



Ref. A090/2616

PRIME MINISTER

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CABINET: 1990 PUBLIC EXPENDITURE SURVEY

Paper by the Chief Secretary: C(90)9

CONCLUSIONS

The Chief Secretary's paper lists in paragraph 15 the points on which he invites the agreement of Cabinet. The main point is that he seeks Cabinet endorsement of the settlements which he has reached on individual public expenditure programmes. You will want to invite the Cabinet to accept his proposals.

2. The Chancellor of the Exchequer will in discussion put forward his proposals for the levels of reserves, and hence for planning totals, over the Survey period. You will want the Cabinet to accept the Chancellor's proposals too.

3. The Chancellor of the Exchequer will also set out his assessment of the prospects for the economy, including the Industry Act forecasts, as it will appear in the Autumn Statement. There is no need to record a Cabinet decision about this.

4. You will wish at the end of the discussion to read out the communique to be given to the press after the meeting, announcing that the Chancellor will make his Autumn Statement later that day. The contents of the Autumn Statement should be kept strictly confidential until then.



The Chief Secretary's paper

5. You will want to start by asking the Chief Secretary to introduce his paper. It gives details of the settlements on individual programmes; the consequent total additions to programmes; the Survey outcome on capital spending and running costs; and the estimated outturn in 1990-91.

The Chancellor's Statement

6. You may then wish to ask the Chancellor to speak. He will propose that reserves and planning totals should be:-

	£ billion		
	1991/92	1992/93	1993/94
Reserves	3.5	7.0	10.5 ✓
Planning totals	200.3	215.0	226.1 ✓
	+18.6	+11.6	

More details are shown in Table I attached. An important point here is how far the Government has met its main objective of maintaining the downward trend in general government expenditure as a proportion of GDP. Table I (last line) shows that this will remain stable at the 1990-91 (and 1989-90) level of 39.5% for the next two years, reflecting the slowdown in the economy, before resuming its decline to 39% in 1993-94.

7. The Chancellor will also confirm his intention, subject to Cabinet agreement, of making his Autumn Statement in the afternoon. He will describe briefly the prospects for the economy to be shown by the forecasts in the Statement.

Subsequent discussion

8. After the Chief Secretary and Chancellor have spoken, you will want to invite other Ministers to speak. Some Departmental Ministers may wish to say a few words about the settlements they



have reached on their own programmes. You may wish to ensure that any decisions on which they anticipate significant controversy are brought to the attention of Cabinet and their justification explained. But you will wish to discourage any interventions which might imply reopening of these settlements.

Presentation and next steps

9. You may wish to propose that the No 10 Press Office should issue a statement along the following lines:

"Cabinet today successfully concluded its work on the 1990 Public Expenditure Survey. The Chancellor proposes to make his Autumn Statement to the House this afternoon, setting out the outcome of the Survey and the prospects for the economy. The full printed version of the Autumn Statement will be published on Tuesday 13 November."

10. You may also wish to emphasise:

i. confidentiality. Until the Chancellor has completed his statement in the House its contents must remain strictly confidential.

ii. presentation. It is important that there should be a consistent and balanced presentation by Departments of the decisions affecting their programmes which reflects the fact that priority commitments have been honoured while maintaining a firm grip on total spending.

You may find it helpful to have the attached supplementary notes on the general Survey outcome, provided by the Treasury.

HANDLING

11. You will wish to ask the Chief Secretary, Treasury to speak first on C(90)9, followed by the Chancellor of the Exchequer on



the reserves and planning totals, and prospects for the economy. You could then give any Cabinet Minister who wishes to speak an opportunity to do so.

R.R.B.

ROBIN BUTLER

7 November 1990

conqueror

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TABLE I

SECRET until [date of Autumn Statement] and then UNCLASSIFIED

Updated:  
05/11/90

	OUTTURN 1989/90	ESTIMATED OUTTURN 1990/91	NEW PLANS 1991/92	1992/93	1993/94	£ billion
<b>PLANNING TOTAL</b>						
Change agreed in Survey			7.9	11.6		
New plans	162.7	180.6	200.3	215.0	226.1	
Year on year growth - cash (%)		11.0	10.9	7.3	5.1	
Year on year growth - real (%)		2.8	4.6	2.5	1.6	
Average real growth 1989-90 to 1993-94					2.75	
Difference between new plans and 1989						
Autumn Statement plans at 1989-90 prices (%)		-1.9	-1.1	-1.3		
Memo:						
GDP deflator assumption in Survey (%)		8.0	6.0	4.75	3.5	
GDP deflator assumption in 1989 Autumn Statement		5.0	3.5	3.0		
<b>COMPONENTS OF PLANNING TOTAL</b>						
<b>CENTRAL GOVERNMENT SPENDING</b>						
Change agreed in Survey			6.1	8.8		*
New plans	127.6	140.9	152.2	161.7	168.0	
Year on year growth - cash (%)		10.4	8.1	6.3	3.9	*
Year on year growth - real (%)		2.3	2.0	1.5	0.4	*
Average real growth 1989-90 to 1993-94					1.50	*
<b>CENTRAL GOVERNMENT SUPPORT TO LOCAL AUTHORITIES</b>						
Change agreed in Survey			4.0	4.6		*
New plans	38.2	42.7	47.8	49.7	51.1	
Year on year growth - cash (%)		11.8	11.6	3.7	2.9	*
Year on year growth - real (%)		3.5	5.3	-1.0	-0.6	*
Average real growth 1989-90 to 1993-94					1.75	*
<b>NATIONALISED INDUSTRY EFLs</b>						
Change agreed in Survey			0.8	0.6		
New plans	1.1	2.1	2.3	2.1	2.0	
<b>PRIVATISATION PROCEEDS</b>						
1989 Autumn Statement		5.0	5.0	5.0		
New plans			5.5	5.5	5.5	
<b>RESERVE</b>						
1989 Autumn Statement		3.0	6.0	9.0		
New plans			3.5	7.0	10.5	
<b>GENERAL GOVERNMENT EXPENDITURE (excluding privatisation proceeds)</b>						
Change since 1989 Autumn Statement			12.0	17.5		
Change since 1990 FSBR			8.7	13.2		
New projections	203.1	221.0	239.2	256.6	269.5	
Year on year growth - cash (%)		8.9	8.2	7.3	5.0	
Year on year growth - real (%)		0.8	2.1	2.4	1.5	
Average real growth 1989-90 to 1993-94					1.75	
<b>RATIO OF GGE TO GDP(%)</b>						
1989 Autumn Statement (published)	38.75	39.00	38.75	38.50		
1989 Autumn Statement (consistent with 1990 AS)		39.75	39.50	39.25		
1990 Survey	39.50	39.50	39.50	39.50	39.00	

NOTE: Figures in these rows for 1991-92 onwards are adjusted to remove the effect of transfers between spending sectors.

## E1 THE NEW PUBLIC EXPENDITURE PLANS

1. Facts

1.1 In brief: The Government has raised the cash provision for public spending and continues to plan for real growth. But the new planning totals do not fully accommodate the unexpected increase in inflation, and show lower real growth on average over the Survey period than those set a year ago. The new plans imply that the ratio of public spending to GDP will be broadly stable, despite weaker activity. The downward trend in the ratio is resumed in 1993-94.

2. Points to make

2.1 Excellent record - see brief E6.

2.2 Tight overall settlement

- planning totals for 1991-92 and 1992-93 about 1 per cent lower in real terms than those set last year. (Additions to plans 4 per cent. Expected price level next year over 5½ per cent higher). Inflation not accommodated:
- average real growth in planning total less than envisaged last year: growth 1989-90 to 1993-94 2½ per cent, compared with 4 per cent over 1989 Survey period (1988-89 to 1992-93).

2.3 Policy on course

- ratio of GGE (excluding privatisation proceeds) to GDP stable at 39½ per cent (1988-89 level), despite weaker activity: contrast past downswings when ratio rose strongly.
- downward trend resumes in 1993-94: ratio reaches 39 per cent, lowest level since 1965-66.
- average real growth in GGE 1½ per cent, well within underlying growth in the economy. Same as average growth over 1989 Survey period.

2.4 Existing commitments honoured within affordable total

- extra resources concentrated in three main areas: social security (£3 billion extra mainly cost of uprating benefits in line with September RPI); central government support for local authorities (AEF settlement and transitional relief added about £2½ billion to plans for 1991-92); health (nearly £2 billion addition in UK next year). Total: about £7½ billion.
- Limited increases elsewhere - for public transport (over £½ billion extra next year); education (£½ billion extra in 1991-92) and environment (£180 million in 1991-92 for areas discussed in White Paper).
- Spending in other areas held back: some settlements at or below baseline, in cash terms (Employment, DTI). Real decline in Defence budget over Survey period.

For further programme details - see Brief E3.

2.5 Plans credible and prudent: Reserves (£3½/7/10½ billion) higher than those set last year (£3/6/9 billion).

2.6 Capital investment: additions to central government capital (excluding Defence) of about £½ billion a year: additions to nationalised industries investment of £900 million in 1991-92, and about £½ billion a year, in later years. (Estimates provisional at this stage). Extra support for local authority capital (about £400 m).

### 3. Points to watch

3.1 Huge increase in planning total in 1991-92 [cash addition: £8 billion. Year on year increase: £19½ billion. Real growth: 4½ per cent,

- Higher than expected inflation has put upward pressure on cash plans. Even so, addition to cash plans (4½ per cent) less than percentage addition to expected price level in 1991-92 (over 5½ per cent).
- Social security benefits indexed to September RPI (10.9 per cent) - running well above other measures of inflation, and projected increase in GDP deflator next year (6 per cent). 6 per cent real increase in social security spending in 1991-92.
- even so, central Government spending rises only 2 per cent in real terms.
- 5½ per cent real increase in central Government support for local authorities (mainly AEF). Implies that central Government will finance higher proportion of local authority spending next year. Raises planning total relative to GGE.
- real GGE (excluding privatisation proceeds) grows by only 2 per cent.
- GGE ratio constant despite weaker activity.

3.2 1991-92 planning total breaks £200 billion barrier. So what? No magic in £200 billion. New plans represent tight overall settlement, consistent with Government policy on public expenditure.

#### 3.3 Largest ever cash additions

- [4 per cent added to planning total, compared with about 3½ per cent in 1986].
- What matters is that cash additions are less than needed to compensate for higher expected prices next year (see above).

#### 3.4 What happened to cash planning?

- Inflation not accommodated (see 2.1 above).
- Cash planning means all increases have to be justified ie no automatic compensation for inflation. Some programmes increased in real terms, others reduced.

3.5 Policy of reducing GGE ratio abandoned? No. Ratio falls in 1993-94. Chancellor told TCSC (when Chief Secretary, November 1988) that perfectly possible for ratio to turn upward in particular year if economy slows substantially, but that does not mean downward trend in ratio will not continue over time. Similar point made in 1990 FSBR paragraph 2.48.

#### 3.6 Effect of economic cycle on GGE ratio

- sharp fall in GGE ratio since 1984-85 helped by very buoyant economic growth (savings from unemployment, asset sales, nationalised industries cash flow). Weaker activity means no such benefit this time.
- GGE ratio fell from 44 per cent in 1978-79 (and 1979-80) to 39½ per cent now (peak to peak). Has been underlying fall, apart from cyclical effects.

- GGE ratio rose very sharply in previous periods of slow growth and relatively high inflation: 5½ points between 1973-74 and 1975-76; 3½ points between 1979-80 and 1981-82.
- holding the ratio flat during current period of weak activity means that underlying trend is still downwards.

3.7 When was last time ratio rose? Small rise in 1984-85 due to miners' strike.

3.8 Plans not credible: unrealistic economic assumptions optimistic; Gulf costs. Of course they are.

- Treasury forecast not systematically biased: we underforecast inflation when it fell in early 1980s.
- Of course there are uncertainties about unemployment/inflation/Gulf: hence higher Reserves. (But do not accept that unemployment bound to rise sharply.)

3.9 Why does GGE grow more slowly than planning total? Extra central government support means CG is financing higher proportion of local authority spending. So local authority self-financed expenditure declines in real terms. Real decline in debt interest reflects strong fiscal position.

3.10 Cash additions to GGE do fully compensate for inflation [True.] Reflects sharply higher local authority expenditure. Both planning total and central government expenditure are lower in real terms. (1 per cent and ½-¾ per cent respectively.) Government has reacted to higher local activity self-financed spending by moderating spending within planning total as envisaged in col 441 para 20 (White Paper on New Planning total).

3.11 Why raise privatisation proceeds/How will £5.5 bn be achieved in (sell BT shares?) Stylised assumption, unchanged at £5 billion since 1986. £5½ billion in line with what has been achieved in last 4 years. Not based on forecasts of particular sales. No decision yet about sales of BT shares.

3.12 Why increase Reserve? Reflects experience in 1990-91, economic uncertainties, Gulf crisis (Reserve reduced last year when local authority self-financed expenditure taken out of planning total).

3.13 Reserve still inadequate, given experience this year? Exceptional factors this year, eg nationalised industries electricity (£1 billion claim on Reserve this year) privatised by 1991-92. Inflation set to fall next year (do not accept that sharp rise in unemployment inevitable).

3.14 What does Reserve assume about war vs diplomatic settlement in Gulf? You do not really expect me to answer that.

3.15 Assumptions about LA spending unrealistically low? See brief E5

3.16 Implications for community charge? See brief E5

3.17 Treasury defeated in Survey/ how much was taken off original bids/DH leak No comment. The outcome speaks for itself.

3.18 Was Star Chamber used? No.