



FROM: CHIEF SECRETARY

DATE: 24 September 1985

PRIME MINISTER

PUBLIC EXPENDITURE SURVEY

There are a number of issues on the conduct of the Survey which the Chancellor and I would like to discuss with you.

State of Play

2. I have now held at least one bilateral with most colleagues and I have to report that the position I find is extremely difficult. Attached at Annex A is a "scorecard" of the kind the Treasury are now producing regularly for me. It shows for each department the bids above baseline being sought; the reductions being sought by the Treasury; and in the middle column our best assessment of where, in the current climate, we might end up.

3. You will see that even after allowing for the increase in asset sales put to the Cabinet and the reduction which comes from rolling forward the Reserve each year, the "forecast outcome" is substantially in excess of the baseline/planning total for all three years. The figures are (centre column, bottom line):

| | | <u>£ billion</u> |
|----------------|----------------|------------------|
| <u>1986-87</u> | <u>1987-88</u> | <u>1988-89</u> |
| 1.4 | 2.6 | 2.3 |

The position on running costs is also disappointing. For a variety of reasons, the increase in 1986-87 is currently projected at around 7½ per cent, with smaller increases in the two later years. During the course of the bilaterals I will be seeking

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to reduce this, but it is certain that the outcome will be some way above our original objective.

Star Chamber

4. Lord Whitelaw has made two points about the work of the Star Chamber. On the one hand he has urged the desirability of keeping to a minimum the number of cases going to Star Chamber; this is essential if they are to do their job thoroughly in a short period. At the same time he has stressed the importance of ensuring that the Star Chamber has the maximum room for manoeuvre - ie the Treasury's bids should have plenty in hand to allow them to be reduced in reaching a settlement.

5. It is difficult, however, to satisfy both of these conditions. There is a degree of trade-off between them - we can reduce the number of cases for Star Chamber by settling the (relatively) smaller cases; but in so doing we considerably reduce the Star Chamber's room for manoeuvre - and visa versa. But from the limited progress I have so far made in the bilaterals, it is apparent that agreement will not be reached on several major departments. Fairly definite candidates for the Star Chamber are:

- I. (i) Defence
(ii) Housing
(iii) DOE other }
(iv) Scotland
(v) Social Security
(vi) ODA

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- II. (vii) Energy industries
- (viii) Health

III. Other possibilities are:

- (ix) Education
- (x) Home Office
- (xi) DTI
- (xii) Health

One possibility is to try to settle some of these directly in trilateral meetings with you before the Star Chamber starts work. The Foreign Secretary and the Secretary of State for Trade and Industry are candidates for this, which would enable Leon Brittan to serve as a member of the Star Chamber.

6. Settlement of the remaining programmes in bilaterals or trilaterals will reduce the total for excess bids shown in Annex A, but it will eliminate the corresponding Treasury bids. The result is likely to be that Star Chamber will find itself in the position that even if it ruled in the Treasury's favour on all the programmes before it, the aggregate so achieved could exceed the totals agreed by Cabinet in July, perhaps by £½ billion in each year. This is a considerably worse position than that faced at this stage in earlier Surveys; last year we were at least able to show the Star Chamber how, with some margin for manoeuvre, the targets could be achieved.

7. This is a disturbing prospect and we need to consider how the "report-back" Cabinet and the subsequent Star Chamber are handled so that we can improve upon it. It would also be helpful if we could have a further discussion with Lord Whitelaw. The main issues to be considered are:

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(i) First Cabinet and Remit for Star Chamber

8. We need at Cabinet to impress upon colleagues that tough decisions are needed to achieve the objectives set collectively in July. We need also to change the climate to enable the Treasury a better prospect in Star Chamber.

9. At the same time we must give Star Chamber a target which, though tough, is credible. This will mean taking them into our confidence about the difficulty of the task. It would be wrong for the Treasury to ask them to find savings which it does not believe can be achieved. One possibility, therefore, is to ask them to find savings which will bring programmes to, say, £1 billion more than envisaged in July. It would then be for the Treasury to bridge the gap by higher asset sales and a lower Reserve (and possibly in the second and third years it may in the end be necessary to accept some adjustment to the planning total). This would not be a desirable outcome but it would be better than simply leaving Star Chamber to secure what savings it could.

(ii) Issues in Dispute

Since 11th Dec are about cuts in the baseline; issues about ren'ing bids. The book does not explicitly separate them.

10. The bids being made by colleagues and their resistance to savings sought by the Treasury have been justified largely on political grounds. Briefly the main issues are:

(a) Defence

In real terms the programme has risen by 29 per cent since we came into office. The baseline shows a very slight decline from the peak in 1985-86. Has the time now come to reverse some of this huge real increase?

(b) Housing

The Secretary of State for the Environment's highest priority is a massive increase in the renovation of council houses. He wants to spend £19 billion in 10 years, involving an increase of £800 million a year over present provision. Is all this work necessary? Does it have to be done in this timescale?

(c) Scotland

We believe, and the Secretary of State for Scotland does not deny, that in almost all areas of public expenditure provision in Scotland is higher than in England. Can a correction now be made?

*Do they mean
by this cash
cut from the
present baseline, or
no increase
under the
formula?
Northern Ireland?*

(d) Home Office

Current policy is for a large expansion of prison capacity but this is doing no more than keep pace with the rising prison population. Should there be a moratorium on prison building pending a major review of custodial versus non-custodial sentences? (There are implications for the role of the judiciary.)

(e) Aid Budget

Is an increase a political imperative as the Foreign Secretary claims? Can increased provision for ATP be found within the existing budget?

(f) Education

Is an increase in the Science Budget essential?

(g) DOE - Other

Should the Urban Programme be increased, or is it still failing to give good value for money?

(h) Social Security


Can savings beyond those agreed in the Review be achieved? There are problems even in keeping to the commitments made.

(i) Energy Industries

We still do not have a clear picture of the prospects for coal, but for electricity there could be a re-run of earlier arguments.

(iii) Timing

Last year the "report-back" Cabinet was held before the Party Conference. There are clear advantages in this, eg much of the preparatory work for Star Chamber can be done in the Conference week, though it would be important to impress upon colleagues, as was done successfully last year, that they should not use the Conference to conduct the Survey in public. I very much hope to have made sufficient progress in the bilaterals to allow a discussion at Cabinet on 3 October but if progress with colleagues continues to be slow I may have to request a postponement until 17 October. This would push the Autumn Statement back from 12 to 26 November, leaving very little margin for further slippage.


for JOHN MacGREGOR

SECRET

[mark2-11ve]

[DATE:24 /09/85]

COMPOSITE SCORECARD:

£million

| EX | 1986-87 | | | | 1987-88 | | | | 1988-89 | | | | |
|-------------------|---|---------|----------|--------|----------|---------|----------|--------|----------|---------|----------|--------|-------|
| | Baseline | 1SY | FORECAST | DEPT | Baseline | 1SY | FORECAST | DEPT | Baseline | 1SY | FORECAST | DEPT | |
| ac1 ac2 ac3 | 999,999 | 999999 | 999999 | 999999 | 999,999 | 999999 | 999999 | 999999 | 999,999 | 999999 | 999999 | 999999 | |
| | Survey baseline and proposed changes | | | | | | | | | | | | |
| | MUD | 18,558 | 198 | 0 | 424 | 18,861 | 402 | 0 | 593 | 19,033 | -396 | 204 | 909 |
| | FCU-ODA | 1,296 | -20 | 13 | 80 | 1,317 | -20 | 24 | 124 | 1,350 | -20 | 33 | 155 |
| | FCU-OTHER | 603 | 36 | 36 | 36 | 619 | 39 | 39 | 43 | 635 | 57 | 57 | 61 |
| | EC | 640 | 10 | 10 | 10 | 630 | 320 | 320 | 320 | 850 | 100 | 100 | 100 |
| | IBAP/AFF CAP | 1,277 | -40 | 339 | 359 | 1,304 | -40 | 347 | 367 | 1,337 | -40 | 348 | 368 |
| | AFF domestic | 713 | -10 | 0 | 25 | 699 | -10 | 0 | 24 | 717 | -10 | 0 | 26 |
| | FORESTRY | 53 | -2 | 0 | 2 | 54 | -2 | 0 | 2 | 56 | -3 | 0 | 2 |
| | TRADE/INDUSTRY | 1,162 | -77 | 10 | 11 | 980 | -128 | 10 | 58 | 1,004 | -189 | -10 | 82 |
| | LCUD | 78 | 207 | 207 | 207 | -43 | 219 | 220 | 220 | -44 | 126 | 132 | 132 |
| | ENERGY | 294 | 19 | 25 | 27 | 293 | 10 | 20 | 26 | 300 | 5 | 22 | 29 |
| | EMPLOYMENT (excl SEMPs) | 3,704 | -175 | -75 | 88 | 3,901 | -354 | -35 | 107 | 3,999 | -372 | 30 | 196 |
| | TRANSPORT | 1,955 | 25 | 25 | 25 | 1,995 | 34 | 34 | 34 | 2,045 | 79 | 53 | 53 |
| | DOE-HOUSING | 2,424 | -81 | 243 | 744 | 2,526 | -312 | 257 | 1058 | 2,589 | -418 | 156 | 957 |
| | DOE-PSA | -120 | 0 | 5 | 24 | -128 | 0 | 0 | 24 | -131 | 0 | 0 | 34 |
| | DOE-OTHER | 848 | -110 | -15 | 135 | 860 | -99 | 0 | 130 | 882 | -101 | 0 | 128 |
| | HOME OFFICE | 1,061 | -40 | 25 | 76 | 1,104 | -68 | 25 | 66 | 1,131 | -63 | 25 | 83 |
| | LCD | 574 | -103 | 24 | 52 | 610 | -155 | 40 | 69 | 625 | -214 | 33 | 99 |
| | DES | 3,418 | -29 | 35 | 125 | 3,505 | -41 | 35 | 137 | 3,593 | -66 | 24 | 153 |
| | OAL | 333 | -11 | 10 | 24 | 342 | -8 | 10 | 34 | 350 | -9 | 10 | 46 |
| | HEALTH & PSS | 14,945 | -24 | 250 | 460 | 15,622 | -20 | 300 | 534 | 16,012 | -18 | 600 | 941 |
| | SOCIAL SEC. | 41,547 | -590 | 1300 | 1303 | 43,653 | -1011 | 1250 | 1350 | 44,642 | -1449 | 1200 | 1422 |
| | CIVIL SUPER. | 1,114 | -20 | 65 | 85 | 1,226 | 0 | 86 | 86 | 1,257 | 0 | 147 | 147 |
| | SCOTLAND | 4,300 | -98 | 7 | 13 | 4,373 | -143 | 12 | 23 | 4,482 | -223 | -18 | -3 |
| | WALES | 1,708 | -2 | 1 | 3 | 1,735 | -4 | 0 | 4 | 1,779 | -8 | -4 | 1 |
| | N. IRELAND | 4,464 | 27 | 52 | 55 | 4,603 | 26 | 76 | 78 | 4,717 | 30 | 105 | 105 |
| 100+ | Territorial conseq. | 0 | -120 | 120 | 340 | 0 | -200 | 140 | 440 | 0 | -210 | 220 | 560 |
| | CHANCELLOR'S DEPT | 1,825 | -5 | 170 | 188 | 1,842 | -5 | 170 | 185 | 1,888 | -15 | 150 | 165 |
| | OTHER DEPTS | 366 | -13 | 50 | 66 | 396 | -14 | 43 | 63 | 406 | -16 | 47 | 67 |
| | LA REL CURIKHLELA teachers pay | 26,032 | 601 | 601 | 601 | 26,301 | 604 | 761 | 761 | 26,959 | 242 | 363 | 363 |
| | | 0 | 228 | 228 | 228 | 0 | 300 | 300 | 300 | 0 | 400 | 400 | 400 |
| | NAT IND : IFR | | | | | | | | | | | | |
| | EFLs coal | 362 | 408 | 458 | 508 | 392 | 233 | 283 | 333 | 402 | 97 | 147 | 198 |
| | non coal | 171 | -156 | -49 | 377 | -207 | -536 | -315 | 79 | -210 | -504 | -295 | 362 |
| | RMPS & SRPS(1) | 309 | 194 | 194 | 194 | 318 | -41 | -41 | -41 | 326 | -50 | -50 | -50 |
| | BGC, BAA, NBC | -470 | 180 | 270 | 270 | -390 | 390 | 390 | 390 | -400 | 400 | 400 | 400 |
| | SPECIAL SALES OF ASSETS | -2,250 | -2250 | -2250 | -2250 | -2,250 | -1250 | -1250 | -1250 | -2,250 | -1250 | -1250 | -1250 |
| | RESERVE | 6,000 | -1000 | -1000 | -1000 | 7,000 | -1000 | -1000 | -1000 | 7,000 | 0 | 0 | 0 |
| | 3 per cent increase in 1988-89 total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,127 | -1127 | -1127 | -1127 |
| | less double counting(2) | -252 | 0 | 0 | 0 | -249 | 0 | 0 | 0 | -258 | 0 | 0 | 0 |
| jc4 | TOTALS | 139,062 | -3239 | 1384 | 3915 | 143,894 | -3688 | 2551 | 5771 | 148,200 | -5235 | 2252 | 6314 |

(1) The RMPS and SRPS are considered in the IFR.

(2) DAFS and WOAD baselines £251m, £253m and £200m are included in IBAP/AFF dom. and in Scotland/Wales. Rounding discrepancies of +£1m, +£4m and +£2m are also rectified here.

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