

PRIME MINISTER

1988 PUBLIC EXPENDITURE SURVEY

The Chancellor mentioned to you yesterday that Ministers' bids for this year's Survey, which have been coming in this week, looked to be extremely high. Copies of the submissions are, in accordance with the Survey guidelines, being sent to you, but I am not troubling you with them at this stage. But you may find it helpful to have a short commentary.

As the Chancellor mentioned, for 1989/90 - the first year of the new Survey - bids already in are about £5½ billion. There will be some more to come - this does not include local authority current expenditure. All told I would expect total bids to be at least £7 billion in 1989/90, and substantially more than that for the later years.

This total is a bit higher than normal. But I do not think this is any great surprise. With all the talk of how well the economy is going, and the fact that we are now running a budget surplus, spending Ministers are almost bound to react in this way.

As to the composition of the bids, the Chancellor mentioned that the two parts of DHSS account for about £2½ billion in 1989/90. The fact that the Social Security numbers are up yet again - about £3/4 billion and much more in the later years - is disappointing but a familiar feature. The more striking element is the bid for health of nearly £2 billion which, even allowing for the carry through of the pay settlement, looks very high.

Amongst other departments major features are:

- Total bids from DES of over £600 million in 1989/90 rising to nearly £1 billion in the later years.
- Bids of nearly £1 billion a year on DoE programmes (mainly

housing but also other parts of the department).

- Bids for extra transport spending - nearly all roads - of £400 million in 1989/90 rising to £600 million in later years.
- An extra £200 million for prisons.

Some of these bids are clearly inflated. The key question will be whether they can realistically be scaled down to keep within the existing planned spending totals. At first glance this looks to be a tall order. The present plans for 1989/90 include a Reserve of £7 billion, and this could prudently be scaled down only to say £3½ billion as we roll forward a year. That means perhaps £3½ billion to share out between programmes, of which quite a large proportion will be pre-empted by the largely unavoidable increases for local authority current and social security. So I think we are in for another difficult Survey.

Next Steps

We are currently planning for the Public Expenditure Cabinet on 14 July (possibly slipping to 21 July). I have asked for two papers to be prepared for you by mid June, to provide the basis for a discussion with the Chancellor and the Chief Secretary:

- (i) A Treasury assessment of the pressures ^{and} of the remit to be put to the July Cabinet.
- (ii) A note from Robin Butler on arrangements, and critically personnel, for a Star Chamber. You might meantime want to be reflecting on possible candidates for Chairman - Mr. Wakeham and Mr. Parkinson (whose departmental programme should be easily settled with the Treasury) look to be the main possibilities.

PRG.

PAUL GRAY

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