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C-15/10

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

There are two main items.

First, public expenditure. The Chancellor is holding a meeting tomorrow morning to discuss the handling of the Public Expenditure Survey. I understand that sentiment has moved against announcing increases in the planning totals before the recess. This is now seen as a high risk option, partly because of presentational difficulties and partly because the Treasury could not be entirely certain that the figures first announced would survive through until the Autumn Statement. Equally, it is not seen as credible to seek agreement at the Cabinet on 23 July to maintaining the existing planning totals. The Chancellor is considering whether instead Cabinet should agree to maintain the target of keeping General Government Expenditure moving down as a proportion of GDP.

There is sense in what is now being proposed, though of course it may change following tomorrow's meeting. But you will not want to sign up to anything until you have seen the proposals spelt out in writing. Among other things, to express the objective of the Public Expenditure Survey in terms of public expenditure as a proportion of GDP would give a good deal of elasticity. On the figures in the FSBR such an objective would allow an increase in 1988-89 of £4.4 billion. Each one-hundredth of one per cent of GDP will be worth over £40m. Moreover the objective will be expressed in terms of the national accounts definition (general government expenditure) rather than the public expenditure planning total and the differences include, for example, debt interest. So at a pinch room could be made for excess public expenditure by understating the provision for debt interest. There are thus a number of points on which you will wish to satisfy yourself when the proposal is put to you in detail. But all that said, none of the options is easy.

Part of the problem for 1988/89 is that the figure provided in the last Public Expenditure White Paper was set unrealistically low, with a small fall between this year and next in real terms.

	<u>£ billion</u>				
	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	<u>Outturn</u>	<u>Estimated</u>	<u>Plans</u>	<u>Plans</u>	<u>Plans</u>
		<u>outturn</u>			
Planning total in real terms (base year 1985-86)	133.6	135.8	137.9	137.6	139.2

Arguably some small degree of lack of realism itself helps to produce a lower outturn than would otherwise have been the case. But this year, as last, there is likely to be a very large increase in the planning totals and the credibility of the public expenditure plans requires that they now be set more realistically. You might urge the Chancellor to make sure the totals for 1989/90 and 1990/91 are also set at a realistic level when the total for 1988/89 is increased in the Autumn Statement.

The position of Lord Whitelaw and the Star Chamber is also important. They will need to be set an objective, and I wonder whether it is fair, or sensible, to leave Lord Whitelaw out of these discussions.

Secondly, the parliamentary candidature of Special Advisers. The Chancellor wishes to return to you on this. (At his request I have not minuted out your decision.) His minute is included in the folder together with Robert Armstrong's advice. The main arguments are as follows:-

- i. if they were allowed to be parliamentary candidates, Special Advisers would also then have to be allowed to speak on matters of national controversy;
- ii. this might be seen as condoning campaigning on public funds;
- iii. there would be some risk that Ministers would appoint people as Special Advisers because they wanted to be parliamentary candidates and were not able or did not want to continue in other jobs;
- iv. Special Advisers' access to Government information might be seen as giving them unfair advantage;
- v. the change would make it more difficult to maintain the present rules on the political activities of senior civil servants.

DW

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