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Treasury Chambers, Parliament Street, SW1P 3AG

Paul Gray Esq
Private Secretary
10 Downing Street
London
SW1

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~~Dear Paul,~~

22 January 1988

PUBLIC EXPENDITURE WHITE PAPER: LETTER TO BACKBENCHERS

... I attach for your information a copy of the letter the Chief Secretary made available today to Government backbenchers setting out the background to the 1988 Public Expenditure White Paper.

I am copying this letter to the Private Secretaries to other members of the Cabinet, to Miles Wickstead in Mr Patten's office, and to Elinor Goodison in the Mr Luce's Office.

Yours,

Jin.

JILL RUTTER
Private Secretary



HOUSE OF COMMONS
LONDON SW1A 0AA

22nd January 1988

Dear Colleagues,

WHITE PAPER ON PUBLIC EXPENDITURE

The White Paper on Public Expenditure was published on Wednesday. I thought you might find it useful to have some background and key points on it.

The Public Expenditure White Paper is not an occasion for announcing new decisions on public expenditure. Those were announced last November in the Autumn Statement when the Chancellor set out our plans for increases both in the overall level of public spending and, particularly, on our priority programmes over the next three years.

The White Paper fleshes out those plans with further details on each individual programme. It explains exactly where the money goes, what it buys and how we are obtaining better value for money. It shows clearly how we have increased spending on our priorities. The two month delay between the announcement of our plans and the publication of the White Paper does not spring from any further review of plans, which occurs annually, but simply reflects the considerable practical task of collating the detailed information and producing a document of over 500 pages.

Looking at the totals first, our stated strategy remains - as it has been since 1979 - to reduce the public sector's share of total national income so that we can reduce taxation and provide a favourable climate for the private sector while maintaining a prudent level of borrowing. That is the way to foster enterprise and economic growth, without which we cannot improve public services and private prosperity on a sustainable basis.

In this way, as the economy grows we are able to afford real increases in public spending without putting a strain on the national finances. In the four years from 1986-87 to 1990-91 we plan for real terms growth in total expenditure of about 1¼ per cent a year. Within that sum the amount available for services is planned to increase more speedily because our prudent approach to borrowing is sharply reducing the growth in the burden of debt interest. In the next three years, therefore, the sums available for services are set to increase by over 2 per cent a year in real terms - over £3 billion a year extra at today's prices.

Each year we carefully re-examine spending plans, and the White Paper reflects the fact that in the last review we felt able to increase public expenditure plans for 1988-89 by £2½ billion (following an increase of £5½ billion for 1988-89 in last year's White Paper) and £5½ billion for 1989-90.

So the true message from our plans is that we have been able to increase priority expenditure within the framework of a prudent approach to public finances. Tax rates are down, borrowing is down, and priority spending is up. This prudent approach, of ensuring that total public expenditure grows less rapidly than the economy as a whole, was clearly spelt out in our election manifesto last year, and we will stick to it.

Keeping public spending under control does not mean arbitrary savings. But we have consciously made savings in a number of areas: reducing subsidies to industry, both public and private; by getting the private sector to play a greater role in housing; and by holding down borrowing. This has enabled us within our new plans to increase provision for a wide range of priority programmes including:

- (i) **Aid.** We have increased provision by £32 million in 1988-89 and £63 million in 1989-90 and in addition we have agreed to provide funds towards the extra cost of contributions to the IMF structural adjustment facility to help the poorest debtor countries. The aid budget is set to increase in real terms in the next 3 years.
- (ii) **Arts.** This year we concluded a special three-year settlement for the arts which allows for central government spending to rise in cash terms by some 27 per cent over the years to 1990-91.
- (iii) **Defence.** We have increased provision by over £200 million in 1988-89 and nearly £500 million in 1989-90 over last year's plans. There has been some comment about the apparent real terms fall in spending provision between 1987-88 and 1988-89. But to get a true picture, it is necessary to take account also both of the real increase of 25 per cent

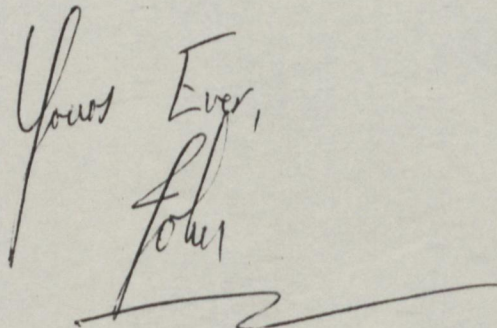
since 1978-79, and of the fact that the Ministry of Defence will carry forward a substantial sum from this year's budget into next year to add to the new provision set out in the White Paper. Moreover by contracting out support services we are saving at least £40 million a year and even larger sums by bringing competition to bear on defence procurement.

- (iv) **Education.** The plans show an increase in provision of over £600 million in 1988-89 and £800 million in 1989-90. This will provide extra resources for universities and science and enable us to increase still further the proportion of young people entering higher education. As you know, this proportion is already at record levels. We have also made available an additional £60 million for capital spending to improve school buildings and a further £61 million to assist universities in essential restructuring. The science budget too has been increased by £50 million.
- (v) **Health.** The Health service has again been a prime beneficiary. Our plans show the largest ever increases to provision for the NHS. Next year we have made provision to spend over £1.1 billion more than we are doing this year, and there are similar increases in the following years. (This increase is, of course, measured after including in the 1987-88 figure the extra money made available during the course of the year. If you compare next year's plans with the original plans for 1987-88 set out in last year's White Paper, the increase is around £1.7 billion). Taking account of the resources released by cost improvement programmes and by the new schemes for generating income in the hospital service, resources for 1988-89 will rise by between 2½ per cent and 3 per cent in real terms. We also have an excellent record on capital spending with over £1 billion committed to capital schemes next year. Since 1978-79 we have increased the level of capital spending by over 35 per cent in real terms. Our plans will enable the NHS to continue to expand and improve patient care.
- (vi) **Housing and Environment.** Receipts from council house and new town sales are running at record levels, and this White Paper shows a further rise in provision for gross capital expenditure. This increase amounts to nearly £400 million in 1988-89 and includes additional provision for estate action, renovation of local authority buildings, the housing corporation and housing action trusts. The provision for Urban Development Corporations has been increased by £70 million in both 1988-89 and 1989-90.

- (vii) **Law and Order.** This has always been a priority and remains so. Next year we have provided an additional £240 million for the police and an extra £60 million to speed up the prison building programme and provide an additional 4,200 prison places by 1993. Overall the programme shows a real increase of 50 per cent since 1978-79 with further real growth to come.
- (viii) **Social Security.** Our plans again provide for large increases of over £1 billion in each year of the Survey. The social security budget continues to grow in real terms despite the welcome fall in unemployment. This is largely because of the continuing growth in the cost of pensions and of benefits for the sick, the disabled and families.
- (ix) **Trade and Industry.** Provision for DTI programmes shows increases of £280 million a year in each of the next two years. David Young has announced a radical restructuring of programmes, to focus assistance on small businesses and to move away from automatic grants. Even so, as the plans made clear, this has not involved reductions in provision for regional assistance.
- (x) **Transport.** The White Paper makes additional provision for a major programme of bridge maintenance. Capital spending on motorways and trunk roads in England will be 30 per cent higher in real terms in 1988-89 than 1978-79
- (xi) **Science and Technology.** The White Paper shows increased provision for civil science and technology of about £250 million in 1988-89 and 1989-90 compared with previous plans. As a result civil science and technology spending will go up by 3 per cent next year in real terms.

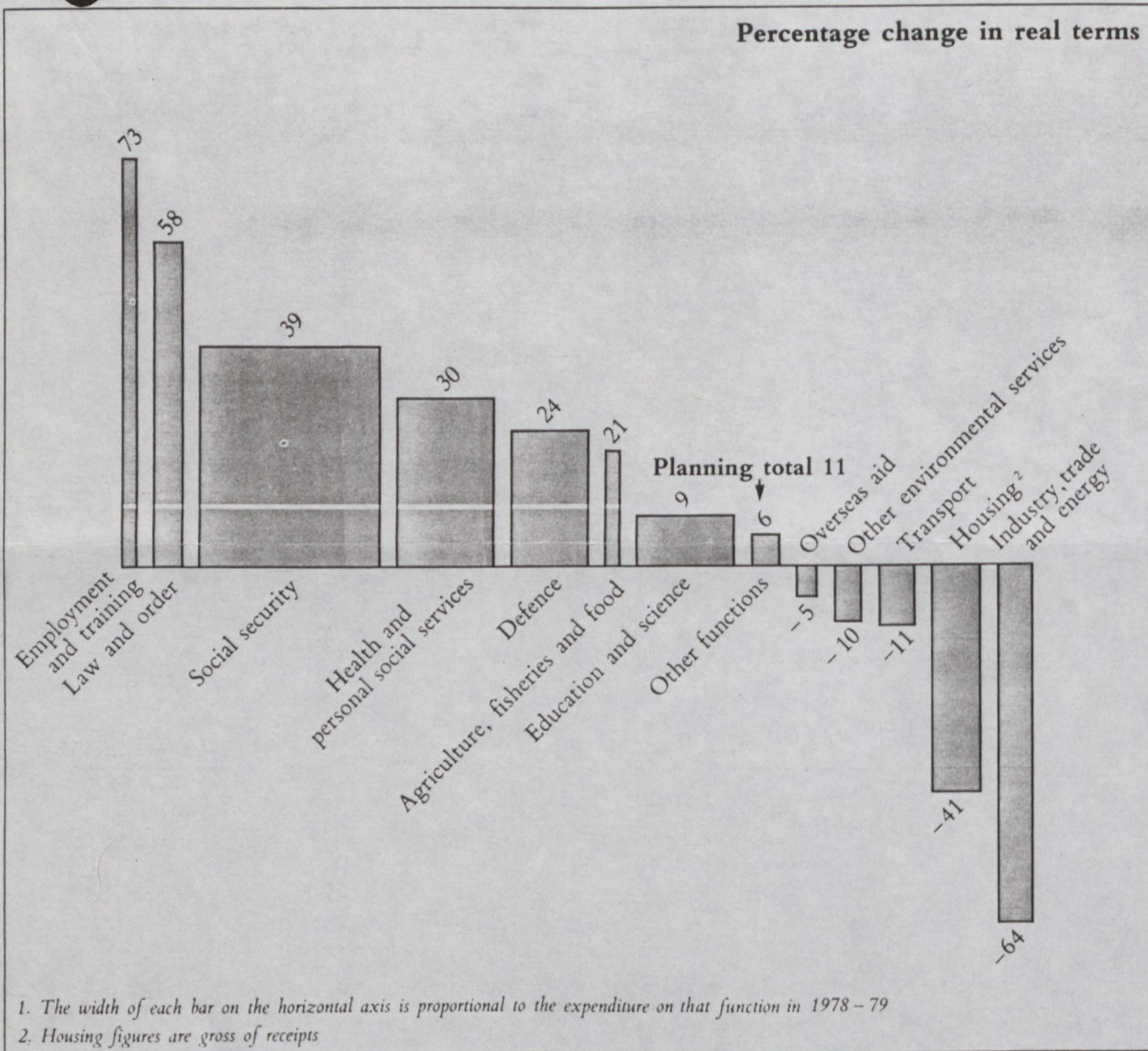
I attach a couple of charts from the White Paper which clearly illustrate our priorities and record on public spending. I hope you find this information useful and that it puts our plans in proper perspective.

Yours Ever,
John



JOHN MAJOR

Chart 5.13 Percentage changes in spending by function between 1978-79 and 1987-88¹



13. **Table 5.14** illustrates trends in public sector capital spending. It uses the wider definition of capital spending described earlier and shows that public sector capital spending in the current year is broadly level, in real terms, with that in 1978-79.