



Ref. A084/2641

PRIME MINISTER

Public Expenditure Survey 1984

(C(84) 29)

## BACKGROUND

A This year's White Paper on the Government's Expenditure Plans (Cmnd. 9143) gave planning totals of £132.1 billion for 1985-86 and £136.7 billion for 1986-87; after agreed adjustments (mainly due to the reduction in this year's Budget on the National Insurance Surcharge) these produced baseline figures for the 1984 Public Expenditure Survey of £131.7 billion and £136.3 billion. The baseline figure for 1987-88 was £139.0 billion: this was derived from the 1986-87 baseline by uplifting all programmes, with the main exception of expenditure on the Falkland Islands, by 2½ per cent.

B 2. At the beginning of July the Chief Secretary, Treasury reported to the Cabinet, in his memorandum C(84) 18, that bids from Departments, net of reduced requirements, exceeded the baseline figures by £5.0 billion in 1985-86, £5.8 billion in 1986-87, and £8.4 billion in 1987-88. He proposed that the baseline figures for 1985-86 and 1986-87 should be maintained; and that the baseline for 1987-88 should be increased to £140.4 billion. This figure resulted from using an uplift factor of 3 per cent rather than 2½ per cent. The Chief Secretary also proposed that the reserve should be £3 billion in 1985-86, £4 billion in 1986-87 and £5 billion in 1987-88.

C 3. The Cabinet approved these proposals; invited the Chief Secretary to pursue bilateral discussions of expenditure programmes with the Ministers responsible; and invited him to report again when he had completed those discussions (CC(84) 25th Conclusions, Minute 5).

D 4. In his memorandum C(84) 29 the Chief Secretary reports on the current position. Although I understand that the detailed figures are constantly changing, the general picture is clear



E enough. Even on the assumption that the objective agreed by E(A) on 3 July (E(A) (84) 17th Meeting) of reducing nationalised industry External Financing Limits below the baseline by £250 million in 1985-86, £500 million in 1986-87, and £1 billion in 1987-88 is achieved - and the Chief Secretary says that he is a long way from this - agreed changes and outstanding bids from Departments amount to about £1.75 billion in 1985-86, £2.1 billion in 1986-87, and £3.4 billion in 1987-88. Few programmes have been agreed; and there are particularly large bids for Defence, the Foreign and Commonwealth Office, Export Credits, Housing, Health, and Social Security.

5. The Chief Secretary therefore proposes that a small Ministerial Group, on the lines of the Ministerial Group on Public Expenditure (MISC 99) last year, should be set up.

#### HANDLING AND CONCLUSIONS

6. There is no need for an extended discussion which would probably be unhelpful. You have already agreed that a Ministerial Group should be set up (Mr Turnbull's minute of 1 October recording its composition is attached for ease of reference), and those involved have already been approached informally. It would be preferable (and consistent with past practice) to avoid telling the Cabinet who are to be the members as this is your decision and not theirs.

7. I therefore suggest that you might invite the Chief Secretary, Treasury briefly to report whether there are any last-minute developments since this memorandum was written. You might announce your decision to set up a Ministerial Group under the chairmanship of the Lord President of the Council. It would be helpful for the work of the Group if you could:

- (a) remind your colleagues that the Cabinet has already agreed that the aim of this year's Public Expenditure Survey should be to hold to the baseline figures proposed by the Chief Secretary in July; and
- (b) ask all Ministers concerned to give the highest priority to the work of the Group and to instruct their Private Offices and Departments accordingly.

*Attached to brief*



8. There has already been extensive speculation in the media about the establishment of a 'Star Chamber'. You will no doubt wish to avoid any extended statement on what is a perfectly normal part of the annual Public Expenditure Survey. But there seems to be no objection to confirming, in response to enquiries, that a Ministerial Group has been set up to make recommendations to the Cabinet. This was done at a similar stage last year (CC(83) 30th Conclusions, Minute 4).

F

approved by ROBERT ARMSTRONG  
and signed in his absence.

Lindsay Wilson

3 October 1984