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*P. a.
(NEA reported Prime
Minister's criticisms to S.O.)
DLW*

7 December 1987

Dear Mark

*Prime Minister!
Content, subject
& colleagues?
DLW*

PUBLIC EXPENDITURE 1987

I enclose a copy of a statement my Secretary of State proposes to make in the House on Wednesday/Thursday and would be grateful for your clearance.

Copies of this letter go to Steven Wood, Murdo MacLean, Rhodri Walters, Jill Rutter, Shirley Stagg, Alison Brownlow, Tom Jeffrey, Robin Young, Roy Griffins, Philip Mawer, Jeffrey Podger, Eleanor Goodison, John Shortridge, David Watkins and Trevor Woolley.

*Yours
Andy*

ANDY RINNING
Private Secretary

Enc

HMP34102

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ORAL PUBLIC EXPENDITURE STATEMENT FOR SECRETARY OF STATE:
WEDNESDAY 9 DECEMBER

1. With permission, Mr Speaker, I wish to make a statement about the allocation of my public expenditure provision in the next 3 years.

2. I plan to raise net expenditure on the services for which I am responsible to £8,505m in 1988-89. This is some 6.9% more than planned expenditure for the current year, and nearly 5% more than was planned for 1988-89 in the last Public Expenditure White Paper. This represents real growth. In each of the following 2 years expenditure provision is to grow by over £100m. why?

3. Within the total figures the provision made for the services within the Scottish block has been enhanced in the normal way by the consequences of applying the territorial formula to changes agreed in the Survey for comparable English programmes. The increase under the formula for local authority current expenditure in 1988-89, is less than the extra cost of the generous RSG settlement which I announced to the House in July. I have therefore made up the balance, amounting to £71m, from the rest of my block so the amount available for local authority capital expenditure and central government expenditure in 1988-89 is lower by that amount than it would otherwise have been. I have no plans for a similar transfer in the later years, in the hope that local authorities will control their current expenditure and thus avoid diverting resources from their capital programmes and other important services within the block.

4. An annotated table giving the allocations for each service is available in the Vote Office and I am arranging for it to be published in the Official Report.

why? 5. Provision for industry next year will be increased by £25m or over 10% compared with the plans published in January. This will be allocated to the Scottish Development Agency and the Highlands and Islands Development Board, allowing increases in gross expenditure in real terms, and to direct grants to industry. I have also decided to increase the funds available to the Scottish Tourist Board.

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6. Expenditure on agriculture and fisheries will increase by £11m, £16.5m and £13.7m over the 3 years of the Survey period. In particular, provision is made to encourage developments under the Agricultural Development Programme.

7. Planned spending on education will rise to £2,186m next year, or 9% more than this year reflecting the priority I attach to this service. This will provide principally for current and capital expenditure by local authorities. I look to them to make the most effective use they can of this money in delivering the education service, especially the introduction of Standard Grade for which central support will continue to be available.

8. I intend to increase spending on the health programme by about £130m next year to £2,393m and by over £100m in each of the following 2 years. Within this increased provision, there will be over £1,660m for hospitals and community health services next year, £85m more than this year's level of funding. Health Boards will also be able to retain the resources released through their economy and efficiency programmes, which should amount to over £20m next year. This should enable them to meet pay and price inflation, develop in new directions for breast cancer screening and treating AIDS sufferers and to improve their services in line with national policies and priorities.

9. Provision for the Family Practitioner services is to be increased by almost £35m to £475m next year and to some £540m by 1990-91. This takes account of expected growth in public demand for these services and of the proposals set out in the Government's White Paper "Promoting Better Health".

10. I am conscious of real pressures on social work resources from demography and new demands so have increased provision by just over 12%.

11. My plans provide £680m in 1988-89, an increase of 9.5% over this year's provision to meet the needs of law and order services. This should be sufficient for an increase over present police establishments and for the cost of the new working practices under the "Fresh Start"

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agreement which have just been introduced in the Prison Service. Capital expenditure over the 3 years will be £140m which is intended to provide for a continuing programme of refurbishment of the prison estate and for new or improved court houses.

12. My planned provision for housing continues to concentrate resources on capital investment in improving public sector housing rather than indiscriminate subsidies. It will also continue to deal with the backlog of payments of private sector improvement grants and there will be increased resources for the Scottish Special Housing Association and the Housing Corporation in Scotland both for their existing programmes and for new urban regeneration initiatives. Extra provision is included for the establishment of Scottish Homes and its build up in the later years. Subject to final decisions on the level of subsidies, the planned increase in resources for housing investment in 1988-89 will be about £30m. This will be the third successive year in which investment has increased.

13. Planned provision for transport will be some £12m above that planned for 1987/88 but will necessarily be some £8m below provision for 1988/89 forecast in last year's White Paper, because of the need, to which I have already referred, to transfer resources from the Block to local authority current expenditure. Nevertheless, the resources available will enable investment in trunk roads to be maintained broadly at current levels with important bypasses given priority. A start will be made on the upgrading of the A74 in the later years but my provision will still leave room for other worthwhile projects.

14. I have been able to increase provision for the Other Environmental Services programme which maintains essential public services and functions, mainly by local authorities. It includes an increase of £6m for the urban programme which is a prime means of directing Government funding into the regeneration of our inner cities. The development of industrial infrastructure in the New Towns which contributed to over 4,000 new jobs in 1986-87 will also be able to increase significantly.

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15. Provision for expenditure on the arts within the Scotland programme will rise by just under 6%. This should enable local authorities to respond constructively to the Miles Report on Museums in Scotland, and will support Scottish national institutions in making further improvements in their infrastructure. It will also allow planning of the second phase of the new Causewayside building for the National Library of Scotland to proceed.

16. The allocations I have announced today reflect the priority I attach to the needs of the different services in Scotland in exercising my discretion within the Scottish block. The increases I have announced demonstrate the Government's continued commitment to meeting Scotland's needs. We have been able to do this because of our successful management of the economy which has allowed public expenditure to be increased substantially at the same time as its share of national income has been reduced.

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	1987-88		1988-89		1989-90		1990-91			
	Cm56-II ¹ Provision		Cm56-II ¹ Provision	Revised Provision ²		Cm56-II ¹ Provision	Revised ² Provision		Provision ²	
	Net	Gross ³		Net	Gross ³		Net	Gross ³	Net	Gross ³
Agriculture	186	187	187	200	200	190	210	210	210	210
Industry	257	295	241	266	297	250	260	290	260	290
Tourism	13	13	13	14	15	10	20	20	20	20
Transport	601	602	621	613	614	630	660	660	680	680
Housing	695	868	702	639	882	730	700	910	720	920
Other environmental services	610	684	633	693	773	650	710	790	740	820
Law, order and protective services	621	624	642	680	683	660	690	690	710	720
Education	1,956	1,961	2,041	2,186	2,190	2,090	2,230	2,230	2,290	2,290
Arts and libraries	82	82	84	87	87	90	90	90	100	100
Health and social work	2,605	2,658	2,714	2,829	2,837	2,830	2,950	2,950	3,070	3,080
Other public services	118	118	122	125	125	120	130	130	130	130
LA current expenditure not allocated to services	124	124	127	40	40	130	40	40	40	40
Nationalised Industries external financing	87	87	- 20	134	134	- 170	- 70	- 70	- 190	- 190
	7,954 ⁴	8,301	8,108	8,505	8,875	8,220	8,610	8,950	8,770	9,090

Note: Figures for 1989-90 and 1990-91 are rounded to the nearest £10 million.

¹White Paper (Cm56-II) figures adjusted for pre-Survey changes.

²Figures reflect Survey changes. Some figures may be subject to detailed technical amendment.

³Gross provision consists of total net provision plus capital receipts.

⁴The figure differs from the net outturn figure of £8,220m shown in the Chancellor's Autumn Statement for 1987-88; the main differences are continued spending by local authorities above the level provided for; NHS pay settlements; and higher than expected Electricity Board costs.

AGRICULTURE

The expenditure plans will permit development of the Government's agriculture and fishing policies, with particular regard to the environment and the rural economy.

INDUSTRY

Overall provision has been increased by £25m - 10.4% - in 1988-89 compared with last year's White Paper. Provision remains broadly constant over the forward years. The increased provision will allow increased spending by the SDA and HIDB both of which will have increased spending power, in real terms, in 1988-89 compared with 1987-88 and on direct grants to industry.

TOURISM

Total provision for 1988-89 has been increased by about 10% compared to the level in last year's plans and is planned to increase by about a further 20% over the forward years. The major part of tourism expenditure is undertaken by the Scottish Tourist Board which will be enabled to increase both its marketing effort and the grants it makes for tourist facilities.

TRANSPORT

Provision planned for (excluding grants to transport nationalised industries) will be £12m more than planned for 1987-88 albeit £8m less than planned provision for 1988/89 set out in last year's White Paper. This level of provision will enable investment in the trunk roads programme to be maintained at broadly current levels, with important bypasses given priority. Substantial increases have been made in provision for current expenditure by local authorities, although this constrained the amount available for capital expenditure by local authorities. The Government remain committed to subsidising shipping services and civil aviation facilities in the Highlands and Islands. Provision for the later years has been increased over the levels provided for in Cm 56. A start will be made on the promised upgrading of the A74 in the later years, but the programme will still permit other worthwhile projects to proceed.

HOUSING

The increased provision for Housing is concentrated on capital investment which is planned to increase by £30m and deal with the backlog of private sector improvement grants; and provide the SSHA and Housing Corporation in Scotland with the resources for their mainstream and urban information work.

OTHER ENVIRONMENTAL SERVICES

The Other Environmental Services programme maintains essential public services (mainly by local authorities) concerned with health and safety,

and environmental crimes. Increased provision has been made in the total programme including in particular £6m for the Urban Programme to direct funding into the re-generation of inner cities; and £15m extra capital provision to assist local authorities in implementation of the Community Charge in 1988-89 (in addition to extra current expenditure for this programme which the Secretary of State announced in July. The development of new industrial expenditure and jobs in the New Towns will also increase significantly. (Over 4000 new jobs were created in the Scottish New Towns in 1986-87).

EDUCATION

Provision has been increased by £180.1m or 9%. Within this figure local authority provision has been increased by £164.1m, including £90m which is unallocated to particular services pending the review of staffing standards. Central support for education reforms has been maintained (Standard Grade) or established (£0.8m for curricular development, assessment and management planning). Increased provision for higher education (£8.5m) will significantly ease the running cost pressures on the centrally funded sector.

LAW, ORDER AND PROTECTIVE SERVICES

Plans for the prison service give full cover for the cost in staff and supplies of the expected inmate population; provide for the costs of keeping Low Moss Prison open until 1989 and for the cost of introducing new working arrangements for prison officers in accordance with the Fresh Start agreement. For the police, provision will meet fully the expected cost of the service with a modest annual increase in manpower and will maintain central support for the Scottish Crime Squad and its Drugs Wing and to the Scottish Criminal Records Office. There will be continuing support for crime prevention measures. The plans also allow for higher levels of demand for legal aid services and for increased running costs in the Courts. £154m of capital spending is planned over the next three years, on new or improved court and prison buildings including the replacement of Peterhead Prison, and on the needs of the police and fire services.

ARTS AND LIBRARIES

Provision for local authority expenditure on Arts and Libraries has been increased by £6.1m (or over 10%) compared with 1987-88. Central government provision reflects completion of phase 1 of the National Library of Scotland and planning for phase 2.

HEALTH

Expenditure on the National Health Service in Scotland will be increased by about £130m next year, which is about 5.8% above this year's level of spending, and by over £100m in each of the two following years. The provision for hospitals and community health services will be increased by £85m, or 5.5%, to over £1660m. Health Boards will also be able to retain the resources released through their efficiency programmes, which should amount to over £20m next year. Plans for the Family Practitioner Services allow for expected increase in public demand and for the proposals for improving the services set out in the Government's White Paper "Promoting Better Health". Capital spending on the health service will total about £370m over the next three years.

SOCIAL WORK

Total provision for Social Work is planned to rise by some £47m primarily for local authority current and capital expenditure. The figures reflect the transfer of responsibility from the Secretary of State to local authorities for certain court disposals of children.

OTHER PUBLIC SERVICES

The expenditure covered by this programme is to provide for the administrative costs of the Scottish Office, including the Royal Commission on the Ancient and Historical Monuments of Scotland, and of 3 smaller Scottish departments: the General Register Office (Scotland), the Scottish Record Office and the Department of the Registers of Scotland.

Moreover, in many areas there are excellent arrangements for liaison between the police, the social services, the probation service and the educational welfare service so that the police can have the advice and views of these agencies before taking a decision whether to institute proceedings, to caution or to take no further formal action when a juvenile has offended. This is encouraged in the Home Office circular on cautioning issued in 1985. I suggest to the Committee that these developments may have a bearing on the issues which my noble friend raised today.

The other relevant consideration which I should draw to the Committee's attention is this. As the Committee will know, much anxious thought is being given to the question of a family court, which was mentioned by my noble friend and indeed in some detail by the noble and learned Lord, Lord Simon of Glaisdale. My noble and learned friend the Lord Chancellor hopes to be able to make his views known as soon as possible. One of the matters which would need to be decided in defining the jurisdiction of a unified family court is whether it should include the existing jurisdiction of the juvenile courts and, if so, to what extent. As my noble friend is aware, there are conflicting views about this among those who support the idea of family court. Some believe that child care proceedings would be a natural part of the business of a family court but not criminal proceedings involving juveniles. Others, impressed as my noble friend is by the Scottish experience, would be to reluctant to separate care and criminal proceedings.

While the Government's consideration of the family court idea is still continuing, my noble friend will not expect me to give completely definitive answers to the questions she has raised today. The underlying issues are important and I have tried to lay before the Committee some of the considerations which the Government believe to be relevant. I am, however, very grateful to my noble friend for raising this matter and the Committee can rest assured that my noble and learned and my right honourable friends will read the debate with interest as it will add to their considerations of the idea of a family court.

Baroness Faithfull: I am most grateful to all Members of the Committee who have taken part in this debate. I am very grateful to the noble and learned Lord, Lord Simon of Glaisdale, and the noble Lord, Lord Mishcon, for raising the question of family courts because I believe that, whether or not we have juvenile justice within the family court orbit, the two must be considered together at some point.

Let me say to the noble Lord, Lord Paget, that his attitude and his method of dealing with young people did not succeed. The recidivism rate was extremely high and, as the Minister said, it has dropped within the past few years. I thank the noble Lord, Lord Hutchinson of Lullington. I believe that he is quite correct that a number of juveniles do not understand the present system of court procedure. It is nothing to do with the magistrates; it is the way that the court is conducted and has to be conducted. But that means that neither parents nor children understand what is

going on, and I am grateful to the noble Lord for the points that he made.

I say with some diffidence to my noble and learned friend Lord Hailsham that having dealt with many children I know that children do not like the present system. They do not feel that justice is meted out to them under it. I agree with my noble and learned friend that children have a great sense of justice, but under the present system they do not experience it because they do not understand what is happening in the court.

I am most grateful to all who have taken part in this debate. I hope that the Minister will give serious consideration to this issue because the whole question is deeply felt in the country. However, at this stage I beg leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Lord Beaverbrook: Perhaps this would be a convenient moment to make the Statement. I beg to move that the House do now resume.

Moved accordingly, and, on Question, Motion agreed to.

House resumed.

Autumn Statement

4.9 p.m.

Lord Young of Graffham: My Lords, with the leave of the House, I should now like to repeat the Autumn Statement which is being made by my right honourable friend the Chancellor of the Exchequer in another place.

"With permission, Mr. Speaker, I should like to make a Statement. I am laying before the House today an Autumn Statement which, as usual, contains first the Government's outline public expenditure plans for the next three years and the expected outturn for this year; secondly, proposals for national insurance contributions next year; and, thirdly, the forecast of economic prospects for 1988 required by the 1975 Industry Act. The forecast of course takes into account the likely effect of the recent worldwide falls in equity markets.

"I turn first to the expected outturn for the current financial year, 1987-88. The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's Public Expenditure White Paper. The main reason for this shortfall is higher capital receipts by local authorities and new towns. Total spending on programmes, apart from this, is expected to be broadly in line with plans.

"Taking account of miscellaneous items not included in the planning total, the net shortfall on the expenditure side is likely to be slightly in excess of £½ billion.

"On the receipts side, total tax revenues are likely to exceed the Budget forecast by almost £2½ billion. This buoyancy reflects higher than forecast economic growth, greater than expected

[LORD YOUNG OF GRAFFHAM.]

profitability, and an oil price above the 15 dollars a barrel assumed at the time of the Budget.

"At that time, I set a public sector borrowing requirement for 1987-88 of some £4 billion, or 1 per cent. of GDP. As a result of the higher tax revenues and lower spending, I now expect the PSBR for the current financial year to be only £1 billion or $\frac{1}{4}$ per cent. of GDP, the third successive year of significant undershoot. Privatisation proceeds have, of course, made an important contribution to this year's low PSBR. But even if there had been no privatisation proceeds at all, it would still be the lowest PSBR for 17 years.

"I turn now to the public expenditure plans for the next three years. Since 1982-83 public spending, both including and excluding privatisation proceeds, has been declining as a proportion of national income. There is likely to be a further substantial reduction this year, which will make this the longest sustained fall in public expenditure as a proportion of national income since the early 1950s.

"In July, Cabinet reaffirmed the objective of ensuring that public spending as a share of national income continued to fall and in particular did not exceed the ratios published in the last White Paper. The plans that I am about to announce secure that objective.

"New planning totals have been set at £156 $\frac{3}{4}$ billion for 1988-89 and £167 billion for 1989-90, increases of £2 $\frac{1}{2}$ billion and £5 $\frac{1}{2}$ billion respectively over the totals previously published. For 1990-91 the planning total has been set at £176 billion. For the later years, I have judged it prudent to set aside larger reserves within the planning totals than I have done previously. The reserves will therefore rise from £3 $\frac{1}{2}$ billion in 1988-89 to £7 billion in 1989-90 and £10 $\frac{1}{2}$ billion in 1990-91. The planning totals also incorporate an estimate for privatisation proceeds of £5 billion a year, unchanged from the last White Paper.

"As I have indicated, these plans mean that public spending, excluding privatisation proceeds, will continue to fall as a share of national income. From nearly 47 per cent. in 1982-83, that share has come down to around 42 $\frac{1}{2}$ per cent. this year and by 1990-91 will be down to 41 $\frac{1}{4}$ per cent., the lowest since 1972-73. The new proportions are lower, for each year, than those published in the last White Paper.

"This progress has been founded on our success in reining back the rate of growth of public spending. In the 1960s and 1970s public spending grew by around 3 per cent. a year in real terms. In our first Parliament the real rate of growth averaged 2 $\frac{1}{4}$ per cent. a year; in our second Parliament, it was just under 1 $\frac{3}{4}$ per cent.; and in the succeeding four years, that is the current year plus the three survey years, the real growth of public spending is planned to be around 1 $\frac{1}{4}$ per cent. a year, well within the prospective growth of the economy as a whole.

"But while public spending as a whole is growing more slowly, the substantial reduction in public

borrowing this Government have brought about has, by reducing the burden of debt interest payments, made more room for programme spending. Coupled with strong economic growth this has enabled the Government to provide additional resources for a number of priority services. In each case, the figures I am about to give represent increases over the plans published in the last Public Expenditure White Paper.

"First, health. An extra £700 million is being provided for the National Health Service in England in 1988-89, and an extra £800 million in 1989-90. On top of this, the health service will benefit from additional resources from the cost improvement programmes and from land sales. All this will enable the NHS to continue to improve services.

"Secondly, law and order. Provision has been made for the substantial increase and acceleration in the prison building programme, which my right honourable friend the Home Secretary announced in July. This will provide 4,200 extra places by 1993. Provision for local authority spending on the police has also been increased significantly.

"Thirdly, education. Provision for local authority current spending has again been increased substantially. In addition, an extra £60 million a year has been provided for the improvement of school buildings. Spending on the universities will be increased by £115 million in 1988-89 and by £130 million in 1989-90. There will also be an additional £45 million in 1988-89 and £65 million in 1989-90 for science.

"Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation but will also provide additional resources for housing associations, much of it to be used in conjunction with private finance. Provision for urban development corporations is being increased by £65 million next year to help tackle the problems of the inner cities.

"There are also substantial increases in provision for social security spending, which has been increased by £1 billion for 1988-89 and £1.9 billion for 1989-90. This is partly because the take-up of benefits is likely to be higher than was previously envisaged. It also takes account of the uprating of benefits announced by my right honourable friend the Secretary of State for Social Services last week, including the cost of compensating income support claimants for their average contribution to rates.

"Spending on defence is to be increased by £230 million in 1988-89 and £490 million in 1989-90.

"The additions to planned capital expenditure for the public sector as a whole amount to some £1 billion in each of the next two years. About half of this is for the nationalised industries, principally for the large scale investment programmes of the electricity and water industries.

"Further information about these and other changes is contained in the printed Autumn Statement which will be available from the Printed Paper Office as soon as I have sat down. 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 turn now 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 Statement on benefits which my right honourable friend the Secretary of State for Social Services made on 27th October.

"The lower earnings limit will be increased next April to £41 a week in line with the single person's pension, and the upper earnings limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limit for the 5 per cent. and 7 per cent. bands will be raised to £70 a week and £105 a week respectively. The upper limit for the 9 per cent. rate for employers will be raised to £155 a week.

"The taxpayer's contribution to the National Insurance Fund—the so-called Treasury supplement—will be reduced from 7 per cent. to 5 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.

"Finally, I turn to the Industry Act forecast. Growth this year looks to be turning out at 4 per cent. compared with the 3 per cent. growth I forecast at the time of the Budget. This is well above the trend of the steady upswing which began in 1981 and faster than any other major economy. Strong growth in domestic demand has been more than matched by the rapid rise in exports. Manufacturing industry is doing particularly well, with output rising by 5 per cent. This strong performance has led to a substantial fall in unemployment, which is now more than 400,000 lower than a year ago—the largest annual fall on record. Indeed, unemployment has been falling faster in the United Kingdom than in any other major country.

As I forecast at the time of the Budget, inflation in the fourth quarter of this year is likely to be 4 per cent. I also see no need to amend my Budget forecast of a modest current account deficit of some £2½ billion, or about ½ per cent. of GDP.

"Looking ahead to 1988, the prospect is for a continuation of the steady growth with low inflation that we have now enjoyed for over five years. As I have already indicated, the full forecast I am publishing today takes into account the likely implications of the recent falls in world stock markets in so far as it is possible to do so at this early stage. This is clearly a time when economic forecasting is a more than usually hazardous business. But what is clear is that the strength of the British economy and of our public finances puts us in the best possible position to weather any storm. And that strength will also enable us to play a full part in the international co-operation which is more than ever needed today.

"Subject to the uncertainties to which I have just referred, the economy is forecast to grow next year by around 2½ per cent. With North Sea oil output now declining, this implies 3 per cent. growth for the non-North Sea economy as a whole. Domestic demand should continue to expand, though at a slightly lower rate than this year, with consumer spending and investment growing at a similar pace. Business investment is likely to be particularly strong, rising by 5½ per cent.

"With the United Kingdom continuing to grow faster than other major countries, and the oil surplus declining, there is likely to be a further small increase in the current account deficit, to about £3½ billion, or ¾ per cent. of GDP.

"Inflation may rise a little next year, reaching 4½ per cent. in the fourth quarter, by which time it should be on a downward trend again. The defeat of inflation remains at the heart of the Government's economic strategy. With continuing healthy growth in 1988, unemployment should continue to fall.

"The progress and prospects I have described demonstrate once again the soundness of the policies we have followed over the past two Parliaments. We will continue to pursue these policies in our third. Despite the recent deterioration in the world economic climate, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards, with inflation low and unemployment continuing to fall. We have brought this about by promoting enterprise, sound money and strong public finances. And that is what we will stick to".

My Lords, that concludes the Statement.

Lord Bruce of Donington: My Lords, we are grateful to the noble Lord for having repeated the Statement made in another place.

I expected that the noble Lord when he sat down would receive the customary approbation of his colleagues on the Government Benches who obviously share his sense of complacency and satisfaction. The Statement is one of the most outstandingly complacent on the economy to have been made in the House, at any rate to the best of my recollection. The Statement says nothing new at all. It is a reiteration of what the noble Lord has been busy saying from the left-hand side of the file that he produces here from time to time for many months—it seems almost many years. The Government must be living in cloud cuckoo land.

The Statement refers to the strength of the British economy. Nobody is quarrelling with the fact that a certain, quite important part of the British economy is strong. But the British economy consists not merely of the limited part to which the noble Lord refers. When we speak of the economy, we speak of all the resources of a nation in terms of manpower and physical resources and their proper utilisation. The fact that we are using only a fraction of them at present belies the noble Lord's statements—very often repeated—about the strength of the economy as a whole.

[LORD BRUCE OF DONINGTON.]

I do not wish in any way to decry the performance of those sections of the British economy that are doing very well. I will not even refer to the crash—or nosedive, according to taste—of a part of the economy by which the noble Lord has set great store within the financial sector. However, I have a warning to give to the noble Lord. I do not know whether the figures that he has derived come from the computer based on the Treasury model. The noble Lord has made reference to some of the undesirable effects of computers. They can be a dangerous aid in such matters. The noble Lord says:

“This is clearly a time when economic forecasting is a more than usually hazardous business”.

We on this side can only say “Hear, hear” and, like him perhaps, hope. We note that only a page further on the noble Lord says:

“Despite the recent deterioration in the world economic climate, the prospect I am able to offer the House is one of further sustained growth and steadily rising living standards”.

We on this side of the House devoutly hope that it is so. But it will need a little more work in the Kohl-Chirac-Thatcher axis to produce those conditions of economic expansion to which we on this side of the House have repeatedly referred and which are a vital necessity if the world economy as a whole is to escape from its present predicament—not only the United States but also particularly the South American states and the developed countries. We will of course examine the proposals and the figures in detail.

I wish to return to a theme which I ventured to lay before your Lordships well over a year ago and which I have repeated many times since. What the Government must do is drastically to reduce current interest rates. The Government must increase substantially investment in housing, bearing in mind that 90 per cent. of local authority housing is carried out by private enterprise in the localities. They must take immediate steps to increase, if necessary, the public sector borrowing requirement. I trust that the noble Lord listened to the remarks that fell from his friend Mr. Redwood, the former economic adviser to the Prime Minister, in the course of a television broadcast last Sunday.

We hope that the optimism of the noble Lord is correct. We hope that many of the aspirations he has put forward will turn out; otherwise, it is not merely the wealthy who suffer and who can afford to suffer in some instances, but the ordinary man and woman in the United Kingdom. We therefore devoutly hope that the noble Lord is right. But if there is to be a way forward, if there is to be a constructive growth of prosperity among all our people, the Government require a far greater vision, a far greater purpose, than the complacency which runs right through this Statement.

4.30 p.m.

Lord Diamond: My Lords, on behalf of my noble friends on these Benches, I, too, should like to thank the Secretary of State for repeating this full and fortunately very bullish Statement. I do not share entirely the views which have been expressed. Our approach is somewhat different. The Statement shows continuing growth and good prospects. I am

bound as an accountant to recognise that the Statement shows also that previous estimates have been on the low rather than the high side. We trust that the estimates included in these figures are similarly conservative, and that the prospects are therefore hopeful for many people in this country.

I have one major question to ask and one major criticism to make. The question relates to the extent to which the Government have taken account of the effect recent events on stock exchanges throughout the world particularly in this country on the estimated rates of growth and the expected sum needed by way of public sector borrowing requirement. I am not asking what those figures now are compared to what the Government said they would be a year ago. We know that. That is in the Statement. I am asking the Minister to be good enough to give the figures for growth in the current year and next year and the public sector borrowing requirement figures for the two years as they were before the crash—the figures, as we all know, were clearly prepared by that time—and now? That will give some indication of the extent to which the Government have taken account of those facts and some indication of the extent to which they regard them as an effective economic outlook.

The criticism I have to make is profound. It is quite impossible to comment usefully on the details of the various programmes until one has examined the Autumn Statement and the tables very carefully. But in general terms the Statement shows that the Government have been spending less and less of what they can afford to spend year after year. What they can afford to spend is related to the national product. In family terms, having regard to an increase in income, one would say “What can I afford to give to charity this year?”

The Government are saying that they are deliberately following a policy of giving less and less of what they can afford in public expenditure, in particular to the social services. They are doing this although the prospects for this current year and the coming year are, according to the Statement, good, if not very good. They are doing this although their borrowing is historically extremely low. There is no problem therefore about liquidity, about the cash to enable them to do more.

Against that background the Government are saying “We shall not alter our policy of skimping on public expenditure”. The resulting deprivation is not particularly to be seen in Westminster. But go to Wales, to Scotland or North-East England and it hits you in the eye! The Government are saying, “We are continuing our policy of dividing the people into richer and poorer by our tax policies, provided out of our reduction in public expenditure and through selling public assets. We are continuing that policy of making the rich richer and the poor poorer”. This is demonstrated by figures I have produced which the Government have accepted. There is no argument any longer about the trend.

We have become a nation of beggars. If noble Lords think my words are exaggerated, I invite them to go round and see the people sleeping rough, sleeping out of doors. This is happening at a time

when we are told, "Everything is okay and we could well afford to spend a lot more".

Lord Young of Graffham: My Lords, I am grateful to the noble Lord, Lord Bruce of Donington. The noble Lord is unusually half right on this occasion. I confess to a sense of satisfaction with the figures, but I should never confess to a sense of complacency. What we have and are seeing now is slow, steady progress, but progress which continues above the rate of any other industrialised nation in the world. As the noble Lord said, we are not utilising all our manpower. I had thought that the noble Lord would take this opportunity to congratulate the nation on the fact that the OECD has at long last reported our unemployment in single figures while in France, our nearest neighbour across the water, it is 11 per cent. Our unemployment is going down and is continuing to go down.

The noble Lord also said that interest rates are too high, that we should get them down, and that we should put up the PSBR if necessary. The single effect of putting up the PSBR would be to increase interest rates. That is the one thing that follows, as night follows day. It is only prudent financial policies that enable us to be in this position of relative strength.

I am grateful to the noble Lord, Lord Diamond, for the first part of his contribution which I thought was thoughtful. It is very difficult to give the figures as to what the Chancellor's forecasts may well have been three weeks ago and what they are today—in fact, I do not believe I can do so—save to say that the forecasts we have today take account of the likely outlook as we see it now of the recent fall in stock exchange prices around the world. However, it is very difficult to forecast normally, and it is even more difficult to forecast in this particular position. We have taken a forecast which at the present time seems right in all the circumstances.

There I fear that I part company with the noble Lord, Lord Diamond. He then went on to say that we were deliberately choosing to give a lower proportion of what we could afford to give, thereby—to use his rich, emotive language—making the rich richer and the poor poorer. He drew attention to a condition where some poor unfortunate individuals are sleeping out, as they have slept out I suspect for the past 100 years—if not them, others in that position.

Noble Lords: No!

Lord Stoddart of Swindon: I thought we had made some progress since then.

Lord Young of Graffham: My Lords, we are talking about a social problem. We are hardly talking about a problem of government expenditure.

I should like to make two points. First, it is only because we are reducing public expenditure as a proportion of GDP that the economy continues to grow and as a result we have more money to spend. Next year we will spend £1,000 million more on social security and the year after we will spend £1,900 million more. Next year we will spend £700 million more on the health service and the following year we will spend £790 million more. Next year we will spend

£630 million more on education and the year after we will spend £800 million more. Next year we will spend £360 million more on law and order and the following year we will spend £450 million more.

The list goes on and on. It goes on only because our public expenditure as a proportion of GDP is going down in a planned way. That is the way to run an economy, so that we can have the kind of society that all in your Lordships' House would want.

Lord Boyd-Carpenter: My Lords, is my noble friend aware that what he had just said about the reduced share of GDP taken in taxation is one of the most encouraging things that many of us have heard for many years? It is clear that this whole Statement is one that is of immense reassurance to a great many people both in your Lordships' House and outside. If any of us had had any doubts, we should have been completely reassured by the frenzied efforts of the noble Lord, Lord Bruce of Donington, to find anything the matter with it; they were wholly unsuccessful. Is my noble friend further aware that the making of this Statement has also given us the unique experience of hearing a former Chief Secretary to the Treasury grumbling that expenditure was too low?

Lord Young of Graffham: My Lords, I am extremely grateful to my noble friend.

Lord Peston: My Lords, I should like to ask the Secretary of State about two aspects of the Statement which are slightly puzzling. First, nothing is said about the medium-term financial strategy. Are we to assume that that is now dead and that the Government do not rely on it at all as part of macro-economic policy? Secondly, do the Government have any view on the level of exchange rates as they exist at the present time? In particular, is 1.75 dollars to the pound viewed by the Government as a good development in terms of the present state of the balance of payments or as a bad development?

Lord Young of Graffham: My Lords, I am happy to assure the noble Lord that we are pursuing our medium-term objective of reducing inflation and maintaining conditions for steady growth as set out in the medium-term financial strategy at the time of the Budget; and from that we have not departed. On exchange rates, we can only see the position as it is from day to day and act accordingly. I do not think it would be right at this time to give a forecast.

Lord Somers: My Lords, may I say how delighted I was to hear about the increased expenditure on education, which is not only necessary but urgently necessary. If the plans of the Secretary of State for Education for removing responsibility for education from the local authorities go ahead, I presume that that allocation to the local authorities will not take place. Will there be any guidance as to how this money will be spent? Will it be spent on buildings, new courses, or what?

Lord Young of Graffham: My Lords, I am glad to be able to assure the noble Lord that it is not part of our plans for expenditure to be taken out of the hands

[LORD YOUNG OF GRAFFHAM.]
of local education authorities. There is, though, a well thought out plan to enable individual schools to opt out of the control of local education authorities where parents and teachers so wish and to enable them to be funded direct. However, they will still fall within state education; they will still provide free state education; they will still fall within the ambit of the national curriculum; but instead of coming under the local authority they will be directly funded state schools. In itself, that should not have too much effect on expenditure totals. It will, I suspect, have a great deal of effect on the quality of education imparted.

Lord Kirkhill: My Lords, while I would not necessarily disagree with the Minister when he failed to link the numbers sleeping rough in, for example, the Westminster area with the overall impact of government public expenditure, would he nevertheless not agree that the constriction as it applies to most local authorities had led to an increasing spirit and sense of urban deprivation? Would he not agree that that is most apparent in the northern areas of this country?

Lord Young of Graffham: No, my Lords; I am afraid I would not agree. The noble Lord mentioned those who are sleeping rough at the moment. That has nothing to do with the lack of accommodation for individual people. It says a great deal about those who for reasons of their own wish to opt out. It is a social problem which must be dealt with, and I hope that it can and will be dealt with.

We have suffered in the past from a feeling that somehow the state is responsible for all and therefore people give up their sense of personal responsibility for their neighbour. It is that sense of hopelessness that has contributed to a sense of degradation. When we have a sense of personal responsibility back again I suspect that we shall see a far better result.

Viscount Eccles: My Lords, while I am delighted to hear the encouraging news of the economy and while I agree that it will enable us to weather—I think that was the word—the international storm, does it not enable us to do rather more than just weather it? Could we not use our stronger position to take a strong lead? The Americans and the other countries—and we are all in it together—need an example and we can give them an example. I should have thought that we could put on the table a substantial reduction in our interest rates if they would do likewise.

Lord Young of Graffham: My Lords, most commentators attribute one of the causes of the world-wide decline in stock exchange prices to the lack of resolution of the problem of the deficit in the United States. One of the very first acts when the fall came about was a reduction of interest rates in this country and in other countries in order to ensure that world-wide liquidity was maintained. I will pass on my noble friend's remarks to my right honourable friend the Chancellor of the Exchequer. I am sure that he has that fully in mind. There is little doubt that we will have an important contribution to make

as regards the difficult situation in the world economy, a situation we would not have had a dozen years ago with our economic position at that time.

Lord Carter: My Lords, if the growth in the economy is forecast to fall from 4 per cent. to 2½ per cent. or to 3 per cent. in the non-oil economy, and if the pound is now standing at 1.74 dollars compared with the Chancellor's unofficial target of 1.60 dollars, does this not imply an increase in unemployment?

Lord Young of Graffham: No, my Lords. Our forecast is that if the economy remains as we see it at the present time, unemployment will continue to fall. We should be very careful before we take a snapshot view of exchange rates and assume that that view will prevail in the months ahead. It is much too fluid a position at the moment to take that view.

Electricity Supply Industry: Financial Target

4.48 p.m.

Viscount Davidson: My Lords, with the leave of the House I shall now repeat a Statement made in another place by my right honourable friend the Secretary of State for Energy. The Statement is as follows:

“With permission, Mr. Speaker, I should like to make a Statement. As the House knows it has been the policy of successive Governments to agree targets for the nationalised industries which set their financial framework and which enable them to plan their operations in a commercial manner. The industries then decide how to achieve these targets either through price increases, cost savings or a combination of both.

“The present target for the electricity supply industry which covers the three years 1985-86 to 1987-88 is a 2.75 per cent. average return on current cost assets.

“The Government have therefore been discussing with the Electricity Council the targets for the years ahead. Although the details of individual boards' targets have yet to be finalised it has agreed an overall target for 1988-89 and 1989-90. The industry's external financing limit which was announced by my right honourable friend this afternoon, is based on this target.

“In considering the target for these years the Government have had to take into account the fact that, although in the recent past the electricity supply industry has had a surplus of capacity, this position is now changing. On current forecasts, the Central Electricity Generating Board envisages that at least 13 gigawatt of new capacity will be needed to meet demand by the end of the century. Furthermore the industry also needs to modernise its transmission and distribution system if it is to maintain secure and economical supplies into the next century.

“At a time of surplus capacity, it is possible to meet extra demand by using that surplus at relatively little extra cost. In the past this has been reflected in a low rate of return. It took account of