

SECRET

NOTE FOR THE RECORD

cc Mr. Unwin

PUBLIC EXPENDITURE

The Prime Minister today discussed with the Lord President, the Chancellor of the Exchequer and the Chief Secretary the minute sent by the Chief Secretary about the prospects for the survey dated 8 May. Sir Robert Armstrong and Professor Brian Griffiths were also present.

The Chancellor said the outcome in 1985/86 had been good, with an underspending. The position in 1986/87 was more difficult. There were greater pressures and it would be a struggle to stay within the planning total. However, with firmness it should be possible to achieve this. 1987/88 was even more difficult. The main problem was local authority spending, where both pay and numbers were rising too fast. Last year the circle had been squared by increasing the figures for privatisation. This could not be repeated.

The Prime Minister strongly agreed that it would be wrong to increase the figures for privatisation receipts. This would look like fiddling the figures.

The Chancellor said it would probably be necessary to increase the planning total. The Prime Minister reacted sharply, but implicitly accepted this possibility in arguing that it would be wrong to mention it to Cabinet early in the Survey: to do so would give an impression that there was scope for increased spending.

The Chief Secretary then took the Prime Minister through the table attached to his minute. In view of the local election results, the figures for local authority spending would probably be too low. The figures in the table resulted from the assumption made in this year's Public Expenditure White Paper, by which local authority spending had been carried forward flat in cash terms, and also from the constant growth

SECRET

of local authority spending itself. The Lord President commented that the RSG percentage could not be further reduced: reductions tended to hit Conservative-controlled local authorities.

The Chief Secretary said there were only two large candidates for real savings: defence and Scotland. The Prime Minister's first response was that neither would be a good candidate for reductions. She could not see how defence was going to get through. The Lord President thought Mr. Younger would produce "a bit" but then dig in. He despaired of the Scottish block. The Prime Minister remained very sceptical about the prospect of securing a reduction in the cash already allocated to defence, but accepted that the Treasury could make the attempt.

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(DAVID NORGROVE)

9 May 1986