

SUBJECT CC MASTER

File SWW

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

3 October 1989

Dear Sir,

PUBLIC EXPENDITURE

The Prime Minister held a meeting this afternoon to discuss the position reached in the Public Expenditure Survey discussions. Those present were the Lord President, Chancellor, Chief Secretary and Sir Robin Butler and Mr. Richard Wilson (Cabinet Office).

I should be grateful if you and copy recipients would ensure that this letter is seen only by a strictly limited number of named individuals.

The Chancellor and Chief Secretary explained that this was proving an exceptionally difficult public expenditure round. Even if extremely tough settlements were reached in all cases the prospect was for very large additions to the planning total and general government expenditure. It also seemed inevitable that the general government expenditure/GDP ratio would increase substantially between 1989/90 and 1990/91, and might only just get back to the 1989/90 figure by 1992/93.

Discussion then turned to a selection of individual programmes. The Chief Secretary said that a settlement had already been reached with the Secretary of State for Trade and Industry and that negotiations were proceeding reasonably satisfactorily in the cases of Health, Environment and the Home Office. He hoped to be able to reach settlements in all these cases. However much greater difficulties were being experienced in a number of other areas.

Transport

The Chief Secretary said that total bids over the three years of the Survey totalled some £6.6 billion and were equivalent in 1990/91 to some 23 per cent of the base line. There was no way that bids on this scale could be accommodated. The Prime Minister agreed that the bids would have to be substantially reduced, both to reflect to what could be afforded and given the implications of the bids for pressure on the construction industry.

Industry - ? Defence?

The Chief Secretary said that difficulties had arisen because

the Secretary of State wished to reopen the earlier three year settlement. But this was unacceptable because the Department had failed to achieve the planned 2.5% efficiency savings, and were in any event continuing to under-spend the budget. The Prime Minister commented that it would simply not be possible, given the overall position, to put up defence expenditure in this Survey.

Education

The Chief Secretary said that the present Secretary of State was continuing to press the very large bids submitted by his predecessor of well over £1 billion in each year. The Prime Minister commented that bids of this scale were clearly unaffordable. She said that the Secretary of State had mentioned separately to her his desire not to press ahead rapidly with further funding of City Technology Colleges, and that he would prefer to give priority to the funding of grant-maintained schools and the science budget. She sympathised with these priorities. It was also noted in discussion that as and when demographic trends led to a renewed increase in the school population the appropriate response to this would be to permit some increase in pupil/teacher ratios.

Employment

The Chief Secretary said he was looking for net savings below base line of around £100 million in 1990/91 and some £200 million in 1991/91, via a scaling down of Employment Training and Youth Training. The Prime Minister agreed that savings should be pursued in this programme, given the background of much reduced unemployment.

Social Security

The Chief Secretary said that large bids were unavoidable, particularly those resulting from the higher than expected RPI. But difficult decisions were necessary on a complex set of policy issues. The Secretary of State was pressing a large package of assistance for the disabled, costing some £500 million. The Chief Secretary thought that some extra help for the disabled would need to be conceded, but he was seeking to persuade the Secretary of State to accept a very much smaller sum. If so, this could still only be afforded if policy savings were made in other areas; first by continuing the freeze of child benefit, either for one year or all three years of the survey, and second by reducing the period of eligibility for unemployment benefit from 12 months to 6 months.

The Prime Minister said that she agreed an increase in child benefit could not be afforded in the coming year, although some of the resulting saving would need to be re-deployed to additional family credit. She also felt that, in the longer term, consideration needed to be given to some return to a system of child tax allowances. As regards reducing the period of entitlement to unemployment benefit, she had serious doubts; this would be very difficult for the Government to present.

Other Issues

Discussion then turned to the possibility that, if the Chief

Secretary was unable to reach agreement bilaterally with all colleagues on the outstanding programmes it might be necessary to establish a "Star Chamber" committee under the Lord President's chairmanship. If this did prove necessary it was agreed that, in addition to the Lord President and Chief Secretary, the Secretary of State for Trade and Industry should be a member. There would also be advantage in appointing the Secretaries of State for Health and Employment as members if, as was hoped, their programmes could be settled bilaterally. The sixth member of the committee might be the Secretary of State for Education and Science, although whether his programme could be settled bilaterally was in considerably greater doubt. If it could not, the options would be either to do without a sixth member, or to consider the possibilities of the Secretary of State for Energy or the Secretary of State for Northern Ireland.

It was agreed that, should the Star Chamber need to meet it should start its work immediately after the Conservative Party Conference. There was however no need for this to be raised at Cabinet on 5 October; the possibility of establishing the committee had already been covered in the July Cabinet public expenditure discussions. The aim should be to complete all the public expenditure negotiations so that the outcome could be endorsed by Cabinet on 9 November, with an announcement the same afternoon. If this timetable could not be achieved the fall-back date would be 16 November.

I am sending copies of this letter to the Private Secretaries of the Ministers attending and to the others present.

Yam.
Paul

(PAUL GRAY)

John Gieve, Esq.,
HM Treasury.