

1a-c
 King

PRIME MINISTERPUBLIC EXPENDITURE

You are seeing the Chancellor, Chief Secretary, Lord President, Sir Robin Butler and Richard Wilson tomorrow afternoon to discuss the state of play in the public expenditure negotiations. (This meeting precedes your regular bilateral with the Chancellor, for which a separate folder is in the box.)

There is no paper yet available for the meeting, but the Chancellor may hand a note round when he arrives. The sort of points that will be brought out in the note, and what the Chancellor and Chief Secretary have to say include:

- on any basis there will be massive cash increases in the new planning total;
- a significant "blip" in the general Government expenditure/GDP rate is also inevitable in 1990-91;
- and these outcomes will occur even if a series of tough outcomes is achieved for key programmes;
- the main problem areas are:
 - Transport, where Mr. Parkinson's average annual bid is some £2 billion;
 - Social security, where difficult decisions include whether to freeze child benefit again, whether to agree Mr. Newton's bid for a substantial package for the disabled, and whether to pursue the Treasury option by *for* reducing the period of unemployment benefit entitlement;
 - Defence, where Mr. King is seeking to reopen the 3-year deal and has a large bid for the new final year;
 - The DOE programmes where, community charge apart, Mr. Patten has very large bids;

How much

- DES, where Mr. MacGregor initially maintained all Mr. Baker's bids and is negotiating for them hard;
- Health, where perhaps surprisingly the negotiations are going quite well, although a settlement has still to be reached.

b

You will want to decide to what extent to give steers on any of these programmes. What is clear is that, if the Star Chamber does have to meet it will face a very tough task. It is probably too soon however to think in terms of what specific remit it should work to.

But it would be worth tomorrow having an initial discussion on who the members of the Star Chamber might be should the group prove necessary. ^{The} tradition in the years up to 1986, the last year there was a full Star Chamber exercise, was to have six members (plus the Chief Whip if he wished to attend), although in 1984 when Mr. Tebbit had to withdraw after the Brighton bomb, the group managed with just five members. So, assuming the target is six that means choosing four to add to the Lord President and the Chief Secretary:

- ✓ Mr. Ridley has already settled, and I think the Treasury would be keen to have him. I think that would be a very good choice;
- ✓ Mr. Clarke is the only person around (apart from John MacGregor) who has served on previous Star Chambers. In earlier years he was a valuable member, deploying his cross-examination techniques to excellent effect. So, if the health programme could be settled, he would also be a good choice;
- there are only three obvious candidates for the remaining two places, namely Messrs. MacGregor, Fowler and Wakeham. Ideally the Treasury would prefer the first two. But it may be difficult to secure settlements with Mr. MacGregor, given his remaining large bids, and Mr. Fowler, from whom the Treasury are looking for large net savings.

You will also want to consider tomorrow what if anything should be said in E(LG) on Wednesday and in Cabinet on Thursday about the implications of the new community charge package in other public expenditure programmes. Does the Chancellor want to raise this in Cabinet on Thursday?

Recg.

(PAUL GRAY)

2 October 1989

Revenue props 1 p.e./a.p.

1986 38.5% - /46 - /56

89 - /66 /86 - ~~8~~
{8.7}

ITI -

Health -

Trans. - 2.2 2.2 2.2

3.6 Sub. Ont

Det -

Edⁿ - 1.2 1.5 1.7

Env. -

Soc Sec. -

Empl

Debt Interest