



FROM: A P HUDSON
DATE: 3 NOVEMBER 1986

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Scholar
Mr Turnbull
Mr Sedgwick
Miss O'Mara
Mr Culpin
Mr Gray
Miss Noble
Mr Pickering
Mr Cropper
Mr Tyrie
Mr Ross Goobey

AUTUMN STATEMENT

I attach the Chancellor's own draft of the Oral Statement.

2. The sections on detailed public expenditure measures are pending the Chief Secretary's views.
3. Please could I have comments and additional contributions by close tonight?

David

This is present draft
- Wely to be substantially
amended @ meeting tomorrow.

AMH

A P HUDSON

Alex

for the current financial year, 1986-87.

The public expenditure planning total now looks likely to amount to some ~~£140½bn~~/£1½bn, or a little over 1 per cent, more than was allowed for in this year's Public Expenditure White Paper. The main reasons for this excess is an 8 per cent rise in the current spending of local authorities - far more than was provided for. However, two major items of public expenditure which lie outside the planning total, debt interest and the overseas borrowings of the nationalised industries, are likely to fall £1bn short of what was forecast at the time of the Budget, which reduces the overall expenditure overrun to about £½bn.

On the revenue side, the North Sea tax take is likely to be even lower, by about £1bn, than I envisaged at the time of the Budget, largely because for a long period the oil price has been below the \$15 a barrel level on which the Budget arithmetic was explicitly based.

This shortfall, however, is more than offset by the continuing buoyancy of non-oil revenues, in particular VAT and Corporation Tax, which now look likely to exceed the Budget forecast by £1½bn. This would imply an overall revenue overrun of about £½bn, the same as the projected expenditure overrun.

At the same time I have one tax change to announce.

The collapse of the oil price has led to a sharp cutback

fourth successive year, public spending is set to decline as a proportion of national output.

And this remains true even before deducting the proceeds of privatisation.

The Government is determined to ensure that this trend continues: to see to it that total public spending, even without taking account of privatisation proceeds, continues to decline as a percentage of GDP. The plans I am about to announce secure that objective. But within this overall constraint the Government has felt it right, in the context of its policy priorities, to allow an increase in the previously announced planning totals for 1987-88 and 1988-89.

The new totals have been set at £148½bn for 1987-88 and £154½bn in 1988-89, an increase of £4½bn and £5½bn respectively.

For 1989-90 the planning total has been set at £XYZbn.

IP Compared with the forecast outturn for 1986-87, these totals suggest an average growth of public spending of a shade over 1 per cent a year in real terms, well within the prospective growth of the economy as a whole.

As usual, these totals incorporate estimates for the proceeds of privatisation. Last year I increased the estimate of these proceeds very substantially to £4½bn in each of the three Survey years, a figure which I expect

to undermine the prudence of the Government's overall fiscal stance, either next year or subsequently.

The Government's fiscal stance will remain as set out in the medium-term financial strategy published at the time of this year's Budget, that is, ^{the PSBR for 87-88} ~~it~~ will be ^{below} $1\frac{3}{4}$ % of GDP.

Pending
CST's
news

[The largest increase comes on local authority current spending, where provision for 1987-88 and 1988-89 had previously been set at the same cash level as in 1986-87, pending further decisions. Full account has now been taken of likely future levels of spending, and this has meant an increase of £4bn in provision for 1987-88. Over half of this increase is for education, including the new proposals on pay and conditions of service for teachers announced last week. A further major portion of the increase is for the police. In subsequent years provision has been set so as to grow [broadly in line with] inflation.

In addition to the increased provision for the cost of education in schools contained within local authority current spending, there will be additional provision for universities of £60m in 1987-88 and £70m in 1988-89.

Spending on the health service will be increased by £310m in 1987-88 with further increases in subsequent years. Combined with the resources increasingly being generated

week. In addition, full details, together with information on running costs and manpower, will be given in the public expenditure White Paper early in the New Year.

I now turn to National Insurance contributions. The Government have conducted the usual Autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the national insurance fund, and taking account of the benefit uprating which my Rt Hon Friend the Secretary of State for Social Services announced on 22 October.

The lower earnings limit will be increased next April to £39 a week, in line with the single person's pension, and the upper earnings limit will be similarly raised to £295 a week. The limits for the reduced rate bands which I announced in last year's Budget will also be increased again in April, but by proportionately larger amounts. Thus the upper limit for the 5 per cent and 7 per cent bands will be raised to £65 a week and £100 a week respectively, and the upper limit for the 9 per cent rate for employers will be raised to £150 a week. The taxpayer's contribution to the National Insurance Fund - the so-called Treasury Supplement - will be reduced by 2 per cent to 7 per cent, but this will not require any change in contribution rates. Thus the main Class I contribution rates will once again remain unchanged at 9 per cent for employees and 10.45 per cent for employers.