

SUBJECT  
CC MASTER



FILE  
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*From the Private Secretary*

8 September 1987

**PUBLIC EXPENDITURE**

The Chancellor this afternoon briefly outlined to the Prime Minister the prospects for changes to the planning total over the planning period which were likely to result from this year's Public Expenditure Survey.

There was also a brief discussion of individual programmes. The Chancellor explained in particular that the Scottish Secretary was fiercely resisting any suggestion of a reduction in Scottish expenditure, even though on a crude calculation, Scotland was over-provided by as much as £1 billion and even an adjustment to take account of relative population changes would imply a substantial reduction. The Prime Minister said that there was bound to be a limit to the number of difficult decisions which could be forced through in any year and, if it was a choice between a reduction in Scottish expenditure and closure of Ravenscraig, her preference would be for the latter. However, it would be right to continue to press for a reduction in Scottish expenditure at this stage of the Survey and the aim should be, as last year, to secure an outcome below the level implied by strict operation of the formula.

The Prime Minister accepted that a full scale reassessment of the formula would be unlikely to be worth pursuing, both because knowledge of it would leak and because of the time it would take.

I should add that the discussion of the position in Scotland was a hurried one. In view of the sensitivities both on Scottish expenditure and on Ravenscraig, I should be glad to be kept in close touch with developments so that the Prime Minister can be consulted as necessary.

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