



Ref. A087/3058

PRIME MINISTER

Cabinet: 1987 Public Expenditure Survey
C(87)16

CONCLUSIONS

The Chief Secretary's paper, C(87)16, lists in paragraph 12 the points on which he invites the Cabinet's agreement. The main point is that he seeks Cabinet endorsement of the settlements he has reached on individual public expenditure programmes. You will want the Cabinet to accept his proposals.

2. The Chancellor of the Exchequer will in discussion put forward his proposals for the levels of reserves, and hence for planning totals, over the Survey period. You will want the Cabinet to accept these too.

3. You will wish at the end of the discussion to emphasise the importance of avoiding any kind of leak to the press before the Autumn Statement, particularly because of the BP issue.

The Chief Secretary's paper

4. The Chief Secretary's paper gives details of the settlements he has reached on individual programmes; the consequent level of starting reserves; the outcome on running costs and on spending on science and technology; and the outturn in 1987-88.

5. You will want to ask the Chief Secretary to introduce his paper. Thereafter, you could provide a brief opportunity for any other Ministers who feel a need to do so to say a few words



about the settlements which they have reached on their own programmes. But you will wish to emphasize that there can be no reopening of those settlements, and to discourage comments by Ministers on programmes other than their own.

6. The Treasury have suggested that it would be helpful in particular to ask Lord Young to explain the 'restructuring of regional assistance' mentioned briefly in the Department of Trade and Industry section of Annex A. They say that Mr Walker is unhappy about the change and what he sees as the lack of proper consideration of it. A brief explanation by Lord Young which does not reopen the question would lead to the necessary collective endorsement.

The Chancellor's Statement

7. The Chancellor will circulate at the meeting a note proposing that reserves and planning totals should be fixed as follows:



	1988-89	1989-90	1990-1991
1. Planning total in last year's PEWP	154.2	161.5	-
2. Increase in Departmental programmes, as in C(87)16	4.6	6.1	7.7
3. Reserve in last year's PEWP	5.5	7.5	-
4. New level proposed for Reserve	3.5	7.0	10.5
5. Change in Reserve (4-3)	-2.0	-0.5	+10.5
6. Increase in Planning Total (2+5)	2.6	5.6	-
7. New Planning Total (1+6)	156.8	167.1	176.1

8. The following table shows the ratio of public expenditure to national income, without allowing for privatisation proceeds, last year and this:

	Last Year	This Year
1987-88	44%	42.5%
1988-89	42.75%	42%
1989-90	42.25%	41.75%
1990-91		41.25%

Final table

9. The Chancellor intends to hand round tables giving the main figures. You will wish to ask him to explain his proposals, and to secure Cabinet endorsement of them. We understand that the



Chancellor also intends to describe briefly the prospects for the economy to be shown by the forecast in the Autumn Statement, and to discuss the effects of the fall in share prices.

10. Some Ministers may note that the ratio of GDP to national income could be higher in the Survey years and still meet the objective of declining as fast as in last year's White Paper. More than £2 billion extra could be spent in 1988-89 and 1989-90 without breaching this objective. You will probably not want to encourage discussion of this, but the main points in reply are:

- It is firm control of public expenditure that has produced a successful economy and rising prosperity, and it is essential to stick to it.
- Despite the substantial reductions in bids, the planning totals will rise by large amounts - £2.6 billion in 1988-89 and £5.6 billion in 1989-90.
- The decline in the ratio of public expenditure to National Income is, on present plans, very gradual. (The ratio for 1987-88 is only now, for the first time, below the ratio for 1978-79 which the Government inherited.)

Presentation and Next Steps

11. You may wish to advise colleagues that until the Autumn Statement is presented on Tuesday 3 November no information should be given on the total of public expenditure, or on individual programmes, or on any other matters which might anticipate the Statement. This requirement must be adhered to all the more scrupulously because of the effect of any premature announcement on the Government's legal position in the BP flotation.



12. You might also emphasise the importance of consistency of presentation between Departments, and ask for full consultation on the press notices to be issued on 3 November.

Handling of the Press

13. Finally, you might propose that the No 10 Press Office should issue a statement along the following lines:

"Cabinet today successfully concluded its work on the 1987 Public Expenditure Survey. The outcome, together with the Industry Act Forecast, will be set out in the Autumn Statement which the Chancellor proposes to make to the House on Tuesday 3 November."

RA

ROBERT ARMSTRONG

28 October 1987