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CCB/UP

Ref No A088/3163

PRIME MINISTER

Cabinet: 1988 Public Expenditure Survey

C(88)13

CONCLUSIONS

The Chief Secretary's paper, C(88)13, lists in paragraph 10 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 read out the communique to be given to the press after the meeting, announcing that the Chancellor will make his Autumn Statement later that day, and to ask for ^{the} ~~its~~ contents/ ^{of the Autumn Statement} to remain strictly confidential until then.

The Chief Secretary's Paper

4. You will want to start by asking the Chief Secretary to introduce his paper. It gives details of the settlements on individual programmes; the consequent level of starting reserves;

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the outcome on running costs and on spending on science and technology; and the outturn in 1988-89.

The Chancellor's Statement

5. You may then wish to ask the Chancellor to speak. He will propose that reserves and planning totals should be fixed as shown in Table 1 attached. The most important point is that there will be no increase in the Planning Total next year, and one of £3.3bn in 1990-91.

6. Table 2 attached shows trends in public expenditure over the Survey period, in real terms and as a percentage of GDP.

7. The Chancellor will also announce his intention, subject to Cabinet agreement, to make his Autumn Statement in the afternoon. He will describe briefly the prospects for the economy to be shown by the forecasts in the Statement.

Subsequent discussion

8. After the Chief Secretary and Chancellor have spoken, you might start the subsequent discussion by calling on the Secretary of State for Energy as Chairman of the Star Chamber. You could then provide an opportunity for any other Ministers who wished to say a few words about the settlements they have reached on their own programmes. But you will wish to emphasise that there can be no reopening of these settlements, and to discourage comments by Ministers on programmes other than their own. Supplementary notes, provided by the Treasury, are however annexed to this brief on points that might

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be raised (for instance, if it were to be suggested that with inflation higher than colleagues were told in July, departments were entitled to compensation).

Presentation and Next Steps

9. You may wish to propose that the No 10 Press Office should issue a statement along the following lines:

Press Statement

"Cabinet today successfully concluded its work on the 1988 Public Expenditure Survey. The Chancellor proposes to make his Autumn Statement to the House this afternoon, setting out the outcome of the Survey and the prospects for the economy. [The full printed version of the Autumn Statement will be published on Tuesday 8 November".]

10. You may also wish to say that the contents of the Autumn Statement must remain strictly confidential until 3.30 in the afternoon; and to emphasise the importance of a consistent and positive presentation by Departments of the decisions affecting their own programmes, with full consultation where necessary.

HANDLING

11. You will wish to ask the Chief Secretary Treasury to speak first on C(88)13, and then the Chancellor of the Exchequer on the reserves and planning totals, and prospects for the economy. The Secretary of State for Energy might then comment as Chairman of Star Chamber. Thereafter you could give any Cabinet Minister who wishes to speak an opportunity to do so.

R.R.B.

ROBIN BUTLER

31 October 1988

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TABLE 1: SURVEY OUTCOME

	1989-90	1990-91	1991-92
1. Baseline			
(a) Departmental programmes	165.1	170.6	174.8*
<u>less</u> (b) Privatisation proceeds	- 5.0	- 5.0	- 5.0
<u>plus</u> (c) Reserves	+7.0	+10.5	-
<u>equals</u> (d) Planning Total	167.1	176.1	-
2. Additions to programmes	3.5	6.8	11.3
<u>less</u> Scope to draw down Reserve	-3.5	-3.5	
<u>equals</u> Increase in Planning Total	0.0	3.3	
3. Reserve for new final year			10.5
4. New planning totals (1+2+3)	167.1	179.4	191.6
Memo: New Reserves	3.5	7.0	10.5

* For 1991-92 there was an unpublished baseline for programmes, but no figures for Reserves or the planning total have been formally agreed. Only new levels for these will be published.

TABLE 2: PUBLIC EXPENDITURE TRENDS

	£ billion				
	1987-88	1988-89	1989-90	1990-91	1991-92
Planning total	145.7	153.6	167.1	179.4	191.6
Add back privatisation proceeds	5.2	6.0	5.0	5.0	5.0
Add debt interest	17.5	17.7	17.2	16.2	15.6
Add national accounts adjustments	8.2	9.6	9.4	9.4	8.8
<u>equals</u> General govt expenditure (excl priv proceeds)	176.7	186.9	198.7	210.0	221.0
Planning total % change real terms	- 0.6	- 0.8	3.6	3.8	3.7
GGE (excl priv proceeds) % change real terms	- 0.6	- 0.4	1.3	2.1	2.2
GGE (excl priv proceeds) % of GDP	41½	39½	39½	39	38½
cf last PEWP	(42½)	(42)	(41½)	(41½)	(-)

CABINET: DEFENSIVE BRIEFING

Outcome restrictive, no need for painful measures

Cabinet agreed in July objective of keeping as close as possible to existing planning totals. That is what we have done. Additions of £3.3 billion and £7.7 billion to baseline in later two years. Real growth of public expenditure from 87-88 to 91-92 exactly same as projected last year for 86-87 to 90-91. Massive increases for priority services: in many cases record increases. Would have been quite wrong to allow all of reductions from lower unemployment, lower CAP spending, and Right to Buy sales to feed through into higher public spending; would have been damaging to market confidence. Would also have made no sense to cut private spending by higher interest rates only to relax restraints on public spending.

Difficulty of Survey exaggerated by Treasury eg £2-3 billion increases to planning total in recent press stories

No. Press stories were speculation, not inspired by Treasury. And in fact we did start with massive commitments (about £3-3.5 billion in first year); reductions on social security and agricultural spending, and RTB receipts, not declared by colleagues until recently.

With inflation higher than were told in July, departments entitled to compensation

With Autumn Statement showing higher inflation and further large current account deficit next year, more than ever essential to restrain expenditure if market confidence is to be retained. Expenditure planning is in cash, not volume. Colleagues have been able to negotiate against an emerging picture on inflation; reported higher assumptions in July. Final settlements reached in knowledge of many of factors leading to higher inflation assumptions. A large part due to investment prices, eg in construction industry. Again, a reason for restraint to avoid fuelling overheating.

Minister x seeks to hold up agreement until given adjustment to his programme

Expenditure plans are in cash, not volume. Control totals are there to be held to. Cannot reopen plans at this stage. Essential that we present to public the plans outlined. Consequences of not agreeing today very serious indeed.

[If pressed: Cannot give any commitment to agreeing claims on Reserve but if any colleague finds his programme in serious political difficulty, Chief Secretary naturally prepared to re-examine position].

Kenneth Baker gets an inflation adjustment for student awards, why should not we?

[Mr Baker's letter of 17 October to Mr Ridley, copied to territorial ministers, said "I have ... settled provision for student awards with John Major on the basis that ... will be uprated in line with the GDP deflator".]

Was this year crucial to show that awards are broadly maintaining real value, since we are not specifically reimbursing cost of community charge. Plans are in cash [see answer above]

Growth in GDP means we should be spending more, and can do within ratios

Cabinet agreed to keep as close as possible to cash planning totals. That's what markets will focus on. Exceptional growth this year means large step down in ratio in 1988-89. Settlements consistent with Cabinet remit of continued decline - although only just. Any higher spending would have meant failure to meet Cabinet remit. Economically wrong to expand public spending further at present time. Would jeopardise economic success, and

Make it harder to meet priority needs as handsomely as we have this year.

Current year outturn means could get by with lower Reserves and spend more on programmes?

No. Current year benefits from

- social security undershoot: unanticipated fall in unemployment unlikely to be repeated, at least on same scale as this year;

- higher capital receipts (RTB and New Towns): already taken into account in Survey for future years.

Severe risks next year: of overspend on local authority current and capital; EYF liability; EC contributions. Essential to maintain prudent Reserves. Chancellor has proposed maintaining at same level as in last Survey.

Current year outturn means room to spend more this year?

Extra privatisation proceeds and capital receipts which account for about half the undershoot no reason for spending spree. Control of public expenditure must continue to be and seen to be firm. Much of rest due to lower unemployment. When unemployment rose were forced to concede overshoots. Therefore reasonable that when it falls part of benefit taken in lower spending.

Increase in S&T envelope too big/too small?

[Science and Technology Provision (£m)]

	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>
Total civil S&T	2,870	2,970	2,965	2,905
Total excl launch aid	2,670	2,840	2,890	2,930
Science Budget	719	837	838	855

Increase for DES to maintain our national scientific commitment, and allow continued reshaping of the science base, selective re-equipment and important new research. Not possible to offset all of this in this Survey from savings in low priority areas. We shall need to secure further savings from DTI and Agriculture next year. Represents substantial increase in the DES science budget, which we can present very positively. 16 per cent increase 1989-90 over 1988-89. [If pressed: E(ST) agreed we should reallocate sums from low priority to high priority areas, keeping within overall sums for S&T already in baseline. Cannot go any further beyond that decision].

Freezing child benefit an unnecessary political risk. Could have produced a satisfactory outcome without it

Switch from child benefit to targeted measures justified on merits. Would have been difficult to get to baseline in first year without the £130 million net saving.