

Ref. A086/2755

PRIME MINISTER

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Cabinet: Public Expenditure

The Chief Secretary's minute of 30 September reports briefly to you and to the rest of the Cabinet the current outcome of his public expenditure bilaterals. Without revealing any figures or details, he reports that he will be unable to resolve some major programmes bilaterally (he refers to Defence, Aid, the Scottish Office, and Health and Social Security) and suggests that you should now establish a small Group under the Lord President to consider outstanding issues and to make recommendations to the Cabinet.

2. Subject to the outcome of your discussion with the Lord President and the Chief Secretary this evening, you will want to ask the Chief Secretary briefly to speak to his minute and then to confirm that as agreed by the Cabinet at their meeting on 17 July (CC(86) 28th Conclusions, Item 7), you propose to establish a small Group under the Lord President, in accordance with recent practice.

3. You will want to avoid any substantive discussion at this stage. The Chief Secretary is still engaged in bilateral negotiations and it is too early to give any more detailed assessment. It is not customary either to discuss the composition of the Star Chamber at Cabinet (this is a matter for you to decide). You may, however, wish to take the opportunity to:

- emphasise the importance of sticking firmly to the established policy of strict public expenditure control, particularly in view of current economic and market uncertainties;
- ask colleagues to avoid any new spending commitments (other than those already collectively agreed) at the Party Conference;
- (if necessary) affirm that the objective of "working within the existing planning totals" remains and that it would be wrong to make any change while negotiations are continuing.

4. You may also wish (subject to your discussion with the Lord President and the Chief Secretary) to indicate that, so far as the press are concerned, no statement on public expenditure will be volunteered. However, if questions are asked, it will be confirmed that the Star Chamber has been set up in accordance with recent practice.

RA

ROBERT ARMSTRONG

1 October 1986