

COVERING SECRET



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Treasury Chambers, Parliament Street, SW1P 3AG

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18 July 1990

Dear Barry

PUBLIC EXPENDITURE CABINET: BRIEFING

- ... I enclose some briefing for use with the press after Cabinet, as promised in my letter of 13 July.
- I am copying this letter to Bernard Ingham and to Peter Owen (Cabinet Office).
-

Yours

Carys

MISS C EVANS
Private Secretary

POSITIVE POINTS

- (i) Cabinet reaffirmed that defeat of inflation is top priority. Tight policies already restraining private demand. Cannot allow that to be undermined by imprudent public spending.
- (ii) Public expenditure objectives reaffirmed. Firm control essential. Aim to keep public spending as share of national income on downward trend. Ratio has fallen by nearly 8 percentage points since 1982-83.
- (iii) Ministers have accepted that decisions on finance for local authorities mean less for other programmes.

DEFENSIVE POINTS

- (i) What are existing plans?

Cash plans published in 1990 Public Expenditure White Paper, plus adjustments made at time of Budget.

- (ii) Increased inflation must put pressure on programmes?

Bound to affect cost of social security upratings. Elsewhere cash planning means departments must stick to existing plans by reordering priorities, improving efficiency and looking for offsetting savings.

No automatic additions to existing cash plans.

(iv) Cash planning breaks down when inflation accelerates?

Makes Survey discussions more difficult. But when inflation has risen all the more important to avoid accommodating it. Central part of Government's approach to defeating inflation.

(v) Spending has been kept too low too long. Time to increase substantially?

Level of spending determined by what can be afforded. Programmes such as health, transport, housing and social security have received generous increases in recent years.

(vi) What is total of bids? What is bid for (this or that programme)?

Not giving any figures. Bids at this stage always high. Cabinet has agreed they must be reduced and offsetting savings found.

(vii) Higher inflation means higher money GDP, so cash plans can be increased substantially while still having downward trend in GGE/GDP ratio?

Chancellor will give forecast of money GDP in Autumn Statement. Cabinet has agreed objective is to stick as closely as possible to existing cash plans. Plans not adjusted automatically to level implied by particular ratios.

(viii) Remit wording weaker than last year?

No.

- (ix) Exceptionally difficult Survey: Star Chamber will be needed?

Cabinet agreed, as in previous years, to set up Star Chamber. Will certainly be used if needed to complete this exceptionally difficult Survey.

- (x) Will Sir Geoffrey Howe chair Star Chamber?

Yes.

- (xi) Defence?

Individual programmes not discussed at Cabinet today, other than AEF settlement.

- (xii) PSDR figures for first three months show public expenditure spending out of control?

Special factors affecting PSDR in last few months are:

- privatisation proceeds coming through later than last year;
- teething problems with collection of Community Charge by local authorities. Likely to unwind later in year.

Cannot reach conclusions about whole year from first three months. Figures nevertheless disappointing.

(xiii) AEF settlement shows Government losing grip on public spending?

- Not at all. Expensive, but top political priority this year. And Ministers accept that it means less for other programmes - as Cabinet remit makes clear.

- AEF settlement adds £2.1 billion to White Paper plans, allowing local authorities to finance sensible increases in revenue spending without excessive increases in Community Charge.