

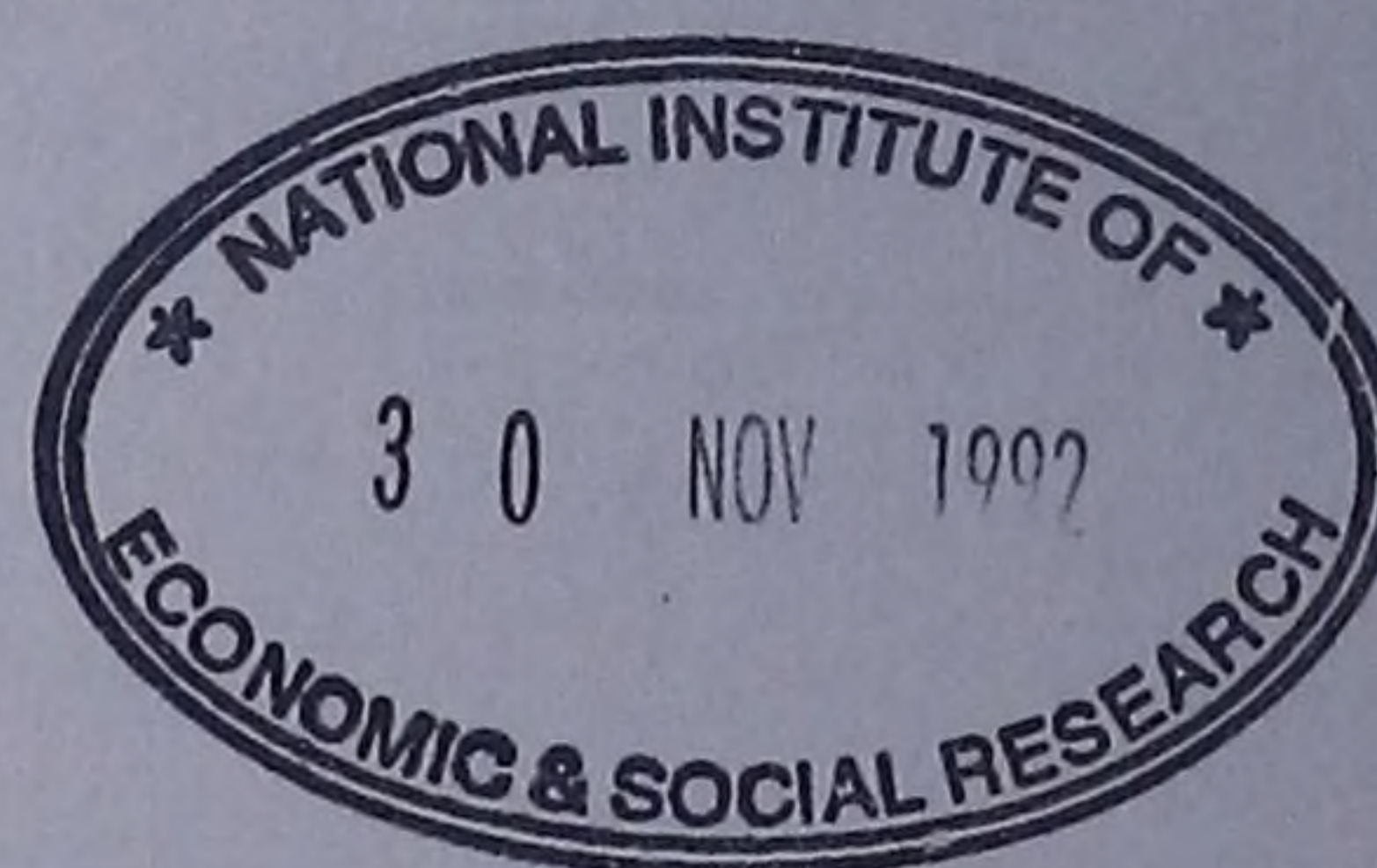
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# Autumn Statement 1992

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# Autumn Statement 1992

*Presented to Parliament by the Chancellor of the Exchequer  
by Command of Her Majesty November 1992*

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# 1 The Autumn Statement

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**1.01** This Autumn Statement document supplements the oral statement which the Chancellor made to the House of Commons on 12 November. It sets out the public expenditure forecast outturn for the current year, the detailed plans for the next three years, and the expenditure measures announced in the Autumn Statement. It also sets out recent economic developments and the economic forecast for 1993, the main proposals for national insurance contributions in 1993–94, and the tax changes announced in the Autumn Statement together with the tax ready reckoners.

## **Public spending plans**

**1.02** Chapter 2 describes the Government's public expenditure plans for the next three years. Firm control of public spending is a vital part of the Government's economic strategy. The Government's objective is that over time it should take a declining share of national income. To support this objective the Government has made some changes in the system of public expenditure control. These are described in Annex C to Chapter 2. The Statement also includes three significant measures to increase the scope for private financing of capital projects.

## **Economic prospects**

**1.03** Chapter 3 reviews recent economic developments and sets out the Treasury's forecasts for 1992 and 1993, comparing them with recent independent forecasts. Demand and activity have been weaker than expected at the time of the Budget. However, the substantial easing of monetary policy since September and the measures announced in the Autumn Statement strengthen the conditions for recovery next year. The Treasury forecast for gross domestic product (GDP) in 1993 is a rise of 1 per cent. Although the depreciation of sterling means that prices will be higher than otherwise, the impact of the recession should continue to exert strong disinflationary pressure during 1993, with the Treasury forecasting underlying inflation, as measured by the RPI excluding mortgage interest payments, at  $3\frac{3}{4}$  per cent in the fourth quarter.

## **Autumn Statement measures**

**1.04** The supplementary time-limited measures announced in the Autumn Statement to boost confidence and aid recovery are set out in the box on the opposite page. The expenditure measures are included within the plans described in Chapter 2, where further details are given. Details on the tax measures are given in Chapter 5.

## **National insurance contributions and tax receipts**

**1.05** Chapter 4 sets out the structure, thresholds and rates of national insurance contributions for both employers and employees in 1993–94. Chapter 5 gives details of the tax measures and shows the effects of various illustrative tax changes on tax receipts in 1993–94 and 1994–95.



### Measures for investment and confidence

**Housing market** An extra **£750 million** will be made available in 1992–93 to help promote activity in the housing market. Most of the additional resources will be used to buy up empty properties which are currently overhanging the market. The Government is seeking a substantial contribution to this package from private sector lenders.

**Local authority capital spending** Local authorities in England and Wales will be allowed to spend 100 per cent of new receipts which they receive in the period from 13 November 1992 until the end of December 1993. Parallel measures will be introduced in Scotland and Northern Ireland. In total this should permit additional capital spending by local authorities of around **£1.8 billion** over the next  $3\frac{1}{2}$  years.

**Business investment** First year capital allowances for investment in plant and machinery are to be increased from 25 per cent to 40 per cent from 1 November 1992 until the end of October 1993. A special initial allowance for agricultural and industrial buildings of 20 per cent will apply over the same period. These measures will cost about **£200 million** in 1992–93 and **£500 million** in 1993–94.

**Car tax** Abolished from midnight 12 November 1992. This will cost **£100 million** in 1992–93. The costs in future years will be recouped in the next Budget through other taxes on motoring.

**Exports** An extra **£700 million** of ECGD cover is being made available to exporters over this year and next.



# 2 Public spending plans

## Main points

**2.01** Firm control over public expenditure and a sustainable fiscal position are fundamental to the longer term prospects for the economy. The Government's objective is to reduce public spending as a share of national income over time.

**2.02** The achievement of the Government's medium term public expenditure objective will be supported by the new system of public expenditure control announced in July. Under the new system, expenditure will be measured against a new spending aggregate—the new control total (NCT). Growth in the NCT will be constrained to a rate which ensures that total public spending—general government expenditure—grows by less than the economy as a whole over the economic cycle.

**2.03** The new expenditure plans meet the remit for the public expenditure survey set by the Cabinet in July—maintaining existing cash plans for 1993–94 and restricting growth in the NCT thereafter to give average real growth over the three years no higher than 1½ per cent.

**2.04** The new plans imply a planning total for 1993–94 of £244.5 billion, the figure set out in the 1991 Autumn Statement. Classification changes reduce the figure to £242.5 billion (see Table 2.1).

**2.05** The control totals have been set at £243.8 billion in 1993–94, £253.6 billion in 1994–95 and £263.3 billion in 1995–96. The NCT is described in paragraphs 2.22 and 2.23 and in Annex C. The relationship between the NCT and the planning total is shown in Table 2.2. The control totals include Reserves of £4 billion, £7 billion and £10 billion (see Table 2.3).

**Table 2.1 The planning total**

|   | £ billion    |              |
|---|--------------|--------------|
|   | 1992–93      | 1993–94      |
| <b>Planning total in 1992 Budget report</b>                           | <b>226.6</b> | <b>244.5</b> |
| Changes   | 0.8          | 0.0          |
| <b>New levels, consistent with 1992 Budget Report</b>                 | <b>227.4</b> | <b>244.5</b> |
| Classification changes made since the 1992 Budget report <sup>1</sup> | – 1.3        | – 2.0        |
| <b>Planning total consistent with this Statement</b>                  | <b>226.1</b> | <b>242.5</b> |

<sup>1</sup> The principal classification changes are described in Annex 2B.



Table 2.2 Relationship between the planning total and the new control total<sup>1</sup>

|  | £ billion            |                              |
|--|----------------------|------------------------------|
|  | Estimated<br>outturn | New plans<br>and projections |
|  | 1992-93              | 1993-94                      |
| <b>Planning total after classification changes</b> | 226.1                | 242.5                        |
| plus Local authority self-financed expenditure     | 10.9                 | 11.1                         |
| less Cyclical social security                      | 13.0                 | 15.5                         |
| less Privatisation proceeds                        | -8.0                 | -5.5                         |
| <b>New control total</b>                           | <b>232.0</b>         | <b>243.8</b>                 |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30).

**2.06** The real growth in the NCT implied by these figures is  $2\frac{1}{4}$  per cent in 1993-94,  $\frac{3}{4}$  per cent in 1994-95 and 1 per cent in 1995-96. Over the three year period, the NCT is planned to grow on average by a little under  $1\frac{1}{2}$  per cent in real terms. The corresponding figure for the previous three years was  $3\frac{1}{4}$  per cent.

**2.07** The Chancellor announced in his oral statement a series of measures to provide a substantial boost to capital spending by both public and private sectors. On the expenditure side these include a temporary relaxation of the local authority capital receipts rules worth around  $\pounds 1\frac{3}{4}$  billion over the Survey period and, in 1992-93, measures to help the housing market.

**2.08** As a result of these measures, capital spending by the public sector will be around  $\pounds 30$  billion in 1992-93. This level will be broadly maintained in 1993-94 and compares with  $\pounds 28\frac{1}{2}$  billion in 1991-92.

**2.09** In addition, there will be important changes in the use of private finance to enable the public and private sectors to work more effectively together, particularly on infrastructure projects.

**2.10** Restraint on current spending has helped make room for protecting capital and services to the public. Pay settlements in the public sector in the coming year will be restricted to a maximum of  $1\frac{1}{2}$  per cent in order to keep pay bills as low as possible.

**2.11** Privatisation proceeds are excluded from the control total. They are projected at  $\pounds 5\frac{1}{2}$  billion in 1993-94,  $\pounds 5\frac{1}{2}$  billion in 1994-95 and  $\pounds 1$  billion in 1995-96.

**2.12** In 1993-94, general government expenditure (GGE), excluding privatisation proceeds, is projected to rise slightly to  $45\frac{1}{2}$  per cent of national income, well below the peaks seen following previous recessions. Thereafter it will resume its downward trend (see Chart 1.1).

**2.13** The forecast outturn for 1992-93 and the new control totals for the three Survey years are shown in Table 2.3, together with projections for expenditure outside the control total, for GGE excluding privatisation proceeds and for the ratio of GGE to GDP (gross domestic product). Fuller details in cash and real terms are in Annex A, Tables 2A.3 and 2A.4. The tables include the cost of the time-limited measures which form part of the supplementary package announced by the Chancellor, mainly in 1992-93 and 1993-94.



**Table 2.3 The new control total and general government expenditure (excluding privatisation proceeds)<sup>1</sup>**

|  | £ million          |                      |                       |                |                  |  |               |               |
|--|--------------------|----------------------|-----------------------|----------------|------------------|--|---------------|---------------|
|  | Outturn<br>1991-92 | Estimated<br>outturn | New plans/projections |                |                  | Changes from previous<br>plans/projections |               |               |
|  |                    | 1992-93              | 1993-94               | 1994-95        | 1995-96          | 1992-93                                    | 1993-94       | 1994-95       |
| Central government expenditure <sup>2,3</sup>                          | 144 537            | 158 700              | 166 100               | 171 600        | 176 400          | 2 700                                      | 0             | -200          |
| Central government support for local authorities <sup>3</sup>          | 53 359             | 58 900               | 58 700                | 62 000         | 64 300           | 500  | 100           | 0             |
| Local authority self-financed expenditure                              | 10 830             | 10 900               | 11 100                | 11 000         | 10 800           | 1 400                                      | 1 000         | 800           |
| Financing requirements of nationalised industries                      | 2 496              | 3 360                | 3 880                 | 1 910          | 1 690            | 0  | 1 050         | -250          |
| Reserve  |                    |                      | 4 000                 | 7 000          | 10 000           | -4 000                                     | -4 000        | -5 000        |
| Adjustment   |                    | 100                  |                       |                |                  | 100  |               |               |
| <b>New control total</b>   | <b>211 222</b>     | <b>232 000</b>       | <b>243 800</b>        | <b>253 600</b> | <b>263 300</b>   | <b>600</b>                                 | <b>-1 900</b> | <b>-4 700</b> |
| Cyclical social security <sup>4</sup>                                  | 11 023             | 13 000               | 15 500                | 16 500         | 17 000           | 1 500                                      | 3 000         | 3 500         |
| Central government debt interest                                       | 16 320             | 17 700               | 20 000                | 24 500         | 27 500           | 100  | 500           | 3 000         |
| Accounting adjustments   | 5 245              | 6 000                | 7 500                 | 8 500          | 9 000            | 0  | 0             | 0             |
| <b>General government expenditure excluding privatisation proceeds</b> | <b>243 810</b>     | <b>268 800</b>       | <b>286 600</b>        | <b>302 500</b> | <b>316 400</b>   | <b>2 300</b>                               | <b>1 600</b>  | <b>1 700</b>  |
| GGE excluding privatisation proceeds as a percent of GDP               | 42                 | 44 $\frac{3}{4}$     | 45 $\frac{1}{2}$      | 45             | 44 $\frac{1}{4}$ |  |               |               |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30).

<sup>2</sup> Excluding cyclical social security.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> United Kingdom.

## Public spending trends

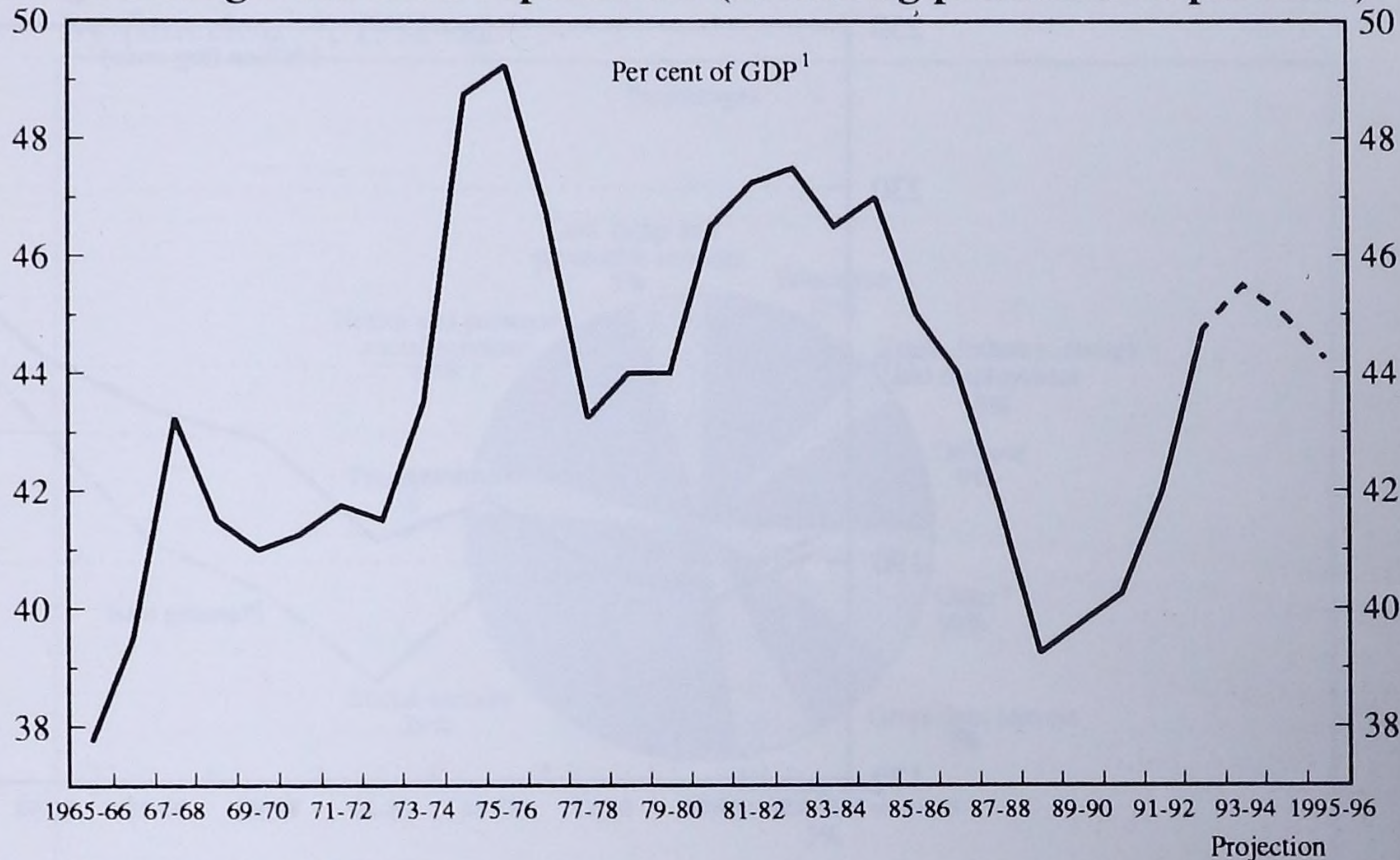
**2.14** The Government's objective for public expenditure is that it should take a declining share of national income over time, while value for money is constantly improved. To meet this objective, public spending needs to grow more slowly over time than the economy as a whole.

**2.15** The public spending objective is expressed in terms of GGE excluding privatisation proceeds. The ratio of GGE to GDP fell sharply between 1984-85 and 1988-89. These were years of exceptionally strong economic growth; real GDP rose by about 18 per cent, while GGE was virtually unchanged in real terms for most of the period (see Chart 2.1).

**2.16** The effect of the cycle has been to increase spending in areas such as social security and to reduce national income relative to trend. This is expected to push up the ratio to 45 $\frac{1}{2}$  per cent in 1993-94, after which it is expected to resume its downward trend. Most of the increase in the ratio is accounted for by lower national income rather than by higher public spending.



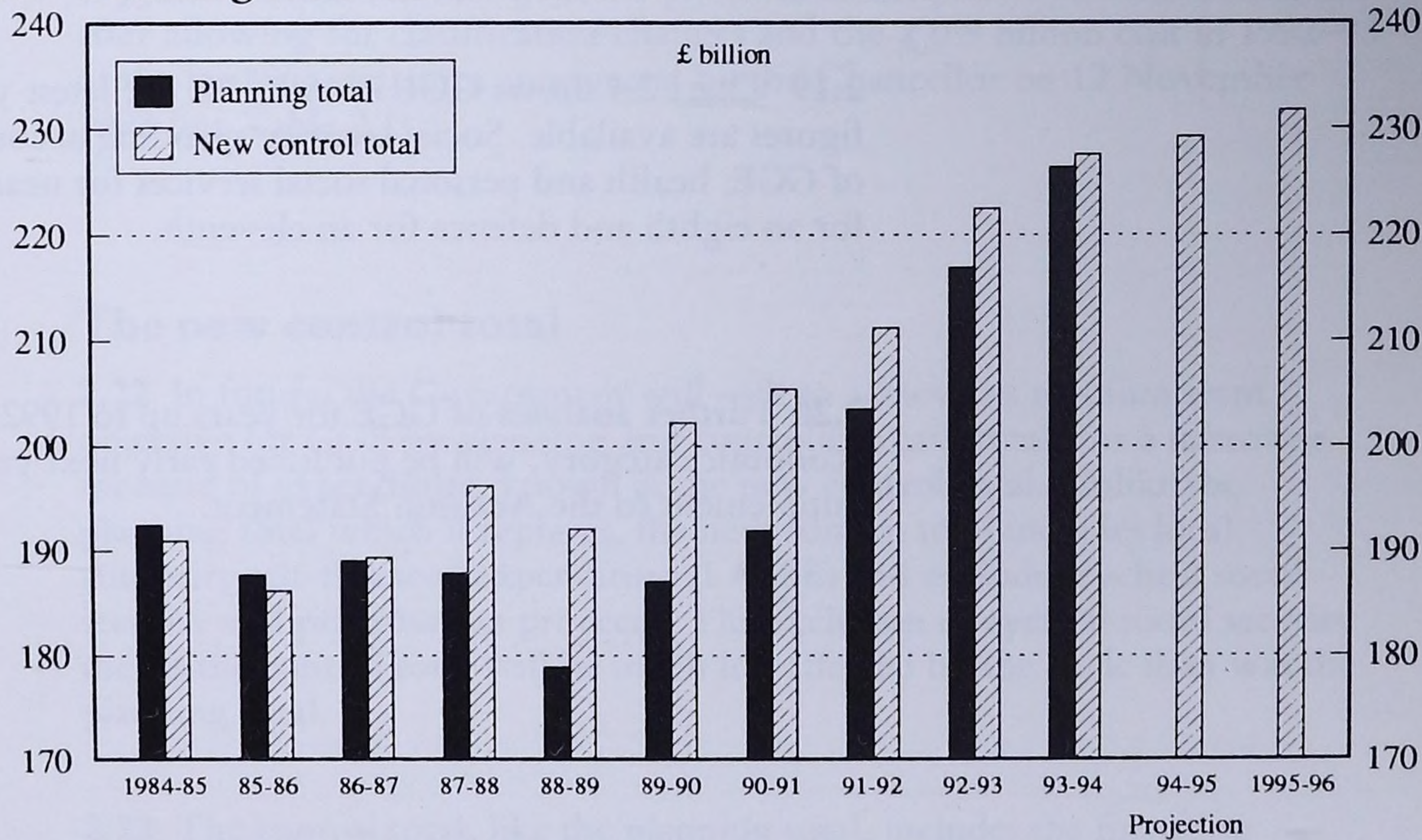
**Chart 2.1 General government expenditure (excluding privatisation proceeds)**



<sup>1</sup> See footnote 2 to Table 2A.1.

2.17 In real terms, GGE excluding privatisation proceeds is expected to grow by  $5\frac{3}{4}$  per cent in 1992-93, and by  $3\frac{3}{4}$  per cent,  $2\frac{1}{4}$  per cent and  $1\frac{3}{4}$  per cent in the three Survey years. Charts 2.2 and 2.3 show how recent growth in the control total is planned to level off over the Survey period.

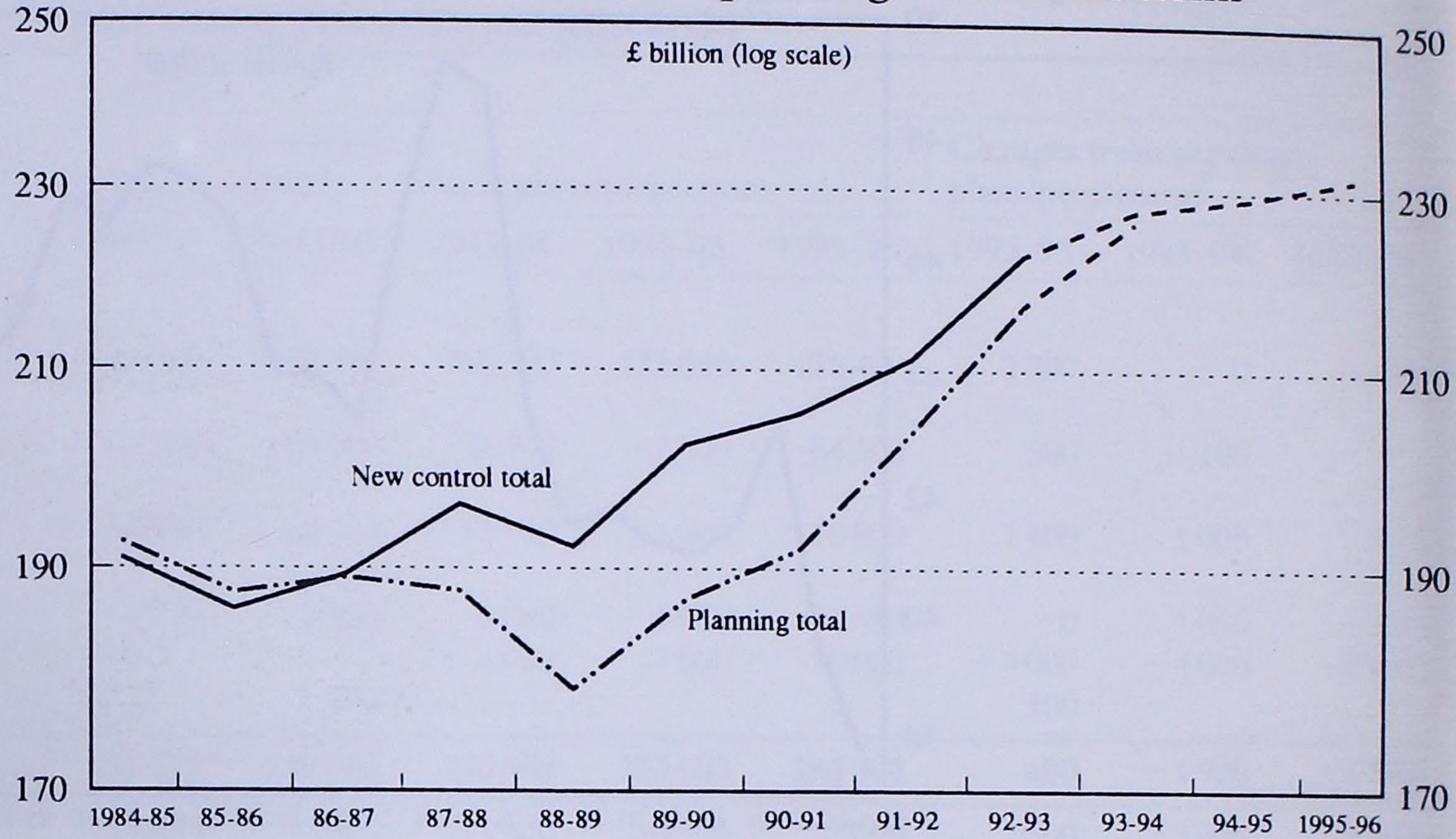
**Chart 2.2 Planning total and new control total in real terms<sup>1</sup>**



<sup>1</sup> Cash figures adjusted to levels of 1991-92. See Annex A.



**Chart 2.3 Trends in new control total and planning total in real terms<sup>1</sup>**



<sup>1</sup> Cash figures adjusted to levels of 1991-92. See Annex A.

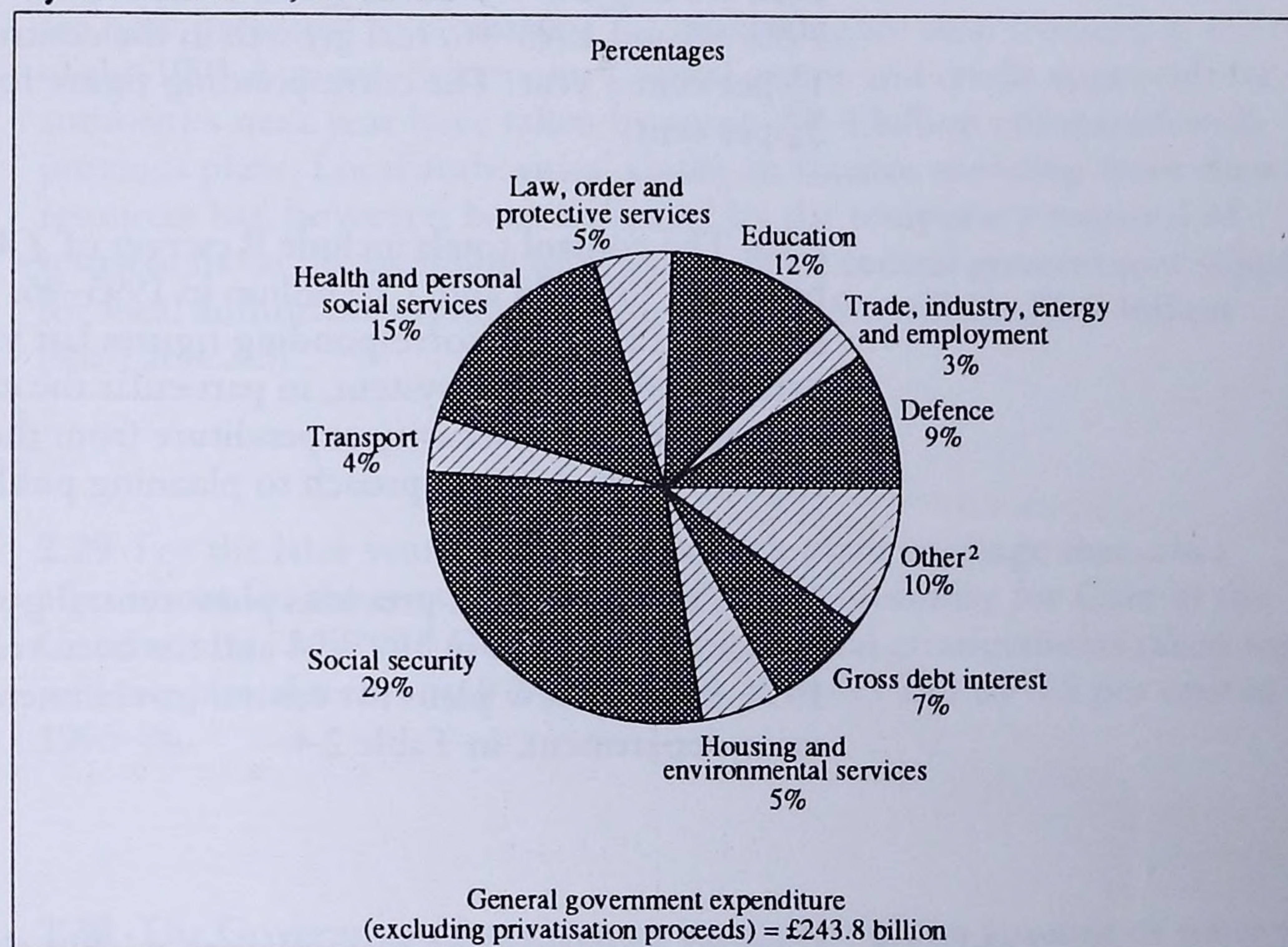
**2.18** Trends in the key public spending aggregates since 1963-64 are set out in cash and real terms in Annex A, Table 2A.1. Comparison of the outturn figures for the ratio in recent years with previous plans is given in Annex A, Table 2A.2.

**2.19** Chart 2.4 shows GGE in 1991-92, the latest year for which outturn figures are available. Social security spending accounts for over one quarter of GGE, health and personal social services for nearly one sixth, education for an eighth and defence for an eleventh.

**2.20** Further analyses of GGE for years up to 1992-93, by function and economic category, will be published early next year in the Statistical Supplement to the Autumn Statement.



**Chart 2.4 General government expenditure (excluding privatisation proceeds): by function<sup>1, 3</sup>, 1991-92**



<sup>1</sup> Territorial departments' expenditure has been allocated to the appropriate function.

<sup>2</sup> Includes national accounts adjustments and expenditure on other functions.

<sup>3</sup> Local authority spending accounts for 26 per cent of the total.

**1992-93 outturn** **2.21** The planning total for the current year, 1992-93, is currently forecast at £226.1 billion, in line with the plans set in last year's Autumn Statement after allowing for classification changes and the £0.8 billion cost in 1992-93 of the housing measures announced by the Chancellor on 12 November 1992 (see Table 2.1).

### The new control total

**2.22** In future, the Government will seek to achieve its medium term objective for GGE by planning and controlling cash totals for a narrower measure of expenditure, known as the new control total. Unlike the planning total which it replaces, the new control total includes local authority self-financed expenditure (LASFE) and excludes cyclical social security and privatisation proceeds. The exclusion of cyclical social security means the control total will be much less affected by the cycle than was the planning total.

**2.23** The control total, like the planning total, includes the financing requirements of nationalised industries and other public corporations and a Reserve. The main components of GGE outside the control total are cyclical social security (defined as unemployment benefit and income support to non-pensioners), privatisation proceeds and debt interest. More details on the control total are given in Annex C.



**2.24** The control totals for the three Survey years 1993–94 to 1995–96 have been set at £243.8 billion, £253.6 billion, and £263.3 billion. Between 1992–93 and 1995–96, real growth in the control total averages a little under 1½ per cent a year. The corresponding figure for the previous three years was 3¼ per cent.

**2.25** The control totals include Reserves of £4 billion in 1993–94, £7 billion in 1994–95 and £10 billion in 1995–96. These are lower in the two later years than the corresponding figures last year, reflecting the changed nature of the control system, in particular the exclusion of the most cyclical elements of social security expenditure from the control total, and the more explicitly top-down approach to planning public expenditure now adopted.

**2.26** Compared with previous plans central government expenditure remains unchanged in 1993–94 and has been reduced by £200 million in 1994–95. The new plans for central government spending are set out, by main department, in Table 2.4.

**Table 2.4 Central government expenditure within the new control total: main departments<sup>1</sup>**

|                                 | £ million            |                |                |                |                |                             |          |              |  |
|---------------------------------|----------------------|----------------|----------------|----------------|----------------|-----------------------------|----------|--------------|--|
|                                 | Estimates of outturn |                | New plans      |                |                | Changes from previous plans |          |              |  |
|                                 | 1991–92              | 1992–93        | 1993–94        | 1994–95        | 1995–96        | 1992–93                     | 1993–94  | 1994–95      |  |
| Social Security <sup>2, 3</sup> | 50 930               | 56 300         | 59 600         | 61 100         | 64 500         | 1 000                       | 400      | – 200        |  |
| Health                          | 25 493               | 28 060         | 29 120         | 30 360         | 31 540         | 520                         | – 40     | – 280        |  |
| Defence                         | 23 015               | 23 800         | 23 520         | 23 750         | 23 220         | – 220                       | – 570    | – 480        |  |
| Territories <sup>2, 3</sup>     | 14 497               | 16 090         | 17 510         | 18 060         | 18 650         | 230                         | 160      | 20           |  |
| Education <sup>3</sup>          | 3 555                | 3 770          | 6 330          | 6 820          | 7 250          | 10                          | 320      | 550          |  |
| Employment                      | 3 209                | 3 210          | 3 350          | 3 340          | 3 390          | 30                          | 170      | 120          |  |
| Other departments               | 23 839               | 27 460         | 26 680         | 28 240         | 27 870         | 1 090                       | – 470    | 60           |  |
| <b>Total</b>                    | <b>144 537</b>       | <b>158 700</b> | <b>166 100</b> | <b>171 600</b> | <b>176 400</b> | <b>2 700</b>                | <b>0</b> | <b>– 200</b> |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30). See Annex E for the composition of each departmental grouping.

<sup>2</sup> Excluding cyclical social security.

<sup>3</sup> Comparisons between 1992–93 and 1993–94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

**Central government support for local authorities**

**2.27** From 1 April 1993, responsibility for the provision of further education will be transferred from local authorities to the Further Education Funding Council. For 1993–94, after adjusting for this transfer, aggregate external finance (AEF) and Council Tax transitional arrangements taken together (for England) are planned to be 3.7 per cent higher than AEF and the Community Charge Reduction Scheme in 1992–93. In addition £539 million will be provided as a special grant within AEF to cover local authorities' new responsibilities for Care in the Community.



**2.28** Payments in 1993–94 of housing benefit, community charge benefit and student grants, together with other current grants not included in AEF, are now projected to be some £1.1 billion higher than foreseen at the time of the 1991 Autumn Statement. Capital grants and credit approvals for local authorities next year have fallen by some £0.4 billion compared with previous plans. Local authorities' ability to finance spending from their own resources has, however, been increased by the temporary removal of restrictions on the spending of receipts. Total central government support for local authorities capital spending in 1993–94 will be £5.9 billion (see Table 2.5).

**2.29** For the later years, the Government's plans envisage that, after adjustment for the continuing transfer of responsibility for Care in the Community, AEF and Council Tax transitional arrangements taken together will rise in real terms by 0.3 per cent in 1994–95 and by 0.5 per cent in 1995–96.

**2.30** The Government has given an indication of the amount of revenue spending it believes would be appropriate for the year ahead. Total Standard Spending in England has been set 3.1 per cent above 1992–93 levels (after allowing for transfers of functions). The Government has also made clear its readiness to make full use if necessary of its powers to cap local authority budgets. Detailed proposals on capping and Total Standard Spending will be announced separately. The Government's new projections for local authority spending, including that financed from the authorities' own resources, are described in paragraphs 2.31 to 2.36.



## 2 Public spending plans

**Table 2.5 Central government support for local authorities<sup>1</sup>**

|   | £ million     |               |               |                    |                    | Changes from previous plans |             |               |
|---|---------------|---------------|---------------|--------------------|--------------------|-----------------------------|-------------|---------------|
|   | Estimates of  |               | New plans     |                    |                    |                             |             |               |
|   | 1991-92       | 1992-93       | 1993-94       | 1994-95            | 1995-96            | 1992-93                     | 1993-94     | 1994-95       |
| <b>Current</b>  |               |               |               |                    |                    |                             |             |               |
| <b>Aggregate External Finance and transitional arrangements<sup>2, 3, 4</sup></b> |               |               |               |                    |                    |                             |             |               |
| England   |               |               |               |                    |                    |                             |             |               |
| National non-domestic rate payments   | 12 408        | 12 310        | 33 520        | 35 360             | 36 980             | 0                           | -570        | -920          |
| Revenue support grant   | 9 674         | 16 680        |               |                    |                    |                             |             |               |
| Specific grants   | 4 129         | 4 160         |               |                    |                    |                             |             |               |
| Community charge grant  | 4 346         | 210           |               |                    |                    |                             |             |               |
| Transitional relief   | 1 003         | 1 020         |               |                    |                    |                             |             |               |
| <b>Total England</b>  | <b>31 560</b> | <b>34 380</b> |               |                    |                    | <b>-170</b>                 |             |               |
| Scotland  |               |               |               |                    |                    |                             |             |               |
| National non-domestic rate payments   | 1 347         | 1 220         | 5 200         | 5 440 <sup>5</sup> | 5 610 <sup>5</sup> | -40                         | -100        | -160          |
| Revenue support grant   | 2 692         | 3 500         |               |                    |                    |                             |             |               |
| Specific grants   | 306           | 330           |               |                    |                    |                             |             |               |
| Community charge grant  | 437           | 20            |               |                    |                    |                             |             |               |
| Transitional relief   | 140           | 100           |               |                    |                    |                             |             |               |
| <b>Total Scotland</b>   | <b>4 922</b>  | <b>5 180</b>  |               |                    |                    | <b>10</b>                   |             |               |
| Wales   |               |               |               |                    |                    |                             |             |               |
| National non-domestic rate payments   | 525           | 540           | 2 340         | 2 460              | 2 580              | 0                           | -50         | -80           |
| Revenue support grant   | 1 236         | 1 620         |               |                    |                    |                             |             |               |
| Specific grants   | 187           | 190           |               |                    |                    |                             |             |               |
| Community charge grant  | 268           | 30            |               |                    |                    |                             |             |               |
| Transitional relief   | 62            | 40            |               |                    |                    |                             |             |               |
| <b>Total Wales</b>  | <b>2 278</b>  | <b>2 420</b>  |               |                    |                    | <b>0</b>                    |             |               |
| <b>Total Aggregate External Finance and transitional arrangements</b>             | <b>38 760</b> | <b>41 970</b> | <b>41 070</b> | <b>43 250</b>      | <b>45 170</b>      | <b>-160</b>                 | <b>-720</b> | <b>-1 160</b> |
| Other current grants <sup>6</sup>   | 8 856         | 10 780        | 11 780        | 13 000             | 13 430             | 600                         | 1 130       | 1 740         |
| <b>Total current</b>  | <b>47 617</b> | <b>52 800</b> | <b>52 900</b> | <b>56 300</b>      | <b>58 600</b>      | <b>400</b>                  | <b>400</b>  | <b>600</b>    |
| <b>Capital</b>  |               |               |               |                    |                    |                             |             |               |
| Capital grants  | 1 334         | 1 600         | 1 650         | 1 490              | 1 520              | 0                           | -50         | -210          |
| Credit approvals  | 4 408         | 4 570         | 4 210         | 4 300              | 4 230              | 50                          | -300        | -400          |
| <b>Total capital</b>  | <b>5 742</b>  | <b>6 170</b>  | <b>5 860</b>  | <b>5 790</b>       | <b>5 750</b>       | <b>50</b>                   | <b>-360</b> | <b>-610</b>   |
| <b>Total</b>  | <b>53 359</b> | <b>58 900</b> | <b>58 700</b> | <b>62 000</b>      | <b>64 300</b>      | <b>500</b>                  | <b>100</b>  | <b>0</b>      |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30).

<sup>2</sup> Aggregate External Finance (AEF) includes revenue support grant, distribution of non-domestic rate revenue and a number of specific grants which fund part of the expenditure on a specific service or activity. The figures for 1991-92 and 1992-93 include payment of the community charge grant which financed the £140 reduction in community charges in 1991-92 announced in the 1991 Budget. 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 area grant and area protection grant).

<sup>3</sup> AEF and transitional arrangements are shown together for future years. For comparison therefore, the community charge reduction scheme is shown together with the components of AEF in 1991-92 and 1992-93.

<sup>4</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities and the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office.

<sup>5</sup> Scottish figures for 1994-95 and 1995-96 are illustrative; final figures will depend on the Secretary of State's decisions on the allocation of resources.

<sup>6</sup> Most 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.



### **Total local authority expenditure including self-financed expenditure**

**2.31** Total local authority spending (including debt interest payments but net of capital receipts) is made up of expenditure financed by local authorities out of their own resources (local authority self-financed expenditure) and the planned level of central government support. As explained in Annex C, local authority self-financed expenditure is included in the control total.

**2.32** In 1992–93 total local authority spending is now expected to be about £69.8 billion. The estimate of outturn is about £1.9 billion above the projection in this year's Budget mainly because of revised information on revenue budgets, a higher level of other current grants and new information on net capital spending (see Table 2.6). Annex A, Table 2A.11, breaks down local authority current and capital expenditure in the UK from 1987–88 to 1992–93 by territory.

**2.33** The level of total local authority expenditure in future years will continue to be substantially for local authorities themselves to decide, in the light of central government support, finance available from their own resources and, in particular, the implications for local taxation. The Government will, however, make full use of its powers to cap local authorities' revenue budgets if this is required.

**2.34** The new projection for total local authority expenditure next year is some £1 billion above the projection in this year's Budget. For 1994–95, the new projection is some £0.8 billion higher. These changes reflect the higher than expected levels of local authority budgets, revised information on capital spending and the relaxation of the capital receipts rules (see paragraphs 2.37 and 2.38 below).

**2.35** The projections for local authority self-financed expenditure are higher by some £1 billion in 1993–94 and £0.8 billion in 1994–95 than the corresponding figures published at Budget time. These changes result from the relaxation of the capital receipts rules and revised information on the outturn for 1992–93 which has been projected forward.

**2.36** Gross capital expenditure by local authorities in 1993–94 is assumed to be around £9½ billion. Capital receipts, mainly from council housing sales, are projected to be around £2¾ billion, giving net capital expenditure in 1993–94 of £6¾ billion. These projections take into account the increase in both receipts and gross capital expenditure expected as a result of the relaxation of the local authority capital receipts rules.

**2.37** A significant proportion of local authority capital expenditure is financed by receipts from the sale of capital assets. At present, in England and Wales, 25 per cent of the proceeds of housing sales and 50 per cent of the proceeds of most other asset sales may be spent on capital projects; the balance must be set aside for debt redemption. This requirement is suspended from 13 November 1992 to 31 December 1993. Local authorities will be able to spend 100 per cent of new receipts which they receive during this period on capital investment, for example in housing, schools, roads, environmental projects, social services and other facilities.

**2.38** The additional gross capital expenditure created by this measure is expected to be around £200 million in 1992–93, £1,000 million in 1993–94, £450 million in 1994–95 and £200 million in 1995–96.



**Table 2.6 Local authority expenditure<sup>1</sup>**

|   | £ million               |         |                       |         |         |  |         |         |
|---|-------------------------|---------|-----------------------|---------|---------|--|---------|---------|
|   | Estimates of<br>outturn |         | New plans/projections |         |         | Changes from previous<br>plans/projections |         |         |
|   | 1991-92                 | 1992-93 | 1993-94               | 1994-95 | 1995-96 | 1992-93                                    | 1993-94 | 1994-95 |
| <b>Central government<br/>support for local<br/>authorities<sup>2</sup></b> | 53 359                  | 58 900  | 58 700                | 62 000  | 64 300  | 500  | 100     | 0       |
| <b>Local authority self-<br/>financed expenditure</b>                       | 10 830                  | 10 900  | 11 100                | 11 000  | 10 800  | 1 400                                      | 1 000   | 800     |
| <b>Total local authority<br/>expenditure<sup>2</sup></b>                    | 64 189                  | 69 800  | 69 800                | 73 000  | 75 100  | 1 900                                      | 1 000   | 800     |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30).

<sup>2</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities and the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office.

**Nationalised industries** 2.39 Provision for nationalised industries' external financing requirements is shown in Annex A, Table 2A.10.

### Value for money

2.40 All public services must make the best use of resources available to them. Citizens, as both customers and taxpayers, are entitled to expect high-quality services which are responsive to their needs, provided efficiently and at affordable cost.

2.41 The Citizen's Charter (Cm 1599, July 1991) set out a programme for raising the standard of public services by finding more effective and efficient ways of delivering those services. A further white paper to be published shortly will report on progress and future developments. The white paper *Competing for Quality* (Cm 1730, November 1991) set out how the Government is extending competition across the public services through market testing in order to secure better performance. The second Citizen's Charter white paper will include market testing targets for individual departments.

2.42 The Next Steps initiative is a vital means of ensuring that executive functions remaining in government can be delivered as effectively as possible. The 1992 Annual Review of Next Steps, to be published shortly, will set out the progress achieved so far by the existing 75 agencies in meeting key targets covering quality of service, efficiency and finance. More agency candidates are in the pipeline. The case for privatising or contracting out a function is examined before an agency is set up and regularly reviewed thereafter.

2.43 Throughout the public services there is increasing emphasis on results and on making individual managers more accountable for them. Performance-related pay and the delegation of pay are being extended. Internal markets are being developed. Purchasing skills and techniques are being improved. Departmental planning and control systems are increasingly concentrating on strategic matters. For local authorities and the NHS, the Audit Commission is helping to identify savings opportunities and spread best practice.



### Public sector pay

**2.44** The public expenditure plans take account of the decision that public sector pay settlements in the coming year will be restricted to between 0 and 1½ per cent to keep the growth in public sector paybills as low as possible. Without pay restraint, there would be less room for programmes, including the provision of services and capital projects, to help promote recovery and longer-term prosperity, within an overall total for public expenditure that the country can afford. In the expenditure plans, pay restraint will release sums of the order of £1½ billion in 1993–94 with similar effects on the paybill in future years. This policy will apply to the whole of the public sector and related bodies without exception regardless of whether the normal method for settling pay is by negotiation, or by applying a formula, or by reference to recommendations of a review body.

**2.45** The constraint will apply to all offers made by public sector managers from 12 November 1992. Any formal offers which have already been made will be honoured. The constraint will last for one year until it has been applied to all public sector groups.

**2.46** Policy on public sector pay for future years will depend on a wide range of economic and other factors, including the development of performance pay and more decentralised pay arrangements. But the Government could not accept that a year of pay restraint should be followed by a series of catching-up settlements which would dissipate the benefits achieved. The Government will continue to pursue its long term objectives of increasing flexibility within public sector pay systems and of strengthening the link between performance and pay.

### The new plans: departmental detail

**2.47** The following paragraphs briefly describe the new plans for each department. The departmental reports to be published in the first half of February 1993 will give more details and will also include information on the output and performance of departmental programmes.

**2.48** Table 2.7 analyses the control totals by department. Central government support for local authorities and the financing requirements of nationalised industries have been attributed to appropriate departments. The entry for the Department of the Environment includes payments of Revenue Support Grant and National Non-Domestic Rates to English local authorities. These finance, at local authorities' discretion, a range of local services, including education, social services and other environmental services. Details of central government support for local authorities by department are shown in Annex A, Table 2A.9.

**2.49** Table 2.7 also includes the external financing limits (EFLs) for the nationalised industries, set out separately in Annex A, Table 2A.10, and public corporations, totals for which are shown in Annex A, Table 2A.7.

**2.50** Spending by each department since 1987–88 is set out in Annex A, Table 2A.5 (cash terms) and 2A.6 (real terms).



Table 2.7 New control total by department<sup>1</sup>

|   | £ million            |                |                |                |                |                             |               |               |
|---|----------------------|----------------|----------------|----------------|----------------|-----------------------------|---------------|---------------|
|   | Estimates of outturn |                | New plans      |                |                | Changes from previous plans |               |               |
|   | 1991-92              | 1992-93        | 1993-94        | 1994-95        | 1995-96        | 1992-93                     | 1993-94       | 1994-95       |
| Defence                                   | 23 015               | 23 800         | 23 520         | 23 750         | 23 220         | -220                        | -570          | -480          |
| Foreign Office                            | 1 133                | 1 360          | 1 220          | 1 210          | 1 220          | 200                         | 0             | -10           |
| Overseas Development                      | 1 991                | 2 250          | 2 270          | 2 310          | 2 360          | 100                         | 0             | -30           |
| Agriculture, Fisheries and Food           | 2 219                | 2 280          | 2 820          | 2 930          | 3 110          | 60                          | 590           | 630           |
| Trade and Industry                        | 1 880                | 1 650          | 2 590          | 1 130          | 1 060          | 120                         | 1 220         | -230          |
| ECGD <sup>2</sup>                         | 216                  | 110            | -30            | -60            | -30            | 0                           | -110          | -100          |
| Employment                                | 3 636                | 3 640          | 3 740          | 3 700          | 3 730          | 70                          | 170           | 90            |
| Transport                                 | 5 354                | 6 750          | 6 430          | 6 070          | 5 860          | -130                        | -270          | -150          |
| DOE—Housing                               | 7 729                | 8 610          | 7 880          | 8 190          | 8 190          | 880                         | -40           | 10            |
| DOE—Environment                           | 1 307                | 1 560          | 1 440          | 1 210          | 1 130          | 280                         | 230           | 20            |
| DOE—PSA                                   | 52                   | 60             | 120            | 20             | 50             | -10                         | 80            | 10            |
| DOE—Local government <sup>3</sup>         | 28 177               | 30 880         | 29 380         | 30 900         | 32 560         | -150                        | -520          | -750          |
| Home Office                               | 5 573                | 5 970          | 6 120          | 6 330          | 6 490          | 140                         | -10           | -70           |
| Legal departments                         | 2 000                | 2 400          | 2 590          | 2 780          | 2 940          | 280                         | 380           | 490           |
| Education <sup>3</sup>                    | 6 342                | 6 980          | 9 520          | 10 120         | 10 500         | 160                         | 300           | 470           |
| National Heritage                         | 889                  | 1 020          | 990            | 1 010          | 1 040          | 50                          | -30           | -30           |
| Health <sup>3</sup>                       | 25 657               | 28 280         | 29 880         | 31 240         | 32 300         | 520                         | 120           | -260          |
| Social Security <sup>3, 4</sup>           | 54 722               | 61 200         | 65 000         | 67 100         | 70 800         | 1 300                       | 900           | 600           |
| Scotland <sup>3</sup>                     | 11 744               | 12 670         | 13 450         | 13 960         | 14 400         | 110                         | 70            | -30           |
| Wales <sup>3</sup>                        | 5 307                | 6 020          | 6 300          | 6 560          | 6 750          | 50                          | -50           | -80           |
| Northern Ireland <sup>4</sup>             | 5 984                | 6 580          | 6 910          | 7 100          | 7 340          | 60                          | 50            | -50           |
| Chancellor's departments                  | 3 394                | 3 560          | 3 390          | 3 560          | 3 650          | -30                         | -240          | -200          |
| Cabinet Office—OPSS                       | 1 060                | 1 140          | 1 250          | 1 320          | 1 350          | 10                          | -10           | -30           |
| Cabinet Office—other, etc                 | 349                  | 450            | 480            | 480            | 490            | 10                          | 10            | 0             |
| Local authority self-financed expenditure | 10 830               | 10 900         | 11 100         | 11 000         | 10 800         | 1 400                       | 1 000         | 800           |
| European Communities                      | 662                  | 1 770          | 1 410          | 2 650          | 2 000          | -690                        | -1 160        | -260          |
| Reserve                                   |                      |                | 4 000          | 7 000          | 10 000         | -4 000                      | -4 000        | -5 000        |
| Adjustment                                |                      | 100            |                |                |                | 100                         |               |               |
| <b>New control total</b>                  | <b>211 222</b>       | <b>232 000</b> | <b>243 800</b> | <b>253 600</b> | <b>263 300</b> | <b>600</b>                  | <b>-1 900</b> | <b>-4 700</b> |

<sup>1</sup> For definitions, rounding and other conventions, see notes in Annex A (page 30). See Annex E for the composition of each departmental grouping.

<sup>2</sup> Changes from previous plans reflect lower interest rates.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> Excluding cyclical social security.

## Defence

**2.51** The Government's aims for defence are to ensure the security and freedom of the nation. Its strategy is based on the ability to adapt to change both internationally and in NATO, the maintenance of force structures with the flexibility and mobility to respond to new circumstances, and the continuing pursuit of value for money.

**2.52** The estimated outturn for defence in 1992-93 is a little lower than previous plans, largely due to slower than expected progress on a range of procurement and works projects.



**2.53** Defence expenditure will continue to fall in real terms. Over the next few years the benefits of the Options for Change review will be secured; and some further savings will be made consistent with the policy underlying Options. The Government retains its commitment to armed forces which, while smaller in number are well equipped, properly manned, housed and supported.

**2.54** The reductions of £570 million and £480 million which have been made in 1993–94 and 1994–95 respectively reflect the effect of lower pay and inflation. Some changes will also be needed in commitments and capabilities in the light of the evolving security climate.

**2.55** Excluding expenditure on the Gulf conflict, the reduction in defence expenditure between 1990–91 and 1995–96 is 11 per cent in real terms. As a percentage of GDP, but excluding all Gulf-related costs, expenditure is expected to fall from 3.9 per cent in 1992–93 to 3.2 per cent in 1995–96.

### Foreign Office

**2.56** The Foreign and Commonwealth Office (Diplomatic Wing) is responsible for advising on foreign policy and representing the UK overseas. The new spending plans are now set at £1,220 million in 1993–94, £1,210 million in 1994–95 and £1,220 million in 1995–96.

### Overseas Development

**2.57** The Overseas Development Administration's spending covers aid to developing countries, assistance to the countries of central and eastern Europe and the former Soviet Union, global environment assistance and overseas superannuation. Spending in 1995–96 will be nearly 10 per cent higher than planned spending in 1992–93, or 0.7 per cent in real terms. UK aid through multilateral channels will continue to grow.

**2.58** Aid to developing countries will increase by 3.5 per cent in 1993–94 to £1,900 million (a rise of 0.8 per cent in real terms) compared with 1992–93 plans. Britain's recognised high-quality aid programme will continue to focus on sustainable economic growth and social development, on the reduction of poverty and on promoting good government.

**2.59** A significant increase in provision has been made for the countries of central and eastern Europe and the former Soviet Union. Planned provision will grow by £143 million to £331 million between 1992–93 and 1995–96, to provide for the continuation of bilateral Know-How Funds, and to fund contributions to the European Bank for Reconstruction and Development and European Community aid.

### Agriculture, Fisheries and Food

**2.60** The department's main aims are to create the conditions in which efficient agriculture, fisheries and food industries can flourish, to prevent flooding and coastal erosion, to enhance the rural and marine environment, to protect farm animals, to protect the public by promoting food safety, taking action on animal diseases transmissible to man and protecting essential supplies.

**2.61** Spending on agriculture is to a large extent determined by the European Community's Common Agriculture Policy (CAP). A major reform of the CAP was agreed by EC agriculture ministers in May 1992, aimed at promoting a more market-oriented agriculture industry and curbing overproduction. Overall these changes, which include substantial



price reductions for a number of commodities, are expected to reduce significantly the cost of the CAP to consumers and to produce a net economic benefit to the UK after taking into account substantially increased public expenditure on the agriculture programme. The higher level of expenditure reflects significantly increased direct payments to farmers, intended to compensate them for reduced support prices. There are also increases in the sterling value of CAP subsidies in the UK as a result of the recent exchange rate changes, but reductions because of other market factors.

**2.62** There are a number of increases and reductions to the domestic agriculture element of the programme, including increased provision in respect of forecast expenditure on compensation for slaughter of animals under the bovine spongiform encephalopathy (BSE) control programme.

### Trade and Industry

**2.63** The Department of Trade and Industry's (DTI) main aim is to encourage wealth creation through a competitive and open economy. To this end the DTI works to ensure that markets at home and abroad are open, fair and competitive, to see that UK business is best placed to take full advantage of market opportunities and to champion all those involved in wealth creation.

**2.64** DTI's spending plans are consistent with these objectives. The President of the Board of Trade's initiative to reorganise the structure of the department to match industry more closely, implemented in July 1992, will help DTI to identify and deal with industry's concerns more effectively. DTI's objectives will continue to be pursued across a wide range of programmes in support of industry, including the programmes of the previous Department of Energy. But last year's plans for some budgets have had to be constrained, to find the savings needed as DTI's contribution to keeping a firm grip on the public expenditure total.

**2.65** Provision is also made for the external financing limits (EFLs) of British Coal, British Shipbuilders, Nuclear Electric and the Post Office. The precise figures for British Coal will be reassessed following the coal review. The increase of £1,400 million above previous plans in 1993-94 reflects provision being made, on a prudent basis, for higher restructuring and/or operating costs than previously assumed. The plans also involve an increase in the cash surpluses of Nuclear Electric and the Post Office. The Post Office figures take account of the proposed sale of Parcelforce.

**2.66** The spending plans of the Office of Fair Trading (OFT), the Office of Telecommunications (OFTTEL) the Office of Gas Supply (OFGAS) and the Office of Electricity Regulation (OFFER) have been reviewed in the light of the tighter public expenditure environment. All these plans have been scaled down accordingly, although the increased workload likely to arise from the Competition and Service (Utilities) Act 1992 has also been taken into account.

### Export Credits Guarantee Department

**2.67** The department provides credit insurance facilities for UK exports. 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 changes in the estimated cost of interest support.



**Employment** 2.68 The department provides a wide range of measures offering training for young people and the unemployed and other help to prepare for work, find jobs or set up a business. The measures are delivered mainly by Training and Enterprise Councils or the Employment Service. The new plans provide for total spending by the department of £3,740 million in 1993–94. This includes some national programmes, although the Scottish and Welsh Offices have separate provision for the main training and enterprise programmes.

2.69 The plans allow for an increase in the proportion of school leavers expected to enter youth training, the introduction of a new adult training and work experience programme (Training for Work), and a big increase in Employment Service measures to help the unemployed find jobs.

**Transport** 2.70 The department's aims are to provide a safe, cost-effective and environmentally friendly road and public transport system. Spending on national roads in 1993–94 and 1994–95 remains at the levels set out in the previous plans. The Government remains committed to the roads programme. Investment in trunk roads and motorways will more than double from £1,000 million in 1988–89 to £2,059 million in 1995–96.

2.71 The department's programme also includes credit approvals and capital grants in support of local authorities' capital spending on improving the local road network and other transport facilities. Central government support for spending on local roads will fall by £31 million in 1993–94 and by £51 million in 1994–95 in relation to previous plans. However, local authority capital programmes will benefit from the relaxation of the capital receipts rules (see paragraphs 2.37 and 2.38). Support for local public transport is unchanged in relation to previous plans.

**Transport—nationalised industries** 2.72 The departmental totals also include the external financing limits (EFLs) of three nationalised industries—British Rail (BR), London Transport (LT) and the Civil Aviation Authority (CAA). BR's EFL is increased by £130 million over previous plans for 1993–94 and by £100 million in 1994–95. This should enable BR to finance investment of over £1 billion in 1993–94, and a total of around £3 billion in the Survey years. This will include new rolling stock to complete the £800 million programme to modernise services for inner Kent commuters, and completion of the £1.4 billion project for new passenger services through the Channel Tunnel. The new plans for LT are for EFLs of £1 billion in 1993–94, £960 million in 1994–95 and £950 million in 1995–96. This should allow investment in excess of £1 billion in each of the plan years, higher than at any time in the past 20 years. This includes provision for the completion of the £750 million modernisation of the Central Line and for the start of main construction work on the £1.9 billion Jubilee Line extension, subject to the satisfactory completion of negotiations.

**DOE—Housing** 2.73 The principal long term objective of the Government's housing policy is to put a decent home within reach of every family through expanding the opportunities for home ownership and through widening the choice of rented accommodation.



**2.74** Together with the package of housing market measures (see paragraphs 2.76 and 2.77) the plans will enable the Housing Corporation's capital programme to support the provision of more than 153,000 additional social rented homes by housing associations between 1992–93 and 1994–95.

**2.75** Resources for local authority capital spending on housing have been reduced from last year's plans, but local authorities will benefit substantially from a relaxation of the rules governing the spending of their capital receipts (see paragraphs 2.37 and 2.38).

**2.76** Substantial resources are to be provided in 1992–93 for spending on a package of housing market measures. The funds will mainly be used to reduce the number of empty properties in the owner-occupied market while at the same time adding to the stock of social rented housing.

**2.77** A total of £577 million will be made available to housing associations in England through the Housing Corporation to finance the purchase of existing satisfactory properties for letting. £50 million will be provided for Cash and Tenants Incentive Schemes to provide grants for housing association and local authority tenants to purchase homes on the open market. A further £123 million is to be divided between Scotland, Wales and Northern Ireland for similar housing measures and other capital projects.

### **DOE—Environment**

**2.78** This programme covers a wide range of services, mainly for environmental protection, countryside and nature conservation and inner cities, and a number of local authority services.

**2.79** The new plans provide for additional resources for round two of City Challenge while expenditure on Urban Development Corporations and the Urban Programme is to fall over the period. Substantial additional provision has been made to facilitate the take-up of European Regional Development Fund (ERDF) grants. There are reductions in expected New Towns and Property Holdings receipts compared with previous plans.

### **DOE—PSA Services**

**2.80** The settlement reflects the continuing redundancy programme and a reduction in trading receipts by the public sector which will result from the planned privatisation of PSA Projects and the five building management businesses.

### **Home Office**

**2.81** The department's main aims include combating crime cost-effectively by providing for the needs of the police, prisons, and probation services and operating a firm and fair system of immigration control. Central government expenditure will increase in 1993–94 by some £40 million on previous plans. This will allow for increases in compensation payments for criminal injuries, additional prison accommodation and new measures to divert offenders from custody. Provision for immigration, and central police and other services, is reduced.

**2.82** Provision for local authorities in 1993–94 will be some £50 million lower than in previous plans. The main reductions are in support of current spending. The sums for probation provide for the implementation of the Criminal Justice Act 1991.



**Legal Departments** 2.83 The programme covers spending on the Lord Chancellor's Department, Northern Ireland Court Service, Crown Prosecution Service, Serious Fraud Office, Treasury Solicitor's Department, Land Registry, Public Records Office, and Crown Office (Scotland). These departments are collectively responsible for the administration of justice, prosecution of criminal cases, provision of legal advice to government, land registration and maintenance of records.

2.84 Provision has been adjusted within the programmes and has been increased overall by £380 million in 1993-94, which is mainly accounted for by legal aid. The plans take account of the Government's policy for reform of legal aid through better targeting of eligibility, standard fees for criminal cases, prescribed hourly rates for civil cases and franchising. These reforms will combine quality control beneficial to clients and speedier and more certain payment for lawyers with value for money for the taxpayer. The plans also allow for the effect on the Crown Prosecution Service of new legislation, such as the Road Traffic Act 1991.

**Education** 2.85 The programme covers spending on further and higher education in England, grant-maintained schools and city technology colleges, and support for local authorities' capital spending through credit approvals.

2.86 Further education and sixth form colleges will be transferred out of local authority control in April 1993. The funding provided will finance efficient growth in student numbers of 25 per cent between 1992-93 and 1995-96. Recurrent funding for higher education institutions from fees and grant will increase by 7.3 per cent between 1992-93 and 1993-94. The value of support available to each student from loans and maintenance grants will be maintained in real terms. These increases should enable the proportion of young people entering higher education next year to remain at its present record level, whilst allowing institutions a period of consolidation following the successful rapid expansion of student numbers in recent years.

2.87 Provision for grant-maintained schools will rise by £90 million in 1993-94, £230 million in 1994-95, and £380 million in 1995-96 to finance the Government's policy set out in the White Paper "Choice and Diversity". The Government's expectation remains that most secondary schools and a significant proportion of primary schools will have become grant-maintained over the Survey period. Allowing for the use of receipts by local education authorities, Government provision will make it possible for gross capital expenditure on schools in 1993-94 to be maintained at least at the same level in real terms as in 1992-93.

**National Heritage** 2.88 The Government's aims are to encourage public appreciation of the arts, participation and the pursuit of excellence in sport, and preservation of our national heritage. Provision will enable the completion of the new British Library building at St Pancras, the underpinning of the new Sportsmatch scheme and some additional help to the British Film industry.

**Health** 2.89 The programme covers spending on the National Health Service and personal social services in England, and the Office of Population, Censuses and Surveys (OPCS).



**2.90** Provision for the programme as a whole will be £29.9 billion<sup>1</sup> in 1993–94, an increase of £2.1 billion over 1992–93 plans. Cash provision for the NHS in England will be £1.6 billion higher in 1993–94 than in 1992–93 plans (3 per cent higher in real terms). Cash provision for the NHS in the UK as a whole is likely to rise by £1.9 billion.

**2.91** Total current spending on hospital and community health services (HCHS) in England is planned to rise from £19.3 billion on 1992–93 forecast outturn to £20.1 billion in 1993–94 (an increase of 1.1 per cent in real terms). Hospitals will treat more patients than ever before, and the rationalisation of London's health services will begin. HCHS capital spending will be maintained in real terms. Provision for the family health services allows for forecast demand. There are additional funds for centrally financed services and for targeted payments to local authorities, in particular £539 million as a special grant for community care. Spending on the OPCS will decline from £41 million in 1992–93 to £33 million in 1993–94, reflecting the run down after the 1991 census.

### Social Security

**2.92** The programme provides for social security benefits (including local tax rebates), except rent rebates in England and Wales, and for the cost of paying benefits and collecting contributions. The plans allow for the higher benefit rates from April 1993 announced by the Secretary of State on 12 November. Changes in planned spending on cyclical social security are described in paragraph 2.107.

**2.93** The plans take account of the 1992 Budget decision to increase benefits for less well off pensioners. There are also a small number of carefully targeted additions to expenditure, including a 12 per cent increase in gross provision for the social fund. The plans include savings of over £1 billion over the Survey period from measures which do not affect legitimate claimants' entitlements, including greatly increased anti-fraud activity. Provision for administration has also been increased, to maintain service to the public, partly financed by efficiency improvements. Over £3½ billion has been transferred to other programmes for the implementation of the new community care arrangements in April 1993, as the Secretary of State for Health announced on 2 October 1992.

**2.94** The plans allow for revised estimates of the number of beneficiaries, and provide for further uprating of benefits in April 1994 and April 1995. The assumptions used for benefit upratings, and for unemployment, are set out in Annex D.

### Scotland, Wales and Northern Ireland

**2.95** The net changes in these programmes mainly reflect the effects of changes in comparable programmes for England. The population-based formulae used to determine those consequential changes have, however, been updated in the light of the 1991 census. As in past years, with the exception of the AEF settlements in Scotland and Wales which have already been announced, 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 purposes of this Statement, a notional split between and within spending programmes has been assumed taking account of the pattern of expenditure in 1992–93.

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<sup>1</sup> All figures exclude sums of £407 million in 1992–93 and £674 million in 1993–94 which represent the interest payments which are made to the Consolidated Fund by NHS trusts and which are not part of the control total.



- Chancellor's departments** **2.96** The bulk of the spending on the Chancellor's departments is accounted for by the Inland Revenue and Customs and Excise. The new plans for the Chancellor's departments include substantial savings on running costs and continuing efficiency gains. Estimates of expenditure by the Inland Revenue on payments of life assurance premium relief and mortgage interest relief to non-taxpayers have been reduced. Resources for the Inland Revenue to process claims for repayment of tax on bank and building society interest have been reduced in the light of new forecasts of the number of claims.
- Office of Public Service and Science** **2.97** The programme covers spending on basic and strategic research, central co-ordination and development of the Citizen's Charter initiative, improving management in central Government, and the provision of services to Government and the wider public sector.
- 2.98** Provision for the Research Councils will be £1,170 million in 1993-94, including £125 million of expenditure on research projects in universities, which is now channelled through the Research Councils rather than the Higher Education Funding Councils, and £6 million of EC receipts and non-voted expenditure on the Institution of Plant Science Research. Excluding these factors the Science Budget will be about 1 per cent higher in real terms than in 1992-93. Extra provision of around £8.5 million a year has been made available for central work on the Citizen's Charter.
- European Community** **2.99** Net payments are lower compared with the previous forecast because of a reduction in the UK's gross contributions as a consequence of a lower forecast of agricultural expenditure and a lower UK contribution share than previously forecast. In addition, the Government expects substantially higher agricultural guarantee receipts as a consequence of CAP reform. The uneven profile results from the timing of adjustments to the UK contributions, mainly because contributions are paid on the basis of agreed estimates and adjusted in the light of outturn, and from subsequent corrections to the UK's abatement.
- Science and technology** **2.100** In total, planned central government spending on civil science and technology, excluding launch aid, should rise from under £3.4 billion in 1992-93 to over £3.7 billion by 1995-96—a modest increase in real terms over the Survey period.
- Running costs** **2.101** The departmental plans described above incorporate running costs including, for the first time, the accruing pension costs of all civil servants. In aggregate, running costs, gross of receipts, will be £20.5 billion in 1993-94—broadly the same as the forecast outturn for 1992-93. The plans for 1994-95 and 1995-96 include £20.8 billion and £21.1 billion respectively for running costs. The figures reflect a reduction in pension charges from 17.0 per cent of pensionable paybills in 1992-93 to 13½ per cent in 1993-94 and efficiency savings exceeding 1½ per cent a year. The share of the control total set aside for running costs will fall from 8.9 per cent in 1992-93 to 8.0 per cent by 1995-96.
- Capital spending** **2.102** Plans for capital spending in 1993-94 are inevitably uncertain at this stage, because final decisions have not yet been taken on the allocation of provision in a number of areas. Detailed plans for capital expenditure by central government and nationalised industries will be published in the Supplement.



**2.103** It is estimated that general government asset creation in 1993–94 has been increased as a result of the decisions announced in the Autumn Statement. Increases in local authority capital spending in response to the relaxation of the capital receipts rules have more than offset reductions in central government capital spending and capital grants and credit approvals to local authorities. The change in central government capital spending reflects reductions in government funding of housing associations, which are expected to be offset by an increase in finance from the private sector.

**2.104** The prospects for nationalised industries' internal resources have been worsened by the recession. The effect of this on investment will depend partly on decisions taken by the industries themselves, but it is estimated that asset creation in 1993–94 will be around £3 billion.

**2.105** In accordance with national accounts conventions, general government expenditure is measured net of receipts from sales of land and existing buildings. Estimated receipts by central government in 1993–94 of £½ billion are deducted from the relevant programmes. Local authority receipts, mainly from right to buy sales, are projected to be some £2½ billion in 1993–94, around the average of the last three years. Details are given in Annex A, Table 2A.13.

### Other public expenditure

**2.106** In addition to expenditure within the control total, general government expenditure also includes cyclical social security, privatisation proceeds and debt interest (see Table 2.3). The following paragraphs describe the projections of these items, which are needed to provide a path for GGE in the three Survey years. Details of the other technical adjustments needed to relate the control total to GGE (national accounts adjustments) will be set out in the Supplement which will be published early next year.

**Cyclical social security** **2.107** For the purposes of the new public expenditure control arrangements, cyclical social security has been defined as unemployment benefit and income support paid to non-pensioners. Planned spending on cyclical social security for 1993–94 is 16 per cent higher in real terms than 1992–93. The average annual growth in the three years to 1995–96 is 9¼ per cent. These plans are based on the assumptions for the RPI and the number of unemployed people set out in Annex D.

**Privatisation proceeds** **2.108** Privatisation proceeds are estimated to be £5½ billion in 1993–94, £5½ billion in 1994–95 and £1 billion in 1995–96.

**Debt interest** **2.109** General government gross debt interest is projected to rise from £17 billion in 1991–92 to about £28 billion in 1995–96. Gross debt interest payments declined as a proportion of GDP from 5¼ per cent in 1981–82 to about 3 per cent in 1991–92. But with the public finances moving into deficit in recent years debt interest payments are projected to rise to about 4 per cent by 1995–96.

**2.110** Annex Table 2A.12 shows the totals for gross and net general government debt interest.



### **Private finance**

**2.111** Changes have been made to the arrangements for privately raised finance. The objective is to find new ways of mobilising the private sector to meet needs which have traditionally been met only by the public sector. The new arrangements are based on risk, which needs genuinely to be borne by the private sector.

**2.112** In future, if the private sector is wholly responsible for a project which needs Government approval and can recoup all its costs by charges at the point of use, comparison with a theoretical public sector alternative will not be needed. Such a project will normally be put to competition. Under the current rules a comparison has generally been required if a project is one which the Government might have undertaken itself.

**2.113** Secondly, the Government will actively encourage the private sector to take the lead in joint ventures. Participation by the private sector will be let by competition. The Government will specify its contribution in terms of money and risk. It is willing to consider debt and grant finance for such projects. If it takes an equity stake, it will not be a controlling one.

**2.114** Thirdly, the public sector will have greater opportunity to use leases where they offer best value for money. The capital value of leased assets apart from property is at present usually offset against spending allocations unless the lease meets only a short-term need. In the future, the criterion will in all cases be based on risk, which is also the principle underlying the relevant accounting standard. Departments and nationalised industries will be able to enter into operating leases and count only the leasing payment against their provision, provided the great majority of the risk stays with the private sector.

**2.115** In addition, the Government will be looking for further opportunities for the private sector to provide services for which the public sector is responsible, and in which the greater part of the cost involves capital.

**2.116** Under the new arrangements, privately financed spending will be additional to public provision. The spending which is financed by Government will come out of departmental spending allocations. This is consistent with the principle that the control total should cover the spending which the public sector undertakes, or which it controls.

**2.117** The Secretary of State for Transport will publish a Green Paper early in 1993 on the scope for charging for the use of inter-urban roads. If, in the light of consultation, the Government decides to proceed with charges, this could create significant new opportunities for private finance.



### **Help for exporters**

**2.118** UK exporters of project equipment and other supplies requiring medium or long term finance rely heavily on the guarantees provided by the Export Credit Guarantees Department. ECGD must, of course, continue to take a prudent approach to managing its exposure. But in present circumstances, and to enable exporters to compete more effectively, the President of the Board of Trade is taking steps to make available for a number of important markets a further £700 million of ECGD cover—£200 million in 1992–93 and £500 million in 1993–94. The increase in cover will assist project exports (such as power stations, water treatment, transportation systems and aircraft) sold on the basis of medium or long term credit, particularly to developing countries. The additional cover does not count as public expenditure or against the PSBR, but could lead to calls against the PSBR in future years if ECGD's guarantees are called.



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# Annex A to Chapter 2

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Definitions and conventions

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## Definitions and conventions

- Rounding conventions** **2A.1** For tables presenting the new plans the following conventions apply:
- Future years:** Departments' spending totals within the control total are rounded to the nearest £10 million (except for non-cyclical social security, which is rounded to £100 million). The control total and spending sector totals (except public corporations) are rounded to the nearest £100 million. Figures for items outside the control total are rounded to the nearest £500 million, except for GGE (excluding privatisation proceeds) which is rounded to the nearest £100 million. In this latter case this does not imply accuracy to that degree.
- 1992–93:** The rounding conventions adopted for items within the control total for future years also apply to figures for 1992–93, to reflect their provisional nature.
- Figures for items outside the control total are rounded to the nearest £100 million.
- 2A.2** Changes and totals in the tables are based on unrounded figures. They may therefore differ from the changes and sums of the rounded figures.
- 2A.3** For tables which include figures in real terms, all figures are rounded to the nearest £0.1 billion, apart from items between the control total and GGE (excluding privatisation proceeds), which for future years are rounded to the nearest £0.5 billion.
- 2A.4** Some figures may be subject to detailed amendment before the publication of the Statistical Supplement to the 1992 Autumn Statement early in 1993.
- Calculation of changes from previous plans and projections** **2A.5** Changes from previous plans are differences from the plans and projections for 1992–93 to 1994–95 in the 1992 FSBR (HC 319), after account is taken of classification changes and transfers and switches between departments. Annex B describes the principal technical changes affecting departmental programmes and shows how changes from previous plans are calculated.
- Real terms figures** **2A.6** Figures in real terms are cash levels adjusted to 1991–92 price levels by excluding the effects of general inflation as measured by the GDP deflator. The deflator series used is adjusted for years up to 1990–91 to remove the distortion caused by the abolition of domestic rates. A description of the method of adjustment was set out in Annex C to the 1990 Autumn Statement.
- Central government expenditure** **2A.7** This includes the financing requirements of trading funds and public corporations other than the nationalised industries. Cyclical social security spending is excluded from the measure of central government spending within the new control total.
- Central government support for local authorities** **2A.8** 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.
- Local authority self-financed expenditure** **2A.9** Local authority self-financed expenditure is the difference between total local authority expenditure, including debt interest but net of capital receipts, and central government support to local authorities included within the control total.
- Adjustment** **2A.10** Tables setting out the estimated outturn for the new control total in 1992–93 include an adjustment for the difference between the assessment of likely outturn and the sum of the other components shown.



Table 2A.1 Public expenditure, 1963–64 to 1995–96

|         | New control total <sup>1</sup> |                         | Planning total <sup>1</sup> |                         | General government expenditure<br>(excluding privatisation proceeds) |                         |                                 | Privatisation<br>proceeds | General government<br>expenditure    |           | Money<br>GDP <sup>2</sup> | Adjusted<br>GDP<br>deflator                        |                             |
|---------|--------------------------------|-------------------------|-----------------------------|-------------------------|--|-------------------------|---------------------------------|---------------------------|--------------------------------------|-----------|---------------------------|--|-----------------------------|
|         | £ billion                      | Real terms <sup>3</sup> | £ billion                   | Real terms <sup>3</sup> | £ billion  | Real terms <sup>3</sup> | Per cent<br>of GDP <sup>2</sup> | £ billion                 | Spending on<br>goods and<br>services | Total     | £ billion                 | Adjusted<br>series,<br>Index<br>(1990–91<br>= 100) | Index<br>(1991–92<br>= 100) |
|         |                                | £ billion               |                             | £ billion               |  | £ billion               | £ billion                       |                           | £ billion                            | £ billion |                           |  |                             |
| 1963–64 |                                |                         |                             |                         | 11.3   | 116.7                   | 36 $\frac{3}{4}$                |                           | 6.5                                  | 11.3      | 31.4                      | 5.6  | 9.7                         |
| 1964–65 |                                |                         |                             |                         | 12.3   | 120.8                   | 36 $\frac{1}{2}$                |                           | 7.0                                  | 12.3      | 34.2                      | 6.1  | 10.1                        |
| 1965–66 |                                |                         |                             |                         | 13.6   | 128.0                   | 37 $\frac{3}{4}$                |                           | 7.7                                  | 13.6      | 36.6                      | 6.5  | 10.6                        |
| 1966–67 |                                |                         |                             |                         | 15.1   | 135.9                   | 39 $\frac{1}{2}$                |                           | 8.5                                  | 15.1      | 38.9                      | 6.9  | 11.1                        |
| 1967–68 |                                |                         |                             |                         | 17.5   | 153.1                   | 43 $\frac{1}{4}$                |                           | 9.4                                  | 17.5      | 41.2                      | 7.3  | 11.4                        |
| 1968–69 |                                |                         |                             |                         | 18.2   | 152.3                   | 41 $\frac{1}{2}$                |                           | 9.9                                  | 18.2      | 44.6                      | 7.9  | 12.0                        |
| 1969–70 |                                |                         |                             |                         | 19.3   | 153.4                   | 41                              |                           | 10.4                                 | 19.3      | 48.0                      | 8.5  | 12.6                        |
| 1970–71 |                                |                         |                             |                         | 21.6   | 158.5                   | 41 $\frac{1}{4}$                |                           | 11.9                                 | 21.6      | 53.2                      | 9.4  | 13.6                        |
| 1971–72 |                                |                         |                             |                         | 24.4   | 163.7                   | 41 $\frac{3}{4}$                |                           | 13.4                                 | 24.4      | 59.3                      | 10.5   | 14.9                        |
| 1972–73 |                                |                         |                             |                         | 27.6   | 171.7                   | 41 $\frac{1}{2}$                |                           | 15.2                                 | 27.6      | 67.6                      | 12.0   | 16.1                        |
| 1973–74 |                                |                         |                             |                         | 32.0   | 185.8                   | 43 $\frac{1}{2}$                |                           | 17.9                                 | 32.0      | 75.0                      | 13.3   | 17.2                        |
| 1974–75 |                                |                         |                             |                         | 42.9   | 208.1                   | 48 $\frac{3}{4}$                |                           | 22.9                                 | 42.9      | 89.4                      | 15.8   | 20.6                        |
| 1975–76 |                                |                         |                             |                         | 53.8   | 208.2                   | 49 $\frac{1}{4}$                |                           | 29.4                                 | 53.8      | 111.2                     | 19.7   | 25.9                        |
| 1976–77 |                                |                         |                             |                         | 59.6   | 203.0                   | 46 $\frac{3}{4}$                |                           | 32.9                                 | 59.6      | 130.1                     | 23.0   | 29.4                        |
| 1977–78 |                                |                         |                             |                         | 64.4   | 193.0                   | 43 $\frac{1}{4}$                | –0.5                      | 35.2                                 | 63.9      | 151.4                     | 26.8   | 33.4                        |
| 1978–79 |                                |                         |                             |                         | 75.0   | 202.7                   | 44                              |                           | 39.1                                 | 75.0      | 173.7                     | 30.8   | 37.0                        |
| 1979–80 |                                |                         |                             |                         | 90.4   | 209.3                   | 44                              | –0.4                      | 46.6                                 | 90.0      | 208.6                     | 36.9   | 43.2                        |
| 1980–81 |                                |                         |                             |                         | 108.8  | 213.1                   | 46 $\frac{1}{2}$                | –0.2                      | 56.8                                 | 108.6     | 237.7                     | 42.1   | 51.1                        |
| 1981–82 |                                |                         |                             |                         | 121.0  | 216.0                   | 47 $\frac{1}{4}$                | –0.5                      | 61.1                                 | 120.5     | 260.9                     | 46.2   | 56.0                        |
| 1982–83 |                                |                         |                             |                         | 133.1  | 221.8                   | 47 $\frac{1}{2}$                | –0.5                      | 67.5                                 | 132.7     | 285.6                     | 50.6   | 60.0                        |
| 1983–84 |                                |                         |                             |                         | 141.4  | 225.3                   | 46 $\frac{1}{2}$                | –1.1                      | 73.0                                 | 140.3     | 309.8                     | 54.9   | 62.8                        |
| 1984–85 | 126.0                          | 191.0                   | 127.0                       | 192.5                   | 152.9  | 231.8                   | 47                              | –2.0                      | 78.6                                 | 150.9     | 332.2                     | 58.8   | 66.0                        |
| 1985–86 | 129.5                          | 186.2                   | 130.6                       | 187.7                   | 161.3  | 231.8                   | 45                              | –2.7                      | 82.6                                 | 158.6     | 364.4                     | 64.5   | 69.6                        |
| 1986–87 | 136.0                          | 189.4                   | 135.8                       | 189.1                   | 169.2  | 235.7                   | 44                              | –4.5                      | 87.4                                 | 164.8     | 392.7                     | 69.5   | 71.8                        |
| 1987–88 | 148.6                          | 196.2                   | 142.4                       | 187.9                   | 178.4  | 235.4                   | 41 $\frac{3}{4}$                | –5.1                      | 94.5                                 | 173.2     | 435.2                     | 77.1   | 75.8                        |
| 1988–89 | 156.1                          | 192.1                   | 145.4                       | 178.9                   | 186.8  | 229.8                   | 39 $\frac{1}{4}$                | –7.1                      | 99.7                                 | 179.7     | 484.2                     | 85.7   | 81.3                        |
| 1989–90 | 175.1                          | 202.2                   | 162.0                       | 187.1                   | 205.0  | 236.7                   | 39 $\frac{3}{4}$                | –4.2                      | 112.6                                | 200.8     | 525.2                     | 93.1   | 86.6                        |
| 1990–91 | 192.1                          | 205.4                   | 179.5                       | 191.9                   | 222.7  | 238.1                   | 40 $\frac{1}{4}$                | –5.3                      | 124.4                                | 217.4     | 554.7                     | 100.0  | 93.5                        |
| 1991–92 | 211.2                          | 211.2                   | 203.5                       | 203.5                   | 243.8  | 243.8                   | 42                              | –7.9                      | 137.4                                | 235.9     | 581.4                     |  | 100.0                       |
| 1992–93 | 232.0                          | 222.5                   | 226.1                       | 216.9                   | 268.8  | 257.8                   | 44 $\frac{3}{4}$                | –8.0                      | <sup>4</sup>                         | 260.8     | 601.0                     |  | 104.3                       |
| 1993–94 | 243.8                          | 227.6                   | 242.5                       | 226.4                   | 286.6  | 267.6                   | 45 $\frac{1}{2}$                | –5.5                      | <sup>4</sup>                         | 281.1     | 629.0                     |  | 107.1                       |
| 1994–95 | 253.6                          | 229.3                   |                             |                         | 302.5  | 273.5                   | 45                              | –5.5                      | <sup>4</sup>                         | 297.0     | 674.0                     |  | 110.6                       |
| 1995–96 | 263.3                          | 231.7                   |                             |                         | 316.4  | 278.4                   | 44 $\frac{1}{4}$                | –1.0                      | <sup>4</sup>                         | 315.4     | 717.0                     |  | 113.6                       |

<sup>1</sup> Figures for the control total and planning total are only available on a consistent basis for the years shown. Figures are estimated outturn for 1992–93 and plans for 1993–94 onwards.

<sup>2</sup> An adjusted series for money GDP is used in the calculation

of the ratio for years up to 1989–90. This has been constructed to remove the distortion caused by the abolition of domestic rates. A description of the adjustment method was given in Annex C to Chapter 1 of the 1990 Autumn Statement. The adjusted series is

shown here as an index, based on the level of money GDP in 1990–91.

<sup>3</sup> Cash figures adjusted to price levels of 1991–92. See note on page 30.

<sup>4</sup> Figures are available on a consistent basis for outturn years only.



Table 2A.2 General government expenditure (excluding privatisation proceeds)<sup>1</sup>: plans and outturn

|                                      | Per cent of GDP |         |         |         |         |                  |         |         |         |
|--------------------------------------|-----------------|---------|---------|---------|---------|------------------|---------|---------|---------|
|                                      | 1987-88         | 1988-89 | 1989-90 | 1990-91 | 1991-92 | 1992-93          | 1993-94 | 1994-95 | 1995-96 |
| March 1988 FSBR <sup>2</sup>         | 42½             | 42      | 41½     | 40¾     | 40      |                  |         |         |         |
| January 1989 White Paper (Cmnd. 621) | 42½             | 40½     | 39¾     | 39¾     | 39½     |                  |         |         |         |
| January 1990 White Paper (Cm 1021)   | 42              | 39¾     | 39½     | 39¾     | 39½     | 39¼              |         |         |         |
| February 1991 Supplement (Cm 1520)   | 41¾             | 39¼     | 39½     | 39¾     | 39½     | 39½              | 39      |         |         |
| February 1992 Supplement (Cm 1920)   | 42              | 39½     | 40      | 40      | 41½     | 42               | 41¾     | 41¼     |         |
| This Autumn Statement                | 41¾             | 39¼     | 39¾     | 40¼     | 42      | 44¾ <sup>3</sup> | 45½     | 45      | 44¼     |

<sup>1</sup> To avoid the distortion caused by the abolition of domestic rates, the ratios for years before 1990-91 are based on the adjusted series for money GDP (see footnote 2 to Table 2A.1). 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.

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

<sup>3</sup> Estimated.



Table 2A.3 The new control total and general government expenditure (excluding privatisation proceeds)<sup>1</sup>

|  | £ million        |                  |                  |                  |                |                   |                       |                |                  |   |                |                |
|--|------------------|------------------|------------------|------------------|----------------|-------------------|-----------------------|----------------|------------------|---|----------------|----------------|
|  | Outturn          |                  |                  |                  |                | Estimated outturn | New plans/projections |                |                  | Changes from previous plans/projections |                |                |
|  | 1987-88          | 1988-89          | 1989-90          | 1990-91          | 1991-92        | 1992-93           | 1993-94               | 1994-95        | 1995-96          | 1992-93                                 | 1993-94        | 1994-95        |
| Central government expenditure <sup>2,3</sup>                          | 103 400          | 109 156          | 120 294          | 132 279          | 144 537        | 158 700           | 166 100               | 171 600        | 176 400          | 2 700                                   | 0              | - 200          |
| Central government support for local authorities <sup>3</sup>          | 35 777           | 36 605           | 38 338           | 42 573           | 53 359         | 58 900            | 58 700                | 62 000         | 64 300           | 500                                     | 100            | 0              |
| Local authority self-financed expenditure                              | 9 226            | 10 809           | 15 550           | 15 062           | 10 830         | 10 900            | 11 100                | 11 000         | 10 800           | 1 400                                   | 1 000          | 800            |
| Financing requirements of nationalised industries                      | 236              | - 452            | 931              | 2 196            | 2 496          | 3 360             | 3 880                 | 1 910          | 1 690            | 0                                       | 1 050          | - 250          |
| Reserve Adjustment   |                  |                  |                  |                  |                | 100               | 4 000                 | 7 000          | 10 000           | - 4 000                                 | - 4 000        | - 5 000        |
| <b>New control total</b>   | <b>148 639</b>   | <b>156 118</b>   | <b>175 113</b>   | <b>192 109</b>   | <b>211 222</b> | <b>232 000</b>    | <b>243 800</b>        | <b>253 600</b> | <b>263 300</b>   | <b>600</b>                              | <b>- 1 900</b> | <b>- 4 700</b> |
| Cyclical social security <sup>4</sup>                                  | 8 115            | 7 185            | 6 703            | 7 835            | 11 023         | 13 000            | 15 500                | 16 500         | 17 000           | 1 500                                   | 3 000          | 3 500          |
| Central government debt interest                                       | 17 033           | 17 559           | 17 820           | 17 515           | 16 320         | 17 700            | 20 000                | 24 500         | 27 500           | 100                                     | 500            | 3 000          |
| Accounting adjustments   | 4 592            | 5 956            | 5 397            | 5 259            | 5 245          | 6 000             | 7 500                 | 8 500          | 9 000            | 0                                       | 0              | 0              |
| <b>General government expenditure excluding privatisation proceeds</b> | <b>178 379</b>   | <b>186 818</b>   | <b>205 033</b>   | <b>222 718</b>   | <b>243 810</b> | <b>268 800</b>    | <b>286 600</b>        | <b>302 500</b> | <b>316 400</b>   | <b>2 300</b>                            | <b>1 600</b>   | <b>1 700</b>   |
| GGE excluding privatisation proceeds as a percent of GDP <sup>5</sup>  | 41 $\frac{3}{4}$ | 39 $\frac{1}{4}$ | 39 $\frac{3}{4}$ | 40 $\frac{1}{4}$ | 42             | 44 $\frac{3}{4}$  | 45 $\frac{1}{2}$      | 45             | 44 $\frac{1}{4}$ |   |                |                |

<sup>1</sup> For definitions, rounding and other conventions see notes on page 30.

<sup>2</sup> Excluding cyclical social security.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils

and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> United Kingdom

<sup>5</sup> Adjusted to remove the distortion caused by the abolition of domestic rates for years before 1990-91. See footnote 2 to Table 2A.1.



Table 2A.4 The new control total and general government expenditure (excluding privatisation proceeds) in real terms<sup>1</sup>

|  | £ billion    |              |              |              |              |                   |                       |              |              |  |
|--|--------------|--------------|--------------|--------------|--------------|-------------------|-----------------------|--------------|--------------|--|
|  | Outturn      |              |              |              |              | Estimated outturn | New plans/projections |              |              |  |
|  | 1987-88      | 1988-89      | 1989-90      | 1990-91      | 1991-92      | 1992-93           | 1993-94               | 1994-95      | 1995-96      |  |
| Central government expenditure <sup>2,3</sup>                          | 136.5        | 134.3        | 138.9        | 141.4        | 144.5        | 152.2             | 155.1                 | 155.2        | 155.3        |  |
| Central government support for local authorities <sup>3</sup>          | 47.2         | 45.0         | 44.3         | 45.5         | 53.4         | 56.5              | 54.8                  | 56.1         | 56.6         |  |
| Local authority self-financed expenditure                              | 12.2         | 13.3         | 18.0         | 16.1         | 10.8         | 10.4              | 10.4                  | 9.9          | 9.5          |  |
| Financing requirements of nationalised industries                      | 0.3          | -0.6         | 1.1          | 2.3          | 2.5          | 3.2               | 3.6                   | 1.7          | 1.5          |  |
| Reserve  |              |              |              |              |              |                   | 3.7                   | 6.3          | 8.8          |  |
| Adjustment   |              |              |              |              |              | 0.1               |                       |              |              |  |
| <b>New control total</b>   | <b>196.2</b> | <b>192.1</b> | <b>202.2</b> | <b>205.4</b> | <b>211.2</b> | <b>222.5</b>      | <b>227.6</b>          | <b>229.3</b> | <b>231.7</b> |  |
| Cyclical social security <sup>4</sup>                                  | 10.7         | 8.8          | 7.7          | 8.4          | 11.0         | 12.5              | 14.5                  | 15.0         | 15.0         |  |
| Central government debt interest                                       | 22.5         | 21.6         | 20.6         | 18.7         | 16.3         | 17.0              | 19.0                  | 22.0         | 24.0         |  |
| Accounting adjustments   | 6.1          | 7.3          | 6.2          | 5.6          | 5.2          | 5.8               | 7.0                   | 7.5          | 8.0          |  |
| <b>General government expenditure excluding privatisation proceeds</b> | <b>235.4</b> | <b>229.8</b> | <b>236.7</b> | <b>238.1</b> | <b>243.8</b> | <b>257.8</b>      | <b>267.6</b>          | <b>273.5</b> | <b>278.4</b> |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30.

<sup>2</sup> Excluding cyclical social security.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and

sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> United Kingdom.



Table 2A.5 New control total by department<sup>1</sup>

|   | £ million      |                |                |                |                |                   |                |                |                |            |                             |                |  |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|------------|-----------------------------|----------------|--|
|   | Outturn        |                |                |                |                | Estimated outturn |                | New plans      |                |            | Changes from previous plans |                |  |
|   | 1987-88        | 1988-89        | 1989-90        | 1990-91        | 1991-92        | 1992-93           | 1993-94        | 1994-95        | 1995-96        | 1992-93    | 1993-94                     | 1994-95        |  |
| Defence                                   | 18 922         | 19 221         | 20 777         | 21 797         | 23 015         | 23 800            | 23 520         | 23 750         | 23 220         | - 220      | - 570                       | - 480          |  |
| Foreign Office                            | 718            | 772            | 898            | 968            | 1 133          | 1 360             | 1 220          | 1 210          | 1 220          | 200        | 0                           | - 10           |  |
| Overseas Development                      | 1 293          | 1 544          | 1 672          | 1 748          | 1 991          | 2 250             | 2 270          | 2 310          | 2 360          | 100        | 0                           | - 30           |  |
| Agriculture, Fisheries and Food           | 1 833          | 1 607          | 1 487          | 2 137          | 2 219          | 2 280             | 2 820          | 2 930          | 3 110          | 60         | 590                         | 630            |  |
| Trade and Industry                        | 894            | 934            | 1 626          | 2 342          | 1 880          | 1 650             | 2 590          | 1 130          | 1 060          | 120        | 1 220                       | - 230          |  |
| ECGD <sup>2</sup>                         | 153            | 116            | 358            | 372            | 216            | 110               | - 30           | - 60           | - 30           | 0          | - 110                       | - 100          |  |
| Employment                                | 3 891          | 3 828          | 3 744          | 3 787          | 3 636          | 3 640             | 3 740          | 3 700          | 3 730          | 70         | 170                         | 90             |  |
| Transport                                 | 2 633          | 2 733          | 3 498          | 4 634          | 5 354          | 6 750             | 6 430          | 6 070          | 5 860          | - 130      | - 270                       | - 150          |  |
| DOE—Housing                               | 2 984          | 2 914          | 3 113          | 6 907          | 7 729          | 8 610             | 7 880          | 8 190          | 8 190          | 880        | - 40                        | 10             |  |
| DOE—Environment                           | 903            | 620            | 965            | 1 216          | 1 307          | 1 560             | 1 440          | 1 210          | 1 130          | 280        | 230                         | 20             |  |
| DOE—PSA                                   |                |                |                | 62             | 52             | 60                | 120            | 20             | 50             | - 10       | 80                          | 10             |  |
| DOE—Local government <sup>3</sup>         | 18 238         | 18 823         | 19 531         | 20 392         | 28 177         | 30 880            | 29 380         | 30 900         | 32 560         | - 150      | - 520                       | - 750          |  |
| Home Office                               | 3 376          | 3 635          | 4 137          | 4 911          | 5 573          | 5 970             | 6 120          | 6 330          | 6 490          | 140        | - 10                        | - 70           |  |
| Legal departments                         | 983            | 1 142          | 1 373          | 1 635          | 2 000          | 2 400             | 2 590          | 2 780          | 2 940          | 280        | 380                         | 490            |  |
| Education <sup>3</sup>                    | 3 228          | 3 519          | 4 865          | 5 655          | 6 342          | 6 980             | 9 520          | 10 120         | 10 500         | 160        | 300                         | 470            |  |
| National Heritage                         | 631            | 687            | 713            | 782            | 889            | 1 020             | 990            | 1 010          | 1 040          | 50         | - 30                        | - 30           |  |
| Health <sup>3</sup>                       | 16 799         | 18 486         | 20 003         | 22 523         | 25 657         | 28 280            | 29 880         | 31 240         | 32 300         | 520        | 120                         | - 260          |  |
| Social Security <sup>3, 4</sup>           | 41 221         | 42 806         | 46 000         | 48 821         | 54 722         | 61 200            | 65 000         | 67 100         | 70 800         | 1 300      | 900                         | 600            |  |
| Scotland <sup>3</sup>                     | 7 876          | 8 530          | 8 985          | 9 770          | 11 744         | 12 670            | 13 450         | 13 960         | 14 400         | 110        | 70                          | - 30           |  |
| Wales <sup>3</sup>                        | 3 272          | 3 580          | 3 801          | 4 441          | 5 307          | 6 020             | 6 300          | 6 560          | 6 780          | 50         | - 50                        | - 80           |  |
| Northern Ireland <sup>4</sup>             | 4 474          | 5 086          | 5 380          | 5 496          | 5 984          | 6 580             | 6 910          | 7 100          | 7 340          | 60         | 50                          | - 50           |  |
| Chancellor's departments                  | 2 480          | 2 692          | 3 154          | 3 346          | 3 394          | 3 560             | 3 390          | 3 560          | 3 650          | - 30       | - 240                       | - 200          |  |
| Cabinet Office—OPSS                       | 731            | 788            | 903            | 989            | 1 060          | 1 140             | 1 250          | 1 320          | 1 350          | 10         | - 10                        | - 30           |  |
| Cabinet Office—other, etc                 | 218            | 240            | 264            | 303            | 349            | 450               | 480            | 480            | 490            | 10         | 10                          | 0              |  |
| Local authority self-financed expenditure | 9 226          | 10 809         | 15 550         | 15 062         | 10 830         | 10 900            | 11 100         | 11 000         | 10 800         | 1 400      | 1 000                       | 800            |  |
| European Communities                      | 1 661          | 1 006          | 2 316          | 2 013          | 662            | 1 770             | 1 410          | 2 650          | 2 000          | - 690      | - 1 160                     | - 260          |  |
| Reserve                                   |                |                |                |                |                |                   | 4 000          | 7 000          | 10 000         | - 4 000    | - 4 000                     | - 5 000        |  |
| Adjustment                                |                |                |                |                |                | 100               |                |                |                | 100        |                             |                |  |
| <b>New control total</b>                  | <b>148 639</b> | <b>156 118</b> | <b>175 113</b> | <b>192 109</b> | <b>211 222</b> | <b>232 000</b>    | <b>243 800</b> | <b>253 600</b> | <b>263 300</b> | <b>600</b> | <b>- 1 900</b>              | <b>- 4 700</b> |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30. See Annex E for the composition of each departmental grouping.

<sup>2</sup> Changes from previous plans reflect lower interest rates.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> Excluding cyclical social security.



Table 2A.6 New control total by department in real terms<sup>1</sup>

|   | £ billion    |              |              |              |              |                   |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|-------------------|--------------|--------------|--------------|
|   | Outturn      |              |              |              |              | Estimated outturn | New plans    |              |              |
|   | 1987-88      | 1988-89      | 1989-90      | 1990-91      | 1991-92      | 1992-93           | 1993-94      | 1994-95      | 1995-96      |
| Defence                                   | 25.0         | 23.6         | 24.0         | 23.3         | 23.0         | 22.8              | 22.0         | 21.5         | 20.4         |
| Foreign Office                            | 0.9          | 0.9          | 1.0          | 1.0          | 1.1          | 1.3               | 1.1          | 1.1          | 1.1          |
| Overseas Development                      | 1.7          | 1.9          | 1.9          | 1.9          | 2.0          | 2.2               | 2.1          | 2.1          | 2.1          |
| Agriculture, Fisheries and Food           | 2.4          | 2.0          | 1.7          | 2.3          | 2.2          | 2.2               | 2.6          | 2.6          | 2.7          |
| Trade and Industry                        | 1.2          | 1.1          | 1.9          | 2.5          | 1.9          | 1.6               | 2.4          | 1.0          | 0.9          |
| ECGD                                      | 0.2          | 0.1          | 0.4          | 0.4          | 0.2          | 0.1               | 0.0          | - 0.1        | 0.0          |
| Employment                                | 5.1          | 4.7          | 4.3          | 4.0          | 3.6          | 3.5               | 3.5          | 3.3          | 3.3          |
| Transport                                 | 3.5          | 3.4          | 4.0          | 5.0          | 5.4          | 6.5               | 6.0          | 5.5          | 5.2          |
| DOE—Housing                               | 3.9          | 3.6          | 3.6          | 7.4          | 7.7          | 8.3               | 7.4          | 7.4          | 7.2          |
| DOE—Environment                           | 1.2          | 0.8          | 1.1          | 1.3          | 1.3          | 1.5               | 1.3          | 1.1          | 1.0          |
| DOE—PSA                                   |              |              |              | 0.1          | 0.1          | 0.1               | 0.1          | 0.0          | 0.0          |
| DOE—Local government <sup>2</sup>         | 24.1         | 23.2         | 22.5         | 21.8         | 28.2         | 29.6              | 27.4         | 27.9         | 28.6         |
| Home Office                               | 4.5          | 4.5          | 4.8          | 5.3          | 5.6          | 5.7               | 5.7          | 5.7          | 5.7          |
| Legal departments                         | 1.3          | 1.4          | 1.6          | 1.7          | 2.0          | 2.3               | 2.4          | 2.5          | 2.6          |
| Education <sup>2</sup>                    | 4.3          | 4.3          | 5.6          | 6.0          | 6.3          | 6.7               | 8.9          | 9.1          | 9.2          |
| National Heritage                         | 0.8          | 0.8          | 0.8          | 0.8          | 0.9          | 1.0               | 0.9          | 0.9          | 0.9          |
| Health <sup>2</sup>                       | 22.2         | 22.7         | 23.1         | 24.1         | 25.7         | 27.1              | 27.9         | 28.2         | 28.4         |
| Social Security <sup>2,3</sup>            | 54.4         | 52.7         | 53.1         | 52.2         | 54.7         | 58.7              | 60.7         | 60.7         | 62.3         |
| Scotland <sup>2</sup>                     | 10.4         | 10.5         | 10.4         | 10.4         | 11.7         | 12.2              | 12.6         | 12.6         | 12.7         |
| Wales <sup>2</sup>                        | 4.3          | 4.4          | 4.4          | 4.7          | 5.3          | 5.8               | 5.9          | 5.9          | 6.0          |
| Northern Ireland <sup>3</sup>             | 5.9          | 6.3          | 6.2          | 5.9          | 6.0          | 6.3               | 6.4          | 6.4          | 6.5          |
| Chancellor's departments                  | 3.3          | 3.3          | 3.6          | 3.6          | 3.4          | 3.4               | 3.2          | 3.2          | 3.2          |
| Cabinet Office—OPSS                       | 1.0          | 1.0          | 1.0          | 1.1          | 1.1          | 1.1               | 1.2          | 1.2          | 1.2          |
| Cabinet Office—other, etc                 | 0.3          | 0.3          | 0.3          | 0.3          | 0.3          | 0.4               | 0.4          | 0.4          | 0.4          |
| Local authority self-financed expenditure | 12.2         | 13.3         | 18.0         | 16.1         | 10.8         | 10.4              | 10.4         | 9.9          | 9.5          |
| European Communities                      | 2.2          | 1.2          | 2.7          | 2.2          | 0.7          | 1.7               | 1.3          | 2.4          | 1.8          |
| Reserve                                   |              |              |              |              |              |                   | 3.7          | 6.3          | 8.8          |
| Adjustment                                |              |              |              |              |              | 0.1               |              |              |              |
| <b>New control total</b>                  | <b>196.2</b> | <b>192.1</b> | <b>202.2</b> | <b>205.4</b> | <b>211.2</b> | <b>222.5</b>      | <b>227.6</b> | <b>229.3</b> | <b>231.7</b> |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30. See Annex E for the composition of each departmental grouping.

<sup>2</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>3</sup> Excluding cyclical social security.



Table 2A.7 Central government expenditure within the new control total by department<sup>1</sup>

|   | £ million      |                |                |                |                |                   |                |                |                |              |                             |              |  |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|--------------|-----------------------------|--------------|--|
|   | Outturn        |                |                |                |                | Estimated outturn |                | New plans      |                |              | Changes from previous plans |              |  |
|   | 1987–88        | 1988–89        | 1989–90        | 1990–91        | 1991–92        | 1992–93           | 1993–94        | 1994–95        | 1995–96        | 1992–93      | 1993–94                     | 1994–95      |  |
| Defence   | 18 921         | 19 221         | 20 777         | 21 797         | 23 015         | 23 800            | 23 520         | 23 750         | 23 220         | – 220        | – 570                       | – 480        |  |
| Foreign Office  | 718            | 772            | 898            | 968            | 1 133          | 1 360             | 1 220          | 1 210          | 1 220          | 200          | 0                           | – 10         |  |
| Overseas Development  | 1 293          | 1 544          | 1 672          | 1 748          | 1 991          | 2 250             | 2 270          | 2 310          | 2 360          | 100          | 0                           | – 30         |  |
| Agriculture, Fisheries and Food                                 | 1 753          | 1 530          | 1 505          | 2 219          | 2 312          | 2 390             | 2 960          | 3 090          | 3 270          | 60           | 590                         | 630          |  |
| Trade and Industry  | 1 507          | 2 199          | 1 609          | 1 634          | 1 438          | 1 450             | 1 370          | 1 350          | 1 350          | – 20         | – 30                        | – 100        |  |
| ECGD <sup>2</sup>   | 153            | 116            | 358            | 372            | 216            | 110               | – 30           | – 60           | – 30           | 0            | – 110                       | – 100        |  |
| Employment  | 3 632          | 3 562          | 3 383          | 3 396          | 3 209          | 3 210             | 3 350          | 3 340          | 3 390          | 30           | 170                         | – 120        |  |
| Transport   | 1 402          | 1 430          | 1 895          | 2 331          | 2 393          | 2 630             | 2 740          | 2 840          | 2 760          | 10           | 10                          | 30           |  |
| DOE—Housing   | 1 375          | 1 374          | 1 665          | 2 698          | 3 034          | 3 590             | 2 810          | 2 640          | 2 450          | 750          | – 260                       | – 500        |  |
| DOE—Environment   | 183            | 94             | 415            | 708            | 718            | 840               | 730            | 560            | 480            | 260          | 200                         | 60           |  |
| DOE—PSA   |                |                |                | 62             | 52             | 60                | 120            | 20             | 50             | – 10         | 80                          | 10           |  |
| DOE—Local government  | 5              | 6              | 10             | 50             | 184            | 240               | 230            | 240            | 240            | – 30         | 0                           | 0            |  |
| Home Office   | 1 353          | 1 500          | 1 740          | 2 109          | 2 343          | 2 530             | 2 490          | 2 590          | 2 610          | 150          | 40                          | 70           |  |
| Legal departments   | 817            | 951            | 1 169          | 1 373          | 1 711          | 2 100             | 2 270          | 2 440          | 2 590          | 280          | 390                         | 490          |  |
| Education <sup>3</sup>  | 2 042          | 2 245          | 3 468          | 3 600          | 3 555          | 3 770             | 6 330          | 6 820          | 7 250          | 10           | 320                         | 550          |  |
| National Heritage   | 592            | 648            | 674            | 743            | 849            | 980               | 980            | 1 000          | 1 020          | 50           | – 10                        | – 10         |  |
| Health  | 16 730         | 18 405         | 19 912         | 22 408         | 25 493         | 28 060            | 29 120         | 30 360         | 31 540         | 520          | – 40                        | – 280        |  |
| Social Security <sup>3,4</sup>                                  | 36 000         | 37 848         | 40 733         | 44 704         | 50 930         | 56 300            | 59 600         | 61 100         | 64 500         | 1 000        | 400                         | – 200        |  |
| Scotland <sup>3</sup>   | 3 790          | 4 106          | 4 484          | 5 014          | 6 001          | 6 530             | 7 270          | 7 510          | 7 750          | 110          | 110                         | 80           |  |
| Wales <sup>3</sup>  | 1 620          | 1 839          | 1 961          | 2 246          | 2 565          | 3 040             | 3 400          | 3 520          | 3 630          | 70           | 0                           | – 20         |  |
| Northern Ireland <sup>4</sup>                                   | 4 424          | 5 040          | 5 331          | 5 449          | 5 930          | 6 520             | 6 850          | 7 030          | 7 280          | 60           | 50                          | – 50         |  |
| Chancellor's departments  | 2 480          | 2 692          | 3 154          | 3 346          | 3 394          | 3 560             | 3 390          | 3 560          | 3 650          | – 30         | – 240                       | – 200        |  |
| Cabinet Office—OPSS   | 731            | 788            | 903            | 989            | 1 060          | 1 140             | 1 250          | 1 320          | 1 350          | 10           | – 10                        | – 30         |  |
| Cabinet Office—other, etc                                       | 218            | 240            | 264            | 303            | 349            | 450               | 480            | 480            | 490            | 10           | 10                          | 0            |  |
| European Communities  | 1 661          | 1 006          | 2 316          | 2 013          | 662            | 1 770             | 1 410          | 2 650          | 2 000          | – 690        | – 1 160                     | – 260        |  |
| <b>Total</b>  | <b>103 400</b> | <b>109 156</b> | <b>120 294</b> | <b>132 279</b> | <b>144 537</b> | <b>158 700</b>    | <b>166 100</b> | <b>171 600</b> | <b>176 400</b> | <b>2 700</b> | <b>0</b>                    | <b>– 200</b> |  |
| of which:   |                |                |                |                |                |                   |                |                |                |              |                             |              |  |
| financing requirements of trading funds and public corporations | 557            | 311            | 830            | 1 192          | 1 275          | 1 770             | 1 400          | 1 550          | 1 570          | 420          | – 20                        | – 20         |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30. See Annex E for the composition of each departmental grouping.

<sup>2</sup> Changes from previous plans reflect lower interest rates.

<sup>3</sup> Comparisons between 1992–93 and 1993–94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>4</sup> Excluding cyclical social security.



Table 2A.8 Central government expenditure within the new control total by department in real terms<sup>1</sup>

|   | £ million    |              |              |              |              |                   |              |              |              |
|---|--------------|--------------|--------------|--------------|--------------|-------------------|--------------|--------------|--------------|
|   | Outturn      |              |              |              |              | Estimated outturn | New plans    |              |              |
|   | 1987-88      | 1988-89      | 1989-90      | 1990-91      | 1991-92      | 1992-93           | 1993-94      | 1994-95      | 1995-96      |
| Defence   | 25.0         | 23.6         | 24.0         | 23.3         | 23.0         | 22.8              | 22.0         | 21.5         | 20.4         |
| Foreign Office  | 0.9          | 0.9          | 1.0          | 1.0          | 1.1          | 1.3               | 1.1          | 1.1          | 1.1          |
| Overseas Development  | 1.7          | 1.9          | 1.9          | 1.9          | 2.0          | 2.2               | 2.1          | 2.1          | 2.1          |
| Agriculture, Fisheries and Food                                 | 2.3          | 1.9          | 1.7          | 2.4          | 2.3          | 2.3               | 2.8          | 2.8          | 2.9          |
| Trade and Industry  | 2.0          | 2.7          | 1.9          | 1.7          | 1.4          | 1.4               | 1.3          | 1.2          | 1.2          |
| ECGD  | 0.2          | 0.1          | 0.4          | 0.4          | 0.2          | 0.1               | 0.0          | - 0.1        | 0.0          |
| Employment  | 4.8          | 4.4          | 3.9          | 3.6          | 3.2          | 3.1               | 3.1          | 3.0          | 3.0          |
| Transport   | 1.9          | 1.8          | 2.2          | 2.5          | 2.4          | 2.5               | 2.6          | 2.6          | 2.4          |
| DOE—Housing   | 1.8          | 1.7          | 1.9          | 2.9          | 3.0          | 3.4               | 2.6          | 2.4          | 2.2          |
| DOE—Environment   | 0.2          | 0.1          | 0.5          | 0.8          | 0.7          | 0.8               | 0.7          | 0.5          | 0.4          |
| DOE—PSA   |              |              |              | 0.1          | 0.1          | 0.1               | 0.1          | 0.0          | 0.0          |
| DOE—Local government  | 0.0          | 0.0          | 0.0          | 0.1          | 0.2          | 0.2               | 0.2          | 0.2          | 0.2          |
| Home Office   | 1.8          | 1.8          | 2.0          | 2.3          | 2.3          | 2.4               | 2.3          | 2.3          | 2.3          |
| Legal departments   | 1.1          | 1.2          | 1.3          | 1.5          | 1.7          | 2.0               | 2.1          | 2.2          | 2.3          |
| Education <sup>2</sup>  | 2.7          | 2.8          | 4.0          | 3.8          | 3.6          | 3.6               | 5.9          | 6.2          | 6.4          |
| National Heritage   | 0.8          | 0.8          | 0.8          | 0.8          | 0.8          | 0.9               | 0.9          | 0.9          | 0.9          |
| Health  | 22.1         | 22.6         | 23.0         | 24.0         | 25.5         | 26.9              | 27.2         | 27.5         | 27.8         |
| Social Security <sup>2,3</sup>                                  | 47.5         | 46.6         | 47.0         | 47.8         | 50.9         | 54.0              | 55.6         | 55.2         | 56.8         |
| Scotland <sup>2</sup>   | 5.0          | 5.1          | 5.2          | 5.4          | 6.0          | 6.3               | 6.8          | 6.8          | 6.8          |
| Wales <sup>2</sup>  | 2.1          | 2.3          | 2.3          | 2.4          | 2.6          | 2.9               | 3.2          | 3.2          | 3.2          |
| Northern Ireland <sup>3</sup>                                   | 5.8          | 6.2          | 6.2          | 5.8          | 5.9          | 6.3               | 6.4          | 6.4          | 6.4          |
| Chancellor's departments  | 3.3          | 3.3          | 3.6          | 3.6          | 3.4          | 3.4               | 3.2          | 3.2          | 3.2          |
| Cabinet Office—OPSS   | 1.0          | 1.0          | 1.0          | 1.1          | 1.1          | 1.1               | 1.2          | 1.2          | 1.2          |
| Cabinet Office—other, etc                                       | 0.3          | 0.3          | 0.3          | 0.3          | 0.3          | 0.4               | 0.4          | 0.4          | 0.4          |
| European Communities  | 2.2          | 1.2          | 2.7          | 2.2          | 0.7          | 1.7               | 1.3          | 2.4          | 1.8          |
| <b>Total</b>  | <b>136.5</b> | <b>134.3</b> | <b>138.9</b> | <b>141.4</b> | <b>144.5</b> | <b>152.2</b>      | <b>155.1</b> | <b>155.2</b> | <b>155.3</b> |
| of which:   |              |              |              |              |              |                   |              |              |              |
| financing requirements of trading funds and public corporations | 0.7          | 0.4          | 1.0          | 1.3          | 1.3          | 1.7               | 1.3          | 1.4          | 1.4          |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30. See Annex E for the composition of each departmental grouping.

<sup>2</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities, the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office and the transfer of responsibility for funding Scottish and Welsh universities from the Department for Education to the Scottish and Welsh Higher Education Funding Councils.

<sup>3</sup> Excluding cyclical social security.



Table 2A.9 Central government support for local authorities by department<sup>1</sup>

|                                     | £ million     |               |               |               |               |                   |               |               |               |            |             |                             |  |  |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|-------------------|---------------|---------------|---------------|------------|-------------|-----------------------------|--|--|
|                                     | Outturn       |               |               |               |               | Estimated outturn |               |               | New plans     |            |             | Changes from previous plans |  |  |
|                                     | 1987-88       | 1988-89       | 1989-90       | 1990-91       | 1991-92       | 1992-93           | 1993-94       | 1994-95       | 1995-96       | 1992-93    | 1993-94     | 1994-95                     |  |  |
| <b>Current</b>                      |               |               |               |               |               |                   |               |               |               |            |             |                             |  |  |
| Agriculture, Fisheries and Food     | 31            | 29            | -55           | -113          | -129          | -160              | -180          | -200          | -210          | 0          | 0           | 0                           |  |  |
| Trade and Industry                  |               |               | 0             | 1             | 4             | 20                | 20            | 30            | 30            | 0          | 10          | 10                          |  |  |
| Employment                          | 255           | 263           | 358           | 387           | 422           | 430               | 390           | 360           | 340           | 40         | -10         | -30                         |  |  |
| Transport                           | 2             | 2             | 2             | 2             | 2             | 0                 | 0             | 0             | 0             | 0          | 0           | 0                           |  |  |
| DOE—Housing                         | 22            | 26            | 26            | 2 351         | 2 635         | 3 040             | 3 290         | 3 830         | 4 090         | 90         | 360         | 770                         |  |  |
| DOE—Environment                     | 75            | 66            | 64            | 61            | 60            | 90                | 80            | 60            | 60            | 0          | 0           | -20                         |  |  |
| DOE—Local government <sup>2,3</sup> | 18 234        | 18 817        | 19 521        | 20 342        | 27 993        | 30 600            | 29 150        | 30 660        | 32 320        | -120       | -520        | -750                        |  |  |
| Home Office                         | 1 931         | 2 055         | 2 311         | 2 623         | 2 995         | 3 170             | 3 340         | 3 460         | 3 580         | -10        | -40         | -120                        |  |  |
| Legal departments                   | 134           | 150           | 164           | 210           | 232           | 240               | 250           | 260           | 270           | 0          | 0           | 0                           |  |  |
| Education                           | 823           | 875           | 1 030         | 1 606         | 2 282         | 2 640             | 2 800         | 2 950         | 2 970         | 150        | 150         | 170                         |  |  |
| Health <sup>3</sup>                 |               | 7             | 21            | 29            | 56            | 80                | 630           | 740           | 610           | 0          | 150         | 10                          |  |  |
| Social Security                     | 5 221         | 4 958         | 5 267         | 4 117         | 3 792         | 4 900             | 5 400         | 6 100         | 6 200         | 300        | 500         | 700                         |  |  |
| Scotland <sup>3</sup>               | 3 149         | 3 516         | 3 804         | 4 060         | 4 938         | 5 200             | 5 210         | 5 460         | 5 640         | 10         | -100        | -140                        |  |  |
| Wales <sup>3</sup>                  | 1 315         | 1 416         | 1 491         | 1 788         | 2 287         | 2 450             | 2 390         | 2 520         | 2 610         | -10        | -50         | -60                         |  |  |
| Northern Ireland                    | 41            | 41            | 42            | 44            | 48            | 50                | 50            | 50            | 50            | 0          | 0           | 0                           |  |  |
| <b>Total current</b>                | <b>31 232</b> | <b>32 219</b> | <b>34 047</b> | <b>37 508</b> | <b>47 617</b> | <b>52 800</b>     | <b>52 900</b> | <b>56 300</b> | <b>58 600</b> | <b>400</b> | <b>400</b>  | <b>600</b>                  |  |  |
| <b>Capital</b>                      |               |               |               |               |               |                   |               |               |               |            |             |                             |  |  |
| Agriculture, Fisheries and Food     | 30            | 28            | 29            | 31            | 36            | 40                | 40            | 40            | 40            | 0          | 0           | 0                           |  |  |
| Trade and Industry                  | 1             | 1             | 0             | 0             | 0             | 0                 |               |               |               | 0          |             |                             |  |  |
| Employment                          | 4             | 3             | 3             | 5             | 4             | 10                | 10            | 0             | 0             | 0          | 0           | 0                           |  |  |
| Transport                           | 596           | 671           | 627           | 747           | 918           | 1 020             | 1 100         | 1 100         | 1 110         | 0          | -50         | -70                         |  |  |
| DOE—Housing                         | 1 588         | 1 514         | 1 422         | 1 858         | 2 060         | 1 970             | 1 780         | 1 710         | 1 650         | 40         | -150        | -260                        |  |  |
| DOE—Environment                     | 602           | 434           | 467           | 399           | 480           | 580               | 580           | 550           | 540           | 20         | 30          | -30                         |  |  |
| DOE—Local government                |               |               |               |               |               | 40                |               |               |               | 0          |             |                             |  |  |
| Home Office                         | 92            | 79            | 86            | 179           | 235           | 270               | 290           | 280           | 290           | 0          | -10         | -20                         |  |  |
| Legal departments                   | 31            | 40            | 40            | 51            | 57            | 70                | 70            | 70            | 80            | 0          | 0           | 0                           |  |  |
| Education                           | 363           | 399           | 367           | 449           | 506           | 570               | 400           | 350           | 280           | 0          | -180        | -250                        |  |  |
| National Heritage                   | 39            | 39            | 39            | 39            | 39            | 30                | 10            | 10            | 10            | 0          | -20         | -20                         |  |  |
| Health                              | 69            | 74            | 69            | 86            | 108           | 130               | 140           | 140           | 140           | 0          | 10          | 10                          |  |  |
| Scotland                            | 800           | 781           | 801           | 810           | 838           | 900               | 940           | 1 010         | 1 040         | 0          | 10          | 30                          |  |  |
| Wales                               | 320           | 316           | 334           | 407           | 455           | 530               | 500           | 510           | 540           | 0          | 0           | 0                           |  |  |
| Northern Ireland                    | 9             | 5             | 7             | 3             | 5             | 10                | 10            | 10            | 10            | 0          | 0           | 0                           |  |  |
| <b>Total capital<sup>4</sup></b>    | <b>4 545</b>  | <b>4 386</b>  | <b>4 292</b>  | <b>5 065</b>  | <b>5 742</b>  | <b>6 170</b>      | <b>5 860</b>  | <b>5 790</b>  | <b>5 750</b>  | <b>50</b>  | <b>-360</b> | <b>-610</b>                 |  |  |
| <b>Total</b>                        | <b>35 777</b> | <b>36 605</b> | <b>38 338</b> | <b>42 573</b> | <b>53 359</b> | <b>58 900</b>     | <b>58 700</b> | <b>62 000</b> | <b>64 300</b> | <b>500</b> | <b>100</b>  | <b>0</b>                    |  |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30. See Annex E for the composition of each departmental grouping.

<sup>2</sup> Comprises revenue support grant, community charge reduction scheme grant, community charge grant and national non-domestic rate payments paid in support of local authority current spending as a whole in England.

<sup>3</sup> Comparisons between 1992-93 and 1993-94 are distorted by the effects of transfers between departments and spending sectors. The main changes reflect the transfer of responsibility for community care to local authorities and the transfer of responsibility for the funding of further education colleges and sixth form colleges from local authorities to the new Further Education Funding Councils and the Scottish Office.

<sup>4</sup> Includes small amounts of capital support in years up to 1988-89 by Ministry of Defence and the Foreign Office which are not shown in the table (less than £0.5 million in each year).



Table 2A.10 Financing requirements of the nationalised industries by department and industry<sup>1</sup>

|   | £ million  |             |            |              |              |                   |              |              |              |          |                             |             |  |
|---|------------|-------------|------------|--------------|--------------|-------------------|--------------|--------------|--------------|----------|-----------------------------|-------------|--|
|   | Outturn    |             |            |              |              | Estimated outturn |              | New plans    |              |          | Changes from previous plans |             |  |
|   | 1987-88    | 1988-89     | 1989-90    | 1990-91      | 1991-92      | 1992-93           | 1993-94      | 1994-95      | 1995-96      | 1992-93  | 1993-94                     | 1994-95     |  |
| <b>Trade and Industry</b>                       | -614       | -1 265      | 17         | 707          | 438          | 190               | 1 210        | -240         | -320         | 140      | 1 240                       | -140        |  |
| British Coal                                    | 918        | 840         | 1 292      | 890          | 605          | 540               | 1 900        | 500          | 500          | 140      | 1 400                       | 0           |  |
| British Shipbuilders                            | 118        | 144         | 4          | 28           | -9           | -10               | -10          | 0            | 0            | 0        | 0                           | 0           |  |
| Electricity<br>(England and Wales) <sup>2</sup> | -1 261     | -1 773      | -1 262     | -210         | -84          | -280              | -500         | -560         | -660         | 0        | -40                         | -30         |  |
| Post Office                                     | -79        | -60         | 0          |              | -74          | -70               | -180         | -180         | -160         | 0        | -110                        | -110        |  |
| Other <sup>3</sup>                              | -309       | -417        | -17        |              |              |                   |              |              |              |          |                             |             |  |
| <b>Transport</b>                                | 637        | 634         | 978        | 1 556        | 2 046        | 3 100             | 2 600        | 2 130        | 2 000        | -130     | -240                        | -110        |  |
| British Rail                                    | 591        | 375         | 673        | 1 016        | 1 446        | 2 000             | 1 500        | 1 080        | 960          | -40      | 130                         | 100         |  |
| Civil Aviation Authority <sup>4</sup>           | 0          | 21          | 47         | 66           | 38           | 70                | 100          | 90           | 90           | 0        | 0                           | 0           |  |
| London Transport                                | 172        | 240         | 259        | 474          | 562          | 1 040             | 1 010        | 960          | 950          | -90      | -370                        | -210        |  |
| Other <sup>3</sup>                              | -126       | -2          |            |              |              |                   |              |              |              |          |                             |             |  |
| <b>DOE—Environment</b>                          | 43         | 27          | 19         | 48           | 50           | 50                | 50           | 50           | 50           | 0        | 0                           | 0           |  |
| British Waterways Board                         | 45         | 45          | 47         | 48           | 50           | 50                | 50           | 50           | 50           | 0        | 0                           | 0           |  |
| Other <sup>3</sup>                              | -2         | -18         | -27        |              |              |                   |              |              |              |          |                             |             |  |
| <b>Scotland</b>                                 | 133        | 123         | -106       | -116         | -39          | 30                | 30           | -30          | -30          | 0        | 40                          | 0           |  |
| Caledonian MacBrayne Ltd                        | 9          | 9           | 6          | 5            | 9            | 10                | 10           | 10           | 10           | 0        | 0                           | 0           |  |
| Electricity (Scotland) <sup>5</sup>             | 129        | 123         | -112       | -108         | -45          | 10                | -30          | -40          | -40          | 0        | 0                           | 0           |  |
| Scottish Transport Group                        | -4         | -8          | 0          | -13          | -2           | 0                 | 40           |              |              | 0        | 40                          |             |  |
| <b>Agriculture, Fisheries and Food</b>          |            |             |            |              |              |                   |              |              |              |          |                             |             |  |
| Other <sup>3</sup>                              | 19         | 20          | 8          |              |              |                   |              |              |              |          |                             |             |  |
| <b>Wales</b>                                    |            |             |            |              |              |                   |              |              |              |          |                             |             |  |
| Other <sup>3</sup>                              | 17         | 9           | 15         |              |              |                   |              |              |              |          |                             |             |  |
| <b>Total</b>                                    | <b>236</b> | <b>-452</b> | <b>931</b> | <b>2 196</b> | <b>2 496</b> | <b>3 360</b>      | <b>3 880</b> | <b>1 910</b> | <b>1 690</b> | <b>0</b> | <b>1 050</b>                | <b>-250</b> |  |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30.

<sup>2</sup> The Regional Electricity Companies, the National Grid Company, PowerGen and National Power were privatised during 1990-91. From 1991-92 comprises Nuclear Electric.

<sup>3</sup> These items include the financing requirements of nationalised industries privatised before 1992-93 other than the non-nuclear electricity industries.

<sup>4</sup> The total financing requirement for the Civil Aviation Authority is shown in this row. This includes subsidies from the

Scottish Office Industry Department (eg £4.5 million in 1991-92) which are included in the total for Scotland in Table 2A.5.

<sup>5</sup> Scottish Power and Scottish Hydro-Electric were privatised during 1991-92. From 1992-93 comprises Scottish Nuclear.



Table 2A.11 Local authority expenditure<sup>1</sup>

|  | £ million     |               |               |               |               |                   |
|--|---------------|---------------|---------------|---------------|---------------|-------------------|
|  | Outturn       |               |               |               |               | Estimated outturn |
|  | 1987-88       | 1988-89       | 1989-90       | 1990-91       | 1991-92       | 1992-93           |
| England                                  | 33 345        | 34 964        | 40 478        | 43 248        | 48 885        | 54 000            |
| Scotland                                 | 4 675         | 4 928         | 5 378         | 5 822         | 6 240         | 6 700             |
| Wales                                    | 2 203         | 2 291         | 2 610         | 2 925         | 3 292         | 3 700             |
| Northern Ireland                         | 126           | 143           | 146           | 154           | 160           | 170               |
| <b>Total</b>                             | <b>40 349</b> | <b>42 326</b> | <b>48 612</b> | <b>52 150</b> | <b>58 577</b> | <b>64 500</b>     |
| of which                                 |               |               |               |               |               |                   |
| Current                                  | 36 438        | 39 095        | 42 346        | 47 159        | 53 010        | 57 900            |
| Capital                                  | 3 911         | 3 230         | 6 266         | 4 990         | 5 567         | 6 600             |
| Local authority debt interest            | 4 654         | 5 088         | 5 276         | 5 485         | 5 612         | 5 300             |
| <b>Total local authority expenditure</b> | <b>45 003</b> | <b>47 414</b> | <b>53 888</b> | <b>57 635</b> | <b>64 189</b> | <b>69 800</b>     |

<sup>1</sup> For definitions, rounding and other conventions, see notes on page 30.

Table 2A.12 General government debt interest

|  | £ billion       |         |             |         |         |         |
|--|-----------------|---------|-------------|---------|---------|---------|
|  | Outturn         |         | Projections |         |         |         |
|  | 1990-91         | 1991-92 | 1992-93     | 1993-94 | 1994-95 | 1995-96 |
| General government gross debt interest <sup>1</sup>                                  | 18.4            | 17.1    | 18.4        | 21      | 25      | 28      |
| of which: Central government   | 17.5            | 16.3    | 17.7        | 20      | 24½     | 27½     |
| General government interest and dividend receipts                                    | 6.2             | 6.2     | 5.0         | 5       | 6       | 6½      |
| General government net debt interest   | 12.2            | 10.9    | 13.4        | 15½     | 19      | 21½     |
|  | Per cent of GDP |         |             |         |         |         |
| General government gross debt interest   | 3¼              | 3       | 3           | 3¼      | 3¾      | 4       |
| General government net debt interest   | 2¼              | 1¾      | 2¼          | 2½      | 2¾      | 3       |
| <sup>1</sup> Of which: Servicing of indexed securities (gilts plus national savings) | 2.7             | 2.1     | 1.9         | 1.7     | 2.5     | 2.7     |



Table 2A.13 General government transactions in land and existing buildings

|   | £ billion   |             |             |             |             |             | Estimated<br>outturn | New plans/<br>projections <sup>1</sup> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|----------------------|--|
|   | Outturn     |             |             |             |             |             |                      |  |
|   | 1987-88     | 1988-89     | 1989-90     | 1990-91     | 1991-92     | 1992-93     |                      |  |
| <b>Purchases</b>                          |             |             |             |             |             |             |                      |  |
| Central government                        | 0.2         | 0.2         | 0.3         | 0.3         | 0.4         | 0.4         | $\frac{1}{2}$        |  |
| Local authorities                         |             |             |             |             |             |             |                      |  |
| Housing                                   | 0.3         | 0.4         | 0.5         | 0.1         | 0.2         | 0.1         | } 1                  |  |
| Other                                     | 0.4         | 0.4         | 0.6         | 0.4         | 0.5         | 0.6         |                      |  |
| Total                                     | 0.7         | 0.8         | 1.1         | 0.5         | 0.7         | 0.7         |                      |  |
| <b>Total general government purchases</b> | <b>1.0</b>  | <b>1.0</b>  | <b>1.3</b>  | <b>0.8</b>  | <b>1.0</b>  | <b>1.2</b>  | <b>1</b>             |  |
| <b>Sales</b>                              |             |             |             |             |             |             |                      |  |
| Central government <sup>2</sup>           | -0.4        | -0.6        | -0.5        | -0.4        | -0.4        | -0.3        | $-\frac{1}{2}$       |  |
| Local authorities <sup>3</sup>            |             |             |             |             |             |             |                      |  |
| Housing                                   | -1.9        | -3.0        | -3.0        | -2.2        | -1.3        | -2.0        | } $-2\frac{1}{2}$    |  |
| Other                                     | -1.8        | -2.5        | -2.4        | -1.4        | -1.1        | -0.4        |                      |  |
| Total                                     | -3.7        | -5.6        | -5.4        | -3.6        | -2.4        | -2.4        |                      |  |
| <b>Total general government sales</b>     | <b>-4.0</b> | <b>-6.2</b> | <b>-5.9</b> | <b>-4.0</b> | <b>-2.8</b> | <b>-2.7</b> | <b>-3</b>            |  |
| <b>Sales, net of purchases</b>            |             |             |             |             |             |             |                      |  |
| Central government                        | -0.1        | -0.5        | -0.2        | -0.1        | 0.0         | 0.1         | 0                    |  |
| Local authorities                         |             |             |             |             |             |             |                      |  |
| Housing                                   | -1.5        | -2.6        | -2.5        | -2.0        | -1.1        | -1.8        | } -2                 |  |
| Other                                     | -1.4        | -2.1        | -1.8        | -1.0        | -0.6        | 0.2         |                      |  |
| Total                                     | -3.0        | -4.7        | -4.3        | -3.0        | -1.8        | -1.6        |                      |  |
| <b>Total</b>                              | <b>-3.1</b> | <b>-5.2</b> | <b>-4.6</b> | <b>-3.1</b> | <b>-1.7</b> | <b>-1.5</b> | <b>-2</b>            |  |

<sup>1</sup> Figures are plans for central government and projections for local authorities. Figures are rounded to the nearest  $\frac{1}{2}$  billion.

<sup>2</sup> Excluding receipts included in privatisation proceeds (Forestry Commission, Land Settlement, Motorway Service leases—see Table 8.4 of the Statistical Supplement to the 1991 Autumn Statement (Cm 1920)).

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



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# Annex B to Chapter 2

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## Calculation of changes from previous plans and projections

- Presentation of changes** **2B.1** Changes shown in this statement are differences from the plans and projections for 1992–93 to 1994–95 presented in the 1992 Financial Statement and Budget Report (HC 319), after the effects of classification changes and transfers and switches between departments are taken into account.
- 2B.2** The estimated outturn for 1992–93 and the new plans for 1993–94 to 1995–96 take account of a number of significant technical adjustments to departmental provision agreed since the last Autumn Statement. These changes cover transfers of functions or financing responsibility between departments, and changes in the way in which expenditure is measured (described as classification changes). The main technical changes are described below. Tables 2B.2 to 2B.4 show how these are taken into account in calculating the changes from previous plans and projections, set out elsewhere in this Statement.
- Transfers and switches** **2B.3** These result from decisions to transfer responsibility for specific functions between departments or changes in the way of financing particular activities, for example following the introduction of repayment. In the case of transfers of function, adjustments are made to past years' data as well as to plans to enable consistent year on year comparisons to be made. Changes in financing arrangements are treated in the same way as other decisions taken in the Survey, ie provision is adjusted from the time of the change, as appropriate, but past figures are left unchanged.
- Transfers of function** **2B.4** The tables in this Statement reflect the changes in departmental responsibilities made during 1992. The principal changes involved are:
- (i) Allocation of responsibility for energy matters generally to the Department of Trade and Industry, and for energy efficiency to DOE, following the disbanding of the Department of Energy.
  - (ii) Creation of the Department of National Heritage, taking responsibility for arts (from the Office of Arts and Libraries), home broadcasting (from the Home Office), sport (from Education), heritage (from Environment), tourism (from Employment) and film projects (from the Department of Trade and Industry).
  - (iii) Creation of the Office of Public Service and Science, from Cabinet Office (Office of the Minister for the Civil Service), taking science from Education and Science (now Department for Education), and CCTA, CCC, HMSO and COI from the Chancellor's Department.
  - (iv) Transfer of responsibility for magistrates courts' from the Home Office to the Lord Chancellor's Department. This change was reflected in the Main Estimates for 1992–93.
- Changes of financing responsibility** **2B.5** The principal changes in financing responsibility which affect the new plans are:
- (i) From 1993–94 local authorities will be responsible for provision of residential care for people who need it under the arrangements announced in the 1989 White Paper "Caring for People" (Cm 849). This gives local authorities the responsibility for a single budget to cover the costs of social



care, whether in the person's own home or in a residential care or nursing home. In preparing for this change provision has been transferred from the Department of Social Security to the Department of Environment, the Department of Health, the Scottish Office and the Welsh Office, who will provide the additional finance required by local authorities and the NHS. Similar changes have been applied also in Northern Ireland. The adjustments to previous plans for income support expenditure affect both the cyclical and non-cyclical components of social security expenditure.

- (ii) Responsibility for the funding of further education colleges and sixth form colleges, formerly under the control of local authorities, will transfer from 1993-94 to the new Further Education Funding Councils in England and Wales and to the Scottish Office, as appropriate. As a result of this change, additional provision will be made available to the Department for Education, the Scottish Office and the Welsh Office. This is offset by equivalent reductions in Revenue Support Grant in England, Scotland and Wales, as responsibility moves from local authorities.
- (iii) Responsibility for funding Scottish and Welsh universities will transfer from 1993-94 from the Universities' Funding Council to the Scottish and Welsh Higher Education Funding Councils.
- (iv) Responsibility for training in Wales has moved from the Department of Employment to the Welsh Office. This change was reflected in the 1992-93 Main Estimates.

**Classification changes** **2B.6** These reflect changes in the way spending is measured and are applied across the whole nine years covered by the tables in the Autumn Statement, so that consistent assessments of trends can be made. There are two significant changes incorporated in the figures in this Statement. The basis of the measurement of the costs of Civil Service and Armed Forces pensions has been changed to reflect the introduction of charging for accruing pension liabilities. The second change relates to the measurement of the cost of health services provided by NHS trusts. These changes are described in more detail below.

**Treatment of pensions** **2B.7** In November 1991 the White Paper "Competing for Quality" noted the proposals being developed to charge all accruing superannuation costs to departmental budgets from 1 April 1993. The necessary arrangements for this have now been made for the Civil Service and Armed Forces pension schemes.

**2B.8** Departments and agencies operating as trading funds and a number of other bodies pay superannuation charges to the Civil Superannuation Vote as they accrue. But, for the majority, the cost of pensions are met by the Treasury as they fall to be paid and are not charged to departments. The running costs of most departments therefore understate the full cost of employing staff. Although a variety of measures are in place to prevent the understatement being ignored when decisions are taken, it would be in line with the thrust of management reform to ensure that superannuation costs are more directly presented. As "Competing for Quality" noted, full transparency of current costs is important for maximising incentives to increase efficiency and for promoting sound decision-making.

**2B.9** From 1 April 1993 departments and agencies will be charged for the cost of pension cover provided for their staffs. These charges will be paid to the Civil Superannuation Vote where they will be appropriated in aid. They will be an integral part of departmental paybills and will be considered as part of their public spending provision, along with all other staff costs.



**2B.10** Similar changes are being introduced from 1 April 1993 for the Armed Forces pension scheme. In future MOD budget holders will also meet accruing superannuation charges in their delegated budgets for armed forces personnel. As for the Civil Service, budget holders will pay accruing charges to the Armed Forces Pensions Vote, where they will be appropriated-in-aid of gross pension payments.

**2B.11** These changes in the measurement of pension costs have no implications for the benefits available under either scheme.

**2B.12** The net expenditure on the Civil Superannuation and Armed Forces Pensions Votes (ie pensions in payment, less accruing superannuation liability charges received) will be excluded from the control total, mirroring the treatment that has applied for several years for the teachers' and NHS schemes.

**Effect on profiles**

**2B.13** These changes will come into force from 1 April 1993. To avoid complicating comparisons over time, the figures in this Statement for earlier years have been similarly adjusted.

**2B.14** Tables 2B.2, 2B.3 and 2B.4 show the effect of this change on individual departmental budgets between 1992-93 and 1994-95. Table 2B.1 shows the overall effect of the change in the treatment of pensions on the planning and control totals from 1987-88 to 1994-95.

**2B.15** Rates of accruing superannuation liability charge for the Civil Service pension schemes are assessed periodically by the Government Actuary's Department. The rates are determined by the demographic characteristics of the members of the scheme, by the benefits available, and by an assessment of the investment climate.

**2B.16** For the PCSPS rates of 22 per cent and 19 per cent of pensionable paybills were applicable in 1987-88 and 1988-89 for non-industrial and industrial staff, respectively. Between 1989-90 and 1992-93 the rates were 17 per cent and 16 per cent. From 1993-94 they will be 13½ per cent and 12 per cent. It is intended, as appropriate and when the necessary management information becomes available, to move to charges tailored to the particular circumstances of individual departments and agencies.

**2B.17** From 1991-92, the cost of the accruing superannuation liability charge for the Armed Forces Scheme has been assessed at 31 per cent of basic paybills for officers and 21 per cent for other ranks. Between 1987-88 and 1990-91, the rates were 34½ per cent and 20 per cent for officers and other ranks.

**Treatment in the National Accounts**

**2B.18** The implications of charging for accruing pension liabilities are being assessed by CSO in the light of possible revisions to the international national accounting standards. For the present, and until this work is complete, there will be no change in the national accounting treatment of public sector pensions. A new accounting adjustment has been introduced between the control total and GGE to reflect the retention of the existing national accounts treatment.

**Services provided by NHS Trusts**

**2B.19** In previous public expenditure publications, purchases of health care from NHS trusts have been measured at price levels which cover trusts' liability to remunerate their debt to the Consolidated Fund.

**2B.20** Thus health authorities' purchases from trust hospitals have included cash elements which have then been paid back to the Exchequer as interest (and other) payments. This contrasts with the position for non-trust hospitals who do not have such debt to remunerate to the Exchequer. The difference arises because of the trusts' position as public corporations, outside the general government sector. Debt remuneration payments by trusts to the Exchequer score on the income side of the government accounts, not as negative public expenditure.



**2B.21** The effect has been to inflate health spending and to distort assessment of real trends. With the growth in the number of trusts since 1990–91, there has been an increasing addition to measured health provision, which has overstated the growth in real resources. From this Statement the additional cash costs on the health programme to reflect trusts' liability to remunerate this debt will be excluded from the control total.

**2B.22** The control total has been adjusted from 1991–92 to 1995–96 to reflect this change. The figures which have been excluded in the calculation of changes from previous plans are shown in Table 2B.1.

**2B.23** The status of trusts as public corporations has not been changed. To reflect the national accounting treatment of trusts, the debt remuneration element of trusts' charges to health authorities, which is a part of general government expenditure, is included as a new national accounting adjustment.

#### Calculation of changes for individual departments

**2B.24** Tables 2B.2, 2B.3 and 2B.4 show the comparison of the figures in this Statement with previous plans. Transfers of function and the effect of the change in pensions treatment are shown separately.

**2B.25** Table 2B.2 presents the changes for 1992–93 for the planning total, ie on the basis on which spending in the current year was planned and is being controlled. Changes for 1993–94 and 1994–95 are set out in Tables 2B.2 and 2B.3 for the new control total.

**2B.26** Further analysis of changes from the plans in Cm 1920 will be presented in the Supplement to the Autumn Statement, to be published early next year.

**Table 2B.1 Classification changes since the 1992 Financial Statement and Budget Report**

|  | £ million   |             |             |             |             |               |               |               |
|--|-------------|-------------|-------------|-------------|-------------|---------------|---------------|---------------|
|  | 1987–88     | 1988–89     | 1989–90     | 1990–91     | 1991–92     | 1992–93       | 1993–94       | 1994–95       |
| Change in treatment of civil service pensions                                    |             |             |             |             |             |               |               |               |
| Additions to departments' paybills   | 1 280       | 1 351       | 1 132       | 1 255       | 1 360       | 1 480         | 1 210         | 1 250         |
| Removal of pensions in payment   | -1 265      | -1 342      | -1 456      | -1 555      | -1 658      | -1 800        | -1 860        | -1 960        |
| Net effect of change   | 15          | 9           | -324        | -300        | -298        | -320          | -650          | -710          |
| Change in treatment of Armed Forces' pensions                                    |             |             |             |             |             |               |               |               |
| Additions to Armed Forces' paybills  | 831         | 878         | 927         | 995         | 1 114       | 1 100         | 1 090         | 1 060         |
| Removal of pensions in payment   | -1 070      | -1 050      | -1 183      | -1 301      | -1 458      | -1 610        | -1 800        | -1 910        |
| Net effect of change   | -239        | -172        | -256        | -307        | -344        | -510          | -700          | -850          |
| NHS trusts' debt remuneration  |             |             |             |             | -134        | -420          | -670          | -870          |
| Other changes  | 2           | 2           | 0           | -2          | -23         | -20           | -20           | -20           |
| <b>Total classification changes affecting the planning and new control total</b> | <b>-222</b> | <b>-161</b> | <b>-580</b> | <b>-609</b> | <b>-799</b> | <b>-1 300</b> | <b>-2 000</b> | <b>-2 400</b> |



Table 2B.2 Planning total: forecast outturn in 1992-93, changes from previous plans

|                                 | £ million  |   |                                       |  |                |               |                   |
|---------------------------------|--|---|---------------------------------------|--|----------------|---------------|-------------------|
|                                 | Plans in Statistical Supplement to 1991 Autumn Statement | Technical adjustments <sup>1</sup>        |                                       |  | Revised plans  | Other changes | Estimated outturn |
|                                 |  | Transfers of function between departments | Change in treatment of pensions costs | Other classification changes and transfers |                |               |                   |
| Defence                         | 24 180   |   | - 160                                 | 0  | 24 020         | - 220         | 23 800            |
| Foreign Office                  | 1 120  | 0   | 40                                    | 0  | 1 160          | 200           | 1 360             |
| Overseas Development            | 2 150  |   | 0                                     | 0  | 2 150          | 100           | 2 250             |
| Agriculture, Fisheries and Food | 2 190  | 0   | 20                                    | 0  | 2 220          | 60            | 2 280             |
| Trade and Industry              | 940  | 560                                       | 20                                    | 0  | 1 530          | 120           | 1 650             |
| <i>Energy</i>                   | <i>610</i>   | <i>- 610</i>                              |                                       |  |                |               |                   |
| ECGD                            | 120  |   |                                       |  | 120            | 0             | 110               |
| Employment                      | 3 860  | - 100                                     | 50                                    | - 240                                      | 3 570          | 70            | 3 640             |
| Transport                       | 6 950  | - 80                                      | 20                                    | - 20                                       | 6 880          | - 130         | 6 750             |
| DOE—Housing                     | 7 740  | 0   | 0                                     | - 10                                       | 7 730          | 880           | 8 610             |
| DOE—Environment                 | 1 320  | - 20                                      | 20                                    | - 40                                       | 1 280          | 280           | 1 560             |
| DOE—PSA                         | 70   |   |                                       | 0  | 70             | - 10          | 60                |
| DOE—Local government            | 31 020   |   |                                       | 0  | 31 020         | - 150         | 30 880            |
| Home Office                     | 6 000  | - 340                                     | 160                                   | - 10                                       | 5 820          | 140           | 5 970             |
| Legal departments               | 1 760  | 310                                       | 40                                    | 10   | 2 130          | 280           | 2 400             |
| <i>Education and Science</i>    | <i>7 950</i>   | <i>- 7 950</i>                            |                                       |  |                |               |                   |
| Education                       |  | 6 810                                     | 10                                    | 0  | 6 820          | 160           | 6 980             |
| <i>Arts and Libraries</i>       | <i>610</i>   | <i>- 610</i>                              |                                       |  |                |               |                   |
| National Heritage               |  | 960                                       | 0                                     | 0  | 960            | 50            | 1 020             |
| Health                          | 28 150   | 0   | 20                                    | - 410                                      | 27 760         | 520           | 28 280            |
| Social Security                 | 70 600   | 0   | 300                                   | 100  | 70 900         | 2 800         | 73 700            |
| Scotland                        | 12 540   |   | 40                                    | - 20                                       | 12 560         | 110           | 12 670            |
| Wales                           | 5 810  | 0   | 10                                    | 160  | 5 970          | 50            | 6 020             |
| Northern Ireland                | 7 030  |   | 0                                     | 0  | 7 030          | 70            | 7 090             |
| Chancellor's departments        | 5 030  | - 20                                      | - 1 400                               | - 10                                       | 3 590          | - 30          | 3 560             |
| <i>Cabinet Office, etc</i>      | <i>450</i>   | <i>- 450</i>                              |                                       |  |                |               |                   |
| Cabinet Office—OPSS             |  | 1 090                                     | 0                                     | 40   | 1 130          | 10            | 1 140             |
| Cabinet Office—other, etc       |  | 450                                       | 0                                     | 0  | 450            | 10            | 450               |
| European Communities            | 2 460  |   |                                       |  | 2 460          | - 690         | 1 770             |
| Reserve                         | 4 000  |   |                                       |  | 4 000          | - 4 000       |                   |
| Privatisation proceeds          | - 8 000  |   |                                       |  | - 8 000        |               | - 8 000           |
| Adjustment                      |  |   |                                       |  |                | 100           | 100               |
| <b>Planning total</b>           | <b>226 600</b>   | <b>0</b>                                  | <b>- 800</b>                          | <b>- 400</b>                               | <b>225 400</b> | <b>800</b>    | <b>226 100</b>    |

<sup>1</sup> The principal changes are described in paragraphs 2B.4 to 2B.23.



Table 2B.3 Departmental spending within the new control total in 1993-94, changes from previous plans

|                                    | £ million  |   |                                       |  |                          | Revised plans  | Other changes | New plans      |
|------------------------------------|--|---|---------------------------------------|--|--------------------------|----------------|---------------|----------------|
|                                    | Plans in Statistical Supplement to 1991 Autumn Statement | Technical adjustments <sup>1</sup>              |                                       |  | Cyclical social security |                |               |                |
|                                    |  | Transfers of responsibility between departments | Change in treatment of pensions costs | Other classification changes and transfers |                          |                |               |                |
| Defence                            | 24 520   |   | - 430                                 | 0  |                          | 24 090         | - 570         | 23 520         |
| Foreign Office                     | 1 190  | 0   | 30                                    | 0  |                          | 1 220          | 0             | 1 220          |
| Overseas Development               | 2 260  |   | 0                                     | 0  |                          | 2 270          | 0             | 2 270          |
| Agriculture, Fisheries and Food    | 2 220  | 0   | 20                                    | 0  |                          | 2 230          | 590           | 2 820          |
| Trade and Industry                 | 900  | 450   | 20                                    | 0  |                          | 1 370          | 1 220         | 2 590          |
| <i>Energy</i>                      | <i>510</i>   | <i>- 510</i>                                    |                                       |  |                          |                |               |                |
| ECGD                               | 70   |   |                                       |  |                          | 70             | - 110         | - 30           |
| Employment                         | 3 880  | - 100   | 50                                    | - 250                                      |                          | 3 580          | 170           | 3 740          |
| Transport                          | 6 590  | - 20  | 20                                    | 110  |                          | 6 700          | - 270         | 6 430          |
| DOE—Housing                        | 7 930  | 0   | 0                                     | - 10                                       |                          | 7 920          | - 40          | 7 880          |
| DOE—Environment                    | 1 300  | - 80  | 10                                    | - 20                                       |                          | 1 210          | 230           | 1 440          |
| DOE—PSA                            | 40   |   |                                       | 0  |                          | 40             | 80            | 120            |
| DOE—Local government               | 32 500   |   |                                       | - 2 610                                    |                          | 29 890         | - 520         | 29 380         |
| Home Office                        | 6 410  | - 410   | 140                                   | - 10                                       |                          | 6 130          | - 10          | 6 120          |
| Legal departments                  | 1 840  | 330   | 30                                    | 10   |                          | 2 200          | 380           | 2 590          |
| <i>Education and Science</i>       | <i>8 370</i>   | <i>- 8 370</i>                                  |                                       |  |                          |                |               |                |
| Education                          |  | 7 100   | 10                                    | 2 120                                      |                          | 9 230          | 300           | 9 520          |
| <i>Arts and Libraries</i>          | <i>600</i>   | <i>- 600</i>                                    |                                       |  |                          |                |               |                |
| National Heritage                  |  | 1 020   | 0                                     | 0  |                          | 1 020          | - 30          | 990            |
| Health                             | 30 010   | 0   | 20                                    | - 260                                      |                          | 29 770         | 120           | 29 880         |
| Social Security                    | 76 100   | 0   | 200                                   | - 300                                      | - 11 900                 | 64 100         | 900           | 65 000         |
| Scotland                           | 13 070   |   | 30                                    | 280  |                          | 13 380         | 70            | 13 450         |
| Wales <sup>2</sup>                 | 6 060  | 0   | 10                                    | 290  |                          | 6 350          | - 50          | 6 300          |
| Northern Ireland                   | 7 410  |   | 0                                     | 0  | - 550                    | 6 860          | 50            | 6 910          |
| Chancellor's departments           | 5 220  | - 20  | - 1 530                               | - 30                                       |                          | 3 630          | - 240         | 3 390          |
| <i>Cabinet Office, etc</i>         | <i>470</i>   | <i>- 470</i>                                    |                                       | 0  |                          |                |               |                |
| Cabinet Office—OPSS                |  | 1 220   | 0                                     | 40   |                          | 1 260          | - 10          | 1 250          |
| Cabinet Office—other, etc          |  | 470   | 0                                     | 0  |                          | 460            | 10            | 480            |
| European Communities               | 2 570  |   |                                       |  |                          | 2 570          | - 1 160       | 1 410          |
| <b>Total departmental spending</b> | <b>242 000</b>   | <b>0</b>  | <b>- 1 400</b>                        | <b>- 700</b>                               | <b>- 12 400</b>          | <b>227 600</b> | <b>1 100</b>  | <b>228 700</b> |

<sup>1</sup> The principal changes are described in paragraphs 2B.4 to 2B.23.<sup>2</sup> The figure shown under other changes includes an adjustment of - £16 million in respect of overprovision in previous plans.



**Table 2B.4 Departmental spending within the new control total in 1994–95, changes from previous plans**

|                                    | £ million  |   |                                       |  |                          | Revised plans  | Other changes | New plans      |
|------------------------------------|--|---|---------------------------------------|--|--------------------------|----------------|---------------|----------------|
|                                    | Plans in Statistical Supplement to 1991 Autumn Statement | Technical adjustments <sup>1</sup>              |                                       |  | Cyclical social security |                |               |                |
|                                    |  | Transfers of responsibility between departments | Change in treatment of pensions costs | Other classification changes and transfers |                          |                |               |                |
| Defence                            | 24 800   |   | – 570                                 | 0  |                          | 24 230         | – 480         | 23 750         |
| Foreign Office                     | 1 200  | 0   | 30                                    | 0  |                          | 1 230          | – 10          | 1 210          |
| Overseas Development               | 2 330  |   | 0                                     | 0  |                          | 2 340          | – 30          | 2 310          |
| Agriculture, Fisheries and Food    | 2 280  | 0   | 20                                    | 0  |                          | 2 300          | 630           | 2 930          |
| Trade and Industry                 | 930  | 400   | 20                                    | 0  |                          | 1 350          | – 230         | 1 130          |
| <i>Energy</i>                      | <i>460</i>   | <i>– 460</i>                                    |                                       |  |                          |                |               |                |
| ECGD                               | 40   |   |                                       |  |                          | 40             | – 100         | – 60           |
| Employment                         | 3 920  | – 110   | 50                                    | – 250                                      |                          | 3 620          | 90            | 3 700          |
| Transport                          | 6 100  | – 20  | 20                                    | 120  |                          | 6 220          | – 150         | 6 070          |
| DOE—Housing                        | 8 180  | 0   | 0                                     | – 10                                       |                          | 8 170          | 10            | 8 190          |
| DOE—Environment                    | 1 290  | – 70  | 10                                    | – 30                                       |                          | 1 200          | 20            | 1 210          |
| DOE—PSA                            | 10   |   |                                       | 0  |                          | 10             | 10            | 20             |
| DOE—Local government               | 34 000   |   |                                       | – 2 350                                    |                          | 31 650         | – 750         | 30 900         |
| Home Office                        | 6 680  | – 430   | 150                                   | – 10                                       |                          | 6 390          | – 70          | 6 330          |
| Legal departments                  | 1 910  | 340   | 30                                    | 10   |                          | 2 290          | 490           | 2 780          |
| <i>Education and Science</i>       | <i>8 750</i>   | <i>– 8 750</i>                                  |                                       |  |                          |                |               |                |
| Education                          |  | 7 390   | 10                                    | 2 240                                      |                          | 9 640          | 470           | 10 120         |
| <i>Arts and Libraries</i>          | <i>620</i>   | <i>– 620</i>                                    |                                       |  |                          |                |               |                |
| National Heritage                  |  | 1 040   | 0                                     | 0  |                          | 1 040          | – 30          | 1 010          |
| Health                             | 31 690   | 0   | 20                                    | – 200                                      |                          | 31 500         | – 260         | 31 240         |
| Social Security                    | 79 800   | 0   | 200                                   | – 1 100                                    | – 12 400                 | 66 500         | 600           | 67 100         |
| Scotland                           | 13 610   |   | 30                                    | 350  |                          | 13 990         | – 30          | 13 960         |
| Wales <sup>2</sup>                 | 6 300  | 0   | 10                                    | 330  |                          | 6 640          | – 80          | 6 560          |
| Northern Ireland                   | 7 740  |   | 0                                     | 0  | – 590                    | 7 140          | – 50          | 7 100          |
| Chancellor's departments           | 5 430  | – 20  | – 1 610                               | – 30                                       |                          | 3 760          | – 200         | 3 560          |
| <i>Cabinet Office, etc</i>         | <i>480</i>   | <i>– 480</i>                                    |                                       |  |                          |                |               |                |
| Cabinet Office—OPSS                |  | 1 310   | 0                                     | 40   |                          | 1 350          | – 30          | 1 320          |
| Cabinet Office—other, etc          |  | 480   | 0                                     | 0  |                          | 480            | 0             | 480            |
| European Communities               | 2 910  |   |                                       |  |                          | 2 910          | – 260         | 2 650          |
| <b>Total departmental spending</b> | <b>251 500</b>   | <b>0</b>  | <b>– 1 600</b>                        | <b>– 900</b>                               | <b>– 13 000</b>          | <b>236 000</b> | <b>– 500</b>  | <b>235 600</b> |

<sup>1</sup> The principal changes are described in paragraphs 2B.4 to 2B.23.

<sup>2</sup> The figure shown under other changes includes an adjustment of – £22 million in respect of overprovision in previous plans.



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# Annex C to Chapter 2

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## New control total

**Introduction** 2C.1 The Government has made a number of changes to the system of public expenditure control as part of a more explicitly 'top-down' approach.

2C.2 The new approach is designed to ensure that the Government meets its medium-term objective of reducing over time the share of national income taken by public spending (general government expenditure excluding privatisation proceeds).

**GGE growth** 2C.3 For the Government to meet this objective, public spending needs to grow more slowly over time than the economy. On present assumptions this means that the Government aims to ensure that the real growth of GGE over time is no higher than 2 per cent on average, within the potential growth rate of the economy. This does not, however, mean that real GGE growth will be 2 per cent or less every year. Cyclical variation in certain items may lead to real GGE growing by more than 2 per cent in some years.

**New control total (NCT)** 2C.4 To achieve its public spending objective, the Government will now plan and control public expenditure by setting an annual ceiling from 1993–94 in terms of a new control total (which replaces the planning total).

2C.5 This ceiling will be expressed in cash terms but will reflect a maximum permitted real growth rate of  $1\frac{1}{2}$  per cent a year. Assumptions about the trend rate of growth of items outside the NCT but within GGE imply that an average  $1\frac{1}{2}$  per cent real growth a year in the NCT would be consistent with real GGE growth over time no higher than 2 per cent. The maximum growth rate set for the NCT will, if necessary, be reviewed in future if the Government's assessment of the medium-term growth rates of public spending and output alters. One element in this will be any changes in the underlying growth rates of expenditure outside the NCT.

**Comparison with planning total** 2C.6 The planning total included central government's own spending, central government support for local authority expenditure, the financing requirements of nationalised industries and other public corporations, and a Reserve and was net of privatisation proceeds. It excluded local authority self-financed expenditure (LASFE), central government debt interest and certain accounting adjustments. (These expenditures do, however, form part of GGE.)

2C.7 Compared with the planning total, the main changes in the NCT are that it:

- excludes the main elements of cyclical social security (unemployment benefit and income support for non-pensioners);
- includes local authority self-financed expenditure; and
- excludes privatisation proceeds.

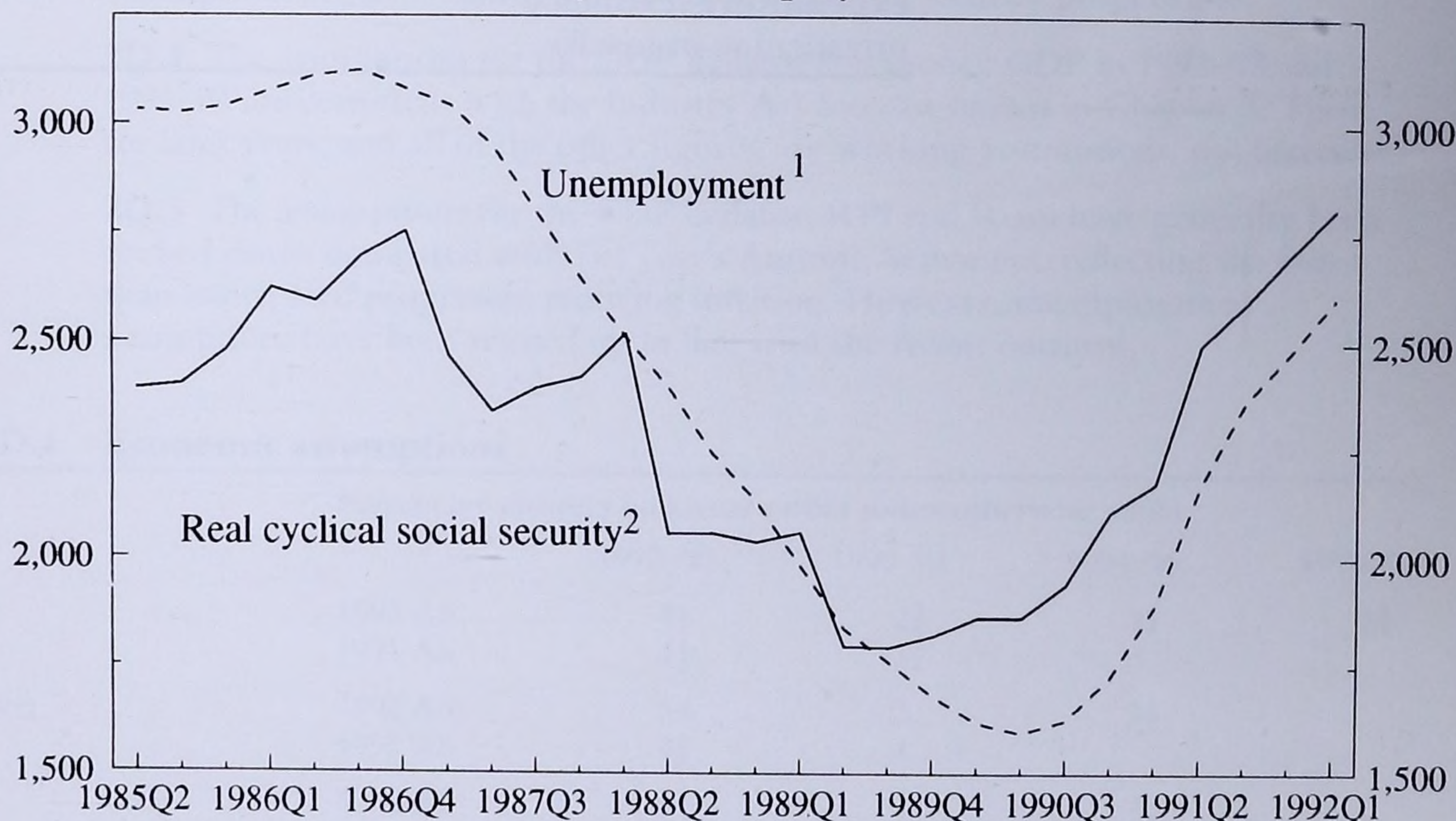


**2C.8** In defining the NCT, the Government has been concerned that as much public spending as possible should be included, given the fundamental objective of controlling GGE over time. The Government has, however, also taken steps to ensure programme spending is to a large extent insulated from the effects of the cycle.

**LASFE 2C.9** LASFE was not included in the planning total which consisted only of items of expenditure for which central government was directly responsible. It is included, however, in the NCT. This is because LASFE is a significant component of GGE, is not primarily cyclical and cannot sensibly be allowed to vary without any requirement for offsetting adjustments. Although LASFE is not directly under central government control, the Government influences and restrains local authority expenditure, and hence LASFE, through grant, capping and capital receipts rules.

**Cyclical social security 2C.10** There is a tendency for social security spending to rise during a recession—thereby squeezing spending on other programmes—and to fall when growth in the economy picks up, allowing higher than intended spending in other areas and obscuring underlying trends. The main unemployment-related elements of social security (unemployment benefit and income support for non-pensioners) have been excluded from the NCT to prevent these effects. Other social security spending is included within the NCT. Chart 2C.1 shows the relationship between real cyclical social security and unemployment.

**Chart 2C.1 Real cyclical social security and unemployment**



<sup>1</sup> in thousands

<sup>2</sup> £ million, unemployment benefit plus income support to non-pensioners deflated by relevant uprating factor.

**Central government debt interest 2C.11** Central government debt interest payments are excluded from the NCT, as they have been from the planning total, since they vary from year to year, are affected by the business cycle and the Government's fiscal and monetary policies and would, if included, distort the annual growth rate of the NCT.

**2C.12** The relationship between the planning total and the NCT is shown in Table 2.2 of Chapter 2.



**The NCT and GGE** 2C.13. Table 2C.1 compares the relationship of the planning total and the NCT with GGE.

**Table 2C.1 Relationship of planning total and NCT with GGE**

| <b>Planning total</b>  | <b>New control total</b>   |
|--|--|
| <b>Social security:</b>  | <b>Social security:</b>  |
| —Non-cyclical  | —Non-cyclical  |
| —Cyclical  |  |
| Other programmes   | Other programmes   |
| Privatisation proceeds   | LASFE  |
| Reserve  | Reserve  |
| <b>Planning total</b>  | <b>New control total</b>   |
| LASFE  | —Cyclical social security  |
| Central government debt interest   | Central government debt interest   |
| Accounting adjustments   | Accounting adjustments   |
| <b>General government expenditure</b>                                    | <b>General government expenditure</b> (excluding privatisation proceeds) |
| exclude privatisation proceeds   |  |
| <b>General government expenditure</b> (excluding privatisation proceeds) |  |



# Annex D to Chapter 2

## Economic assumptions

**2D.1** This annex brings together the economic assumptions which underlie the public expenditure figures, and compares them with the assumptions from the 1991 Autumn Statement.

**2D.2** Assumptions for the following variables are given in Table 2D.1:

- general inflation as measured by the GDP deflator at market prices;
- the retail prices index (RPI);
- the Rossi index—ie RPI excluding mortgage interest payments, rent and the council tax;
- the increase in average earnings;
- the level of unemployment (GB and Northern Ireland);
- money GDP at market prices.

**2D.3** The principal use of the GDP deflator is to convert the cash expenditure figures into real terms. The RPI, Rossi, average earnings and unemployment assumptions are used mainly for planning the social security programme.

**2D.4** The assumptions for the GDP deflator and money GDP in 1992–93 and 1993–94 are consistent with the Industry Act forecast shown in Chapter 3. Those for later years, and all of the other figures, are working assumptions, not forecasts.

**2D.5** The assumptions for the GDP deflator, RPI and Rossi have generally been revised down compared with last year's Autumn Statement, reflecting the faster than anticipated progress in reducing inflation. However, unemployment assumptions have been revised up in line with the recent outturns.

**Table 2D.1 Economic assumptions**

|  |         | Percentage changes on a year earlier unless otherwise stated |                 |                 |                 |
|--|---------|--|-----------------|-----------------|-----------------|
|  |         | 1992–93  | 1993–94         | 1994–95         | 1995–96         |
| GDP deflator at market prices                | 1992 AS | 4 $\frac{1}{4}$  | 2 $\frac{3}{4}$ | 3 $\frac{1}{4}$ | 2 $\frac{3}{4}$ |
|  | 1991 AS | 4 $\frac{1}{2}$  | 3 $\frac{3}{4}$ | 3               |                 |
| Retail prices index <sup>1</sup> (September) | 1992 AS | 3.6  | 2               | 3 $\frac{1}{2}$ |                 |
|  | 1991 AS | 4 $\frac{1}{4}$  | 4               |                 |                 |
| Rossi index <sup>1</sup> (September)         | 1992 AS | 3.6  | 3 $\frac{3}{4}$ | 2 $\frac{1}{2}$ |                 |
|  | 1991 AS | 4 $\frac{1}{4}$  | 3 $\frac{3}{4}$ |                 |                 |
| Average earnings                             | 1992 AS | 5 $\frac{1}{4}$  | 5               |                 |                 |
|  | 1991 AS | 6 $\frac{1}{2}$  |                 |                 |                 |
| GB unemployment (millions)                   | 1992 AS | 2.74   | 2.8             | 2.8             | 2.8             |
|  | 1991 AS | 2.4  | 2.4             | 2.4             |                 |
| Northern Ireland unemployment (thousands)    | 1992 AS | 108  | 110             | 110             | 110             |
|  | 1991 AS | 105  | 105             | 105             |                 |
| Money GDP at market prices (£ billion)       | 1992 AS | 601  | 629             | 674             | 717             |
|  | 1991 AS | 631  | 675             | 718             |                 |

<sup>1</sup> Used for projecting social security benefit expenditure in following financial year.



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# Annex E to Chapter 2

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| <b>Departmental groupings</b>     |  |
|-----------------------------------|--|
| <b>Short title used in tables</b> | <b>Departments covered</b>   |
| 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<br>Intervention Board  |
| Trade and Industry                | Department of Trade and Industry<br>Office of Fair Trading<br>Office of Telecommunications<br>Office of Electricity Regulation<br>Office of Gas Supply   |
| ECGD                              | Export Credits Guarantee Department  |
| Employment                        | Department of Employment<br>Advisory, Conciliation and Arbitration Service<br>Health and Safety Commission   |
| Transport                         | Department of Transport  |
| DOE—Housing                       | Department of Environment—Housing  |
| DOE—Environment                   | Department of Environment—Other Environmental Services<br>Office of Water Services<br>Ordnance Survey<br>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<br>Charity Commission  |
| Legal departments                 | Local Chancellor's Department<br>Crown Office, Scotland<br>Crown Prosecution Service<br>Land Registry<br>Northern Ireland Court Service<br>Public Record Office<br>Serious Fraud Office<br>Treasury Solicitor's Department |



|                           |  |
|---------------------------|--|
| Education                 | Department for Education   |
| National Heritage         | Department of National Heritage  |
| Health                    | Department of Health<br>Office of Population Censuses and Surveys  |
| Social Security           | Department of Social Security  |
| Scotland                  | Scottish Office<br>Forestry Commission<br>General Register Office (Scotland)<br>Registers of Scotland<br>Scottish Courts Administration<br>Scottish Record Office  |
| Wales                     | Welsh Office   |
| Northern Ireland          | Northern Ireland Office and Departments  |
| Chancellor's departments  | HM Treasury<br>Central Statistical Office<br>Department for National Savings<br>Government Actuary's Department<br>HM Customs and Excise<br>Inland Revenue<br>National Investment and Loans Office<br>Paymaster General's Office<br>Registry of Friendly Societies<br>Royal Mint |
| Cabinet Office—OPSS       | Office of Public Service and Science<br>Central Office of Information<br>Her Majesty's Stationery Office<br>Chessington Computer Centre<br>Central Computer and Telecommunications Agency  |
| Cabinet Office—other, etc | Cabinet Office<br>House of Commons<br>House of Lords<br>National Audit Office<br>Parliamentary Commissioner and Health Service Commissioners<br>Privy Council Office   |
| European Communities      | Net payments to European Community institutions  |



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# 3 Economic prospects

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## Summary

**World economy** 3.1. Recovery in the world economy has stalled again. GDP growth in the major seven economies (G7) slowed sharply in the second quarter and industrial production is falling in a number of the larger countries. Moreover confidence has fallen following recent turmoil on the foreign exchange markets. As a result, independent forecasts of G7 growth have been revised down sharply. The Treasury forecast of G7 growth is  $1\frac{1}{2}$  per cent this year, rising to  $1\frac{3}{4}$  per cent in 1993—well below the early summer consensus of around 3 per cent.

**UK demand and activity** 3.2. Demand and activity in the UK have been weaker than expected at the time of the Budget. GDP fell  $\frac{1}{2}$  per cent in the first half of 1992 and may fall slightly in the second half, reflecting the recent deterioration in business and consumer confidence. The Treasury forecast is a fall of 1 per cent in 1992 as a whole. However the substantial easing of monetary policy since mid-September and the measures announced in the Autumn Statement strengthen the conditions for recovery next year.

3.3 The average independent forecast made since sterling's ERM suspension is an increase in GDP in 1993 of  $1\frac{1}{4}$  per cent. Fifteen out of twenty-four forecasts envisage growth of 1 per cent or more. The Treasury forecast is an increase in GDP in 1993 of 1 per cent. As in most independent forecasts the stimulus to growth is expected to come largely from consumer spending and stocks. Exports are also generally forecast to increase more rapidly than in 1992 in response to the recent depreciation of sterling.

**Inflation** 3.4 Underlying inflation has fallen further over the past year. The RPI excluding mortgage interest payments (MIPs) rose by  $3\frac{3}{4}$  per cent in the year to October compared with  $5\frac{1}{2}$  per cent a year earlier. As inflation responds with a lag to demand, the impact of the recession should continue to exert strong disinflationary pressure over the next year. However, the depreciation of sterling inevitably means that, despite the weakness of demand, prices will be higher than they would otherwise have been. The Treasury forecast shows underlying inflation at  $3\frac{3}{4}$  per cent for the RPI excluding MIPs by the fourth quarter of 1993. The average independent forecast puts underlying inflation a little higher than this at  $4\frac{1}{4}$  per cent.

**Labour market** 3.5 The growth of average earnings fell to  $5\frac{1}{2}$  per cent in September from  $7\frac{3}{4}$  per cent a year earlier, and is expected to fall further over the next year. The rate of increase of unemployment has picked up in recent months, but is lower than in the first half of 1991. Most forecasters are projecting further increases in unemployment in 1993.



**Table 3.1 Economic prospects: summary**

|   | Percentage changes on a year earlier unless otherwise stated |                 |                              |                          |   |
|---|--|-----------------|------------------------------|--------------------------|---|
|   | 1991   | Forecasts       |                              | Independent <sup>1</sup> |   |
|   |  | 1992            | 1993                         |                          |   |
|   |  | Treasury        | Treasury                     | Average                  | Range                                   |
| <b>GDP and domestic demand at constant prices</b>         |  |                 |                              |                          |   |
| Domestic demand   | - 3 $\frac{1}{4}$  | 0               | 1 $\frac{1}{2}$              | 1                        | - 1 to 5 $\frac{1}{2}$                  |
| of which:   |  |                 |                              |                          |   |
| Consumers' expenditure                                    | - 2  | - $\frac{1}{4}$ | 1 $\frac{1}{4}$ <sup>2</sup> | 1                        | - 2 to 3                                |
| General government consumption                            | 2 $\frac{3}{4}$  | $\frac{1}{2}$   | $\frac{1}{2}$ <sup>2</sup>   | 1                        | - $\frac{1}{2}$ to 2 $\frac{1}{4}$      |
| Fixed investment  | - 10   | - 2             | $\frac{1}{4}$                | - $\frac{1}{4}$          | - 5 to 2 $\frac{1}{4}$                  |
| Change in stockbuilding <sup>3</sup>                      | - $\frac{3}{4}$  | $\frac{1}{2}$   | $\frac{1}{2}$                | $\frac{1}{4}$            | - $\frac{1}{4}$ to $\frac{1}{2}$        |
| Exports of goods and services                             | $\frac{1}{4}$  | 3 $\frac{1}{4}$ | 5 $\frac{1}{2}$              | 4 $\frac{3}{4}$          | $\frac{3}{4}$ to 6 $\frac{1}{2}$        |
| Imports of goods and services                             | - 3  | 6 $\frac{1}{2}$ | 5 $\frac{3}{4}$              | 3 $\frac{3}{4}$          | - 3 to 14 $\frac{1}{2}$                 |
| <b>Gross domestic product</b>                             |  |                 |                              |                          |   |
| Non-oil GDP   | - 2 $\frac{1}{2}$  | - 1             | 1                            | 1 $\frac{1}{4}$          | 0 to 2                                  |
| Manufacturing output                                      | - 5 $\frac{1}{4}$  | - 1             | 1                            | 1 $\frac{3}{4}$          | $\frac{1}{4}$ to 4 $\frac{1}{2}$        |
| <b>Balance of payments current account</b>                |  |                 |                              |                          |   |
| £ billion   | - 6 $\frac{1}{2}$  | - 12            | - 15 $\frac{1}{2}$           | - 14                     | - 21 $\frac{1}{2}$ to - 4 $\frac{1}{2}$ |
| per cent of GDP   | - 1  | - 2             | - 2 $\frac{1}{2}$            |                          |   |
| <b>Inflation</b>  |  |                 |                              |                          |   |
| RPI excluding mortgage interest payments (fourth quarter) | 5 $\frac{3}{4}$  | 3 $\frac{3}{4}$ | 3 $\frac{3}{4}$              | 4 $\frac{1}{4}$          | 3 $\frac{1}{2}$ to 5 $\frac{1}{4}$      |
| Producer output prices (fourth quarter) <sup>4</sup>      | 3 $\frac{3}{4}$  | 2 $\frac{1}{2}$ | 4                            |                          |   |
| GDP deflator at market prices (financial year)            | 7  | 4 $\frac{1}{4}$ | 2 $\frac{3}{4}$              |                          |   |
| <b>Money GDP at market prices (financial year)</b>        |  |                 |                              |                          |   |
| £ billion   | 581  | 601             | 629                          |                          |   |
| percentage change   | 4 $\frac{3}{4}$  | 3 $\frac{1}{2}$ | 4 $\frac{3}{4}$              |                          |   |
| <b>PSBR (financial year)</b>                              |  |                 |                              |                          |   |
| £ billion   | 13 $\frac{3}{4}$   | 37              |                              |                          |   |
| per cent of GDP   | 2 $\frac{1}{4}$  | 6 $\frac{1}{4}$ |                              |                          |   |

<sup>1</sup> Forecasts made since sterling's ERM suspension. See "Forecasts for the economy. A comparison of independent forecasts" October 1992 No. 67 published by the Treasury.

<sup>2</sup> See footnote 1 to Table 3.12.

<sup>3</sup> Per cent of GDP.

<sup>4</sup> Excluding food, drink and tobacco.



**Current account** 3.6 The current account deficit is forecast to be £12 billion in 1992, but it is expected to widen further in 1993 to £15½ billion. Much of the deterioration arises from import prices rising faster than export prices following the depreciation of sterling. The average independent forecast for 1993 is more optimistic at £14 billion, but the wide range of forecasts indicates the great uncertainty.

**Financial developments** 3.7 Since sterling's ERM suspension in mid-September the sterling index has averaged 81, 11 per cent lower than its average in the first half of 1992. The forecast makes the conventional assumption that sterling remains close to recent levels. Short term interest rates, 10½ per cent a year ago, were down to 8 per cent by the end of October. And they were reduced by a further 1 per cent from 13 November. Equity prices have picked up since ERM suspension, making good earlier losses to show a small increase since this time last year. House prices have fallen 8¾ per cent over the last year.

3.8 M0 has remained in the upper half of its target range over the last year. Broad money (M4) growth has continued to slow and was 5 per cent in September. Bank and building society lending to the private sector has followed a similar profile and was 4¾ per cent higher in September than a year earlier.

**Public finances** 3.9 The latest Treasury forecast is that the public sector borrowing requirement (PSBR) will be £37 billion in 1992–93, up from £28 billion in the Budget forecast. The upward revision largely reflects lower than expected activity and earnings, but also the measures announced in the Autumn Statement. On the basis of the latest forecasts for activity and inflation, the new public expenditure plans and the other changes announced in the Autumn Statement, together with the standard assumptions of the indexation and revalorisation of taxes, imply a PSBR in 1993–94 of about 7 per cent of GDP. The range of outside forecasts is £31 to £52½ billion, equivalent to 5 to 8¼ per cent of GDP. The actual PSBR for 1993–94 will be set in the Budget.

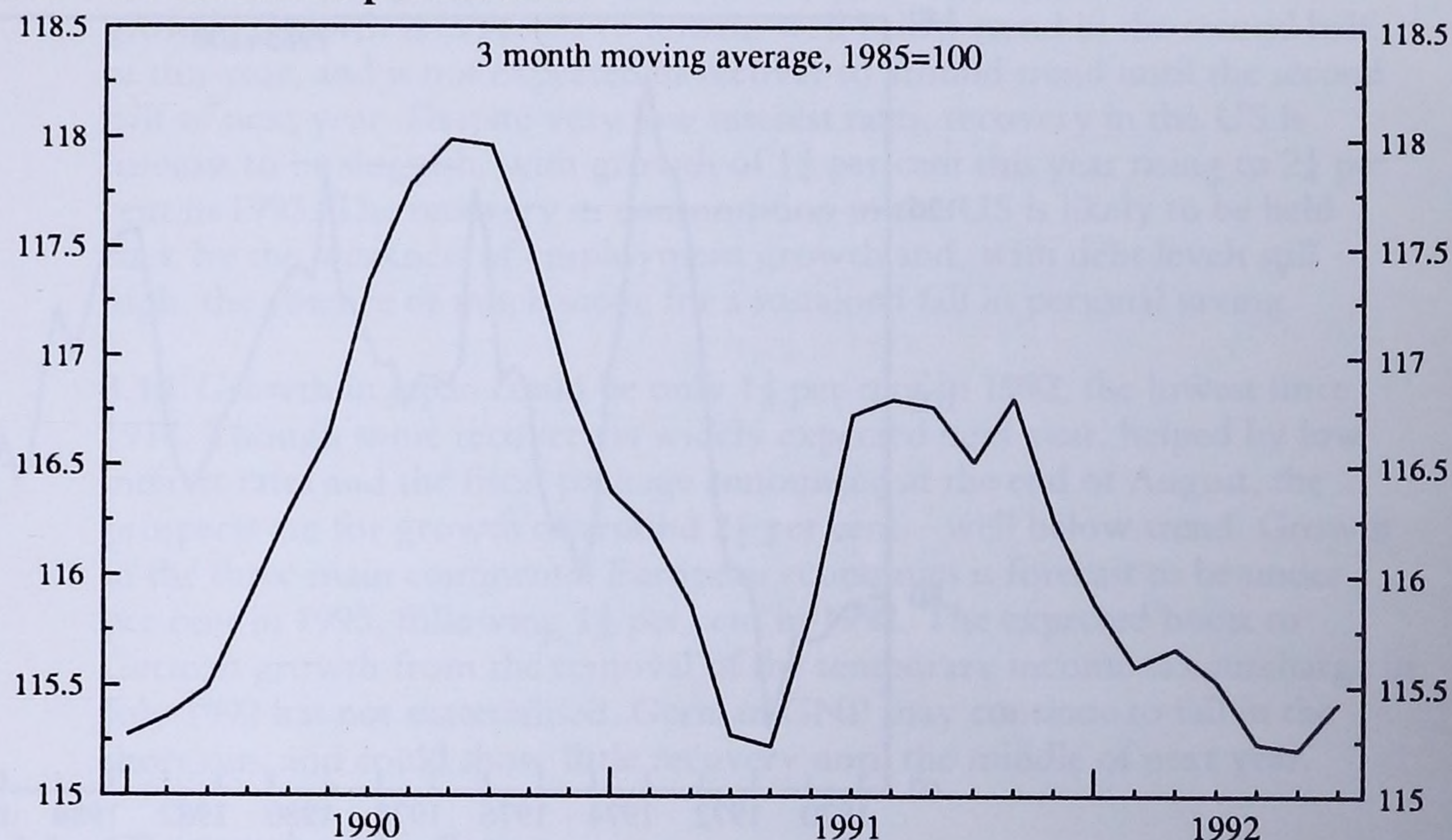
### World economy

**Recent developments** 3.10 G7 industrial production rose strongly in mid-1991, led by a recovery in the US, but fell again from the autumn as the US recovery stalled and production began to slide steeply in Japan. In the first half of 1992, the weakness spread to continental Europe, with falls in industrial production in Germany, France, Italy and Spain.

3.11 Following a deceptively strong rise in the first quarter of 1992, GDP growth in the G7 countries slowed sharply in the second quarter. Output was weak in all major countries, and fell slightly in Germany. In the first half of the year, G7 GDP was just under 1½ per cent higher than a year earlier, following growth of ¾ per cent in 1991. Though G7 industrial production has stabilised in recent months, it remains 2 per cent below its peak in autumn 1990. Also both business and consumer confidence have continued to weaken in the US, Japan and most continental European countries.



Chart 3.1 G7 industrial production

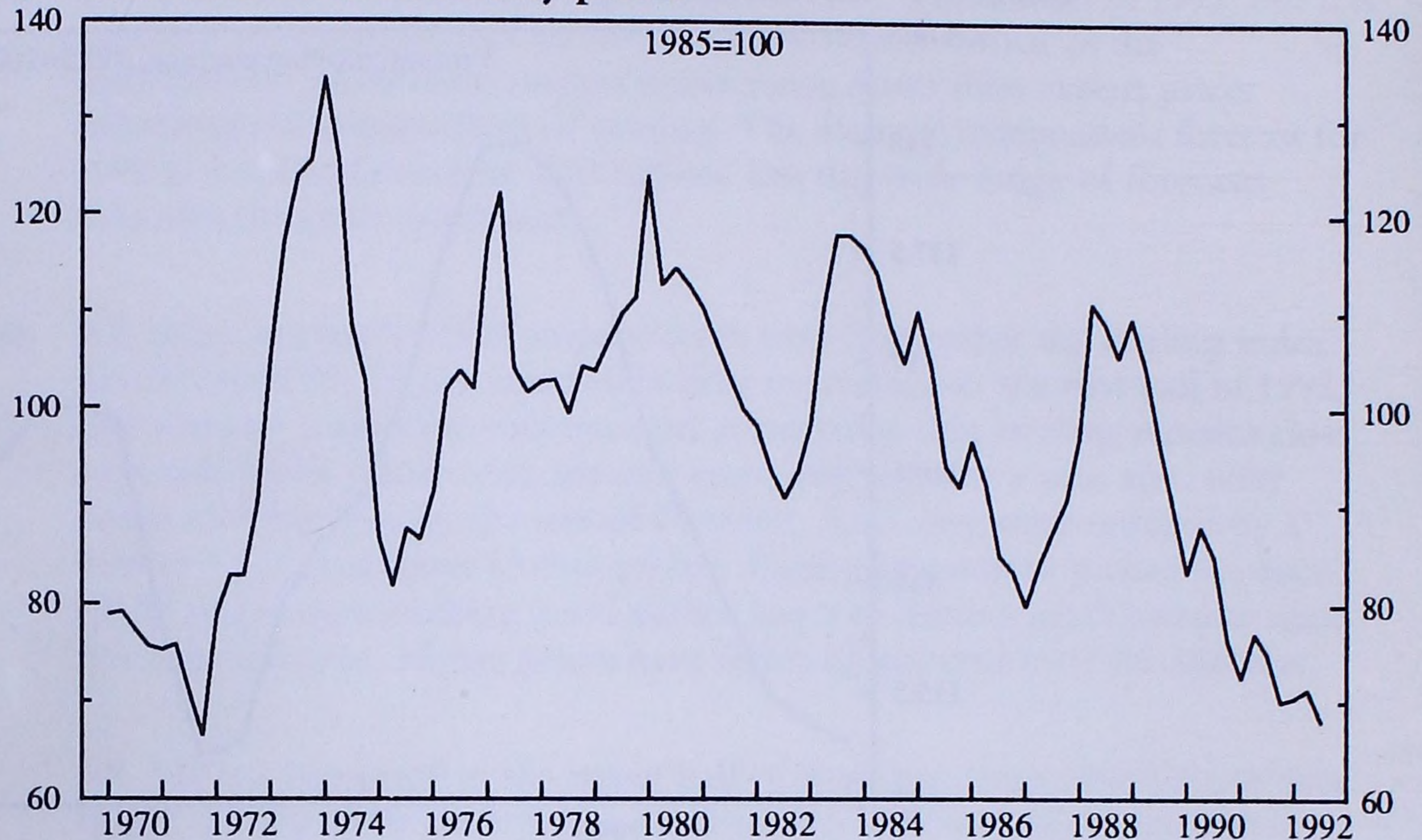


**3.12** This may in part be a consequence of recent monetary and fiscal policy developments, especially in Europe. Though interest rates have continued to fall in the US and Japan, strains within the ERM in September forced up rates in some European countries—notably France, Italy, Ireland and Sweden. German market rates have now fallen back by about 1 point from their end August peak and rates in some other countries have followed, but European real interest rates remain exceptionally high, at around 6 per cent on average. Recent sharp changes in exchange rates may help growth in those European countries whose exchange rates have fallen. But elsewhere in Europe growth will be hit by higher real exchange rates. Many European countries are also tightening fiscal policy, as the prolonged slowdown undermines plans to reduce budget deficits.

**3.13** Sluggish growth and abundant spare capacity in most G7 countries have maintained downward pressure on inflation. During 1992 inflation has stabilised at around 3 per cent in the US and has fallen substantially in Japan, Italy and Canada. In Germany headline inflation has fallen to  $3\frac{3}{4}$  per cent from its peak of  $4\frac{3}{4}$  per cent in March, as last year's indirect tax increases have dropped out of the annual rate. In September consumer price inflation in the G7 countries averaged 3 per cent, compared with  $5\frac{1}{2}$  per cent at the end of 1990.

**3.14** Strong disinflationary pressures in the world economy are also reflected in non-oil commodity prices, which have weakened again in recent months, following a brief revival early in the year. In real terms, non-oil commodity prices are at their lowest level since the early 1970s. Oil prices have been relatively stable since falling back in the first quarter of 1991 from their Gulf crisis peak. They have averaged \$20 a barrel since the Budget and are assumed in the forecast to remain at that level.



Chart 3.2 Real non-oil commodity prices<sup>1</sup>

<sup>1</sup> Economist non-oil commodities index deflated by world export price of manufactures.

**Forecast 3.15** Against this background of weak indicators and tight policy in Europe, most forecasters have revised down their projections of G7 GDP growth, especially for 1993. Forecasts of growth in 1992 fell steadily from  $2\frac{1}{2}$  to 3 per cent last autumn to  $1\frac{3}{4}$  per cent by the spring. The Budget forecast, at  $1\frac{1}{2}$  per cent, was at the bottom end of the range. But the consensus is now close to the Treasury forecast, which is unchanged from Budget-time.

Table 3.2 World economy

|  | Percentage changes on a year earlier |                  |                |
|--|--------------------------------------|------------------|----------------|
|  | 1991                                 | Forecast<br>1992 | 1993           |
| <i>Major seven countries<sup>1</sup></i> |                                      |                  |                |
| Real GDP                                 | $\frac{3}{4}$                        | $1\frac{1}{2}$   | $1\frac{3}{4}$ |
| Domestic demand                          | $\frac{1}{4}$                        | $1\frac{1}{2}$   | $1\frac{3}{4}$ |
| Industrial production                    | $-\frac{1}{2}$                       | $-\frac{3}{4}$   | $1\frac{1}{4}$ |
| Consumer price inflation <sup>2</sup>    | $3\frac{1}{2}$                       | 3                | $2\frac{1}{2}$ |
| <i>World trade, at constant prices</i>   |                                      |                  |                |
| Total imports                            | 3                                    | $4\frac{3}{4}$   | 5              |
| Trade in manufactures <sup>3</sup>       | 4                                    | $4\frac{1}{4}$   | 5              |

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

<sup>2</sup> Final quarter of each period.

<sup>3</sup> Based on a UN series for market economies.

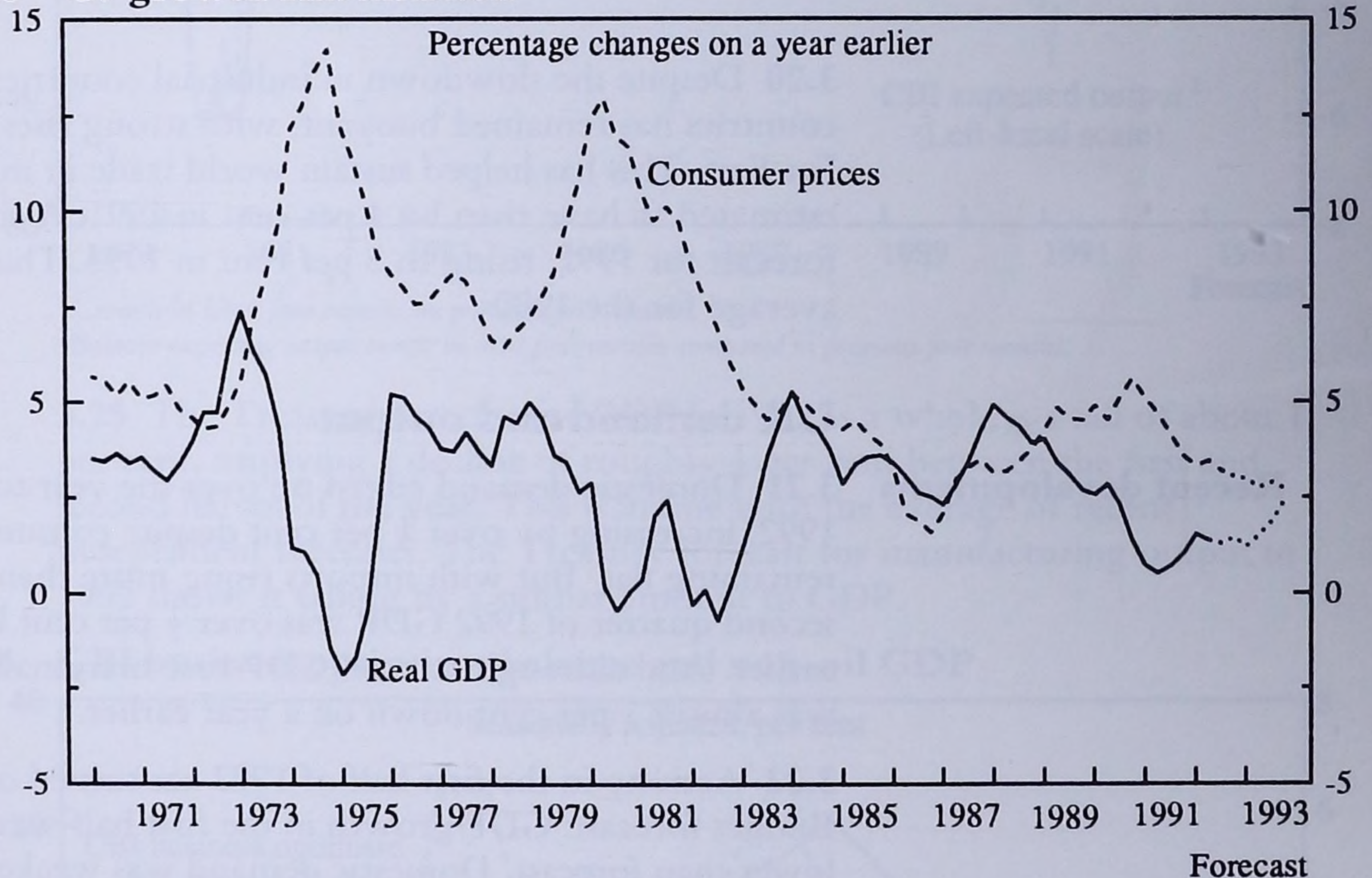
**3.16** The profile of activity through 1992 has, however, been rather different, with a stronger first half and weaker second half than expected. This has implications for the forecast of growth in 1993, which has been revised down to  $1\frac{3}{4}$  per cent (compared with the Budget forecast of  $2\frac{3}{4}$  per cent in the year to the first half of 1993). The OECD in June and the IMF in September both forecast G7 growth of around 3 per cent in 1993. But the OECD has now indicated that it has revised down its forecast of OECD growth in 1993, to around 2 per cent.



**3.17** This outlook represents an unusually prolonged period of slow growth. Growth is expected to remain well below trend in the second half of this year, and is not expected to recover to around trend until the second half of next year. Despite very low interest rates, recovery in the US is forecast to be sluggish, with growth of  $1\frac{3}{4}$  per cent this year rising to  $2\frac{1}{4}$  per cent in 1993. The recovery in consumption in the US is likely to be held back by the weakness of employment growth and, with debt levels still high, the absence of much scope for a sustained fall in personal saving.

**3.18** Growth in Japan could be only  $1\frac{3}{4}$  per cent in 1992, the lowest since 1974. Though some recovery is widely expected next year, helped by low interest rates and the fiscal package announced at the end of August, the prospects are for growth of around  $2\frac{1}{2}$  per cent—well below trend. Growth in the three main continental European economies is forecast to be under 1 per cent in 1993, following  $1\frac{1}{4}$  per cent in 1992. The expected boost to German growth from the removal of the temporary income tax surcharge in July 1992 has not materialised. German GNP may continue to fall in the short run, and could show little recovery until the middle of next year.

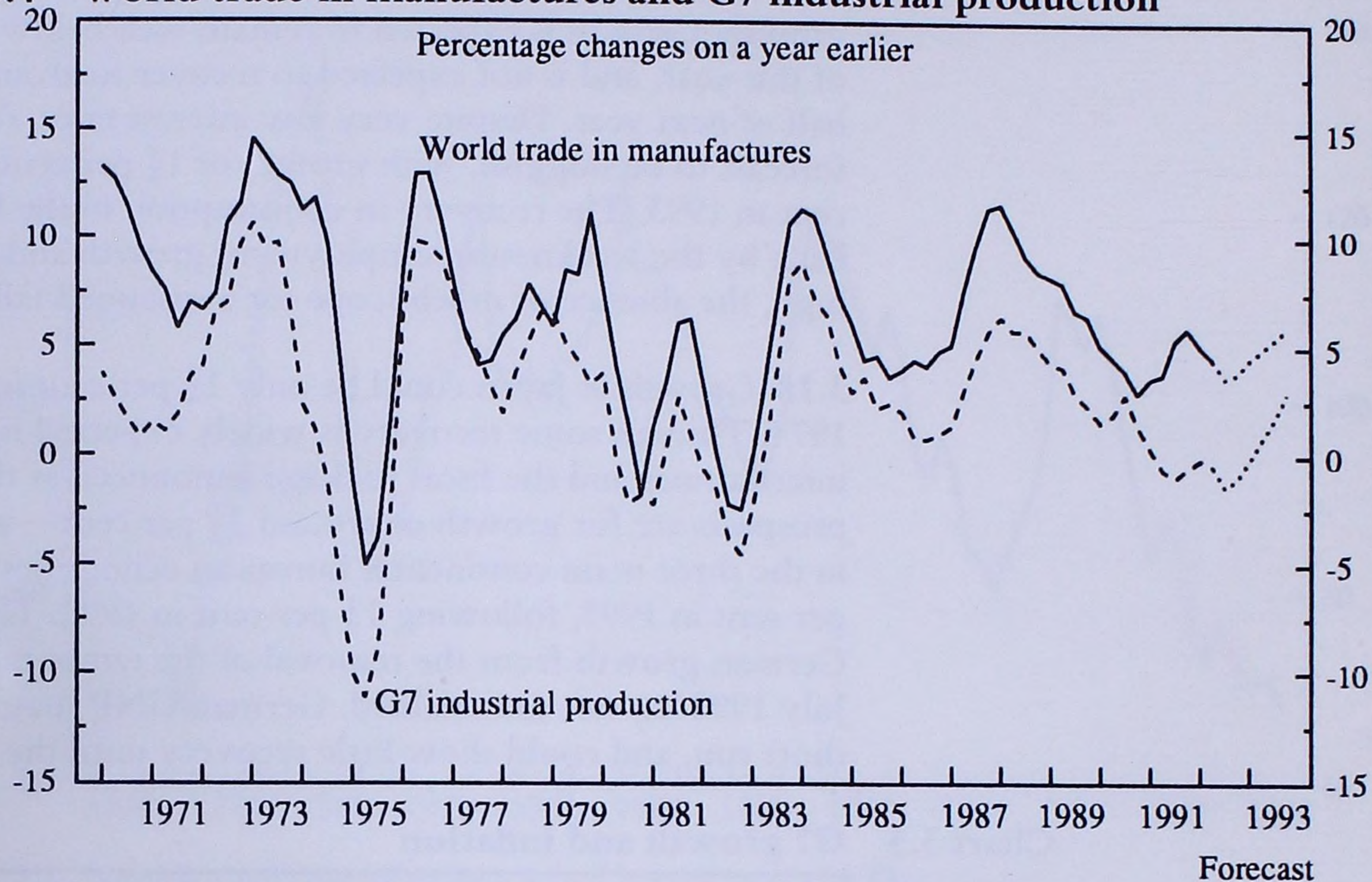
**Chart 3.3 G7 growth and inflation**



**3.19** With no strong pick-up in world demand expected next year, real commodity prices are forecast to remain very subdued. This and the persistence of below trend output provide a favourable background for further reductions in inflation. G7 consumer price inflation is forecast to fall from its current level of 3 per cent to  $2\frac{1}{2}$  per cent by the fourth quarter of 1993. This is more optimistic than many independent forecasts which show no further progress on G7 inflation, and some rise in the US once the recovery gets going. These forecasts may understate the disinflationary impact of abundant spare capacity and high unemployment, which are likely to persist well into 1993 in the US, as elsewhere. The Treasury forecast is for US inflation to fall further to  $2\frac{1}{2}$  per cent by the end of 1993. Underlying German inflation should fall too, but the headline rate will be boosted by the proposed 1 per cent VAT increase at the beginning of 1993.



Chart 3.4 World trade in manufactures and G7 industrial production



**3.20** Despite the slowdown in industrial countries, activity in developing countries has remained buoyant, with strong rises in Latin America and the Far East. This has helped sustain world trade in manufactures, which is estimated to have risen by 4 per cent in 1991. A similar rate of growth is forecast for 1992, rising to 5 per cent in 1993. This would still be below the average for the 1980s.

### UK demand and output

#### Recent developments

**3.21** Domestic demand edged up over the year to the second quarter of 1992, increasing by over  $\frac{1}{2}$  per cent despite consumers' expenditure remaining flat. But with imports rising more than exports, GDP fell. By the second quarter of 1992 GDP was over  $\frac{1}{2}$  per cent below its level a year earlier. And although non-oil GDP rose marginally in the second quarter it was almost 1 per cent down on a year earlier.

**3.22** Activity in the first half of 1992 has turned out weaker than in the Budget forecast: GDP growth in the first half was about 1 percentage point lower than forecast. Domestic demand was weaker than expected and, more importantly, imports took a higher share than forecast largely reflecting a shift in the composition of demand towards manufactures.

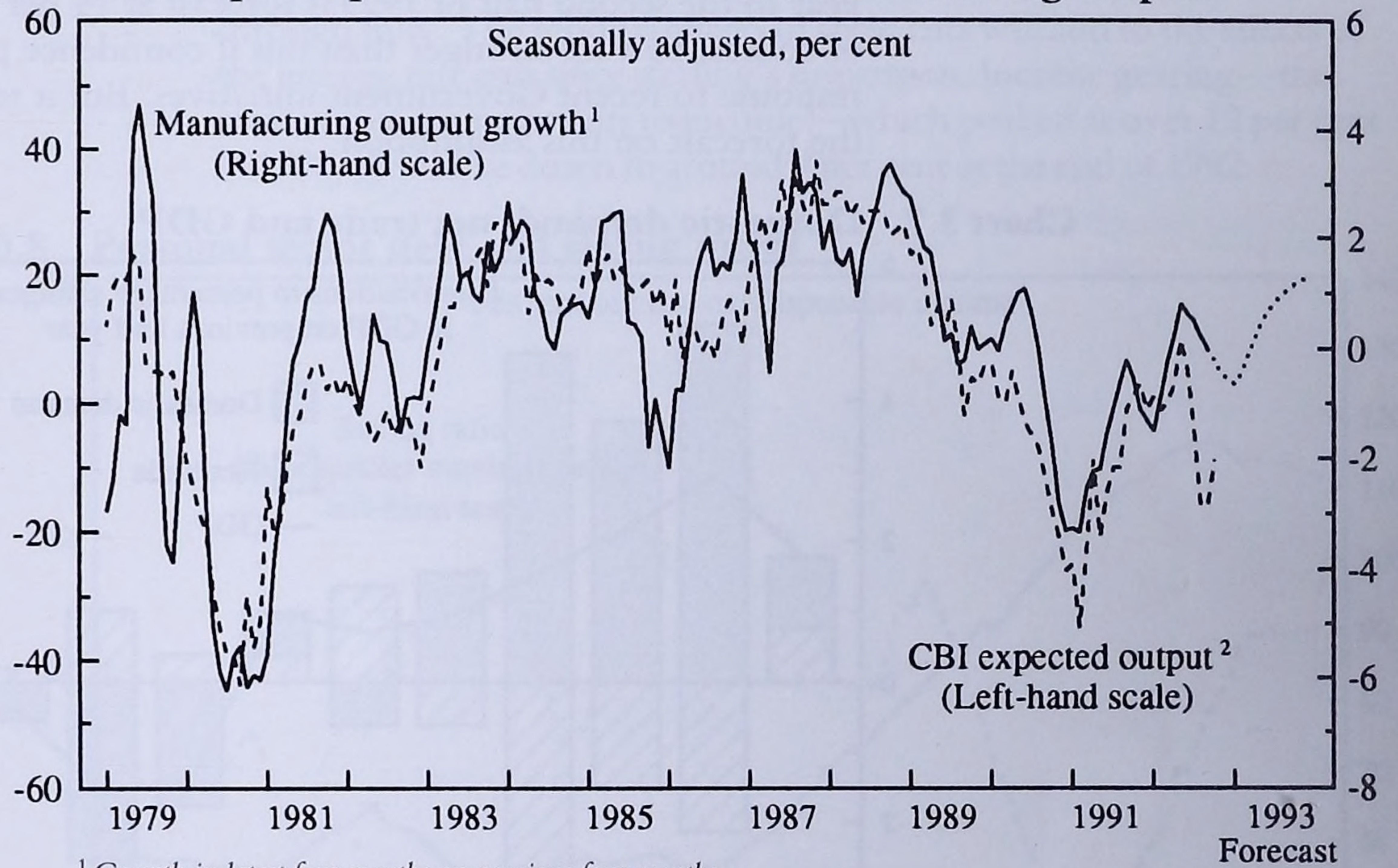
**3.23** Within non-oil GDP, output fell in the year to the second quarter in all the main sectors—manufacturing, services, non-oil energy and construction—with the largest fall in the construction sector. But service sector output has fallen only marginally this year and manufacturing output rose in both the first and second quarters.

**Prospects** **3.24** The signs are that GDP may have been broadly unchanged or fallen slightly in the third quarter. With the exception of North Sea oil and gas, output may have been at best flat in all sectors, and may have fallen in some. The prospects are that the remainder of the year may be weak too. Consumer confidence has fallen over the summer and into the autumn, and a range of recent surveys show falling business confidence. The fall in the



value of sterling following suspension of ERM membership, recent cuts in interest rates and the measures announced in the Autumn Statement should reverse these trends, but they are unlikely to have a large impact on GDP in the remainder of 1992. Exporters can no doubt expect some early benefit, but there has been renewed weakness in the world economy and part of the additional demand is likely to be met from stocks.

**Chart 3.5 CBI output expectations balance and manufacturing output**

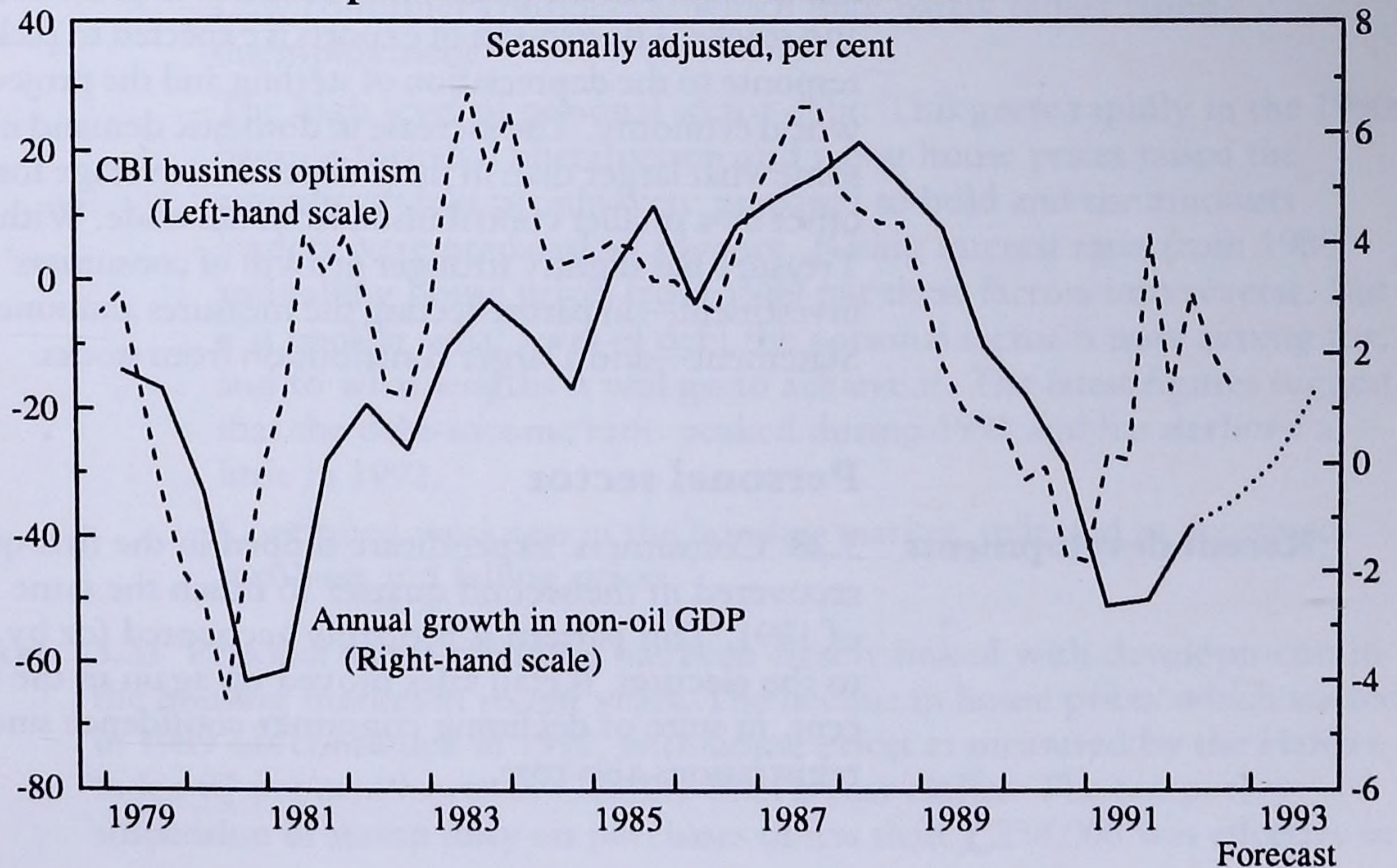


<sup>1</sup> Growth in latest four months on previous four months.

<sup>2</sup> Balance expecting output to rise in next four months compared to previous four months.

**3.25** The Treasury forecast for GDP in 1992 as a whole is a fall of about 1 per cent, implying a decline of roughly  $\frac{1}{4}$  per cent between the first and second halves of the year. This is in line with the average of recent independent forecasts. The Treasury forecast for manufacturing output in 1992 shows it falling by a similar amount to GDP.

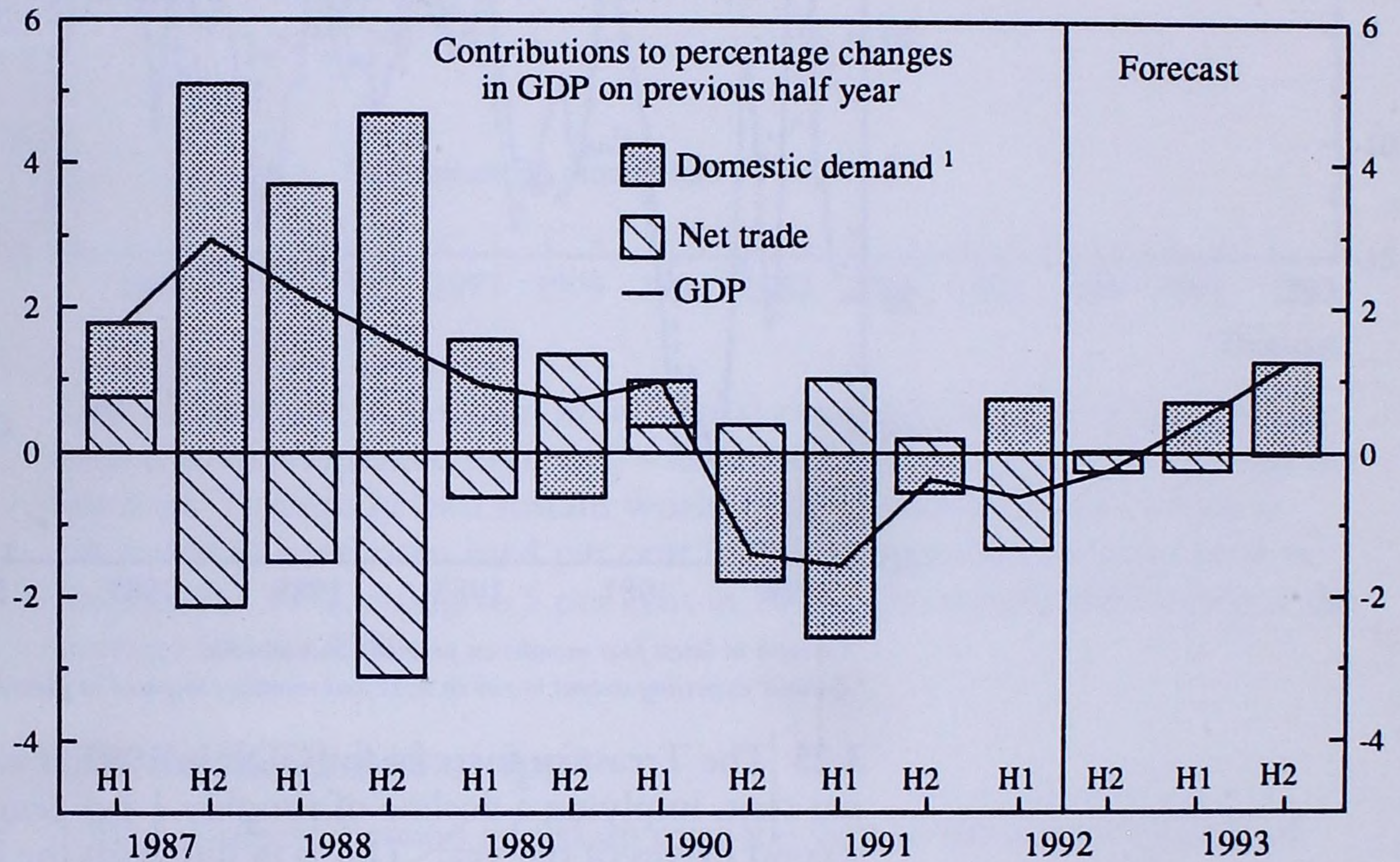
**Chart 3.6 CBI business optimism balance and non-oil GDP**





**3.26** Growth prospects for 1993 have been improved by the recent easing of monetary policy and measures announced in the Autumn Statement. But this needs to be set against the projected weakness of the recovery in the world economy, and the muted response of domestic demand, particularly consumer spending, to earlier reductions in interest rates. The Treasury forecast for GDP growth in 1993 is 1 per cent, well within the range of recent independent forecasts, but a little below the average. Growth in the year to the second half of 1993 is forecast at  $1\frac{3}{4}$  per cent. The recovery could, of course, be a lot stronger than this if confidence picks up quickly in response to recent Government initiatives. But it seems prudent not to base the forecast on this assumption.

**Chart 3.7 Domestic demand, net trade and GDP**



<sup>1</sup> At factor cost.

**3.27** In the Treasury forecast all components of domestic demand are forecast to rise in 1993, but the largest contributions to growth are from consumer spending and stocks. The growth of exports is expected to pick up next year too in response to the depreciation of sterling and the projected modest recovery in the world economy. The increase in domestic demand in the Treasury forecast is somewhat larger than in the independent average forecast, but this is more than offset by a smaller contribution from net trade. Within domestic demand the Treasury has slightly stronger growth of consumers' expenditure and investment—in part reflecting the measures announced in the Autumn Statement—and a larger contribution from stocks.

**Personal sector**

**Recent developments**

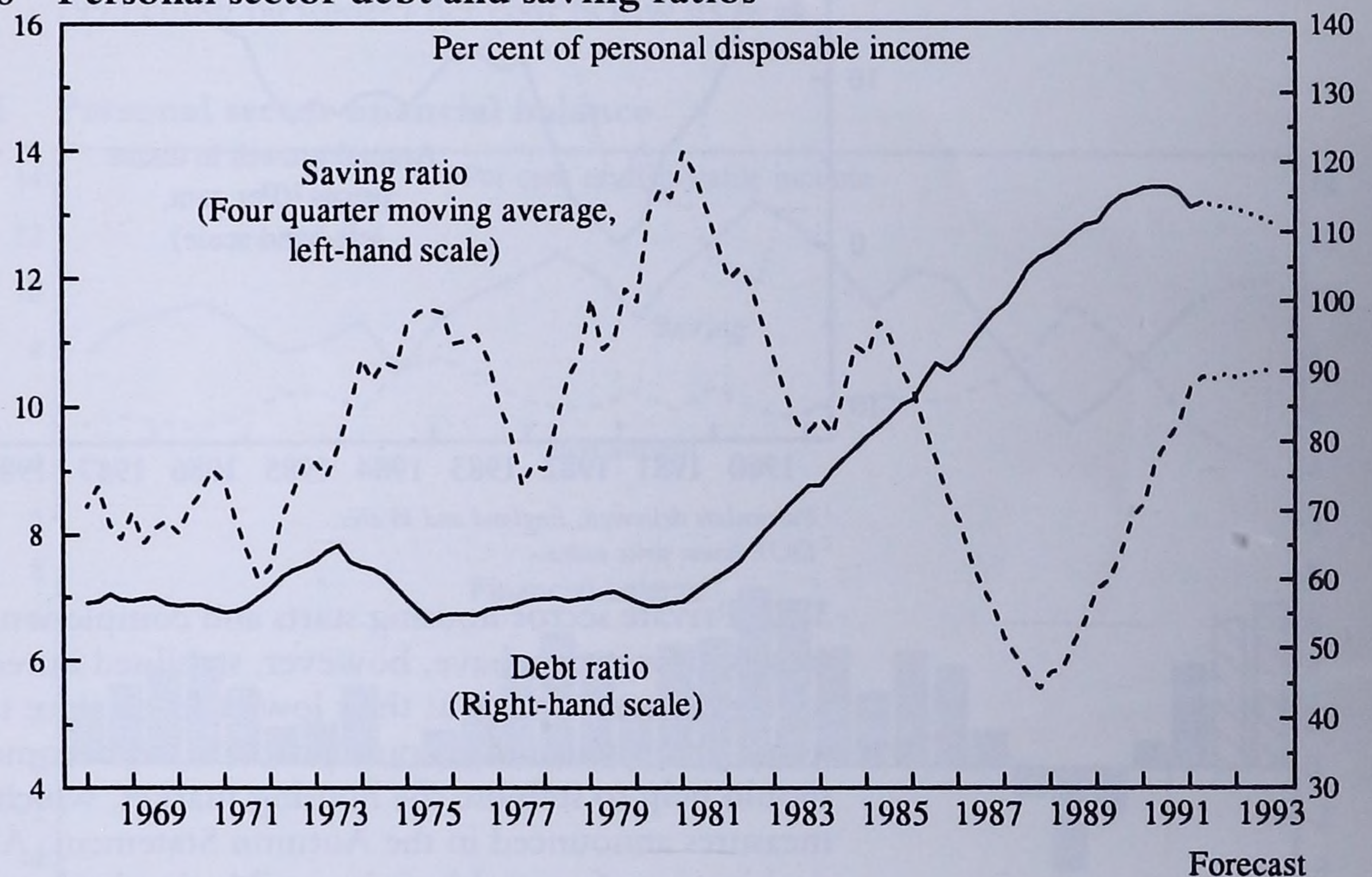
**3.28** Consumers' expenditure dipped in the first quarter of 1992 but recovered in the second quarter to much the same level as in the second half of 1991. This pattern is probably accounted for by uncertainty in the run-up to the election. Retail sales moved up again in the third quarter, by  $\frac{1}{2}$  per cent, in spite of declining consumer confidence since the spring. Car registrations also rose.



**Prospects 3.29** The outlook for consumption depends on the balance of opposing influences. Factors pointing to higher expenditure include:

- Rising real incomes: The  $\frac{1}{2}$  per cent fall in real personal disposable income in 1991 is expected to be reversed in 1992, with further growth of  $1\frac{1}{2}$  per cent forecast in 1993.
- Lower interest rates: The effects on consumption of interest rate falls prior to the suspension of sterling from the ERM have yet to come through fully. The residual effects of these cuts will add to the effects of the interest rate cuts since sterling's suspension. Income gearing—the ratio of interest payments to income—which peaked at over 12 per cent in 1990, should be down to around 9 per cent at the end of 1992.

**Chart 3.8 Personal sector debt and saving ratios**



**3.30** Factors holding consumer spending back include:

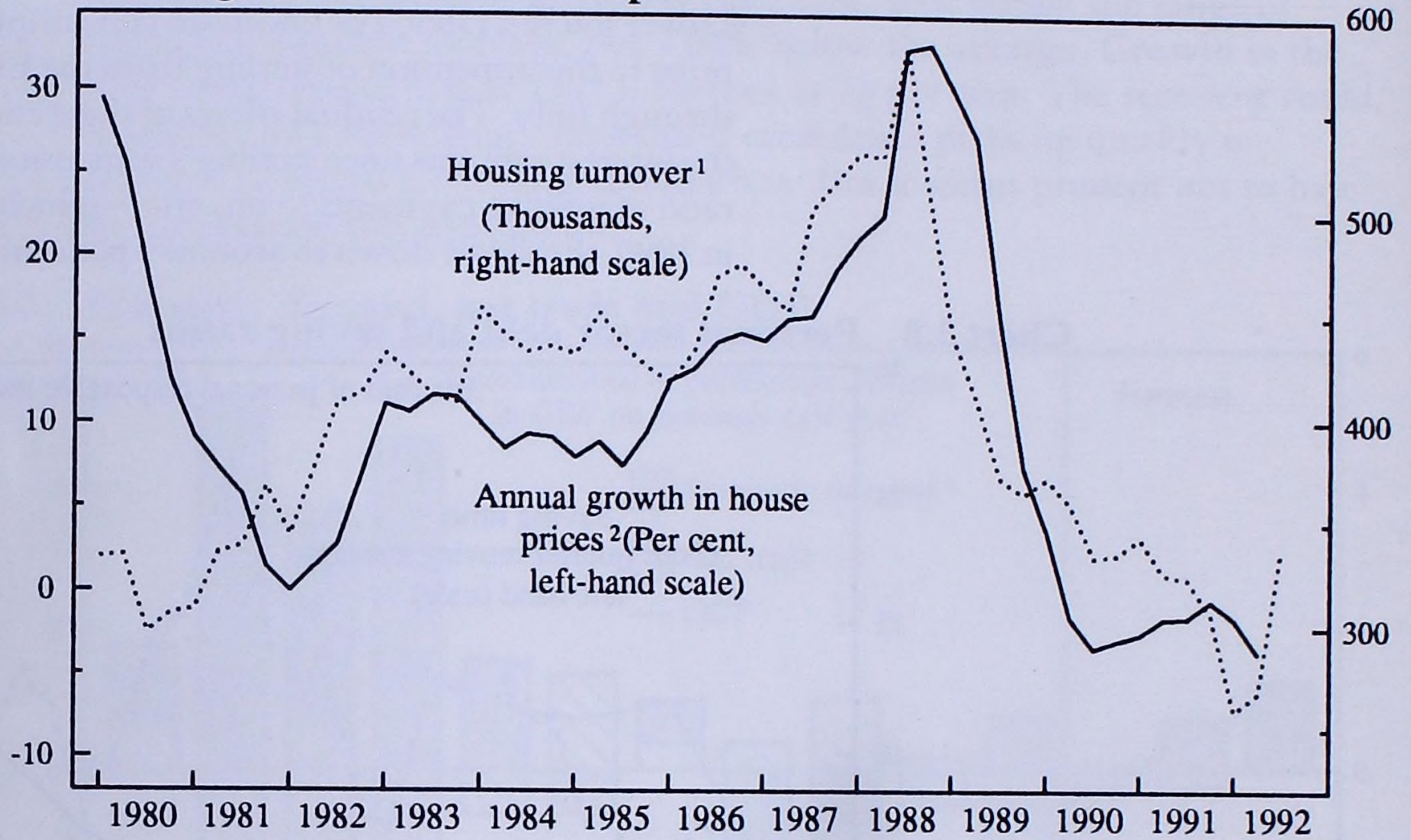
- Low consumer confidence, which may partly reflect rising unemployment.
- The high level of personal sector debt: This grew rapidly in the 1980s because financial liberalisation and rising house prices raised the amount of debt people were prepared to hold and the amounts lenders were prepared to advance. Rising interest rates from 1988 and falling house prices from 1989 put these factors into reverse. But it is unclear what level of debt the personal sector is now aiming for, and to what lengths it will go to achieve it. The latest figures suggest that the debt-income ratio peaked during 1991 and has declined a little in 1992.
- Continued weakness in the housing market, reflected in depressed turnover and falling prices.

**Housing market 3.31** Personal sector spending has been closely linked with developments in the housing market in recent years. The decline in house prices which started in 1989 has continued in 1992, with house prices as measured by the Halifax index  $8\frac{3}{4}$  per cent lower in October than a year earlier. The temporary suspension of stamp duty on purchases of less than £250,000 was effective in



stimulating activity, with a sharp pick-up in turnover and a slowdown in price falls towards the end of the concession in mid-August. It would not be surprising if activity were to have fallen back temporarily after the withdrawal of the concession.

**Chart 3.9 Housing turnover and house prices**

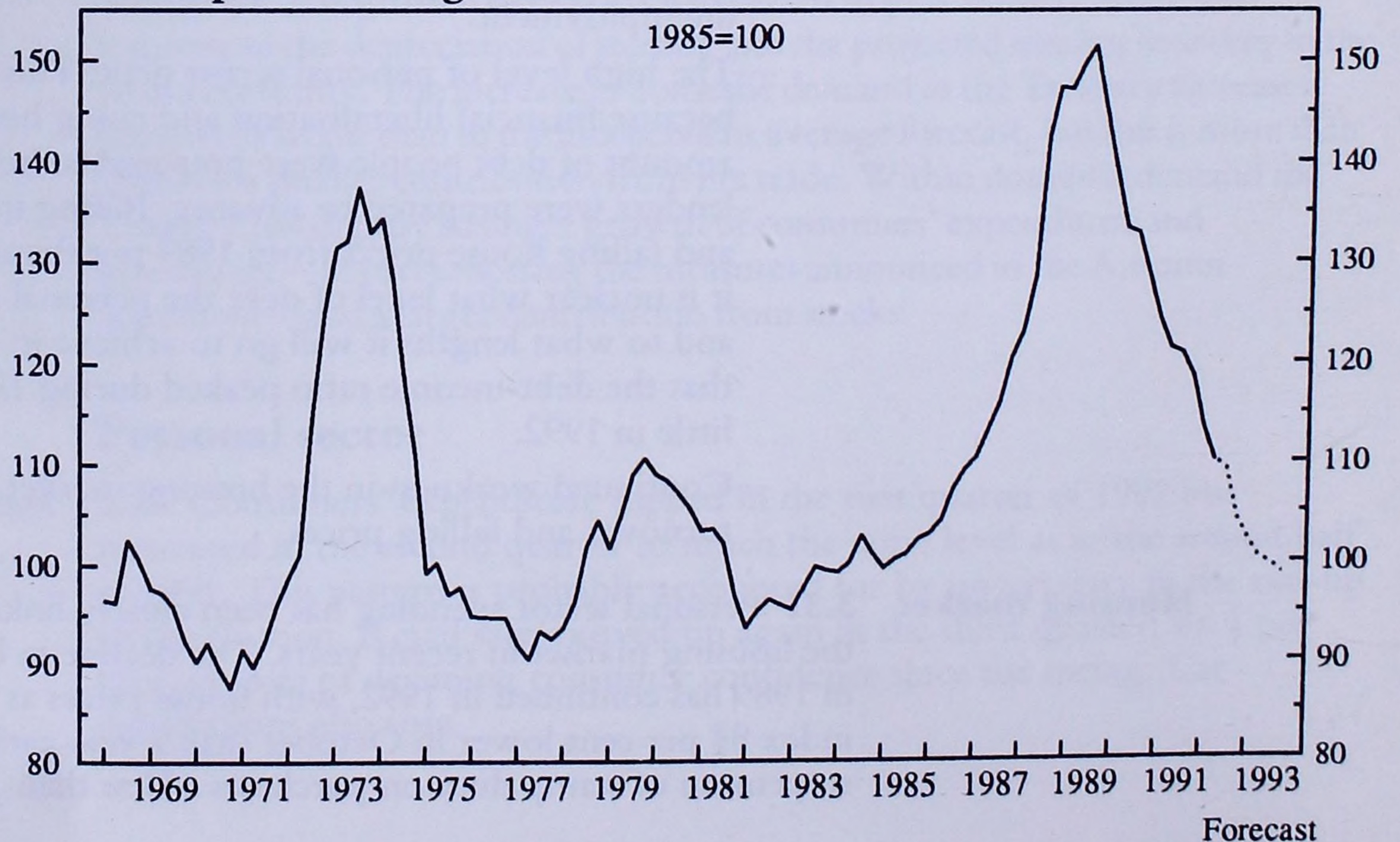


<sup>1</sup> Particulars delivered, England and Wales.

<sup>2</sup> DOE house price index.

**3.32** Private sector housing starts and completions remain on downward trends; new orders have, however, stabilised in recent months. Falling mortgage rates—now at their lowest levels since the 1970s—and lower house prices mean that house purchase has become more affordable. This should help to stabilise the housing market, which will also benefit from the measures announced in the Autumn Statement. Although the current position is unfavourable, it is possible that both turnover and prices will start to rise some time in 1993.

**Chart 3.10 House price-earnings ratio**

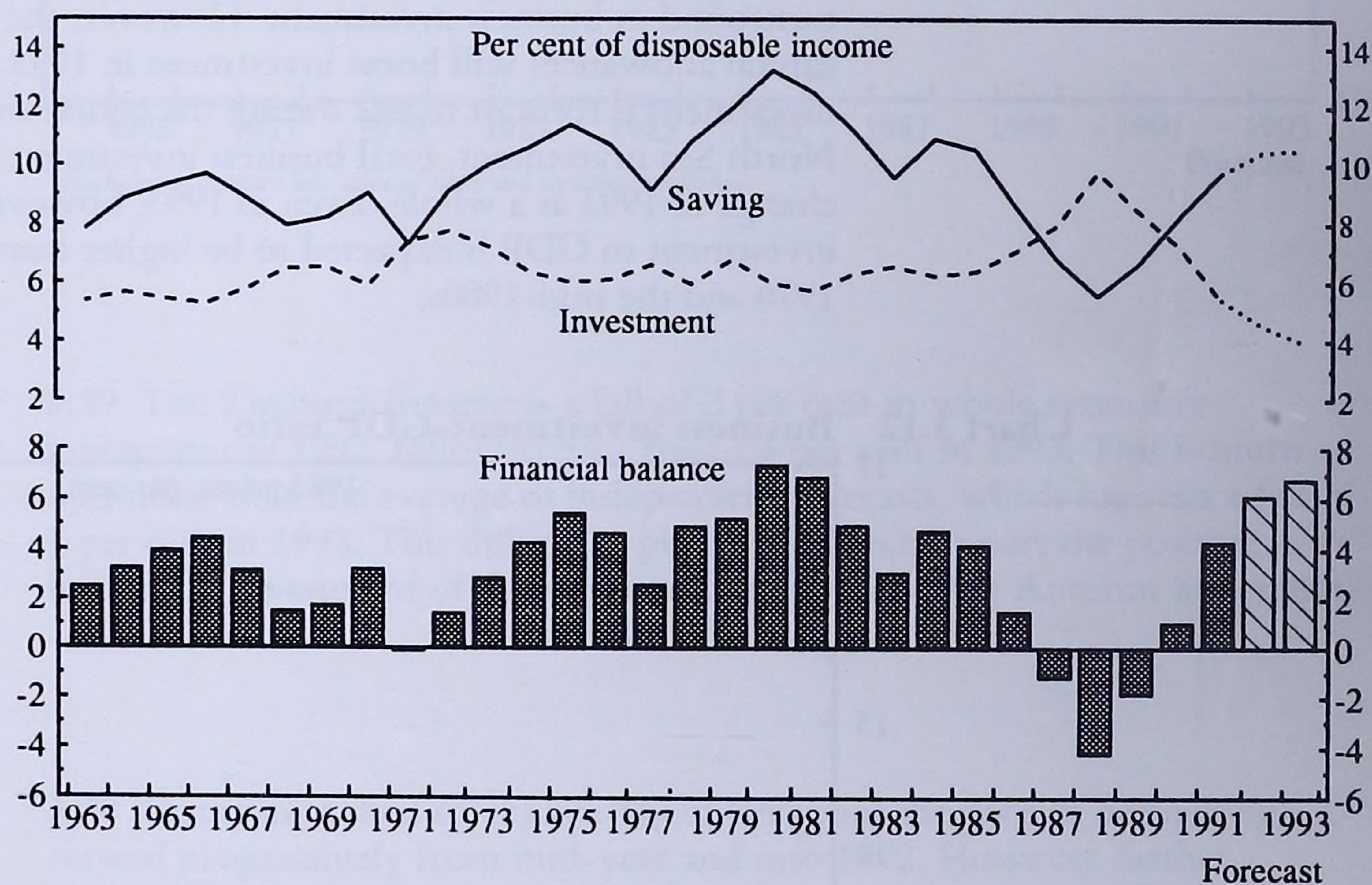




**3.33** In common with most independent forecasts, the view taken in the Treasury forecast is that the balance of factors affecting consumption will result in an increase in spending in 1993, following a slight fall in 1992. The forecast is a rise of  $1\frac{1}{4}$  per cent in 1993—slightly above the average independent forecast of 1 per cent. In the Treasury forecast the increase is more than accounted for by the projected rise in real incomes, with the saving ratio rising marginally in 1993. Earlier forecasts anticipated small falls in the saving ratio.

**3.34** With the saving ratio over 10 per cent in both 1992 and 1993 and housing investment continuing to be weak, the personal sector's financial surplus is forecast to be around 6 per cent of disposable income in 1992 and perhaps around  $6\frac{1}{2}$  per cent in 1993. The debt-income ratio at the end of 1993 could be some 5 per cent below its peak.

**Chart 3.11 Personal sector financial balance**



### Company sector and labour market

#### Company income and saving

**3.35** Industrial and commercial companies' profits (net of stock appreciation) were flat between 1990 and 1991, as the recession squeezed both margins and turnover. But profits were somewhat stronger in the first half of 1992, reflecting improved cost control. So with falling interest and tax payments, and despite high dividend payments, company saving (undistributed income) rose modestly in the first half of 1992 relative to the average for 1991.

#### Business investment

**3.36** Against the background of extremely large financial deficits in 1989 and 1990 and weak profits during the recession, companies have cut back on investment as they have sought to improve their financial position. Total business investment fell  $9\frac{1}{2}$  per cent in 1991, but rose slightly in the first half of 1992, mainly as a result of higher investment by public corporations and North Sea oil companies. For 1992 as a whole business investment is forecast to fall by  $1\frac{3}{4}$  per cent.



**Table 3.3 Gross domestic fixed capital formation at constant prices**

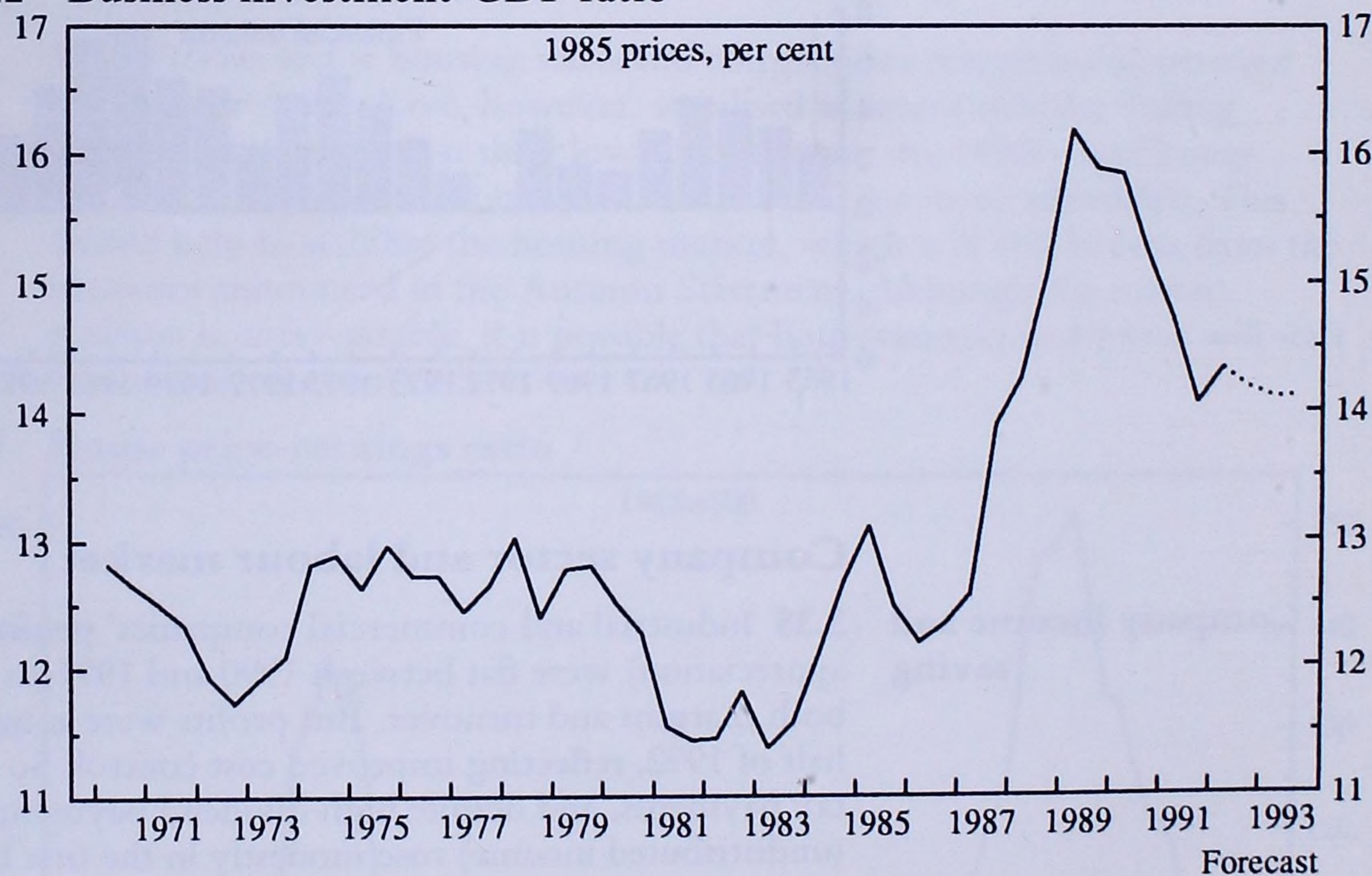
|                                 | Weights in<br>1991 | Percentage changes on a year earlier |           |          |
|---------------------------------|--------------------|--------------------------------------|-----------|----------|
|                                 |                    | 1991                                 | Forecast  |          |
|                                 |                    | 1991                                 | 1992      | 1993     |
| Business <sup>1</sup>           | 70                 | -9½                                  | -1¾       | 0        |
| Private dwellings <sup>2</sup>  | 15                 | -12¾                                 | -12       | 1        |
| General government <sup>3</sup> | 15                 | -8½                                  | 7         | 1¾       |
| <b>Total fixed investment</b>   | <b>100</b>         | <b>-10</b>                           | <b>-2</b> | <b>¼</b> |

<sup>1</sup> Includes public corporations, except National Health Trust hospitals.

<sup>2</sup> Includes purchases less sales of land and existing buildings for the whole economy.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

**3.37** Looking ahead to 1993 it would be unrealistic, with the large degree of spare capacity and only a modest recovery in demand, to expect a sharp turnaround in business investment. However, the temporary increase in capital allowances will boost investment in 1993. Non-oil business investment is forecast to rise during the course of the year, but with lower North Sea investment, total business investment is projected to show no change in 1993 as a whole. Even in 1993, however, the ratio of business investment to GDP is expected to be higher than the levels seen between 1970 and the mid-1980s.

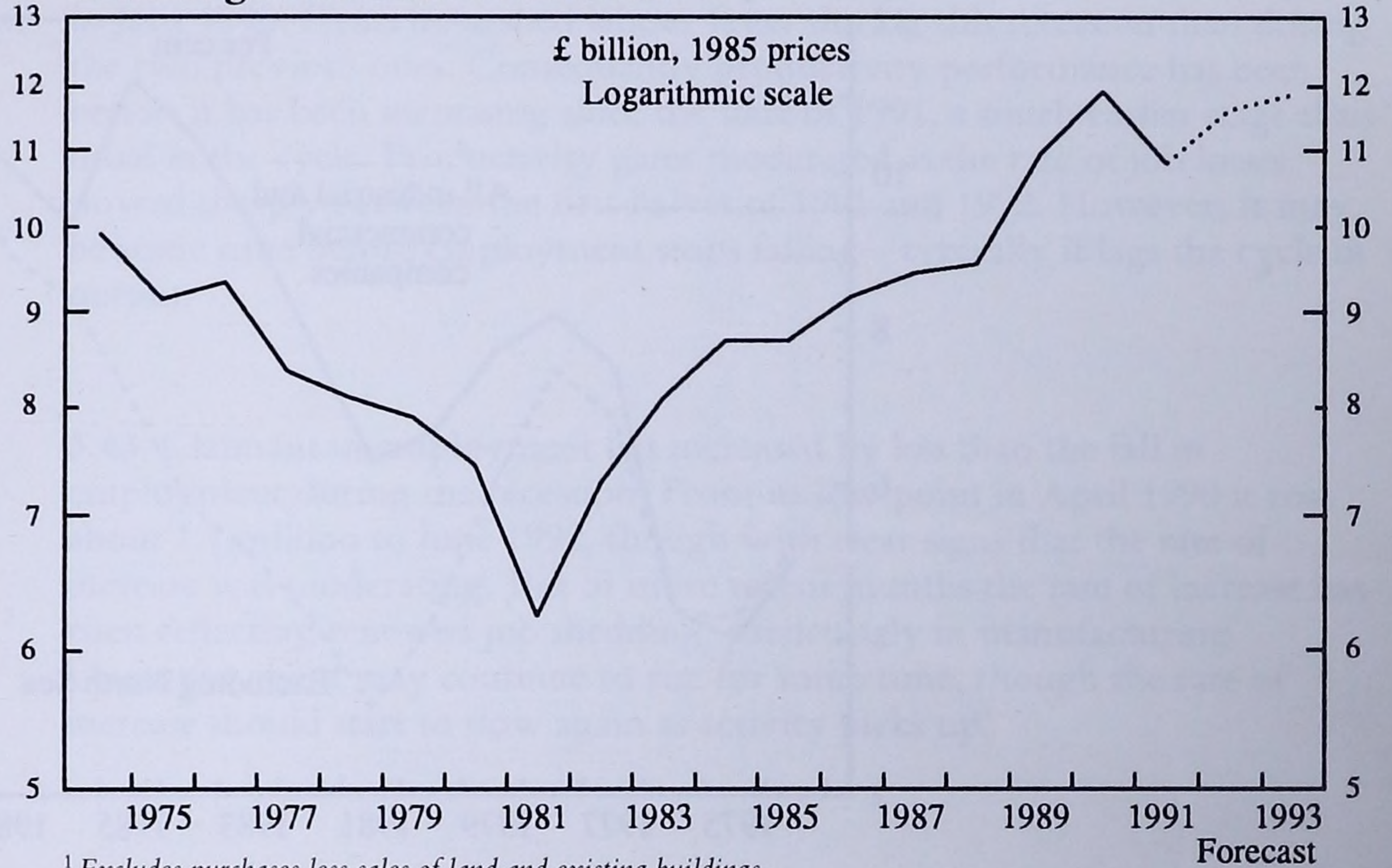
**Chart 3.12 Business investment-GDP ratio<sup>1</sup>**

<sup>1</sup> Business investment includes public corporations, except National Health Trust hospitals.

### General government investment

**3.38** General government fixed investment is forecast to rise in volume terms by 7 per cent in 1992 and, despite the tight public expenditure round, it should increase further in 1993 by 1¾ per cent. This compares with projected increases in the volume of general government consumption of ½ per cent in both 1992 and 1993.



Chart 3.13 General government investment<sup>1</sup>

### Whole economy investment

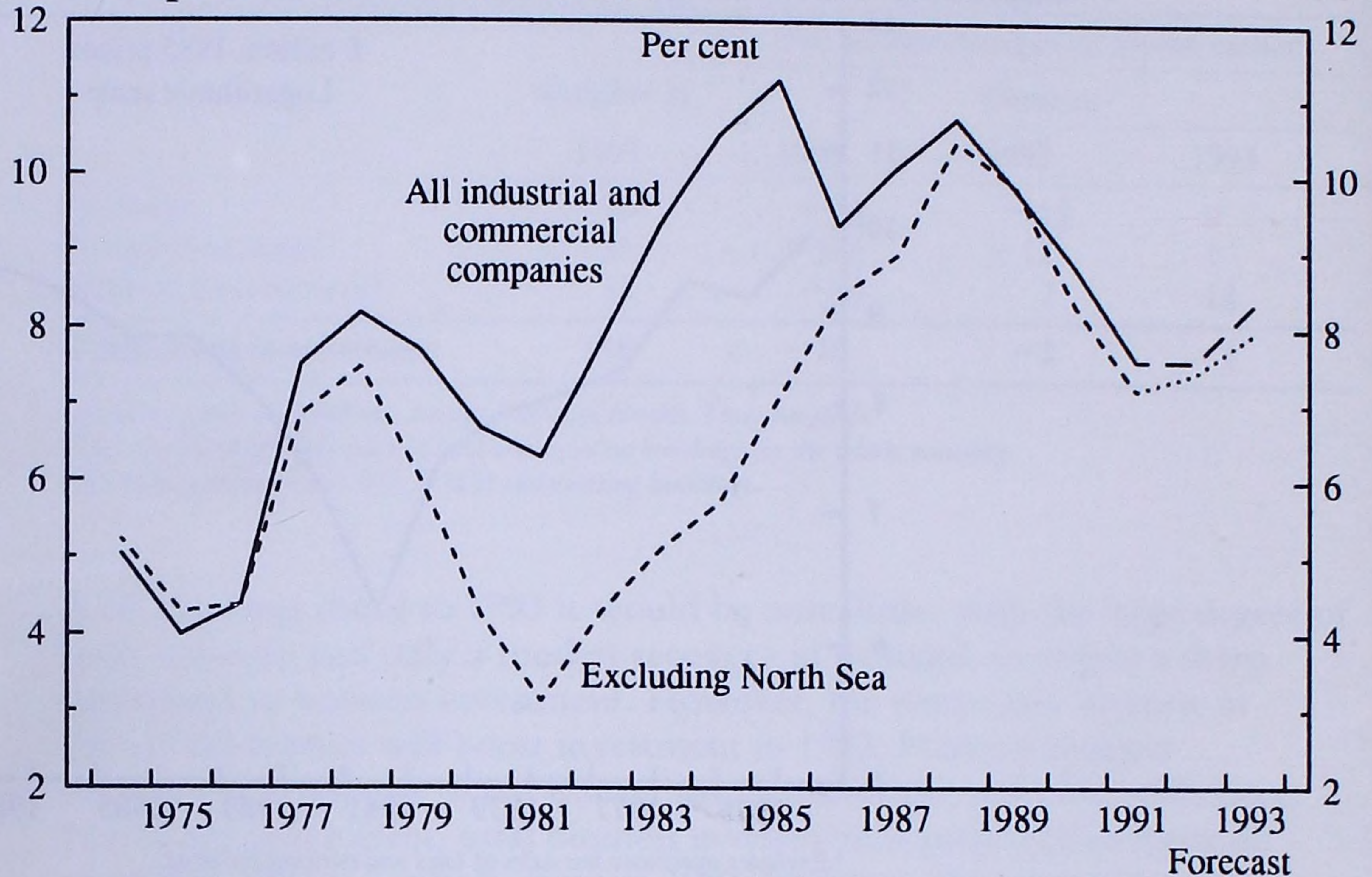
**3.39** The Treasury forecast is a fall of 2 per cent in whole economy investment in 1992, followed by a rise of  $\frac{1}{4}$  per cent in 1993. This is more optimistic than the average of independent forecasts, which suggests a fall of  $\frac{1}{4}$  per cent in 1993. This difference probably reflects in part the positive impact on investment of the measures announced in the Autumn Statement.

### Stockbuilding

**3.40** Companies shed stocks heavily in 1991, but the pace of destocking slowed progressively from mid-year and into 1992. However further destocking is to be expected, particularly by manufacturers, in the second half of 1992. Distributors ran down stocks rapidly in the second quarter and manufacturers appear to have been caught out by lower than expected demand, leading to involuntary stock holding. And with demand remaining weak destocking may continue into 1993, before rising sales and output justify a return to stockbuilding. The turnaround in stockbuilding is forecast to contribute  $\frac{1}{2}$  per cent to GDP growth in both 1992 and 1993.



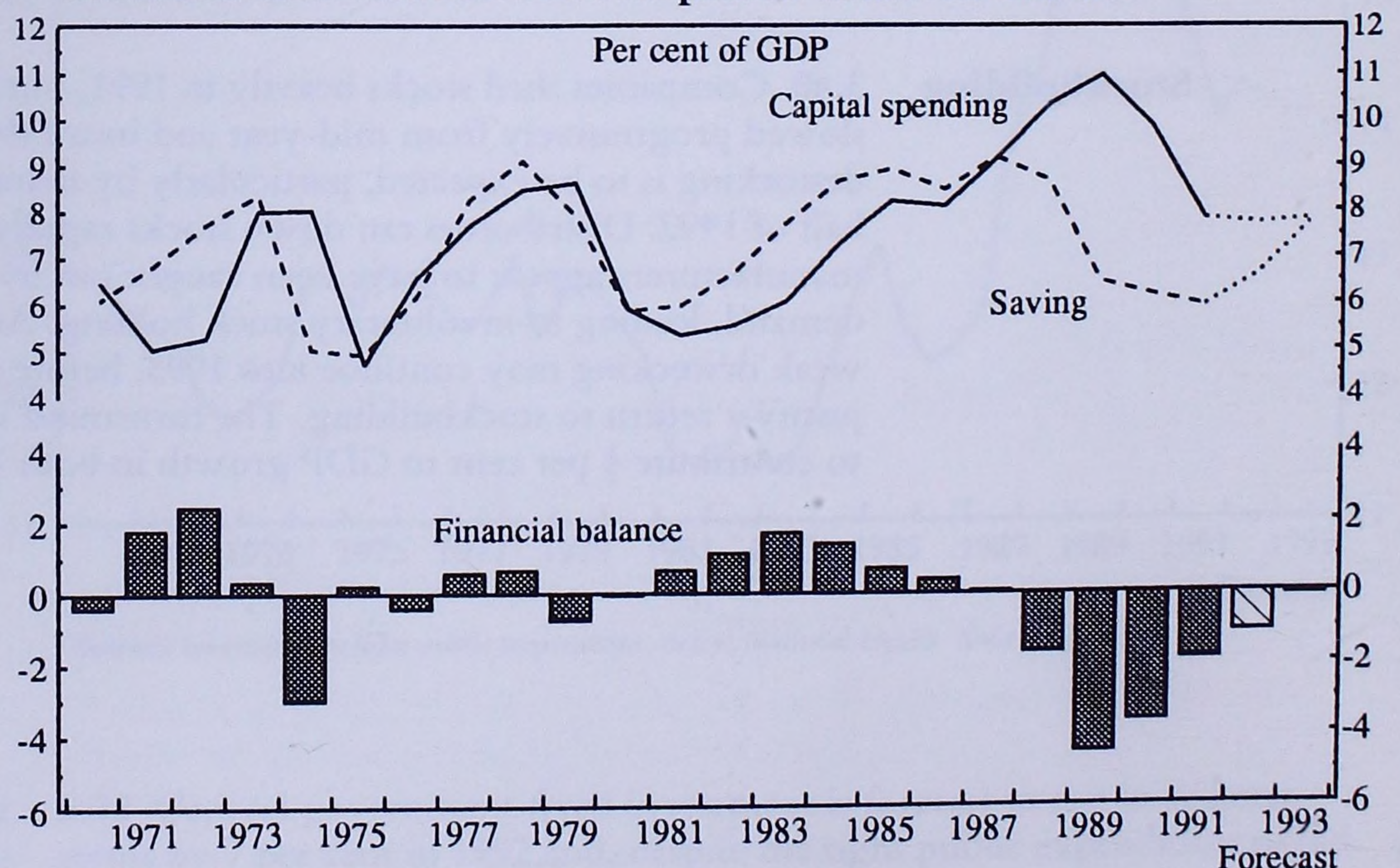
Chart 3.14 Companies' real rates of return



**Companies' financial position**

3.41 Profitability of non-North Sea companies, as measured by the real rate of return, is forecast to pick up slightly in 1992, and more strongly in 1993 as demand rises. Companies' saving will also benefit from lower interest rates which will reduce debt service payments. With industrial and commercial companies' saving rising and their capital spending falling in 1992 and rising only slowly in 1993, their financial deficit is forecast to undergo further correction, moving back to balance in 1993.

Chart 3.15 Industrial and commercial companies' financial balance





### Employment and unemployment

**3.42** Total employment in June 1992 was over  $1\frac{1}{2}$  million down on its peak in June 1990. Firms have shed labour faster during this recession than during the two previous ones. Consequently productivity performance has been better: it has been increasing since the start of 1991, a much earlier stage than usual in the cycle. Productivity gains moderated as the rate of job losses slowed sharply between the first halves of 1991 and 1992. However, it may be some time before employment stops falling—typically it lags the cycle in output.

**3.43** Claimant unemployment has increased by less than the fall in employment during the recession. From its low point in April 1990 it rose about 1.1 million to June 1992, though with clear signs that the rate of increase was moderating. But in more recent months the rate of increase has risen reflecting renewed job shedding, particularly in manufacturing. Unemployment may continue to rise for some time, though the rate of increase should start to slow again as activity picks up.

### Trade and the balance of payments

#### Developments in 1992

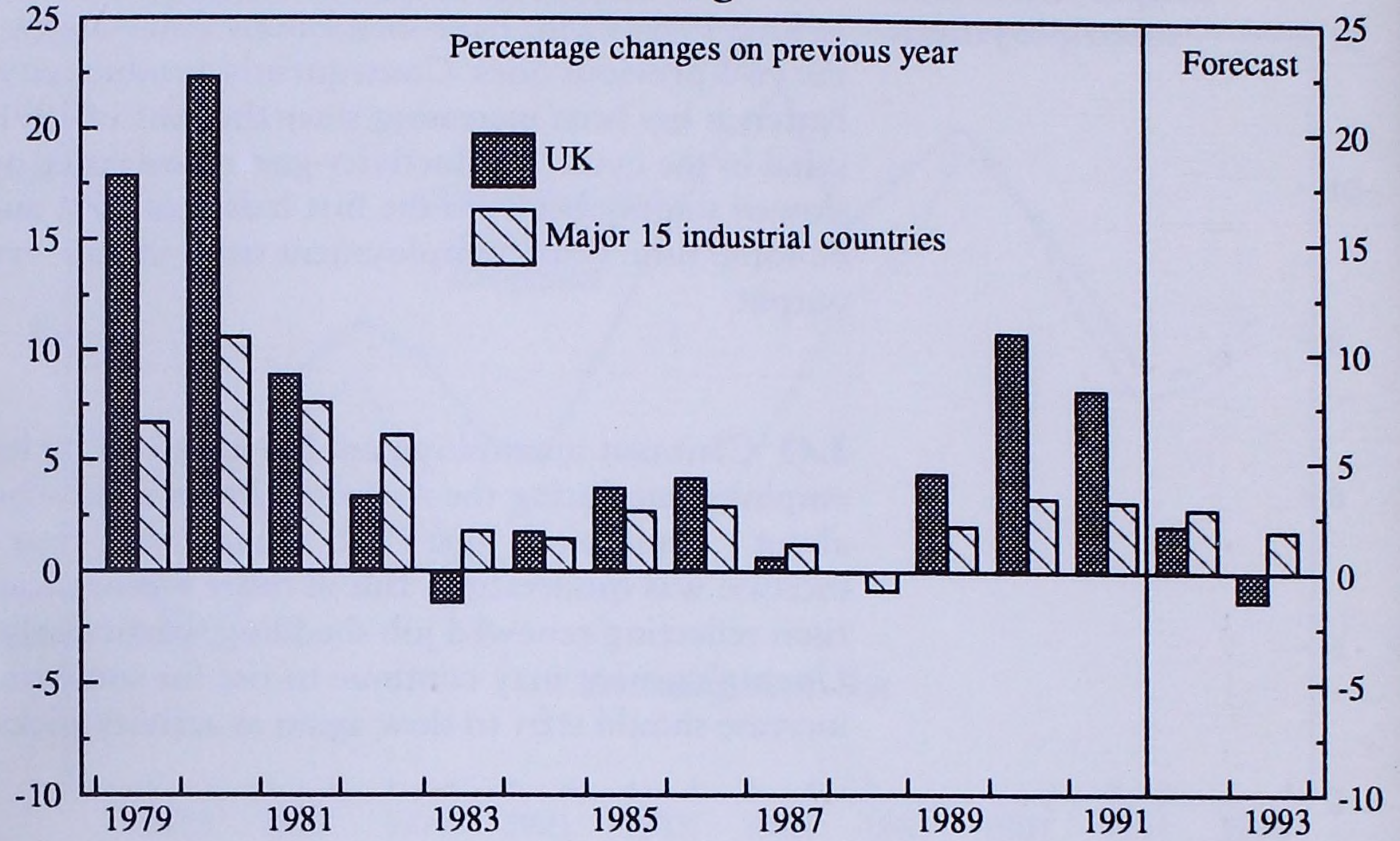
**3.44** The current account deficit was about £3 billion in each of the first three quarters of 1992. The visibles deficit was on a gently rising trend with export volumes levelling off after rising early in the year, and import volumes continuing to rise, albeit at a slower rate than earlier in the year. The invisibles surplus in the first three quarters is projected at less than £1 billion—well down on the £4 billion surplus recorded in 1991 when it benefited from overseas contributions to the UK's Gulf expenditure and from unusually low net contributions to the EC.

**3.45** Weaker invisibles than anticipated in the Budget forecast, which showed a surplus of £4½ billion in 1992, are in part the consequence of revisions to previous outturns which have reduced the invisibles surplus in 1991 by £1¾ billion. In addition, a downward revision to the UK's net stock of overseas assets at the end of 1991 to £16 billion—half the earlier estimate—has reduced estimated net investment income in 1992. Although the fall in the exchange rate will have increased the net stock of overseas assets, the prospective current account deficits will tend to have the opposite effect.

**3.46** Turning to visible trade, the deficit on manufactures has run ahead of the Budget forecast for 1992. It was £5 billion in the first three quarters—the same as the earlier forecast for the whole of 1992. Non-oil exports fell back a little in the third quarter, after reaching record levels in the second. Non-oil imports have grown more quickly than forecast mainly because the demand for manufactured goods appears to have risen unusually quickly in relation to the overall growth of demand.

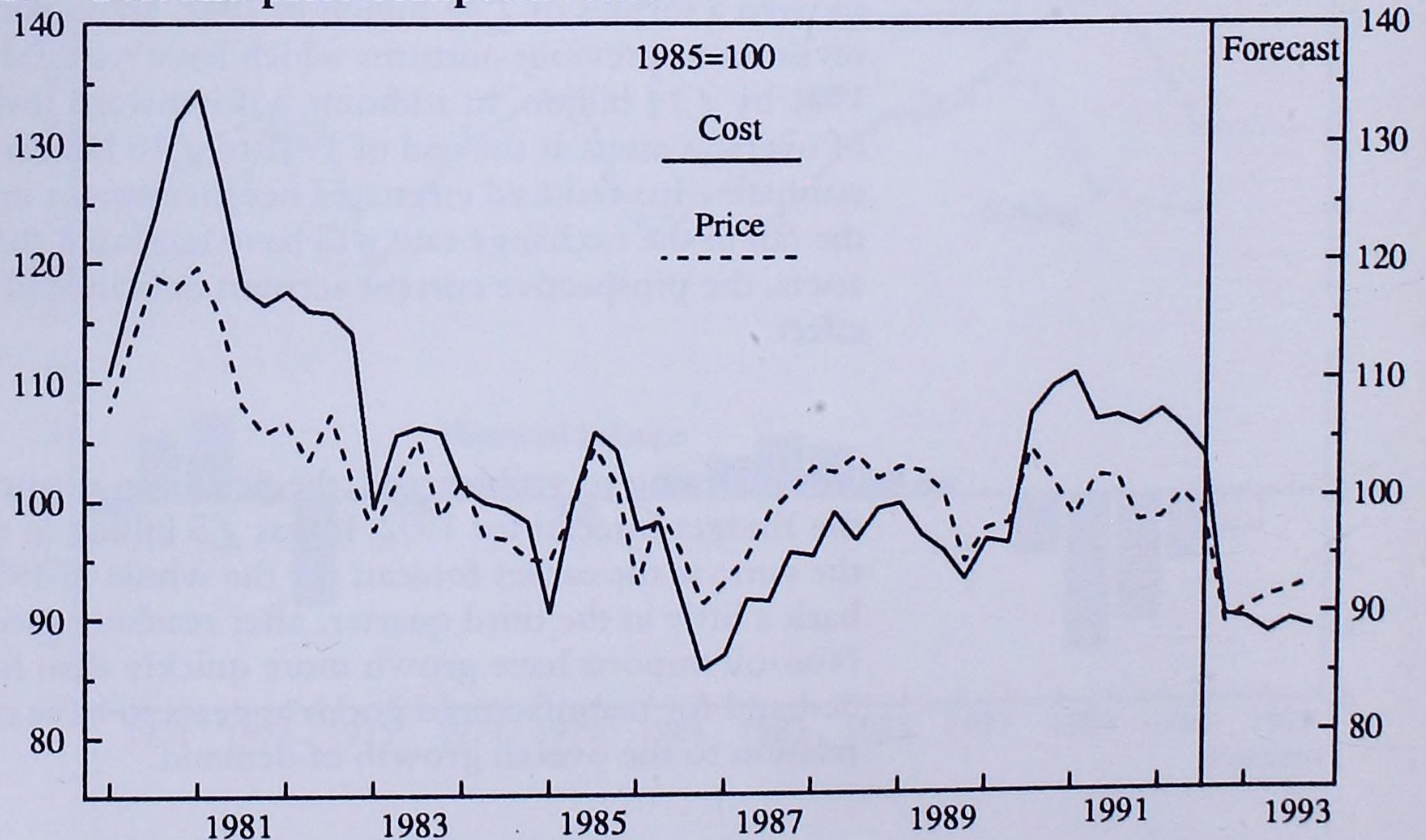


Chart 3.16 Unit labour costs in manufacturing



**Competitiveness 3.47** Growth of UK unit labour costs has continued to come more into line with that of our competitors. In 1991 UK manufacturers' unit labour costs rose 5 per cent faster than competitors' unit labour costs measured in local currency. In 1992, UK unit labour cost growth is expected to be, if anything, a little slower than in competitor countries. In 1993, this favourable gap is expected to widen further, with UK labour costs perhaps falling a little. The implication is that the improvement in competitiveness from the recent depreciation of sterling will be maintained through 1993. In 1993 on average, cost competitiveness is projected to be some 16 per cent better than in the first three quarters of 1992.

Chart 3.17 Cost and price competitiveness<sup>1</sup>

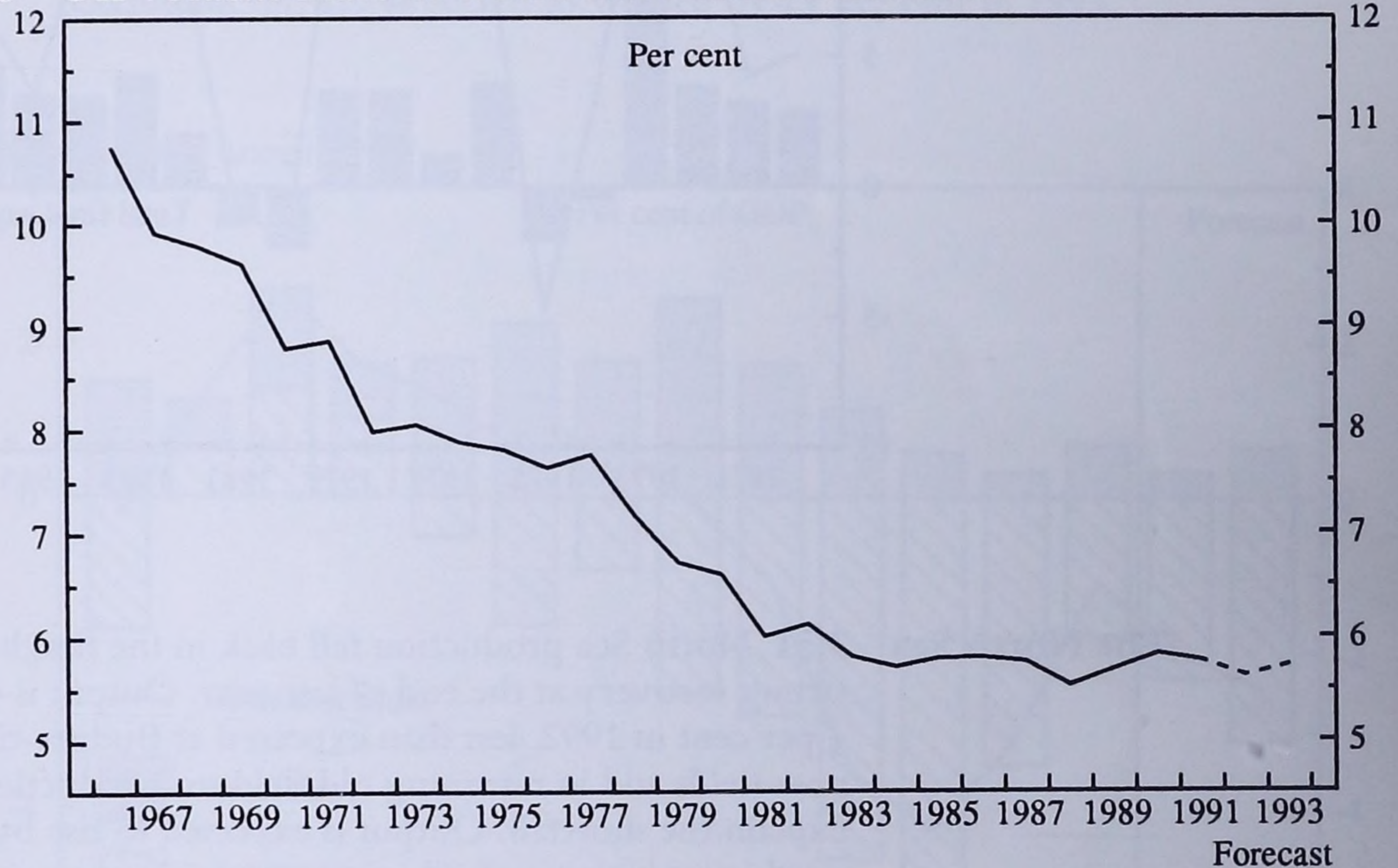


<sup>1</sup> A fall means competitiveness has improved.



**Outlook for exports** 3.48 Manufactured export volumes reached record levels in mid-1992, but fell back in the third quarter. Overall they are expected to rise by  $1\frac{1}{2}$  per cent in 1992. Deliveries in the fourth quarter should benefit a little from the improved competitiveness, but this will have its greatest effect in 1993 and later. This should mean exports growing faster than world trade: manufactured export volumes could rise by  $7\frac{1}{4}$  per cent in 1993, compared with world trade growth of 5 per cent.

**Chart 3.18 UK volume share of world trade in manufactures**



3.49 Overall, goods and services export volumes are forecast to rise  $5\frac{1}{2}$  per cent in 1993. This is a little above the average independent forecast which puts export growth at  $4\frac{3}{4}$  per cent in 1993, but within the independent range.

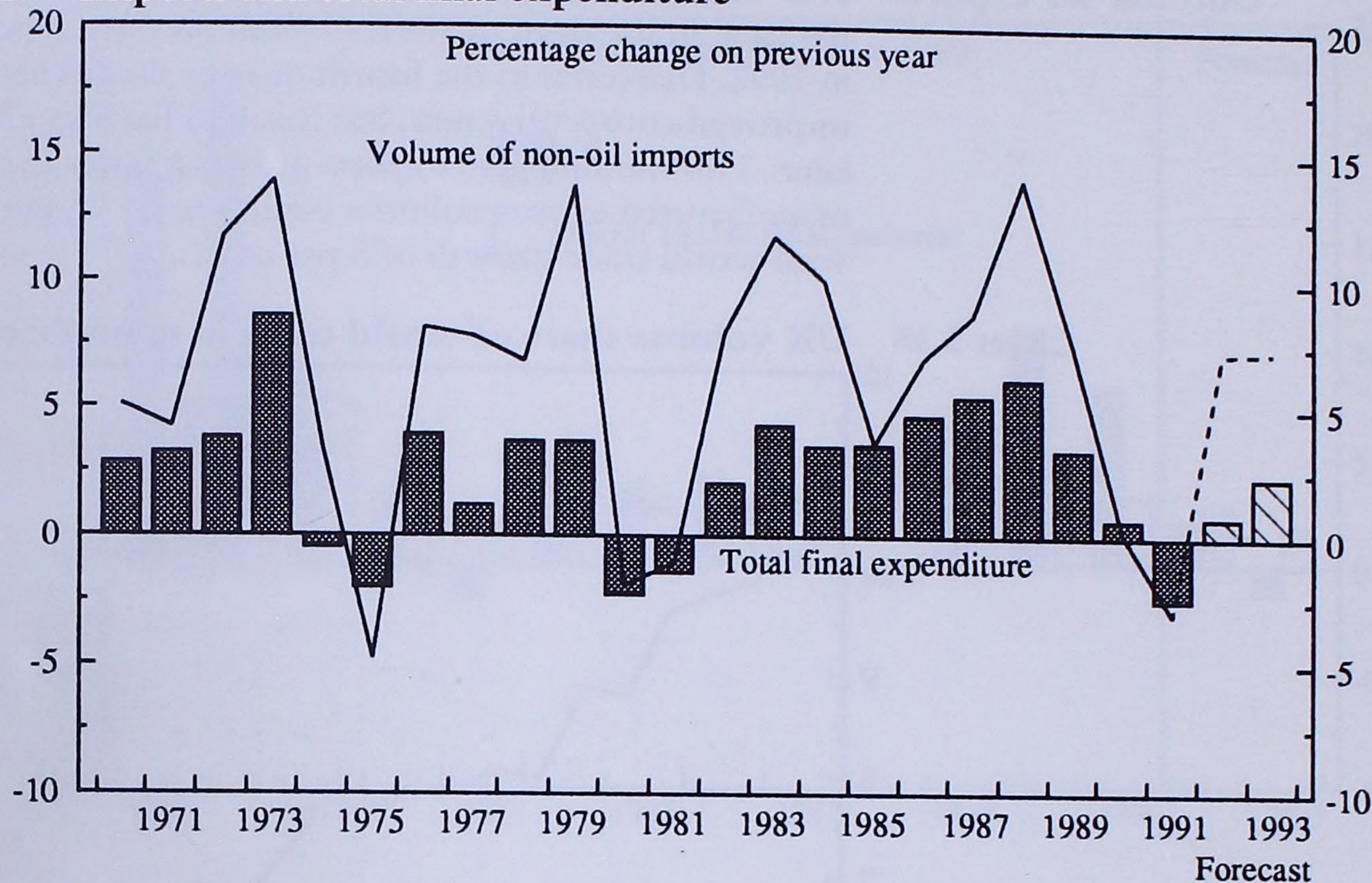
**Outlook for imports** 3.50 The improvements in competitiveness will also benefit firms competing with imports. Non-oil import volumes are expected to grow by  $7\frac{1}{4}$  per cent in 1993—the same as 1992 even though total final expenditure is expected to increase  $1\frac{1}{2}$  per cent more quickly in 1993 than in 1992. The continuing specialisation of world production is likely to mean a further rise in import penetration, but this should be muted by improved competitiveness. The volume of imports of goods and services is forecast to increase by  $5\frac{3}{4}$  per cent in 1993, less than the rise in 1992. The forecast for 1993 is above the average of independent forecasts of  $3\frac{3}{4}$  per cent, but well within their wide range.

**Table 3.4 Visible trade volumes**

|                      | Percentage changes on a year earlier |                |                 |                 |                |                 |
|----------------------|--------------------------------------|----------------|-----------------|-----------------|----------------|-----------------|
|                      | Non-oil goods                        |                | Oil             |                 | All goods      |                 |
|                      | Exports                              | Imports        | Exports         | Imports         | Exports        | Imports         |
| 1991                 | $2\frac{1}{4}$                       | -3             | $-2\frac{3}{4}$ | $-\frac{3}{4}$  | $1\frac{1}{2}$ | $-2\frac{3}{4}$ |
| 1992 Partly forecast | $2\frac{1}{4}$                       | $7\frac{1}{4}$ | 6               | 2               | $2\frac{3}{4}$ | $6\frac{3}{4}$  |
| 1993 Forecast        | 7                                    | $7\frac{1}{4}$ | $2\frac{1}{2}$  | $-1\frac{3}{4}$ | $6\frac{1}{2}$ | $6\frac{1}{2}$  |



Chart 3.19 Imports and total final expenditure



**The North Sea 3.51** North Sea production fell back in the first half of 1992, following its strong recovery at the end of last year. Output is expected to rise by only  $\frac{3}{4}$  per cent in 1992, less than expected at Budget-time. Delays in starting up new fields and in returning old fields to production after maintenance explain the shortfall. Output is expected to rise by 7 per cent in 1993. With production rising and oil prices assumed to remain close to recent levels, the surplus on oil trade is expected to rise to £2 billion in 1993 from £1½ billion in 1992.

**Invisibles 3.52** Even without the benefit of the lower exchange rate, the balance of interest, profits and dividends (IPD) was expected to improve in 1992. The 1991 balance was depressed in part by stock losses arising from oil price changes at the time of the Gulf war. The lower exchange rate will boost the surplus from the fourth quarter of 1992 by increasing the sterling value of foreign currency denominated credits. While the surpluses on services and IPD are both expected to rise in 1993, the invisibles surplus as a whole rises by less because of slightly higher net outward government transfers. Overall the invisibles surplus is expected to rise to £4 billion in 1993 from £2 billion in 1992.

Table 3.5 Current account

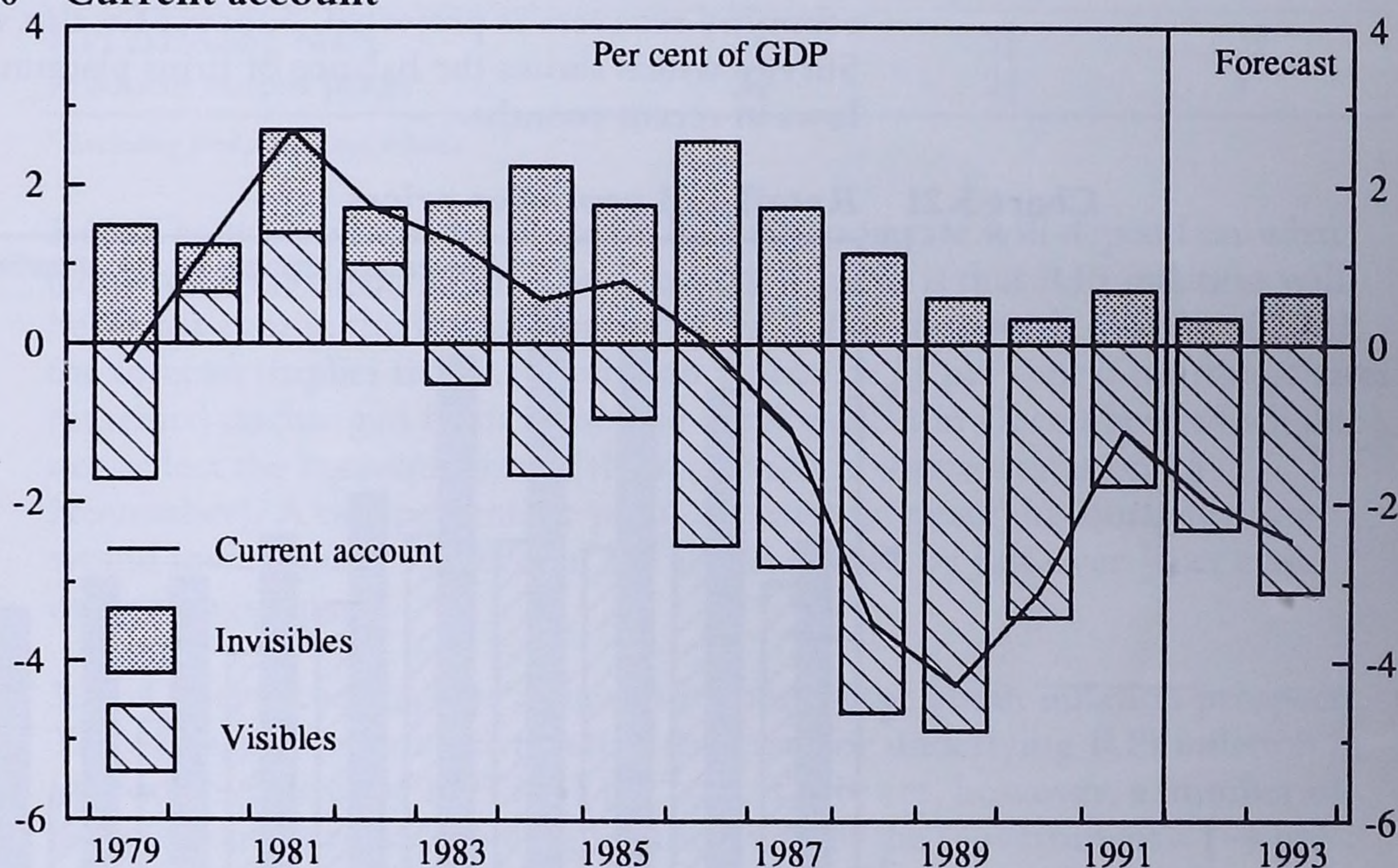
|                      | £ billion    |     |       |                |            |                              |
|----------------------|--------------|-----|-------|----------------|------------|------------------------------|
|                      | Manufactures | Oil | Other | Total visibles | Invisibles | Current balance <sup>1</sup> |
| 1991                 | - 3½         | 1   | - 8   | - 10½          | 4          | - 6½(- 1)                    |
| 1992 Partly forecast | - 8          | 1½  | - 7½  | - 14           | 2          | - 12 (- 2)                   |
| 1993 Forecast        | - 12         | 2   | - 9½  | - 19½          | 4          | - 15½(- 2½)                  |

<sup>1</sup> Figures in brackets are as a percent of GDP.



**Current account** 3.53 The current account deficit is projected to be £12 billion in 1992, rising to £15½ billion in 1993. The deterioration is more than accounted for by a rise in the visibles deficit. With export and import volumes growing at similar rates, this is largely explained by price movements. Equal rises in export and import prices following the depreciation would automatically worsen the current account before volumes adjust. Moreover, import prices are expected to react more quickly to the depreciation of sterling as exporters keep prices down to increase volumes. The terms of trade (excluding oil) are expected to worsen by 2½ per cent in 1993.

Chart 3.20 Current account



3.54 The forecast of the current account deficit in 1992 is virtually the same as the independent average. The forecast for 1993 is above the average figure of £14 billion, though the wide range of independent forecasts illustrates the high degree of uncertainty.

## Inflation

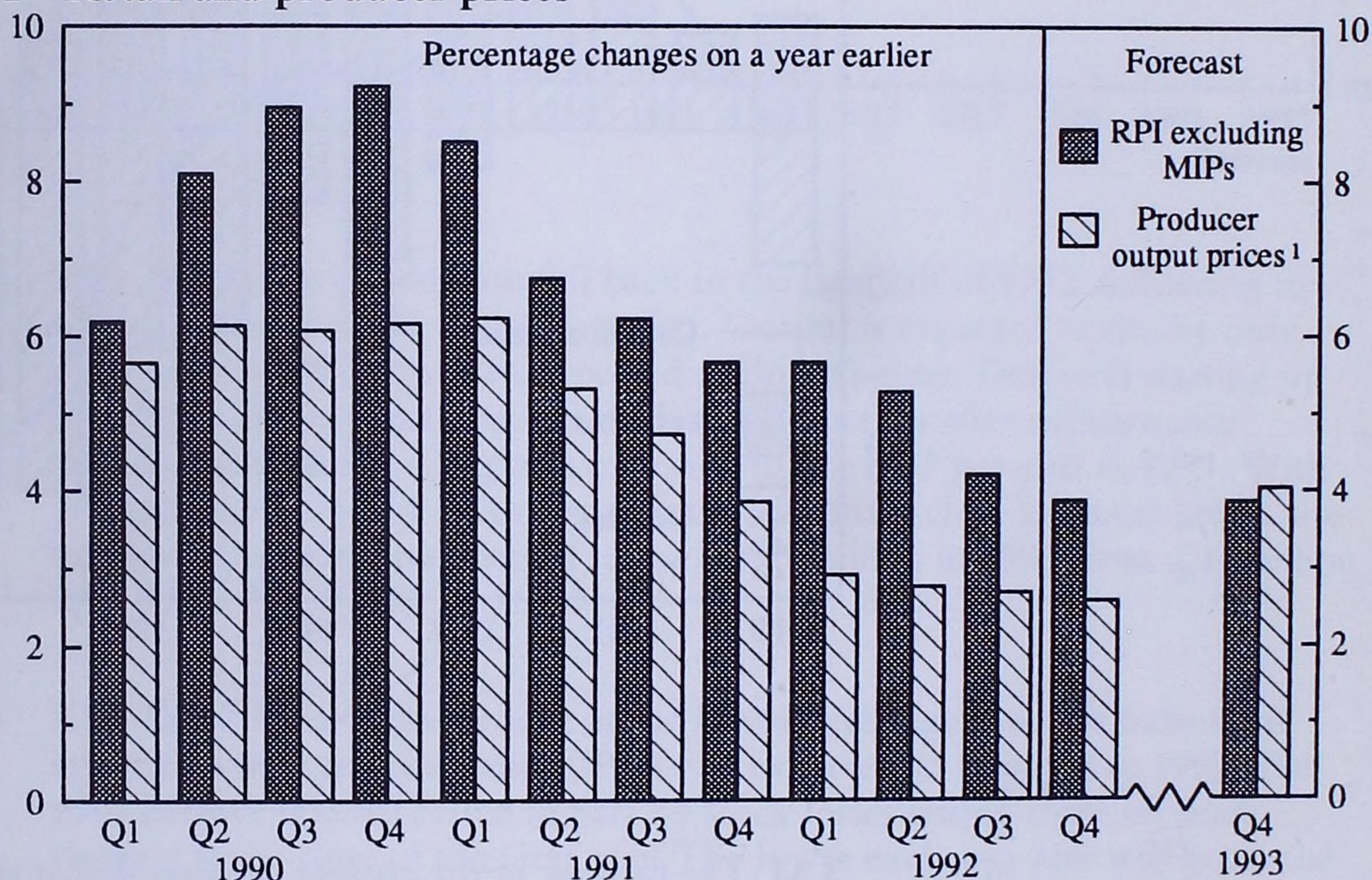
**Recent developments** 3.55 Good progress has been made in reducing inflation. Underlying inflation, as measured by the RPI excluding mortgage interest payments (MIPs), fell to 3.8 per cent in October, down 1.9 percentage points since April. All-items RPI inflation has been a little lower than expected since the Budget and was 3.6 per cent in October. Producer output prices are increasing even more slowly, with the rate excluding food, drink and tobacco at 2.5 per cent in October, the lowest since May 1969. And with unit wage costs in manufacturing in July to September only 1.8 per cent up on a year earlier, pressure on profit margins has been easing.



**3.56** In response to falling inflation, a weak labour market, and the tight financial position of companies, pay settlements have continued to fall over the past year. CBI and other data point to settlements in both manufacturing and services recently averaging just over 4 per cent, about half the level in early 1991. Whole economy underlying earnings growth fell to 5½ per cent in September, down from over 10 per cent in mid-1990 and the lowest since 1967. And the full effect of lower settlements has still to feed through into year-on-year earnings growth.

**Prospects 3.57** Inflation reacts with a lag to demand and activity. The considerable degree of spare capacity in the economy will therefore continue to exert powerful downward pressure on inflation for some time to come, even if the economy recovers as projected. Support for this view comes from the CBI Survey which shows the balance of firms planning to raise prices at record lows in recent months.

**Chart 3.21 Retail and producer prices**



<sup>1</sup> Excluding food, drink and tobacco.

**3.58** The prospect for inflation has, however, been altered by the lower interest rates and exchange rate following sterling's suspension from the ERM. The lower exchange rate will inevitably mean higher inflation compared to what it otherwise would have been, as the cost of imports rises and domestic producers face less competitive pressure from foreign producers. But the speed with which the lower exchange rate affects domestic prices and earnings is uncertain. On the one hand the weakness of domestic and world markets may mean both that importers will be more restrained than usual in passing on higher world prices in sterling, and that domestic producers will be more restrained in passing on higher import costs. On the other hand, with domestic margins already pared by the recession, there may be limited scope for absorbing further cost increases.

**3.59** However, against a background of strong disinflationary pressures, the lower exchange rate may imply only a marginal and almost certainly a temporary increase in inflation. Producer output price inflation is now



expected to average  $2\frac{1}{2}$  per cent in the fourth quarter of 1992, before rising to a temporary peak of 4 per cent in the fourth quarter of 1993. Underlying RPI inflation may also rise slightly in the months ahead as the lower exchange rate affects import prices directly, and more generally limits disinflationary pressure. But the Treasury forecast is that it will fall back to  $3\frac{3}{4}$  per cent by the fourth quarter of 1993.

**Table 3.6 Retail and producer output price inflation**

|                                     | Percentage changes on a year earlier |                |                |
|-------------------------------------|--------------------------------------|----------------|----------------|
|                                     | 1991Q4                               | Forecast       |                |
|                                     |                                      | 1992Q4         | 1993Q4         |
| RPI excluding MIPs                  | $5\frac{3}{4}$                       | $3\frac{3}{4}$ | $3\frac{3}{4}$ |
| Producer output prices <sup>1</sup> | $3\frac{3}{4}$                       | $2\frac{1}{2}$ | 4              |

<sup>1</sup> Excluding food, drink and tobacco.

**3.60** The outlook for the all-items RPI inflation rate will depend on what happens to mortgage rates. The Treasury forecast is that RPI inflation will be  $3\frac{1}{4}$  per cent in the fourth quarter of 1992. For the fourth quarter of 1993, the forecast implies that RPI inflation would be  $3\frac{1}{2}$  per cent if mortgage rates remained unchanged from those due to take effect in December (which do not reflect the consequences of the reduction in interest rates on 13 November). A one percentage point decrease (increase) in mortgage rates would lower (raise) the level of the all-items RPI by just over  $\frac{1}{2}$  per cent, other things equal.

**3.61** Other forecasters are rather more pessimistic about inflation prospects. The average of recent independent forecasts for underlying RPI inflation in the fourth quarter of 1993 is  $4\frac{1}{4}$  per cent. There are, however, a number of independent forecasts showing inflation within the Government's 1–4 per cent target range. The difference between the Treasury and the average view probably mainly reflects our somewhat less buoyant view of output, and our assessment of the amount of disinflationary pressure in the pipeline prior to ERM withdrawal, rather than a difference of view about the effects of the lower exchange rate.

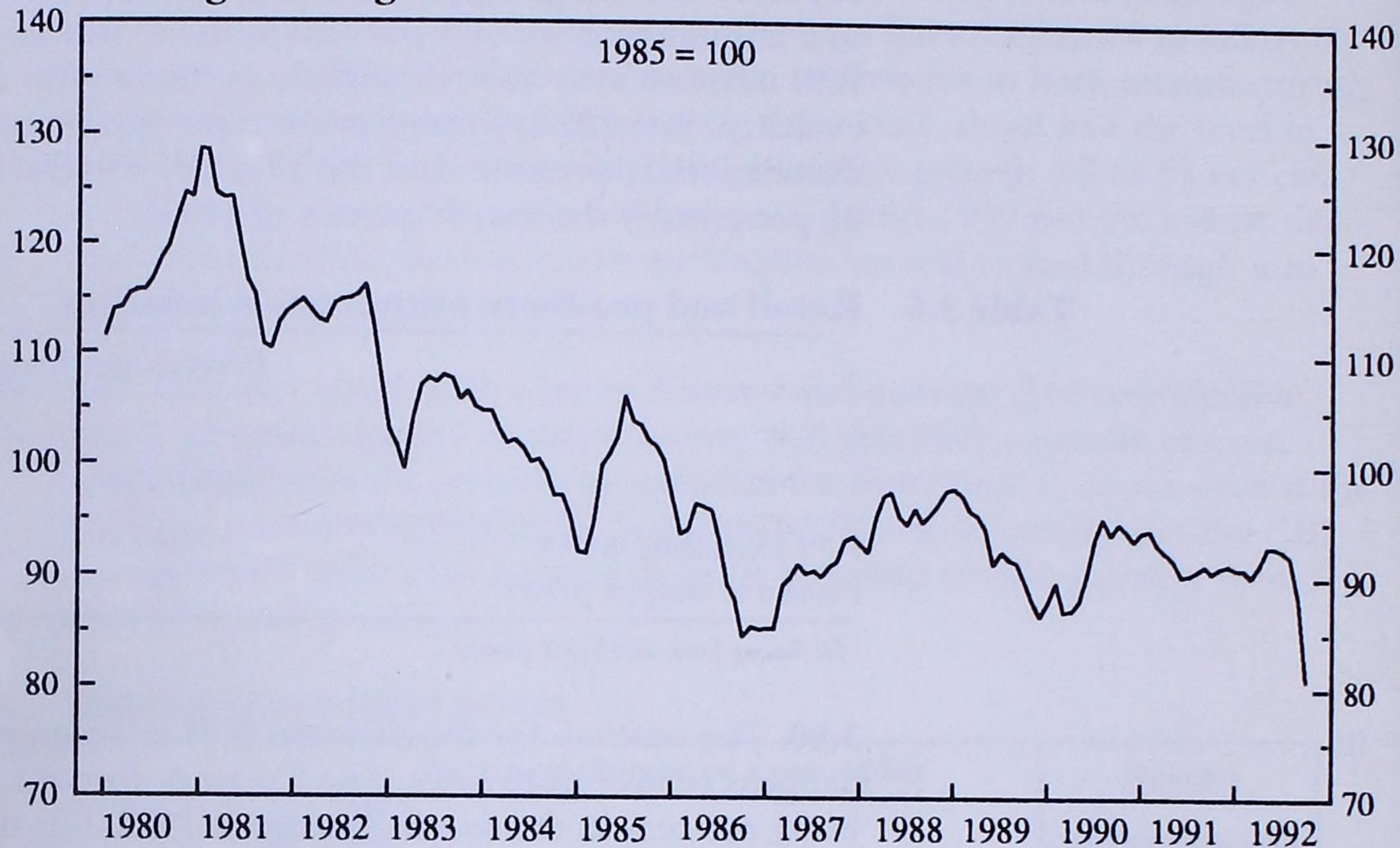
**3.62** Recent and prospective developments in underlying inflation are expected to be reflected in the GDP deflator, which measures the price of domestic value added (principally unit labour costs and profits per unit of output). The GDP deflator is now forecast to increase by  $4\frac{1}{4}$  per cent in 1992–93, a little less than forecast at Budget-time, and by  $2\frac{3}{4}$  per cent in 1993–94. The projected increase in the deflator in 1993–94 is less than the increase in consumer prices because of public sector pay restraint and weak investment prices. Investment prices have fallen over the last year and are forecast to rise by about 2 per cent in 1993–94.

### Financial developments

**Exchange rates** **3.63** Over the last year until its suspension from the ERM, sterling traded for the most part comfortably within its ERM margins, close to its central rate of DM 2.95. Since suspension, sterling has averaged DM 2.47. In effective terms it was 11 per cent lower on average in October than a year earlier.

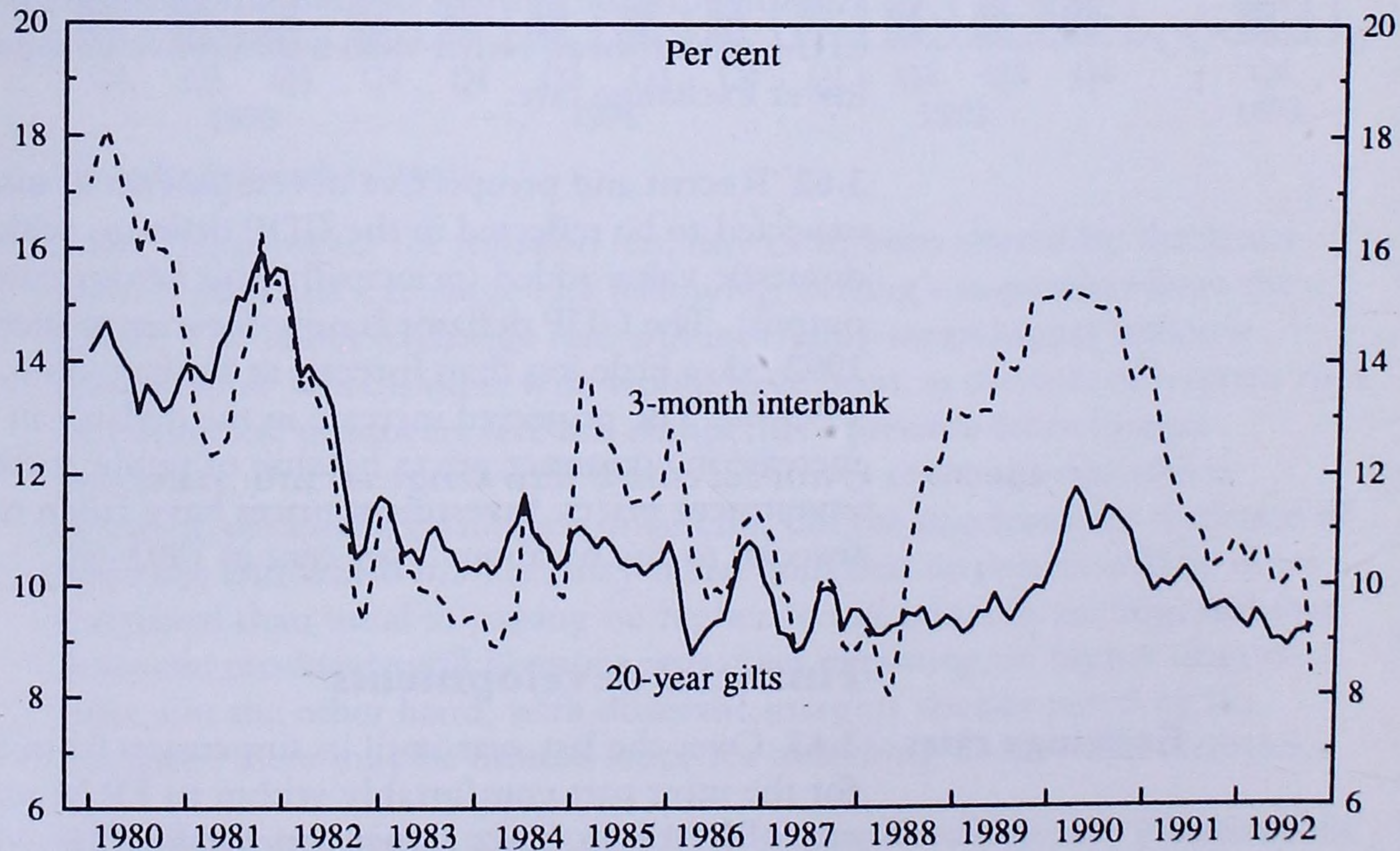


Chart 3.22 Sterling exchange rate index



**Interest rates** 3.64 Short term interest rates began their fall from their 15 per cent peak in the autumn of 1990; this has continued in 1992. They fell  $\frac{1}{2}$  per cent in May to 10 per cent, and, after two further cuts since ERM suspension, they stood at 8 per cent at the end of October. And they were reduced a further 1 per cent, to 7 per cent, from 13 November. Long rates have fallen  $\frac{3}{4}$  per cent over the last year: an increase following ERM suspension has now been reversed. But the yield curve is now upward sloping for the first time since early 1988. Equity prices have picked up since ERM suspension, making good earlier losses to show a small increase since this time last year.

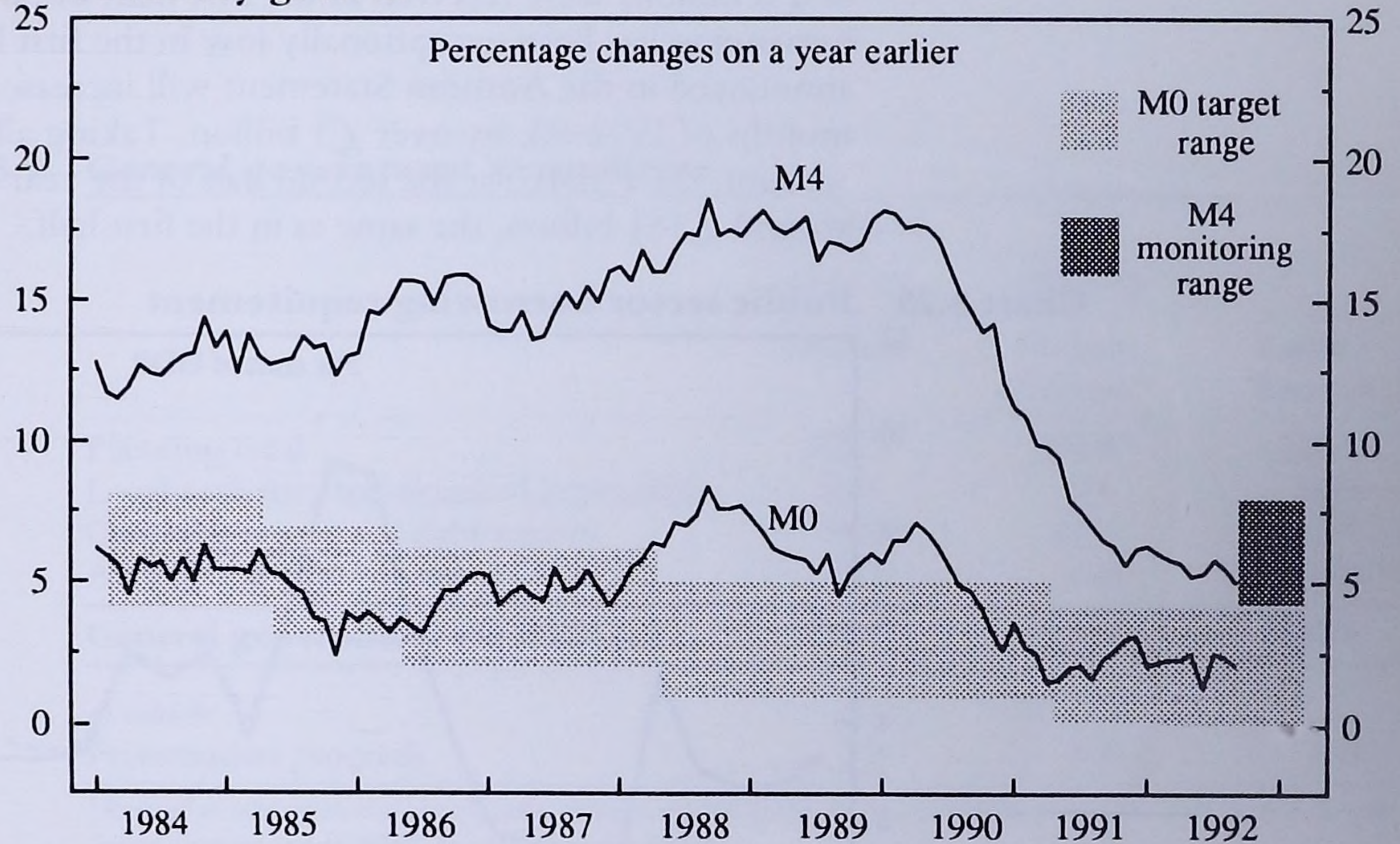
Chart 3.23 Interest rates





**Monetary aggregates** 3.65 M0 has remained well within its target range throughout 1992. Its twelve month growth rate has been between 2 and 2½ per cent in every month, except June when it dipped to 1¼ per cent. M4's twelve month growth rate has continued to decline during the past year from 6½ per cent in September 1991 to 5 per cent a year later. The trend in M4 velocity has flattened recently. The monitoring range for M4's twelve month growth rate has been set at 4–8 per cent for the remainder of the financial year.

Chart 3.24 Monetary growth



**Credit** 3.66 The growth of M4 lending has fallen further in 1992. In September it was 4¼ per cent. M4 lending to industrial and commercial companies in 1991 was well down on recent years at £1.3 billion, and remained low in the first half of 1992. Personal sector borrowing has weakened reflecting the lack of activity in the housing market and weak borrowing for consumption. Subdued lending is consistent with the personal sector's efforts to reduce its debt and also with the weakness of company spending.

### Public finances

**PSBR** 3.67 The forecast is for a PSBR of £37 billion, as compared with £28 billion in the Budget forecast.

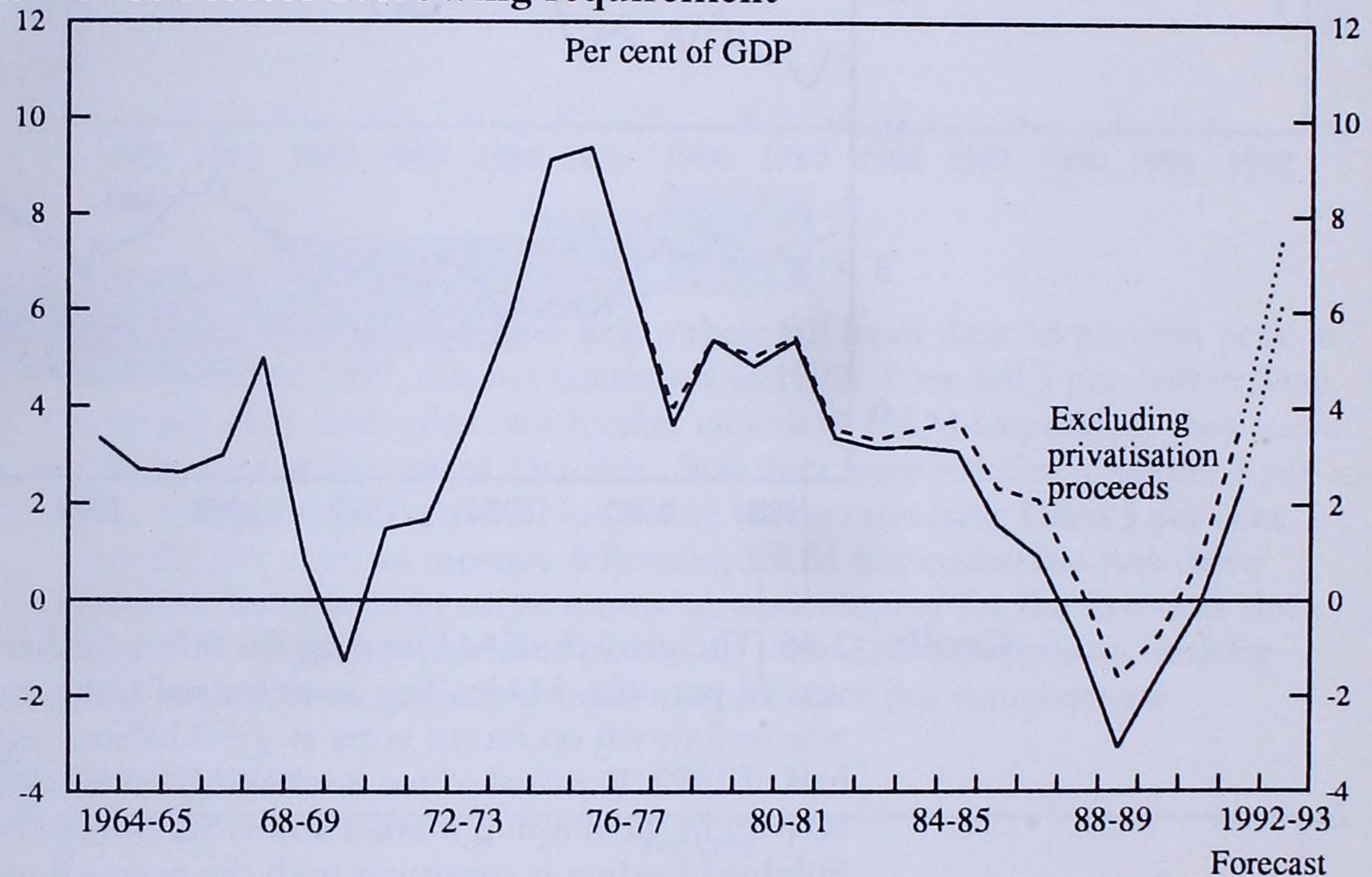
Table 3.7 Public sector borrowing requirement

|  | £ billion   |                 |                 |
|--|-------------|-----------------|-----------------|
|  | 1991–92     |                 | 1992–93         |
|  | Outturn     | Budget forecast | Latest forecast |
| <b>PSBR</b>                                  | <b>13.7</b> | <b>28.1</b>     | <b>37.0</b>     |
| per cent of GDP                              | 2¼          | 4½              | 6¼              |
| <b>PSBR excluding privatisation proceeds</b> | <b>21.7</b> | <b>36.1</b>     | <b>45.0</b>     |
| per cent of GDP                              | 3¾          | 5¾              | 7½              |



**3.68** Borrowing is usually higher in the first half of the year than in the second half. However, this year the proportion of borrowing in the first half is expected to be less than usual for a number of reasons. Mainstream corporation tax receipts, three-quarters of which normally come in the second half of the year, are expected to be substantially down on 1991–92. The growth of central government cash outlays has been relatively low compared with the forecast for the year as a whole, and may pick up in the second half. The bulk of privatisation proceeds for the year (£5 billion out of £8 billion) were received in the first half. Local authorities' net borrowing has been exceptionally low in the first half. Finally the measures announced in the Autumn Statement will increase the PSBR in the last five months of 1992–93, by over £1 billion. Taking all these factors into account, the PSBR for the second half of the year is now expected to be around £18½ billion, the same as in the first half.

**Chart 3.25 Public sector borrowing requirement**



**Changes since the Budget**

**3.69** The higher PSBR now forecast mostly reflects lower general government receipts, mainly due to lower economic activity and lower earnings growth. General government expenditure is £2¼ billion higher than forecast at Budget-time, but around half of this reflects the measures announced in the Autumn Statement, which also have a small impact on receipts.

**Table 3.8 Public sector expenditure, receipts and borrowing**

|  | £ billion   |                 |                 |
|--|-------------|-----------------|-----------------|
|  | 1991-92     | 1992-93         |                 |
|  | Outturn     | Budget forecast | Latest forecast |
| General government expenditure                     | 235.9       | 258.5           | 260.8           |
| General government receipts                        | 221.9       | 229.8           | 223.1           |
| General government borrowing requirement           | 14.0        | 28.7            | 37.7            |
| Public corporations' market and overseas borrowing | -0.3        | -0.6            | -0.7            |
| <b>PSBR</b>  | <b>13.7</b> | <b>28.1</b>     | <b>37.0</b>     |



**Expenditure 3.70** The estimated outturn for the planning total would be unchanged since the Budget, but for the housing measures announced in the Autumn Statement. These account for a  $\pounds\frac{3}{4}$  billion upward revision. The Autumn Statement measures, however, only account for around one-fifth of the higher forecast of local authority self-financed expenditure, which is up by nearly  $\pounds 1\frac{1}{2}$  billion. This largely reflects higher than expected capital spending by local authorities. Central government debt interest payments are also a little higher than forecast at Budget-time.

**Table 3.9 General government expenditure**

|   | £ billion          |                    |                 |
|---|--------------------|--------------------|-----------------|
|   | 1991-92            | 1992-93            |                 |
|   | Outturn            | Budget forecast    | Latest forecast |
| Planning total                            | 203.5 <sup>1</sup> | 225.4 <sup>1</sup> | 226.1           |
| Local authority self-financed expenditure | 10.8               | 9.5                | 10.9            |
| Central government debt interest          | 16.3               | 17.6               | 17.7            |
| Accounting adjustments                    | 5.2 <sup>1</sup>   | 6.0 <sup>1</sup>   | 6.0             |
| <b>General government expenditure</b>     | <b>235.9</b>       | <b>258.5</b>       | <b>260.8</b>    |
| <i>of which:</i>                          |                    |                    |                 |
| Privatisation proceeds                    | 7.9                | 8.0                | 8.0             |

<sup>1</sup> Revised to take account of classification changes, including the changes in treatment of Civil Service and Armed Forces pensions and of NHS Trusts debt remuneration.

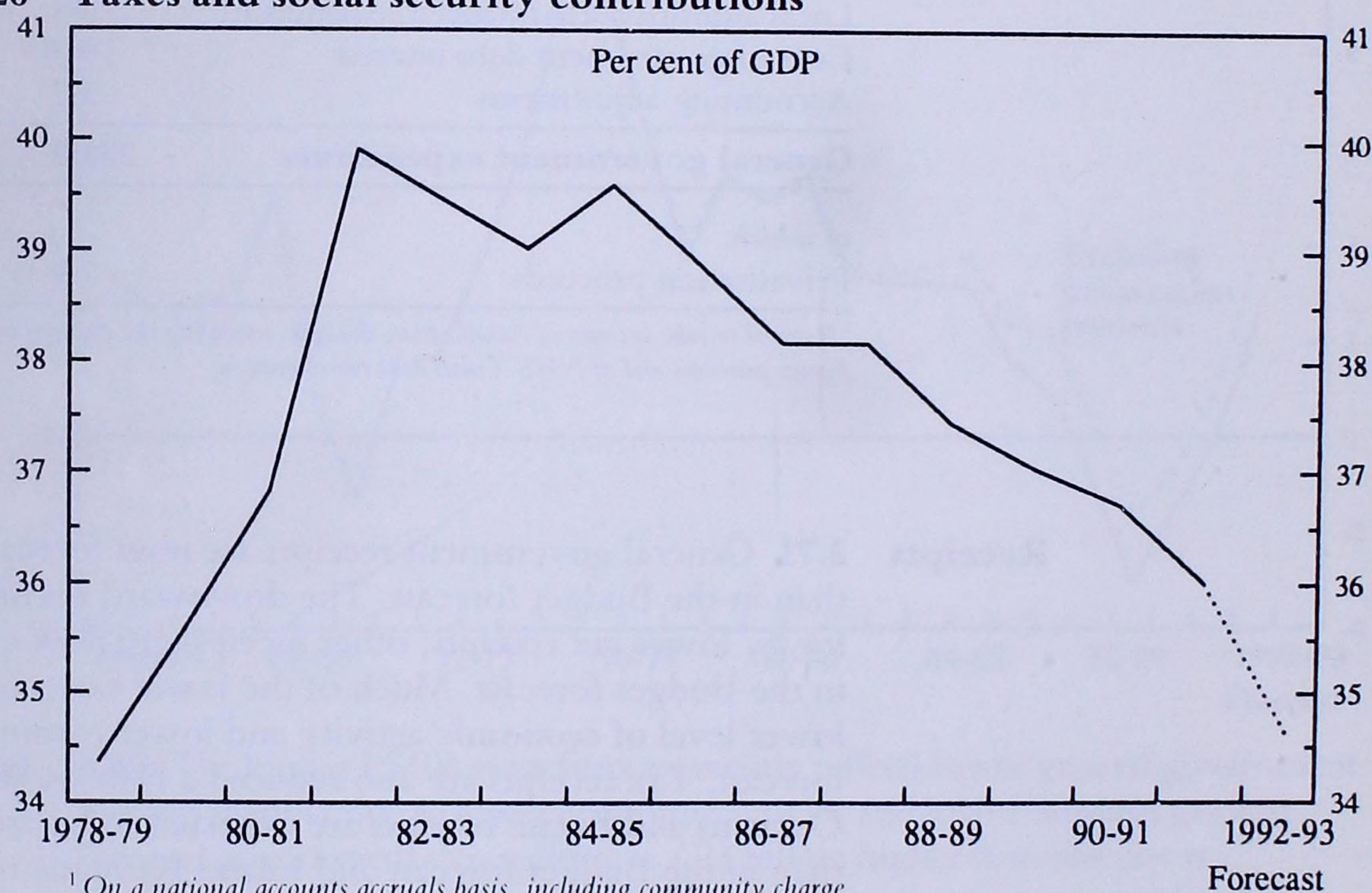
**Receipts 3.71** General government receipts are now forecast to be  $\pounds 6\frac{3}{4}$  billion lower than in the Budget forecast. The downward revision is more than accounted for by lower tax receipts; other receipts are now expected to be higher than in the Budget forecast. Much of the lower tax receipts forecast reflects a lower level of economic activity and lower earnings than in the Budget forecast. Tax receipts are also reduced a little by the abolition of car tax. Customs and Excise receipts are expected to be around  $\pounds 3\frac{3}{4}$  billion lower than in the Budget forecast and Inland Revenue receipts around  $\pounds 4\frac{1}{4}$  billion lower. VAT receipts are forecast to be down by  $\pounds 2\frac{1}{4}$  billion, and income tax receipts to be  $\pounds 2$  billion lower. Receipts of social security contributions are also down by nearly  $\pounds 1$  billion. There has also been a substantial downward revision (of around  $\pounds 2$  billion) to the forecast of corporation tax receipts; this largely reflects lower than expected tax payments on profits earned in 1991, and larger repayments of tax as companies use current losses against tax liabilities.



Table 3.10 General government receipts

|  | £ billion    |                 |                 |
|--|--------------|-----------------|-----------------|
|  | 1991-92      | 1992-93         |                 |
|  | Outturn      | Budget forecast | Latest forecast |
| Total tax, community charge and royalty receipts | 170.7        | 177.8           | 169.4           |
| Social security receipts                         | 36.9         | 38.7            | 37.9            |
| Interest and dividends                           | 6.2          | 5.5             | 5.0             |
| Other receipts <sup>1</sup>                      | 8.1          | 7.7             | 10.7            |
| <b>Total general government receipts</b>         | <b>221.9</b> | <b>229.8</b>    | <b>223.1</b>    |
| <i>of which:</i>                                 |              |                 |                 |
| North Sea revenues                               | 1.0          | 1.2             | 1.2             |

<sup>1</sup> Includes financial transactions and the balancing item, some of which are treated as negative outlays in the monthly central government accounts.

Chart 3.26 Taxes and social security contributions<sup>1</sup>

<sup>1</sup> On a national accounts accruals basis, including community charge.

**3.72** On a national accounts basis, total taxes and social security contributions are now forecast at  $34\frac{3}{4}$  per cent of GDP, a fall of nearly  $1\frac{1}{2}$  percentage points on the previous year. Most of the fall reflects the recession, and in particular the substantial reduction in corporation tax receipts.

**Independent forecasts** **3.73** The latest Treasury forecast for the PSBR in 1992-93 is, at £37 billion, around £ $3\frac{1}{2}$  billion higher than the average of independent forecasts. In part this difference reflects the effects of the measures announced in the Autumn Statement, not taken into account in independent forecasts.



## Risks and uncertainties

**3.74** All forecasts are subject to risks and uncertainties. Recent Industry Act forecasts have emphasised that these are most acute when the economy is at or close to a turning point. This remains no less true on this occasion, and applies as much to the forecast of the world economy as to that for the UK. The recent turbulence in financial markets has added to the uncertainty. The Treasury forecast is based on the assumption that the exchange rate remains close to recent levels.

**3.75** The forecasts presented here are central forecasts, a balance of upside and downside risks. Table 3.11 shows **average** errors from past Autumn Statement forecasts. Domestic demand and GDP have been considerably weaker than forecast over the past two years, with errors well above the average. However, the counterpart has been faster than anticipated progress in reducing inflation, though errors here have been less than the past average.

**Table 3.11 Margins of error**

|  | Percentage changes on a year earlier unless otherwise stated |   |
|--|--|---|
|  | Autumn Statement forecast for 1993                           | Average errors from past forecasts <sup>1</sup> |
| <b>GDP and domestic demand at constant prices</b>    |  |   |
| Domestic demand                                      | 1½   | 1½  |
| of which:  |  |   |
| Consumers' expenditure                               | 1¼   | 1¾  |
| General government consumption                       | ½  | 1   |
| Fixed investment                                     | ¼  | 4¼  |
| Change in stockbuilding <sup>2</sup>                 | ½  | ¾   |
| Exports of goods and services                        | 5½   | 2   |
| Imports of goods and services                        | 5¾   | 3¼  |
| <b>Gross domestic product</b>                        |  |   |
| Non-oil GDP  | ¾  | 1   |
| Manufacturing output                                 | 1  | 2   |
| <b>Balance of payments current account</b>           |  |   |
| (£ billion)  | -15½   | 6½  |
| <b>Inflation</b>                                     |  |   |
| RPI excluding MIPs (fourth quarter)                  | 3¾   | 1¼  |
| Producer output prices (fourth quarter) <sup>3</sup> | 4  | 1¼  |
| GDP deflator at market prices (financial year)       | 2¾   | 1½  |
| <b>Money GDP at market prices</b>                    |  |   |
| (financial year)                                     | 4¾   | 1¾  |
| <b>PSBR<sup>4</sup></b>                              |  |   |
| (£ billion)  | 37   | 3¾  |

<sup>1</sup> Average errors regardless of sign from Autumn Statement forecasts over the last ten years.

<sup>2</sup> Per cent of GDP.

<sup>3</sup> Excluding food, drink and tobacco.

<sup>4</sup> Forecast for 1992-93 and corresponding error.



Table 3.12 Gross domestic product and its components

| £ billion at 1985 prices, seasonally adjusted    |                                     |   |                        |                  |                 |                               |                                |   |                                       |  |                           |
|--|-------------------------------------|---|------------------------|------------------|-----------------|-------------------------------|--------------------------------|---|---------------------------------------|--|---------------------------|
|  | Consumers' expenditure <sup>1</sup> | General government consumption <sup>1</sup> | Total fixed investment | Change in stocks | Domestic demand | Exports of goods and services | <b>Total final expenditure</b> | <i>Less</i> imports of goods and services | <i>Less</i> adjustment to factor cost | <i>Plus</i> statistical discrepancy <sup>2</sup> | <b>GDP at factor cost</b> |
| 1991   | 269.0                               | 81.9  | 72.5                   | - 3.5            | 419.9           | 123.4                         | <b>543.3</b>                   | 134.4                                     | 58.3                                  | - 0.3  | <b>350.3</b>              |
| 1992   | 268.4                               | 82.4  | 70.9                   | - 1.4            | 420.4           | 127.3                         | <b>547.7</b>                   | 143.1                                     | 57.0                                  | - 0.3  | <b>347.2</b>              |
| 1993   | 271.8                               | 82.9  | 71.2                   | 0.4              | 426.3           | 134.3                         | <b>560.5</b>                   | 151.4                                     | 58.3                                  | - 0.3  | <b>350.5</b>              |
| 1991 1st half                                    | 135.0                               | 40.9  | 36.5                   | - 2.1            | 210.3           | 61.0                          | <b>271.2</b>                   | 66.6                                      | 29.0                                  | - 0.2  | <b>175.5</b>              |
| 2nd half   | 134.1                               | 41.1  | 35.9                   | - 1.4            | 209.7           | 62.4                          | <b>272.1</b>                   | 67.8                                      | 29.3                                  | - 0.2  | <b>174.8</b>              |
| 1992 1st half                                    | 133.9                               | 41.1  | 35.5                   | - 0.4            | 210.1           | 63.1                          | <b>273.2</b>                   | 70.8                                      | 28.4                                  | - 0.2  | <b>173.8</b>              |
| 2nd half   | 134.5                               | 41.3  | 35.5                   | - 1.0            | 210.3           | 64.2                          | <b>274.5</b>                   | 72.4                                      | 28.6                                  | - 0.2  | <b>173.4</b>              |
| 1993 1st half                                    | 135.2                               | 41.4  | 35.5                   | - 0.3            | 211.8           | 66.0                          | <b>277.8</b>                   | 74.6                                      | 28.9                                  | - 0.2  | <b>174.2</b>              |
| 2nd half   | 136.6                               | 41.5  | 35.7                   | 0.7              | 214.4           | 68.2                          | <b>282.7</b>                   | 76.8                                      | 29.4                                  | - 0.2  | <b>176.3</b>              |
| Percentage changes on previous year <sup>3</sup> |                                     |   |                        |                  |                 |                               |                                |   |                                       |  |                           |
| 1990   | $\frac{3}{4}$                       | $3\frac{1}{4}$                              | - 3                    | - 1              | $-\frac{1}{2}$  | 5                             | $\frac{3}{4}$                  | 1   | $-\frac{1}{4}$                        | 0  | $\frac{3}{4}$             |
| 1991   | - 2                                 | $2\frac{3}{4}$                              | - 10                   | $-\frac{3}{4}$   | $-3\frac{1}{4}$ | $\frac{1}{4}$                 | $-2\frac{1}{2}$                | - 3                                       | $-1\frac{1}{4}$                       | 0  | $-2\frac{1}{2}$           |
| 1992   | $-\frac{1}{4}$                      | $\frac{1}{2}$                               | - 2                    | $\frac{1}{2}$    | 0               | $3\frac{1}{4}$                | $\frac{3}{4}$                  | $6\frac{1}{2}$                            | $-2\frac{1}{4}$                       | 0  | - 1                       |
| 1993   | $1\frac{1}{4}$                      | $\frac{1}{2}$                               | $\frac{1}{4}$          | $\frac{1}{2}$    | $1\frac{1}{2}$  | $5\frac{1}{2}$                | $2\frac{1}{4}$                 | $5\frac{3}{4}$                            | $2\frac{1}{4}$                        | 0  | 1                         |

<sup>1</sup> Expenditure plans from 1 April 1993 treat finance provided by central government for further education institutions as grants to the personal sector, in line with the treatment of universities and polytechnics. Before then further education institutions are in the local authority sector. This change reduces the growth of the volume of general government consumption by  $1\frac{3}{4}$  per cent in 1993, and raises the growth of the volume of consumers' expenditure by  $\frac{1}{2}$  per cent. However, figures in this chapter are adjusted to exclude these effects.

<sup>2</sup> Expenditure adjustment.

<sup>3</sup> For stockbuilding and the statistical adjustment, changes are expressed as a percent of GDP.



# 4 National Insurance Contributions

**4.01.** 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 Administration Act 1992. Full details were set out in a statement by the Secretary of State on 12 November 1992. The main proposals are as follows:

- the Class 1 national insurance rates for employers and employees should remain unchanged for 1993–94.
- the lower earnings limit should be increased from April 1993 from the present level of £54 a week to £56 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £405 a week to £420 a week.
- the earnings thresholds for the employers' lower rate bands should also be increased from £90, £135 and £190 a week to £95, £140 and £195 a week.
- due to a declining balance in the National Insurance Fund, a Treasury grant not exceeding 20 per cent of contributory benefit expenditure will be made available to the Fund in 1993–94, subject to Parliamentary approval of the necessary legislative changes.

This would give the following structure of national insurance contributions:

| Weekly earnings | Percentage NIC rate  |                        |
|-----------------|--|------------------------|
|                 | Employees  | Employers <sup>1</sup> |
| Below £56       | 0  | 0                      |
| £56 to £94.99   | { 2% of £56<br>plus<br>9% of earnings<br>between £56<br>and £420 | 4.6                    |
| £95 to £139.99  |  | 6.6                    |
| £140 to £194.99 |  | 8.6                    |
| £195 to £420    |  | 10.4                   |
| Above £420      |  | 10.4                   |

<sup>1</sup> Rates apply to all earnings.

**4.02.** The necessary orders will be laid in due course 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 are set out in Annex D of Chapter 2.



4.03. The estimated effects of the proposed changes are shown in Table 4.1.

**Table 4.1 Estimated total payments by employers and employees of national insurance contributions, 1992–93 and 1993–94<sup>1</sup>**

|   | £ million |           |        |
|---|-----------|-----------|--------|
|   | Employers | Employees | Total  |
| National insurance contributions:                                     |           |           |        |
| 1992–93   | 21 810    | 13 870    | 35 680 |
| 1993–94   | 23 580    | 14 630    | 38 210 |
| Total change  | 1 770     | 760       | 2 530  |
| <i>of which:</i>  |           |           |        |
| Changes in contributions from increase in earnings, etc <sup>2</sup>  | 1 100     | 500       | 1 600  |
| Change in contributions from lower contracted-out rebate <sup>3</sup> | 790       | 190       | 980    |
| Change in contributions from increase in earnings limits              | – 120     | 70        | – 50   |

<sup>1</sup> Figures are rounded to the nearest £10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions) (Re-rating) (No. 2) Order. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include NHS Allocated Contributions. Employers' contributions are gross of deductions in respect of statutory sick pay and statutory maternity pay.

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

<sup>3</sup> As announced by the Secretary of State for Social Security on 27 February 1992.



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# 5 Tax measures and Tax revenue ready reckoner

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## **Abolition of Car Tax**

**5.01** The Chancellor announced on 12 November that the Government would bring forward a Bill for the abolition of car tax. Car tax ceased to be chargeable from midnight on 12 November.

**5.02** Car tax has been chargeable since 1973 on the UK wholesale value of chargeable vehicles made, registered in, or imported into the UK, and on certain conversions. The rate of car tax was reduced from 10 per cent to 5 per cent in the Finance Act 1992.

**5.03** This measure has an estimated revenue cost of £100 million in 1992–93 and £750 million in 1993–94, including the loss of consequential VAT receipts.

**5.04** The Chancellor announced his intention to recoup the costs of abolishing car tax in 1993–94 through other taxes on motoring.

## **Enhanced Capital Allowances for Machinery, Plant and Buildings**

**5.05** The Chancellor also announced on 12 November that the Government would propose legislation in the 1993 Finance Bill to introduce enhanced capital allowances. The new allowances will apply retrospectively from 1 November 1992 for a temporary period of one year ending on 31 October 1993.

**5.06** For machinery and plant, the proposal will temporarily replace, with a 40 per cent first year allowance, the existing 25 per cent writing down allowance normally available in the year in which expenditure is incurred. The balance of expenditure will continue to be written down on a reducing balance basis at 25 per cent. Most assets (with a few exceptions, notably cars) currently qualifying for writing down allowances will qualify for the enhanced relief.

**5.07** For industrial and agricultural buildings, the proposal will temporarily introduce a 20 per cent initial allowance for buildings which currently qualify for 4 per cent writing down allowances. This will apply to buildings constructed under a contract entered into between 1 November 1992 and 31 October 1993, and brought into use for the purposes of a qualifying trade by 31 December 1994. The balance of expenditure will continue to be written down on a straight line basis at 4 per cent per year.



**5.08** These measures have an estimated revenue cost of £200 million in 1993–94 and £500 million in 1994–95. Subsequently, tax yields will be rather higher than they otherwise would have been because relief on the balance of expenditure will be less.

**Tax Revenue Ready Reckoner**

**5.09** The tables below show the effects of various illustrative tax changes on tax receipts in 1993–94 and 1994–95.

**5.10** 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 3.

**5.11** An illustrative rate of inflation of  $3\frac{1}{4}$  per cent has been used to show the effects of indexation and revalorisation in 1993–94. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1992.

**5.12** 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.

**5.13** The main tax rates for the current year, 1992–93, are shown in Table 5.1.

**Table 5.1 1992–93 tax rates**

|                                  | per cent |
|----------------------------------|----------|
| Income tax and capital gains tax |          |
| lower rate                       | 20       |
| basic rate                       | 25       |
| higher rate                      | 40       |
| Inheritance tax rate             | 40       |
| Corporation tax                  |          |
| full rate                        | 33       |
| small companies' rate            | 25       |
| VAT standard rate                | 17½      |

**Indexation of allowances, thresholds and bands for 1993–94**

**5.14** Tables 5.2 to 5.4 show allowances, thresholds, and bands for income tax, inheritance tax and capital gains tax for 1993–94 after  $3\frac{1}{4}$  per cent indexation and after applying the statutory rounding rules for each of the taxes. Estimates of the revenue effects of this indexation are shown in Table 5.5.

**Direct revenue effects of illustrative changes in direct taxes**

**5.15** Table 5.6 shows estimates of the direct revenue effects of illustrative changes in income tax, corporation tax, capital gains tax and inheritance tax from April 1993. Changes in the income tax allowances, the lower rate band, the basic rate limit and the capital gains tax and inheritance tax thresholds are from an indexed base.

**5.16** 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.

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



**Table 5.2 Income tax**

|   | £       |         |
|---|---------|---------|
|   | 1992-93 | 1993-94 |
| Personal allowance  | 3 445   | 3 565   |
| Personal allowance (age 65-74)  | 4 200   | 4 340   |
| Personal allowance (age 75 and over)                                  | 4 370   | 4 520   |
| Married couple's allowance  | 1 720   | 1 780   |
| Married couple's allowance<br>(age 65-74)                             | 2 465   | 2 555   |
| Married couple's allowance<br>(age 75 and over)                       | 2 505   | 2 595   |
| Additional personal <sup>1</sup> and widow's<br>bereavement allowance | 1 720   | 1 780   |
| Aged income limit <sup>2</sup>  | 14 200  | 14 700  |
| Lower rate band   | 2 000   | 2 100   |
| Basic rate limit <sup>3</sup>   | 23 700  | 24 500  |

<sup>1</sup> Primarily for single parents.

<sup>2</sup> If the total income, less allowable deductions, of a taxpayer aged 65 or over exceeds this limit, the age-related allowances are reduced by £1 for each additional £2 of income until the basic levels of the personal and married couple's allowances are reached.

<sup>3</sup> Higher rate income tax is payable on income (less allowances and those reliefs which are allowed at the higher rate) in excess of the basic rate limit.

**Table 5.3 Inheritance tax**

|           | £'000   |         |
|-----------|---------|---------|
|           | 1992-93 | 1993-94 |
| Threshold | 150     | 155     |

**Table 5.4 Capital gains tax**

|                       | £       |         |
|-----------------------|---------|---------|
|                       | 1992-93 | 1993-94 |
| Annual exempt amount: |         |         |
| Individuals           | 5 800   | 6 000   |
| Trusts                | 2 900   | 3 000   |

**Table 5.5 Costs of indexation for 1993-94**

|   | £ million |         |
|---|-----------|---------|
|   | 1993-94   | 1994-95 |
| Indexation of income tax allowances               |           |         |
| lower rate band and basic rate limit <sup>1</sup> | 925       | 1 300   |
| Of which:   |           |         |
| Increases in allowances                           | 720       | 990     |
| Increase in lower rate band <sup>2</sup>          | 80        | 100     |
| Increase in the basic rate limit <sup>2</sup>     | 130       | 210     |
| Indexation of inheritance tax threshold           | 10        | 30      |
| Indexation of capital gains exempt amount         | 0         | 5       |

<sup>1</sup> Cost includes the consequential effects on capital gains tax.

<sup>2</sup> Additional cost after previous change has been introduced.



Table 5.6 Direct effects of illustrative changes in direct taxes<sup>1</sup>

|   | £ million cost/yield |         |
|---|----------------------|---------|
|   | 1993-94              | 1994-95 |
| <b>Income tax<sup>2</sup></b>   |                      |         |
| <i>Rates</i>  |                      |         |
| Change lower rate by 1p   | 380                  | 480     |
| Change basic rate by 1p <sup>3</sup>  | 1 400                | 1 550   |
| Change higher rate by 1p  | 180                  | 330     |
| <i>Allowances</i>   |                      |         |
| Change personal allowance by £100   | 440                  | 570     |
| Change age-related personal allowances by £100 <sup>4</sup>                                   | 40                   | 55      |
| Change married couple's allowance by £100 <sup>5</sup>  | 180                  | 230     |
| Change age-related married couple's allowances by £100 <sup>4</sup>                           | 13                   | 18      |
| Change aged income limit by £500  | 4                    | 9       |
| Change all main allowances by 1 per cent <sup>6</sup>   | 200                  | 270     |
| Change all main allowances by 10 per cent: <sup>6</sup>                                       |                      |         |
| increase (cost)   | 2 000                | 2 650   |
| decrease (yield)  | 2 100                | 2 750   |
| <i>Lower rate band</i>  |                      |         |
| Increase lower rate band by 10 per cent <sup>6</sup>  | 160                  | 200     |
| <i>Basic rate limit</i>   |                      |         |
| Change basic rate limit by 1 per cent <sup>6</sup>  | 35                   | 60      |
| Change basic rate limit by 10 per cent: <sup>6</sup>  |                      |         |
| increase (cost)   | 330                  | 540     |
| decrease (yield)  | 420                  | 680     |
| <i>Allowances, lower rate band and basic rate limit</i>                                       |                      |         |
| Change all main allowances, lower rate band and basic rate limit by 1 per cent <sup>6</sup>   | 250                  | 340     |
| Change all main allowances, lower rate band and basic rate limit by 10 per cent: <sup>6</sup> |                      |         |
| increase (cost)   | 2 450                | 3 350   |
| decrease (yield)  | 2 700                | 3 650   |
| <b>Corporation tax<sup>7</sup></b>  |                      |         |
| Change full rate by 1 percentage point  | 340                  | 520     |
| Change small companies' rate by 1 percentage point <sup>8</sup>                               | 65                   | 100     |
| <b>Capital gains tax<sup>9</sup></b>  |                      |         |
| Change annual exempt amount by £500 for individuals and £250 for trusts                       | 0                    | 6       |
| <b>Inheritance tax<sup>9</sup></b>  |                      |         |
| Change rate by 1 percentage point   | 11                   | 25      |
| Increase threshold by £5000   | 12                   | 28      |

<sup>1</sup> The estimated revenue effects of changes on receipts are rounded. 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.

<sup>2</sup> The figures for income tax changes include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 1993.

<sup>3</sup> Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.

<sup>4</sup> Allowances for those aged 65-74 and aged 75 and over.

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

<sup>6</sup> Percentage changes are calculated with reference to 1992-93 levels.

<sup>7</sup> Assessment to corporation tax normally relates to the preceding year. These estimates are the changes to revenue that would occur if the changed rates were applied to profits from 1 April 1992.

<sup>8</sup> These figures ignore effects arising from the imputation system.

<sup>9</sup> These changes are assumed to take effect from April 1993.



**Indirect taxes** 5.18 Table 5.7 shows estimates of the effects of revalorising excise duties from April 1993. It shows the total extra revenue (including VAT) if all duties were to be increased by  $3\frac{1}{4}$  per cent, together with the price increase that would result (after allowing for consequential VAT).

**Table 5.7 Direct effects of revalorising all excise duties<sup>1</sup>**

|                      | £ million yield <sup>2</sup> |         | Typical item               | Current level of duty on typical items | Price change <sup>3</sup> |
|----------------------|------------------------------|---------|----------------------------|--|---------------------------|
|                      | 1993-94                      | 1994-95 |                            |  |                           |
| Total <sup>4</sup>   | 750                          | 845     |                            | —                                      | 0.24% <sup>5</sup>        |
| Of which:            |                              |         |                            |  |                           |
| Beer and cider       | 70                           | 90      | Pint of beer               | 23.3p                                  | 0.9p                      |
| Wine                 | 15                           | 20      | 75 cl bottle of table wine | 94.5p                                  | 3.6p                      |
| Spirits              | 25                           | 25      | 70 cl bottle               | £5.55                                  | 21.1p                     |
| Tobacco <sup>6</sup> | 165                          | 190     | 20 king size               | £1.36                                  | 4.5p                      |
| Petrol               | 270                          | 300     | Litre of unleaded          | 23.4p                                  | 0.9p                      |
| Derv                 | 85                           | 90      | Litre                      | 22.9p                                  | 0.9p                      |
| VED <sup>7</sup>     | 100                          | 105     | Cars and light vans        | £110.00                                | £3.58                     |

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

<sup>2</sup> Assuming implementation on 1 April 1993.

<sup>3</sup> 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 described above and rounded to the nearest one-tenth of a pence.

<sup>4</sup> Includes receipts from tax on items not listed below.

<sup>5</sup> Impact effect on the RPI.

<sup>6</sup> 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.

<sup>7</sup> All VED, including HGVs as well as cars and light vans.

5.19 Table 5.8 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 5.8 Direct effects of illustrative changes in indirect taxes<sup>1</sup>**

|                                       | Price change of typical item <sup>3</sup> | Associated percentage change in duty | £ million cost/yield <sup>2, 8</sup> |         |
|---------------------------------------|---|--------------------------------------|--------------------------------------|---------|
|                                       |   |                                      | 1993-94                              | 1994-95 |
| Beer and cider                        | 1p  | 3.7                                  | 75                                   | 95      |
| Wine                                  | 5p  | 4.5                                  | 20                                   | 25      |
| Spirits                               | 25p                                       | 3.8                                  | 35                                   | 35      |
| Tobacco <sup>6</sup>                  | 5p  | 3.6                                  | 190                                  | 230     |
| Petrol                                | 1p  | 3.6                                  | 315                                  | 345     |
| Derv                                  | 1p  | 3.7                                  | 95                                   | 105     |
| VED <sup>7</sup>                      | £5.00                                     | 4.5                                  | 145                                  | 150     |
| 1 percentage point change in VAT rate | —   | —                                    | 1 675                                | 2 350   |

<sup>1, 2, 3, 6, 7</sup> Refer to corresponding footnotes after Table 5.7.

<sup>8</sup> Revenue effects include effects of changed duty on all items in the same category by the same percentage. Estimates make allowance for switching of expenditure between different categories of goods. These estimates are subject to uncertainty, particularly so for switching from one type of alcoholic drink to another.





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