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FROM: CHIEF SECRETARY
DATE: 19 October 1990

PRIME MINISTER

1990 PUBLIC EXPENDITURE SURVEY

I can now report agreement on public expenditure with all colleagues except Tom King. The Chancellor and I have not yet finalised the detailed Survey arithmetic. However I thought you might welcome an update of where we have got to.

2. Total bids in September were £17¼/22¼/28 billion, for the three Survey years, including a hard core of irresistible increases amounting to about £8½ billion in 1991-92. I have now agreed bilaterally cash additions to programmes amounting to £11¼/15/18 billion. To reach this position. I have had to reduce colleagues' discretionary bids by nearly 70%. Leaving Defence on one side, I judge this to be a very tight settlement indeed, and one that has required very difficult decisions all round.

3. Nevertheless the outcome will require very careful presentation. Although the precise numbers are not settled, we shall need to explain a considerable rise in planned spending between this year and next, much of which was built into the baseline for the Survey.

4. We can stress that, despite the scale of the irresistible increases, the new level of spending will almost certainly be rather lower in real terms than the planning total for 1991-92 we published last November - we have not accommodated the increase in the GDP deflator, let alone inflation as measured by the RPI. We can also point to the real growth in general government expenditure (GGE), which I expect to be much lower than the growth in the Planning Total. It will be important to set this year's outcome in the context of the Government's excellent record. Total public spending has scarcely risen in real terms

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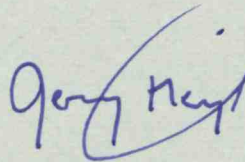
since 1984-85. Cyclical factors helped to hold spending down when the economy was growing very rapidly. They are now working against us. But we will not allow the share of spending in national income to rise sharply, as it has during previous periods of slow growth and high inflation.

5. Nonetheless the GGE/GDP ratio in 1991-92 is likely to show a small rise (around $\frac{1}{4}$ - $\frac{1}{2}$ per cent) on this year's outturn to a level above that published in last year's Autumn Statement. There is little prospect of a decline in the ratio between 1991-92 and 1992-93.

6. Accordingly, I have attached great importance to achieving a convincing decline in the ratio in the final year of the Survey, preferably to a level no higher than that expected for this year. The extent to which this will be possible will, of course, depend on the scale of the savings I can score for Defence in 1993-94.

7. Outside commentators will judge the firmness of our resolve on public expenditure by the settlements on individual programmes as well as by the aggregate figures. I am grateful to a number of colleagues for taking very difficult decisions. For example, Michael Howard and Peter Lilley will need to defend settlements which are fractionally below baseline; Cecil Parkinson scaled back BR and LRT's bids very considerably; Ken Clarke has very sharply reduced his health bids to the minimum consistent with ensuring a smooth introduction of the NHS reforms; and John MacGregor's settlement for education will come under intense scrutiny.

8. Against this background, I believe it is essential to show that we have been prepared to grasp the nettle on Defence, where the opportunities to make substantial savings are greater than they have been for a generation. I am minuting you separately on that.



NORMAN LAMONT

[Approved by the Chief Secretary
and signed in his absence]