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File  
to

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 February 1990

PUBLIC EXPENDITURE 1989-90

The Prime Minister was grateful for the Chief Secretary's minute of 5 February. She has noted the position with some concern, and agrees with the Chief Secretary that it underlines the need to exercise continuing stringency in other public expenditure decisions.

Paul Gray

Miss Carys Evans,  
Chief Secretary's Office,  
HM Treasury.

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*Pric Mark 2*

*As forecasted at last week's seminar with the Treasury*

*Note*

*P.M. advised he  
concern about the  
position he is in  
Chief Secretary cable  
today. PRG  
6/2*

FROM: CHIEF SECRETARY  
DATE: 5 February 1990

*PRG 6  
1/2*

PRIME MINISTER

PUBLIC EXPENDITURE 1989-90

You will wish to be aware that the outturn on public expenditure in 1989-90 is likely to be significantly higher than the figure published in the public expenditure White Paper last week.

2. The planning total for 1989-90 was set at £167.1 billion. The estimated outturn given in the public expenditure White Paper, based on December forecasts, is £168.4 billion. Our latest assessment, however, is that the outturn may be around £169.4 billion - an overspend of £2.3 billion on the original plans, and £1 billion higher than in the PEWP. The main reasons for the increase since last month are higher spending by local authorities in advance of the new capital finance regime, and the Ministry of Defence's view that their expenditure will be closer to approved limits than they previously forecast.

3. The next estimate of the 1989-90 outturn that we publish will be in the FSBR. At that time of course there will be other news. As far as the public sector finances are concerned, I should expect any impact on the markets to come from the PSDR, rather than from public expenditure alone.

4. We have overshot the planning total before, but not recently; and the last two years have seen large underspends. The estimated outturn for 1989-90 would be the first significant excess since 1985-86 - and the second largest, in cash terms, since we took office.

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5. We shall have to be careful therefore not to create any impression that control over public expenditure has been loosened. In part we shall be able to point to the reforms we have introduced in the finances of local authorities, whose expenditure is more than £3 billion over the planned level, and who are hence the main cause of this year's overspend. But the latest figures also underline the need to exercise - and to be seen to exercise - continuing stringency in other public expenditure decisions.

*Clvans*

pp NORMAN LAMONT

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