

SUBJECT

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NOTE FOR THE FILE

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1988 PUBLIC EXPENDITURE SURVEY: INDIVIDUAL PROGRAMMES

In the course of the Prime Minister's discussion with the Chancellor and the Chief Secretary on 29 June various points were made on the handling of individual public expenditure programmes in this year's survey.

Defence

The Chief Secretary said that there were a range of ways in which efficiency and value for money in the programme could be improved. The Prime Minister said that Mr. Younger (and she herself) would be worried about the implications of defence spending as a proportion of GDP falling below 4%.

Education

The Prime Minister said that the Secretary of State's programme had been "supported more than anyone else's", and that there was no case for further generous treatment.

Health

It was agreed that the case for extra capital expenditure on the health programme was weak. This would merely generate demands for extra current expenditure in the future. And, following the heavy capital spending in recent years, there was in fact no present shortage of facilities.

Social Security

The Prime Minister agreed that it would be appropriate to have a further years freeze on child benefit, which was not pledged.

The Chief Secretary said he would want to look for some further savings on housing benefit, but the Chancellor and the Prime Minister said there was not a lot that could be done in this area given its recent sensitivity. The Chancellor

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said that, long term, further thought should be given to raising the retirement age, as had been done by some other countries.

The Chancellor and Chief Secretary drew attention to the recent growth in paper of disability benefits; the Prime Minister said this was one of the areas of social security spending for which she had greatest sympathy.

It was noted that, with the exception of a freeze on child benefit, nearly all the other conceivable options for savings would require legislation; which would both be difficult to fit in to the programme, and would in any event mean there was a time lag of several years before savings came into effect.

Capital Programmes

There was general agreement that, with the present high degree of pressure on the construction and civil engineering industries, it would be important to avoid adding significantly to public expenditure in this area. Large additions would merely have the effect of driving up prices. This was particularly relevant to the bids for roads, and, to a lesser extent, prisons.

Employment

The Chief Secretary said that, with falling unemployment, there was scope for substantial savings, for example on the Employment Training Scheme and the Youth Training Scheme. The Prime Minister agreed it would be appropriate to be "very tough" on this programme.

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PAUL GRAY

30 June 1988

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 June 1988

Dear Moira,

THE 1988 PUBLIC EXPENDITURE SURVEY

The Prime Minister discussed yesterday with the Chancellor and the Chief Secretary the paper attached to your letter of 28 June on the prospects for the 1988 Public Expenditure Survey.

In discussion, it was noted that a very difficult round was in prospect. It was agreed that the remit to be set by the Cabinet at its 14 July discussion should be a tight one, but equally one that could be achieved in the subsequent negotiations. It was also agreed that a similar formula should be adopted as used in 1987, stressing both the need to keep as close as possible to the existing planning totals and ensuring a steady decline in the ratio of public expenditure to GDP. It was important, however, that the precise words should point to a further decline in the GDP ratio from the out-turn figure for 1988-89 and should not be tied to the figures set out in the 1988 Public Expenditure White Paper.

The Chancellor and the Chief Secretary agreed to let the Prime Minister see, during the course of next week, drafts of the papers they would be putting to Cabinet both on the Public Expenditure and overall economic prospects.

I am copying this letter to Jill Rutter (Chief Secretary's Office).

Yours,
Paul

PAUL GRAY

Miss Moira Wallace
H.M. Treasury

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