



Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

2 October 1987

David Norgrove Esq
No.10 Downing Street

Dear David,

SURVEY PROSPECTS

The Chancellor and Chief Secretary are meeting the Prime Minister and the Lord President on Monday to take stock of where the Survey has got to, the issues outstanding and to consider the next steps. I attach a copy of a note summarising this.

2. The meeting might like to take the questions in the following order:

- i. the prospects for the overall outcome;
- ii. the outstanding issues and the channels for resolving them;
- iii. membership of the Lord President's Group;
- iv. the starting date for its work.

3. I am copying this letter and attachment to Mike Eland in the Lord President's Office.

Yours,

Cathy Rydins.

PP A C S ALLAN
Principal Private Secretary

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PROSPECTS FOR 1987 SURVEYThe overall picture

Cabinet agreed to hold as close as possible to the existing planning totals and certainly not to allow public spending to exceed the proportions of GDP set out in White Paper. It is important to emphasise the "as close as possible" condition and not allow colleagues to think in terms of an upper limit up to which we can spend.

2. The latest assessment is that we face increases in the planning totals of around £3 billion in 1988-89 and around £6 billion in 1989-90 (compared with £5 billion and £5¼ billion last year).

3. There may be scope for some increase in privatisation proceeds but while they may reduce the headline totals they will not help us with our declared aim of reducing spending as a proportion of GDP, where we have defined our objective as excluding privatisation proceeds, or with the markets who also set privatisation proceeds aside in making their assessments.

4. The figures assume larger Reserves than last year. These will be needed to cover uncertainties on contributions to the EC budget, overshoots on local authority spending and on social security, as well as genuine contingencies.

5. It is likely that the increases we face will be consistent with our objectives for public spending as a percentage of GDP. But the size of the cash increases and the growth in real terms (about 1½ per cent a year on average) will need very careful presentation.

Issues outstanding

6. The Chief Secretary has reached or is close to agreement on nearly all the nationalised industries and the majority of the programmes, but difficult issues remain in a number of areas.

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7. Defence. Over the last two years MOD has done its programme planning (through the annual long-term costings) more or less without reference to their public expenditure provision. A large gap has opened up between the two. The Secretary of State has put forward bids of over £2 billion over the three years on an 'interim' basis while he completes the current costings exercise with a view to taking final decisions both on the programme and resources next year. He has asked for higher additions - some £2¼ billion - if his settlement this year was to be a full and final one.

8. The Chief Secretary considers increases of this order unjustified. He considers it desirable to establish a firm cash envelope for the current costings exercise and believes this can be done with much more modest additions by taking full account of the major savings from improved efficiency which should be possible. A gap of more than £1 billion over the three years remains

9. Health. Agreement has been reached for the Family Practitioner Service including the ways in which service improvements are to be financed (principally from the dental charges agreed in Cabinet). Disagreement remains on the Hospital Service over what extra resources should be made available and how they should be financed. A substantial gap remains of around £175 million in the first year rising to £500 million in the third.

10. Education. The Secretary of State has moderated his original bids, principally for science, universities and capital for local authority schools, by a total of £100 million a year; but at around £450 million in the first year, rising thereafter, they remain much too large. The Chief Secretary will be prepared to offer some additions, but a gap of more than £200 million remains in each year.

11. Wales. Agreement has been reached with DTI on a package which includes switching, from 1 April 1988, from Regional Development Grants in part to Regional Selective Assistance, and in part to advisory services in the regions. But the agreement

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is conditional on the territories being prepared to follow the same course, which the Secretary of State for Wales is currently opposing. Even if he acquiesces he will be seeking compensating increases on which it may be difficult to reach agreement.

12. Scotland. Treasury believes there is massive over-provision relative to need - around £1 billion or 20 per cent of Scottish block - which is being perpetuated by the formula. Treasury has proposed making a start on reducing this, principally by making an adjustment to reflect recent trends in population distribution. Mr Rifkind is totally opposed to this. He is also seeking an extra £70 million to finance the higher local authority settlement in Scotland this year, money which would normally be found from the block. We have still to agree the consequences for Scotland of the regional policy proposals.

13. Aid. The Foreign Secretary is arguing for a policy decision to bring the Aid programme to a specified proportion of GNP (0.33 per cent). The Treasury has offered an amount which would be sufficient to hold it broadly constant in real terms (as was done in the last Survey) plus whatever is required to meet the Chancellor's debt initiative. By 1990-91 the gap is substantial, £230 million sought against £25 million (plus an assurance that the Treasury will meet the costs of the debt initiative) which has been offered. However, the Foreign Secretary has suggested further talks between the Chief Secretary and the Minister of Overseas Development though it is unlikely that he will be willing to resolve it without further involvement himself.

Next Steps

14. The Chief Secretary will have further bilateral discussions on education, health and defence either in London or in the margins of the Conference. He thinks it would be better to allow time for these to continue on the Monday and Tuesday after the Conference, with the Lord President's group beginning work on the Thursday (15 October). It is still hoped to bring the final proposals before Cabinet on 5 November.