



CONFIDENTIAL

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PRIME MINISTER

Public Expenditure Survey

below

You are seeing the Lord President of the Council, the Chancellor of the Exchequer and the Chief Secretary on Monday 5 October to discuss progress with public expenditure discussions and the setting up of the Star Chamber. The Chancellor is circulating a paper as a basis for discussion.

GENERAL PICTURE: WHERE THE SURVEY HAS GOT TO

2. On 23 July Cabinet agreed the target for the Survey, suggested by the Chief Secretary, to 'ensure not only that the level of public expenditure should be held as close as possible to the existing planning totals, but also that its share of national income, without allowing for privatisation proceeds, should not exceed the path in the previous year's White Paper'.

3. The figures in last year's White Paper were:

£ billion

	Cash but with privatisation proceeds	In real terms (1985-86 base year)	As percentage of GDP
1986-87	140.4	136.5	43.25
1987-88	148.6	139.3	42.75
1988-89	154.2	139.7	<u>41.75</u>
1989-90	161.5	142.1	<u>41.25</u>

4. You may want to explore two main questions under this heading, both directed to the task which the Star Chamber is likely to have.



5. First, what expenditure increases are likely to result from settlements already agreed or in prospect? The total of additional bids for 1988-89, allowing for territorials, nationalised industries and local authorities, was £7 billion in July. How much of this is the Chief Secretary likely to have been forced to concede before the Star Chamber begins its work? The sums could be substantial. For example:

a. of programmes already agreed, the Secretary of State for Social Services originally made bids for social security rising to almost £3 billion by 1990-91. How much of this has been conceded by the settlement already reached?

b. of programmes which the Chief Secretary is still trying to settle, bids on health rise to £2 billion. Given demographic pressures, and the obvious difficulties of charging, how much of that is resistible? Bids on defence rise to £1 billion, and there are great pressures on the defence budget.

6. Second, what is the maximum increase in expenditure which is consistent with the target agreed by Cabinet? Clearly it is important to drive down public expenditure as far as possible towards the White Paper totals. But it is also important to have a feeling for where the upper ceiling lies. The target of maintaining the ratio between public expenditure and national income shown in last year's White Paper is consistent with sizeable increases in public expenditure, perhaps running into billions of pounds. This is because forecasts of national income have been raised since last year. There is also the possibility of reducing the reserve (fixed at £5.5bn in 1988-89 and £7.5bn in 1989-90). The Chancellor's note says that the Government faces increases in the planning totals of £3 billion in 1988-89 and around £6 billion in 1989-90. You may wish to probe what this means: does it for instance include an allowance for what the Star Chamber will recommend and, if so, how much?



7. We understand from Treasury officials that the Chancellor will probably not want to settle a specific remit for the Star Chamber at this meeting. This is because the Chief Secretary is still carrying on negotiations on a number of major programmes (education, health, defence) and presumably hopes to settle one or more of them before the Star Chamber meets; so that it is not yet possible for the Treasury to work out what the Star Chamber will have to do or what its ceiling will be. The remit may therefore have to be left to the Lord President to agree with the Chief Secretary before the Star Chamber meets. Even so you may wish to get a feel for the scale of the problem.

PROGRAMMES NOT YET SETTLED

8. This leads on to the question of precisely which programmes have not yet been settled. Is the list in the Chancellor's note complete, or are other programmes unresolved? The Chancellor's note indicates that, subject to the Chief Secretary's further talks on defence, health and education, the candidates for the Star Chamber will be as follows (figures are the additional bids reported to Cabinet in July and may therefore be out of date, but they indicate broadly the size of sums at stake):

	1988-89	1989-90	1990-91
Defence	551	815	954
Health	956	1384	2196
Education	558	688	783
Wales	48	41	43
Scotland	70	70	70
Overseas Aid	83	158	239

(n.b. the Chief Secretary is seeking substantial reductions in the baseline for Scotland; so the difference is bigger than these figures suggest).



9. You will wish to explore the main issues which lie behind these disagreements and give guidance on any major points which emerge.

MEMBERSHIP

10. You have agreed that the members of the Star Chamber should be as follows, subject to their own programmes being settled in the case of spending Ministers.

Lord President of the Council
Chief Secretary, Treasury -
Lord Privy Seal -
Secretary of State for Energy -
Minister of Agriculture -
Chancellor of the Duchy of Lancaster -

[Reserve: Secretary of State for Employment.]

11. You may wish to ask the Chancellor for his latest assessment of the prospects for settling the programmes of the spending Ministers, so that they are eligible for membership. Our understanding is that:

a. the Secretary of State for Energy has settled. This points to a firm decision that he should be a member;

b. the Minister for Agriculture has not yet settled, although Treasury officials judge that he probably will;

c. the Chancellor of the Duchy of Lancaster is close to a settlement on DTI's own programmes but only on the assumption that, as DTI Ministers wish, Regional Development Grants (RDGs) in England will be abolished and the savings deployed elsewhere. But the Secretary of State for Wales is strongly opposed to this. The Secretary of State for Scotland might be persuaded to accept it. It may be



therefore that Mr Clarke could only be a member of the Star Chamber on the understanding that he would withdraw when RDGs were discussed.

d. the Secretary of State for Employment has settled.

12. If this is correct, the decision which is needed is to choose two members of the Star Chamber out of the following three candidates:

Mr MacGregor

Mr Clarke

Mr Fowler

TIMETABLE

13. The Chancellor proposes that the Star Chamber should start its work on Thursday 15 October rather than on Monday 12 October which would be the normal date. This would allow the Chief Secretary more time in which to pursue his negotiations on unresolved programmes. But the aim is still to bring final proposals before Cabinet on 5 November.

14. You will wish to sound out the Lord President on this. The key question is what the workload of the Star Chamber is likely to be. It has in previous years had to work very hard to get through all the programmes referred to it in three weeks. To reduce this to just over two weeks may be right but only if the Chancellor is confident that the workload will be correspondingly smaller.

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