

PRIME MINISTER

PUBLIC EXPENDITURE: MEETING WITH THE CHANCELLOR AND CHIEF SECRETARY

I have made a provisional arrangement for you to talk to the Chancellor and Chief Secretary on Monday at the end of the NHS meeting. I have not invited Cecil Parkinson.

The Chief Secretary has made further good progress at Brighton during the week. I understand the position on the outstanding programmes now is:

Defence

Figures had already been agreed for 1989-90 and 1990-91. At a further meeting today the two sides have virtually reached agreement on 1991-92. The Chief Secretary and Mr. Younger will now put an agreed note to you on the implications. The Chief Secretary can report the outlines to you on Monday.

Transport

There have been no further discussions. Paul Channon is apparently still saying he must take his case both to Star Chamber and Cabinet, but I sense he is now getting a bit concerned that he could be the only spending Minister still in dispute. A Star Chamber meeting has been convened to consider the position.

Social Security

The outstanding issue is child benefit. There was, regrettably, a lot of publicity about this in yesterday's papers. John Moore is apparently not prepared to give way until he is clear of your view. I gather the Chief Secretary still thinks the case for no uprating is strong; he now seems less sanguine about the alternative economy on unemployment benefit mentioned at the last meeting.



Territories

The Chief Secretary has had no response to the very fair offer he made to Peter Walker a week ago. So it is unclear whether there is still a dispute.

Overall handling

I suggest you start the meeting by inviting the Chief Secretary to report the state of play. You then need to settle:

- (i) how should the outstanding problems on transport, social security and (possibly) Wales be settled. There is clearly now not a full programme for the Star Chamber. Is there any point in it meeting at all? Could the remaining disputes be settled better in a different way, eg. your taking a short meeting on child benefit?
- (ii) what does the state of play imply for the timing of the Autumn Statement and preceding Cabinet discussion? The original Treasury plan was for the Autumn Statement on Tuesday 15 November, and Cabinet on 10 November. But if all the issues are close to resolution would it now make sense to have the Autumn Statement on Tuesday 8 November and report to Cabinet on Wednesday 2 November? An important factor here will be how Treasury ministers propose to resolve the issue of revised inflation assumptions. I gather the Chancellor is having an internal meeting about this next Wednesday (please do not reveal).

*Paul G.*

PAUL GRAY

14 October 1988

SLHBBA