	300	320	316	334	400	440	460	490	-10	20	30
Northern Ireland	9	6	9	5	7	10	10	10	10	0	0	0
Total capital	4 411	4 267	4 549	4 392	4 331	5 150	5 740	5 780	5 820	0	420	460
Total	31 183	33 393	35 760	36 588	38 212	42 700	47 900	49 700	51 100	900	4 000	4 700

¹ For definitions, rounding and other conventions, see notes at the end of this Annex. See Annex D for the composition of each departmental grouping.

² The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE—Local

government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

³ Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers

on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

⁴ Comprises revenue support grant and national non-domestic rate payments paid in support of local authority current spending as a whole in England.

Table 1A.8 Financing requirements of the nationalised industries, by department and industry¹

	£ million											
	Outturn					Estimated outturn	New plans			Changes from plans in 1990 White Paper ²		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Trade and Industry	376	118	-270	-332	-13	10	-60	-80	-80	-40	10	0
British Shipbuilders (merchant)	62	241	118	144	4	20	10	-20	-10	10	10	0
Post Office	-82	-136	-79	-60	0	-10	-60	-70	-70	-40	0	0
Other ³	395	13	-309	-417	-17							
Energy	-197	-1 107	-343	-933	30	900	460	230	190	1 520	180	-50
British Coal Corporation	429	902	918	840	1 292	900	540	480	500	520	270	200
Electricity (England and Wales) ⁴	-468	-1 325	-1 261	-1 773	-1 262	0	-80	-250	-310	1 000	-80	-250
Other ³	-159	-684										
Transport	1 066	949	672	656	1 046	1 210	1 840	1 910	1 810	60	590	650
British Railways Board ⁵	910	777	591	375	673	700	1 120	1 070	710	60	360	310
Civil Aviation Authority ⁶	25	7	1	21	47	70	40	70	70	0	0	0
London Transport	323	279	207	261	327	450	670	770	1 040	0	230	340
Other ³	-191	-114	-126	-2								
DOE—Environment	214	121	43	27	134	50	50	50	50	0	0	0
British Waterways Board ⁷	44	45	45	45	47	50	50	50	50	0	0	0
Other ³	170	76	-2	-18	87							
Scotland	201	232	133	123	-106	-70	40	40	0	50	40	30
Electricity (Scotland) ⁸	190	224	129	123	-112	-70	40	30	-10	50	40	30
Caledonian MacBrayne Ltd	6	8	9	9	6	0	10	10	10	0	0	0
Scottish Bus group	-7	0	-4	-8	0	0				0		
Other ³	11											
Defence												
Other ³	-2											
Agriculture, Fisheries and Food												
Other ³	16	13	19	20	8							
Wales												
Other ³	28	17	17	9	15							
Total	1 702	344	271	-430	1 113	2 100	2 330	2 140	1 970	1,580	820	630

¹For definitions, rounding and other conventions, see notes at the end of this Annex.

²Changes from the White Paper are the differences from the plans as set out in Cm 1021, adjusted for changes of classification. See Annex B.

³These items include the financing requirements of nationalised industries privatised before 1991-92.

⁴The Regional Electricity Companies, the National Grid Company, Powergen and National Power will be privatised during 1990-91.

From 1991-92 comprises Nuclear Electric.

⁵Includes, in 1985-86, £27.5 million in subsidies from the Scottish Development Department included in the total for Scotland in Table 1.4.

⁶The total financing requirement for the Civil Aviation Authority is shown in this row. This includes subsidies from the Scottish

Development Department (eg £3.4 million in 1989-90) which are included in the total for Scotland in Table 1.4.

⁷The total financing requirement for the British Waterways Board is shown in this row. This includes subsidies from the Scottish Development Department (eg £0.04 million in 1989-90) which are included in the total for Scotland in Table 1.4.

⁸Scottish Power and Scottish Hydro-Electric will be privatised during 1991-92. From 1992-93 comprises Scottish Nuclear.

Table 1A.9 Planning total by department¹

	£ million											
	Outturn					Estimated outturn	New plans ²			Changes from plans in 1990 White Paper ³		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1990-91	1991-92	1992-93
Defence	17 965	18 156	18 856	19 079	20 760	21 580	22 800	23 350	23 390	380	300	- 230
Foreign Office	608	649	687	739	864	950	1 020	1 090	1 130	50	80	120
Overseas Development	1 245	1 295	1 290	1 541	1 669	1 750	1 910	1 980	2 050	40	100	100
Agriculture, Fisheries and Food	2 341	1 655	1 857	1 632	1 532	2 270	2 280	2 390	2 390	440	230	250
Trade and Industry	1 462	1 969	668	1 344	1 291	1 230	980	930	880	- 40	- 40	10
ECGD	347	292	153	116	358	390	250	130	30	140	180	160
Energy	663	- 204	206	- 419	474	1 420	970	690	640	1 580	300	20
Employment	3 285	3 831	3 898	3 845	3 770	3 770	3 400	3 380	3 440	0	0	- 30
Transport	2 795	2 705	2 646	2 730	3 562	4 380	5 210	5 420	5 430	160	740	820
DOE—Housing	3 028	2 939	2 886	2 727	2 938	6 880	7 280	7 220	7 440	590	500	270
DOE—Environment	1 313	1 129	1 132	943	1 387	1 560	1 430	1 400	1 530	100	70	100
DOE—PSA						70	90	40	10	40	90	50
DOE—Local government	15 686	17 047	18 203	18 782	19 358	20 430	23 260	24 000	24 440	- 60	1 810	2 210
Home Office	2 762	3 040	3 389	3 686	4 206	5 050	5 400	5 630	5 940	200	370	450
Legal departments	569	655	777	906	1 137	1 360	1 460	1 580	1 660	90	80	110
Education and Science	3 378	3 490	3 882	4 226	5 689	6 580	7 250	7 540	7 730	20	520	670
Arts and Libraries	288	343	368	414	446	490	560	580	570	0	30	30
Health	14 305	15 318	16 795	18 482	20 009	22 540	25 090	26 510	27 690	360	1 610	1 900
Social Security	43 237	46 591	48 751	49 397	52 159	55 900	62 800	67 700	72 200	400	2 900	4 100
Scotland	7 166	7 513	7 804	8 455	8 908	9 740	11 060	11 470	11 780	160	660	790
Wales	2 762	3 020	3 261	3 567	3 790	4 460	4 920	5 080	5 250	0	330	360
Northern Ireland	4 275	4 499	4 826	5 435	5 732	5 910	6 420	6 860	7 170	- 20	210	430
Chancellor's departments	2 854	3 210	3 464	3 706	4 222	4 700	4 990	5 290	5 510	90	400	460
Cabinet Office, etc	219	228	251	274	302	340	400	420	440	- 20	20	20
European Communities	819	1 074	1 661	1 006	2 316	1 890	1 050	2 870	2 340	20	- 620	880
Reserve							3 500	7 000	10 500	- 3 000	- 2 500	- 2 000
Privatisation proceeds	- 2 706	- 4 458	- 5 140	- 7 069	- 4 224	- 5 300	- 5 500	- 5 500	- 5 500	- 300	- 500	- 500
Adjustment ¹						300				300		
Planning total	130 665	135 988	142 574	145 544	162 656	180 600	200 300	215 000	226 100	1 600	7 900	11 600

¹ For definitions, rounding and other conventions, see notes at the end of this Annex. See Annex D for the composition of each departmental grouping.

² The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

³ Changes from the White Paper are the differences from the plans set out in Cm 1021 adjusted for changes of classification and major transfers between departments and spending sectors (ie those over £0.1 billion). Where the effect of major transfers on any figure is greater than £0.1 billion the changes are shown in italics. See Annex B.

Table 1A.10 Planning total by department¹ in real terms²

	£ billion								
	Outturn					Estimated outturn	New plans ³		
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
Defence	22.4	21.9	21.5	20.3	20.8	20.0	19.9	19.5	18.8
Foreign Office	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Overseas Development	1.5	1.6	1.5	1.6	1.7	1.6	1.7	1.7	1.7
Agriculture, Fisheries and Food	2.9	2.0	2.1	1.7	1.5	2.1	2.0	2.0	1.9
Trade and Industry	1.8	2.4	0.8	1.4	1.3	1.1	0.9	0.8	0.7
ECGD	0.4	0.4	0.2	0.1	0.4	0.4	0.2	0.1	0.0
Energy	0.8	-0.2	0.2	-0.4	0.5	1.3	0.8	0.6	0.5
Employment	4.1	4.6	4.4	4.1	3.8	3.5	3.0	2.8	2.8
Transport	3.5	3.3	3.0	2.9	3.6	4.1	4.6	4.5	4.4
DOE—Housing	3.8	3.5	3.3	2.9	2.9	6.4	6.4	6.0	6.0
DOE—Environment	1.6	1.4	1.3	1.0	1.4	1.4	1.2	1.2	1.2
DOE—PSA						0.1	0.1	0.0	0.0
DOE—Local government	19.5	20.5	20.8	20.0	19.4	18.9	20.3	20.0	19.7
Home Office	3.4	3.7	3.9	3.9	4.2	4.7	4.7	4.7	4.8
Legal departments	0.7	0.8	0.9	1.0	1.1	1.3	1.3	1.3	1.3
Education and Science	4.2	4.2	4.4	4.5	5.7	6.1	6.3	6.3	6.2
Arts and Libraries	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Health	17.8	18.4	19.2	19.7	20.0	20.9	21.9	22.1	22.3
Social Security	53.8	56.1	55.6	52.5	52.2	51.8	54.9	56.4	58.2
Scotland	8.9	9.0	8.9	9.0	8.9	9.0	9.7	9.6	9.5
Wales	3.4	3.6	3.7	3.8	3.8	4.1	4.3	4.2	4.2
Northern Ireland	5.3	5.4	5.5	5.8	5.7	5.5	5.6	5.7	5.8
Chancellor's department	3.6	3.9	4.0	3.9	4.2	4.4	4.4	4.4	4.4
Cabinet Office, etc	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
European Communities	1.0	1.3	1.9	1.1	2.3	1.7	0.9	2.4	1.9
Reserve							3.1	5.8	8.5
Privatisation proceeds	-3.4	-5.4	-5.9	-7.5	-4.2	-4.9	-4.8	-4.6	-4.4
Adjustment ¹						0.2			
Planning total	162.6	163.7	162.7	154.8	162.7	167.2	175.0	179.3	182.2

¹For definitions, rounding and other conventions, see notes at the end of this Annex. See Annex D for composition of each departmental grouping.

²Cash figures adjusted to 1989-90 price levels by excluding the effect of general inflation. The deflator series used is that for GDP at market prices, adjusted to remove the distortion caused by the abolition of domestic rates. See Annex C.

³The new plans for 1991-92 to 1993-94 include the effect of all transfers between departments and spending sectors. Departments principally affected are: Employment, Defence, DOE-Local government, Education and Science, Scotland and the Chancellor's departments. See Annex B.

Table 1A.11 Total Standard Spending for 1991-92 by main service block

£ million		
England and Wales: Total Standard Spending		
	England	Wales ¹
Education	17 485	1 125
Personal social services	4 502	224
Police	4 676	230
Fire and civil defence	1 039	60
Highway maintenance	1 786	144
Other services	7 389	444
Capital financing	2 122	208
Total	39 000	2 436
Scotland: Government Supported Expenditure		
Education	2 420	
Arts and Libraries	91	
Health and personal social services	607	
Law, order and protective services	606	
Roads and transport	418	
Other environmental services	596	
Tourism	7	
Housing	5	
Other services	42	
Capital financing	652	
Total	5 444	

¹The split by main service block is provisional.

Table 1A.12 Local authority expenditure¹

	£ million					
	Outturn					Estimated outturn
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
England	29 267	31 328	33 501	34 888	39 861	42 500
Scotland	3 939	4 272	4 674	4 934	5 378	5 800
Wales	1 814	2 026	2 201	2 275	2 581	2 900
Northern Ireland	121	122	126	143	146	160
Total	35 140	37 748	40 502	42 240	47 966	51 400
of which						
Current	30 901	33 618	36 578	39 084	42 632	46 700
Capital	4 240	4 130	3 924	3 156	5 334	4 700
Local authority debt interest	4 434	4 351	4 624	4 810	4 885	5 200
Total local authority expenditure	39 574	42 099	45 126	47 050	52 851	56 600

¹For definitions, rounding and other conventions, see notes at the end of this Annex.

Table 1A.13 General government debt interest

	£ billion					
	Outturn		Projection			
	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94
General government gross debt interest ¹	18.2	18.4	18.3	17	16	15½
of which: Central government	17.6	17.8	17.8	16½	16	15½
General government interest and dividend receipts	6.5	6.9	6.3	6	6	5½
General government net debt interest	11.7	11.5	12.1	11	10	10
	Per cent of GDP					
General government gross debt interest	3¾	3½	3¼	2¾	2½	2¼
General government net debt interest	2½	2¼	2¼	1¾	1½	1½
¹ Of which: Servicing of indexed securities (gilts plus national savings)	1.5	2.2	3.0	2.4	2.1	2.3

Table 1A.14 General government transactions in land and existing buildings

	£ billion						Estimated outturn	New plans and projections ¹
	Outturn							
	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	
Purchases								
Central government	0.1	0.1	0.2	0.2	0.3	0.5	½	
Local authority								
Housing	0.2	0.2	0.2	0.3	0.3	0.2	} 1	
Other	0.2	0.2	0.3	0.4	0.5	0.7		
Total	0.3	0.5	0.5	0.7	0.8	0.9		
Total general government purchases	0.5	0.6	0.8	0.8	1.0	1.3	1	
Sales								
Central government ²	-0.3	-0.4	-0.4	-0.6	-0.5	-0.5	-½	
Local authority ³								
Housing	-1.4	-1.6	-2.1	-3.5	-3.4	-2.4	} -3	
Other	-0.6	-0.9	-1.4	-2.0	-1.7	-1.2		
Total	-2.0	-2.5	-3.5	-5.4	-5.1	-3.6		
Total general government sales	-2.3	-2.8	-3.7	-6.1	-5.6	-4.1	-4	
Sales, net of purchases								
Central government	-0.1	-0.2	-0.2	-0.5	-0.2	0.0	0	
Local authority								
Housing	-1.2	-1.4	-1.9	-3.1	-3.1	-2.2	} -2	
Other	-0.4	-0.6	-1.1	-1.6	-1.3	-0.5		
Total	-1.7	-2.0	-2.9	-4.7	-4.3	-2.7		
Total	-1.8	-2.2	-3.1	-5.2	-4.6	-2.8	-2	

¹Figures are plans for central government and projections for local authorities. Figures for central government are rounded to nearest £½ billion. Figures for local authorities and general government are rounded to nearest £1 billion.

²Excluding receipts included in privatisation proceeds (Forestry Commission, Land Settlement, Motorway Service leases—see Table 21.5.13 of Cm 1021).

³In addition to receipts from sales of land and buildings, local authorities also acquire receipts from the repayment of mortgage principal and other sources.

Definitions and conventions

- Rounding conventions** **1A.1** For tables presenting the new cash plans the following conventions apply:
- Figures for future years** are rounded 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 are rounded to the nearest £500 million.
- Figures for 1990–91** have been rounded similarly to reflect their provisional nature, but with items between the planning total and general government expenditure rounded to £100 million.
- 1A.2** The changes and totals are based on the unrounded figures. They may therefore differ from the changes and sums of the rounded figures.
- 1A.3** For tables which include figures in real terms, all figures are rounded to the nearest £0.1 billion, apart from local authority self-financed expenditure, central government debt interest and the national accounts adjustments for future years which are rounded to the nearest £0.5 billion. Totals are based on unrounded figures. They may therefore differ from the sum of the rounded figures.
- 1A.4** Some figures may be subject to detailed amendments before the publication of the Supplement to the 1990 Autumn Statement in late January 1991. In particular the detailed allocation between spending sectors for territorial departments has not yet been finally decided.
- Central government expenditure** **1A.5** This includes the financing requirements of trading funds and public corporations other than the nationalised industries.
- Central government support for local authorities** **1A.6** This includes such items as mandatory student awards and community charge benefit which are administered by local authorities but all or most of the cost of which is paid by central government.
- Adjustment** **1A.7** Tables setting out the estimated outturn for the planning total in 1990–91 include an adjustment for the difference between the assessment of likely outturn and the sum of the other components shown.
- Local authority self-financed expenditure** **1A.8** Figures for local authority self-financed expenditure are derived by deducting central government support for local authorities from figures for total local authority expenditure including debt interest but net of capital receipts. See Table 1.5.

Annex B to Chapter 1

Calculation of changes from plans in 1990 public expenditure White Paper

1B.1 As in previous years the new plans take account of a number of technical changes to departmental provision as well as decisions taken in the public expenditure Survey. These include classification changes and transfers of function or responsibility between departments. This year there are a number of sizeable transfers between departments. Although the net impact of transfers on the planning total is zero, the effect is to complicate the interpretation of changes in departmental totals compared with previous plans and with the current year, 1990–91.

1B.2 This note describes how technical changes to departmental provision are handled in the Autumn Statement tables.

1B.3 Classification changes are applied across the whole nine years covered by the tables in the Autumn Statement, so that consistent comparisons can be made over the full time span. As in previous Autumn Statements “changes from the White Paper” measure the difference between the new plans and the previous plans adjusted to take account of classification changes. This year, the effect of classification changes is to increase the planning total for 1991–92 set in the 1989 Survey by about £70 million.

1B.4 Transfers between departments reflect new financial responsibilities for certain functions from 1991–92, for example, following from the introduction of repayment. The usual practice is to treat these as “policy changes”, in the same way as decisions taken in the Survey. That is, provision for forward years is adjusted as appropriate but past figures are left unchanged. This tends to distort year on year comparisons, and means that changes from the reclassified plans in the previous White Paper include the effect of transfers as well as Survey decisions. In most years such distortions are relatively minor. This year, however, there are four transfers, affecting a number of departments, each of which exceeds £100 million. The effect is to distort significantly the profile of spending and the comparisons with previous plans for the departments principally involved.

1B.5 To minimise these problems and set out more clearly the extent of changes agreed in the Survey, the effects of transfers exceeding £100 million have been removed from the calculation of **changes** from the 1990 White Paper set out in the document. The figures for levels shown in the tables include transfers: they therefore correspond to those which will be translated into control totals for 1991–92.

1B.6 All changes in the text are on the same adjusted basis. Where appropriate references to changes between 1990–91 and 1991–92 are also on an adjusted basis.

1B.7 Tables 1B.1 and 1B.2 give a reconciliation for 1991–92 and 1992–93 of the departmental plans set out in Cm 1021 and the new plans presented here. They show separately the effect of classification changes and the large transfers discussed below, which take effect from 1991–92. These transfers are:

- i. Responsibility for **training and enterprise activities** in Scotland will switch from the Department of Employment to Scottish Enterprise and Highlands and Islands Enterprise from 1991–92. As a consequence provision for Scotland increases by £254 million and £265 million in 1991–92 and 1992–93 respectively, with identical reductions for the Department of Employment.
- ii. Responsibility for **contributions in lieu of business rates** on departments' estates will be paid from departmental budgets from 1 April 1991 rather than from a central budget. This increases departments' provision, with an equivalent reduction for the Chancellor's departments. The department principally affected is Defence, whose provision rises by £138 million and £143 million in 1991–92 and 1992–93. The effect on other departments is much smaller.
- iii. Repayment for **valuation services** is planned to be introduced from 1 April 1991. This affects a number of departments; the largest increase is for DOE-Local government whose provision rises by £106 million and £112 million in 1991–92 and 1992–93. The changes for other departments are much smaller. These increases are offset by an equivalent reduction for Chancellor's departments.

All of these transfers affect the totals for individual departments but have no effect on the planning total.

1B.8 In addition, the **introduction of differentiated fees for higher education** involves a switch from central government expenditure to support for local authorities. The department principally affected is the Department of Education and Science where central government expenditure is reduced by £150 million and £230 million in 1991–92 and 1992–93 respectively, with support for local authorities increasing by broadly similar amounts; related changes for the programme total and other departments are much smaller.

1B.9 A number of smaller switches between departments will also take effect from 1991–92, but these do not significantly affect the levels or change in levels of departmental provision. A more detailed reconciliation table will be included in the Supplement to the Autumn Statement to be published early next year.

Table 1B.1 1991–92 planning total by department: changes from plans in 1990 public expenditure White Paper

	£ million				
	Plans in 1990 White Paper	Classification changes ¹	Transfers ¹	Other changes	New plans
Defence	22 360	6	138	300	22 800
Foreign Office	940			80	1 020
Overseas Development	1 810			100	1 910
Agriculture, Fisheries and Food	2 040			230	2 280
Trade and Industry	1 020			– 40	980
ECGD	70			180	250
Energy	670			300	970
Employment	3 650	1	– 254		3 400
Transport	4 490	– 28	5	740	5 210
DOE—Housing	6 720	58		500	7 280
DOE—Environment	1 260	91	5	70	1 430
DOE—PSA				90	90
DOE—Local government	21 340		106	1 810	23 260
Home Office	5 010	6	12	370	5 400
Legal departments	1 380			80	1 460
Education and Science	6 770	– 35	– 10	520	7 250
Arts and Libraries	520		4	30	560
Health	23 510	– 29	2	1 610	25 090
Social Security	59 900		1	2 900	62 800
Scotland	10 090	38	271	660	11 060
Wales	4 590		4	330	4 920
Northern Ireland	6 240	– 38	3	210	6 420
Chancellor's departments	4 880		– 287	400	4 990
Cabinet Office, etc	380			20	400
European Communities	1 670			– 620	1 050
Reserve	6 000			– 2 500	3 500
Privatisation proceeds	– 5 000			– 500	– 5 500
Planning total	192 300	71	0	7 900	200 300

¹ These columns show the effect on departmental totals of classification changes and the major transfers described in this note. Changes which total less than £0.5 million are not shown.

Table 1B.2 1992–93 planning total by department: changes from plans in 1990 public expenditure White Paper

	£ million				
	Plans in 1990 White Paper	Classification changes ¹	Transfers ¹	Other changes	New plans
Defence	23 430	6	143	– 230	23 350
Foreign Office	970			120	1 090
Overseas Development	1 880			100	1 980
Agriculture, Fisheries and Food	2 140			250	2 390
Trade and Industry	920			10	930
ECGD	– 30			160	130
Energy	670			20	690
Employment	3 670	1	– 265	– 30	3 380
Transport	4 600	– 14	6	820	5 420
DOE—Housing	6 920	25		270	7 220
DOE—Environment	1 220	78	5	100	1 400
DOE—PSA	– 10			50	40
DOE—Local government	21 670		112	2 210	24 000
Home Office	5 160	6	12	450	5 630
Legal departments	1 470			110	1 580
Education and Science	6 920	– 36	– 16	670	7 540
Arts and Libraries	540		4	30	580
Health	24 630	– 29	6	1 900	26 510
Social Security	63 500		1	4 100	67 700
Scotland	10 400	– 4	288	790	11 470
Wales	4 720		2	360	5 080
Northern Ireland	6 460	– 37	4	430	6 860
Chancellor's departments	5 130		– 303	460	5 290
Cabinet Office, etc	400			20	420
European Communities	1 990			880	2 870
Reserve	9 000			– 2 000	7 000
Privatisation proceeds	– 5 000			– 500	– 5 500
Planning total	203 400	– 3	0	11 600	215 000

¹ These columns show the effect on departmental totals of classification changes and the major transfers described in this note. Changes which total less than £0.5 million are not shown.

Annex C to Chapter 1

Money GDP and the GDP deflator: adjusted historical series

1C.1 The abolition of domestic rates introduced a discontinuity in the series for money GDP and the GDP deflator at market prices. This occurred because, unlike domestic rates, the community charge is treated in the national accounts as a deduction from income rather than a tax on expenditure. This has the effect of reducing the level of money GDP and the GDP deflator by $1\frac{3}{4}$ per cent from 1990–91. There is no discontinuity in the series for GDP at constant prices. Further details were given in the August 1989 issue of Economic Trends.

1C.2 In order to remove the discontinuity caused by the change and to facilitate consistent comparisons over time of, for example, ratios of general government expenditure (GGE) to GDP and GGE in real terms, adjustments were made in the 1990 FSBR to future levels of money GDP and the GDP deflator. However, now that the new local authority finance regime is in operation, the figures for 1990–91 and later years are presented in the Autumn Statement on the same basis as that adopted in the national accounts by the Central Statistical Office (CSO).

1C.3 To enable consistent comparison with earlier years the CSO has produced adjusted series for money GDP and for the GDP deflator at market prices for the years before 1990–91 (when the community charge became applicable throughout Great Britain) which remove the discontinuity arising from the abolition of domestic rates.

1C.4 For years up to 1988–89 money GDP has been scaled by the following ratio:

$$\frac{\text{money GDP in 1988–89 (excluding domestic rates)}}{\text{money GDP in 1988–89 (including domestic rates)}}$$

This approach preserves the pattern of growth in money GDP for years up to 1988–89. The adjusted series is 1.8 per cent lower than the published money GDP series. For 1989–90 (the year when the community charge was introduced in Scotland), the adjusted series excludes domestic rates paid in England and Wales in that year.

1C.5 The adjusted series for the GDP deflator at market prices has been calculated from the ratio of the adjusted series for money GDP to GDP in constant prices, scaled to make current and constant price figures equal in the base year—1985.

1C.6 The adjusted series, which have been specially produced by the CSO for the purpose of allowing consistent comparisons over time of the GGE ratio and real GGE and its components, are shown in Annex A, Table 1A.1. The effect of the adjustment is to preserve the historical patterns for growth rates of money GDP and the GDP deflator in the years prior to the introduction of the community charge. The **growth rate** of expenditure in real terms (deflated by the adjusted series for the GDP deflator) is the same as produced by using the unadjusted deflators for years up to 1988–89. The **levels** of the GGE ratio calculated using the adjusted series are increased by $\frac{3}{4}$ per cent for years up to 1989–90.

Annex D to Chapter 1

	Departmental groupings
Short title used in tables	Departments covered
Defence	Ministry of Defence
Foreign Office	Foreign and Commonwealth Office—Diplomatic Wing
Overseas Development	Foreign and Commonwealth Office—Overseas Development Administration
Agriculture, Fisheries and Food	Ministry of Agriculture, Fisheries and Food Forestry Commission The Intervention Board
Trade and Industry	Department of Trade and Industry Office of Fair Trading Office of Telecommunications
ECGD	Export Credits Guarantee Department
Energy	Department of Energy Office of Electricity Regulation Office of Gas Supply
Employment	Department of Employment Advisory, Conciliation and Arbitration Service Health and Safety Commission
Transport	Department of Transport
DOE—Housing	Department of Environment—Housing
DOE—Environment	Department of Environment—Other Environmental Services Office of Water Services Ordnance Survey Property Holdings
DOE—PSA	Department of Environment—PSA Services
DOE—Local government	Department of Environment—mainly block and transitional grants to English local authorities
Home Office	Home Office Charity Commission
Legal departments	Lord Chancellor's Department Crown Office, Scotland Crown Prosecution Service Land Registry Northern Ireland Court Service Public Record Office Serious Fraud Office Treasury Solicitor's Department

Education and Science	Department of Education and Science
Arts and Libraries	Office of Arts and Libraries
Health	Department of Health Office of Population Censuses and Surveys
Social Security	Department of Social Security
Scotland	Scottish Office Scottish Record Office Scottish Courts Administration General Register Office (Scotland) Department of the Registers for Scotland
Wales	Welsh Office
Northern Ireland	Northern Ireland Office and Departments
Chancellor's departments	HM Treasury Central Office of Information Central Statistical Office Department for National Savings Government Actuary's Department HM Customs and Excise Her Majesty's Stationery Office Inland Revenue National Investment and Loans Office Paymaster General's Office Registry of Friendly Societies Royal Mint
Cabinet Office, etc	Cabinet Office House of Commons House of Lords National Audit Office Office of the Minister for the Civil Service Parliamentary Commissioner and Health Service Commissioners Privy Council Office

2 Economic prospects for 1991

Summary

- Financial developments** 2.01 All the monetary indicators are responding to tight policy, with M0 growth now well within its target range. The framework of monetary discipline has been further enhanced by the decision to join the Exchange Rate Mechanism (ERM). Sterling has recently traded around its central rate of DM 2.95. The public sector debt repayment (PSDR) is forecast to be £3 billion in the current financial year.
- Demand and activity** 2.02 The economy has continued to slow over the past year. GDP is likely to rise by 1 per cent this year after growth of nearly 5 per cent in 1988 and 2 per cent in 1989. Both personal and business sector spending have eased. Domestic demand may fall in the second half of 1990 and early 1991 before recovering thereafter. GDP is expected to fall in the second half of 1990, though it is projected to recover through 1991. It is forecast to rise by $\frac{1}{2}$ per cent between 1990 and 1991.
- Inflation** 2.03 Retail price inflation is likely to average $10\frac{1}{4}$ per cent in the fourth quarter of 1990. It is expected to fall sharply through 1991 to reach $5\frac{1}{2}$ per cent in the fourth quarter.
- Labour market** 2.04 Employment has continued to rise over the past year; but unemployment has risen since March and may go on rising in the months ahead.
- Current account** 2.05 The current account deficit is expected to fall to £15 $\frac{1}{2}$ billion in 1990. It should fall further in 1991 with domestic demand remaining weak.
- World economy** 2.06 World trade and GNP growth were already slowing in early 1990, even before the Gulf crisis. Higher oil prices may further weaken world activity in the second half of 1990 and in 1991. Inflation in the major industrialised countries has picked up recently, and is likely to be sustained in the short term by high oil prices.
- Assumptions** 2.07 The forecast for 1991–92 assumes a balanced budget, the medium term fiscal objective set out in the MTF5; the actual PSDR will be set in the 1991 Budget. Oil prices are assumed to fall back from recent levels to around \$25 a barrel by end-1991. But this is only a working assumption; the prospect for oil prices, and their impact on the world and UK economies, are major uncertainties in the outlook for 1991.

Table 2.1 Economic prospects: summary

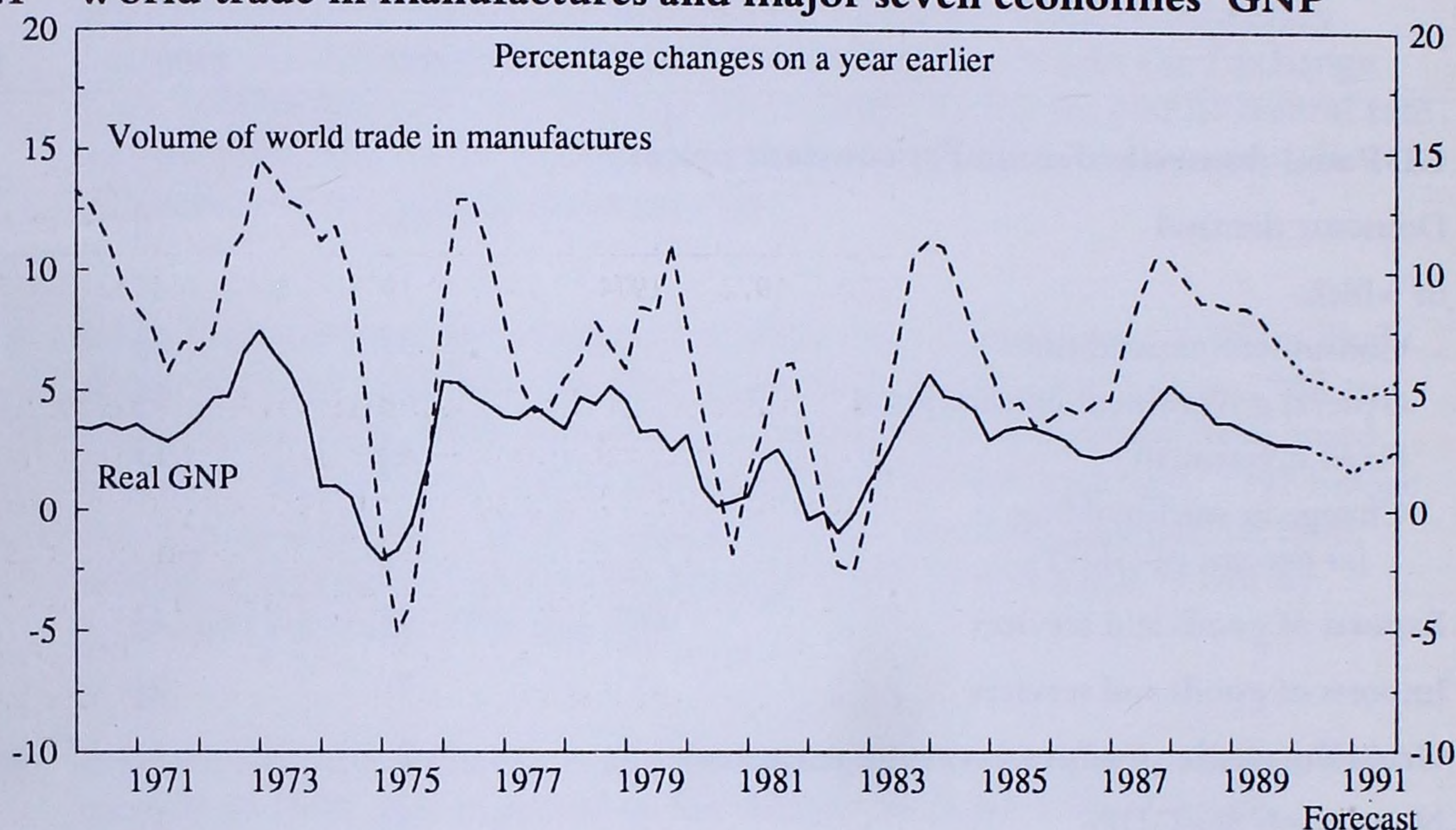
	Percentage changes on previous year unless otherwise stated			
	1989	Forecast		Average errors from past forecasts ¹
		1990	1991	
GDP and domestic demand at constant prices				
Domestic demand	3	$\frac{3}{4}$	$\frac{1}{2}$	$1\frac{1}{4}$
of which:				
Consumers' expenditure	$3\frac{3}{4}$	$2\frac{1}{2}$	$1\frac{3}{4}$	$1\frac{1}{4}$
General government consumption	$\frac{3}{4}$	$1\frac{1}{2}$	$\frac{3}{4}$	$\frac{1}{2}$
Fixed investment	$4\frac{3}{4}$	$-1\frac{1}{2}$	$-1\frac{3}{4}$	$3\frac{1}{2}$
Change in stockbuilding (as percent of GDP)	$-\frac{1}{2}$	-1	$-\frac{3}{4}$	$\frac{3}{4}$
Exports of goods and services	$4\frac{1}{4}$	$4\frac{1}{2}$	$2\frac{1}{2}$	$1\frac{3}{4}$
Imports of goods and services	7	$2\frac{1}{2}$	$1\frac{1}{4}$	$3\frac{1}{4}$
Gross domestic product (average measure)	2	1	$\frac{1}{2}$	1
Non-North Sea GDP	$3\frac{1}{4}$	1	$\frac{3}{4}$	$1\frac{1}{4}$
Manufacturing output	$4\frac{1}{4}$	0	$-\frac{1}{2}$	$1\frac{3}{4}$
Balance of payments current account (£billion)	-19	$-15\frac{1}{2}$	-11	$6\frac{1}{4}$
Inflation				
Retail prices index (fourth quarter)	$7\frac{1}{2}$	$10\frac{1}{4}$	$5\frac{1}{2}$	$1\frac{1}{4}$
GDP deflator at market prices (financial year) ²	$6\frac{1}{2}$	8	6	$1\frac{1}{2}$
Money GDP at market prices (financial year)²	$8\frac{1}{2}$	$8\frac{1}{2}$	8	$1\frac{1}{2}$
£ billion	514	558	604	
PSDR (financial year)				
£ billion	8	3		$3\frac{1}{2}$
per cent of GDP	$1\frac{1}{2}$	$\frac{1}{2}$		$\frac{3}{4}$

¹ Average absolute errors over the previous ten years.² Throughout this Chapter estimates of money GDP and the GDP deflator are adjusted for the discontinuity arising from the abolition of domestic rates. See Annex C to Chapter 1.

World economy

Recent developments **2.08** GNP growth in most G7 economies slowed in the first half of 1990. In the US and Canada growth is currently about 1 per cent. Only in Germany and Japan has growth continued at the same pace as last year. The slower pace of activity is reflected in the growth of world trade in manufactures, which is estimated to have fallen to about $5\frac{3}{4}$ per cent in the first half of the year, compared with $8\frac{1}{4}$ per cent in 1989.

Chart 2.1 World trade in manufactures and major seven economies' GNP

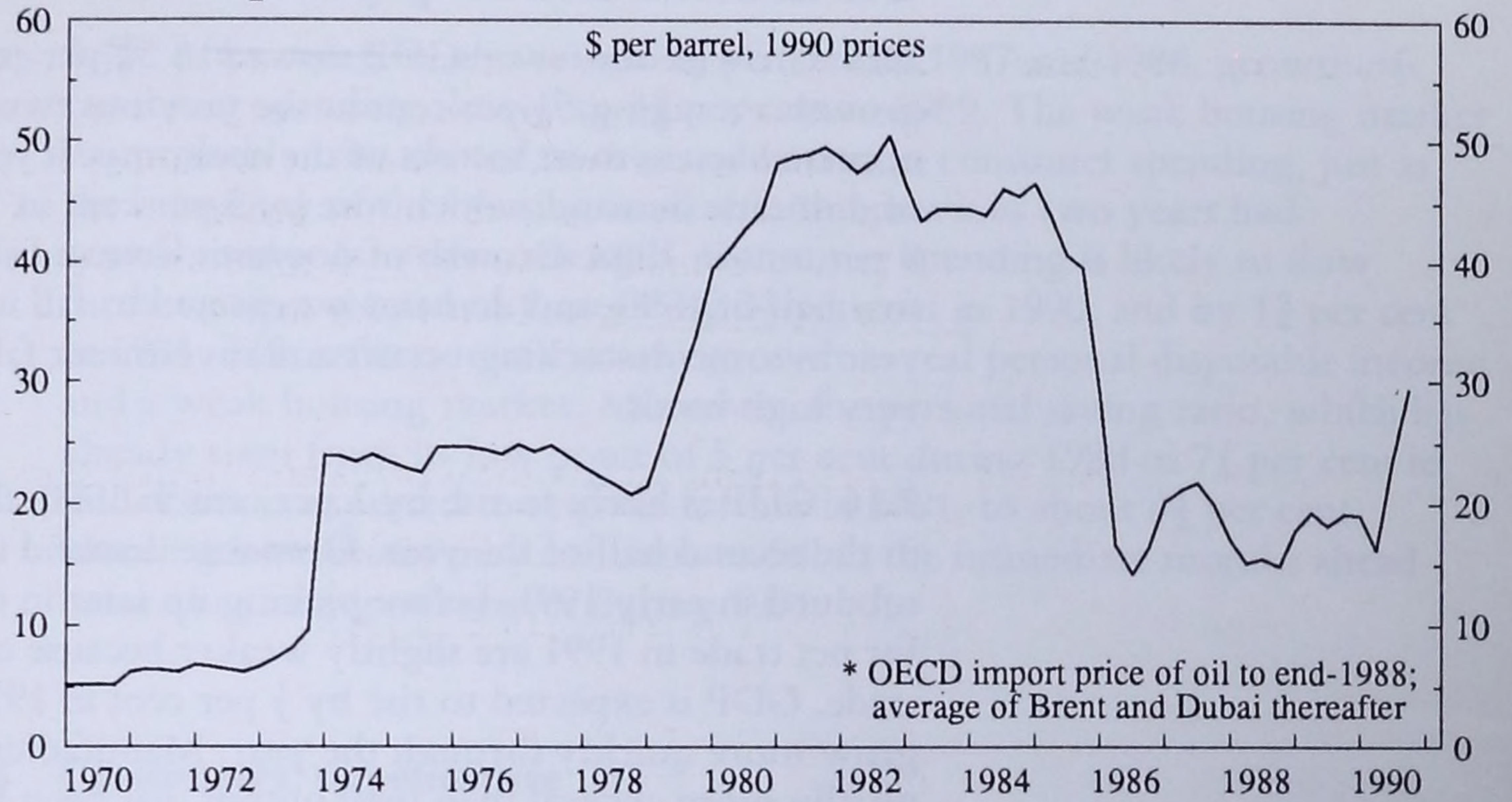


2.09 With activity in the US slowing relative to Japan and Germany, current account balances continued to narrow in the first half of this year. The Japanese surplus and US deficit were both lower as a share of GNP than at any time since 1983.

2.10 The first effects of higher oil prices were seen in consumer price inflation, which rose to an average of $5\frac{1}{2}$ per cent in September in G7 countries compared to $4\frac{1}{2}$ per cent in early summer. Average short-term interest rates have been little changed so far through 1990, at about $9\frac{1}{4}$ per cent, but long rates have drifted up. The dollar has weakened considerably; in early November it was 12 per cent below 1989 levels. The yen has strengthened since the spring, but still remains below 1988 and 1989 levels. The Deutschmark and ERM currencies are correspondingly strong.

The forecast **2.11** Prospects for world growth and inflation in large part depend on the outlook for oil prices, which remains very uncertain. In line with the practice of international institutions like the IMF, the forecast assumes that oil prices will fall during 1991. Higher oil prices depress world trade growth and are the main factor behind the further slow-down in activity now forecast for 1991. They are also the main reason why inflation is forecast to remain at about $5\frac{1}{4}$ per cent in the first half of the year before falling back to about $4\frac{1}{2}$ per cent by the end of the year as oil prices ease.

Chart 2.2 Real oil price*



2.12 Inflation in the G7 countries is likely to be higher in 1991, and economic growth lower—especially in the first half of the year—than in any year since 1982. Even so, compared with their previous experience in the aftermath of oil price shocks, the G7 economies as a whole are expected to have more success in containing inflation and maintaining rising output. The policy stance is now generally tighter. Moreover, they are much less dependent on oil now, and the oil price increase is assumed to be shorter-lived.

2.13 With growth already low and underlying inflation remaining high, the rise in the oil price is expected to prevent any early recovery in growth in the US or Canada. Growth is forecast to remain strong in Germany after unification. With the rise in oil prices and the relatively buoyant growth forecast, further reductions in the current account surpluses of Japan and Germany are in prospect.

2.14 Growth of world trade in manufactures is forecast to average just over 5 per cent in 1990 and 1991, below the average of the last five years, but still around the average for the 1980s.

Table 2.2 World economy

	Percentage changes on a year earlier				
	1989	Forecast		1991	
		H1	H2	H1	H2
<i>Major seven countries¹:</i>					
Real GNP	3 $\frac{1}{4}$	2 $\frac{3}{4}$	2 $\frac{1}{4}$	1 $\frac{3}{4}$	2 $\frac{1}{2}$
Domestic demand	3	2 $\frac{1}{2}$	2 $\frac{1}{4}$	1 $\frac{3}{4}$	2 $\frac{1}{4}$
Consumer price inflation	4 $\frac{1}{2}$	4 $\frac{3}{4}$	5 $\frac{1}{4}$	5 $\frac{1}{4}$	4 $\frac{3}{4}$
Industrial production	3 $\frac{3}{4}$	1 $\frac{3}{4}$	2	1 $\frac{1}{2}$	2
<i>World trade, at constant prices</i>					
Total imports	7 $\frac{1}{2}$	5 $\frac{1}{4}$	3 $\frac{1}{4}$	2 $\frac{3}{4}$	5
Trade in manufactures	8 $\frac{1}{4}$	5 $\frac{3}{4}$	5 $\frac{1}{4}$	4 $\frac{3}{4}$	5 $\frac{1}{4}$

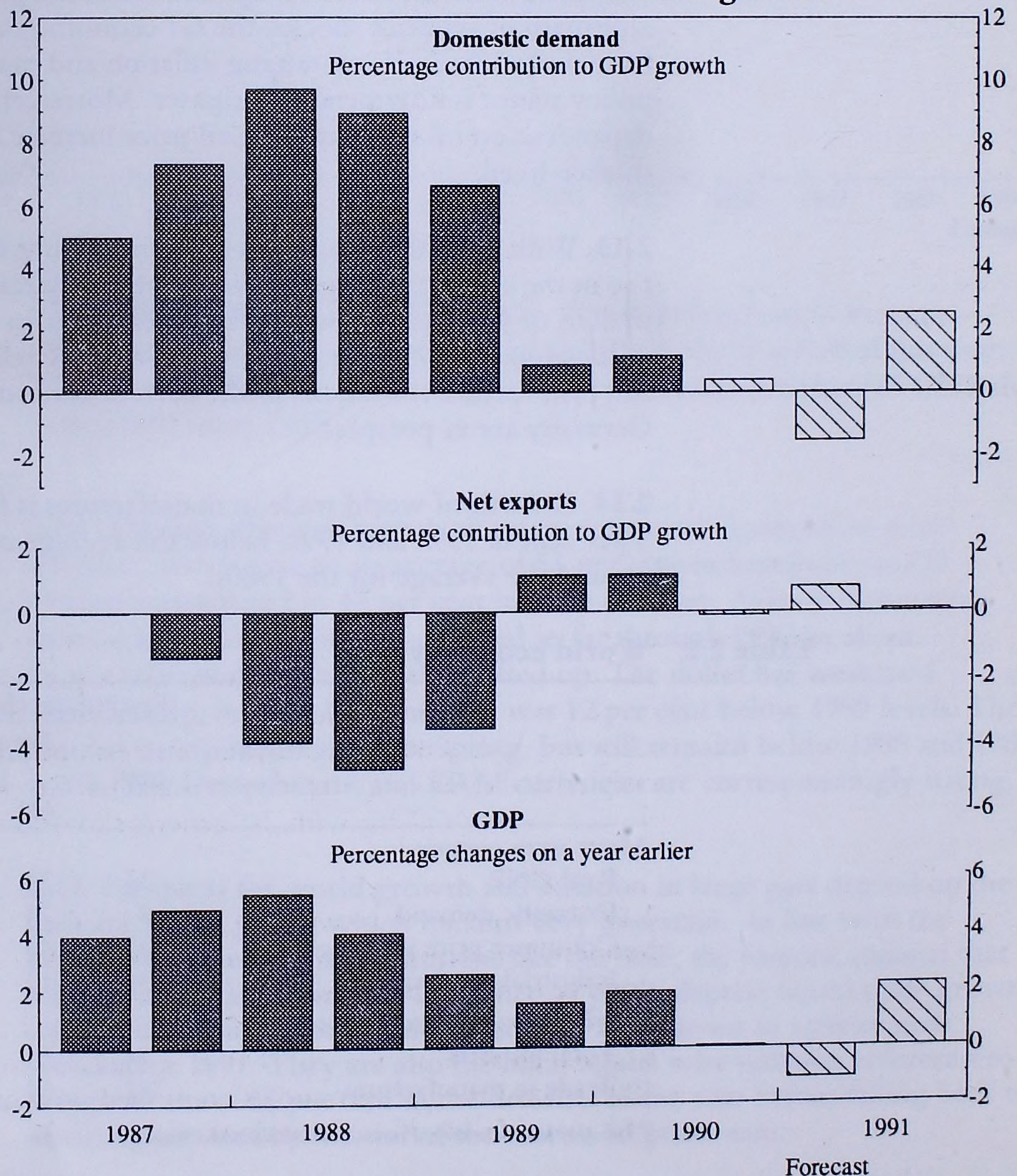
¹ US, Japan, Germany, France, UK, Italy and Canada.

UK demand and output

2.15 Growth of non-oil GDP slowed to 3¼ per cent in 1989 after annual growth averaging 5¼ per cent in the previous two years. The slow-down has occurred across most sectors of the economy. It reflects a sharp deceleration of domestic demand, which rose by 3 per cent in 1989 after an increase of 8 per cent in 1988. Growth of domestic demand slowed to 1 per cent in the first half of 1990, and demand is expected to fall in the second half of the year as some destocking occurs and investment falls back from its recent very high levels.

2.16 GDP is likely to rise by 1 per cent in 1990, though it is expected to fall in the second half of the year. Domestic demand is projected to remain very subdued in early 1991, before picking up later in the year. And the prospects for net trade in 1991 are slightly weaker because of slower growth of world trade. GDP is expected to rise by ½ per cent in 1991, though it is forecast to grow more quickly through the year. Manufacturing output, which is usually more cyclical than total output, has been falling recently and is likely to decline in the second half of 1990. It is forecast to fall by ½ per cent in 1991 though, like GDP, growth is expected to pick up through the year.

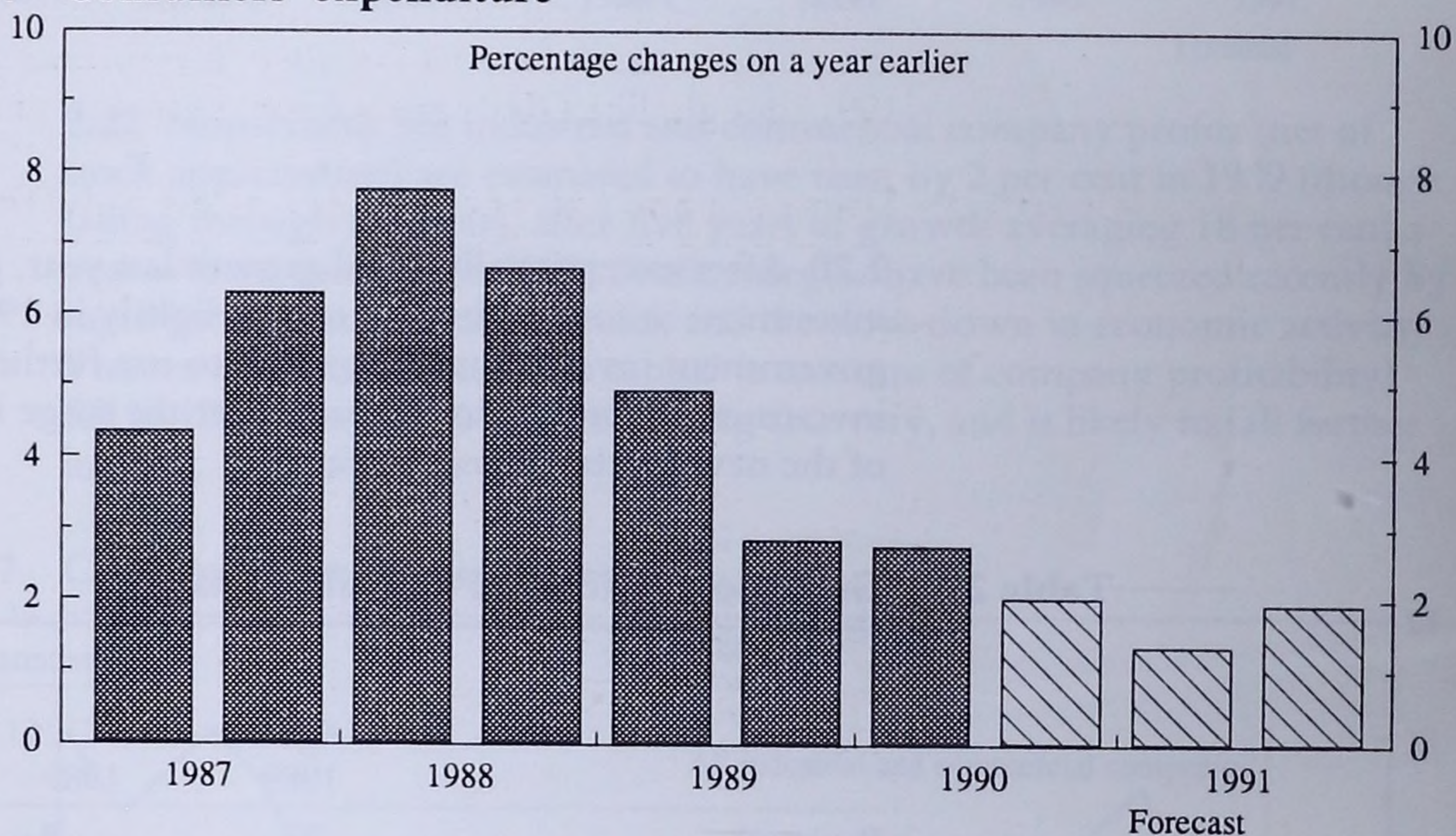
Chart 2.3 Domestic and external contributions to GDP growth



Domestic expenditure

Personal sector 2.17 After rising by an average $6\frac{1}{4}$ per cent in 1987 and 1988, growth of consumer spending slowed to $3\frac{3}{4}$ per cent in 1989. The weak housing market has probably contributed to the moderation in consumer spending, just as the buoyancy of the housing market in the previous two years had contributed to its earlier strength. Consumer spending is likely to slow further; it is expected to increase by $2\frac{1}{2}$ per cent in 1990, and by $1\frac{3}{4}$ per cent in 1991. This reflects much slower growth in real personal disposable income and a weak housing market. Moreover, the personal saving ratio, which has already risen from its low point of 5 per cent during 1988 to $7\frac{3}{4}$ per cent in mid-1990, is expected to recover further in 1991, to about $8\frac{1}{2}$ per cent. Housing investment may continue to fall in the immediate months ahead before beginning to recover during 1991.

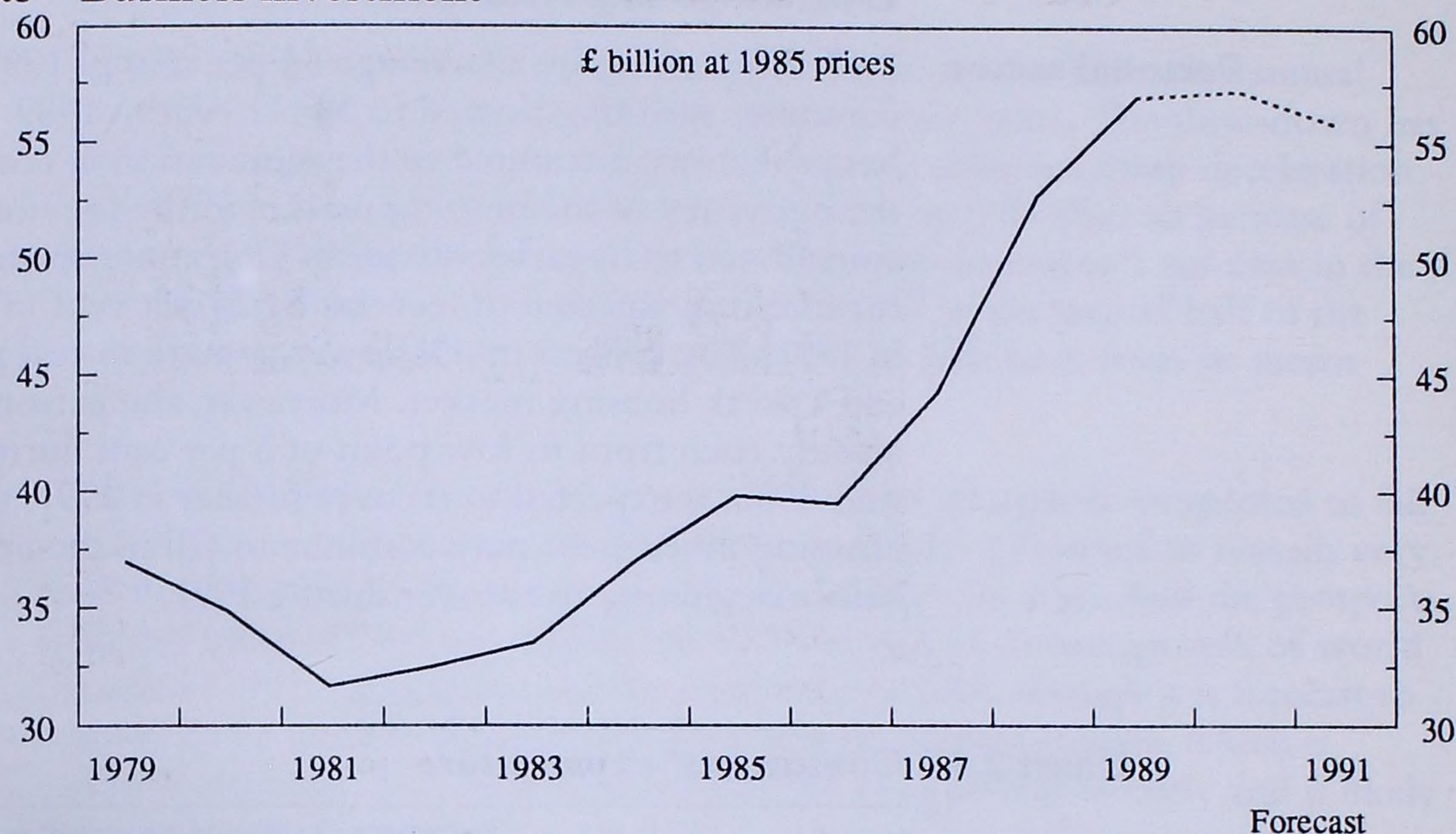
Chart 2.4 Consumers' expenditure



Company expenditure and income 2.18 Business investment rose by a further 8 per cent in 1989, after average annual growth of nearly 16 per cent in the previous two years. The rapid growth of investment over the past three years was prompted by a strong recovery in profitability, buoyant business optimism, rapid growth in output, and tightening capacity constraints. Growth of investment has slowed recently, along with the general slow-down in economic activity.

2.19 Evidence from recent CBI Industrial Trends Surveys shows falling business confidence and weakening investment intentions, with the economy slowing from the exceptionally rapid growth of recent years. Despite an expected decline in the second half of the year, business investment is likely to reach an all time high in 1990. It could fall a little from that high level in 1991 against the background of continued slow growth of domestic demand and a weaker world trade outlook.

Chart 2.5 Business investment



2.20 After exceptionally rapid growth last year, general government investment in total is forecast to fall slightly in 1990 and 1991. Central government investment is projected to rise further, but local authority investment is forecast to fall back after the surge in 1989–90 in anticipation of the new capital finance regime.

Table 2.3 Gross domestic fixed capital formation

	Weights in 1989	Percentage changes on previous year		
		1989	Forecast 1990	1991
Business ¹	70	8	$\frac{1}{2}$	$-2\frac{1}{2}$
Private dwellings ²	17	-11	$-9\frac{1}{2}$	4
General government ³	13	$13\frac{3}{4}$	$-2\frac{3}{4}$	$-3\frac{1}{2}$
Total fixed investment	100	$4\frac{3}{4}$	$-1\frac{1}{2}$	$-1\frac{3}{4}$

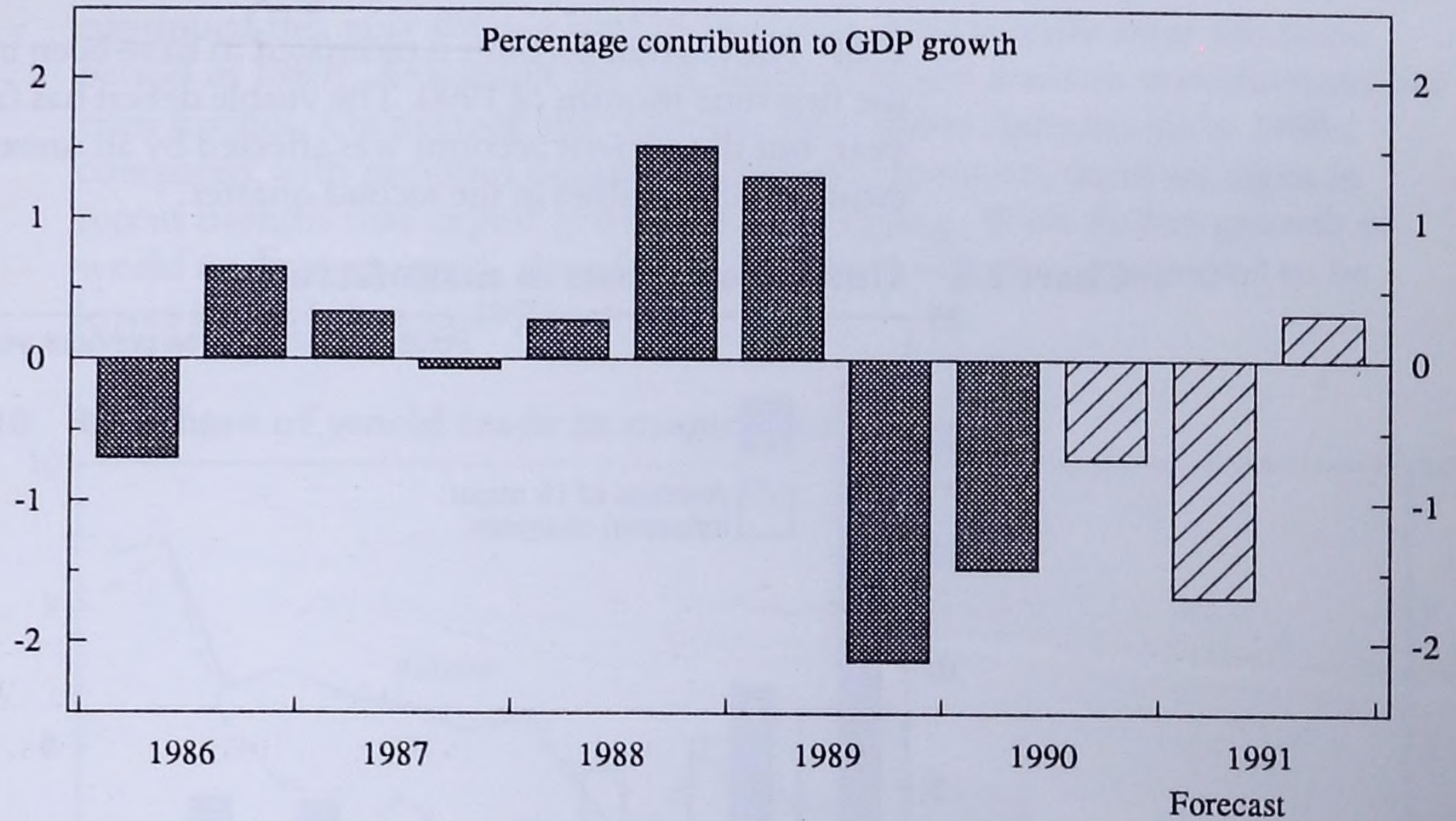
¹ includes public corporations.

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

³ excludes purchases less sales of land and existing buildings.

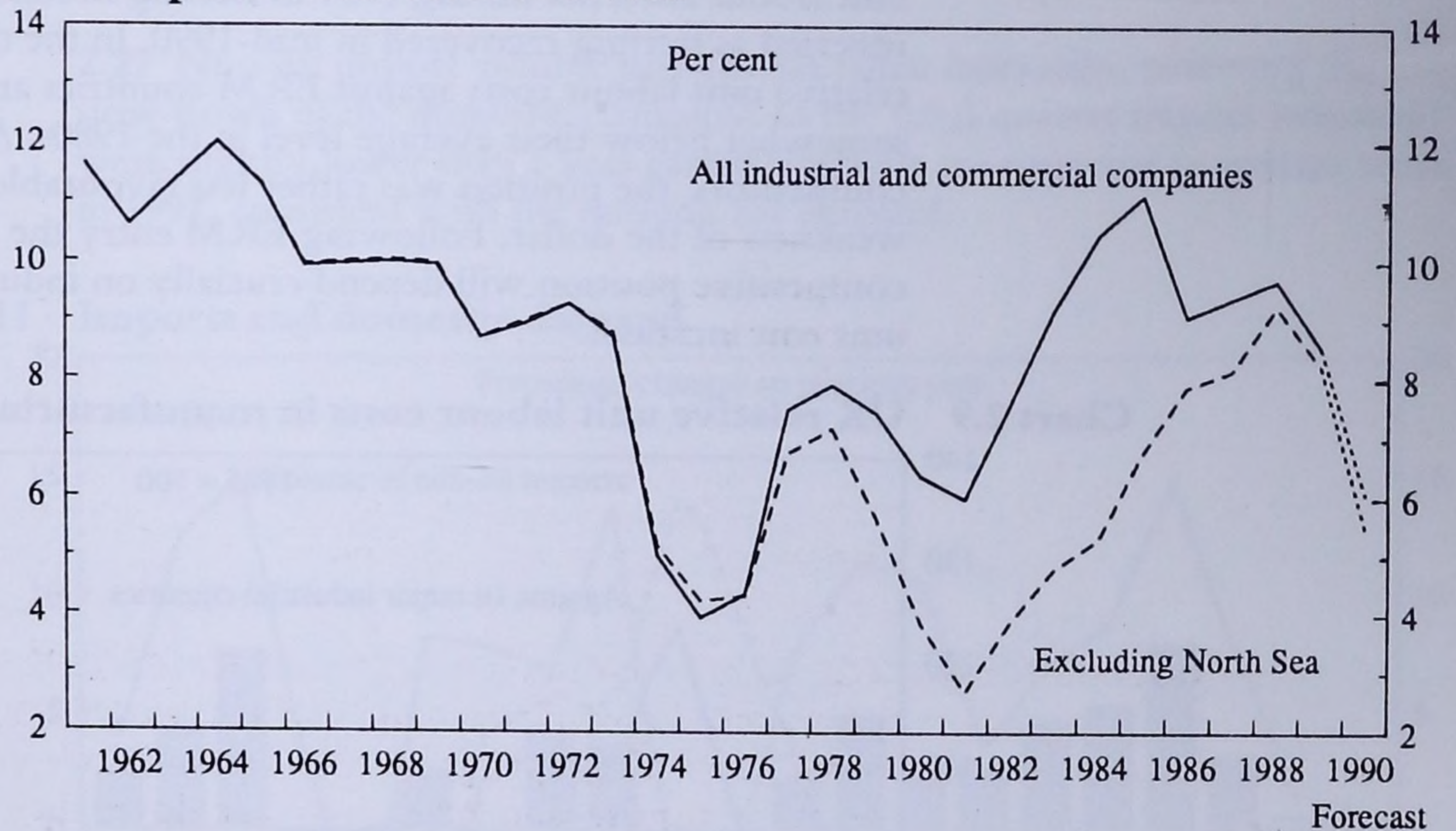
Stockbuilding **2.21** Large increases in stock levels in 1988 and early 1989 reversed the pronounced downward trend in the stock/GDP ratio over the preceding seven years. The rapid growth in demand through 1987 may have taken firms by surprise, and led them to run down their stocks below desired levels relative to output. But there may also have been some involuntary stockbuilding at the end of 1988 and in early 1989 as firms were caught equally unawares by the slow-down in demand and activity. The accumulation of stocks seems to have petered out recently; stockbuilding was close to zero in the second half of 1989 and again in the first half of 1990. Some destocking is likely in the second half of this year, and in 1991, as activity slows further and firms take steps to improve their finances.

Chart 2.6 Stockbuilding



2.22 Non-North Sea industrial and commercial company profits (net of stock appreciation) are estimated to have risen by 2 per cent in 1989 (though falling through the year), after five years of growth averaging 18 per cent a year. Profits may fall in 1990. Profit margins have been squeezed recently by rapid growth in unit labour costs, and the slow-down in economic activity. The net real rate of return on capital (a measure of company profitability) fell in 1989, after seven years of strong recovery, and is likely to fall further in 1990.

Chart 2.7 Companies' real rates of return

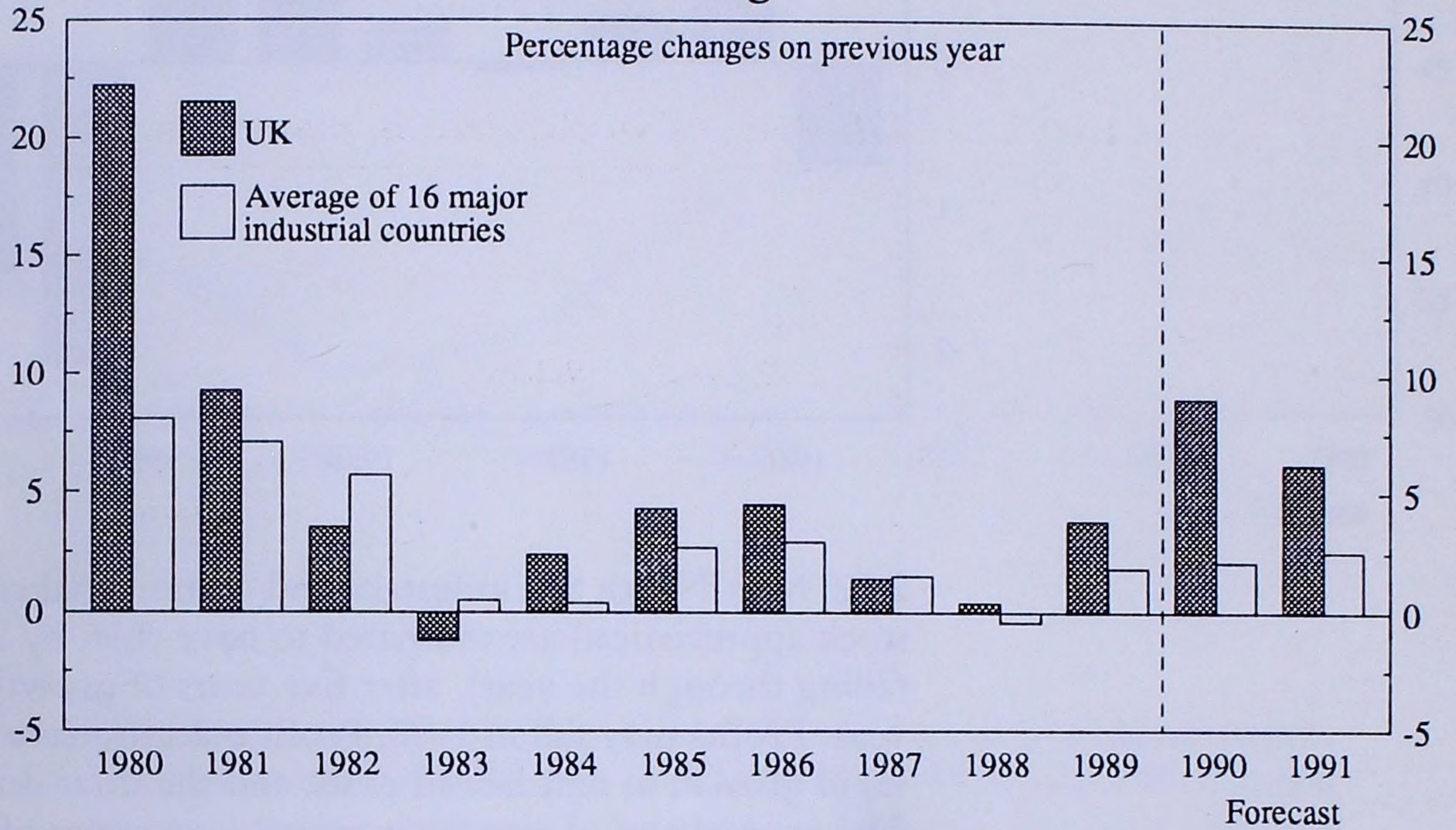


2.23 Employment continued to rise in the first half of 1990, though more slowly than in the previous two years. Productivity growth has also slowed, as it usually does when the economy slows down. Unemployment has risen by 62 thousand since March, after nearly four years of continuous and substantial decline. It may continue rising in the months ahead as the economy slows further. The extent and duration of the increase will depend on the speed with which wage settlements fall from their recent high levels.

Trade and the balance of payments

2.24 The current account is estimated to have been in deficit by £13½ billion in the first nine months of 1990. The visible deficit has fallen sharply through the year, but the current account was affected by an unexpectedly weak preliminary estimate of invisibles in the second quarter.

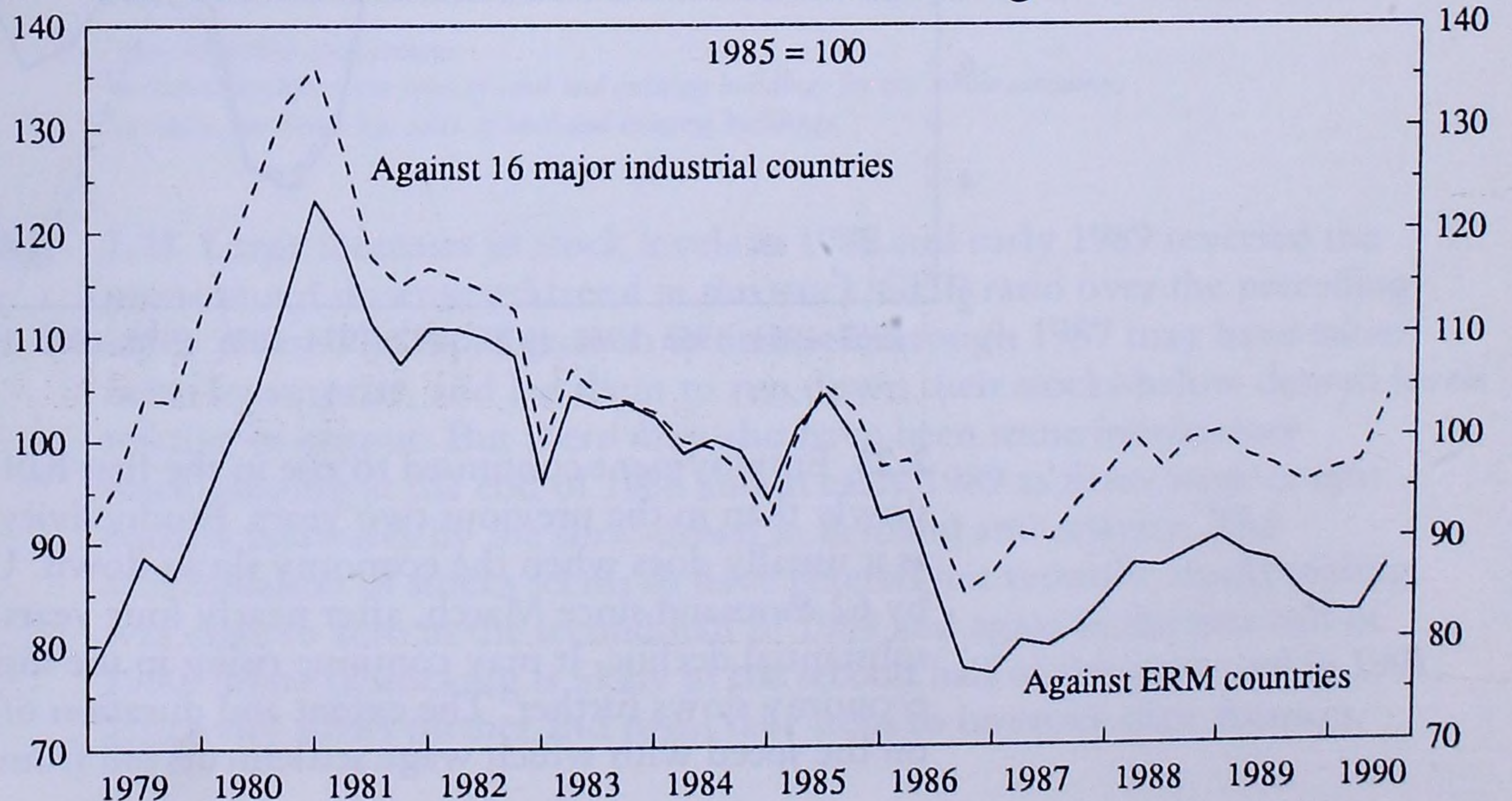
Chart 2.8 Unit labour costs in manufacturing



Competitiveness

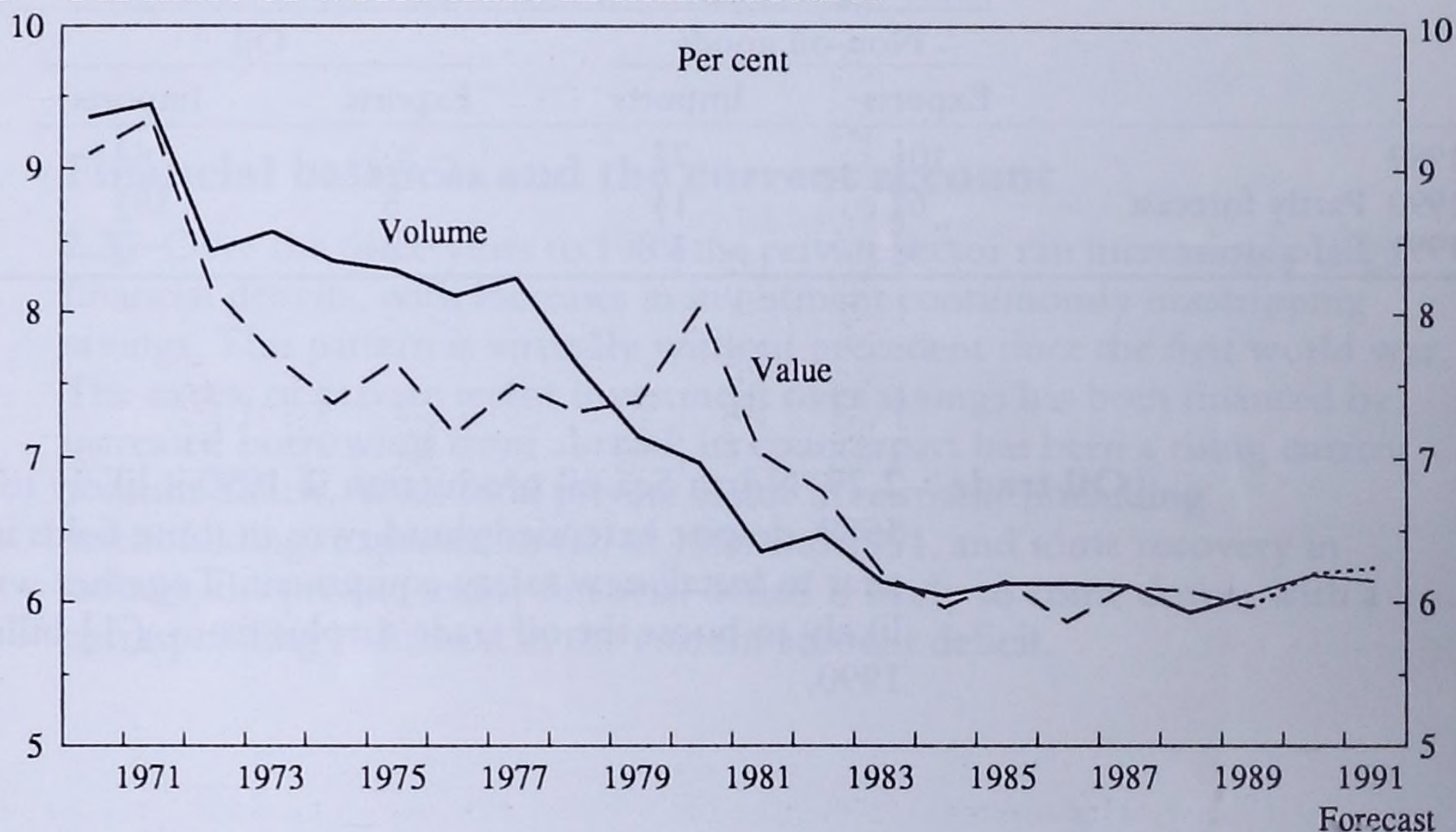
2.25 Unit labour costs in manufacturing have risen more rapidly in the UK than in other major industrialised countries since 1988. Despite this, relative unit labour costs fell during 1989 as sterling declined, but this was sharply reversed as sterling recovered in mid-1990. In the third quarter of 1990 UK relative unit labour costs against ERM countries are estimated to have been somewhat below their average level in the 1980s. Against a wider basket of competitors, the position was rather less favourable, reflecting the current weakness of the dollar. Following ERM entry the maintenance of the UK's competitive position will depend crucially on industry's success in restraining unit cost increases.

Chart 2.9 UK relative unit labour costs in manufacturing



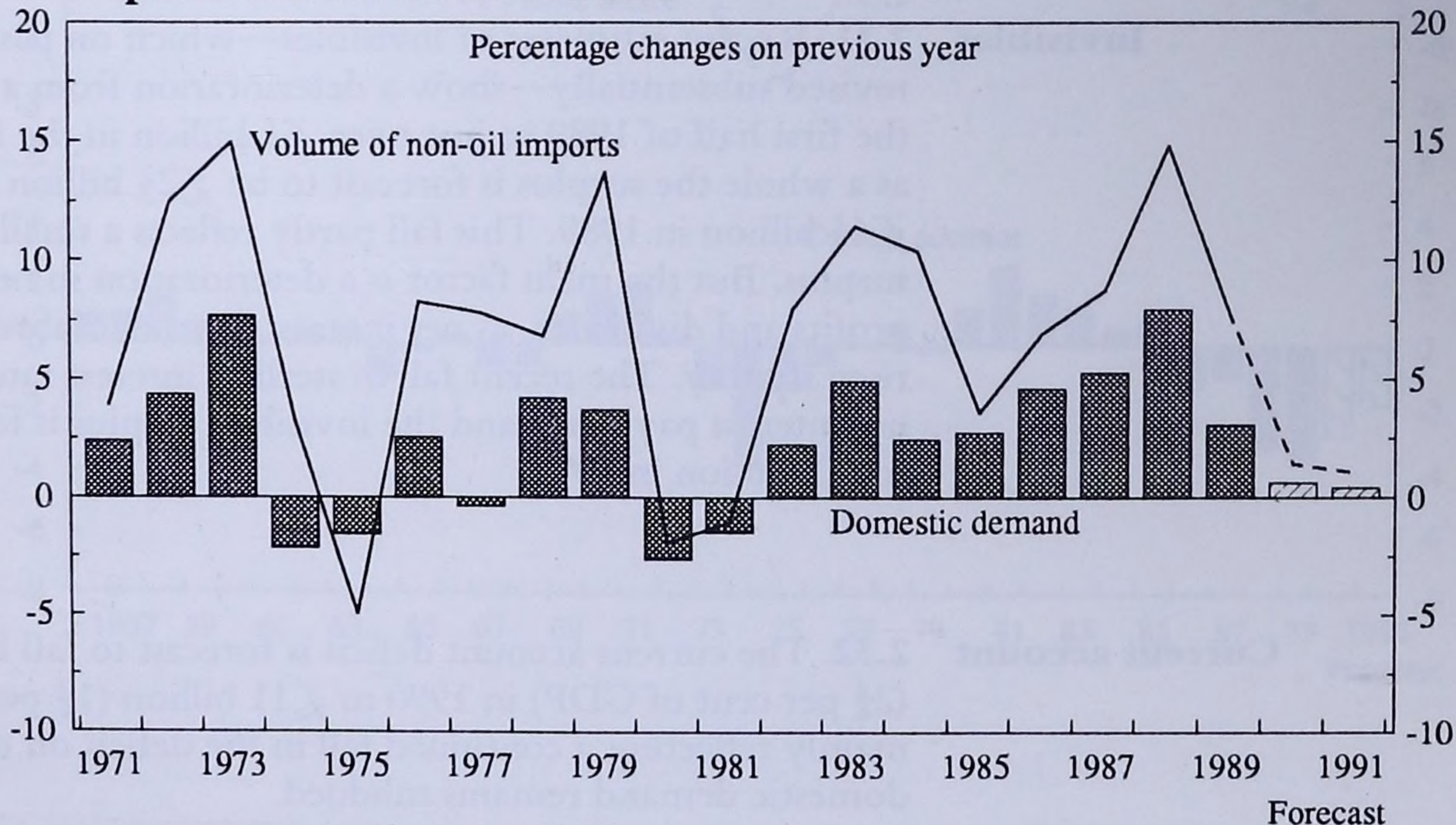
Non-oil trade 2.26 The rapid growth in the volume of manufactured exports in 1989 has continued this year ($7\frac{1}{2}$ per cent in the latest three months over the same period in 1989). As a result the UK share of world trade in manufactures has risen further. On average the share has been stable since the early 1980s, compared with previous decades of decline. However, there are signs in recent months that export growth may be easing. With slower growth in world trade in prospect, the growth of export volumes is expected to be lower in 1991 than in 1990.

Chart 2.10 UK share of world trade in manufactures



2.27 Non-oil import volume growth has fallen markedly, reflecting the slow-down of the domestic economy. In the third quarter import volumes were slightly lower than a year earlier. Imports are expected to remain weak in 1991, consistent with the outlook for demand.

Chart 2.11 Imports and domestic demand



2.28 The non-oil terms of trade have improved with the firmer exchange rate. Sterling import prices have fallen sharply in recent months while sterling export prices have also eased—but to a lesser extent. The fall in export prices suggests some squeeze on margins as exporters try to maintain market share.

Table 2.4 Visible trade volumes

	Percentage changes on previous year					
	Non-oil goods		Oil		All goods	
	Exports	Imports	Exports	Imports	Exports	Imports
1989	10 $\frac{1}{4}$	7 $\frac{3}{4}$	-20 $\frac{1}{2}$	6 $\frac{3}{4}$	5	7 $\frac{1}{2}$
1990 Partly forecast	6 $\frac{3}{4}$	1 $\frac{1}{2}$	8	18 $\frac{1}{4}$	7	2 $\frac{3}{4}$
1991 Forecast	4 $\frac{1}{2}$	1	-3 $\frac{1}{2}$	- $\frac{1}{4}$	3 $\frac{1}{2}$	1

Oil trade **2.29** North Sea oil production in 1990 is likely to be slightly higher than in 1989, despite extended shutdowns in some fields in the second half of this year to install new safety equipment. Together with higher oil prices, this is likely to boost the oil trade surplus from £1 $\frac{1}{2}$ billion in 1989 to £2 billion in 1990.

2.30 The average level of the sterling oil price in 1991 is assumed to be higher than in 1990, despite an assumed decline through next year. However, oil production is expected to fall back somewhat to around its 1989 level, reflecting a continuing need for shutdowns to install safety equipment. Oil exports are therefore forecast to fall and the oil trade surplus is expected to be £1 $\frac{1}{2}$ billion in 1991.

Invisibles **2.31** Recent estimates of invisibles—which on past experience could be revised substantially—show a deterioration from a surplus of £3 $\frac{1}{2}$ billion in the first half of 1989 to just over £1 billion in the first half of 1990. For 1990 as a whole the surplus is forecast to be £2 $\frac{1}{2}$ billion compared with £4 $\frac{1}{2}$ billion in 1989. This fall partly reflects a small decline in the services surplus. But the main factor is a deterioration in net earnings from interest, profits and dividends, as net interest payments abroad by UK banks have risen sharply. The recent fall in sterling interest rates should help reduce these net interest payments and the invisibles surplus is forecast to recover slightly to £3 billion in 1991.

Current account **2.32** The current account deficit is forecast to fall from £15 $\frac{1}{2}$ billion (2 $\frac{3}{4}$ per cent of GDP) in 1990 to £11 billion (1 $\frac{3}{4}$ per cent of GDP) in 1991, mainly reflecting a continued fall in the deficit on trade in manufactures as domestic demand remains subdued.

Table 2.5 Current account

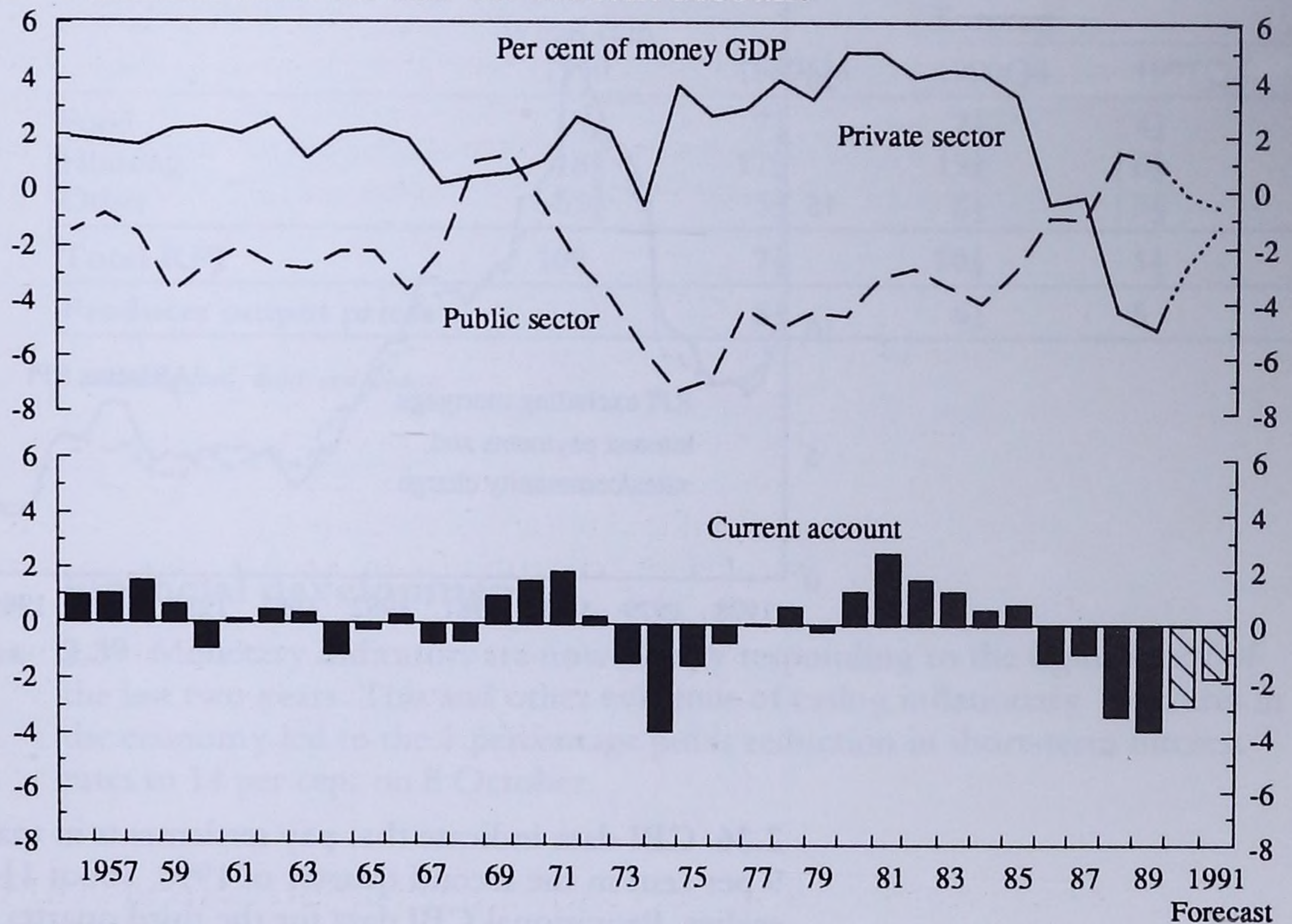
	£ billion						
	Manufactures	Oil	Other	Total visibles	Invisibles	Current balance	Balancing item
1989	-17	1½	-8½	-24	4½	-19	15
1990 Partly forecast	-11½	2	-8½	-18	2½	-15½	11½ ¹
1991 Forecast	-8	1½	-7½	-14	3	-11	

¹ first half of 1990 at annual rate.

Financial balances and the current account

2.33 Over the three years to 1989 the private sector ran increasingly large financial deficits, with increases in investment continuously outstripping savings. This pattern is virtually without precedent since the first world war. The excess of private sector investment over savings has been financed by increased borrowing from abroad; its counterpart has been a rising current account deficit. With total private sector investment (including stockbuilding) expected to fall in 1990 and 1991, and some recovery in savings, the private sector financial deficit is likely to come down, with a corresponding reduction in the current account deficit.

Chart 2.12 Financial balances and the current account

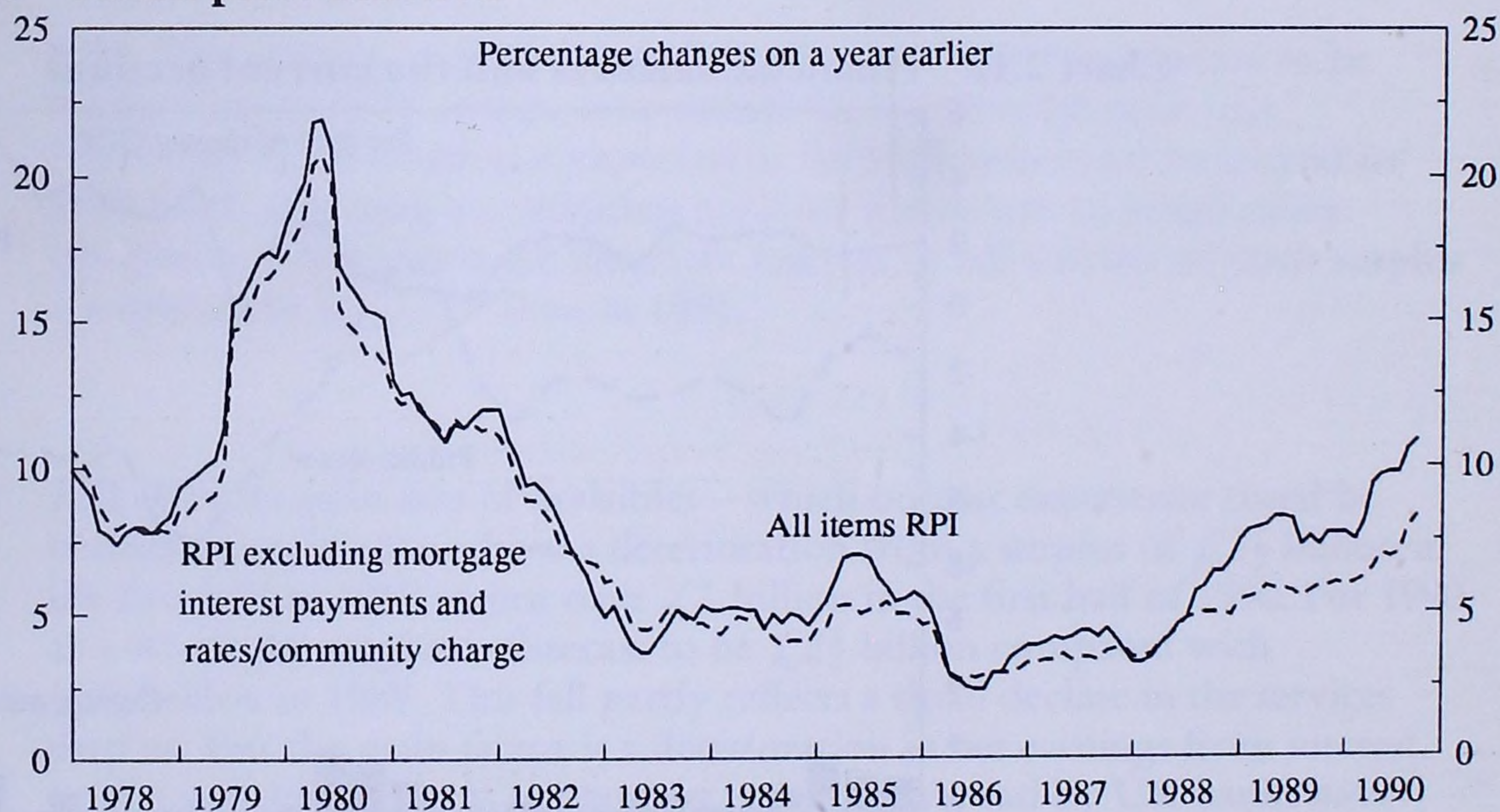


Inflation

2.34 Retail price inflation has taken longer to react to the slow-down in the economy than in most economic cycles. In part this reflects exceptional factors, including unusually rapid food price inflation (partly due to the droughts in 1989 and 1990), and the recent boost to inflation from high oil prices. But even allowing for these features, inflation has been sustained at a much higher level than forecast at Budget time, possibly reflecting more buoyant consumer spending than expected.

2.35 However, retail price inflation is now thought to be close to its peak. It reached 10.9 per cent in September. It should fall in November as the recent cut in mortgage rates takes effect and the rise in mortgage interest rates in November 1989 ceases to affect the annual inflation rate. Inflation is expected to average $10\frac{1}{4}$ per cent in the fourth quarter of 1990. Excluding mortgage interest payments and the community charge, retail price inflation rose to 8.3 per cent in September, exacerbated by petrol price increases in the wake of the Gulf crisis. Producer price inflation (excluding food, drink and tobacco) has been stable over the past few months at a little over 6 per cent. It may be about $6\frac{1}{4}$ per cent in the fourth quarter of 1990, as higher oil prices feed through to manufacturers' prices.

Chart 2.13 Retail price inflation



2.36 CBI data indicate that pay settlements in manufacturing averaged 9 per cent in the second quarter of 1990, about $1\frac{1}{4}$ per cent more than a year earlier. Provisional CBI data for the third quarter show some easing in settlement levels to $8\frac{1}{2}$ per cent, although other evidence suggests that the upward trend in settlements has at best flattened off. Whole economy underlying earnings rose by $10\frac{1}{4}$ per cent in the year to August 1990.

Prospects 2.37 Unit labour costs in manufacturing are likely to rise more slowly in 1991 than in 1990 (see Chart 2.8). Earnings growth is expected to moderate both as inflation comes down and as the subdued prospect for output growth sharply reduces bonuses and overtime payments. With a firm exchange rate and the prospect of weak output, profit margins are also expected to remain under pressure. Producer output price inflation (excluding food, drink and tobacco) is expected to fall to around 5 per cent by the fourth quarter of 1991.

2.38 Retail price inflation is forecast to abate sharply during 1991. A weak outlook for consumer spending is expected to sustain a squeeze on retailers' margins, and to put downward pressure on underlying inflation. Moreover, various adverse factors during 1990—the mortgage rate rise in March and the large community charge increase in April—will cease to affect the inflation rate by the early spring of next year. The recent petrol price increases will have a similar effect as they cease to affect the inflation rate later in the year, with further benefit to come from the assumed fall in world oil prices. Food price inflation is likely to fall back to more normal levels. Retail price inflation is forecast to fall to $5\frac{1}{2}$ per cent by the fourth quarter of 1991.

Table 2.6 Retail and producer output price inflation

	Weights in 1990	Percentage changes on a year earlier		
		1989Q4	Forecast 1990Q4	1991Q4
Food	$15\frac{3}{4}$	$7\frac{1}{4}$	$7\frac{1}{4}$	$4\frac{1}{4}$
Housing	$18\frac{1}{2}$	$17\frac{1}{4}$	$19\frac{1}{4}$	$6\frac{1}{4}$
Other	$65\frac{3}{4}$	$5\frac{1}{4}$	$8\frac{1}{2}$	$5\frac{1}{2}$
Total RPI	100	$7\frac{1}{2}$	$10\frac{1}{4}$	$5\frac{1}{2}$
Producer output prices¹		$5\frac{1}{2}$	$6\frac{1}{4}$	5

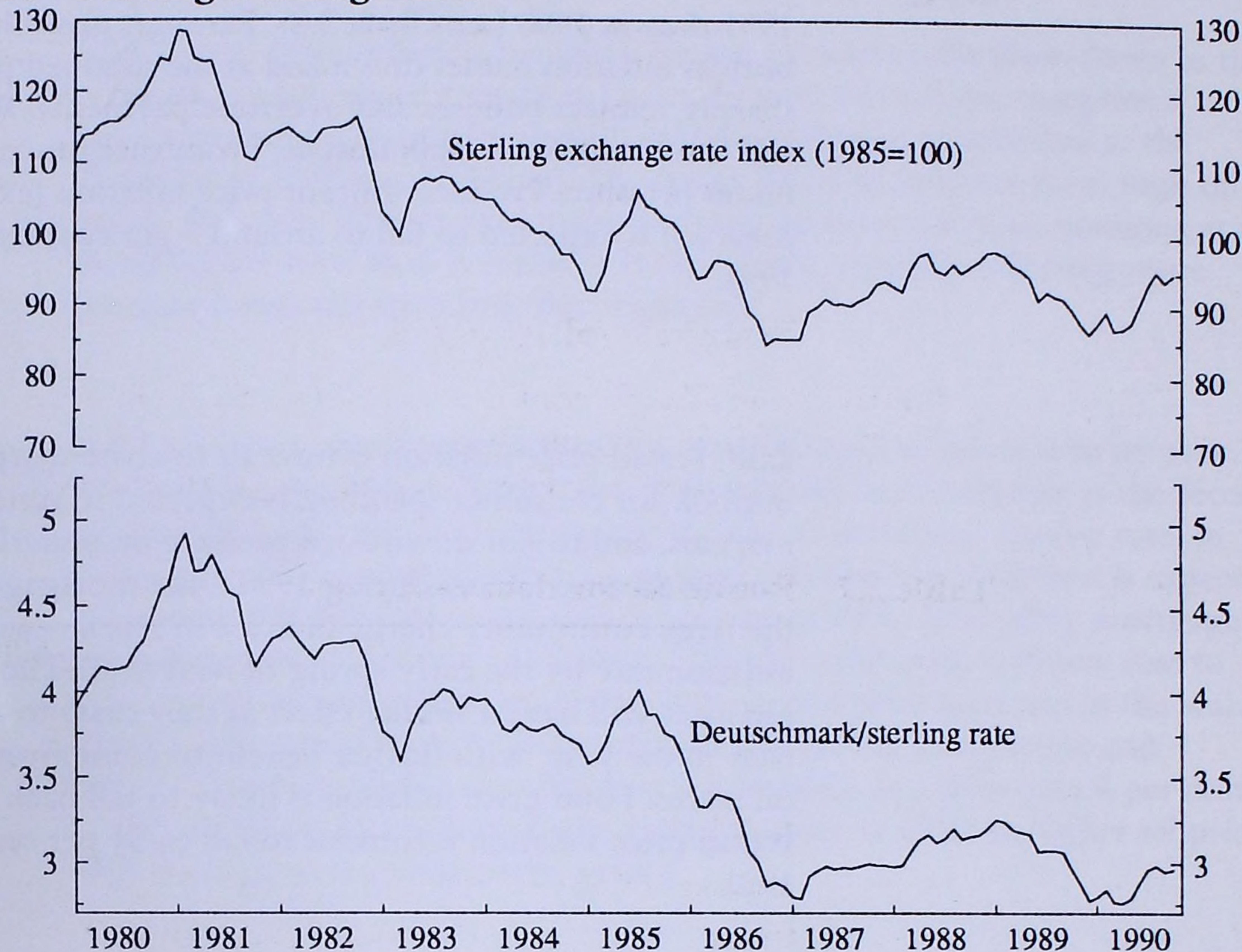
¹ excluding food, drink and tobacco.

Financial developments

Interest rates 2.39 Monetary indicators are now clearly responding to the tight policy of the last two years. This and other evidence of easing inflationary pressures in the economy led to the 1 percentage point reduction in short-term interest rates to 14 per cent on 8 October.

Exchange rate 2.40 The sterling effective exchange rate and the rate against the Deutschmark rose strongly in mid-1990, following falls during 1989. Sterling has recently traded around its central ERM rate of DM 2.95.

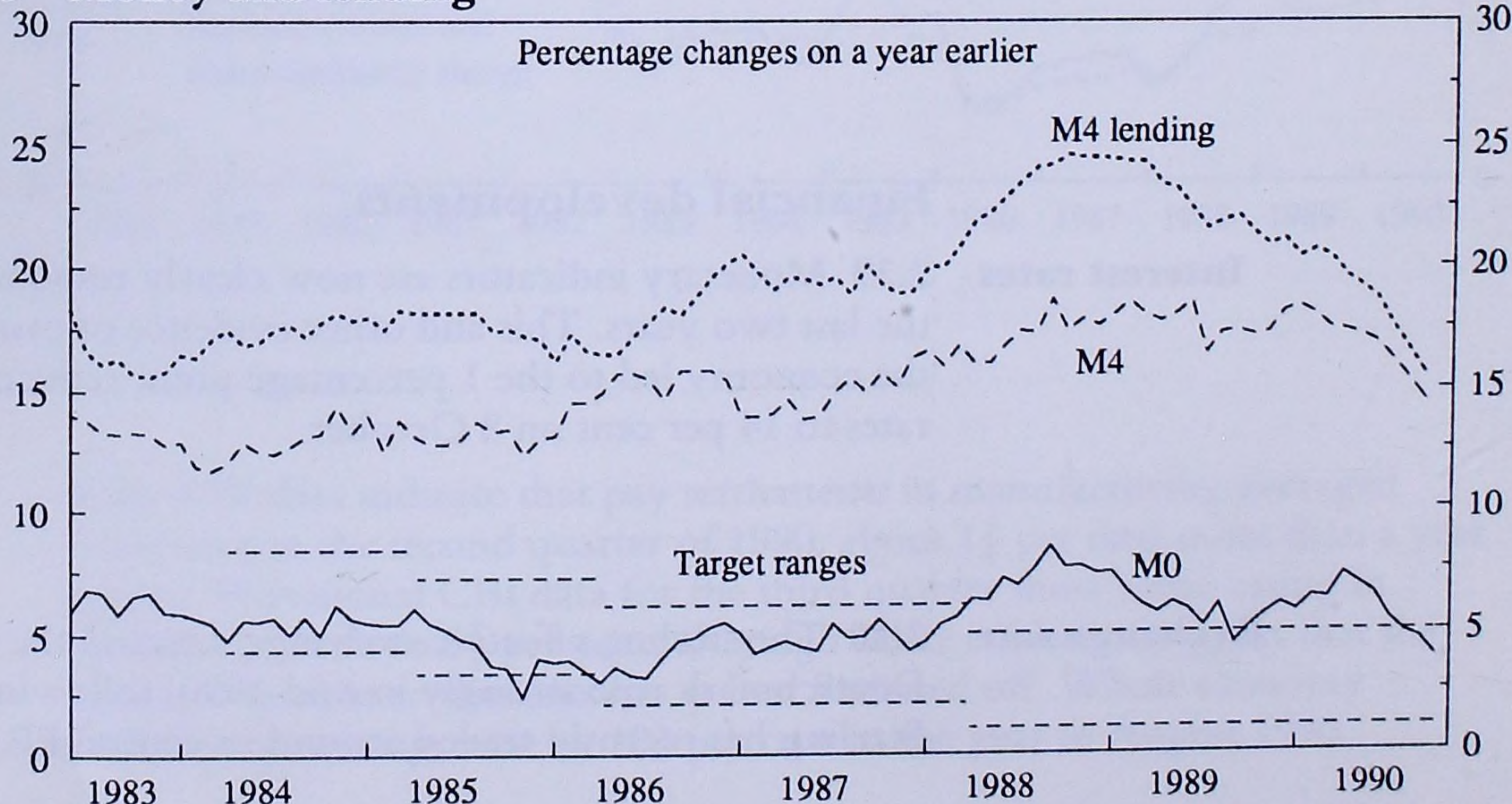
Chart 2.14 Sterling exchange rates



Narrow money 2.41 The monetary aggregates now all point to a tightening of monetary conditions. The year on year growth of M0 has fallen sharply from around 7 per cent in the spring and is now well within its target range. It is expected to remain within its range for the rest of the financial year.

Broad money 2.42 Broad money growth has fallen steadily throughout this year to 14½ per cent in September, its lowest rate since June 1987. Bank and building society lending growth has also slowed sharply, reflecting slower growth in lending for house purchase, as the housing market has responded to high interest rates, and a sharp fall in the growth of lending to industrial and commercial companies.

Chart 2.15 Money and lending



Asset prices 2.43 The behaviour of asset prices provides further confirmation of the effectiveness of tight monetary policy. Adjustment in the housing market is reflected in a substantial fall in the ratio of house prices to average earnings since the peak in mid-1989. Real equity prices have fallen sharply since late 1989 and are now well below the level reached just after the global stock market crash in 1987.

Fiscal developments

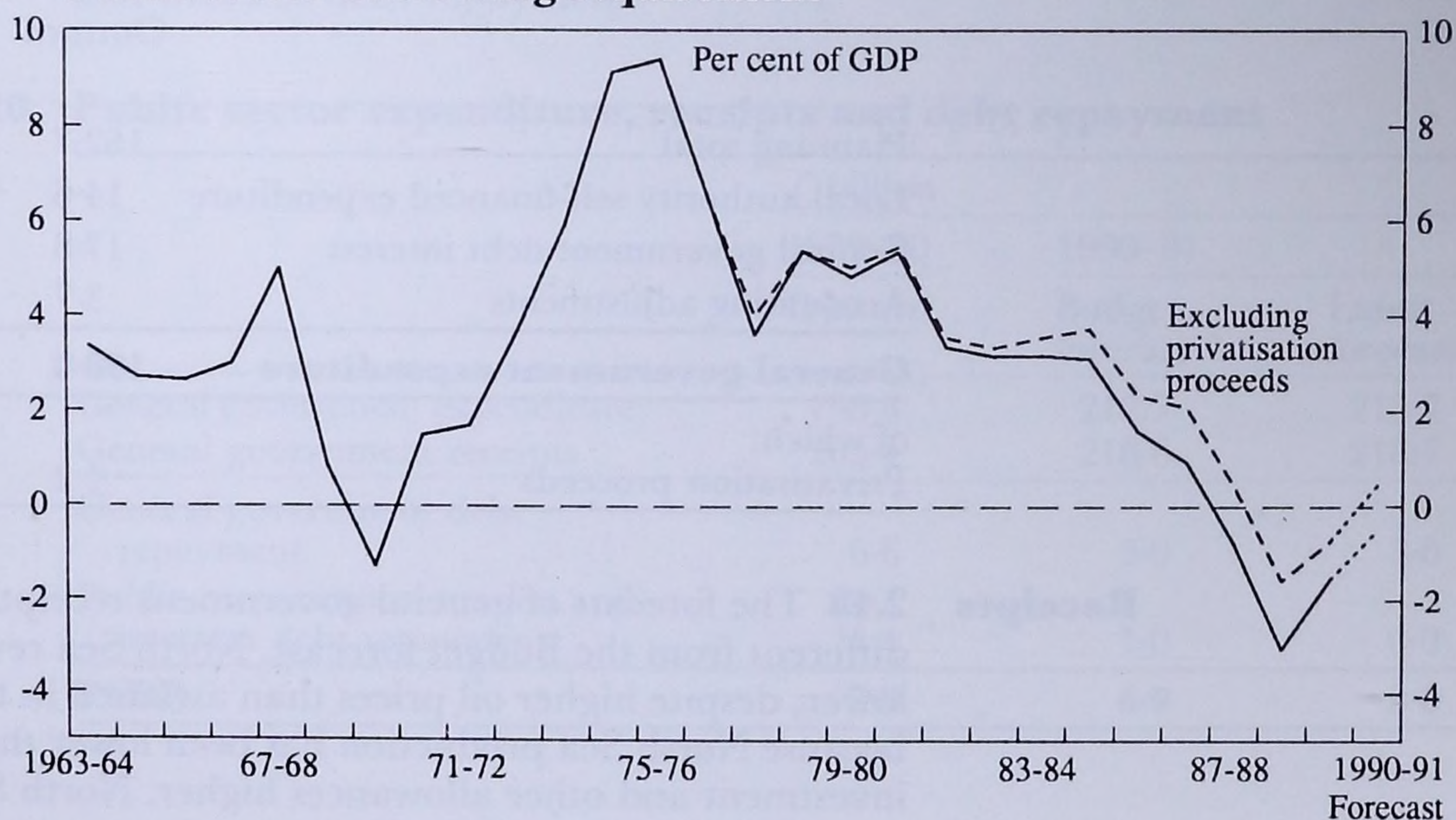
PSDR 2.44 The forecast is for a PSDR of £3 billion in 1990–91, compared with £7 billion in the Budget forecast, and an outcome of £8 billion in the previous year. This would be the fourth successive year of debt repayment.

Table 2.7 Public sector debt repayment

	£ billion		
	1989–90	1990–91	
	Outturn	Budget forecast	Latest forecast
PSDR	7.9	6.9	3.0
per cent of GDP	1½	1¼	½
PSDR excluding privatisation proceeds	3.7	1.9	-2.3
per cent of GDP	¾	¼	-½

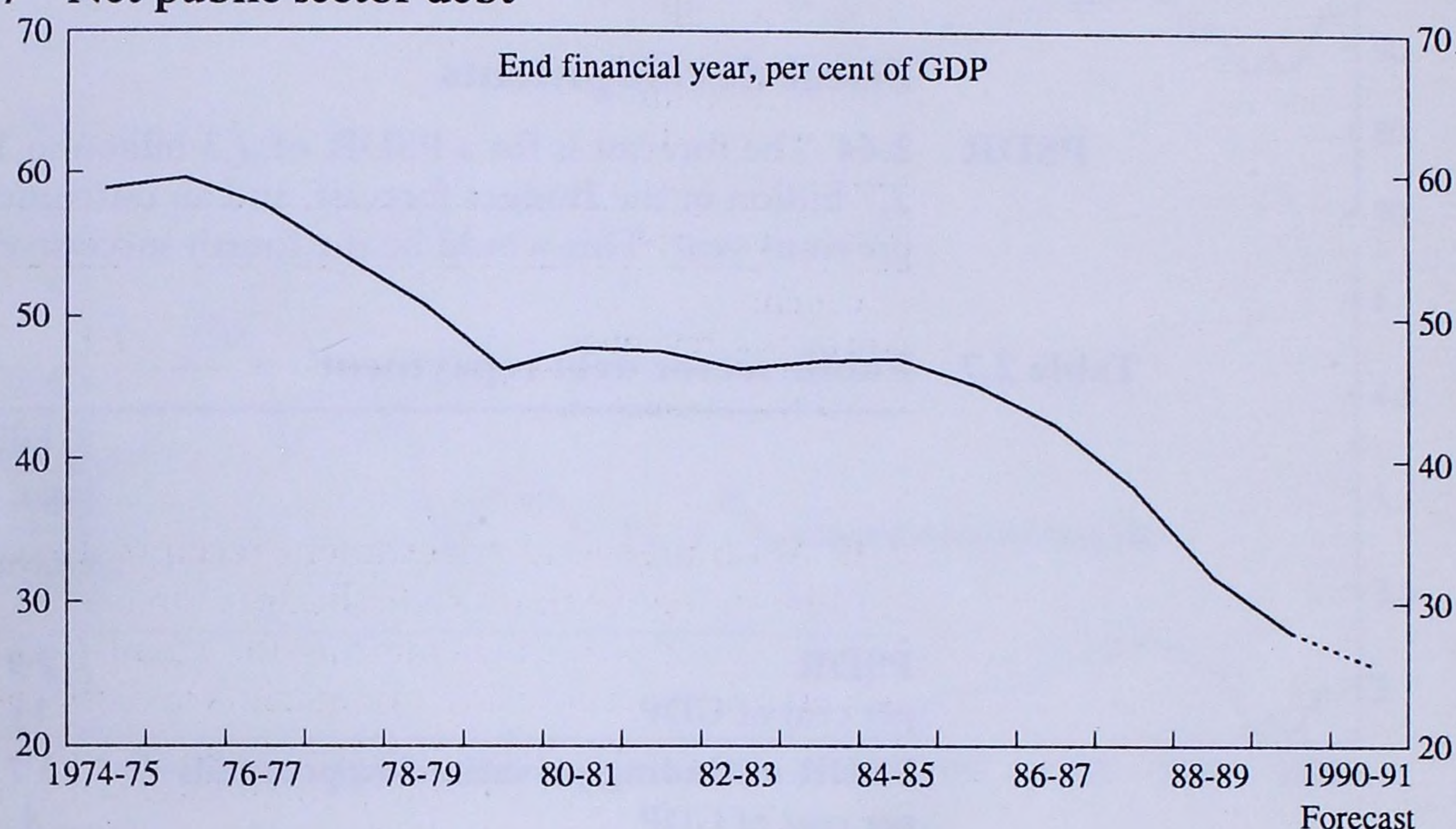
2.45 Excluding privatisation proceeds, borrowing in the first half of 1990–91 was £4½ billion higher than in the same period of last year. Some of this increase is attributable to delays in collection of national non-domestic rates and community charge in the early months of the year, which have since started to unwind. Thus, with the main tax collecting months and the bulk of privatisation proceeds still to come, a substantial net repayment, exceeding the first half borrowing, is forecast for the second half of the year.

Chart 2.16 Public sector borrowing requirement



Public sector debt 2.46 The stock of net public sector debt outstanding has fallen in recent years in cash terms, as well as relative to GDP. It is provisionally estimated to have fallen to £150.6 billion at the end of 1989–90, equivalent to 28 per cent of money GDP, compared with 47 per cent at the end of 1984–85. The stock of debt should fall further in 1990–91, both in cash terms and as a percent of GDP.

Chart 2.17 Net public sector debt



Expenditure 2.47 General government expenditure in 1990–91 is forecast to be £3 billion higher than in the Budget forecast. Half this upward revision is due to a higher planning total. The upward revision to interest payments is largely the result of lower debt repayment and higher inflation increasing the cost of indexed debt.

Table 2.8 General government expenditure

	£ billion		
	1989–90	1990–91	
	Outturn	Budget forecast	Latest forecast
Planning total	162.7	179.0	180.6
Local authority self-financed expenditure	14.6	13.3	13.9
Central government debt interest	17.8	17.0	17.8
Accounting adjustments	3.7	3.4	3.4
General government expenditure	198.8	212.7	215.7
of which:			
Privatisation proceeds	–4.2	–5.0	–5.3

Receipts 2.48 The forecast of general government receipts in 1990–91 is little different from the Budget forecast. North Sea revenues are marginally lower, despite higher oil prices than assumed in the Budget forecast, because North Sea production has been lower than expected, and investment and other allowances higher. North Sea revenues are forecast to be £2.7 billion in 1990–91.

Table 2.9 General government receipts

	£ billion		
	1989-90	1990-91	
	Outturn	Budget forecast	Latest forecast
Taxes on income, expenditure and capital ¹	157.8	170.2	170.7
National insurance and other contributions	33.1	35.9	36.0
Interest and dividends	6.9	6.4	6.3
Other receipts	7.5	6.1	5.8
Total receipts	205.4	218.6	218.7
of which:			
North Sea revenues	2.4	2.8	2.7

¹ also includes community charge

2.49 Within general government receipts, Inland Revenue receipts are £ $\frac{3}{4}$ billion higher than in the Budget forecast, with income tax and corporation tax each accounting for about £ $\frac{1}{4}$ billion of the increase. Nevertheless corporation tax receipts are still forecast to be lower in 1990-91 than in 1989-90. The forecast of Customs and Excise receipts is £ $\frac{1}{2}$ billion lower than in the Budget forecast with the decrease largely accounted for by VAT.

2.50 Total taxes and national insurance contributions are forecast to be 37 per cent of money GDP in 1990-91, the same as in 1989-90. The non-North Sea tax burden is also forecast to be unchanged at 37 $\frac{1}{4}$ per cent, some two points below its peak level in 1981-82.

Changes since the Budget

2.51 The downward revision to the forecast PSDR since the Budget largely reflects an upward revision to general government expenditure. But it also reflects a downward revision to public corporations' market and overseas debt repayment.

Table 2.10 Public sector expenditure, receipts and debt repayment

	£ billion		
	1989-90	1990-91	
	Outturn	Budget forecast	Latest forecast
General government expenditure	198.8	212.7	215.7
General government receipts	205.4	218.6	218.7
General government debt repayment	6.6	5.9	3.0
Public corporations' market and overseas debt repayment	1.4	1.0	0.0
PSDR	7.9	6.9	3.0

Table 2.11 Gross domestic product and its components

£ billion at 1985 prices, seasonally adjusted											
	Consumers' expenditure	General government consumption	Total fixed investment	Change in stocks	Domestic demand	Exports of goods and services	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical adjustment	GDP at factor cost (average measure)
1989	271.7	77.2	81.0	2.7	432.6	118.6	551.2	137.9	59.2	0.7	354.9
1990	278.4	78.4	79.7	-1.2	435.4	123.8	559.1	141.3	60.6	1.2	358.4
1991	283.2	79.0	78.4	-3.6	437.0	126.9	564.0	142.9	61.5	0.8	360.3
1989 1st half	135.2	38.3	40.7	2.8	217.0	58.1	275.1	69.3	29.3	0.3	176.8
2nd half	136.5	38.9	40.3	-0.1	215.7	60.5	276.1	68.6	29.9	0.4	178.1
1990 1st half	138.9	39.3	40.6	0.2	219.0	62.6	281.6	71.8	30.3	0.8	180.3
2nd half	139.5	39.1	39.1	-1.4	216.4	61.2	277.5	69.5	30.3	0.4	178.2
1991 1st half	140.9	39.4	38.7	-2.9	216.2	62.5	278.7	70.3	30.5	0.4	178.3
2nd half	142.2	39.7	39.7	-0.8	220.9	64.4	285.3	72.6	31.0	0.4	182.1
Percentage changes on previous year ¹											
1988	7 $\frac{1}{4}$	$\frac{1}{2}$	14 $\frac{3}{4}$	1	8	$\frac{1}{4}$	6 $\frac{1}{4}$	12 $\frac{3}{4}$	4 $\frac{1}{4}$	$\frac{1}{2}$	4 $\frac{3}{4}$
1989	3 $\frac{3}{4}$	$\frac{3}{4}$	4 $\frac{3}{4}$	- $\frac{1}{2}$	3	4 $\frac{1}{4}$	3 $\frac{1}{4}$	7	2 $\frac{3}{4}$	0	2
1990	2 $\frac{1}{2}$	1 $\frac{1}{2}$	-1 $\frac{1}{2}$	-1	$\frac{3}{4}$	4 $\frac{1}{2}$	1 $\frac{1}{2}$	2 $\frac{1}{2}$	2 $\frac{1}{2}$	0	1
1991	1 $\frac{3}{4}$	$\frac{3}{4}$	-1 $\frac{3}{4}$	- $\frac{3}{4}$	$\frac{1}{2}$	2 $\frac{1}{2}$	$\frac{3}{4}$	1 $\frac{1}{4}$	1 $\frac{1}{2}$	0	$\frac{1}{2}$

¹ For stockbuilding and the statistical adjustment, changes are expressed as a percent 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 8 November 1990. The main proposals are as follows:

- the Class 1 insurance rates for employees should remain unchanged for 1991–92.
- the Class 1 insurance rates for employers should be reduced from April 1991 by 0.05 percentage points in respect of the main rate and by 0.4 percentage points in respect of each of the rates which apply within the lower rate bands.
- the lower earnings limit should be increased from April 1991 from the present level of £46 a week to £52 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £350 a week to £390 a week.
- the earnings thresholds for the employers' lower rate bands should also be increased from £80, £125 and £175 a week to £85, £130 and £185 a week.

This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate	
	Employees	Employers ¹
Below £52	0	0
£52 to £85	{ 2% of £52 plus 9% of earnings between £52 and £390	4.6
£85 to £130		6.6
£130 to £185		8.6
£185 to £390		10.4
Above £390		10.4

¹ Rates apply to all earnings.

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

- the number of unemployed (GB) averages 1.62 million in 1990–91 and 1.75 million in 1991–92.
- the increase in average earnings on a year earlier is 10 per cent in 1990–91 and 8½ per cent in 1991–92. 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 1991 on the basis of the 10.9 per cent increase in the RPI over the year ending in September 1990, as announced by the Secretary of State on 24 October 1990.

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, 1990-91 and 1991-92¹

	£ million		
	Employers	Employees	Total
National insurance contributions:			
1990-91	20 230	13 330	33 560
1991-92	21 500	14 180	35 680
Total change	1 270	850	2 120
<i>of which:</i>			
Change in contributions from increased earnings, etc ²	1 790	700	2 490
Change in contributions from increase in earnings limits	- 260	150	- 110
Change in contributions from reduced employer contribution rates	- 260	0	- 260

¹ Figures are rounded to the nearest £10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-rating) (No. 2) Order 1990. 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 gross 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 1991–92 and 1992–93.

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 $10\frac{1}{4}$ per cent has been used to show the effects of indexation and revalorisation in 1991–92. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1990.

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

Indexation of allowances, thresholds and bands for 1991–92

4.05 Tables 4.1 to 4.3 show allowances, thresholds, and bands for income tax, inheritance tax and capital gains tax for 1991–92 after $10\frac{1}{4}$ per cent indexation. Estimates of the revenue effects of this 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.

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

4.06 Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax from April 1991. Changes in the income tax allowances and the basic rate limit are from an indexed base.

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

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

Table 4.1 Income tax

	£	
	1990-91	1991-92
Personal allowance	3 005	3 315
Personal allowance (age 65-74)	3 670	4 050
Personal allowance (age 75 and over)	3 820	4 220
Married couple's allowance	1 720	1 900
Married couple's allowance (age 65-74)	2 145	2 365
Married couple's allowance (age 75 and over)	2 185	2 415
Additional personal and widow's bereavement allowance	1 720	1 900
Aged income limit	12 300	13 600

Income tax rates	Bands of taxable income	
	£	
Per cent	1990-91	1991-92
25	0-20 700	0-22 900
40	over 20 700	over 22 900

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1990-91	1991-92
Nil	0-128	0-142
40	over 128	over 142

Table 4.3 Capital gains tax

	£	
	1990-91	1991-92
Annual exempt amount:		
Individuals	5 000	5 600
Trusts	2 500	2 800

Table 4.4 Costs of indexation for 1991-92

	£ million	
	1991-92	1992-93
Indexation of income tax allowances and basic rate limit ¹	2 585	3 675
Of which:		
Increases in main allowances	2 175	2 985
Increase in the basic rate limit ²	410	690
Indexation of inheritance tax threshold	55	115
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	
	1991-92	1992-93
Income tax		
<i>Rates</i>		
Change basic rate by 1p ²	1 950	2 175
Change higher rate by 1p	190	370
<i>Allowances</i>		
Change personal allowance by £100	490	665
Change age-related personal allowances ³ by £100	37	55
Change married couple's allowance by £100 ⁴	220	300
Change age-related married couple's allowances ³ by £100	16	23
Change aged income limit by £200	2	4
Change all main allowances by 1 per cent ⁵	205	290
Change all main allowances by 10 per cent: ⁵		
increase (cost)	2 000	2 850
decrease (yield)	2 100	2 950
<i>Basic rate limit</i>		
Change basic rate limit by 1 per cent ⁵	34	60
Change basic rate limit by 10 per cent: ⁵		
increase (cost)	315	560
decrease (yield)	385	675
<i>Allowances and basic rate limit</i>		
Change all main allowances and basic rate limit by 1 per cent ⁵	240	350
Change all main allowances and basic rate limit by 10 per cent: ⁵		
increase (cost)	2 300	3 400
decrease (yield)	2 500	3 650
Corporation tax⁶		
Change full rate by 1 percentage point	370	520
Change small companies' rate by 1 percentage point ⁷	35	55

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 £25 million; other effects over £50 million are rounded to the nearest £5 million; effects of less than £50 million are rounded to the nearest £1 million. The extent of rounding reflects the desire to avoid undue compounding of its effects when numbers are pro-rated, rather than the accuracy of the estimates. The figures for income tax changes include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 1991.

² Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax. The first year revenue effect of changing the basic rate is closer to the second year effect than in previous years' estimates. This is because of the abolition of the composite rate of tax on bank and building society interest from April 1991. The composite rate was set a year in arrears, thus delaying some of the impact of a change in the basic rate.

³ Allowances for those aged 65-74 and aged 75 and over.

⁴ Figures include revenue effects of changing additional personal allowance and widow's bereavement allowance by £100.

⁵ Percentage changes are calculated with reference to 1990-91 levels.

⁶ 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 1990.

⁷ These figures ignore effects arising from the imputation system.

Indirect taxes 4.09 Table 4.6 shows estimates of the effects of revalorising excise duties from April 1991. It shows the total extra revenue (including VAT) if all duties were to be increased by 10¼ per cent, together with the price increase that would result (after allowing for consequential VAT).

Table 4.6 Direct effects of revalorising all excise duties¹

	£ million yield ²		Typical item	Current level	Price
	1991-92	1992-93		of duty on	change ³
				typical items	
Total ⁴	2 150	2 390		—	0.7% ⁵
Of which:					
Beer and cider	175	200	Pint of beer	20.4p	2.4p
Wine	60	65	75 cl bottle of table wine	82.5p	9.7p
Spirits	105	115	75 cl bottle	£5.21	61.4p
Tobacco ⁶	485	555	20 king size	£1.08	10.8p
Petrol	770	855	Litre of 4 star	22.5p	2.7p
Derv	205	240	Litre	19.0p	2.2p
VED	245	250	Cars and light vans	£100.00	£10.25

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

² Assuming implementation on 1 April 1991.

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. The price change is for the typical item given in Table 4.6.

⁴ Includes receipts from items not listed below.

⁵ Impact effect on the RPI.

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

4.10 Table 4.7 shows the revenue effects of illustrative changes in specific indirect taxes, assuming other duties are unchanged. Within limits the illustrative changes 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 4.7 Direct effects of illustrative changes in indirect taxes¹

	Price change of typical item ³	Associated percentage change in duty	£ million cost/yield ^{2,7}	
			1991-92	1992-93
Beer and cider	1p	4.3	70	80
Wine	5p	5.3	30	35
Spirits	25p	4.2	45	50
Tobacco ⁶	5p	4.7	225	260
Petrol ⁸	1p	3.9	300	330
Derv	1p	4.6	90	105
VED	£5.00	5.0	120	125
1 percentage point change in VAT rate	—	—	1 700	2 305

^{1,2,3,6} See footnotes after Table 4.6.

⁷ Revenue effects include effects of changing duty on all items in the same category by the same percentage. Estimates are subject to uncertainty about the extent to which consumers would switch between different categories of expenditure. This is particularly so for switching from one type of alcoholic drink to another.

⁸ Revenue effects assume duty on both leaded and unleaded petrol is changed by the same percentage.



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