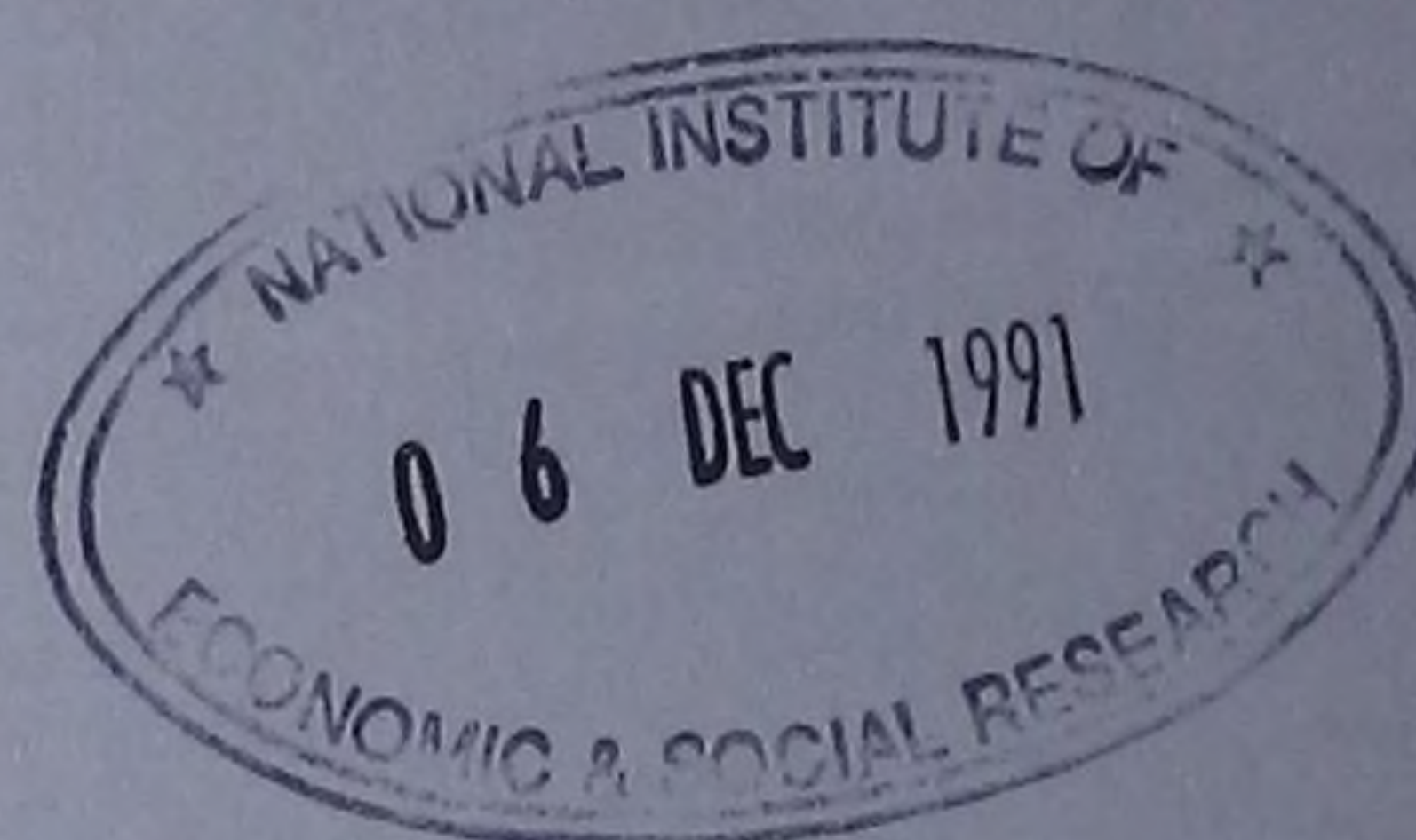
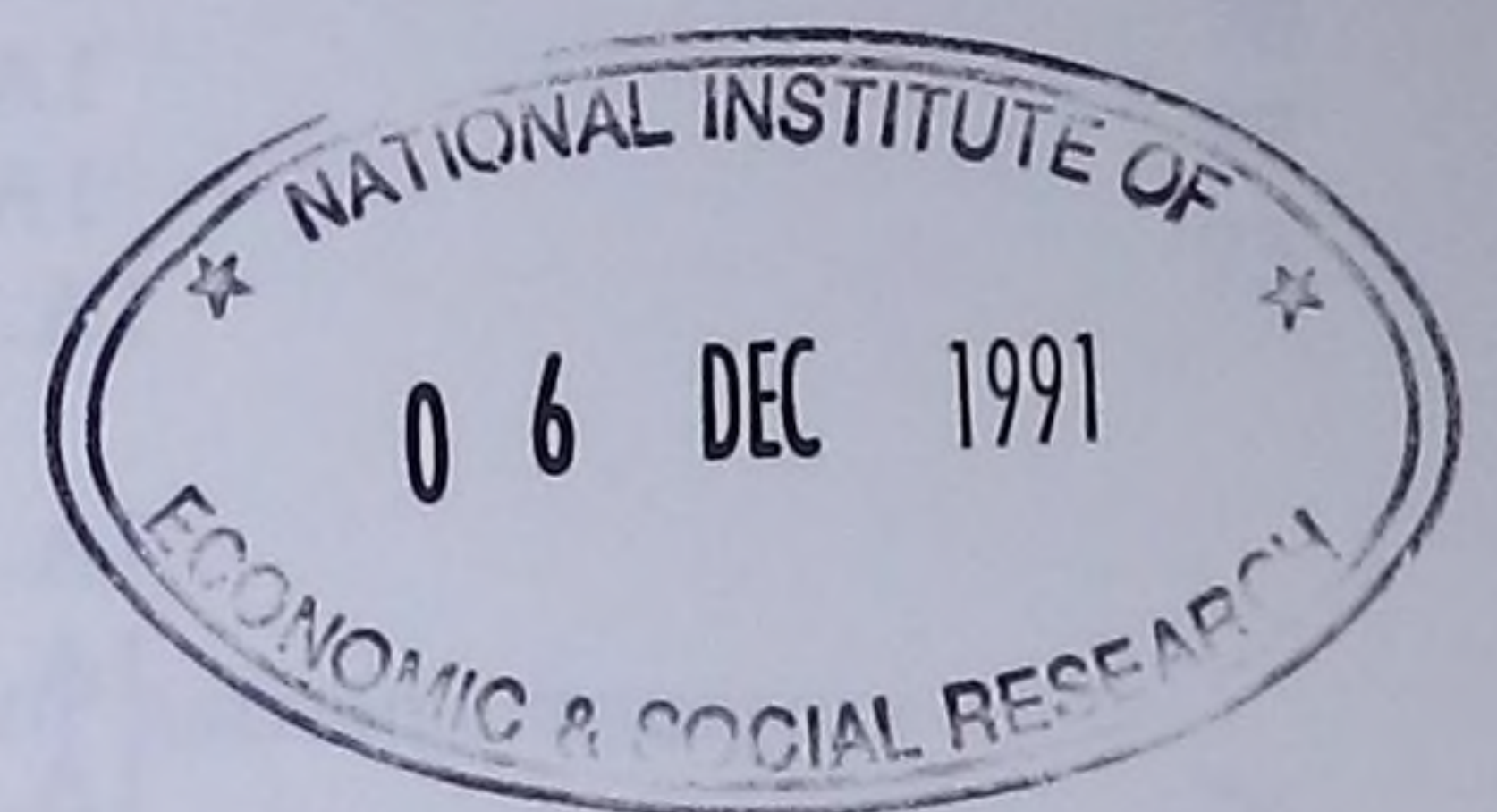

Autumn Statement 1991





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*Presented to Parliament by the Chancellor of the Exchequer
by Command of Her Majesty November 1991*



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1 Public spending plans

Main points

1.01 The public expenditure planning totals have been set at £226.6 billion in 1992–93 and £244.5 billion in 1993–94, increases of £5.6 billion and £13.0 billion over previous plans. The planning total for 1994–95 is £258.0 billion. These totals include Reserves of £4 billion, £8 billion and £12 billion, higher than in last year's plans. The estimate of privatisation proceeds in 1992–93 is £8 billion, the same as in 1991–92, and in 1993–94 and 1994–95 it is £5½ billion.

1.02 The Government has judged it right to allow expenditure to rise to reflect the unavoidable pressures arising from the economic cycle, particularly on social security spending. The new plans honour the Government's commitments in full and, within totals that can be afforded, provide targeted increases in spending on Health and maintain the rapidly rising investment programmes in public transport.

1.03 The main increases in plans for 1992–93 are: £4.2 billion for Social Security, £1.7 billion for Health and £1.4 billion in support for the transport nationalised industries. The new plans include the £1.4 billion of additional support for current spending by local authorities announced in July, which includes support for spending on schools. There have also been limited increases in some other programmes including Defence, Education and Employment. Total privatisation proceeds, taking account of the BT sale, are expected to be £2½ billion above previous plans in 1992–93.

1.04 The new plans include extra provision of around £1 billion in 1992–93 for investment by central government and for central government support for capital spending by local authorities, as well as providing for the rising investment in public transport.

1.05 In 1992–93, general government expenditure (GGE), excluding privatisation proceeds, is forecast to be 42 per cent of national income, some 5½ percentage points below its 1982–83 peak. The ratio fell sharply in 1987–88 and 1988–89 reflecting the stage of the economic cycle, before rising over the past three years. It is projected to fall in 1993–94 and 1994–95 (see Chart 1.1).

1.06 The latest forecast of the planning total in 1991–92 is £204.9 billion, £0.1 billion less than the plans in the Financial Statement and Budget Report (FSBR).

1.07 The forecast outturn for 1991–92 and the new planning totals for the three Survey years are shown in Table 1.1, together with projections for expenditure outside the planning total, for GGE and for the ratio of GGE to GDP (Gross Domestic Product). Fuller details in cash and real terms are in Annex A, Tables 1A.3 and 1A.4.

Table 1.1 The planning total and general government expenditure¹

	£ million							
	Estimates of outturn		New plans/projections ²			Changes from previous plans/projections ¹		
	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Central government expenditure ¹	140 653	156 700	168 600	178 000	185 400	4 500	6 900	10 000
Central government support for local authorities ¹	42 527	53 200	58 600	61 200	64 000	700	2 900	4 600
Financing requirements of nationalised industries	2 285	2 680	3 450	2 850	2 180	360	1 300	890
Reserve			4 000	8 000	12 000	–3 500	–3 000	–2 500
Privatisation proceeds	–5 345	–8 000	–8 000	–5 500	–5 500	–2 500	–2 500	0
Adjustment ¹		300				300		
Planning total	180 119	204 900	226 600	244 500	258 000	–100	5 600	13 000
Local authority self-financed expenditure ¹	14 742	10 200	8 500	9 000	9 000	1 100	–1 000	–2 500
Central government debt interest	17 508	16 700	16 500	17 500	18 500	–100	–500	0
Accounting adjustments	3 767	4 300	4 500	5 000	5 500	400	–500	–500
General government expenditure	216 136	236 100	256 300	276 500	291 100	1 300	3 900	10 200
GGE excluding privatisation proceeds as a percent of GDP	40	41½	42	41¾	41¼			

¹ For definitions, rounding and other conventions, see notes in Annex A (page 25).

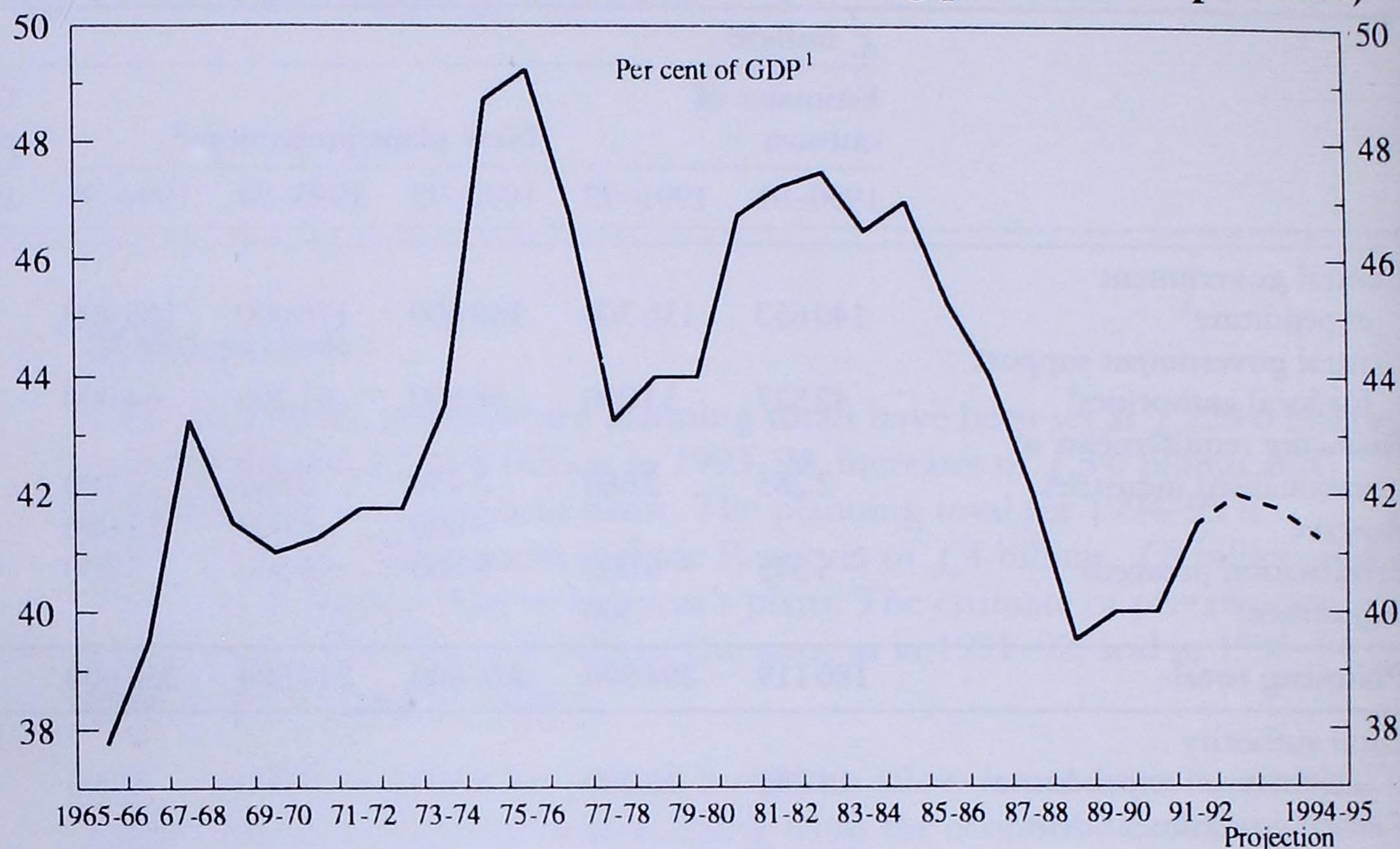
² The table shows new plans for the planning total and its constituents and projections for the other items in general government expenditure.

Public spending trends

1.08 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. This is consistent with the policy of maintaining a balanced budget over the economic cycle and of reducing taxation when it is prudent to do so.

1.09 The public spending objective is expressed in terms of GGE excluding privatisation proceeds, the main spending aggregate used in the Medium Term Financial Strategy. GGE is not affected by changes in the share of total local authority expenditure met by central government. Between 1984–85 and 1988–89, years of exceptionally strong economic growth, real GDP rose by nearly 18 per cent, while GGE was virtually unchanged in real terms for most of the period. The ratio of GGE to GDP fell sharply (see Chart 1.1).

1.10 The effect of the recession in 1990 and early 1991 has been both 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 42 per cent in 1992–93, after which it is projected to resume its downward trend.

Chart 1.1 General government expenditure (excluding privatisation proceeds)

¹ See footnote 3 to Table 1A.3.

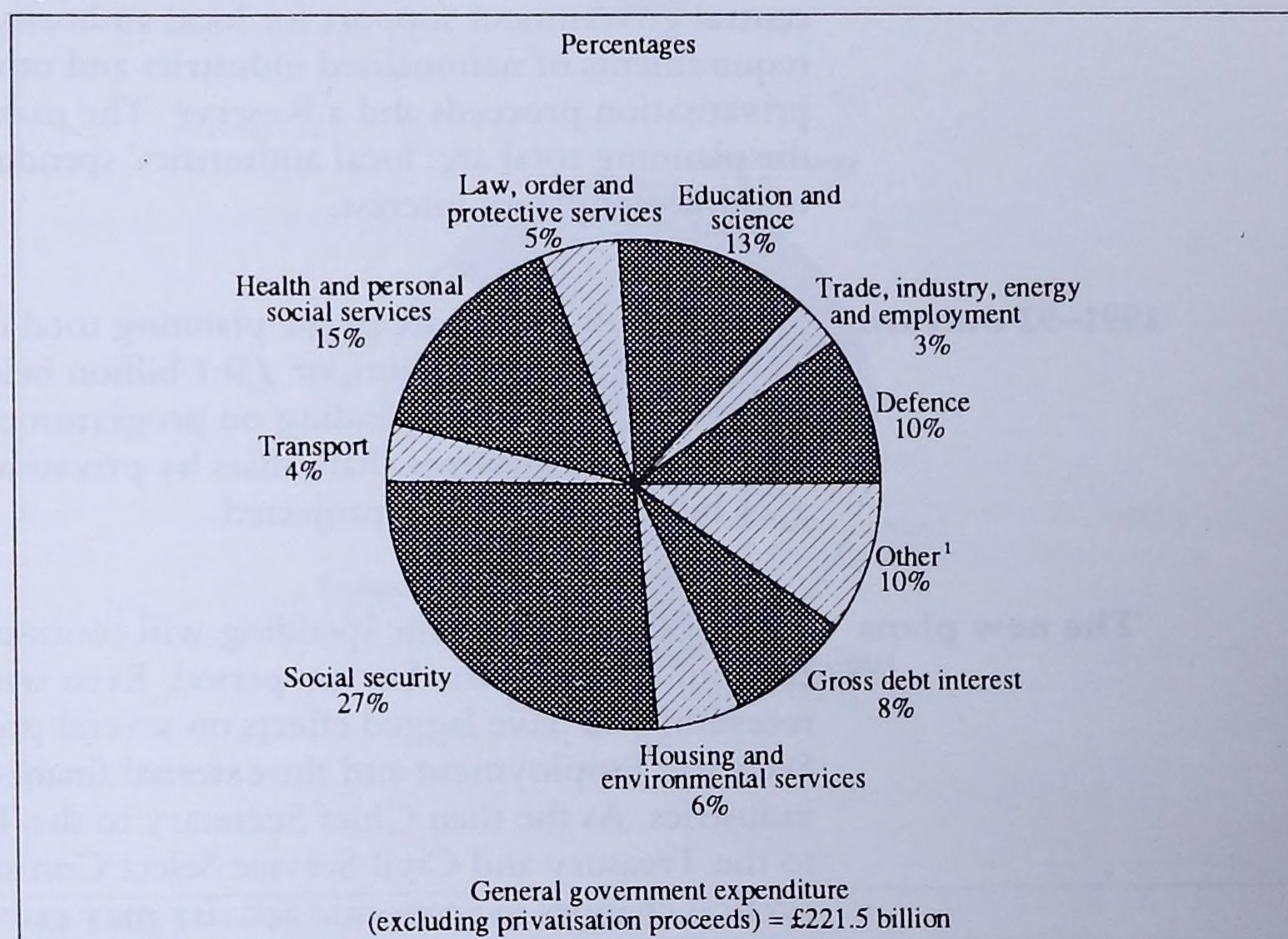
1.11 In real terms, GGE excluding privatisation proceeds is expected to grow by 3 per cent in 1991–92, and by $3\frac{1}{2}$ per cent, $2\frac{3}{4}$ per cent and 2 per cent in the three Survey years.

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

1.13 Chart 1.2 shows GGE by main spending area in 1990–91, 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; and education and science for an eighth. The three other major programmes are defence; law and order; and transport. Together, these six programmes account for three-quarters of total spending.

1.14 Further analyses of GGE for years up to 1991–92, by function and economic category, will be published early next year in the Statistical Supplement to the Autumn Statement.

Chart 1.2 General government expenditure (excluding privatisation proceeds): by function, 1990–91



¹ Includes national accounts adjustments and expenditure on other functions.

Value for money

1.15 As in the past, extra resources have been provided for priority services. But equally important, all services must make the best use of resources available to them. The public, as both customers and taxpayers, are entitled to expect high-quality services, responsive to their needs, provided efficiently at a reasonable cost.

1.16 The Citizen's Charter, published on 22 July 1991 (Cm 1599), will give a powerful extra stimulus to greater efficiency improvements through a new emphasis on service standards and value for money. Citizens will have more information about intended and actual performance by different units of the public sector. A forthcoming White Paper will set out how the Government proposes to secure better performance and increased value for money by extending competition across the public services.

1.17 In central government, the Next Steps initiative is designed to improve value for money and deliver better service by the management reform of setting up Executive Agencies. The 1991 Review of Next Steps setting out what has been achieved was published on 11 November (Cm 1760). For agencies and departments generally, the continued development of better purchasing under the purchasing initiative, market testing, greater emphasis on meeting agreed targets and improved accountability all contribute to these goals. For local authorities, and now the NHS, the Audit Commission's important role in spreading best practice and improving efficiency will be enhanced by the Citizen's Charter.

The planning total

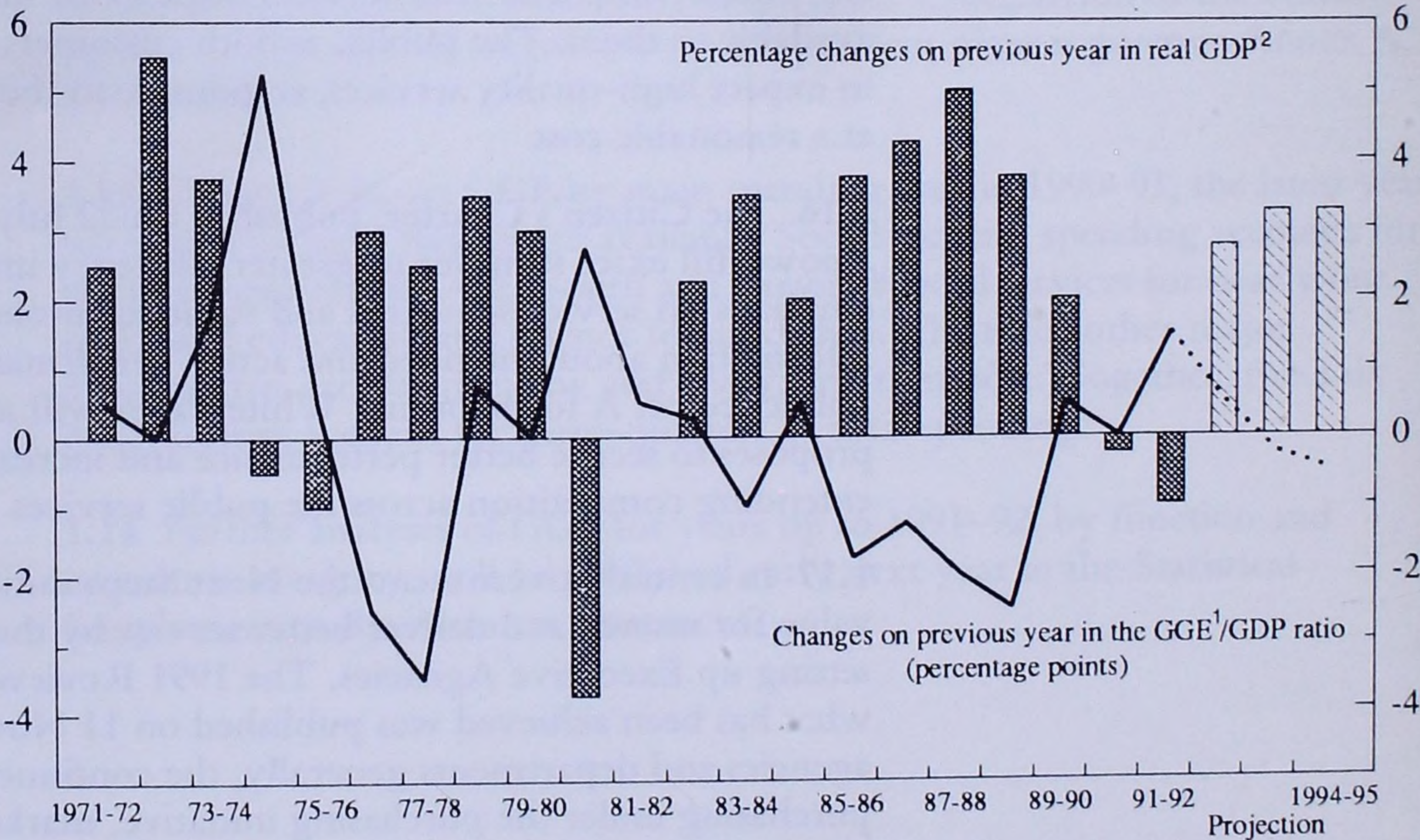
1.18 The Government seeks to achieve its medium term objective for GGE principally by planning and controlling cash totals for a narrower measure of

expenditure, known as the planning total. This covers expenditure over which central government has control: central government's own spending, central government support for local authority expenditure, the financing requirements of nationalised industries and other public corporations, privatisation proceeds and a Reserve. The main components of GGE outside the planning total are: local authorities' spending financed from their own resources; and debt interest.

1991–92 outturn **1.19** The latest estimate of the planning total outturn for the current year, 1991–92, is £204.9 billion, or £0.1 billion below the £205 billion total set in the FSBR. Higher spending on programmes, largely social security benefits, has been more than offset by privatisation proceeds some £2½ billion higher than projected.

The new plans **1.20** The level of public spending will continue to be affected by the economic cycle in the Survey period. Even with the pick-up of growth, the recession will have lagged effects on several programmes, notably Social Security, Employment and the external finance of the public transport industries. As the then Chief Secretary to the Treasury noted in his evidence to the Treasury and Civil Service Select Committee in November 1988, cyclical changes in economic activity may cause the ratio to vary above or below its longer term trend (see Chart 1.3). But as Chart 1.1 shows, the level of the ratio in 1992–93 will be well below its peaks following earlier recessions.

Chart 1.3 Changes in GGE¹/GDP ratio and real GDP²

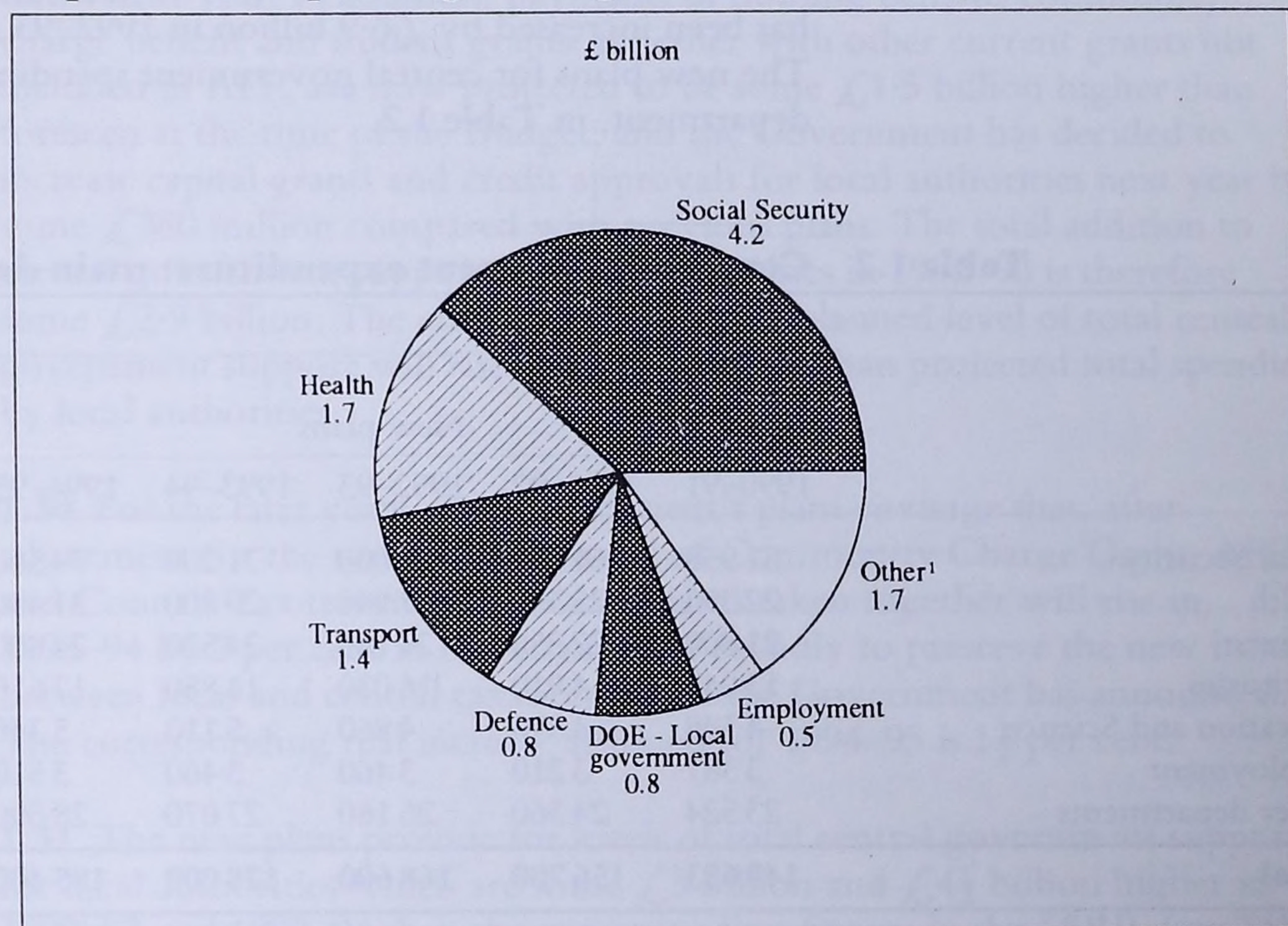


¹ Excluding privatisation proceeds.

² At market prices.

1.21 The planning totals for the three Survey years 1992–93 to 1994–95 have been set at £226.6 billion, £244.5 billion, and £258.0 billion. For 1992–93 and 1993–94 the plans are £5.6 billion and £13.0 billion higher respectively than the previous plans. Between 1991–92 and 1994–95, real growth in the planning total averages 4 per cent a year.

Chart 1.4 Departmental spending - changes from previous plans, 1992-93



¹ Excluding privatisation proceeds and the Reserve.

1.22 Compared with previous plans, much the largest addition is for Social Security, reflecting the impact of higher unemployment and increased estimates of take-up of other benefits. Substantial increases have also been made for Health, as in previous years, and in support for local authorities. Among other programmes, there are large increases in support for public transport, to help sustain the investment programmes of British Rail and London Transport in the face of depressed trading revenue and lower proceeds from property sales; and in the Defence budget, to provide for continuing costs arising from the Gulf conflict and to meet the transitional costs of implementing the new force structure, so as to secure savings in the underlying programme over the Survey period and beyond (see Chart 1.4 and Annex A, Table 1A.5).

1.23 As in last year's plans, the real growth rates between 1991-92 and 1992-93 are affected by the pattern of the UK's net contributions to the European Community Budget (see paragraph 1.79). This contributes about three quarters of a percentage point of the real growth in the planning total between the two years.

1.24 The planning totals include Reserves of £4 billion in 1992-93, £8 billion in 1993-94 and £12 billion in 1994-95. These are higher than the Reserves of £3½ billion, £7 billion and £10½ billion in the three year spending plans announced last year.

1.25 Total privatisation proceeds are projected at £8 billion in 1991-92 and 1992-93, taking account of the sale of BT shares announced on 1 October 1991, and at £5½ billion in 1993-94 and 1994-95.

1.26 Compared with previous plans central government expenditure has been increased by £6.9 billion in 1992–93 and £10.0 billion in 1993–94. The new plans for central government spending are set out, by main department, in Table 1.2.

Table 1.2 Central government expenditure: main departments¹

	£ million							
	Estimates of outturn		New plans			Changes from previous plans ¹		
	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Social Security	51 958	61 200	66 000	71 200	74 500	3 000	3 300	4 500
Health	22 393	25 540	27 940	29 800	31 490	630	1 620	2 300
Defence	21 800	22 850	24 180	24 520	24 800	50	830	1 120
Territories	13 043	14 910	16 030	16 880	17 610	180	510	730
Education and Science	4 548	4 570	4 860	5 110	5 340	– 60	120	220
Employment	3 387	3 210	3 460	3 460	3 510	240	480	460
Other departments	23 524	24 360	26 160	27 070	28 090	510	10	710
Total	140 653	156 700	168 600	178 000	185 400	4 500	6 900	10 000

¹ For definitions, rounding and other conventions, see notes in Annex A (page 25). See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

Central government support for local authorities

1.27 The Chancellor announced in his Budget a substantial switch from local to central taxation designed to reduce the level of local taxation to a level which the Government sees as sustainable in the longer term. The Government subsequently announced in the consultation paper of April 1991 on the Council Tax that the new balance between central and local support for local authority revenue spending would be broadly maintained on the introduction of the Council Tax, which is to replace the community charge from April 1993. The Government's proposals for implementing these new policies are reflected in the Autumn Statement expenditure plans and projections.

1.28 For 1991–92, the Government has undertaken to pay a special additional Community Charge Grant to enable local authorities throughout Great Britain to reduce community charges by £140. This was announced in the Budget. The Government also announced in January 1991 a Community Charge Reduction Scheme to replace the Community Charge Transitional Relief Scheme of 1990–91. Further improvements in the reduction scheme were announced after the Budget. These changes increased total Government support for local authority expenditure in 1991–92 by about £4¾ billion.

1.29 For 1992–93, the Government announced in July that the special Community Charge Grant announced in the Budget would be consolidated into aggregate external finance (AEF) and that the combined total (England) would be increased by 7.2 per cent compared with the 1991–92 level. The new level of AEF represented an increase of some £1.4 billion on the FSBR figures for 1992–93. After adjustment for the timing of payments of Community Charge Grant, AEF and the Community Charge Reduction Scheme taken together are planned to increase by around 2½ per cent in real

terms next year. In addition, payments of housing benefit, community charge benefit and student grants, together with other current grants not included in AEF, are now projected to be some £1.5 billion higher than foreseen at the time of the Budget; and the Government has decided to increase capital grants and credit approvals for local authorities next year by some £380 million compared with previous plans. The total addition to central government support for local authorities in 1992–93 is therefore some £2.9 billion. The effect will be that the planned level of total central government support will rise faster in 1992–93 than projected total spending by local authorities.

1.30 For the later years, the Government's plans envisage that, after adjustment for the timing of payment of Community Charge Grant, AEF and Council Tax transitional arrangements taken together will rise in 1993–94 by 2 per cent in real terms so as broadly to preserve the new balance between local and central taxation which the Government has announced. The corresponding real increase assumed for 1994–95 is $1\frac{1}{2}$ per cent.

1.31 The new plans provide for levels of total central government support for local authorities which are some £3 billion and £4½ billion higher in 1992–93 and 1993–94 than the corresponding figures in the FSBR (see Table 1.3). The Government does not plan local authority spending, and the spending which local authorities finance from their own resources falls outside the planning total. However, 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 at 7.2 per cent above 1991–92 levels (7.5 per cent after allowing for transfers of functions). The Government has also made clear its readiness to make full use if necessary of its recently extended powers to cap local authority budgets. Detailed proposals on capping and Total Standard Spending are being announced separately. The Government's new projections for local authority spending, including that financed from the authorities' own resources, are described in paragraphs 1.83 to 1.90.

Table 1.3 Central government support for local authorities¹

	£ million							
	Estimates of outturn		New plans			Changes from previous plans ¹		
	1990-91	1991-92	1992-93	1993-94	1994-95	1991-92	1992-93	1993-94
Current								
Aggregate External Finance and community charge grant²								
England								
National non-domestic rate payments	10 428	12 410	12 310	36 310 ³	37 980 ³	0	880	2 540 ³
Revenue support grant	9 489	9 670	16 540					
Community charge grant		4 350	300					
Specific grants	3 336	4 130	4 250					
Total England	23 254	30 560	33 400			160	920	
Scotland								
Non-domestic rate payments	1 189	1 350	5 070 ⁵	5 460 ³	5 700 ³	0	70	280 ³
Revenue support grant ⁴	2 496	2 690						
Community charge grant		440						
Specific grants	272	310						
Total Scotland	3 957	4 790				0		
Wales								
National non-domestic rate payments	443	520	540	2 540 ³	2 650 ³	0	80	230 ³
Revenue support grant	1 141	1 240	1 610					
Community charge grant		270	30					
Specific grants	165	180	200					
Total Wales	1 749	2 210	2 380			10	100	
Total²	28 960	37 600	40 800			200	1 100	
Current grants outside AEF								
Transitional relief ³	278	1 140	1 300	44 310 ³	46 330 ³	-120	-140	3 040 ³
Other current grants ⁶	8 217	8 800	10 200					
Total current	37 455	47 500	52 300	55 000	57 600	700	2 500	4 400
Capital								
Capital grants	1 109	1 370	1 650	1 680	1 730	-90	130	130
Credit approvals	3 963	4 320	4 600	4 520	4 630	80	250	130
Total capital	5 072	5 680	6 250	6 200	6 360	-10	380	260
Total	42 527	53 200	58 600	61 200	64 000	700	2 900	4 600

¹ For definitions, rounding and other conventions, see notes in Annex A (page 25).

² Aggregate External Finance (AEF) encompasses 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 payments of the community charge grant which is financing 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). Payments of AEF in 1992-93 include some £350 million of community charge grant due in respect of the £140 reduction of community charges in 1991-92. This deferred payment of grant increases the growth of AEF in 1992-93 by depressing the 1991-92 figure while increasing the 1992-93 figure. See paragraph 1.29.

³ For 1990-91 the figures include payments of community charge transitional relief. For 1991-92 and 1992-93 they include payments made under the community charge reduction scheme which replaced the transitional relief scheme. For 1993-94 and 1994-95 they include Council Tax transitional relief, though like other transitional relief payments this will not be part of AEF.

⁴ Area protection grant in Scotland has been amalgamated with revenue support grant for distribution purposes.

⁵ Includes an adjustment of -£82 million from the AEF figure announced in July. This is because of higher than expected receipts of non-domestic rates in 1990-91. Resources available to local authorities for 1992-93 remain as previously announced.

⁶ 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.

Nationalised Industries 1.32 Extra provision has been made for the external financing requirements of nationalised industries remaining in the public sector (see Annex A, Table 1A.10). This reflects substantially increased finance for British Rail and London Transport (see paragraph 1.58 below).

The new plans: departmental detail

1.33 The following paragraphs briefly describe the new plans for each department. The departmental reports to be published in the first half of February 1992 will give more details and will include information on the output and performance of departmental programmes.

1.34 Table 1.4 analyses the planning totals by department. (More detailed analyses, in cash and real terms, are given in Annex A, Tables 1A.5 and 1A.6.) 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 by department are shown in Annex A, Table 1A.9.

1.35 Table 1.4 also includes the External Financing Limits (EFLs) for the nationalised industries, set out separately in Annex A, Table 1A.10, and public corporations, totals for which are shown at the foot of Annex A, Table 1A.7.

1.36 Spending by each department since 1986–87 is set out in Annex A, Table 1A.5 (cash terms) and 1A.6 (real terms).

Defence 1.37 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.

1.38 The estimated outturn for Defence in 1991–92 is slightly higher than previous plans. Increased expenditure, primarily a consequence of the UK military contribution in the Gulf area, has been largely offset by contributions from other countries to the UK's Gulf costs.

1.39 The plans for the next three years reflect the Government's intentions to restructure the country's armed forces in line with its proposals, set out in detail in the Statement on the Defence Estimates 1991 (Cm 1559). The Government is determined to produce forces which, although smaller, are properly manned, supported and well equipped.

1.40 Increases of £830 million and £1,120 million have been made to plans for 1992–93 and 1993–94 respectively, primarily to cover the costs of transition to the new force structure, in particular expenditure on redundancy and on additional works. Provision is also made in 1994–95 for these transitional costs, which are the key to unlocking savings in future years. The plans take account of continuing costs, £550 million across the period, of recovery from the Gulf conflict.

Table 1.4 Planning totals by department¹

	£ million							
	Estimates of outturn		New plans			Changes from previous plans ¹		
	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Defence	21 800	22 850	24 180	24 520	24 800	50	830	1 120
Foreign Office	936	1 050	1 120	1 190	1 200	30	30	60
Overseas Development	1 743	2 010	2 150	2 260	2 330	100	50	60
Agriculture, Fisheries and Food	2 107	2 290	2 190	2 220	2 280	90	– 120	– 90
Trade and Industry	1 118	960	940	900	930	– 30	– 10	0
ECGD	372	250	120	70	40	0	– 10	40
Energy	1 189	940	610	510	460	– 10	– 70	– 120
Employment	3 778	3 640	3 870	3 880	3 920	240	480	460
Transport	4 721	5 640	6 960	6 590	6 100	420	1 430	1 060
DOE—Housing	6 899	7 630	7 780	7 960	8 210	260	360	360
DOE—Environment	1 263	1 370	1 290	1 270	1 260	160	190	10
DOE—PSA	114	90	70	40	20	0	30	20
DOE—Local government	20 392	28 270	31 020	32 500	34 000	30	790	2 420
Home Office	5 045	5 740	6 000	6 410	6 680	330	360	460
Legal departments	1 308	1 660	1 760	1 840	1 920	190	140	130
Education and Science	6 643	7 320	7 950	8 370	8 750	– 10	320	550
Arts and Libraries	496	560	610	600	620	0	30	30
Health	22 509	25 710	28 150	30 010	31 690	630	1 650	2 330
Social Security	56 075	65 000	70 600	76 100	79 800	3 300	4 200	5 100
Scotland	9 690	11 720	12 540	13 070	13 610	60	340	610
Wales	4 436	5 260	5 810	6 060	6 300	– 30	310	430
Northern Ireland	5 871	6 480	7 030	7 410	7 740	60	170	240
Chancellor's departments	4 597	4 800	5 030	5 220	5 440	– 120	– 150	– 160
Cabinet Office, etc	349	400	450	470	490	0	10	10
European Communities	2 013	910	2 460	2 570	2 910	– 140	– 300	380
Reserve			4 000	8 000	12 000	– 3 500	– 3 000	– 2 500
Privatisation proceeds	– 5 345	– 8 000	– 8 000	– 5 500	– 5 500	– 2 500	– 2 500	0
Adjustment ¹		300				300		
Planning totals	180 119	204 900	226 600	244 500	258 000	– 100	5 600	13 000

¹ For definitions, rounding and other conventions, see notes in Annex A (page 25). See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

1.41 If spending of a one-off nature, on the direct costs of the Gulf conflict and redundancy, is excluded, the reduction in defence expenditure between 1990–91 and 1994–95 is 6 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 1990–91 to 3.4 per cent in 1994–95.

Foreign Office

1.42 The Foreign and Commonwealth Office (Diplomatic Wing) is responsible for representing the UK overseas. It also provides grants to organisations outside Government, including the British Council and the BBC World Service. Increased resources are being provided for the FCO estate, for the British Council, for the additional costs of holding the European Council in Edinburgh in 1992–93 and for Diplomatic Wing running costs in 1994–95.

Overseas Development

1.43 The Overseas Development Administration's spending covers aid to developing countries, economic assistance to Eastern Europe and global environmental assistance. Spending on these programmes is set at £2,150 million in 1992–93, and £2,260 million and £2,330 million in the following two years. The increase from 1991–92 to 1994–95 is 16 per cent, or 3·8 per cent in real terms.

1.44 Aid to developing countries will increase by 14·7 per cent (2·7 per cent in real terms) between 1991–92 and 1994–95 and will be used to support sustainable economic reform and social development; the reduction of poverty; and good government. Increased provision has been made for the separate sub-programme for global environmental protection. UK aid through multilateral channels will continue to grow.

1.45 Increased provision has been made for the UK's Know How Fund for the USSR and there is continued provision for the Know How Fund for Eastern Europe and for the UK's contribution to the European Bank for Reconstruction and Development. The UK also shares the cost of the increasing EC aid to the USSR and Eastern Europe. Total UK aid to these countries—which has been separate from, and additional to, that to developing countries—is planned to be over £180 million in 1992–93.

Agriculture, Fisheries and Food

1.46 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.

1.47 Spending on agriculture is to a large extent determined by the European Community's Common Agriculture Policy (CAP) and the Government's objective is to achieve comprehensive reform of the CAP so that it promotes a more market-oriented agriculture industry. Specific objectives are to reduce support levels, to keep spending under control, to integrate, where cost effective, environmental criteria into the CAP and to resist measures which discriminate against particular producers. At the same time, the department is also seeking reductions in agricultural protection and support world-wide through the Community's participation in the General Agreement on Tariffs and Trade (GATT). The reductions for market support expenditure are based on current CAP regimes, and reflect current market forecasts, for example in the cereals and oilseeds sectors.

1.48 Increased provision is being made to enhance the Environmentally Sensitive Areas programme. Additional provision has also been made for restructuring Horticulture Research International, for flood defence and coast protection, for research and development and for departmental administration, including resources needed to meet EC Single Market requirements. These increases are partly offset by savings in other areas.

Trade and Industry

1.49 The objectives of the Department of Trade and Industry (DTI) were updated in May 1991. The department's 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.

1.50 The DTI's spending plans are consistent with these objectives and are largely unchanged from previous plans. They provide for an increase in expenditure in real terms in the key area of innovation. The plans will also enable existing departmental programmes and schemes to continue. These include the high technology field of space, as well as the department's regional schemes and its support for export promotion and the inner cities. Since last year's spending plans were published, both Companies House and the Patent Office Executive Agencies have become trading funds. Only their external financing requirements will therefore now be counted as public expenditure, and this has the effect of reducing DTI's planned expenditure. The Post Office's EFL remains unaltered from previous plans.

1.51 The spending plans of the Office of Fair Trading (OFT) and the Office of Telecommunications (OFTEL) remain largely unaltered. There have been minor changes to reflect revised workload assumptions eg new post-Duopoly Review functions for OFTEL, and changes to reflect other revised assumptions.

Export Credits Guarantee Department

1.52 The department provides credit insurance facilities for UK exports. To match the support given by other major trading nations, ECGD supports the provision by banks of export finance at fixed rates of interest, paying to or receiving from 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.

Energy

1.53 The department's aim is to help ensure that the nation's needs for energy are met by making the best use of resources. Central government plans for 1992-93 to 1994-95 include increases in spending on energy efficiency, including a new Energy Management Assistance Scheme foreshadowed in the White Paper "This Common Inheritance" (Cm 1200).

1.54 Provision is made for the EFLs of British Coal and Nuclear Electric. The plans involve an increase in the cash surplus of Nuclear Electric over the Survey period, mainly due to output improvements and cost reductions.

Employment

1.55 The department's main programmes contain a wide variety of measures which offer training to the unemployed and young people and other help to find work, either through the Training and Enterprise Councils which deliver such programmes as Youth Training, Employment Training and the new Employment Action, or through the Employment Service. The new plans provide for total spending by the Department of Employment of £3,870 million in 1992-93. This includes provision for Wales; but from April 1992, responsibility for training in Wales will pass to the Secretary of State for Wales and the share of this total to be apportioned

to Wales will be announced in due course. The plans allow for extra resources in Great Britain to meet the needs of the unemployed, the progressive extension of training credits for young people and provision for a higher level of redundancy payments.

Transport 1.56 The department's aims are to provide a safe, cost-effective and environmentally friendly road and public transport system. The Government will maintain its commitment to the roads programme. Spending on trunk roads and motorways will more than double from £1,000 million in 1988–89 to £2,179 million in 1994–95.

1.57 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. These have been set at a level which should enable the local authorities concerned to complete the Manchester Metrolink and fund the construction of the South Yorkshire Supertram. Central government support for spending on local roads will increase from £717 million in 1991–92 to £904 million in 1994–95. The increase includes a transfer of £100 million from Revenue Support Grant in each of the years 1992–93 to 1994–95 for structural maintenance of local authority roads on the primary route network. Additional provision will be made for local safety schemes.

Transport—nationalised industries 1.58 The departmental totals also include the external financing requirements of three nationalised industries—British Rail (BR), London Transport (LT) and the Civil Aviation Authority (CAA). The EFLs for those industries in 1992–93 are £1,050 million more than the provisional outturns for 1991–92. The increases in external finance take account of reductions in income from passengers and asset sales reflecting cyclical factors. BR's EFL is increased by £970 million over previous plans for 1992–93, and by £660 million in 1993–94. This should enable BR to finance investment of over £1½ billion in 1992–93, covering further investment in rail services related to the Channel Tunnel, including services north of London and sleeper services. LT's EFL is increased by £440 million in 1992–93 and £360 million in 1993–94. Investment is planned to be over £1 billion next year, including £380 million for the construction of the Jubilee Line Extension to Docklands, the Bill for which is expected to receive Royal Assent early in the New Year. The CAA's EFL has been increased by £30 million in 1993–94, which will enable it to construct a new en route air traffic control centre in time to open in 1996.

DOE—Housing 1.59 The principal long term objective of the Government's housing policy is to put a decent home within the reach of every family through expanding the opportunities for home ownership and through widening the choice of rented accommodation.

1.60 The plans continue to provide for the expansion of the Housing Corporation's capital programme to support the development of new homes by housing associations.

1.61 The plans also provide for extra resources to tackle the problems of the most rundown council estates through Estate Action and Housing Action Trusts.

DOE—Environment 1.62 This programme covers a wide range of services, mainly for environmental protection, the heritage, inner cities and local authority environmental services.

1.63 The new plans provide for additional resources for urban regeneration and reflect a reduction in expected New Towns receipts in 1991–92 compared with previous plans. The plans also provide for additional spending by Property Holdings on maintenance and rents offset by recoveries from departmental tenants.

DOE—PSA Services 1.64 The settlement provides for a redundancy programme for PSA International which is part of PSAS and which is closing down.

Home Office 1.65 The department's main aims include combating crime cost-effectively by providing for the needs of the police, prisons, courts and probation services; and operating a firm and fair system of immigration control. Central government spending will increase by £230 million on previous plans in 1992–93. This will allow an increase in the programme: to divert offenders from custody, provide additional resources to deal with asylum seekers, provide for the start up costs of the National Criminal Intelligence Service and provide for security improvements in prisons and the ending of slopping out.

1.66 Provision for local authorities in 1992–93 will be some £130 million higher than in previous plans. This will allow for an additional 1,000 police officers and increased spending, particularly on the probation service, to implement the Criminal Justice Act 1991.

Legal Departments 1.67 There are additions of some £140 million in 1992–93 for the legal departments. This includes extra provision for the Government's civil law and competition initiatives, for legal aid and for accommodation costs.

Education and Science 1.68 The Government has increased expenditure on school buildings. Support for local authorities' capital spending through credit approvals within the Department of Education and Science's programme will grow by 10 per cent between 1991–92 and 1992–93 and provision for maintained sector schools as a whole will rise by around 15 per cent. There is also an additional £25 million to fund the recurrent cost of increasing numbers of grant-maintained schools, plus provision to prepare for the new further education sector, for city technology colleges and for the assisted places schemes.

1.69 The Government's aim is to ensure that the higher education system provides places for all those able to benefit from it and who wish to do so. Funding for universities and polytechnics from fees and grant will increase by 4.6 per cent in real terms between 1991–92 and 1992–93. Provision for student grants will rise by £60 million over the same period. The plans will finance a further increase in student numbers, enabling one in four young people to enter higher education next year, compared with one in eight in 1979. Support for each student from loans and maintenance grant taken together will be maintained in real terms.

Arts and Libraries 1.70 The Government's aim is to encourage public appreciation of the arts, and the development and preservation of our cultural heritage. Support for the Arts Council will rise by £27 million between 1991–92 and 1992–93, an increase of nearly 14 per cent. Provision for the running costs of other bodies supported by the Office of Arts and Libraries will grow by 5.5 per cent between 1991–92 and 1992–93 and there will be £1 million a year more for the Business Sponsorship Incentive Scheme.

Health 1.71 The programme covers spending on the National Health Service and personal social services in England, and the Office of Population, Censuses and Surveys (OPCS).

1.72 The previous plans for the programme have been increased by £1,650 million in 1992–93 and £2,330 million in 1993–94. Cash provision for the NHS in England will be £2¼ billion* higher in 1992–93 than in 1991–92 (4.2 per cent higher in real terms). Cash provision for the NHS in the UK as a whole will rise by £2¾ billion*.

1.73 Total current spending on hospital and community health services (HCHS) in England is planned to rise from £17.8 billion* in 1991–92 to £19.5 billion* in 1992–93. This increase represents 5 per cent real growth. Hospitals should be able to treat more patients than ever before, and also continue to improve nurse training and reduce the working hours of junior doctors. £230 million has been added to plans for HCHS capital expenditure in 1992–93, giving a 5 per cent real increase on 1991–92. This will enable the health service to make faster progress with programmes to upgrade buildings, including setting up day surgery units, and provide high technology medical equipment such as scanners. Provision for the family health services allows for forecast demand and for service developments. There are also additional funds for centrally financed services and for targeted payments to local authorities. Spending by the OPCS will decline from £96 million in 1991–92 to £37 million in 1992–93 now that the 1991 census has taken place.

Social Security 1.74 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. Provision for 1992–93 is almost 4 per cent higher in real terms than in 1991–92. The average annual growth in the three years to 1994–95 is over 3 per cent. The plans allow for the higher benefit rates from April 1992 announced by the Secretary of State on 21 October 1991.

1.75 The plans take account of the Budget decision to increase child benefit in October 1991 and allow for improvements in benefits for less well off older and disabled pensioners, for disabled people and for people caring for them. There is also increased provision for discretionary payments from the social fund. In addition, the plans take account of the revision of the index used to uprate income-related benefits. Expenditure on the administration of benefits has also been increased, in order to ensure that the level of service to the public is maintained.

* These figures exclude sums of £187 million in 1991–92 and £400 million in 1992–93 which fund debt remuneration by NHS Trusts; these payments are offset by the corresponding higher central government receipts, with no net impact on the PSBR.

1.76 The plans allow for the latest estimates of the number of beneficiaries, and provide for further uprating of benefits in April 1993 and April 1994. For these purposes, the RPI is assumed to rise by $4\frac{1}{4}$ per cent in the year to September 1992 (for upratings in April 1993) and by 4 per cent in the year to September 1993 (for upratings in April 1994). The number of unemployed people in Great Britain is assumed to average 2.4 million in each of the three Survey years. Chapter 3, on national insurance contributions, uses the same assumptions.

Scotland, Wales and Northern Ireland

1.77 The net changes in these programmes mainly reflect changes in comparable programmes for England. There is extra provision in Wales for mandatory housing renovation grants, reflecting the particular circumstances in the Principality, as a result of which it will in future be for local authorities, as in England, to manage their expenditure on home improvement grants within the overall cash limited provision for local authority capital. As in past years, the decisions of the Secretaries of State for Scotland, Wales and Northern Ireland on the distribution of resources within their responsibilities will be announced later. For the purposes of this Statement, a notional split between and within spending programmes has been assumed taking account of the pattern of expenditure in 1991–92.

Chancellor's departments

1.78 There is extra provision for the Inland Revenue to value properties for the Council Tax, offset by receipts from other departments. The new plans for the Inland Revenue and Customs and Excise include running costs savings and continuing efficiency gains. Estimates of expenditure on payments of life assurance premium relief and mortgage interest relief to non-taxpayers have been reduced.

European Community

1.79 The lower net payments forecast in 1991–92 and 1992–93 is mainly the result of lower customs duties. The higher forecast in later years is mainly the result of higher Community expenditure. 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

1.80 The new plans described above advance the policy of switching resources for science and technology towards basic and strategic research. Spending on civil science and technology, excluding launch aid, will rise from £3.4 billion in 1992–93 to £3.75 billion in 1994–95: this represents a real increase of 2.8 per cent from current levels. Resources available to the Research Councils to support basic and strategic science will be £1,057 million in 1992–93, which includes £48 million switched from higher education and £3 million receipts from the Institution of Plant Science Research. Ignoring both these factors the Science Budget next year will be 3.1 per cent higher in real terms than it is now.

Running costs

1.81 The departmental plans described above also include provision for the running costs of government departments—which include civil service pay and general administrative expenditure. The forecast outturn for running costs in 1991–92 is £17.9 billion while provision for 1992–93 is £18.8 billion—a year on year increase of 5.2 per cent. The plans for 1993–94 and 1994–95 include £19.4 billion and £20.0 billion for running costs. The share of the public spending planning total set aside for running costs will fall from 8.7 per cent in 1991–92 to 7.8 per cent by 1994–95.

Other public expenditure

1.82 In addition to expenditure within the planning total, general government expenditure also includes local authorities' spending financed from their own resources, and debt interest (see Table 1.1). The following paragraphs describe the projections of these items, which are needed to provide a path for GGE in the three Survey years. Details of the other technical adjustments needed to relate the planning total to GGE (national accounts adjustments) will be set out in the Supplement which will be published early next year.

Local authorities

1.83 Expenditure financed by local authorities out of their own resources (local authority self-financed expenditure) is a residual derived by deducting the planned level of central government support from the projected level of total local authority spending (including debt interest payments but net of capital receipts).

1.84 In 1991–92 total local authority spending is now expected to be about £63.4 billion. The estimate of outturn is about £1.8 billion above the FSBR projection, because of later information on revenue budgets and new information on capital budgets. Annex A, Table 1A.11, breaks down local authority current and capital expenditure in the UK from 1986–87 to 1991–92 by territory.

1.85 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 has, however, announced that it proposes to make full use if necessary of its newly extended powers to cap local authorities' revenue budgets in 1992–93.

1.86 The path of total local authority spending over the next three years will be distorted by the Government's proposal to simplify the accounting arrangements for loan charges on local authority borrowing. Under present arrangements, the Government is committed to paying substantial grants towards these loan charges over many years. It is proposed however to replace these future grant commitments next year with single commutation grants based on the net present values of the streams of future grants which local authorities will lose. Local authorities will use the commutation grants to reduce their outstanding debts. Neither these grants nor the grants which they will replace are included in the public expenditure planning total. However, local authority payments of debt interest will fall in line with their reduced stock of debt, thus causing a once-for-all reduction in total local authority expenditure which will produce a distortion in the series. This will have a negligible effect on GGE because most of the change will be offset in accounting adjustments.

1.87 After adjustment for this distortion, the Autumn Statement projections assume that total local authority spending will rise by $1\frac{1}{2}$ per cent in real terms next year, with further rises of $1\frac{1}{2}$ per cent and 1 per cent in the two succeeding years. Table 1.5 sets out the figures.

1.88 The new projection for total local authority expenditure next year is some £2 billion above the projection in the FSBR. For 1993–94, the new projection is again some £2 billion above that in the FSBR. These increases reflect the higher than expected levels of local authority budgets and the higher base of capital spending in the current year.

1.89 The projections for local authority self-financed expenditure in 1992–93 and 1993–94 are lower by some £1 billion and £2½ billion respectively than the corresponding FSBR figures. These reductions reflect the planned increases in central government support for local authorities (see paragraph 1.31 above).

1.90 Gross capital expenditure by local authorities in 1992–93 is assumed to be around £8½ billion, in line with the higher than expected level of spending budgeted for 1991–92. Capital receipts, mainly from Right to Buy sales, are projected to be around £3½ billion in 1992–93, giving net capital expenditure of around £5 billion.

Table 1.5 Local authority expenditure¹

	£ million							
	Estimates of outturn		New plans/projections ²			Changes from previous plans/projections ¹		
	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Total local authority expenditure³	57 269	63 400	67 000	70 500	73 000	1 800	2 000	2 000
Less central government support equals	42 527	53 200	58 600	61 200	64 000	700	2 900	4 600
Local authority self-financed expenditure	14 742	10 200	8 500	9 000	9 000	1 100	–1 000	–2 500

¹ For definitions, rounding and other conventions, see notes in Annex A (page 25).

² The table shows projections for local authority expenditure and local authority self-financed expenditure, and new plans for central government support.

³ Including local authority debt interest payments but net of capital receipts. Local authority debt interest payments fall in 1992–93 and 1993–94 in line with their reduced stock of debt, following commutation in 1992–93. This affects the profile of total local authority spending and self-financed expenditure. See paragraph 1.86.

Debt interest

1.91 Central government gross debt interest is projected to rise from £17½ billion in 1990–91 to about £18½ billion in 1994–95. Following the reduction in government borrowing and the move into budget surplus in recent years, debt interest payments have declined as a proportion of GDP from 5¼ per cent in 1981–82 to about 3¾ per cent in 1988–89 and are projected to fall further to 2½ per cent by 1994–95.

1.92 Annex Table 1A.12 shows the totals for gross and net general government debt interest.

Capital spending

1.93 Plans for capital spending in 1992–93 are inevitably subject to uncertainty at this stage because final decisions have not yet been taken on the allocation of provision in a number of areas. Details of plans for central government and nationalised industries will be published in the Supplement.

1.94 It is estimated that around £1 billion has been added to plans for investment by central government and for central government support for capital spending by local authorities in 1992–93. This includes over £ $\frac{1}{4}$ billion extra for capital spending on Hospital and Community Health Services in the UK, which is expected to rise in total to over £2 billion next year. The new plans also maintain a growing national roads programme which rises to over £2 billion in 1992–93. Central government investment in housing will be around £1 $\frac{3}{4}$ billion.

1.95 Nearly £400 million has been added to programme plans for central government support for local authority capital spending in 1992–93. Central government support is planned to rise by over 5 per cent in real terms. The projections for general government expenditure assume local authorities will maintain gross capital spending broadly at this year's budgeted level, but the actual level of spending will be determined by local authorities themselves.

1.96 Capital spending by nationalised industries is expected to rise by nearly £1 billion between 1991–92 and 1992–93 to over £4 billion. The bulk of this increase is accounted for by British Rail and London Transport, which are expected to invest over £2 $\frac{1}{2}$ billion next year.

1.97 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 1992–93 of £ $\frac{1}{2}$ billion are deducted from the relevant programmes. Local authority receipts, mainly from Right To Buy sales, are projected to be some £3 billion in 1992–93, around the average of the last two years. Details are given in Annex A, Table 1A.13.

Annex A to Chapter 1

Index to Annex A

Definitions and conventions

Chart 1A.1	The planning total and general government expenditure: how it is planned and spent, 1990–91.
Table 1A.1	Public expenditure, 1963–64 to 1994–95.
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Definitions and conventions

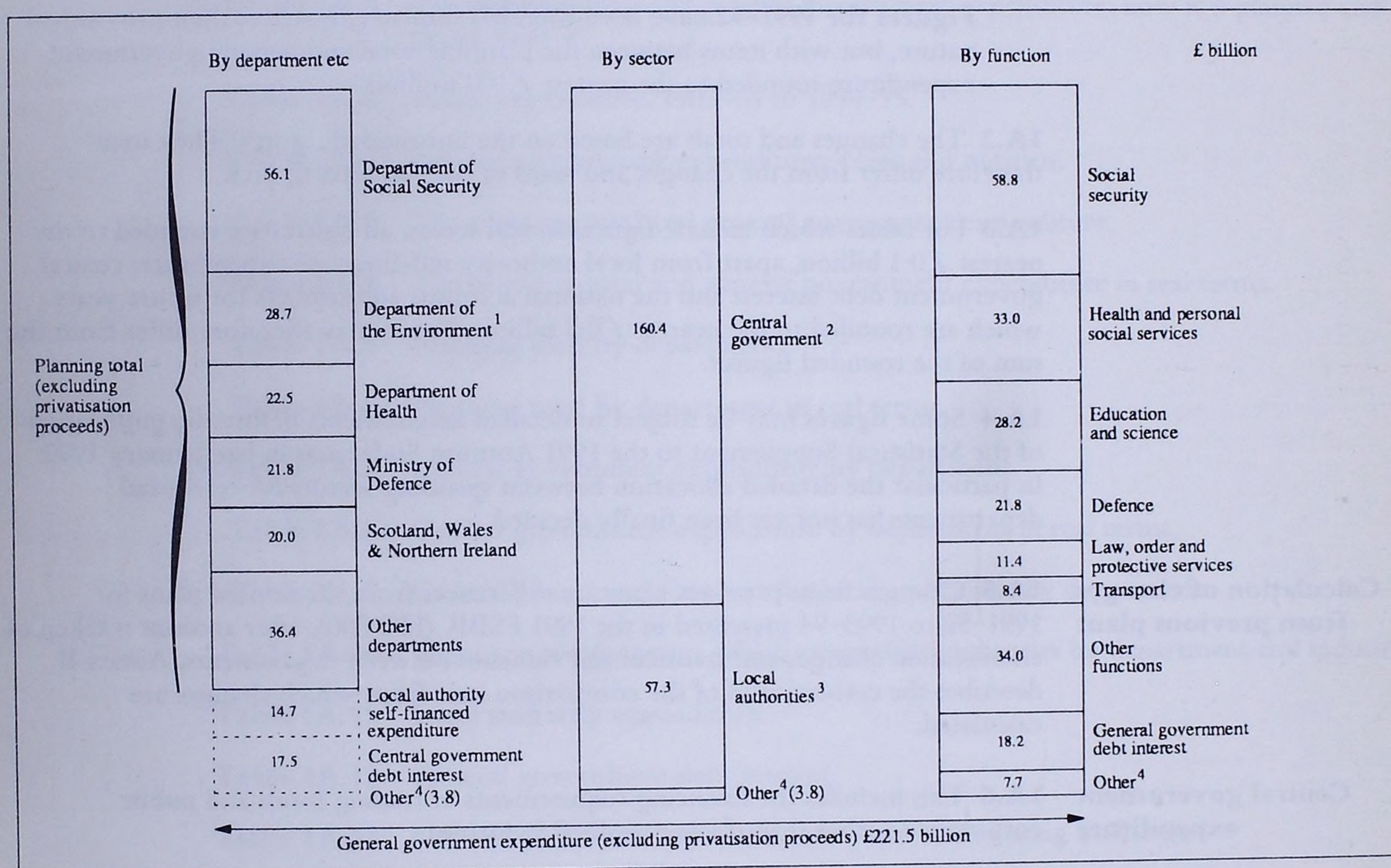
Rounding conventions	<p>1A.1 For tables presenting the new cash plans and projections the following conventions apply:</p> <p>Figures for future years are rounded as follows. Departmental totals are rounded to the nearest £10 million (except for Social Security, which is rounded to £100 million). The planning total, spending sector totals (except public corporations) and general government expenditure are rounded to the nearest £100 million. In the case of general government expenditure, this does not necessarily imply accuracy to this degree. Local authority self-financed expenditure, debt interest and other national accounts adjustments are rounded to the nearest £500 million.</p> <p>Figures for 1991–92 have been rounded similarly to reflect their provisional nature, but with items between the planning total and general government expenditure rounded to the nearest £100 million.</p> <p>1A.2 The changes and totals are based on the unrounded figures. They may therefore differ from the changes and sums of the rounded figures.</p> <p>1A.3 For tables which include figures in real terms, all figures are rounded to the nearest £0.1 billion, apart from local authority self-financed expenditure, central government debt interest and the national accounts adjustments for future years which are rounded to the nearest £0.5 billion. Totals may therefore differ from the sum of the rounded figures.</p> <p>1A.4 Some figures may be subject to detailed amendments before the publication of the Statistical Supplement to the 1991 Autumn Statement in late January 1992. In particular the detailed allocation between spending sectors for territorial departments has not yet been finally decided.</p>
Calculation of changes from previous plans	<p>1A.5 Changes from previous plans are differences from the revised plans for 1991–92 to 1993–94 presented in the 1991 FSB (HC 300), after account is taken of classification changes and transfers and switches between departments. Annex B describes the construction of the comparison base from which changes are calculated.</p>
Central government expenditure	<p>1A.6 This includes the financing requirements of trading funds and public corporations other than the nationalised industries.</p>
Central government support for local authorities	<p>1A.7 In addition to general support for local authorities' expenditure in the form of revenue support grant, non-domestic rates payments and specific grants this includes items, such as mandatory student awards and Community Charge Benefit, which are administered by local authorities but where all or most of the cost is paid by central government.</p>
Adjustment	<p>1A.8 Tables setting out the estimated outturn for the planning total in 1991–92 include an adjustment for the difference between the assessment of likely outturn and the sum of the other components shown.</p>
Local authority self-financed expenditure	<p>1A.9 Figures for local authority self-financed expenditure are derived by deducting central government support for local authorities from figures for total local authority expenditure including debt interest but net of capital receipts. See Table 1.5.</p>

Public expenditure analyses

1A.10 This Annex sets out more detailed analyses of the new plans and outturn from 1986–87. It includes analyses of departmental spending within the planning total, together with information on other spending within general government expenditure.

1A.11 Chart 1A.1 sets out the relationship between the planning total and general government expenditure for 1990–91, and shows the functional split of spending within GGE.

Chart 1A.1 The planning total and general government expenditure: how it is planned and spent, 1990–91



¹ Includes revenue support grant and non-domestic rate payments and certain transitional grants to local authorities in England. Comparable items are included in the figures for Scotland and Wales.

² Includes grants, subsidies and net lending to public corporations, including nationalised industries. It also includes central government debt interest (£17.5 billion).

³ The total is made up of £42.5 billion financed by support from central government and £14.7 billion financed from local authorities own resources. It includes local authority debt interest (£5.3 billion).

⁴ Includes the national accounts adjustments. The differences in these figures reflect the different treatment of local authority debt interest and market and overseas borrowing of public corporations in the analyses of GGE by function.

Table 1A.1 Public expenditure, 1963–64 to 1994–95

	Planning total ¹		General government expenditure			General government expenditure (excluding privatisation proceeds)		Money GDP ²	Adjusted GDP deflator ³		
	£ billion	Real terms ³ £ billion	Spending on goods and services	Total	Privatisation proceeds	£ billion	Real terms ³ £ billion	Per cent of GDP ²	Adjusted series, Index (1990–91 = 100)	Index (1990–91 = 100)	
			£ billion	£ billion	£ billion						
1963–64			6.5	11.3		11.3	109.5	36 $\frac{3}{4}$	31.4	5.5	10.4
1964–65			7.0	12.3		12.3	113.3	36 $\frac{1}{2}$	34.2	6.1	10.8
1965–66			7.7	13.6		13.6	120.0	37 $\frac{3}{4}$	36.6	6.5	11.3
1966–67			8.5	15.1		15.1	127.5	39 $\frac{1}{2}$	38.9	6.9	11.8
1967–68			9.4	17.5		17.5	143.7	43 $\frac{1}{4}$	41.2	7.3	12.1
1968–69			9.9	18.2		18.2	142.9	41 $\frac{1}{2}$	44.6	7.9	12.8
1969–70			10.4	19.3		19.3	143.9	41	48.0	8.5	13.4
1970–71			11.9	21.6		21.6	148.1	41 $\frac{1}{4}$	53.2	9.4	14.6
1971–72			13.4	24.4		24.4	153.6	41 $\frac{3}{4}$	59.3	10.5	15.9
1972–73			15.2	27.6		27.6	161.1	41 $\frac{3}{4}$	67.6	12.0	17.1
1973–74			17.9	32.0		32.0	174.3	43 $\frac{1}{2}$	75.0	13.3	18.3
1974–75			22.9	42.9		42.9	195.3	48 $\frac{3}{4}$	89.4	15.8	22.0
1975–76			29.4	53.8		53.8	195.3	49 $\frac{1}{4}$	111.2	19.7	27.6
1976–77			32.9	59.6		59.6	190.5	46 $\frac{3}{4}$	130.1	23.0	31.3
1977–78			35.2	63.9	– 0.5	64.4	181.1	43 $\frac{1}{4}$	151.4	26.8	35.6
1978–79			39.1	75.0		75.0	190.1	44	173.7	30.7	39.4
1979–80			46.6	90.0	– 0.4	90.4	196.4	44	208.6	36.9	46.0
1980–81			56.8	108.6	– 0.2	108.8	199.9	46 $\frac{3}{4}$	237.7	42.1	54.5
1981–82			61.1	120.5	– 0.5	121.0	202.6	47 $\frac{1}{4}$	260.9	46.2	59.7
1982–83			67.5	132.7	– 0.5	133.1	208.1	47 $\frac{1}{2}$	285.6	50.5	64.0
1983–84			73.0	140.5	– 1.1	141.7	211.7	46 $\frac{1}{2}$	309.7	54.8	66.9
1984–85	127.0	180.7	78.6	150.8	– 2.0	152.9	217.5	47	331.5	58.7	70.3
1985–86	130.7	176.2	82.6	158.4	– 2.7	161.1	217.2	45 $\frac{1}{4}$	363.0	64.2	74.2
1986–87	136.0	177.5	87.4	164.6	– 4.5	169.1	220.8	44	390.6	69.1	76.6
1987–88	142.6	176.6	94.5	173.2	– 5.1	178.4	220.9	42	432.3	76.5	80.8
1988–89	145.6	168.2	99.7	179.6	– 7.1	186.7	215.6	39 $\frac{1}{2}$	480.9	85.1	86.6
1989–90	162.8	176.6	112.6	200.5	– 4.2	204.8	222.1	40	521.5	92.4	92.2
1990–91	180.1	180.1	123.8	216.1	– 5.3	221.5	221.5	40	555.1	100.0	100.0
1991–92	204.9	191.5	⁴	236.1	– 8.0	244.1	228.1	41 $\frac{1}{2}$	588		107.0
1992–93	226.6	202.7	⁴	256.3	– 8.0	264.3	236.4	42	631		111.8
1993–94	244.5	210.8	⁴	276.5	– 5.5	282.0	243.1	41 $\frac{3}{4}$	675		116.0
1994–95	258.0	215.9	⁴	291.1	– 5.5	296.6	248.2	41 $\frac{1}{4}$	718		119.5

¹ Figures for the planning total are only available on a consistent basis for the years shown. Figures are estimated outturn for 1991–92 and plans for 1992–93 onwards.

² The adjusted series for money GDP has been constructed to remove the distortion caused by the abolition of domestic rates

and is used in the calculation of the ratio for years up to 1989–90.

A description of the adjustment method was given in Annex C to Chapter 1 of the 1990 Autumn Statement.

³ Cash figures adjusted to 1990–91 price levels by excluding the effect of general inflation. A description of the deflator series used was given in

Annex C to Chapter 1 of the 1990 Autumn Statement. The GDP deflator series is assumed to increase by 7 per cent in 1991–92, and by 4 $\frac{1}{2}$, 3 $\frac{3}{4}$ and 3 per cent respectively in the years 1992–93 to 1994–95.

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

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

	Per cent of GDP								
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95
March 1987 FSB ³	44	43	42	41½					
January 1988 White Paper (Cmnd 288)	44¾	43¼	42¾	42½	42				
January 1989 White Paper (Cmnd 621)	44½	42½	40½	39¾	39¾	39½			
January 1990 White Paper (Cm 1021)	44¼	42	39¾	39½	39¾	39½	39¼		
February 1991 Supplement (Cm 1520)	44	41¾	39¼	39½	39¾	39½	39½	39	
This Autumn Statement	44	42	39½	40	40	41½ ⁴	42	41¾	41¼

¹ Excluding privatisation proceeds.² To avoid the distortion caused by the abolition of domestic rates, the ratios are based on the adjusted series for money GDP (see footnote 2 to Table 1A.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.³ Financial Statement and Budget Report.⁴ Estimated.

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

Table 1A.5 The planning total and general government expenditure												
	£ million											
	Outturn					Estimated outturn	New plans/projections ²			Changes from previous plans/projections ¹		
	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1991-92	1992-93	1993-94
Central government expenditure ¹	106 718	111 687	116 464	127 521	140 653	156 700	168 600	178 000	185 400	4 500	6 900	10 000
Central government support for local authorities ¹	33 393	35 792	36 621	38 363	42 527	53 200	58 600	61 200	64 000	700	2 900	4 600
Financing requirements of nationalised industries	344	271	- 430	1 106	2 285	2 680	3 450	2 850	2 180	360	1 300	890
Reserve							4 000	8 000	12 000	- 3 500	- 3 000	- 2 500
Privatisation proceeds	- 4 458	- 5 140	- 7 069	- 4 219	- 5 345	- 8 000	- 8 000	- 5 500	- 5 500	- 2 500	- 2 500	0
Adjustment ¹						300				300		
Planning total	135 998	142 609	145 586	162 771	180 119	204 900	226 600	244 500	258 000	- 100	5 600	13 000
Local authority self-financed expenditure ¹	8 711	9 197	10 620	15 198	14 742	10 200	8 500	9 000	9 000	1 100	- 1 000	- 2 500
Central government debt interest	16 447	17 034	17 548	17 824	17 508	16 700	16 500	17 500	18 500	- 100	- 500	0
Accounting adjustments	3 486	4 391	5 840	4 744	3 767	4 300	4 500	5 000	5 500	400	- 500	- 500
General government expenditure	164 642	173 231	179 594	200 536	216 136	236 100	256 300	276 500	291 100	1 300	3 900	10 200
GGE excluding privatisation proceeds as a percent of GDP ³	44	42	39½	40	40	41½	42	41¾	41¼			

¹ For definitions, rounding and other conventions see notes on page 25.

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

³ Adjusted to remove the distortion caused by the abolition of domestic rates. See footnote 2 to Table 1A.1.

Table 1A.4 The planning total and general government expenditure in real terms^{1,2}

	£ billion								
	Outturn					Estimated outturn	New plans/projections ³		
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95
Central government expenditure ¹	139.3	138.3	134.5	138.3	140.7	146.4	150.8	153.5	155.1
Central government support for local authorities ¹	43.6	44.3	42.3	41.6	42.5	49.7	52.4	52.7	53.5
Financing requirements of nationalised industries	0.4	0.3	–0.5	1.2	2.3	2.5	3.1	2.5	1.8
Reserve							3.6	6.9	10.0
Privatisation proceeds	–5.8	–6.4	–8.2	–4.6	–5.3	–7.5	–7.2	–4.7	–4.6
Adjustment ¹						0.3			
Planning total	177.5	176.6	168.2	176.6	180.1	191.5	202.7	210.8	215.9
Local authority self-financed expenditure ¹	11.4	11.4	12.3	16.5	14.7	9.6	7.5	8.0	7.5
Central government debt interest	21.5	21.1	20.3	19.3	17.5	15.6	14.5	15.0	15.5
Accounting adjustments	4.6	5.4	6.7	5.1	3.8	4.0	4.0	4.5	4.5
General government expenditure	214.9	214.5	207.5	217.6	216.1	220.6	229.2	238.3	243.6

¹ For definitions, rounding and other conventions, see notes on page 25.² See footnote 3 to Table 1A.1.³ The table shows new plans for the planning total and its constituents and projections for the other items in general government expenditure.

Table 1A.5 Planning total by department¹

	£ million					Estimated			Changes from previous plans ¹			
	Outturn					outturn	New plans					
	1986–87	1987–88	1988–89	1989–90	1990–91		1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Defence	18 156	18 856	19 079	20 760	21 800	22 850	24 180	24 520	24 800	50	830	1 120
Foreign Office	649	687	739	870	936	1 050	1 120	1 190	1 200	30	30	60
Overseas Development	1 295	1 290	1 541	1 669	1 743	2 010	2 150	2 260	2 330	100	50	60
Agriculture, Fisheries and Food	1 604	1 807	1 578	1 462	2 107	2 290	2 190	2 220	2 280	90	– 120	– 90
Trade and Industry	1 968	667	1 344	1 290	1 118	960	940	900	930	– 30	– 10	0
ECGD	292	153	116	358	372	250	120	70	40	0	– 10	40
Energy	– 213	197	– 427	464	1 189	940	610	510	460	– 10	– 70	– 120
Employment	3 841	3 903	3 853	3 781	3 778	3 640	3 870	3 880	3 920	240	480	460
Transport	2 706	2 645	2 730	3 548	4 721	5 640	6 960	6 590	6 100	420	1 430	1 060
DOE—Housing	2 997	2 979	2 907	3 107	6 899	7 630	7 780	7 960	8 210	260	360	360
DOE—Environment	986	954	670	1 113	1 263	1 370	1 290	1 270	1 260	160	190	10
DOE—PSA					114	90	70	40	20	0	30	20
DOE—Local government	17 052	18 238	18 823	19 531	20 392	28 270	31 020	32 500	34 000	30	790	2 420
Home Office	3 040	3 411	3 688	4 226	5 045	5 740	6 000	6 410	6 680	330	360	460
Legal departments	651	773	902	1 125	1 308	1 660	1 760	1 840	1 920	190	140	130
Education and Science	3 567	3 958	4 303	5 768	6 643	7 320	7 950	8 370	8 750	– 10	320	550
Arts and Libraries	343	368	414	446	496	560	610	600	620	0	30	30
Health	15 308	16 784	18 471	19 989	22 509	25 710	28 150	30 010	31 690	630	1 650	2 330
Social Security	46 611	48 771	49 419	52 182	56 075	65 000	70 600	76 100	79 800	3 300	4 200	5 100
Scotland	7 564	7 858	8 512	8 972	9 690	11 720	12 540	13 070	13 610	60	340	610
Wales	3 028	3 268	3 575	3 797	4 436	5 260	5 810	6 060	6 300	– 30	310	430
Northern Ireland	4 499	4 828	5 436	5 724	5 871	6 480	7 030	7 410	7 740	60	170	240
Chancellor's departments	3 209	3 438	3 702	4 192	4 597	4 800	5 030	5 220	5 440	– 120	– 150	– 160
Cabinet Office, etc	228	251	273	300	349	400	450	470	490	0	10	10
European Communities	1 074	1 661	1 006	2 316	2 013	910	2 460	2 570	2 910	– 140	– 300	380
Reserve							4 000	8 000	12 000	– 3 500	– 3 000	– 2 500
Privatisation proceeds	– 4 458	– 5 140	– 7 069	– 4 219	– 5 345	– 8 000	– 8 000	– 5 500	– 5 500	– 2 500	– 2 500	0
Adjustment ¹						300				300		
Planning total	135 998	142 609	145 586	162 771	180 119	204 900	226 600	244 500	258 000	– 100	5 600	13 000

¹ For definitions, rounding and other conventions, see notes on page 25. See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

Table 1A.6 Planning total by department in real terms^{1, 2}

	£ billion								
	Outturn					Estimated outturn	New plans		
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95
Defence	23.7	23.3	22.0	22.5	21.8	21.4	21.6	21.1	20.8
Foreign Office	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Overseas Development	1.7	1.6	1.8	1.8	1.7	1.9	1.9	2.0	2.0
Agriculture, Fisheries and Food	2.1	2.2	1.8	1.6	2.1	2.1	2.0	1.9	1.9
Trade and Industry	2.6	0.8	1.6	1.4	1.1	0.9	0.8	0.8	0.8
ECGD	0.4	0.2	0.1	0.4	0.4	0.2	0.1	0.1	0.0
Energy	– 0.3	0.2	– 0.5	0.5	1.2	0.9	0.5	0.4	0.4
Employment	5.0	4.8	4.5	4.1	3.8	3.4	3.5	3.3	3.3
Transport	3.5	3.3	3.2	3.8	4.7	5.3	6.2	5.7	5.1
DOE—Housing	3.9	3.7	3.4	3.4	6.9	7.1	7.0	6.9	6.9
DOE—Environment	1.3	1.2	0.8	1.2	1.3	1.3	1.1	1.1	1.1
DOE—PSA					0.1	0.1	0.1	0.0	0.0
DOE—Local government	22.3	22.6	21.7	21.2	20.4	26.4	27.7	28.0	28.5
Home Office	4.0	4.2	4.3	4.6	5.0	5.4	5.4	5.5	5.6
Legal departments	0.9	1.0	1.0	1.2	1.3	1.6	1.6	1.6	1.6
Education and Science	4.7	4.9	5.0	6.3	6.6	6.8	7.1	7.2	7.3
Arts and Libraries	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Health	20.0	20.8	21.3	21.7	22.5	24.0	25.2	25.9	26.5
Social Security	60.8	60.4	57.1	56.6	56.1	60.8	63.1	65.6	66.8
Scotland	9.9	9.7	9.8	9.7	9.7	11.0	11.2	11.3	11.4
Wales	4.0	4.0	4.1	4.1	4.4	4.9	5.2	5.2	5.3
Northern Ireland	5.9	6.0	6.3	6.2	5.9	6.1	6.3	6.4	6.5
Chancellor's departments	4.2	4.3	4.3	4.5	4.6	4.5	4.5	4.5	4.5
Cabinet Office, etc	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
European Communities	1.4	2.1	1.2	2.5	2.0	0.9	2.2	2.2	2.4
Reserve							3.6	6.9	10.0
Privatisation proceeds	– 5.8	– 6.4	– 8.2	– 4.6	– 5.3	– 7.5	– 7.2	– 4.7	– 4.6
Adjustment ¹						0.3			
Planning total	177.5	176.6	168.2	176.6	180.1	191.5	202.7	210.8	215.9

¹ For definitions, rounding and other conventions, see notes on page 25. See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

² See footnote 3 to table 1A.1.

Table 1A.7 Central government expenditure by department¹

	£ million											
	Outturn					Estimated outturn	New plans			Changes from previous plans ¹		
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Defence	18 156	18 856	19 079	20 760	21 800	22 850	24 180	24 520	24 800	50	830	1 120
Foreign Office	649	687	739	870	936	1 050	1 120	1 190	1 200	30	30	60
Overseas Development	1 295	1 290	1 541	1 669	1 743	2 010	2 150	2 260	2 330	100	50	60
Agriculture, Fisheries and Food	1 526	1 727	1 501	1 481	2 189	2 380	2 310	2 350	2 440	90	– 90	– 40
Trade and Industry	1 849	937	1 675	1 302	1 101	1 030	1 000	970	990	– 20	– 20	– 10
ECGD	292	153	116	358	372	250	120	70	40	0	– 10	40
Energy	894	541	506	434	509	490	490	460	490	– 10	40	20
Employment	3 600	3 645	3 587	3 420	3 387	3 210	3 460	3 460	3 510	240	480	460
Transport	1 269	1 379	1 405	1 876	2 326	2 450	2 620	2 720	2 790	– 20	20	0
DOE—Housing	1 363	1 374	1 374	1 665	2 697	3 070	2 840	3 070	3 140	20	– 280	– 210
DOE—Environment	240	230	138	449	742	750	610	600	580	150	190	20
DOE—PSA					114	90	70	40	20	0	30	20
DOE—Local government	4	5	6	10	50	250	270	230	240	70	80	40
Home Office	1 077	1 222	1 363	1 625	1 982	2 210	2 260	2 410	2 460	160	230	320
Legal departments	651	773	902	1 125	1 308	1 660	1 760	1 840	1 920	190	140	130
Education and Science	2 493	2 733	2 991	4 332	4 548	4 570	4 860	5 110	5 340	– 60	120	220
Arts and Libraries	343	368	414	446	496	560	610	600	620	0	30	30
Health	15 243	16 715	18 390	19 898	22 393	25 540	27 940	29 800	31 490	630	1 620	2 300
Social Security	41 706	43 550	44 462	46 915	51 958	61 200	66 000	71 200	74 500	3 000	3 300	4 500
Scotland	3 589	3 757	4 071	4 454	4 983	5 960	6 340	6 600	6 890	120	270	320
Wales	1 504	1 616	1 835	1 950	2 236	2 530	2 720	2 920	3 040	0	70	170
Northern Ireland	4 462	4 778	5 390	5 675	5 824	6 420	6 970	7 350	7 670	60	170	240
Chancellor's departments	3 209	3 438	3 702	4 192	4 597	4 800	5 030	5 220	5 440	– 120	– 150	– 160
Cabinet Office, etc	228	251	273	300	349	400	450	470	490	0	10	10
European Communities	1 074	1 661	1 006	2 316	2 013	910	2 460	2 570	2 910	– 140	– 300	380
Total	106 718	111 687	116 464	127 521	140 653	156 700	168 600	178 000	185 400	4 500	6 900	10 000
of which:												
financing requirements of trading funds and public corporations	651	522	290	791	1 140	1 200	1 070	1 140	1 160	200	200	120

¹ For definitions, rounding and other conventions, see notes on page 25. See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

Table 1A.8 Central government expenditure by department in real terms^{1, 2}

	£ billion								
	Outturn					Estimated outturn	New plans		
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95
Defence	23.7	23.3	22.0	22.5	21.8	21.4	21.6	21.1	20.8
Foreign Office	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.0
Overseas Development	1.7	1.6	1.8	1.8	1.7	1.9	1.9	2.0	2.0
Agriculture, Fisheries and Food	2.0	2.1	1.7	1.6	2.2	2.2	2.1	2.0	2.0
Trade and Industry	2.4	1.2	1.9	1.4	1.1	1.0	0.9	0.8	0.8
ECGD	0.4	0.2	0.1	0.4	0.4	0.2	0.1	0.1	0.0
Energy	1.2	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.4
Employment	4.7	4.5	4.1	3.7	3.4	3.0	3.1	3.0	2.9
Transport	1.7	1.7	1.6	2.0	2.3	2.3	2.3	2.3	2.3
DOE—Housing	1.8	1.7	1.6	1.8	2.7	2.9	2.5	2.6	2.6
DOE—Environment	0.3	0.3	0.2	0.5	0.7	0.7	0.5	0.5	0.5
DOE—PSA					0.1	0.1	0.1	0.0	0.0
DOE—Local government	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Home Office	1.4	1.5	1.6	1.8	2.0	2.1	2.0	2.1	2.1
Legal departments	0.9	1.0	1.0	1.2	1.3	1.6	1.6	1.6	1.6
Education and Science	3.3	3.4	3.5	4.7	4.5	4.3	4.3	4.4	4.5
Arts and Libraries	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Health	19.9	20.7	21.2	21.6	22.4	23.9	25.0	25.7	26.4
Social Security	54.4	53.9	51.4	50.9	52.0	57.2	59.0	61.4	62.4
Scotland	4.7	4.7	4.7	4.8	5.0	5.6	5.7	5.7	5.8
Wales	2.0	2.0	2.1	2.1	2.2	2.4	2.4	2.5	2.5
Northern Ireland	5.8	5.9	6.2	6.2	5.8	6.0	6.2	6.3	6.4
Chancellor's departments	4.2	4.3	4.3	4.5	4.6	4.5	4.5	4.5	4.5
Cabinet Office, etc	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
European Communities	1.4	2.1	1.2	2.5	2.0	0.9	2.2	2.2	2.4
Total	139.3	138.3	134.5	138.3	140.7	146.4	150.8	153.5	155.1
of which:									
financing requirements of trading funds and public corporations	0.9	0.6	0.3	0.9	1.1	1.1	1.0	1.0	1.0

¹ For definitions, rounding and other conventions, see notes on page 25. See Annex C for the composition of each departmental grouping. The estimated outturn for Defence in 1990–91 and 1991–92 is net of other governments' contributions to the cost of the Gulf conflict.

² See footnote 3 to Table 1A.1.

Table 1A.9 Central government support for local authorities by department¹

Table 1A.7 Central government expenditure 1986-87 to 1993-94												
	£ million											
	Outturn					Estimated outturn	New plans			Changes from previous plans ¹		
	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1991-92	1992-93	1993-94
Current												
Agriculture, Fisheries and Food	29	31	29	- 55	- 113	- 130	- 160	- 180	- 200	0	- 30	- 50
Trade and Industry				0	1	10	10	10	10	0	0	0
Employment	238	255	263	358	387	420	400	410	400	0	0	0
Transport	2	2	2	2	2	0	0	0	0	0	0	0
DOE—Housing	21	22	26	26	2 351	2 600	2 990	2 950	3 080	240	530	440
DOE—Environment	93	75	66	64	63	60	70	80	80	0	0	0
DOE—Local government ²	17 047	18 234	18 817	19 521	20 342	28 020	30 710	32 270	33 760	- 40	670	2 380
Home Office	1 852	2 066	2 206	2 476	2 834	3 230	3 410	3 640	3 840	170	100	100
Education and Science	674	823	875	1 030	1 606	2 200	2 490	2 660	2 790	50	160	290
Health			7	21	29	60	80	80	80	0	20	20
Social Security	4 905	5 221	4 958	5 267	4 117	3 800	4 600	4 900	5 300	300	900	700
Scotland	3 034	3 165	3 533	3 820	4 000	4 910	5 210	5 490	5 730	10	40	280
Wales	1 207	1 315	1 416	1 498	1 794	2 310	2 490	2 590	2 700	- 10	140	270
Northern Ireland	31	41	41	42	44	50	50	50	50	10	0	0
Total current	29 131	31 247	32 235	34 070	37 455	47 500	52 300	55 000	57 600	700	2 500	4 400
Capital												
Agriculture, Fisheries and Food	36	30	28	29	31	40	40	40	40	0	0	0
Trade and Industry	1	1	1	1	0	0	0	0	0	0	0	0
Employment	3	4	3	3	5	0	10	10	0	0	0	0
Transport	489	596	671	627	747	910	1 020	1 030	1 050	0	0	20
DOE—Housing	1 613	1 584	1 508	1 417	1 851	1 950	1 950	1 940	1 990	0	110	140
DOE—Environment	533	607	439	474	411	500	550	550	560	10	0	- 10
DOE—Local government							40				40	
Home Office	111	124	120	125	229	310	340	360	380	0	30	40
Education and Science	400	402	438	406	488	540	600	610	620	0	50	50
Health	65	69	74	69	86	110	130	130	130	0	10	10
Scotland	706	800	781	801	812	870	960	990	1 010	0	50	30
Wales	300	320	316	334	407	430	600	540	550	- 20	100	- 20
Northern Ireland	6	9	5	7	3	0	10	10	10	0	0	0
Total capital³	4 263	4 545	4 386	4 293	5 072	5 680	6 250	6 200	6 360	- 10	380	260
Total	33 393	35 792	36 621	38 363	42 527	53 200	58 600	61 200	64 000	700	2 900	4 600

¹ For definitions, rounding and other conventions, see notes on page 25. See Annex C for the composition of each departmental grouping.² 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.³ 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 1A.10 Financing requirements of the nationalised industries, by department and industry¹

	£ million											
	Outturn					Estimated outturn	New plans			Changes from previous plans ¹		
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95	1991–92	1992–93	1993–94
Trade and Industry	118	–270	–332	–13	16	–70	–70	–70	–70	–10	10	10
British Shipbuilders	241	118	144	4	15	0	0	–10	0	–10	10	10
Post Office	–136	–79	–60	0	1	–70	–70	–70	–70	–10	0	0
Other ²	13	–309	–417	–17								
Energy	–1 107	–343	–933	30	680	460	120	40	–30	0	–110	–150
British Coal	902	918	840	1 292	890	540	400	500	500	0	–80	0
Electricity (England and Wales) ³	–1 325	–1 261	–1 773	–1 262	–210	–80	–280	–460	–530	0	–30	–150
Other ²	–684											
Transport	949	672	656	1 046	1 648	2 270	3 320	2 850	2 260	440	1 410	1 040
British Rail	777	591	375	673	1 016	1 520	2 040	1 360	980	400	970	660
Civil Aviation Authority ⁴	7	1	21	47	66	40	70	100	90	0	0	30
London Transport	279	207	261	327	566	710	1 210	1 390	1 190	40	440	360
Other ²	–114	–126	–2									
DOE—Environment	121	43	27	127	48	50	50	50	50	0	0	0
British Waterways Board ⁵	45	45	45	47	48	50	50	50	50	0	0	0
Other ²	76	–2	–18	81								
Scotland	232	133	123	–106	–107	–20	30	–20	–30	–60	–10	–20
Electricity (Scotland) ⁶	224	129	123	–112	–101	–30	10	–30	–40	–60	–20	–20
Caledonian MacBrayne Ltd	8	9	9	6	4	10	10	10	10	0	10	0
Other ²	0	–4	–8	0	–11	0				0		
Agriculture, Fisheries and Food												
Other ²	13	19	20	8								
Wales												
Other ²	17	17	9	15								
Total	344	271	–430	1 106	2 285	2 680	3 450	2 850	2 180	360	1 300	890

¹ For definitions, rounding and other conventions, see notes on page 25.

² These items include the financing requirements of nationalised industries privatised before 1992–93.

³ The Regional Electricity Companies, the National Grid Company, Powergen and National Power were privatised during 1990–91. From 1991–92 comprises Nuclear Electric.

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

Scottish Development Department (eg £1.9 million in 1990–91) which are included in the total for Scotland in Table 1.4.

⁵ The total financing requirement for the British Waterways Board is shown in this row. This includes subsidies from the Scottish Development Department (eg £0.04 million in 1990–91) which are included in the total for Scotland in Table 1.4.

⁶ Scottish Power and Scottish Hydro-Electric were privatised during 1991–92. From 1992–93 comprises Scottish Nuclear.

Table 1A.11 Local authority expenditure¹

	£ million					
	Outturn					Estimated outturn
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92
England	31 289	33 322	34 957	40 413	43 127	47 900
Scotland	4 274	4 675	4 928	5 380	5 814	6 400
Wales	2 030	2 203	2 291	2 602	2 918	3 300
Northern Ireland	122	126	143	146	154	170
Total	37 715	40 326	42 318	48 541	52 013	57,800
of which						
Current	33 598	36 434	39 092	42 300	47 081	52 200
Capital	4 117	3 891	3 226	6 242	4 932	5 600
Local authority debt interest	4 389	4 663	4 923	5 020	5 256	5 600
Total local authority expenditure	42 104	44 989	47 241	53 561	57 269	63 400

¹ For definitions, rounding and other conventions, see notes on page 25.

Table 1A.12 General government debt interest

	£ billion					
	Outturn		Projections			
	1989–90	1990–91	1991–92	1992–93	1993–94	1994–95
General government gross debt interest ¹	18.5	18.2	17.2	17	18	18½
of which: Central government	17.8	17.5	16.7	16½	17½	18½
General government interest and dividend receipts	7.2	6.4	5.7	6	6	6
General government net debt interest	11.3	11.8	11.5	11	12	12½
	Per cent of GDP					
General government gross debt interest	3½	3¼	3	2¾	2½	2½
General government net debt interest	2¼	2¼	2	1¾	1¾	1¾
¹ Of which: Servicing of indexed securities (gilts plus national savings)	2.4	2.7	2.2	2.1	2.3	2.3

Table 1A.13 General government transactions in land and existing buildings

Table 1A.15 General government transactions in land and buildings							
	£ billion						
	Outturn					Estimated outturn	New plans/ projections ¹
	1986–87	1987–88	1988–89	1989–90	1990–91	1991–92	1992–93
Purchases							
Central government	0.1	0.2	0.2	0.2	0.3	0.4	$\frac{1}{2}$
Local authorities							
Housing	0.3	0.3	0.4	0.5	0.1	0.1	1
Other	0.3	0.4	0.5	0.6	0.5	0.4	
Total	0.7	0.8	0.9	1.1	0.6	0.5	
Total general government purchases	0.8	1.0	1.1	1.4	0.9	0.9	1
Sales							
Central government ²	−0.3	−0.4	−0.6	−0.5	−0.4	−0.4	− $\frac{1}{2}$
Local authorities ³							
Housing	−1.6	−2.1	−3.4	−3.5	−2.6	−2.0	−3
Other	−1.0	−1.5	−2.1	−1.9	−0.9	−0.8	
Total	−2.6	−3.7	−5.6	−5.4	−3.5	−2.7	
Total general government sales	−2.9	−4.1	−6.2	−5.9	−3.9	−3.1	−4
Sales, net of purchases							
Central government	−0.2	−0.1	−0.5	−0.2	−0.1	0.0	0
Local authorities							
Housing	−1.3	−1.8	−3.0	−3.0	−2.5	−1.8	−2
Other	−0.7	−1.1	−1.7	−1.3	−0.4	−0.3	
Total	−2.0	−2.9	−4.7	−4.3	−2.8	−2.2	
Total	−2.1	−3.0	−5.1	−4.5	−3.0	−2.2	−2

¹ Figures are plans for central government and projections for local authorities. Figures for central government are rounded to the nearest £ $\frac{1}{2}$ billion. Figures for local authorities and general government are rounded to the nearest £1 billion.

² Excluding receipts included in privatisation proceeds (Forestry Commission, Land Settlement, Motorway Service leases—see Table 7.4 of the Statistical Supplement to the 1990 Autumn Statement (Cm 1520)).

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

Annex B to Chapter 1

Calculation of changes from previous plans

1B.1 Changes shown in this Statement are differences from the revised plans for 1991–92 to 1993–94 presented in the 1991 Financial Statement and Budget Report (HC 300).

1B.2 The plans set out in the 1991 FSBR reflected the announcements, made after the publication of the 1990 Autumn Statement, of two initiatives to reduce the levels of community charges paid by charge payers.

1B.3 The Community Charge Reduction Scheme (announced on 17 January 1991), replaced the transitional relief scheme operating in 1990–91. Community Charge Grant was introduced in the 1991 Budget. The planning total was increased as a result of these changes, with additions to the spending plans for DOE-local government, Scotland and Wales. As a consequence of the lower levels of community charges resulting from these initiatives these increases have been partly offset by lower spending on Community Charge Benefit within the Social Security programme. These changes reduced local authority self-financed expenditure and had no significant effect on GGE.

1B.4 In addition to decisions taken in the Public Expenditure Survey the new plans for 1992–93 to 1994–95 set out in this Autumn Statement take account of a number of technical changes 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 recorded (described as classification changes). Although the net impact of such changes on the planning total is usually small, they can complicate the interpretation of changes in departmental plans and changes between years.

1B.5 Transfers between departments can arise as a result of a decision to transfer responsibility for a particular function to a different department or as a consequence of a change in the way of financing specific activities, for example, following from the introduction of repayment. In the case of a transfer of responsibility, adjustments are made to past years as well as plans to enable consistent year on year comparisons to be made. Changes to arrangements for financing specific activities 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. This can tend to distort year on year comparisons.

1B.6 Classification changes—ie changes in the way spending is measured—are applied across the whole nine years covered by the tables in the Autumn Statement, so that consistent assessments of trends can be made over the full time span.

1B.7 In order to set out more clearly the extent of changes agreed in the current Survey, the effects of transfers agreed since the last Survey and classification changes are excluded from the calculations of **changes** from previous plans. All changes in the text are on the same adjusted basis.

1B.8 Tables 1B.1, 1B.2 and 1B.3 show how the comparison base for the calculation of changes has been constructed, setting out separately the detailed plans shown in the Statistical Supplement to the 1990 Autumn Statement (Cm 1520), the revised planning total following the announcements of additional support to local authorities, and classification changes and transfers.

1B.9 Further analyses of changes from the detailed plans set out in Cm 1520 will be presented in the Statistical Supplement to the Autumn Statement, to be published around the end of January 1992.

Table 1B.1 1991–92 planning total by department: Comparison base for calculation of changes from plans

	£ million					
	Previous plans				Technical changes ²	Comparison base
	Plans in Statistical Supplement to 1990 Autumn Statement ¹	Subsequent revisions to the planning total				
		17 January 1991	1991 Budget	Revised plans		
Defence	22 800			22 800	0	22 800
Foreign Office	1 020			1 020	0	1 020
Overseas Development	1 910			1 910	0	1 910
Agriculture, Fisheries and Food	2 190			2 190	10	2 200
Trade and Industry	980			980	10	990
ECGD	250			250		250
Energy	970			970	— 10	950
Employment	3 400			3 400	0	3 400
Transport	5 210			5 210	10	5 220
DOE—Housing	7 280			7 280	80	7 360
DOE—Environment	1 370			1 370	— 160	1 210
DOE—PSA	90			90	0	90
DOE—Local government	23 270	1 080	3 890	28 240	0	28 240
Home Office	5 400			5 400	10	5 410
Legal departments	1 460			1 460	20	1 480
Education and Science	7 290			7 290	40	7 330
Arts and Libraries	560			560	0	560
Health	25 090			25 090	— 20	25 070
Social Security	62 800	— 300	— 900	61 700	100	61 700
Scotland	11 130	100	420	11 660	0	11 660
Wales	4 920	70	270	5 260	30	5 290
Northern Ireland	6 420			6 420	0	6 420
Chancellor's departments	5 000			5 000	— 70	4 930
Cabinet Office, etc	400			400	0	400
European Communities	1 050			1 050		1 050
Reserve	3 500			3 500		3 500
Privatisation proceeds	— 5 500			— 5 500		— 5 500
Planning total	200 300	900	3 700	205 000	0	205 000

¹ The figures for Agriculture, Fisheries and Food and Scotland differ from the figures published in Cm 1520 because the Forestry Commission is now included under Scotland in departmental analyses.

² The main technical changes are:

Transfer of responsibility for New Towns from DOE—Environment to DOE—Housing (– £110m).

Transfer of credit approvals for local authority capital expenditure on sport from DOE—Environment to Education and Science (£40m) following the transfer of ministerial responsibility.

Transfer of provision for housing benefit from DOE—Housing to Social Security following transfers of local authority housing stock to the private sector (£30m).

Transfer of responsibility for certain pension costs from Chancellor's departments (£70m) with offsets affecting most departments.

Table 1B.2 1992–93 planning total by department: Comparison base for calculation of changes from plans

	£ million					
	Previous plans				Technical changes ²	Comparison base
	Plans in Statistical Supplement to 1990 Autumn Statement ¹	Subsequent revisions to the planning total				
		17 January 1991	1991 Budget	Revised plans		
Defence	23 350			23 350	0	23 350
Foreign Office	1 090			1 090	0	1 090
Overseas Development	1 980			1 980	110	2 090
Agriculture, Fisheries and Food	2 300			2 300	10	2 310
Trade and Industry	930			930	20	950
ECGD	130			130		130
Energy	690			690	— 10	680
Employment	3 380			3 380	10	3 390
Transport	5 420			5 420	110	5 530
DOE—Housing	7 220			7 220	200	7 410
DOE—Environment	1 350			1 350	— 250	1 090
DOE—PSA	40			40	0	40
DOE—Local government	24 010	1 100	5 230	30 340	— 110	30 230
Home Office	5 630			5 630	10	5 640
Legal departments	1 580			1 580	40	1 620
Education and Science	7 590			7 590	40	7 630
Arts and Libraries	580			580	0	580
Health	26 510			26 510	— 10	26 500
Social Security	67 700	— 300	— 1 100	66 300	100	66 300
Scotland	11 550	90	560	12 200	0	12 200
Wales	5 080	60	340	5 490	0	5 490
Northern Ireland	6 860			6 860	0	6 860
Chancellor's departments	5 300			5 300	— 130	5 180
Cabinet Office, etc	420			420	30	440
European Communities	2 870			2 870	— 110	2 760
Reserve	7 000			7 000		7 000
Privatisation proceeds	— 5 500			— 5 500		— 5 500
Planning total	215 000	1 000	5 000	221 000	0	221 000

¹ The figures for Agriculture, Fisheries and Food and Scotland differ from the figures published in Cm 1520 because the Forestry Commission is now included under Scotland in departmental analyses.

² The main technical changes are:

Transfer of responsibility for New Towns from DOE—Environment to DOE—Housing (– £220m).

Transfer of credit approvals for local authority capital expenditure on sport from DOE—Environment to Education and Science (£40m) following the transfer of ministerial responsibility.

Transfer of provision for housing benefit from DOE—Housing to Social Security following transfers of local authority housing stock to the private sector (£30m).

Transfer of responsibility for certain pension costs from Chancellor's departments (£80m) with offsets affecting most departments.

Transfer of provision for road maintenance from DOE—Local government to Transport (£100m).

Transfer of provision for EC assistance for Eastern Europe and the Soviet Union from European Communities to Overseas Development (£110m).

Table 1B.3 1993–94 Planning total by department: Comparison base for calculation of changes from plans

	£ million					
	Previous plans				Technical changes ²	Comparison base
	Plans in Statistical Supplement to 1990 Autumn Statement ¹	Subsequent revisions to the planning total				
		17 January 1991	1991 Budget	Revised plans		
Defence	23 390			23 390	0	23 390
Foreign Office	1 130			1 130	0	1 130
Overseas Development	2 050			2 050	150	2 200
Agriculture, Fisheries and Food	2 290			2 290	10	2 310
Trade and Industry	880			880	20	900
ECGD	30			30		30
Energy	640			640	— 10	630
Employment	3 440			3 440	— 20	3 420
Transport	5 430			5 430	110	5 540
DOE—Housing	7 440			7 440	160	7 590
DOE—Environment	1 470			1 470	— 210	1 260
DOE—PSA	20			20	0	20
DOE—Local government	24 460	900	4 830	30 180	— 100	30 080
Home Office	5 940			5 940	10	5 950
Legal departments	1 660			1 660	50	1 710
Education and Science	7 780			7 780	40	7 820
Arts and Libraries	570			570	0	570
Health	27 680			27 680	0	27 680
Social Security	72 200	— 200	— 1 000	70 900	100	71 000
Scotland	11 870	60	530	12 460	0	12 460
Wales	5 250	50	320	5 630	0	5 630
Northern Ireland	7 170			7 170	0	7 170
Chancellor's departments	5 520			5 520	— 140	5 380
Cabinet Office, etc	440			440	30	460
European Communities	2 340			2 340	— 150	2 190
Reserve	10 500			10 500		10 500
Privatisation proceeds	— 5 500			— 5 500		— 5 500
Planning total	226 100	800	4 600	231 500	0	231 500

¹ The figures for Agriculture, Fisheries and Food and Scotland differ from the figures published in Cm 1520 because the Forestry Commission is now included under Scotland in departmental analyses.

² The main adjustments included are as follows:

Transfer of responsibility for New Towns from DOE—Environment to DOE—Housing (– £180m).

Transfer of credit approvals for local authority capital expenditure on sport from DOE—Environment to Education and Science (£40m) following the transfer of ministerial responsibility.

Transfer of provision for housing benefit from DOE—Housing to Social Security following transfers of local authority housing stock to the private sector (£40m).

Transfer of provision from Employment to Social Security to cover increased benefit administration costs (£40m).

Transfer of responsibility for certain pension costs from Chancellor's departments (£80m) with offsets affecting most departments.

Transfer of provision for road maintenance from DOE—Local government to Transport (£100m).

Transfer of provision for EC assistance for Eastern Europe and the Soviet Union from European Communities to Overseas Development (£150m).

Annex C to Chapter 1

Departmental groupings

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

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

2 Economic prospects for 1992

Summary

- Demand and activity** 2.1 The balance of evidence suggests that GDP, having fallen $3\frac{3}{4}$ per cent in the year to the second quarter of 1991, stabilised during the summer and may since have been rising. The forecast is for a $\frac{3}{4}$ per cent rise in GDP between the first and second halves of the year. Consumer spending, stocks and exports are all likely to have contributed to this turnaround. These same factors, together with a small recovery in investment, underlie a forecast rise in GDP of $2\frac{1}{4}$ per cent in 1992, and of $2\frac{3}{4}$ per cent through the year.
- Inflation** 2.2 Inflation has developed much as predicted at the time of the Budget. Retail price inflation is expected to be 4 per cent in the fourth quarter, compared with 10 per cent a year earlier. Underlying inflation has fallen too, though less rapidly. RPI inflation may pick up a little in the spring of next year, as this year's special factors drop out of the annual calculation. But it is likely to fall back to 4 per cent by the end of 1992, as underlying inflation continues to fall through the year.
- Labour market** 2.3 The rate of increase of unemployment has fallen sharply through this year and is likely to moderate further in the months ahead.
- Current account** 2.4 As forecast at the time of the Budget, the current account deficit is likely to halve this year, to £6½ billion. With domestic demand recovering and invisibles weakening further, a modest rise in the deficit, to around £9½ billion, is projected for 1992.
- Financial developments** 2.5 Over the past year sterling has traded close to the centre of its ERM range against the Deutschmark, while short-term interest rates have been reduced by $3\frac{1}{2}$ percentage points. M0 growth has moved into the upper half of its target range. The public sector borrowing requirement (PSBR) is now forecast to be around £10½ billion in 1991–92.
- World economy** 2.6 Growth in the world economy in 1991 is expected to be the weakest since 1982, $1\frac{1}{4}$ per cent for the G7. Growth should be stronger in 1992, at around $2\frac{1}{2}$ per cent, and inflation lower.
- Assumptions** 2.7 The Government's policy is to balance the budget over the economic cycle. The new public expenditure plans, together with the standard assumption of no change in tax rates other than those already announced, indexation of the tax allowances and bands, and revalorisation of excise duties, imply a PSBR in 1992–93 of about 3 per cent of GDP. The actual PSBR for 1992–93 will be set in the Budget. Oil prices are assumed to remain close to recent levels.

Table 2.1 Economic prospects: summary

	Percentage changes on a year earlier unless otherwise stated			
		Forecast		Average errors from past forecasts ¹
	1990	1991	1992	
GDP and domestic demand at constant prices				
Domestic demand	0	− 3	3	1¼
of which:				
Consumers' expenditure	1	− ¾	2½	1¼
General government consumption	2¾	2¼	1¾	¾
Fixed investment	− 2½	− 10¾	1¼	3½
Change in stockbuilding ²	− 1	− 1¼	¾	¾
(of which identified)	(− 1)	(− ½)	(½)	
Exports of goods and services	4¾	1¼	6	2
Imports of goods and services	1¼	− 2½	7½	3
Gross domestic product (average measure)	¾	− 2	2¼	1
Non-oil GDP	¾	− 2¼	2¼	1
Manufacturing output	− ½	− 4¼	3¼	1¾
Balance of payments current account (£ billion)	− 14½	− 6½	− 9½	6¾
Inflation				
Retail prices index (fourth quarter)	10	4	4	1½
Producer output prices (fourth quarter) ³	6¼	4¼	3½	1¼
GDP deflator at market prices (financial year) ⁴	8½	7	4½	1½
Money GDP at market prices (financial year)⁴	8¼	6	7½	1½
£ billion	555	588	631	
PSBR (financial year)				
£ billion	− ½	10½		3¾
per cent of GDP	0	1¾		¾

¹ Average errors regardless of sign over the last ten years; they apply to the forecast for 1992, except for the PSBR where they apply to the forecast for 1991–92

² Per cent of GDP

³ Excluding food, drink and tobacco

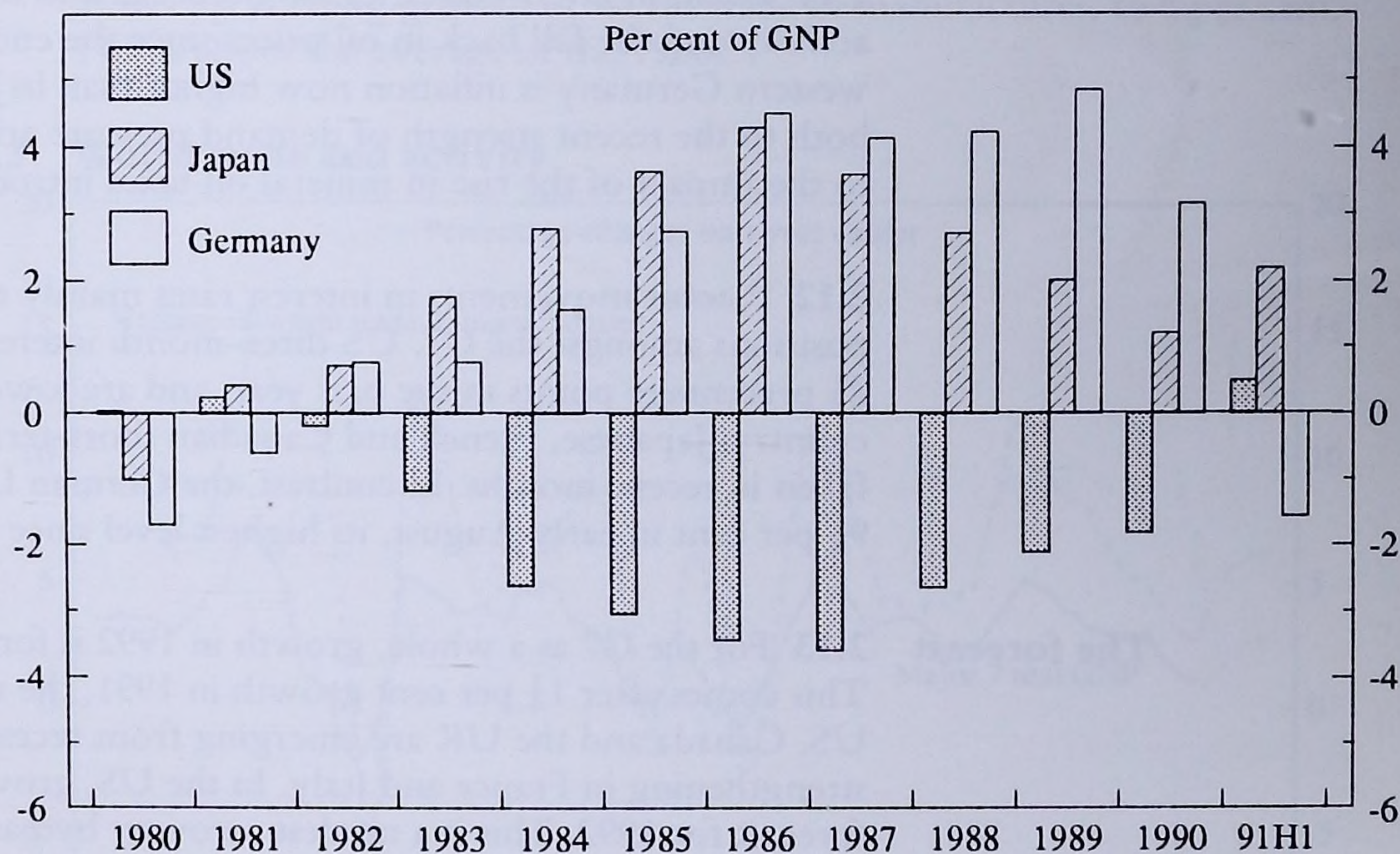
⁴ Estimates of money GDP and the GDP deflator for periods before the second quarter of 1990 have been adjusted to remove the discontinuity arising from the abolition of domestic rates

World economy

Recent developments 2.8 The weakening of activity in most G7 economies during 1990 was sustained into the first half of 1991. Output in the US, the UK and Canada continued to fall, and growth slowed in France and Italy as domestic demand slackened. Growth in Japan and western Germany was buoyant early in the year, but has now slowed in response to tight monetary policies and, in the case of western Germany, the weakening of the post-unification boom. Industrial production in both countries has been broadly unchanged since the beginning of the year.

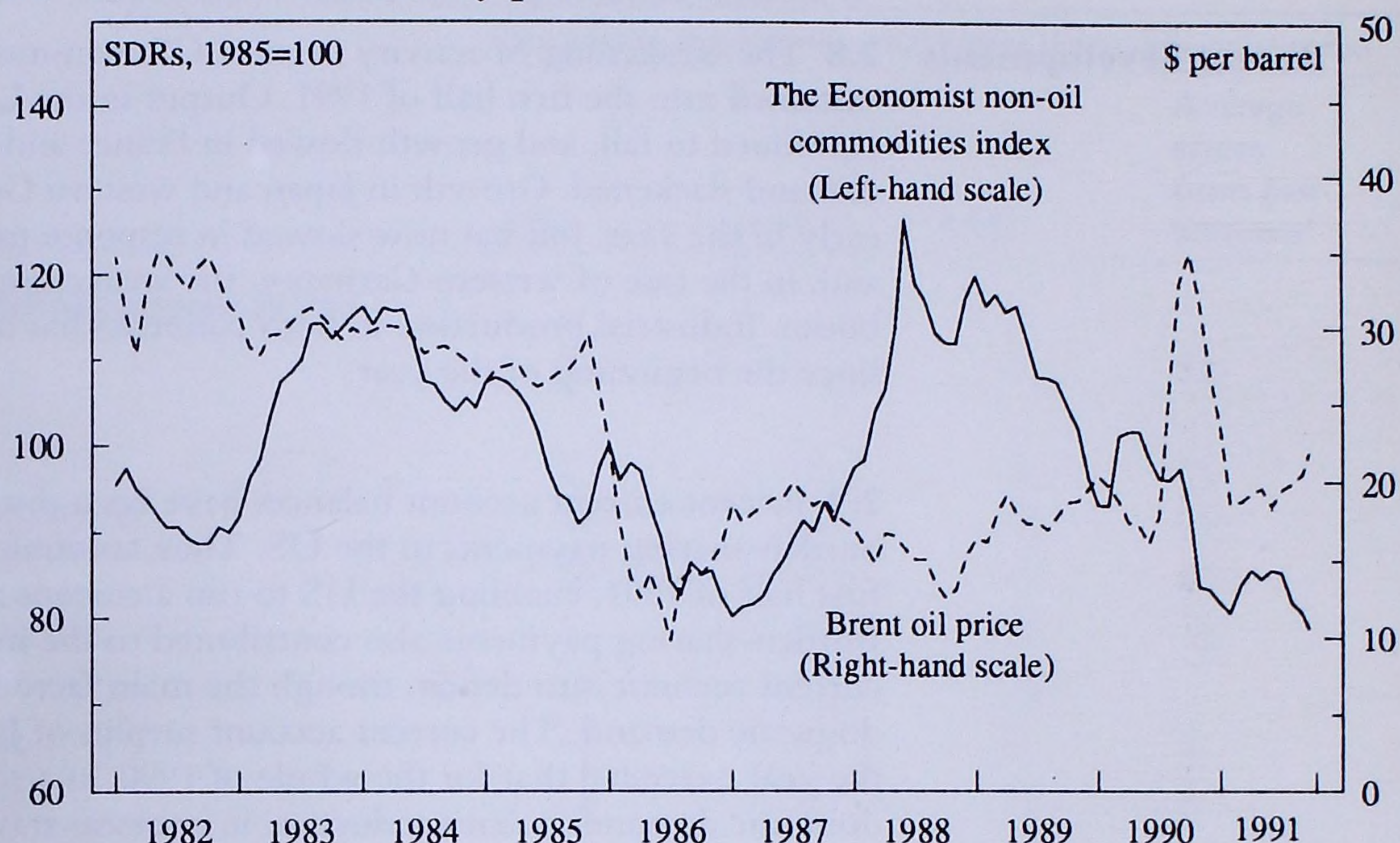
2.9 Recent current account balances have been distorted by Gulf war burden-sharing payments to the US. They amounted to \$34 billion in the first half of 1991, enabling the US to run a current account surplus. Burden-sharing payments also contributed to the move of the German current account into deficit, though the main factor was the rapid growth of domestic demand. The current account surplus of Japan in the first half of the year exceeded that for the whole of 1990, as a result of the slow-down in domestic demand, a sharp reduction in overseas travel and a stronger yen.

Chart 2.1 Current account balances



2.10 Non-oil commodity prices so far this year have been about 10–15 per cent below the average of last year. They are now exceptionally weak in real terms, about 25 per cent below the average of the 1980s. But oil prices have strengthened since mid-year, due, among other things, to worries about reduced Soviet supplies.

Chart 2.2 Nominal commodity prices



2.11 Inflation in G7 countries has moderated in the face of generally weaker activity and the fall back in oil prices since the end of last year. Only in western Germany is inflation now higher than in January of this year, due both to the recent strength of demand pressure arising from unification and to the impact of the rise in mineral oil taxes introduced in July.

2.12 Recent movements in interest rates mainly reflect the differing cyclical positions amongst the G7. US three-month interest rates have fallen by over $2\frac{1}{2}$ percentage points in the past year, and are lower than in any other G7 country. Japanese, French and Canadian short-term interest rates have also fallen in recent months. In contrast, the German Lombard rate was raised to $9\frac{1}{4}$ per cent in early August, its highest level since 1981.

The forecast **2.13** For the G7 as a whole, growth in 1992 is forecast to be $2\frac{1}{2}$ per cent. This comes after $1\frac{1}{4}$ per cent growth in 1991, the slowest since 1982. The US, Canada and the UK are emerging from recession, and activity is strengthening in France and Italy. In the US, growth of about $2\frac{1}{2}$ per cent is forecast for 1992. This is a modest recovery by past standards, reflecting the mildness of the recession, the current low saving ratio, and a more muted stock cycle than in the past. Growth is expected to slow briefly in Japan before faster growth resumes in the second half of 1992. GNP may be broadly unchanged in western Germany in the second half of this year. But growth is expected to resume slowly in 1992 as destocking comes to an end and net trade volumes improve with the lower pressure of domestic demand.

2.14 Total world trade rose by just over 4 per cent in 1990, but growth is expected to slow dramatically in 1991, to about 1 per cent. This is largely due to the collapse of trade both to and from the former centrally planned economies of Eastern Europe, including the USSR. These countries account

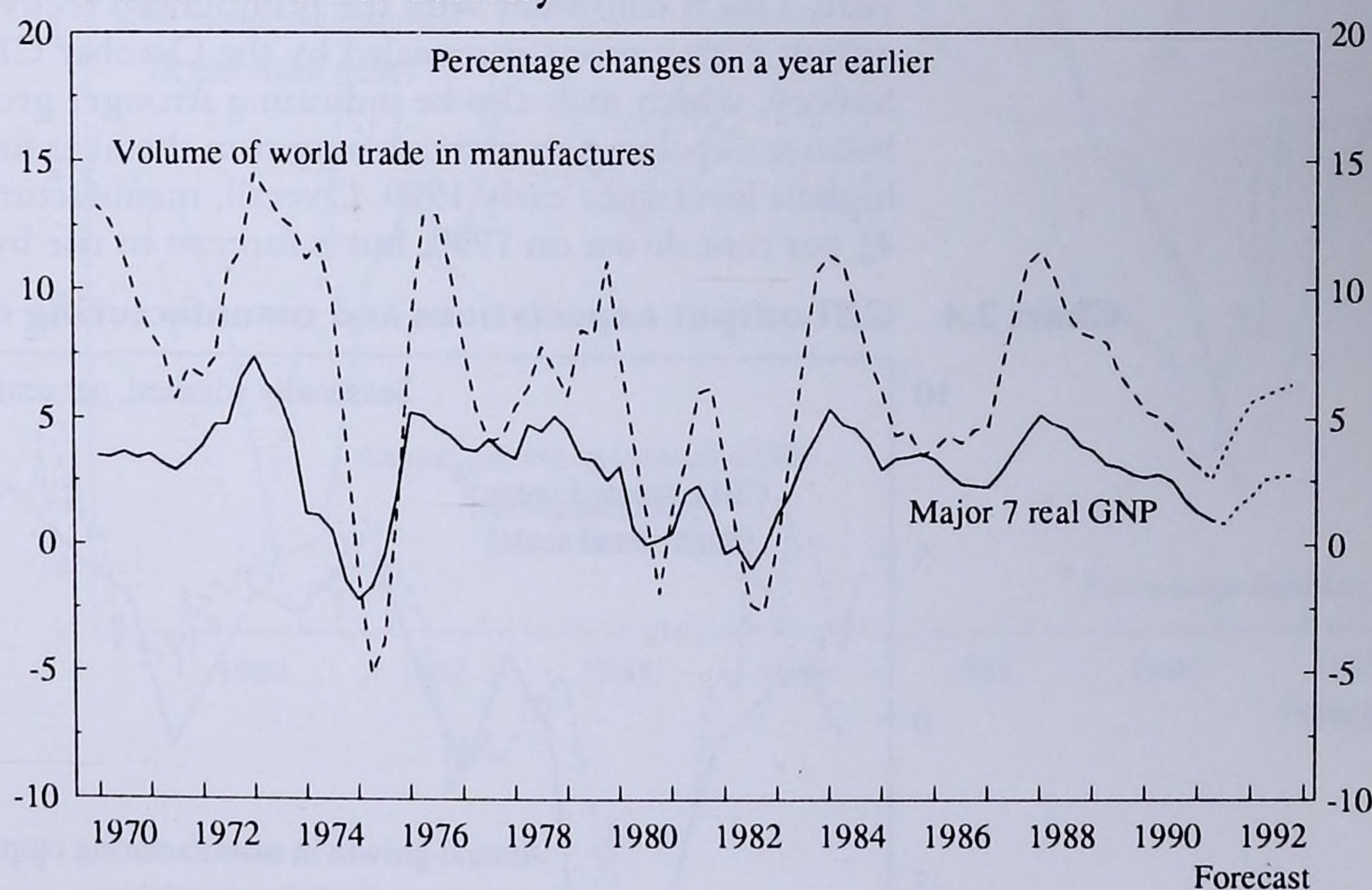
Table 2.2 World economy

	Percentage changes on previous year		
		Forecast	
	1990	1991	1992
<i>Major seven countries¹</i>			
Real GNP	2½	1¼	2½
Domestic demand	2¼	¾	2¾
Industrial production	1¾	-¼	3¼
Consumer price inflation	5	4¼	3¾
<i>World trade, at constant prices</i>			
Total imports	4¼	1	4¾
Trade in manufactures ²	5	3¼	6

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

² Trade in manufactures is based on a UN series for market economies and therefore excludes exports from former centrally planned economies

for very little of UK exports. A better guide to the prospects for UK exports therefore is provided by a measure of world trade in manufactures based only on the trade of 'market economies'. Growth in this measure of world trade also slowed in 1991, but by less than total world trade. Nevertheless, growth of world trade in manufactures this year, at just 3¼ per cent, would be the slowest since 1982. Trade in manufactures tends to follow the path of G7 activity closely, so the general recovery in activity forecast for 1992 shows up in rising growth of world trade in manufactures, to 6 per cent. This is about the average of the 1980s.

Chart 2.3 World trade and activity

2.15 The forecast assumes that the Brent oil price averages \$21 a barrel, close to its recent level, and that other commodity prices are broadly constant in real terms. This, together with generally tight monetary policies and the easing of demand pressures in Japan and Germany, provides a favourable background to inflation. The forecast is for consumer price inflation in the G7 countries to fall back to about 3½ per cent early next year, before rising a little through the remainder of the year.

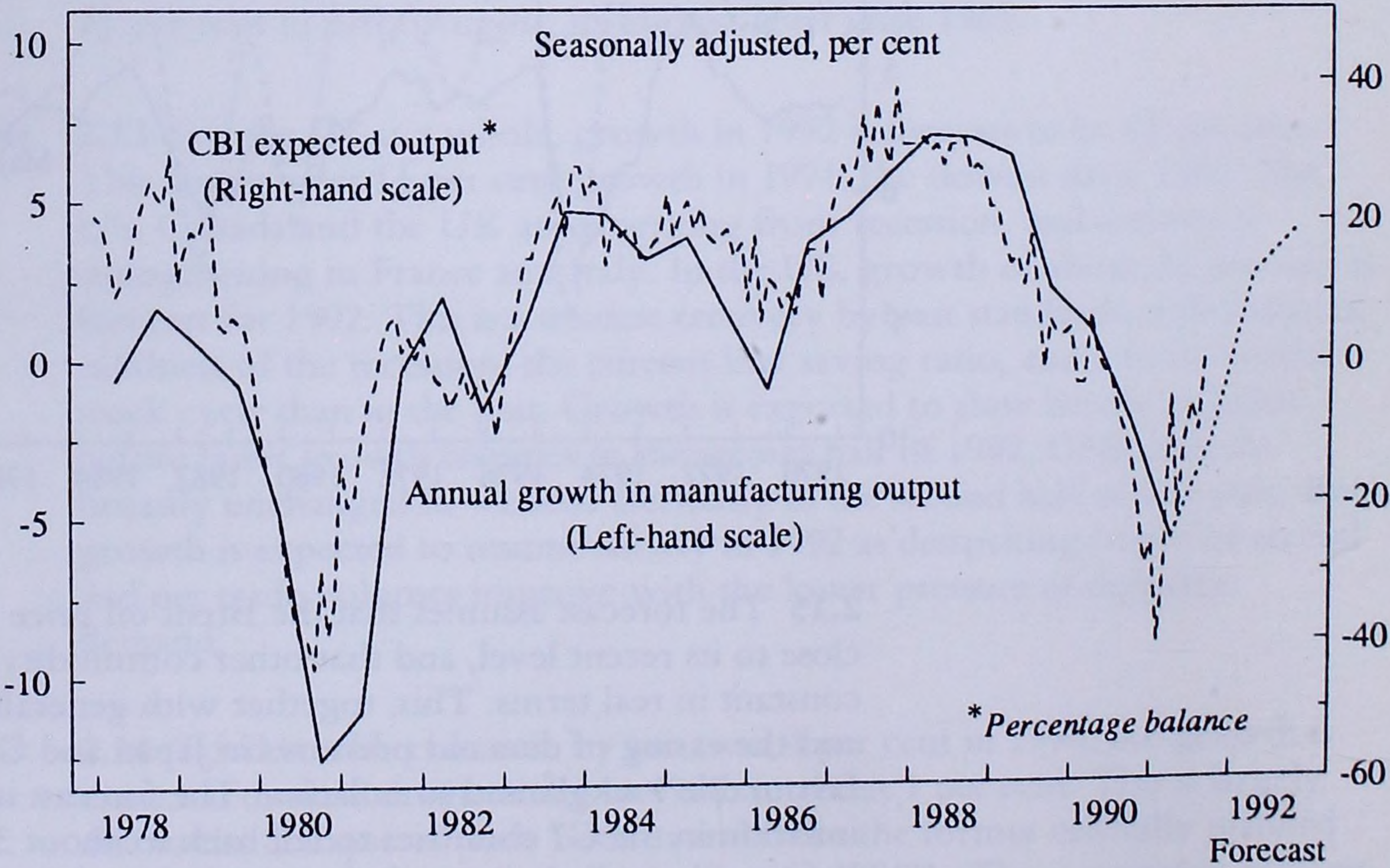
2.16 The prospective current account balances for 1992 mirror the forecasts of growth and domestic demand. The US is expected to move back into deficit of about 1 per cent of GNP, well down on the levels of recent years. Slower domestic demand growth in Germany leads to a surplus in 1992 after a small deficit for 1991 as a whole. The Japanese surplus is expected to be about 2 per cent of GNP both this year and next, almost double that in 1990 but well below the average in the second half of the 1980s.

UK demand and output

2.17 Over the past year the economy has been adjusting to the excessive growth of domestic demand in the late 1980s and the associated rapid rise in personal and corporate sector borrowing. Both personal consumption and business spending on investment and stocks have fallen. As a result, GDP fell by $3\frac{3}{4}$ per cent in the year to the second quarter of 1991. The fall was slightly exacerbated by depressed oil and gas production, the result of safety-related maintenance and investment following the accidents in recent years. Non-oil GDP fell by about $3\frac{1}{4}$ per cent in the year to the second quarter of 1991. But, as expected at Budget-time, the pace of recession has moderated sharply through this year.

2.18 Within the total, service sector output was flat in the second quarter, perhaps suggesting an earlier end to recession there than in the economy as a whole. Manufacturing output, on the other hand, fell in the second quarter to a level some $6\frac{1}{2}$ per cent lower than a year earlier. But the fall in manufacturing output has been less pronounced relative to total output than in the recession of the early 1980s. Again, we are probably past the low point and manufacturing output may rise by $\frac{1}{2}$ per cent in the second half of the year. This is consistent with the pronounced recovery in manufacturers' own output expectations as revealed by the October CBI Industrial Trends Survey, which may also be indicating stronger growth early next year. The balance expecting to increase output in the next four months was at its highest level since early 1990. Overall, manufacturing output in 1991 may be $4\frac{1}{4}$ per cent down on 1990, but is forecast to rise by $3\frac{1}{4}$ per cent in 1992.

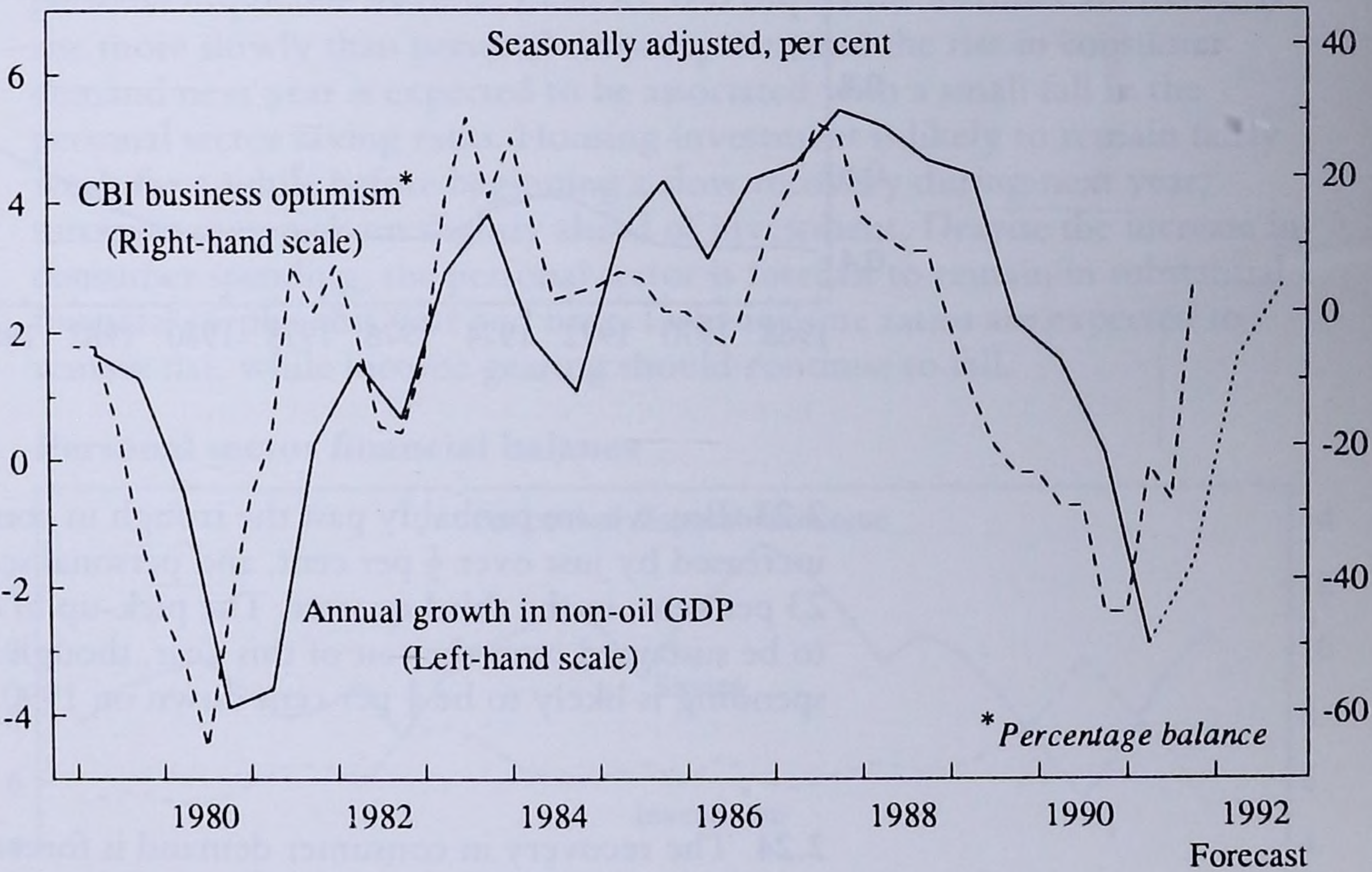
Chart 2.4 CBI output expectations and manufacturing output



2.19 GDP is likely to fall by about 2 per cent in 1991, in line with expectations at Budget-time. However, we are probably now past the trough and activity may already have started to pick up. Output is expected to show a small rise in the second half of this year, perhaps up by $\frac{3}{4}$ per cent on the first half of the year, with some recovery in consumer spending, slower rates of destocking and a rise in exports. Growth should gather pace next year with GDP expected to rise by $2\frac{1}{4}$ per cent in 1992, and by $2\frac{3}{4}$ per cent in the year to the second half of 1992.

2.20 The overall prospect for non-oil GDP for the second half of this year and 1992 is consistent with recent developments in business optimism as measured by the CBI Industrial Trends Survey. This series shows a fairly close correlation with annual growth rates of non-oil GDP. The sharp fall in business confidence in October last year turned out to be a reliable forward indicator of the course of the impending recession. The steep recovery in business optimism since January, especially the sharp rise in the October Survey, now provides correspondingly strong support for the prospect of a pick-up in activity.

Chart 2.5 CBI business optimism and non-oil GDP



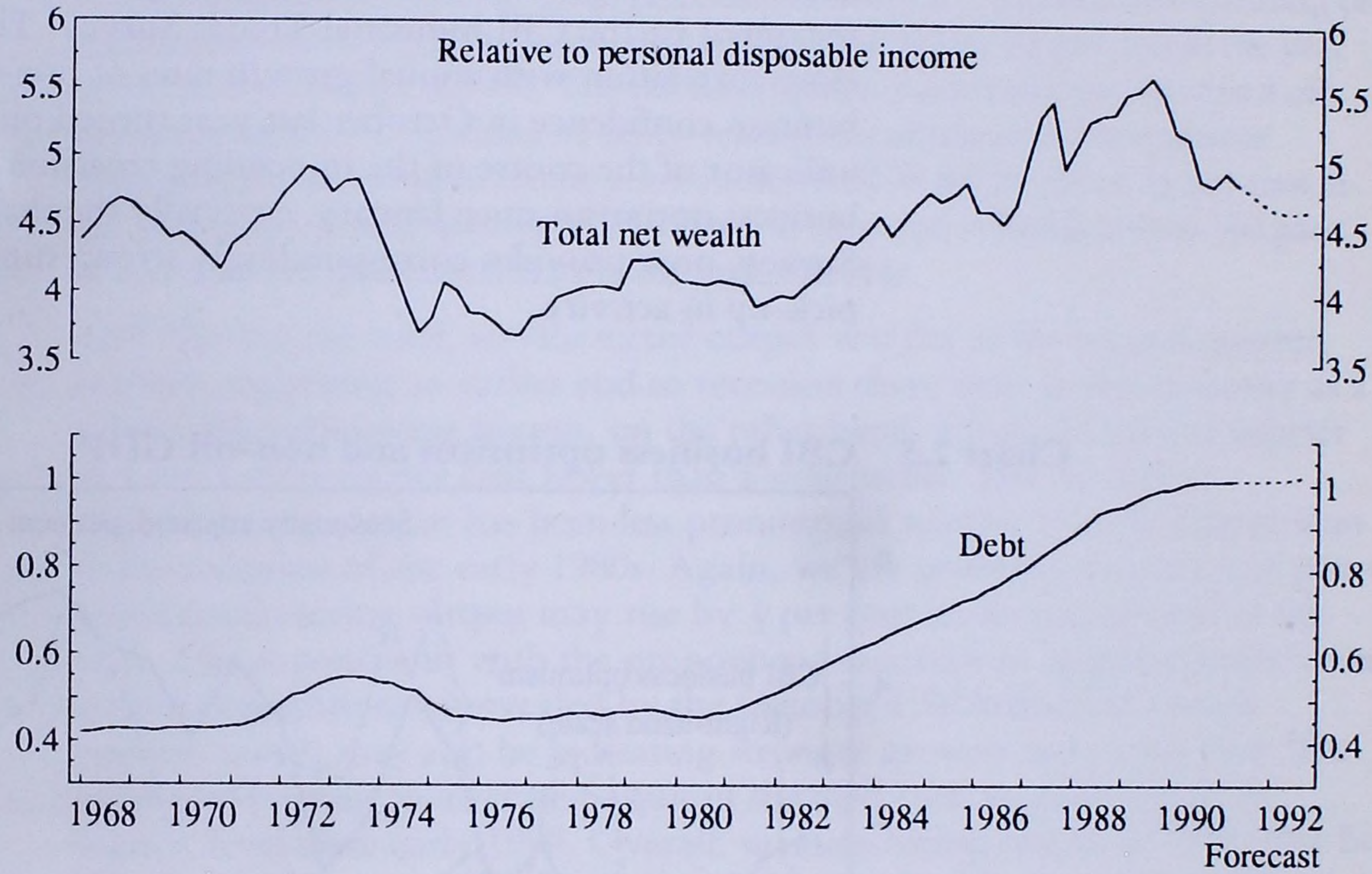
Domestic expenditure

Personal sector

2.21 Consumers' expenditure rose by an average $5\frac{1}{2}$ per cent a year between 1986 and 1989, boosted by high confidence, rising employment and real incomes, and the boom in asset prices which led to a sharp rise in personal sector wealth. This rapid growth in consumer demand was associated with a fall in the saving ratio and, with housing investment also increasing strongly, the personal sector went into financial deficit and personal borrowing rose strongly.

2.22 Such a financial situation was unsustainable and the personal sector reacted to the tightening of monetary policy in 1988 and 1989 by increasing saving and cutting consumption and housing investment. Consumer spending is estimated to have fallen by $1\frac{3}{4}$ per cent between mid-1990 and mid-1991, and housing investment by 24 per cent over the same period. As a result, the personal sector was back in its more traditional position of financial surplus by 1990, debt-income ratios had stabilised after a decade of rapid increase, and income gearing (short-term interest payments as a share of personal disposable income) started to fall.

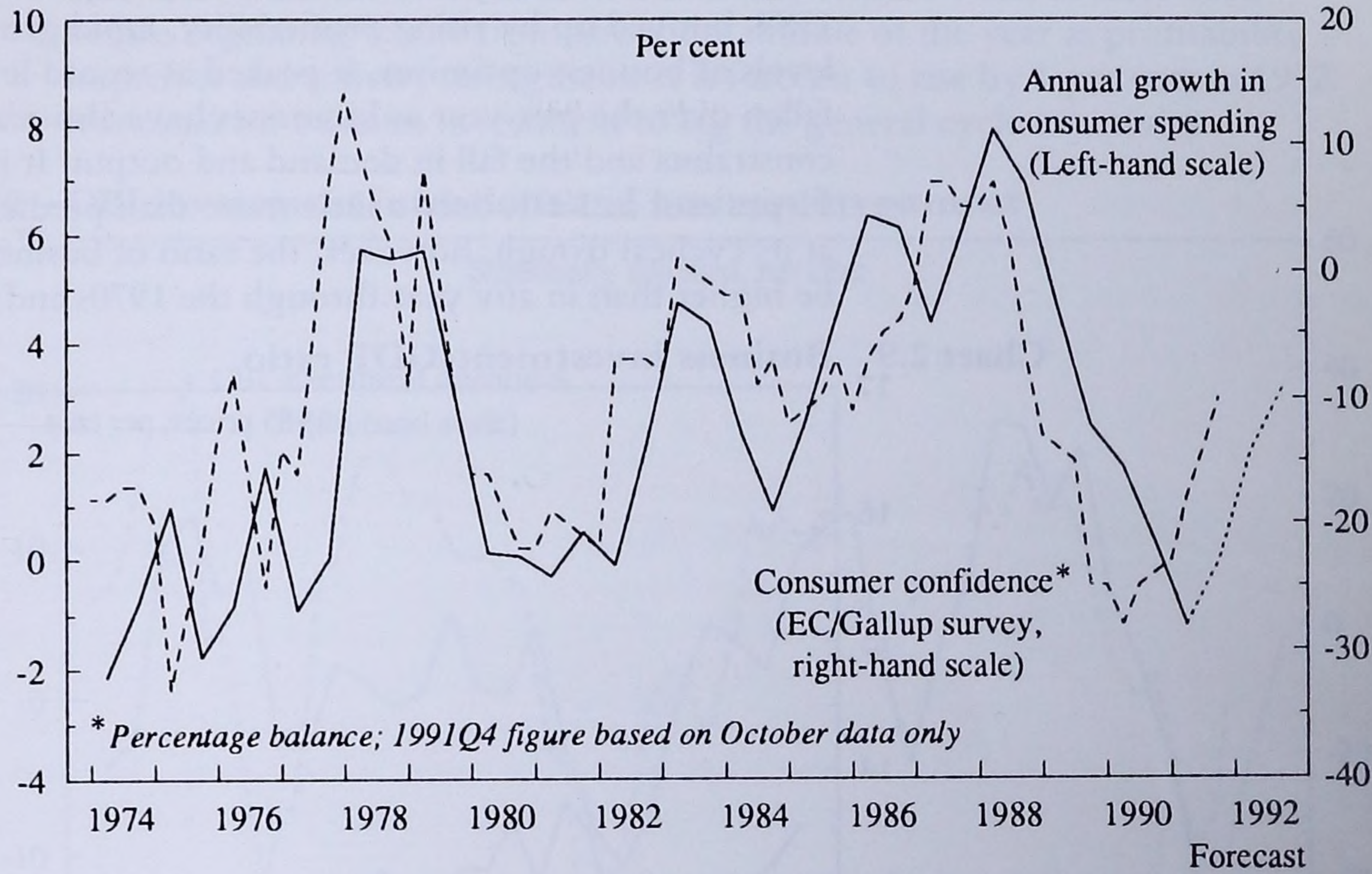
Chart 2.6 Personal sector wealth and debt



2.23 But we are probably past the trough in consumer spending. Retail sales increased by just over $\frac{1}{2}$ per cent, and personal sector car registrations by 23 per cent, in the third quarter. The pick-up in consumer demand is likely to be sustained over the rest of this year, though for the year as a whole spending is likely to be $\frac{3}{4}$ per cent down on 1990.

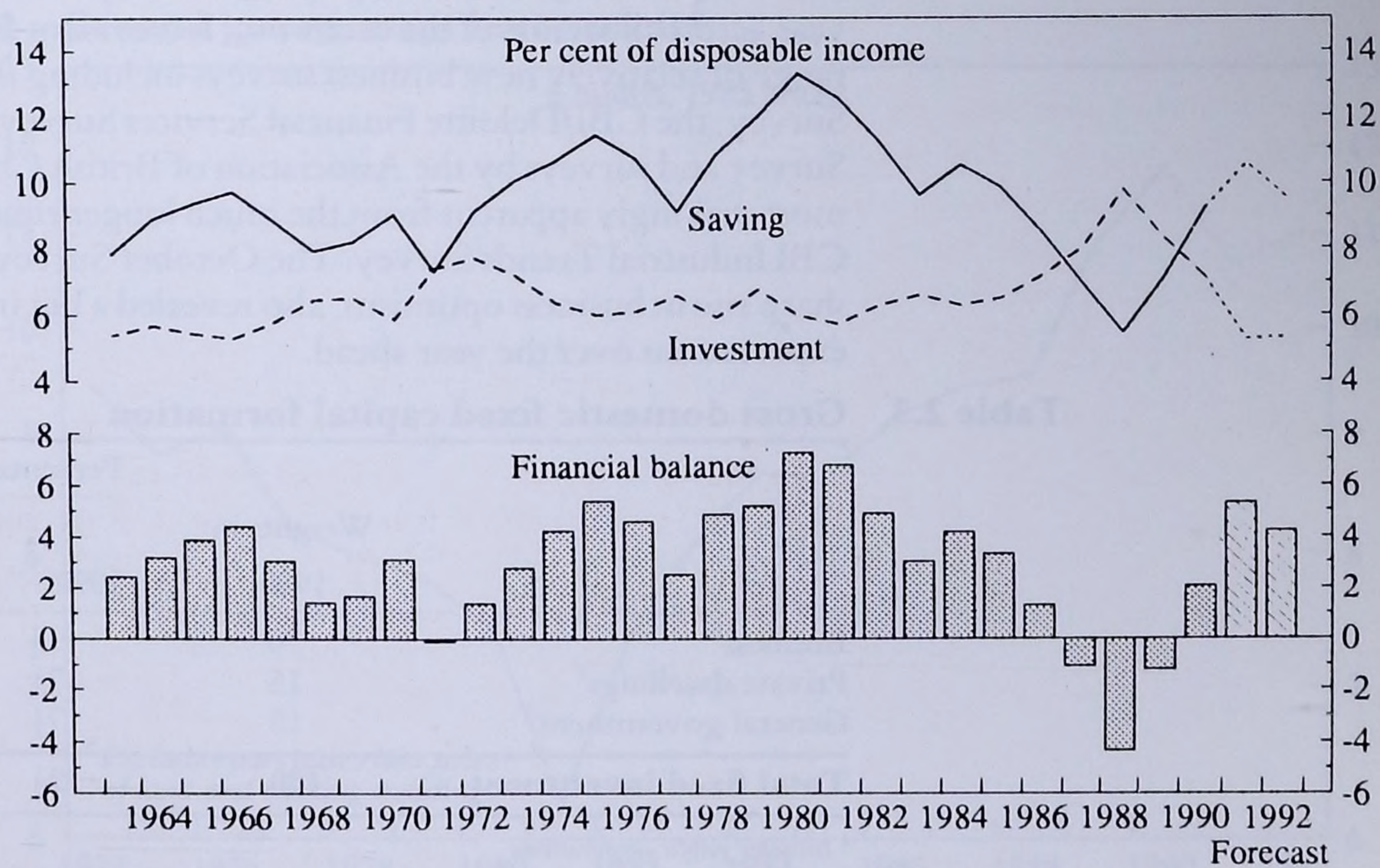
2.24 The recovery in consumer demand is forecast to gather pace, with spending up by $2\frac{1}{2}$ per cent in 1992. Consumer confidence has been rising steadily over the past year in response to falling interest rates and improved inflation expectations. It is now back to its long run average level and is expected to rise further as inflation expectations improve further and as the trend monthly rise in unemployment continues to abate.

Chart 2.7 Consumer confidence and consumer spending



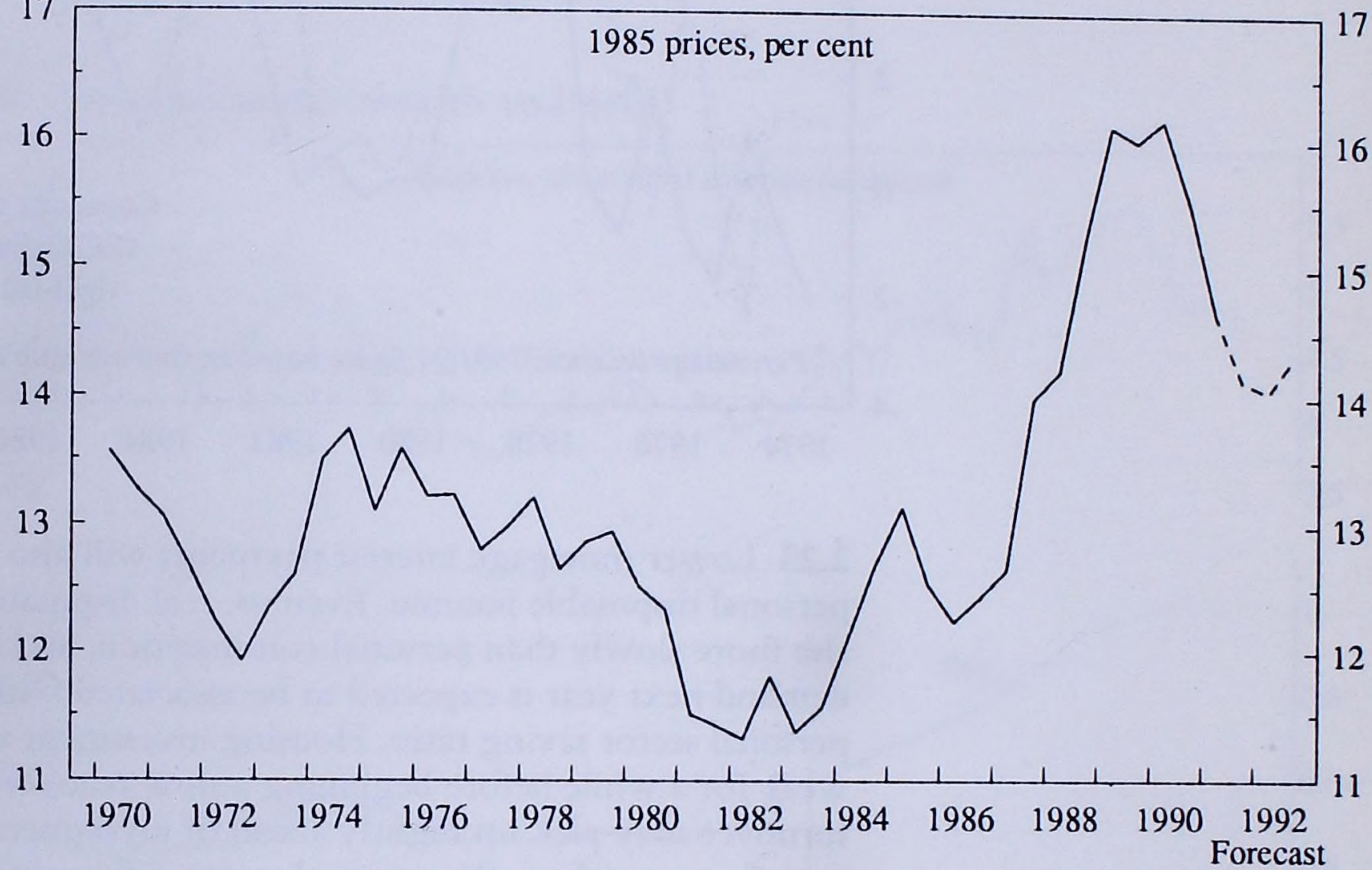
2.25 Lower mortgage interest payments will also give some boost to personal disposable income. Even so, real disposable incomes are likely to rise more slowly than personal consumption, and the rise in consumer demand next year is expected to be associated with a small fall in the personal sector saving ratio. Housing investment is likely to remain fairly weak for a while before beginning a slow recovery during next year; turnover may pick up slightly ahead of investment. Despite the increase in consumer spending, the personal sector is forecast to remain in substantial financial surplus this year and next. Debt-income ratios are expected to remain flat, while income gearing should continue to fall.

Chart 2.8 Personal sector financial balance



Business investment 2.26 Business investment rose by nearly 45 per cent in the three years to 1989, buoyed up by rising profitability, rapid growth in output, and high levels of business optimism. It peaked at record levels in early 1990, but has fallen over the past year as businesses have also reacted to financial constraints and the fall in demand and output. It is likely to fall by about 11 per cent in 1991, only a little more than predicted at Budget-time. Even at its cyclical trough, however, the ratio of business investment to GDP will be higher than in any year through the 1970s and the first half of the 1980s.

Chart 2.9 Business investment-GDP ratio



2.27 Moreover, there are plenty of indicators of an impending end to the business investment recession. Construction new orders have been on a rising trend for the past six months and this should soon translate into new investment. Most importantly, business optimism has improved substantially through this year across all sectors of the economy. It is evident from responses to a whole range of relatively new business surveys including the CBI Distributive Trades Survey, the CBI/Deloitte Financial Services Survey, the Institute of Directors Survey and surveys by the Association of British Chambers of Commerce. It is most strikingly apparent from the much longer running and well-established CBI Industrial Trends Survey. The October Survey, as well as showing a very sharp rise in business optimism, also revealed a big improvement in investment expectations over the year ahead.

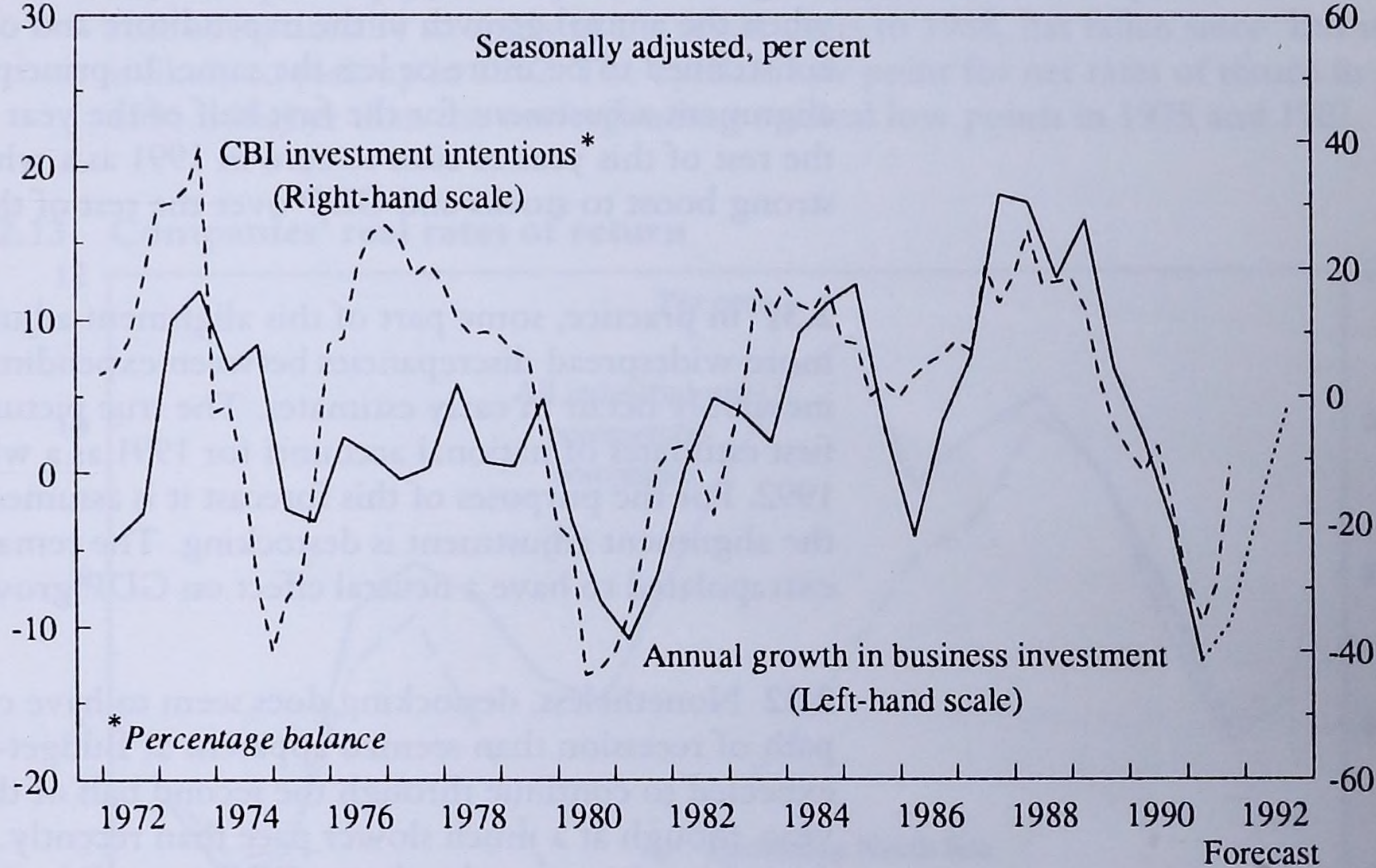
Table 2.3 Gross domestic fixed capital formation

	Weights in	Percentage changes on previous year		
			Forecast	
	1990	1990	1991	1992
Business ¹	70	− ½	− 11	1
Private dwellings ²	15	− 17¼	− 10½	1
General government ³	15	7½	− 9½	3¾
Total fixed investment	100	− 2½	− 10¾	1¼

¹ Includes public corporations
² Includes purchases less sales of land and existing buildings for the whole economy
³ Excludes purchases less sales of land and existing buildings

2.28 Nevertheless, business investment may remain weak in early 1992 before beginning to rise from about the middle of the year as profitability improves and activity strengthens. It is forecast to rise by 1 per cent in 1992. It is usual for business investment to lag the general cycle in activity.

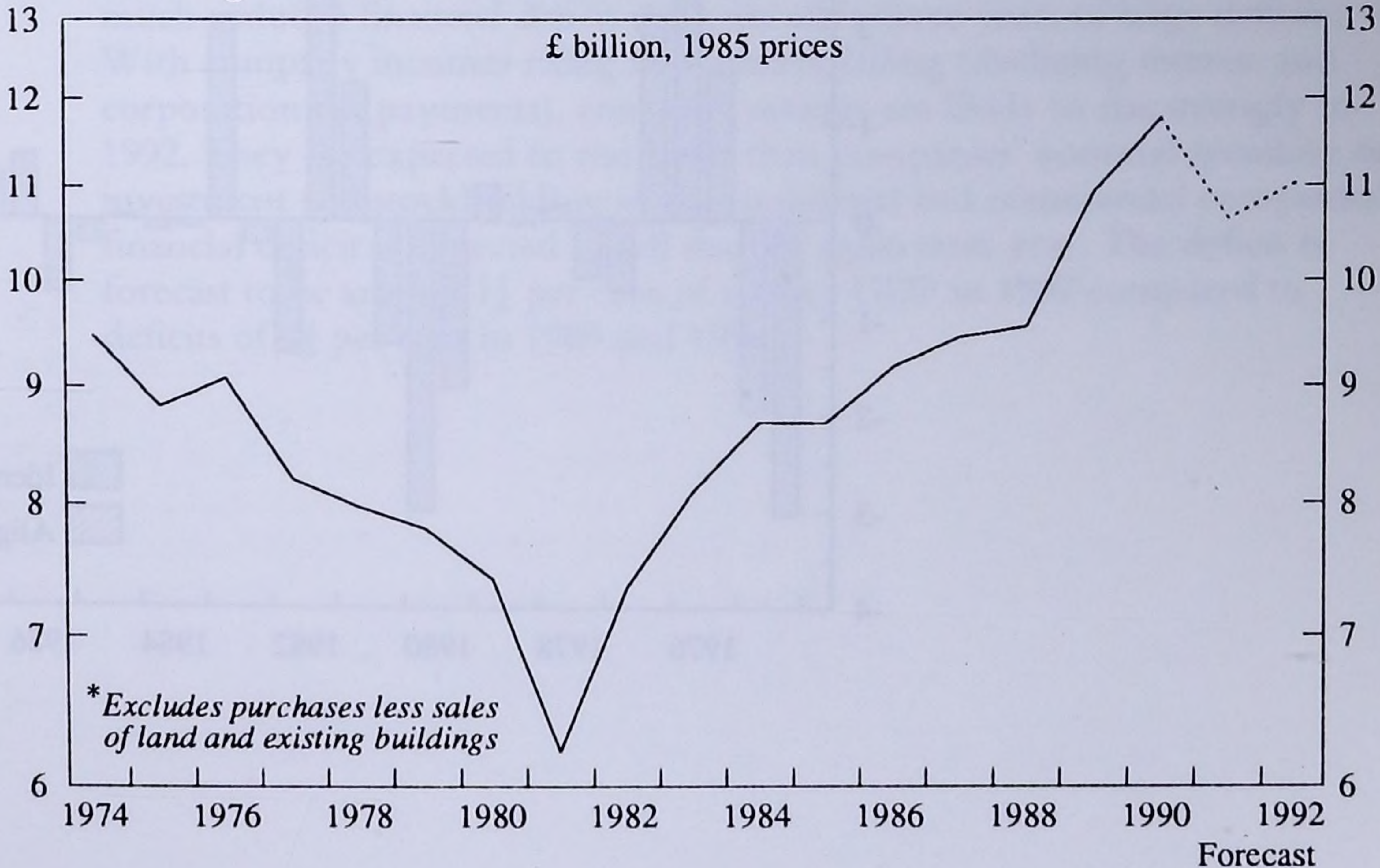
Chart 2.10 CBI investment intentions and business investment



General government investment

2.29 The volume of general government investment is expected to fall in 1991 as local authority investment continues to drop back from the exceptionally high levels reached in 1989. Despite this, general government investment will be higher in 1991 in volume terms than in any year since the early 1970s, except for 1989 and 1990. General government investment is forecast to rise in 1992.

Chart 2.11 General government investment*

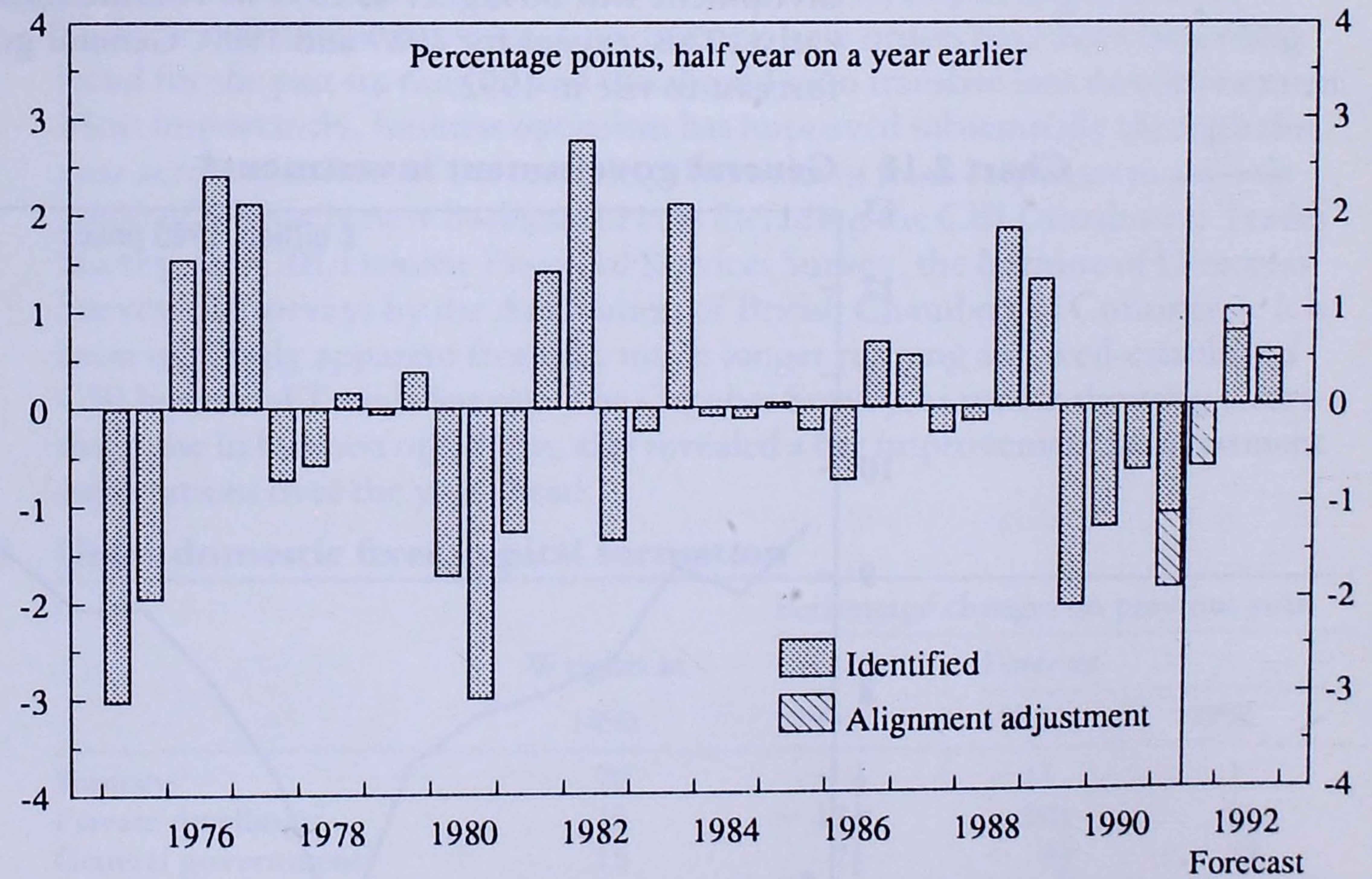


Stockbuilding 2.30 Stockbuilding data remain difficult to interpret. The CSO's provisional estimates for the first half of this year suggest destocking of £3¼ billion (1985 prices) of which some £1½ billion represent an alignment adjustment. The adjustment brings the quarterly movements of the expenditure measure of GDP into line with the more reliably measured output estimate. By design, they should disappear when full year estimates are available for 1991, when the annual growth in the expenditure and output measures will be constrained to be more or less the same. In principle, therefore, the alignment adjustment for the first half of the year should be unwound over the rest of this year to sum to zero in 1991 as a whole. This would imply a strong boost to stocks and GDP over the rest of the year.

2.31 In practice, some part of this alignment adjustment may represent more widespread discrepancies between expenditure and output which inevitably occur in early estimates. The true picture may not emerge until first estimates of national accounts for 1991 as a whole are available in March 1992. For the purposes of this forecast it is assumed that only £½ billion of the alignment adjustment is destocking. The remaining £1 billion has been extrapolated to have a neutral effect on GDP growth.

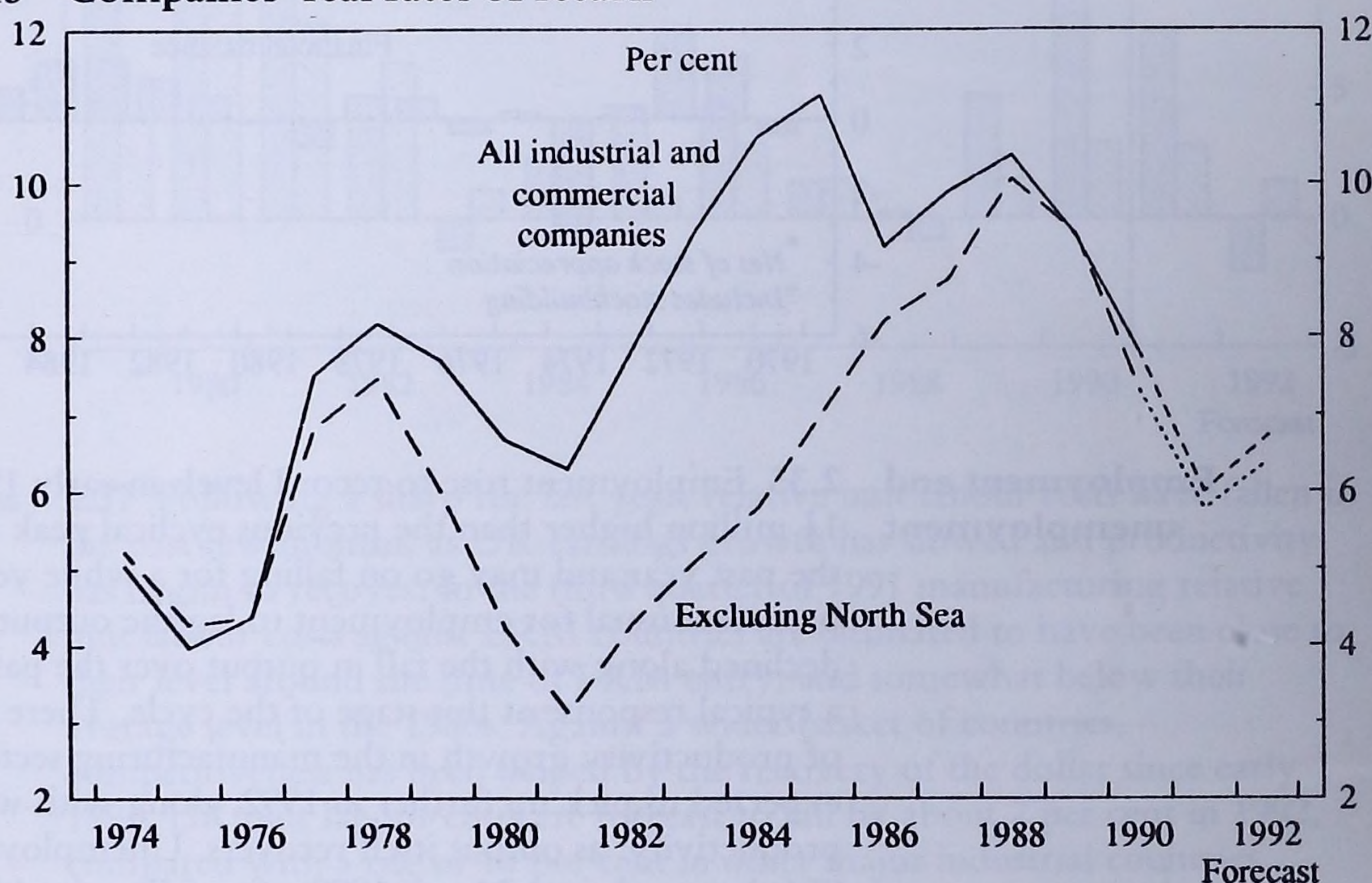
2.32 Nonetheless, destocking does seem to have contributed more to the path of recession than seemed apparent at Budget-time. Destocking is expected to continue through the second half of this year and early next year, though at a much slower pace than recently. The much-reduced rate of destocking is expected to boost GDP growth in the second half of this year and through 1992.

Chart 2.12 Contribution of stockbuilding to GDP growth



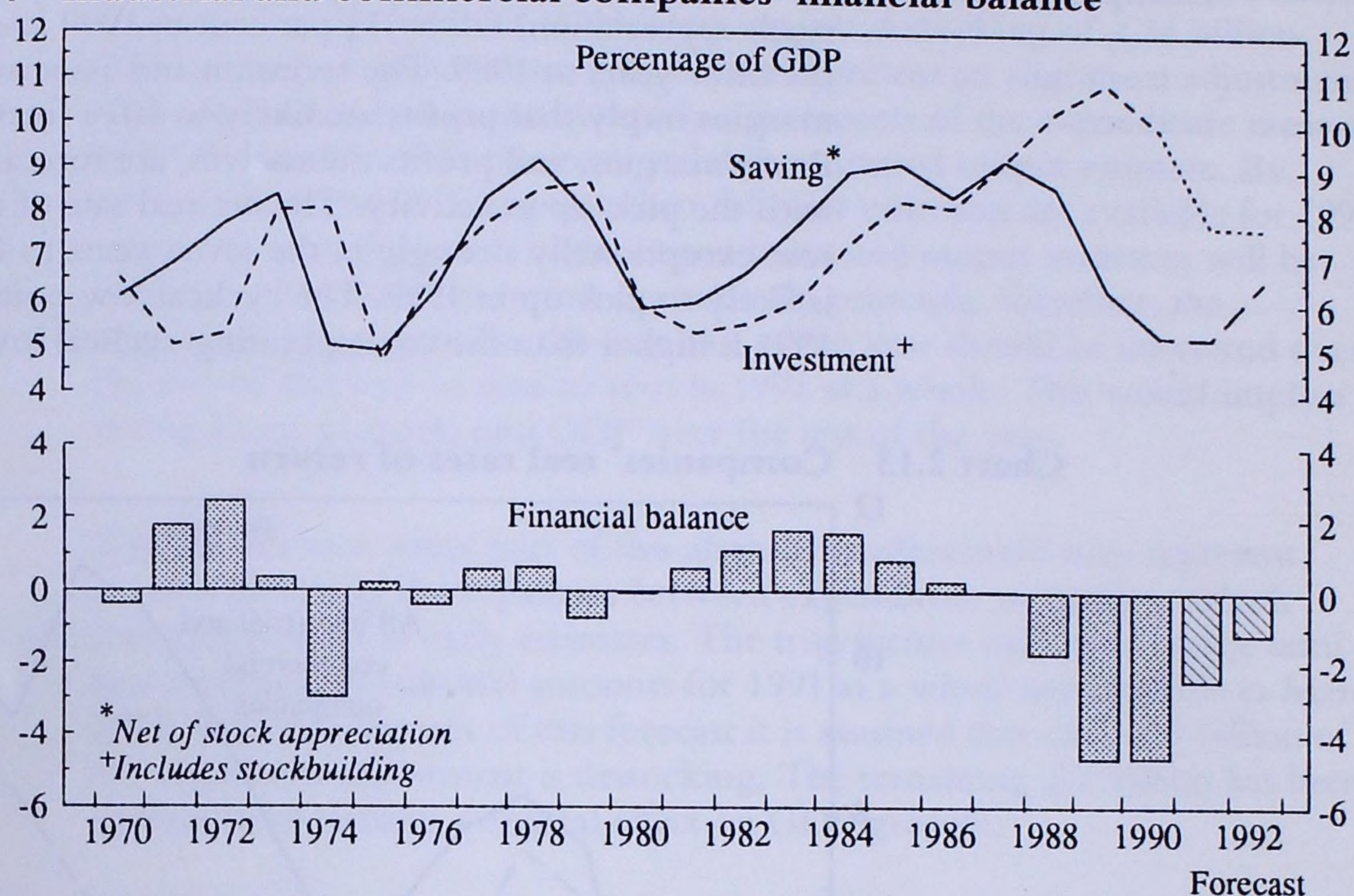
Company finances 2.33 Non-North Sea industrial and commercial companies' profits (net of stock appreciation) fell by $1\frac{1}{4}$ per cent in 1990 after rising by 45 per cent in the three years to 1989. The recession and associated squeeze on profit margins imply that profits are likely to fall a further $2\frac{3}{4}$ per cent in 1991. Profit margins, and profits themselves, are forecast to recover in 1992 along with the pick-up in activity. The net real rate of return on capital, which rose exceptionally strongly in the seven years to 1988, has fallen since. But it is likely to pick up in 1992. The cyclical low point for net rates of return in 1991 is higher than the corresponding cyclical low points in 1975 and 1981.

Chart 2.13 Companies' real rates of return



2.34 Industrial and commercial companies are likely to show a much-reduced financial deficit this year after three years of large deficits. With company incomes rising and outlays falling (declining interest and corporation tax payments), company savings are likely to rise strongly in 1992. They are expected to rise faster than companies' nominal spending on investment and stockbuilding so that industrial and commercial companies' financial deficit is expected to fall sharply again next year. The deficit is forecast to be around $1\frac{1}{4}$ per cent of money GDP in 1992 compared to deficits of $4\frac{3}{4}$ per cent in 1989 and 1990.

Chart 2.14 Industrial and commercial companies' financial balance



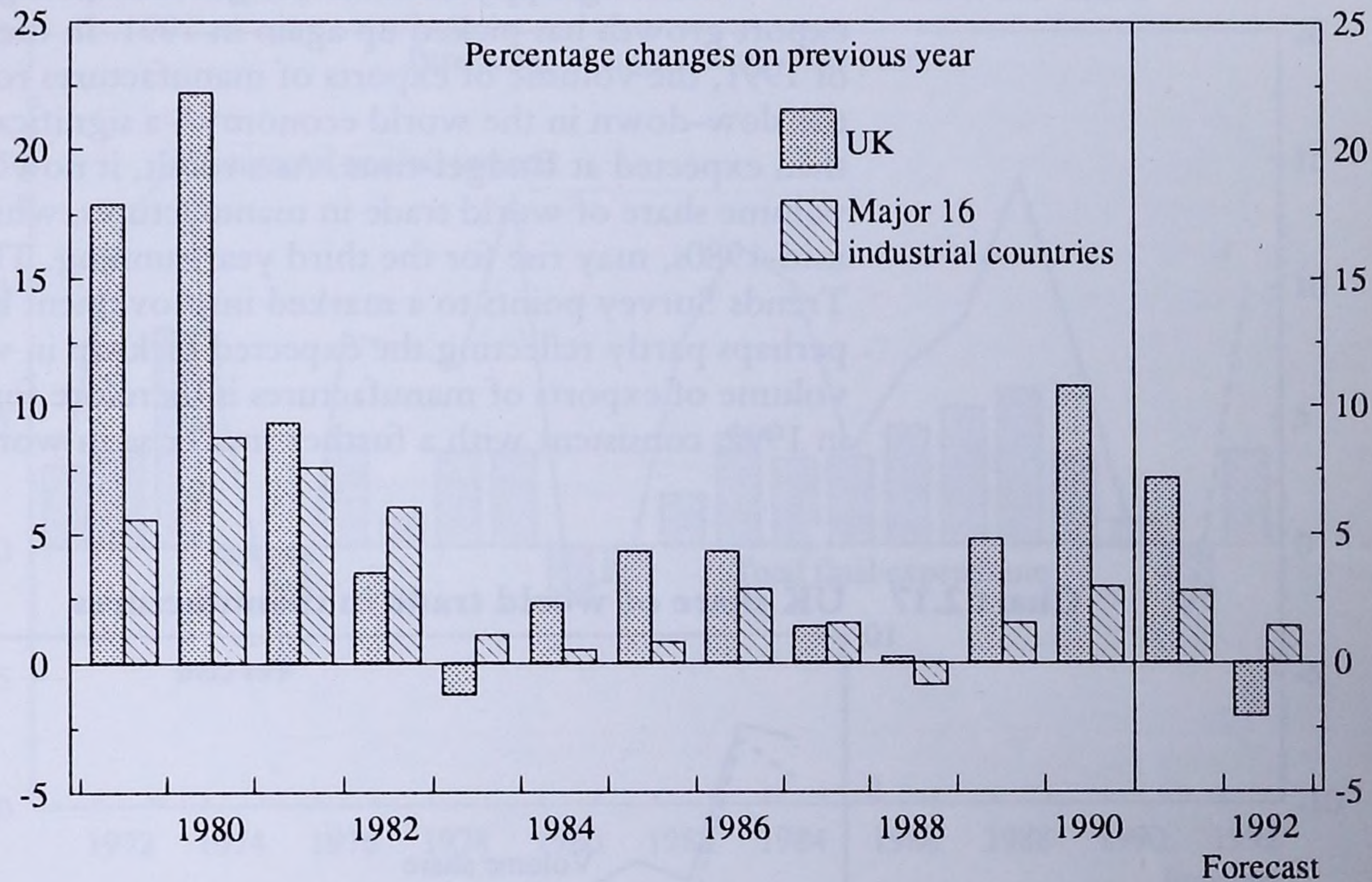
Employment and unemployment

2.35 Employment rose to record levels in early 1990 when it was some $1\frac{1}{2}$ million higher than the previous cyclical peak in 1979. It has fallen over the past year and may go on falling for a while yet, though at a moderating pace. It is usual for employment to lag the output cycle. Productivity has declined along with the fall in output over the past year, again a typical response at this stage of the cycle. There are more recent signs of productivity growth in the manufacturing sector picking up. It is expected to pick up further in 1992, along with whole economy productivity, as output itself recovers. Unemployment has risen by 854 thousand since March 1990, after falling by $1\frac{1}{2}$ million over the previous four years. But the monthly rise in unemployment has abated sharply through this year, from a peak monthly rise of 111 thousand in March to 36 thousand in September. The trend monthly rise in unemployment is likely to moderate further in the months ahead.

Trade and the balance of payments

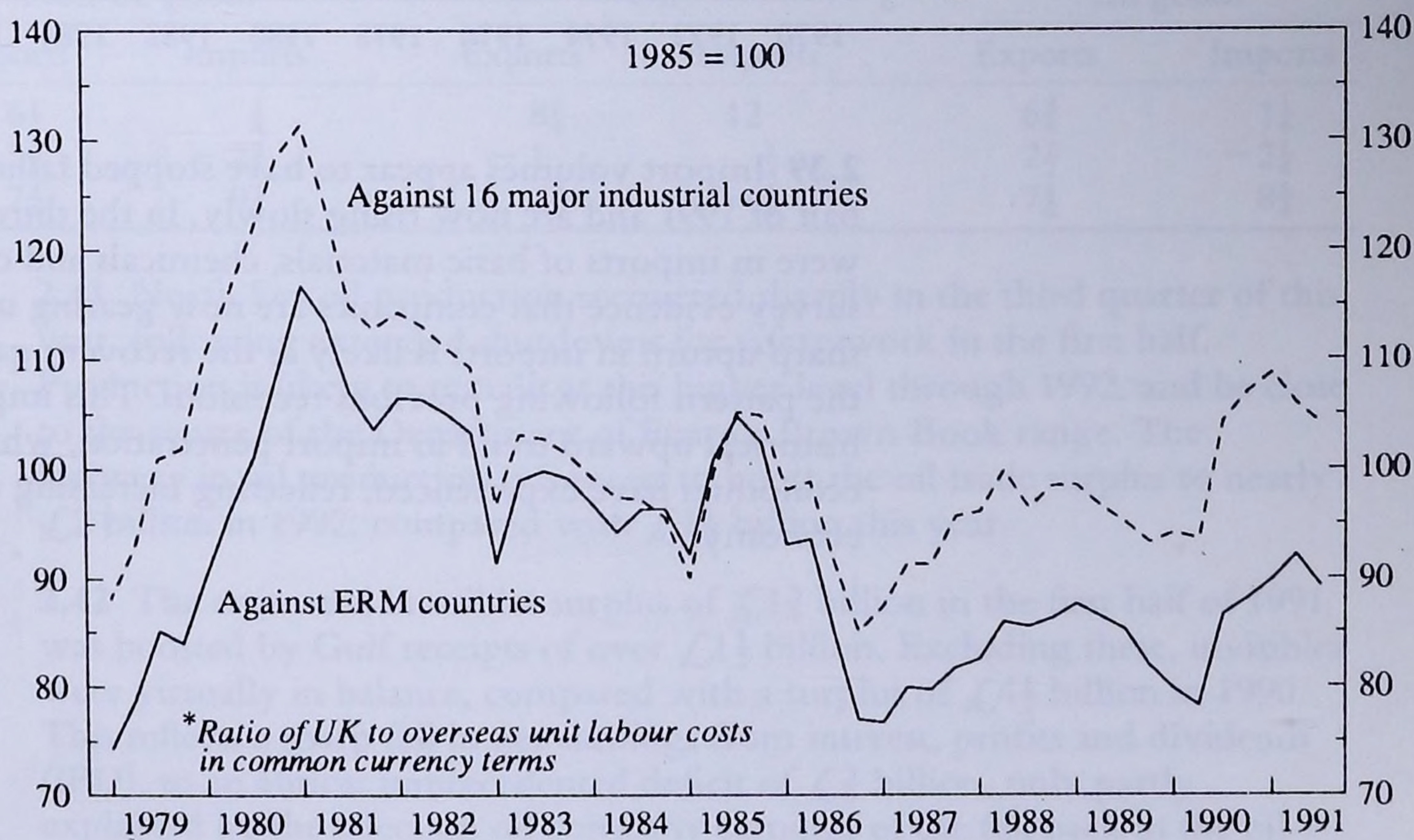
2.36 The current account is estimated to have been in deficit by $\pounds 4\frac{3}{4}$ billion in the first three quarters of 1991. The visible trade deficit fell sharply to $\pounds 2$ billion in the third quarter, half the level of a year earlier, as a result of both higher exports and lower imports. The deficit on trade in manufactures was only $\pounds \frac{3}{4}$ billion in the six months to September, compared with $\pounds 11\frac{1}{2}$ billion in the whole of 1990; in June and July a small surplus was recorded, the first since 1982. However, improvements in the visibles account were partly offset by a deterioration in invisibles earnings in the first half of 1991, despite the benefit of financial contributions from other governments to the UK's Gulf expenditure.

Chart 2.15 Unit labour costs in manufacturing



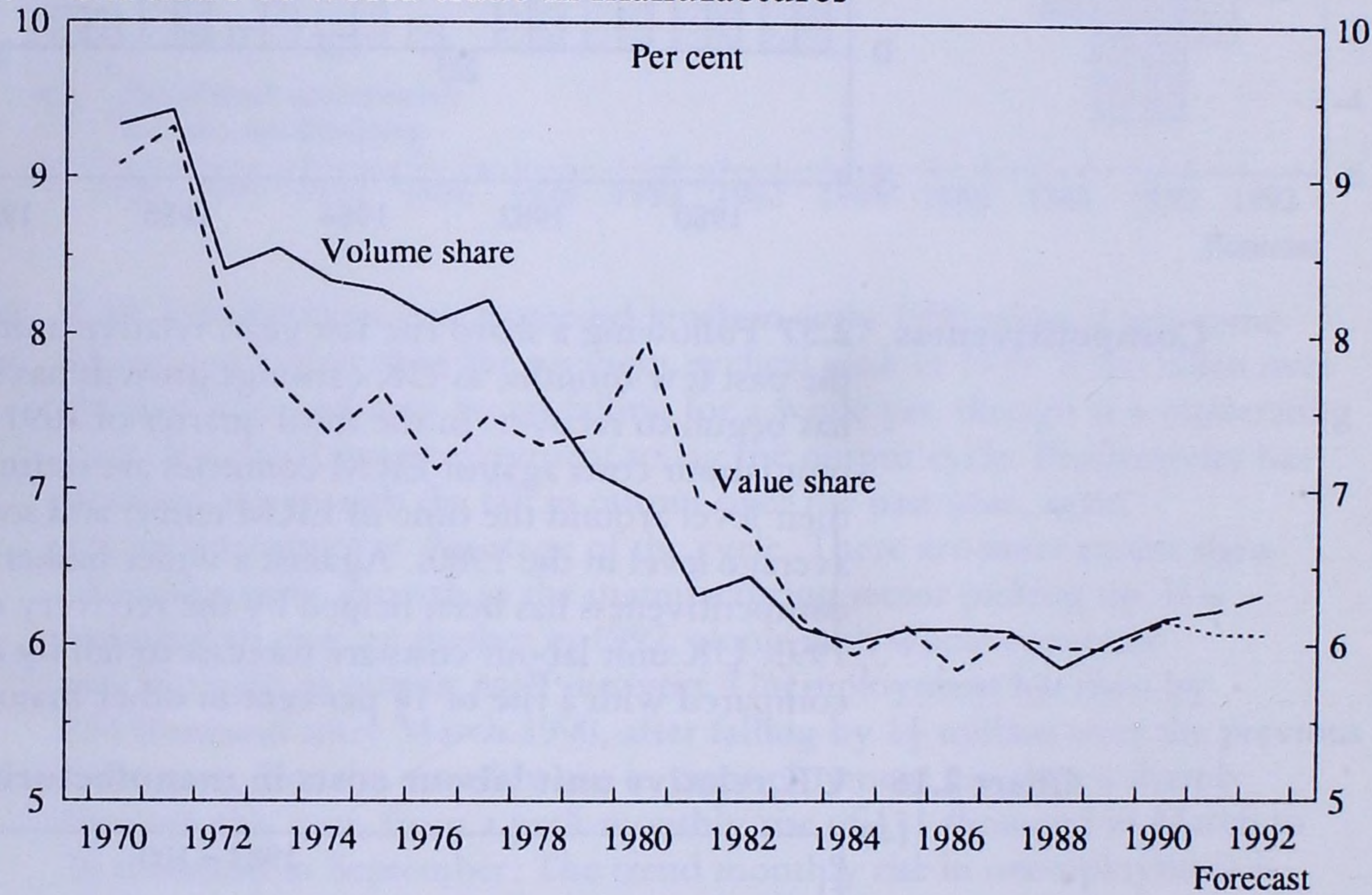
Competitiveness 2.37 Following a sharp rise last year, relative unit labour costs have fallen in the past few months, as UK earnings growth has slowed and productivity has begun to recover. In the third quarter of 1991 manufacturing relative unit labour costs against ERM countries are estimated to have been close to their level around the time of ERM entry, and somewhat below their average level in the 1980s. Against a wider basket of countries, competitiveness has been helped by the recovery of the dollar since early 1991. UK unit labour costs are forecast to fall by about 2 per cent in 1992, compared with a rise of 1½ per cent in other major industrial countries.

Chart 2.16 UK relative unit labour costs in manufacturing*



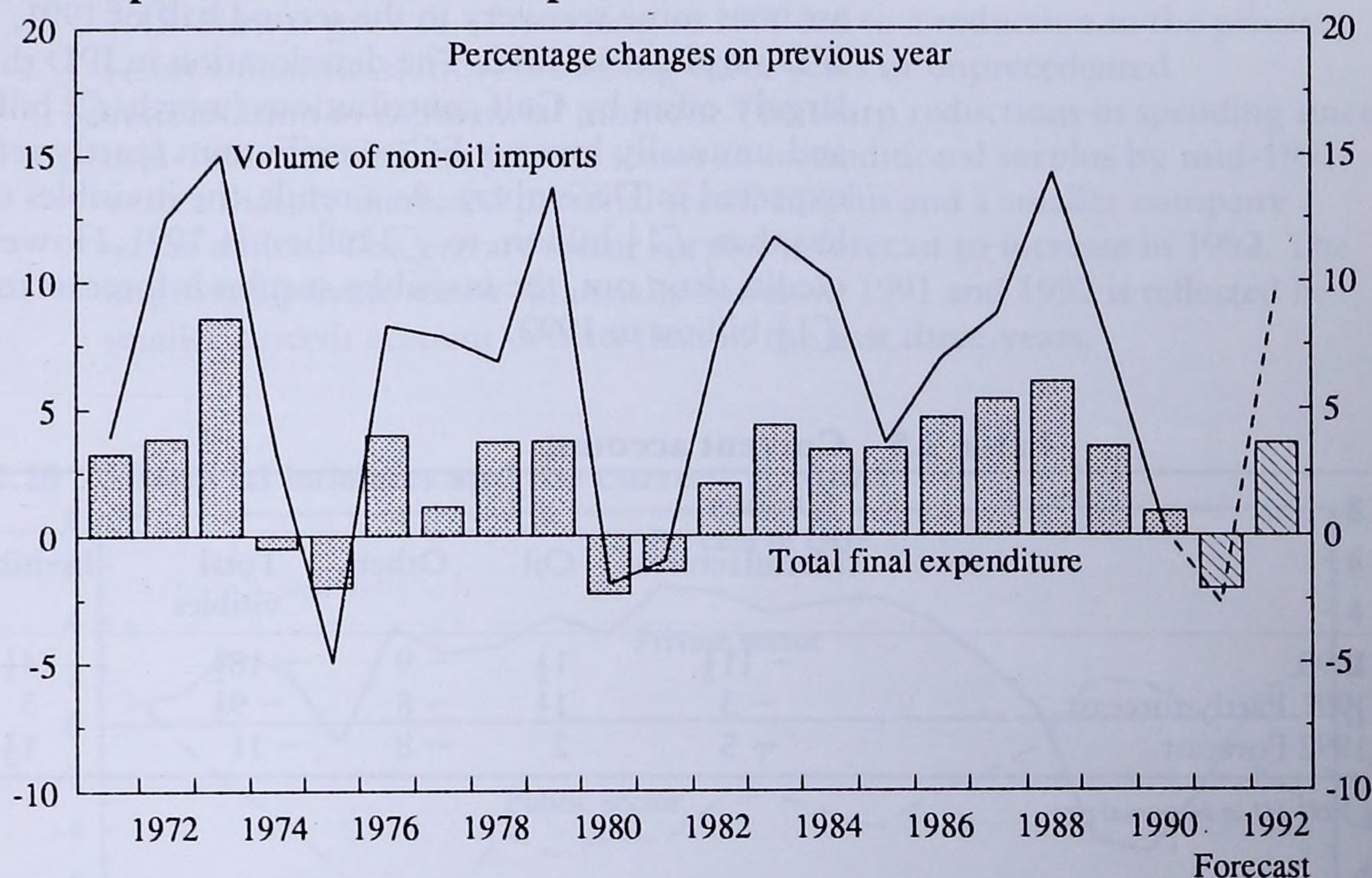
Non-oil trade 2.38 Following a period of slower growth during the second half of 1990, export growth has picked up again in 1991. In the year to the third quarter of 1991, the volume of exports of manufactures rose by 5 per cent, despite the slow-down in the world economy - a significantly better performance than expected at Budget-time. As a result, it now looks as though the UK's volume share of world trade in manufactures, which stopped falling in the mid-1980s, may rise for the third year running. The October CBI Industrial Trends Survey points to a marked improvement in export prospects, perhaps partly reflecting the expected pick-up in world trade growth. The volume of exports of manufactures is therefore forecast to rise by 8 per cent in 1992, consistent with a further small rise in world trade share.

Chart 2.17 UK share of world trade in manufactures



2.39 Import volumes appear to have stopped falling some time in the first half of 1991 and are now rising slowly. In the third quarter, the largest rises were in imports of basic materials, chemicals and capital goods, supporting survey evidence that companies are now gearing up for recovery. A fairly sharp upturn in imports is likely as the recovery gathers pace, in line with the pattern following previous recessions. This implies a continuation of the historical upward trend in import penetration, which all industrialised economies have experienced, reflecting increasing openness of the world economy.

Chart 2.18 Imports and total final expenditure



2.40 Falls in import prices over the past eighteen months, partly in response to the rise in the exchange rate last year, have boosted the terms of trade and helped to reduce the non-oil deficit. Over the same period export prices have been flat, as manufacturers have cut margins to maintain their export markets in the face of falling domestic demand in the UK. The signs are that import prices have now levelled out, and the forecast assumes no significant change in the terms of trade from now on.

Table 2.4 Visible trade volumes

	Percentage changes on previous year					
	Non-oil goods		Oil		All goods	
	Exports	Imports	Exports	Imports	Exports	Imports
1990	6½	¼	8¼	12	6¾	1¼
1991 Partly forecast	3¼	-2¾	-1	½	2½	-2¼
1992 Forecast	7¾	9½	4¾	-¼	7¼	8¾

Oil production and trade

2.41 North Sea oil production recovered sharply in the third quarter of this year, following extended shutdowns for safety work in the first half. Production is likely to remain at this higher level through 1992, and be close to the centre of the Department of Energy Brown Book range. The recovery in oil production is forecast to boost the oil trade surplus to nearly £2 billion in 1992, compared with £1½ billion this year.

Invisibles

2.42 The estimated invisibles surplus of £1¾ billion in the first half of 1991 was boosted by Gulf receipts of over £1½ billion. Excluding these, invisibles were virtually in balance, compared with a surplus of £4½ billion in 1990. This reflects a sharp fall in net earnings from interest, profits and dividends (IPD), to an almost unprecedented deficit of £¾ billion, only partly explained by the effect on oil company earnings of the fall back in the oil price. Preliminary estimates of IPD are subject to substantial revision, and our assessment is that recorded earnings in the first half were erratically weak, following erratically buoyant earnings in the second half of 1990.

2.43 The forecast therefore partly discounts this recent weakness, and assumes some recovery in the second half of 1991, with a return to modest IPD surpluses in 1992. The deterioration in IPD this year is forecast to be largely offset by Gulf contributions (worth £2 billion in the year as a whole) and unusually low net EC contributions (partly reflecting a rebate which is expected in December). As a result, the invisibles surplus is forecast to fall by less than £1½ billion, to £3 billion in 1991. However, as these one-off credits drop out, the invisibles surplus is forecast to fall back further to just £1½ billion in 1992.

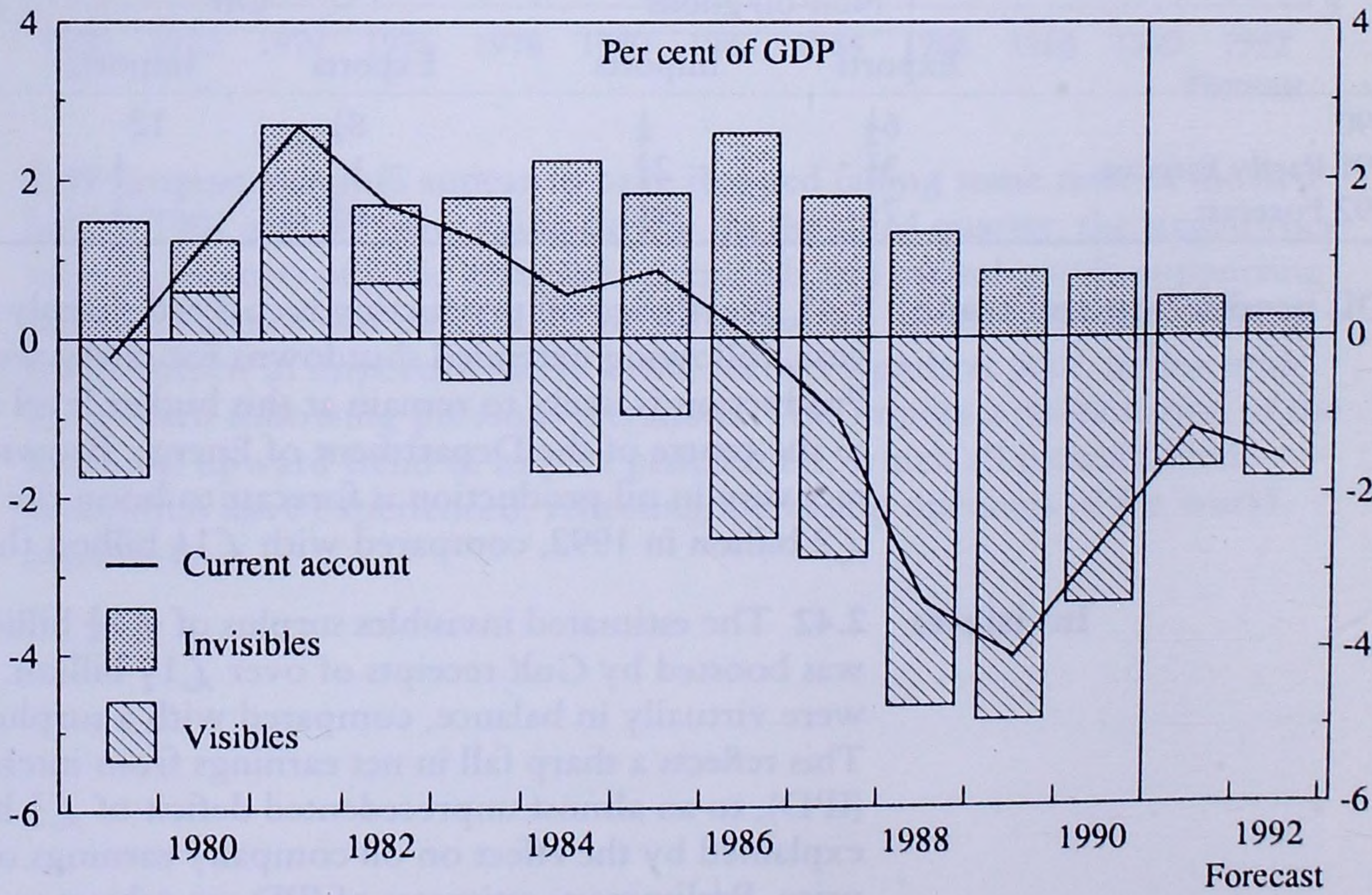
Table 2.5 Current account

	£ billion						
	Manufactures	Oil	Other	Total visibles	Invisibles	Current balance	Balancing item
1990	- 11½	1½	- 9	- 18½	4½	- 14½	2½
1991 Partly forecast	- 3	1½	- 8	- 9½	3	- 6½	12 ¹
1992 Forecast	- 5	2	- 8	- 11	1½	- 9½	

¹ 1991 H1 at an annual rate.

Current account **2.44** The current account deficit is forecast to fall from £14½ billion (2½ per cent of GDP) in 1990 to £6½ billion (1 per cent) in 1991, closely in line with the Budget forecast. This is more than accounted for by a fall of £8½ billion in the manufacturing trade deficit, to £3 billion in 1991. The current account deficit is forecast to rise to £9½ billion (1½ per cent) in 1992, reflecting a modest rise in the manufactures deficit as the economy recovers, and a further fall in the invisibles surplus. With prudent financial policies in place, there should be no difficulty in financing this deficit.

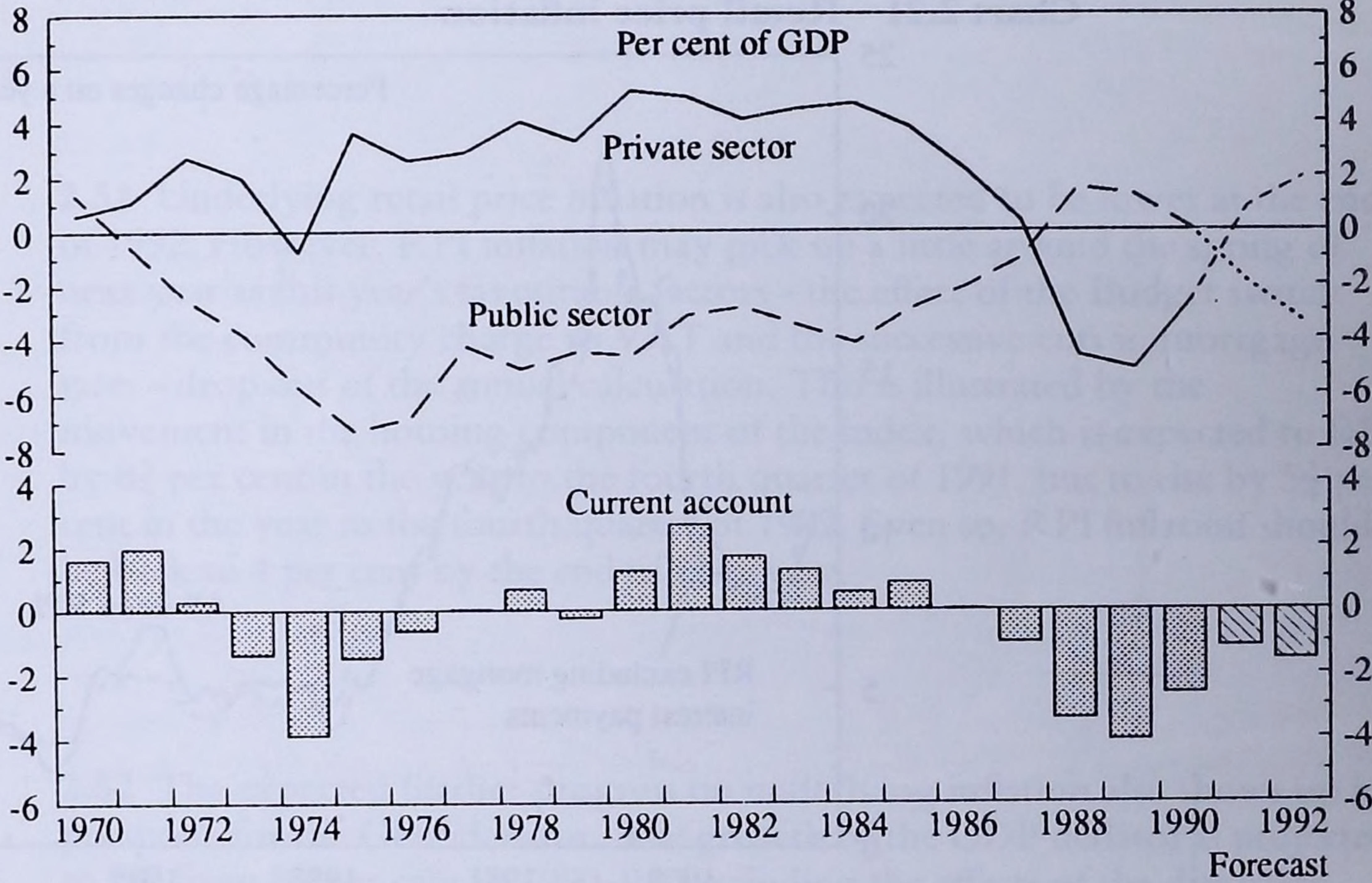
Chart 2.19 Current account



Financial balances and the current account

2.45 Slower growth of spending in 1990 led to a reduction in the private sector's financial deficit, following three years of unprecedented deterioration in its financial position. The sharp reductions in spending since mid-1990 restored the private sector to its traditional surplus by mid-1991, with a sharply increased personal sector surplus and a smaller company sector deficit. The private sector surplus is forecast to increase in 1992. The improved private sector financial position in 1991 and 1992 is reflected in smaller current account deficits than in the past three years.

Chart 2.20 Financial balances and the current account



Inflation

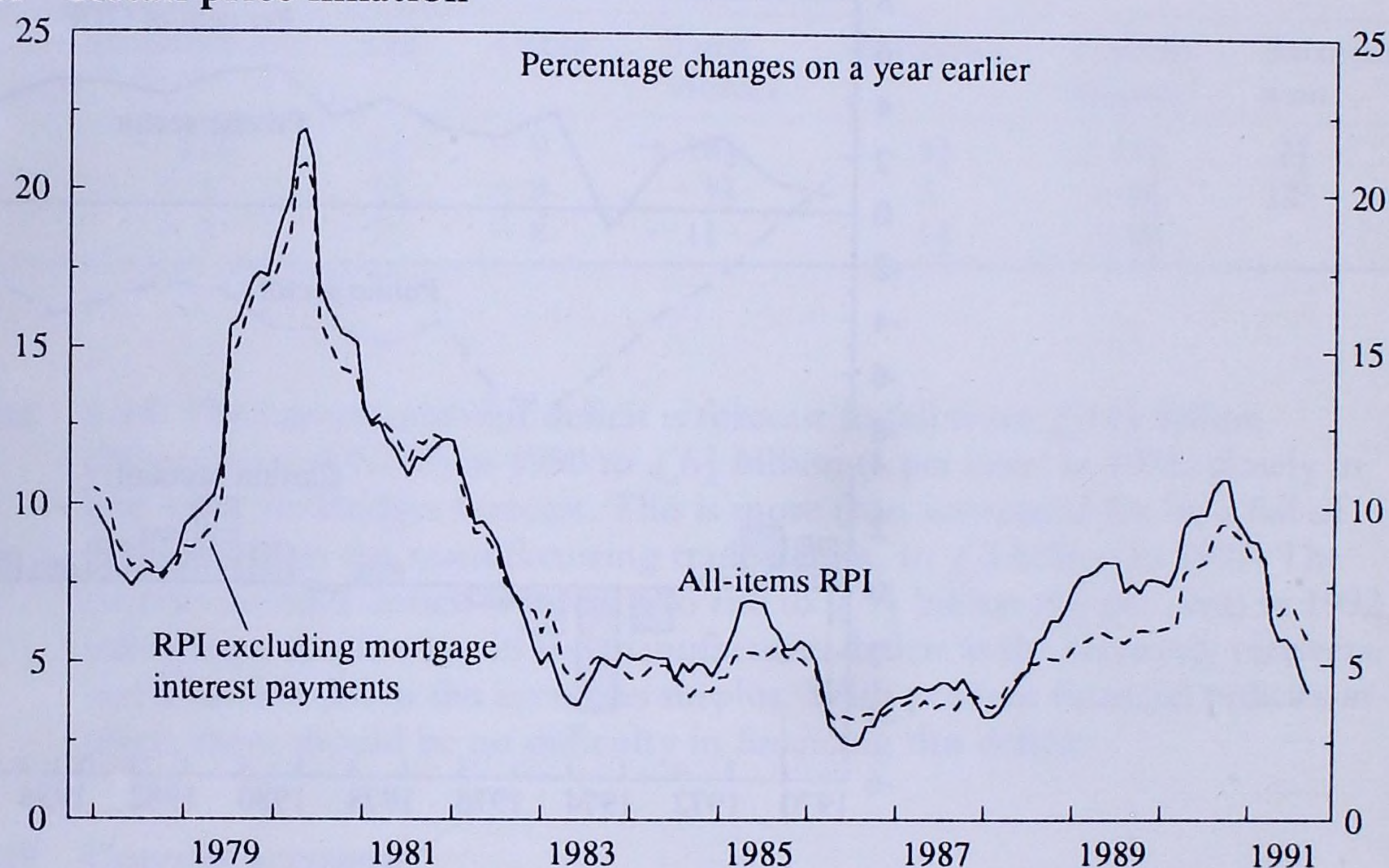
Recent developments

2.46 Inflation is falling much as expected at the time of the Budget. Producer price inflation (excluding food, drink and tobacco to avoid distortions from Budget changes to excise duties) was down to around $4\frac{3}{4}$ per cent in September from $6\frac{1}{2}$ per cent in January and February. Unit labour cost growth has fallen even more, allowing for some moderation of the intense squeeze on profit margins. Nevertheless, margins in September were probably no higher than a year earlier.

2.47 Retail price inflation has fallen dramatically, down to 4.1 per cent in September compared with a peak of 10.9 per cent a year earlier. Some of this reduction was due to falling mortgage interest rates. However, retail price inflation excluding mortgage interest payments has also fallen substantially, from 9.5 per cent to 5.7 per cent over the same period. Lower oil prices and the switch from community charge to VAT in the Budget contributed to this fall, along with lower food price inflation.

2.48 Pay settlements have fallen through this year in response to a weakening labour market, reduced corporate profitability and falling inflation. The fall in pay settlements has exceeded most forecasters' earlier expectations, perhaps partly because of the beneficial effects of ERM entry on inflation expectations. According to the CBI, pay settlements in manufacturing averaged $5\frac{1}{2}$ per cent in the third quarter, compared with a peak of 9 per cent last year. The effect of lower settlements on earnings has been reinforced by pay freezes, delayed settlements, reduced bonus and overtime payments, and increased short-time working. Whole economy underlying earnings growth fell to $7\frac{3}{4}$ per cent in August from a peak of $10\frac{1}{4}$ per cent in July 1990.

Chart 2.21 Retail price inflation



Prospects 2.49 The fall in earnings growth should continue into 1992, despite an expected cyclical recovery in overtime and bonus payments. The latest earnings figures do not yet fully reflect recent settlement figures and it would be surprising if settlements did not fall further. The outlook for unit labour costs is even more favourable, as there should be a strong rebound in productivity following the cyclical fall this year. The forecast is for unit labour costs in manufacturing to be about 2 per cent lower in 1992 than in 1991.

2.50 The favourable outlook for labour costs, against the background of a firm exchange rate and weak commodity prices, underpins the forecast of further progress in reducing underlying inflation. Such progress should be possible even if companies take the opportunity of rising demand to re-build their profit margins. Producer price inflation (excluding food, drink and tobacco), which is expected to average $4\frac{1}{4}$ per cent in the fourth quarter of this year, is forecast to be $3\frac{1}{2}$ per cent in the fourth quarter of 1992, its lowest rate since 1969.

Table 2.6 Retail and producer output price inflation

	Weights in 1991	Percentage changes on a year earlier		
		1990Q4	Forecast	
			1991Q4	1992Q4
Food	15	6 $\frac{3}{4}$	4 $\frac{3}{4}$	3 $\frac{1}{2}$
Housing ¹	19 $\frac{1}{4}$	19 $\frac{1}{2}$	– 8 $\frac{3}{4}$	5 $\frac{3}{4}$
Other	65 $\frac{3}{4}$	8	7 $\frac{3}{4}$	3 $\frac{3}{4}$
Total RPI	100	10	4	4
Producer output prices²		6$\frac{1}{4}$	4$\frac{1}{4}$	3$\frac{1}{2}$

¹ Includes community charge
² Excluding food, drink and tobacco

2.51 Underlying retail price inflation is also expected to be lower at the end of 1992. However, RPI inflation may pick up a little around the spring of next year as this year’s favourable factors – the effect of the Budget switch from the community charge to VAT and the successive cuts in mortgage rates – drop out of the annual calculation. This is illustrated by the movement in the housing component of the index, which is expected to fall by 8 $\frac{3}{4}$ per cent in the year to the fourth quarter of 1991, but to rise by 5 $\frac{3}{4}$ per cent in the year to the fourth quarter of 1992. Even so, RPI inflation should be back to 4 per cent by the end of next year.

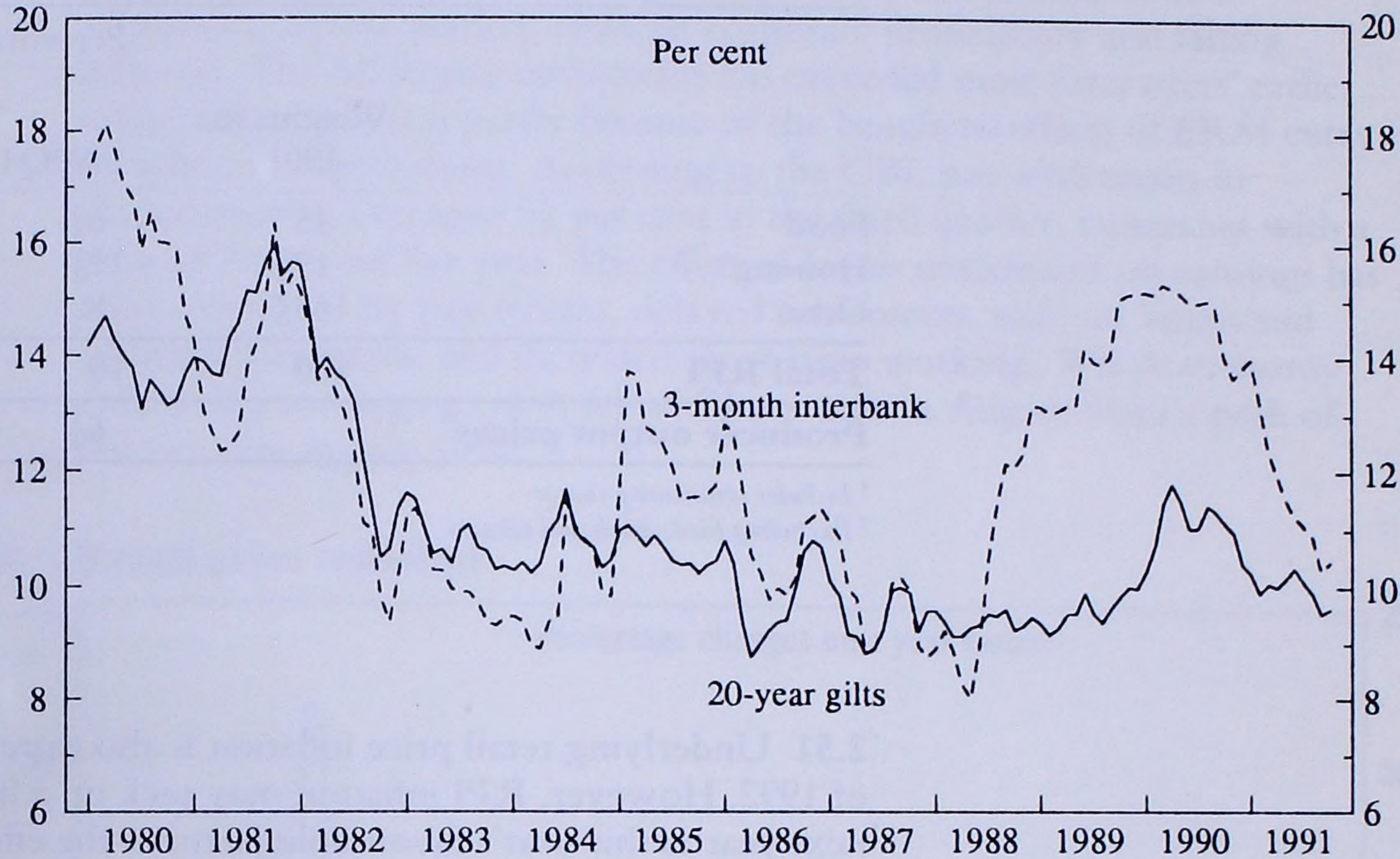
2.52 The expected further progress on underlying inflation also shows up in prospects for the GDP deflator. The growth of the GDP deflator is projected to fall from 8 $\frac{1}{2}$ per cent in 1990–91 (excluding the effects of the distortion from the abolition of domestic rates) to 7 per cent in the current financial year, despite the increase in VAT which added about 1 per cent in 1991–92. It is forecast to fall further in 1992–93 to 4 $\frac{1}{2}$ per cent, the lowest increase since 1986–87 when inflation benefited from the collapse in oil prices.

Financial developments

Exchange rate and interest rates

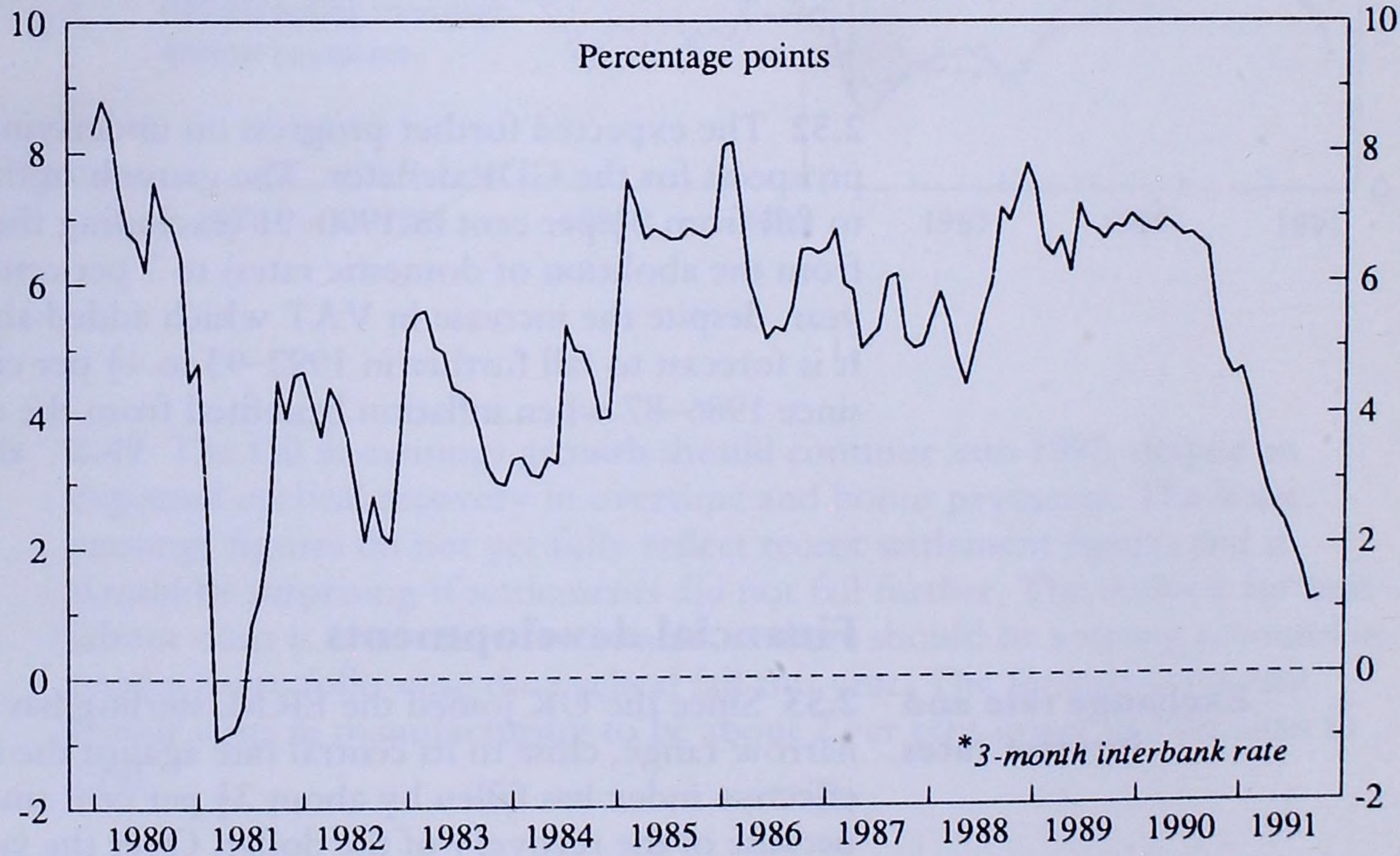
2.53 Since the UK joined the ERM, sterling has traded in a relatively narrow range, close to its central rate against the Deutschemark. The sterling effective index has fallen by about 3 $\frac{1}{2}$ per cent since the beginning of 1991 because of the recovery of the dollar. Over the same period short-term interest rates have fallen by 3 $\frac{1}{2}$ percentage points (and by 4 $\frac{1}{2}$ points in total since ERM entry was announced). Long rates picked up a little in the early summer, but have since fallen back by $\frac{3}{4}$ percentage point to around 9 $\frac{1}{2}$ per cent, as confidence about the prospects for low inflation has increased.

Chart 2.22 Interest rates



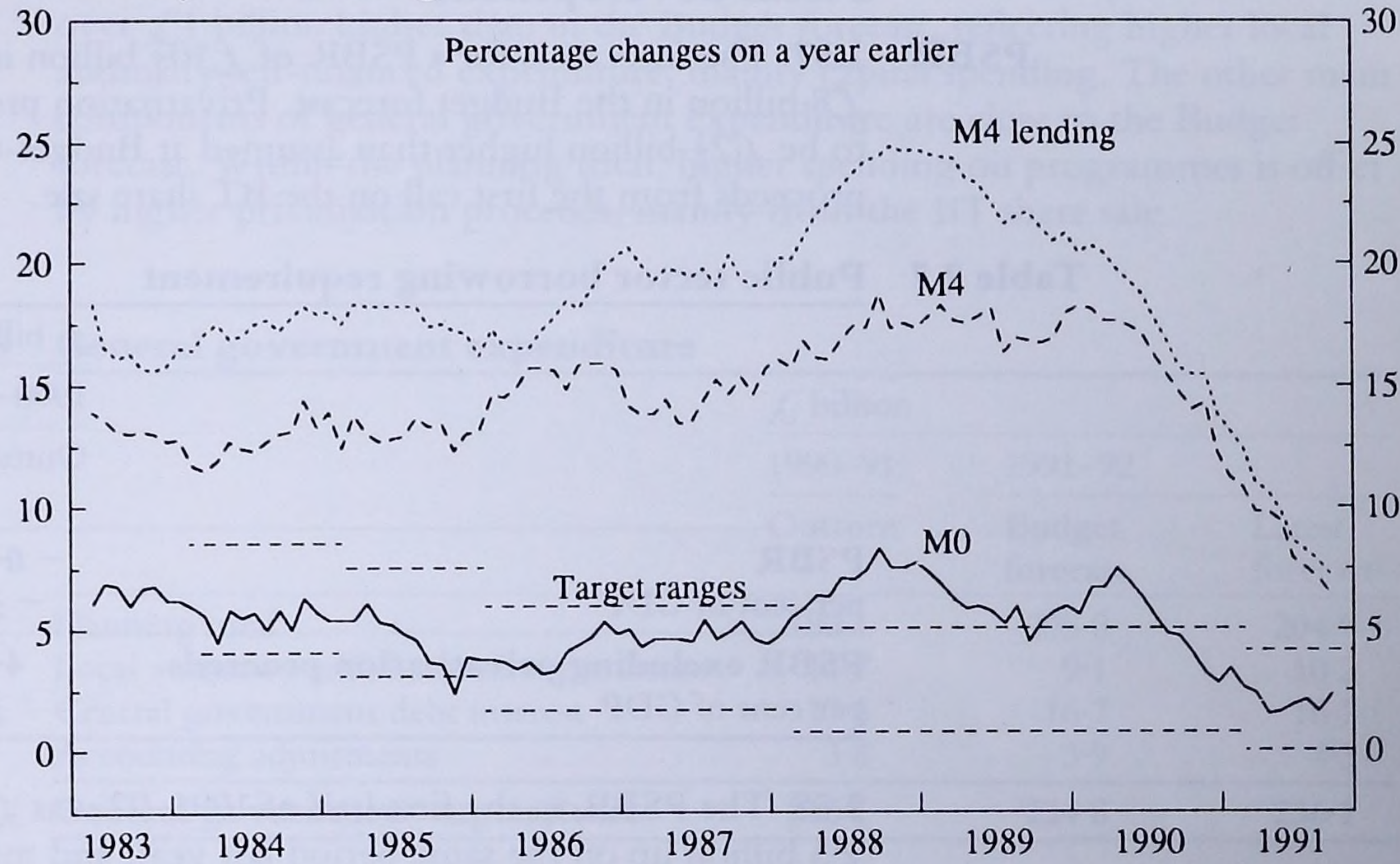
2.54 The fall in UK three-month interbank rates since ERM entry has occurred despite a rise of over $\frac{3}{4}$ percentage point in German rates. As a result, the differential between UK and German rates has fallen to around 1 percentage point, its lowest level for a decade.

Chart 2.23 UK-German short term interest rate differential*



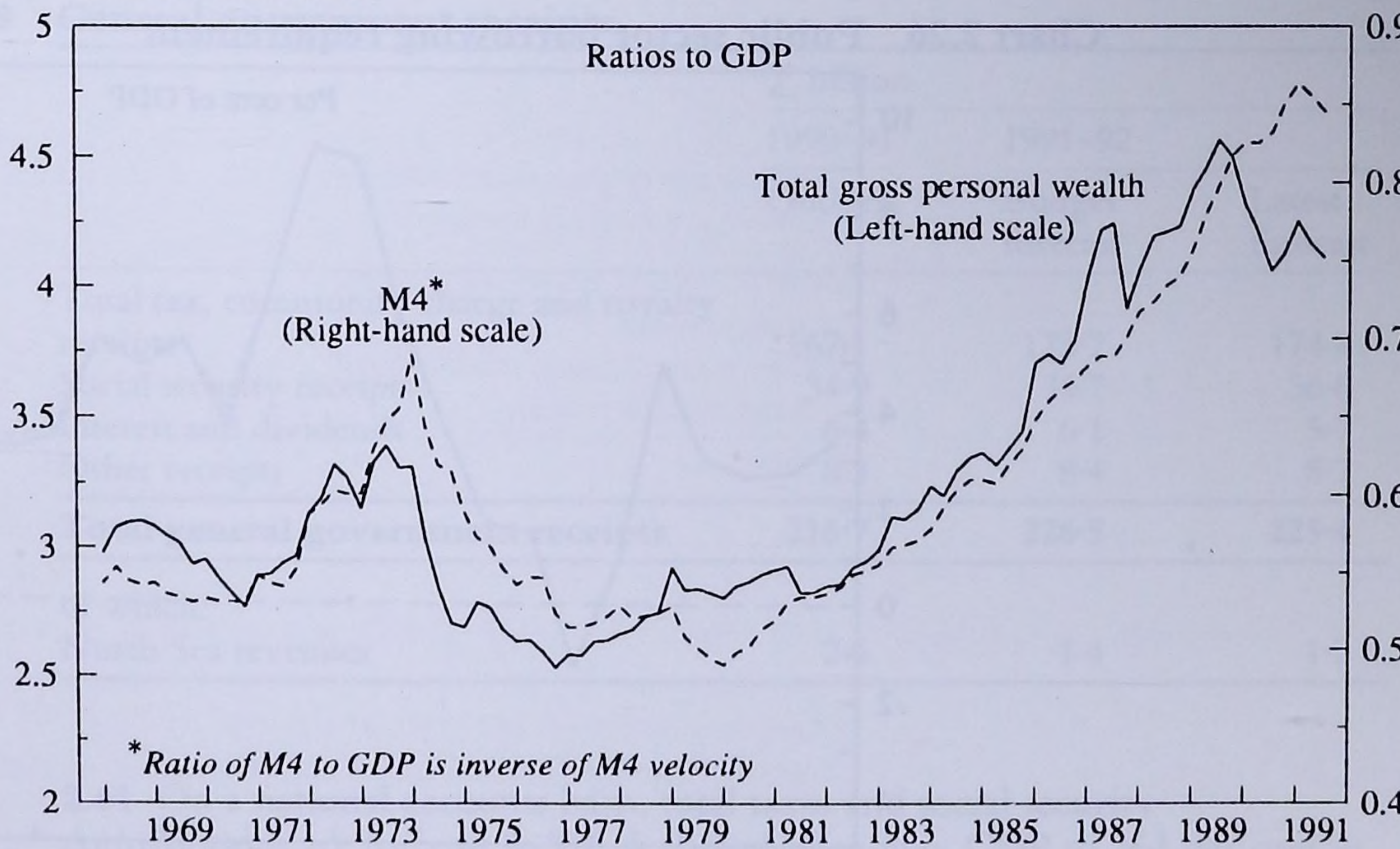
Money and credit 2.55 The annual growth rate of M0, which had been below the centre of its target range earlier in the year, moved into the upper half of the range in September. Broad money growth has fallen from around 18 per cent in early 1990 to $6\frac{1}{2}$ per cent in September 1991. Over the same period the growth of bank and building society lending has fallen from just over 20 per cent to 7 per cent.

Chart 2.24 Money and lending



2.56 Slower growth of broad money reflects both a reduction in money GDP growth and, recently, a slight rise in velocity – in marked contrast to the steady falls in velocity recorded through the 1980s. This is probably a response to reductions in wealth in recent years – which are likely to have reduced the demand for money just as they did in the mid-1970s – and some switching by institutions from deposits to purchases of securities. Neither of these factors, nor the shift by companies from bank to capital market finance in recent months, points to renewed weakness in the economy. Taken together with other indicators, they are consistent with the forecast recovery.

Chart 2.25 Wealth and M4



Fiscal developments

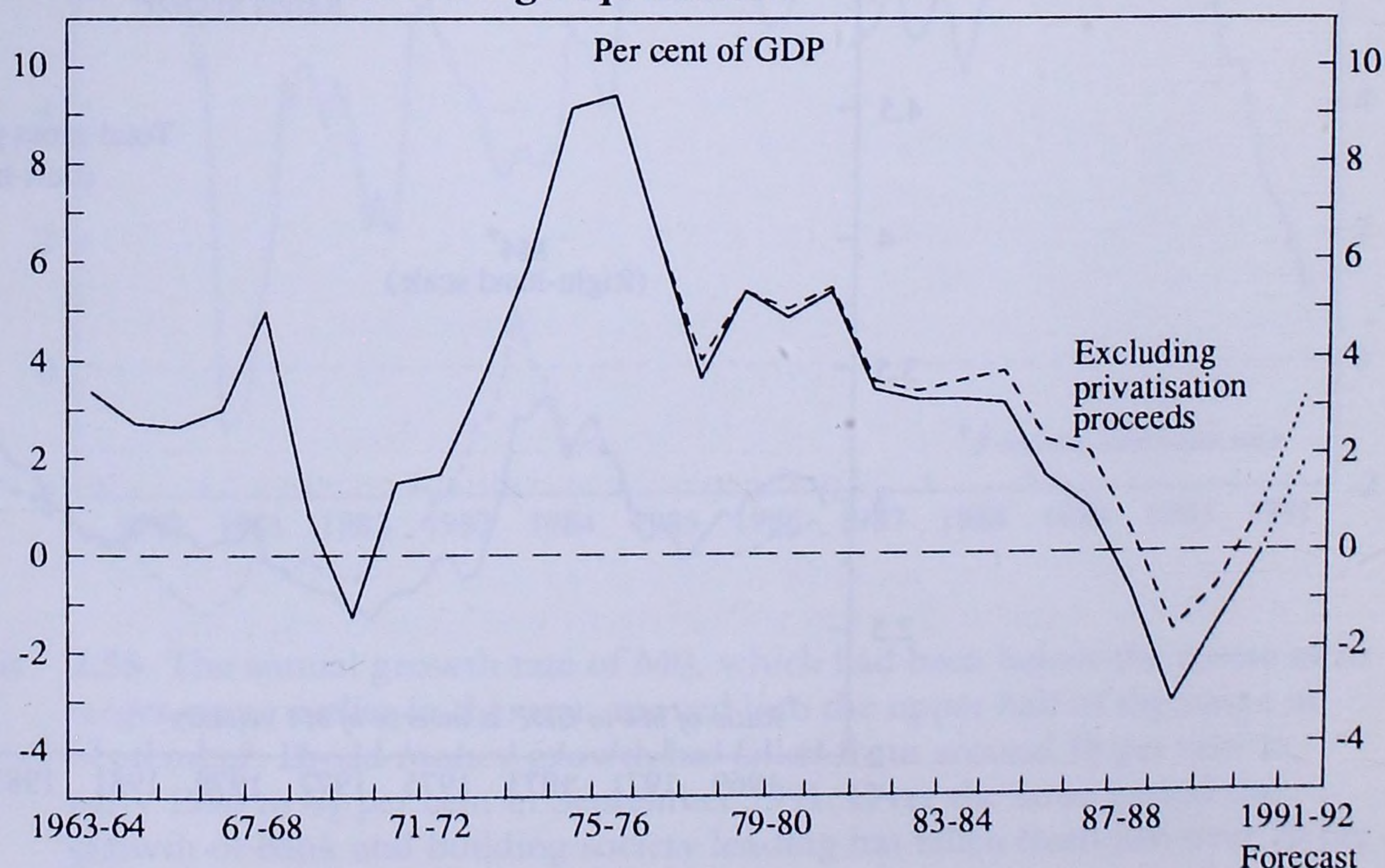
PSBR 2.57 The forecast is for a PSBR of £10½ billion in 1991–92, compared with £8 billion in the Budget forecast. Privatisation proceeds are now expected to be £2½ billion higher than assumed at Budget-time, largely reflecting proceeds from the first call on the BT share sale.

Table 2.7 Public sector borrowing requirement

	£ billion		
	1990–91	1991–92	
	Outturn	Budget forecast	Latest forecast
PSBR	– 0.5	7.9	10.5
per cent of GDP	– ¼	1¼	1¾
PSBR excluding privatisation proceeds	4.8	13.4	18.5
per cent of GDP	¾	2¼	3¼

2.58 The PSBR in the first half of 1991–92 was £10¾ billion, over £5 billion up on the same period last year, and marginally more than forecast for the year as a whole. Borrowing is always higher in the first half of the year than in the second half, when the main tax collecting months fall. The gap between first and second halves is likely to be even larger than usual this year, as a result of the Budget switch from the community charge to VAT, which meant a delay before local authorities could start collecting the 1991–92 charge. Central government support for local authorities was weighted towards the early part of the financial year in recognition of this. In addition, the full effect of the VAT rate rise on receipts only comes through with a lag; not until August did monthly VAT receipts fully reflect the new rate. There are also substantial privatisation proceeds, including the first call on BT, to come in the second half of the year. The PSBR for the second half of 1991–92 is now expected to be close to balance.

Chart 2.26 Public sector borrowing requirement



Expenditure 2.59 General government expenditure in 1991–92 is now expected to be over £1 billion higher than in the Budget forecast, reflecting higher local authority self-financed expenditure, mainly capital spending. The other main components of general government expenditure are close to the Budget forecast. Within the planning total, higher spending on programmes is offset by higher privatisation proceeds, mainly from the BT share sale.

Table 2.8 General government expenditure

	£ billion		
	1990–91	1991–92	
	Outturn	Budget forecast	Latest forecast
Planning total	180.1	205.0	204.9
Local authority self-financed expenditure	14.7	9.1	10.2
Central government debt interest	17.5	16.7	16.7
Accounting adjustments	3.8	3.9	4.3
General government expenditure	216.1	234.8	236.1
of which:			
Privatisation proceeds	– 5.3	– 5.5	– 8.0

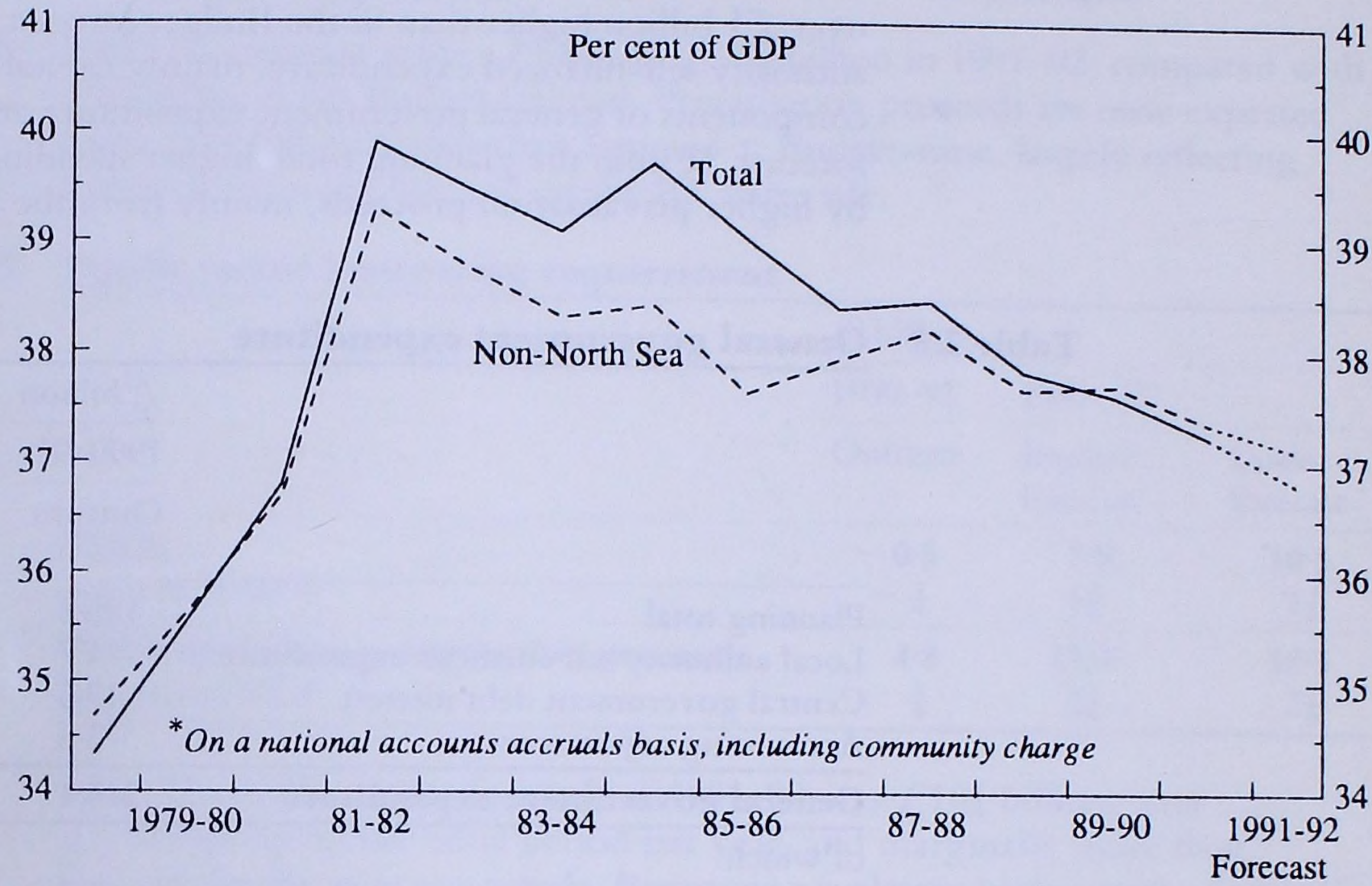
Receipts 2.60 General government receipts are now forecast to be around £1 billion lower than in the Budget forecast. Within general government receipts, Inland Revenue receipts are £1½ billion lower than in the Budget forecast, largely reflecting lower income tax from lower growth in wages and salaries. Stamp duties are also down, as a result of lower housing market activity. But Customs and Excise receipts are £½ billion higher than in the Budget forecast, reflecting higher growth in consumer spending.

Table 2.9 General government receipts

	£ billion		
	1990–91	1991–92	
	Outturn	Budget forecast	Latest forecast
Total tax, community charge and royalty receipts	167.1	175.2	174.4
Social security receipts	34.9	36.7	36.6
Interest and dividends	6.4	6.1	5.7
Other receipts	8.3	8.4	8.7
Total general government receipts	216.7	226.5	225.4
of which:			
North Sea revenues	2.5	1.4	1.2

2.61 On a national accounts basis, total taxes and social security contributions are forecast to fall as a share of money GDP to 36¾ per cent in 1991–92. The fall largely reflects the cycle. The non-North Sea tax burden is forecast to fall to 37 per cent in 1991–92.

Chart 2.27 Taxes and social security contributions*



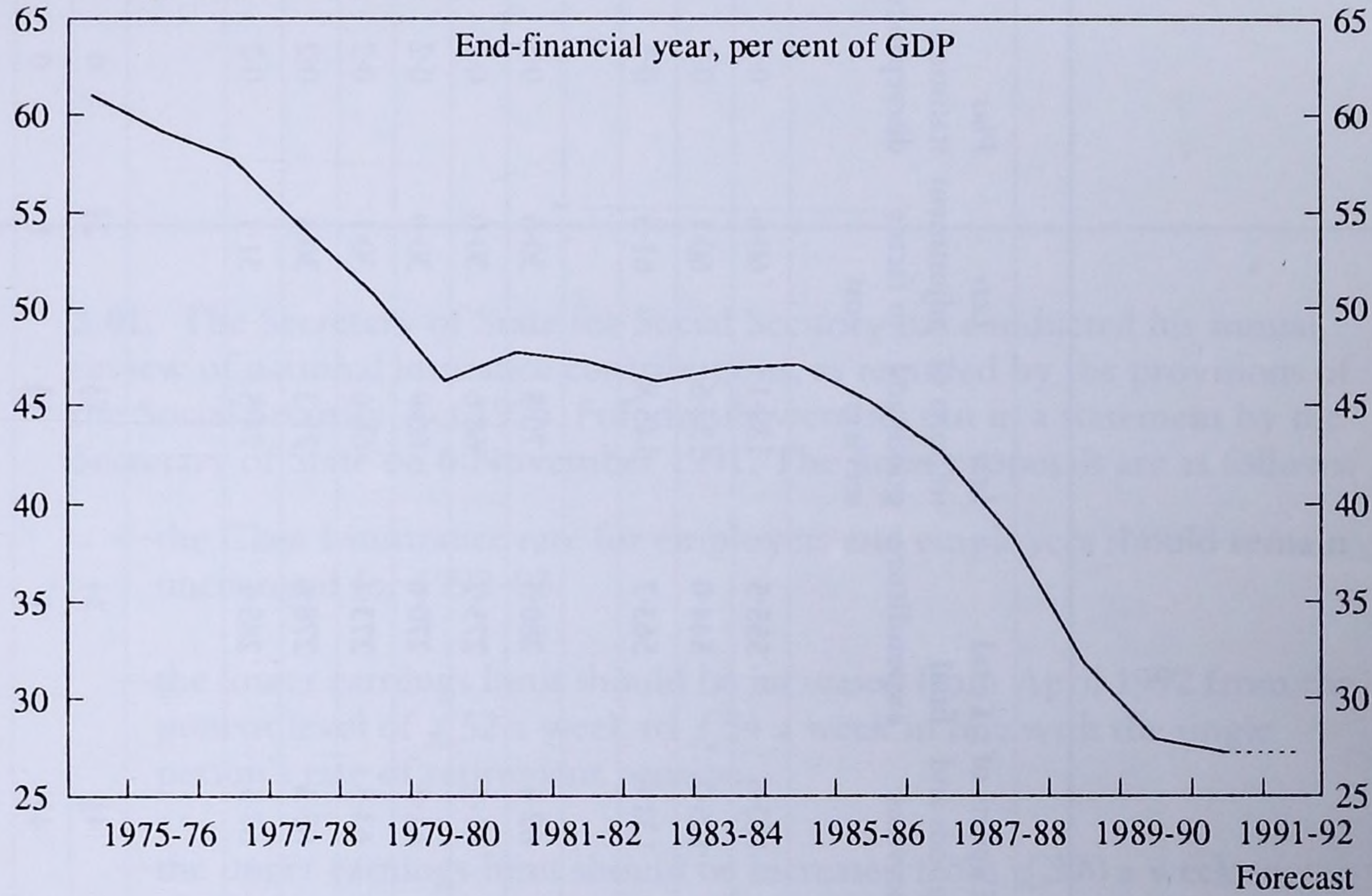
Changes since the Budget 2.62 The upward revision to the forecast PSBR since the Budget reflects both a downward revision to general government receipts and an upward revision to general government expenditure of approximately equal magnitude.

Table 2.10 Public sector expenditure, receipts and borrowing

	£ billion		
	1990-91	1991-92	
	Outturn	Budget forecast	Latest forecast
General government expenditure	216.1	234.8	236.1
General government receipts	216.7	226.5	225.4
General government borrowing requirement	- 0.5	8.3	10.7
Public corporations' market and overseas borrowing	0.1	- 0.4	- 0.2
PSBR	- 0.5	7.9	10.5

Public sector debt 2.63 The stock of net public sector debt is provisionally estimated to be equivalent to 27¼ per cent of money GDP at the end of 1990-91. This compares with 47 per cent at the end of 1984-85. The stock of debt as a share of money GDP is expected to remain unchanged in 1991-92.

Chart 2.28 Net public sector debt



Risks and uncertainties

2.64 All forecasts are subject to risks and uncertainties, and they are particularly acute when the economy is at a turning point. (Average errors from previous forecasts are given in Table 2.1.) The forecasts presented here are central forecasts, a balance of upside and downside risks.

Table 2.11 Gross domestic product and its components

£ billion at 1985 prices, seasonally adjusted												
	Consumers' expenditure	General government consumption	Total fixed investment	Change in stocks Identified	Alignment adjustment	Domestic demand	Exports of goods and services	Total final expenditure	Less imports of goods and services	Less adjustment to factor cost	Plus statistical discrepancy ¹	GDP at factor cost (average measure)
1990	273.3	79.4	79.9	- 0.7	—	431.9	123.6	555.5	139.1	60.6	0.5	356.3
1991	271.5	81.1	71.3	- 2.7	- 2.5	418.7	125.3	544.0	135.5	60.1	0.5	348.9
1992	278.6	82.5	72.3	- 0.5	- 1.9	430.9	132.8	563.7	145.8	61.5	0.5	356.9
1990 1st half	137.0	39.5	41.1	0.1	0.1	217.9	62.4	280.3	70.5	30.6	0.3	179.5
2nd half	136.3	39.8	38.7	- 0.8	- 0.1	213.9	61.2	275.2	68.6	30.0	0.2	176.9
1991 1st half	135.4	40.6	36.0	- 1.8	- 1.4	208.8	61.8	270.6	66.9	30.0	0.2	173.9
2nd half	136.2	40.5	35.3	- 0.9	- 1.1	210.0	63.5	273.4	68.6	30.1	0.2	175.0
1992 1st half	138.1	41.1	35.6	- 0.5	- 1.0	213.3	65.3	278.6	71.3	30.4	0.2	177.1
2nd half	140.5	41.4	36.7	- 0.1	- 1.0	217.6	67.5	285.1	74.5	31.1	0.2	179.8
Percentage changes on previous year ²												
1989	3½	1	6¾	- ½	—	3¼	4¼	3½	7¼	2¾	0	2¼
1990	1	2¾	- 2½	- 1	—	0	4¾	1	1¼	1	0	¾
1991	- ¾	2¼	- 10¾	- ½	- ¾	- 3	1¼	- 2	- 2½	- ¾	0	- 2
1992	2½	1¾	1¼	½	¼	3	6	3¾	7½	2¼	0	2¼

¹Expenditure adjustment²For stockbuilding and the statistical adjustment, changes are expressed as a per cent of GDP

3 National Insurance Contributions

3.01. The Secretary of State for Social Security has conducted his annual review of national insurance contributions, as required by the provisions of the Social Security Act 1975. Full details were set out in a statement by the Secretary of State on 6 November 1991. The main proposals are as follows:

- the Class 1 insurance rate for employers and employees should remain unchanged for 1992–93.
- the lower earnings limit should be increased from April 1992 from the present level of £52 a week to £54 a week in line with the single person's rate of retirement pension.
- the upper earnings limit should be increased from £390 a week to £405 a week.
- the earnings thresholds for the employers' lower rate bands should also be increased from £85, £130 and £185 a week to £90, £135 and £190 a week.

This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate	
	Employees	Employers ¹
Below £54	0	0
£54 to £90	2% of £54 plus 9% of earnings between £54 and £405	4.6
£90 to £135		6.6
£135 to £190		8.6
£190 to £405		10.4
Above £405		10.4

¹ Rates apply to all earnings.

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

- the number of unemployed (GB) averages 2.35 million in 1991–92 and 2.4 million in 1992–93.
- the increase in average earnings on a year earlier is $7\frac{3}{4}$ per cent in 1991–92 and $6\frac{1}{2}$ per cent in 1992–93.

The report will also allow for an uprating of benefits in April 1992 on the basis of the 4.1 per cent increase in the RPI over the year ending in September 1991, as announced by the Secretary of State on 21 October 1991.

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

Table 3.1 Estimated total payments by employers and employees of national insurance contributions, 1991–92 and 1992–93¹

	£ million		
	Employers	Employees	Total
National insurance contributions:			
1991–92	20 790	13 650	34 440
1992–93	22 510	14 270	36 780
Total change	1 720	620	2 340
<i>of which:</i>			
Changes in contributions from increase in earnings, etc ²	1 850	550	2 400
Change in contributions from increase in earnings limits	– 130	70	– 60

¹ Figures are rounded to the nearest £10 million and refer to Great Britain. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions) (Re-rating) (No. 2) Order 1991. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include the amount of contributions which is allocated to the NHS. Employers' contributions are gross of deductions in respect of statutory sick pay and statutory maternity pay.

² Including population and employment changes.

4 Tax revenue ready reckoner

- 4.01** The tables below show the effects of various illustrative tax changes on tax receipts in 1992–93 and 1993–94.
- 4.02** The effects of tax changes on tax receipts depend on economic variables, such as prices, earnings and consumers’ expenditure. The estimates shown are consistent with the economic forecast given in Chapter 2.
- 4.03** An illustrative rate of inflation of 4 per cent has been used to show the effects of indexation and revaluation in 1992–93. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1991.
- 4.04** The tables show estimates of the direct effects of tax changes on tax receipts. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR.
- 4.05** The main tax rates for the current year, 1991–92, are shown in Table 4.1.

Table 4.1 1991–92 tax rates

	per cent
Income tax and capital gains tax	
basic rate	25
higher rate	40
Inheritance tax	40
Corporation tax	
full rate	33
small companies’ rate	25
VAT standard rate	17½

Indexation of allowances, thresholds and bands for 1992–93

4.06 Tables 4.2 to 4.4 show allowances, thresholds, and bands for income tax, inheritance tax and capital gains tax for 1992–93 after 4 per cent indexation. Estimates of the revenue effects of this indexation are shown in Table 4.5. For income tax, rounding of the indexed amounts follows the rules laid down in the 1980 Finance Act, and for inheritance tax and capital gains tax those laid down in the 1982 Finance Act.

Direct revenue effects of illustrative changes in direct taxes

- 4.07** Table 4.6 shows estimates of the direct revenue effects of illustrative changes in income tax, corporation tax and inheritance tax from April 1992. Changes in the income tax allowances and the basic rate limit are from an indexed base.
- 4.08** The revenue effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, the basic rate limit tends to fall as the allowances or limit rises. For this reason, effects are given for different percentage changes and for reductions as well as increases in allowances.
- 4.09** The total cost of a group of 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 4.2 Income tax

	£	
	1991-92	1992-93
Personal allowance	3 295	3 435
Personal allowance (age 65-74)	4 020	4 190
Personal allowance (age 75 and over)	4 180	4 350
Married couple's allowance	1 720	1 790
Married couple's allowance (elder partner aged 65-74)	2 355	2 455
Married couple's allowance (elder partner aged 75 or over)	2 395	2 495
Additional personal ¹ and widow's bereavement allowance	1 720	1 790
Aged income limit ²	13 500	14 100
Basic rate limit ³	23 700	24 700

¹ Primarily for single parents.

² 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.

³ 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 4.3 Inheritance tax

	£'000	
	1991-92	1992-93
Threshold	140	146

Table 4.4 Capital gains tax

	£	
	1991-92	1992-93
Annual exempt amount:		
Individuals	5 500	5 800
Trusts	2 750	2 900

Table 4.5 Costs of indexation for 1992-93

	£ million	
	1992-93	1993-94
Indexation of income tax allowances and basic rate limit ¹	1 065	1 440
Of which:		
Increases in main allowances	900	1 180
Increase in the basic rate limit ²	165	260
Indexation of inheritance tax threshold	20	45
Indexation of capital gains exempt amount	—	5

¹ Cost includes the consequential effects on capital gains tax.

² Additional cost after previous change has been introduced.

Table 4.6 Direct effects of illustrative changes in direct taxes¹

	£ million cost/yield	
	1992–93	1993–94
Income tax		
<i>Rates</i>		
Change basic rate by 1p ²	1 950	2 175
Change higher rate by 1p	190	355
<i>Allowances</i>		
Change personal allowance by £100	470	615
Change age-related personal allowances ³ by £100	36	55
Change married couple's allowance by £100 ⁴	205	270
Change age-related married couple's allowances ³ by £100	15	21
Change aged income limit by £200	2	4
Change all main allowances by 1 per cent ⁵	210	280
Change all main allowances by 10 per cent: ⁵		
increase (cost)	2 050	2 750
decrease (yield)	2 150	2 850
<i>Basic rate limit</i>		
Change basic rate limit by 1 per cent ⁵	37	60
Change basic rate limit by 10 per cent: ⁵		
increase (cost)	335	545
decrease (yield)	425	675
<i>Allowances and basic rate limit</i>		
Change all main allowances and basic rate limit by 1 per cent ⁵	245	340
Change all main allowances and basic rate limit by 10 per cent: ⁵		
increase (cost)	2 375	3 275
decrease (yield)	2 600	3 575
Corporation tax⁶		
Change full rate by 1 percentage point	340	550
Change small companies' rate by 1 percentage point ⁷	37	60
Inheritance tax		
Change rate by 1 percentage point	12	28

¹ The estimated revenue effects of changes in the basic rate of income tax and in the main allowances of 10 per cent are rounded to the nearest £25 million; other effects over £50 million are rounded to the nearest £5 million; effects of less than £50 million are rounded to the nearest £1 million. The extent of rounding reflects the desire to avoid undue compounding of its effects when numbers are pro-rated, rather than the accuracy of the estimates. The figures for income tax changes include consequential effects on the yield of capital gains tax. Changes are assumed to take effect from April 1992.

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

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

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

⁵ Percentage changes are calculated with reference to 1991–92 levels.

⁶ 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 incomes from 1 April 1991.

⁷ These figures ignore effects arising from the imputation system.

Indirect taxes 4.10 Table 4.7 shows estimates of the effects of revalorising excise duties from April 1992. It shows the total extra revenue (including VAT) if all duties were to be increased by 4 per cent, together with the price increase that would result (after allowing for consequential VAT).

Table 4.7 Direct effects of revalorising all excise duties¹

	£ million yield ²		Typical item	Current level of duty on typical items	Price change ³
	1992-93	1993-94			
Total ⁴	935	1 055		—	0.28% ⁵
Of which:					
Beer and cider	70	85	Pint of beer	22.3p	1.0p
Wine	25	30	75 cl bottle of table wine	90.4p	4.2p
Spirits	40	45	75 cl bottle	£5.69	26.7p
Tobacco ⁶	215	245	20 king size	£1.24	5.0p
Petrol	345	380	Litre of 4 star	25.9p	1.2p
Derv	100	115	Litre	21.9p	1.0p
VED ⁷	125	130	Cars and light vans	£100.00	£4.00

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

² Assuming implementation on 1 April 1992.

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

⁴ Includes receipts from items not listed below.

⁵ Impact effect on the RPI.

⁶ The duty on cigarettes has ad valorem and specific elements; revalorisation and the illustrative percentage change relate only to the specific element. The cost/yield estimates and the price change take account of consequential ad valorem duty and VAT.

⁷ All VED, including HGVs as well as cars and light vans.

4.11 Table 4.8 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 4.8 Direct effects of illustrative changes in indirect taxes¹

	Price change of typical item ³	Associated percentage change in duty	£ million cost/yield ^{2, 8}	
			1992-93	1993-94
Beer and cider	1p	3.8	65	80
Wine	5p	4.7	30	35
Spirits	25p	3.7	45	45
Tobacco ⁶	5p	4.0	220	250
Petrol ⁹	1p	3.3	295	320
Derv	1p	3.9	95	115
VED ⁷	£5.00	5.0	155	165
1 percentage point change in VAT rate	—	—	1 725	2 480

^{1, 2, 3, 6, 7} See footnotes after Table 4.7.

⁸ Revenue effects include effects of changed duty on all items in the same category by the same percentage. Estimates are subject to uncertainty about the extent to which consumers would switch between different categories of expenditure. This is particularly so for switching from one type of alcoholic drink to another.

⁹ Revenue effects assume duty on both leaded and unleaded petrol is changed by the same percentage.



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