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Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq
Private Secretary
10 Downing Street
London
SW1

13 July 1990

Dear Barry

PUBLIC EXPENDITURE CABINET: LINE TO TAKE

The Chancellor and Chief Secretary have been considering what might be said after the Public Expenditure Cabinet. They suggest the following:

> "The Cabinet had its usual July discussion of public expenditure today. It agreed that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend. The Chief Secretary will be conducting bilateral discussions with colleagues in the Autumn. These will take account of the decisions on local authority finance [which are being announced later today]. In the light of these discussions, the Government will take decisions on individual spending programmes and the planning totals and these will be announced, as usual, in the Autumn Statement in November."

2. The Chancellor and Chief Secretary would be grateful to know if the Prime Minister is content with this.

... 3. I attach a draft speaking note which the Prime Minister may wish to draw on at Cabinet.

4. I will be sending early next week some briefing for use with the press after Cabinet.

5. I am copying this letter to Bernard Ingham, and to Peter Owen (Cabinet Office).

Yours

Carys

MISS C EVANS
Private Secretary

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JULY CABINET : SPEAKING NOTE FOR THE PRIME MINISTER

The main aim of the discussion is to secure endorsement of the conclusions in the papers by the Chancellor and Chief Secretary. In your opening remarks you may wish to drive home the point that against the present economic background the Government cannot afford bids on anything like the scale proposed by Departments, drawing on the following:

i. inflation. Inflation is far too high and has not yet started to come down. Getting it down is the top priority. The Chancellor must be supported in keeping policy tight.

ii. the Government must not lose its reputation for sound public finance based on the firm control of public spending. It would be quite wrong to relax public spending when private sector demand is being held back.

iii. there is very little room to add to spending. The Chief Secretary warned in April that the scope for drawing down the Reserves was already exhausted (eg by extra money for social security upratings). He has now agreed a very generous AEF settlement to hold down community charges next year (which will help the RPI). This leaves less for other programmes.

iv. the bids are far too high, despite the Chancellor and Chief Secretary's warnings in April. Big additions to spending would put the Chancellor in an impossible position next Spring. [Running cost bids for instance are far too high: convinced there is still considerable scope for more efficiency savings. We must not let manpower numbers drift up again.] Bids must be withdrawn or drastically cut back and offsetting savings found.

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v. <u>we cannot afford to accommodate inflation.</u> Cash planning is a tough discipline when inflation is high. That is why we brought it in. The Survey will be exceptionally difficult but everyone must contribute to defeating inflation and maintaining Government's reputation. All Ministers must respond to the Chief Secretary's request to look again for savings across all their spending.

H.M Treasury
12 July 1990

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