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MEETING RECORD
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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 April 1990

Dear Cawys,

PROSPECTS FOR THE 1990 SURVEY

The Prime Minister discussed the Chief Secretary's paper on prospects for the 1990 Survey with the Chancellor and the Chief Secretary yesterday.

The Chief Secretary said that it would be an extremely difficult Survey. There was little room for manoeuvre. Taking on board expected bids for additional community charge benefit and uprating social security benefits, the Reserves for 1991-92 and 1992-93 would already be well depleted - before accounting for any extra AEF or any successful bids in this Survey. Also on existing revenue projections, the scope for fiscal adjustment in each of those years would only be around £1 billion.

Particularly large bids were expected from the Health, Education and Transport Departments. Bids of between £2½ and £3½ billion to meet the full year cost implications of higher pay following the review bodies reports, enhanced hospital capital programmes and implementation of the health service review could be expected. Over £1 billion in each year might have to be conceded. On education, large bids for schools capital projects and, to a lesser extent, extra capital spending on polytechnics, would be submitted. The Transport Secretary in addition to seeking more for the roads programme, would be bidding for major new rail projects. It might also be politically difficult to freeze child benefit for a further year.

There should be scope for savings on the Defence programme though measures such as reducing the British Army on the Rhine, reviewing the procurement programme and deferring purchases. But even if substantial savings on defence could be achieved, the overall public expenditure position would remain very difficult.

It would be important to make clear to both Cabinet colleagues and Backbenchers just how difficult the public spending position was. The Reserve for 1990-91 was already virtually fully exhausted at the very beginning of the financial year. The PSDR figures for 1990-91 could also give a misleading impression: excluding privatisation proceedings and local authority asset sales, there was already a small borrowing requirement. And next year local authority asset sales were expected to fall back.

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The Chancellor said that it was not just a question of missing the Government's target for the ratio of GGE to GDP. Unless a very firm stance was taken on public expenditure, there was a clear danger of the Government having to face an unenviable policy choice between higher taxes and a return to borrowing.

Summing up the discussion, the Prime Minister said it was vital to persuade colleagues both in Cabinet and on the Backbenches that the public spending position was very difficult and that there was no public sector surplus to be raided for politically attractive projects. The Prime Minister said it would be necessary to establish priorities for the forthcoming survey. Uncomfortable policy choices would have to be faced, in such areas as AEF, the freezing of child benefit and implementation of major new transport infrastructure projects.

The Chief Secretary should circulate a minute to Cabinet colleagues on Easter Tuesday, along the lines of the draft attached to your minute of 2 April. The paper would be discussed at Cabinet on Thursday 19 April. The opening section of the paper should be revised to bring out:

- (a) that nearly the whole of the Reserve had been accounted for this year; and that the Reserve for years 1990-91 and 1992-93 were under enormous pressure;
- (b) that the present public sector debt repayment was more than accounted for by privatisation proceedings and local authority asset sales: without those, the Government would already have been in deficit.

It would be appropriate for the Chancellor and the Chief Secretary to speak to the Whips' Office about getting the message across to Backbench colleagues. It would be particularly important to impress upon those Cabinet colleagues likely to submit large bids just how difficult the position was. Accordingly, the Prime Minister would speak to the Transport, Education and Health Secretaries over the next few weeks and urge them to take account of the very difficult public spending position in framing their bids for the forthcoming Survey.

I am copying this letter to John Gieve (H.M. Treasury).

Your ever,

Barry

BARRY H. POTTER

Miss Carys Evans,
Chief Secretary's Office.