

File - MJ

SUBJECT
CC MASTER



CCBG

10 DOWNING STREET
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10 November 1987

From the Private Secretary

Dear Alex,

A NEW PLANNING TOTAL

The Prime Minister this morning held a meeting to discuss proposals for a redefinition of the public expenditure planning total. There were present the Lord President, the Chancellor of the Exchequer, the Secretary of State for the Environment, the Chief Secretary and Mr Richard Wilson, Cabinet Office.

The Chancellor of the Exchequer said that the present planning total included local authority expenditure even though this was not within the control of central government. The public expenditure control system would be better and clearer if the planning total were to include grant paid by central government to local authorities rather than local authority expenditure itself. The change could be made in 1990, together with the proposed reforms of local authority finance. Total local authority expenditure would remain within General Government Expenditure which formed the numeraire for public spending as a proportion of GDP, the main figure on which the Government judged the success or failure of its public expenditure policies. The advantages of the change should not be exaggerated. But presentation would be improved and there would also be a modest but worthwhile improvement in public expenditure control.

The Lord President and the Secretary of State for the Environment warmly welcomed the Chancellor's proposal. Mr Ridley noted that three aspects would require further consideration: the treatment of local authority capital expenditure, whether expenditure financed by the national non-domestic rate should be inside or outside the planning total, and the handling of other spending departments which under the new system would be unable to make (spurious) claims about the amount of money being provided for particular local authority services. The Chancellor said his instinct was that expenditure financed by the national non-domestic rate should be within the planning total.

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The Prime Minister expressed her support for the principle of the change but was concerned that to make an early announcement would signal to the local authorities a weakening of determination to maintain control of expenditure in the period before the community charge was introduced. Mr Ridley suggested that the most vulnerable time would be the year 1989-90. The Rate Support Grant settlement for that year would need to be fairly tight.

After further discussion it was agreed that the Chancellor of the Exchequer should circulate a note on the latest timetable for consultation and decision which would allow the change of definition to be made in April 1990. Consultations within Government should also not take place until the last possible moment.

I am copying this letter to Mike Eland (Lord President's Office), Jill Rutter (Chief Secretary's Office) Robin Young (Department of the Environment) and Trevor Woolley (Cabinet Office).

Jus,

David.

David Norgrove

A.C.S. Allan, Esq.,
HM Treasury.