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*Prime Minister* (2)  
*This is worrying - you may want to discuss with Chancellor at next bilateral*

*AT 27/11*

PRIME MINISTER

PUBLIC EXPENDITURE PLANNING TOTAL FOR 1985-86

The Autumn Statement gave a figure for the 1985-86 public expenditure planning total of £132.0 billion, £0.1 billion below the figure in the last Public Expenditure White Paper. Given the speed with which the Autumn Statement was prepared, this was deliberately shown as rounded to the nearest £100 million, and the summary table carried a note that the figures were subject to technical amendment before publication of the 1985 Public Expenditure White Paper.

2. The detailed figures for the White Paper are still being prepared. For example, until final allocations within English programmes are settled, it is not possible to finalise the automatic formula consequences for the territorial block budgets.

3. However, upward pressures on the figures are emerging which make it likely that, because of a number of increases in the figures, we shall probably not be able to publish in the White Paper a planning total of £132.0 billion if we wish to retain the same Reserve figure of £3 billion as was included in the Autumn Statement. I am currently considering how to deal with these pressure. The main ones are:

(a) the latest quarterly assessment of social security expenditure, taking account of recent data on take up of benefits produced after the Autumn Statement, points to 1985-86 expenditure approximately £85 million higher than allowed for in the Autumn Statement. I have asked

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Norman Fowler to consider what scope there is for offsetting these additions within his programme.

(b) more detailed assessments of the implications of Survey decisions for the territorial block budgets point to net additions of some £60-70 million. I am, however, still pursuing with George Younger the extent to which he is able to offer savings following up our recent discussion of needs assessment.

(c) we are considering whether an upward revision is required in our estimate of net contributions to the European Communities.

(d) we have agreed with Geoffrey Howe an addition of £9 million to the FCO/ODA programme.

4. On the other hand, it has been possible, in the light of market developments over the last two weeks, to make a small reduction in the assumed interest rate assumptions in 1985-86, which will reduce the programme figures for housing and export credit. But this is only a partial offset to the other additions.

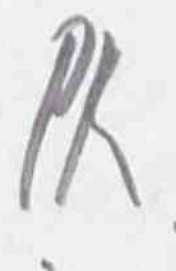
5. I should emphasise that the detailed implications for the White Paper figures remain to be settled; I shall let you know the exact position when work is completed. But I felt I should alert you now that it is likely we shall need to publish a planning total of around £132.1 billion, the same as in last year's White Paper rather than slightly below as we had hoped. But this would still enable us to say we have kept to our previous cash plans. And I would prefer to make this small increase to the Autumn Statement figure for the planning total, rather than to reduce the



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Reserve, say to £2.9 billion. This alternative approach would, I think, be more difficult to defend and present against the background of 1984-85 developments although I cannot entirely rule it out if further additions emerge over the next few weeks.

6. I am sending a copy of this minute to the Lord President.



PETER REES