

P 03722

PRIME MINISTER

Public Expenditure SurveyPURPOSE OF THE MEETING

1. You are seeing the Lord President, the Chancellor of the Exchequer and the Chief Secretary on Thursday 4 October to discuss progress with the public expenditure discussions and the setting up of the Star Chamber. There are no papers, but in line with last year's practice we would expect the Chief Secretary to bring along a note to serve as an aide mémoire.

2. There are three main subjects for the meeting.

a. A briefing by Treasury Ministers on overall progress with the survey, and on negotiations with key Departments. In the light of what they say you may want to consider whether to offer any guidance at this stage.

b. The setting up of the Star Chamber and its membership. Whether or not it is ultimately necessary for the Star Chamber to meet, the Treasury may want to ask you to agree that the normal arrangements should be put in hand so that it is clear to colleagues that the Star Chamber is ready to act if needed. You will probably want to agree. It will not be possible to reach a final decision on membership until potential members have settled their own Departments' PES provision. But you will wish to consider possible candidates.

c. The timing of the Star Chamber and the Autumn Statement.



## ISSUES FOR DISCUSSION

Progress with the survey

3. On 19 July Cabinet agreed the objectives for this year's survey:

- to stick as closely as possible to the planning totals set out in the 1990 White Paper, and

- to keep the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend.

(a) The overall position

4. The Chancellor and the Chief Secretary will brief you on the latest position on likely additions to the planning totals. Our understanding is that they are faced with bids of some £17 billion for 1991-92. They regard some £8 billion of this - to deal with higher than anticipated inflation, extra local government finance, and other already agreed items - as virtually irresistible. Against that, they envisage drawing some £3 billion from the Reserve, leaving a minimum addition to the planning total of some £5 billion. You may want to ask for the Treasury's latest estimate of the unavoidable addition to the planning total. Treasury Ministers regard the remaining £9 billion of bids as discretionary; but they are unlikely to be able to resist them all. You might ask how much more they think they will have to concede.

5. The second objective, of keeping the ratio of public expenditure to GDP on a downward trend, is influenced by inflation. Higher inflation increases GDP, and so improves the ratio of (cash limited) public expenditure to GDP. That has already affected the current year's figures, and so might make it harder to secure a further improvement next year. You may want to ask the Chief Secretary how much room for manoeuvre he will have in the remaining negotiations if he is to maintain the downward trend in the ratio of public spending to GDP.





(b) Individual Departments

6. The Chancellor and the Chief Secretary will also want to brief you on the current state of negotiations with individual Departments. Our present understanding is that Trade and Industry, Energy, and the Northern Ireland Office are settled or nearly settled. Environment, Transport, Employment, and Health are heading for agreement, though Health still have some problems. The major difficulties are with Defence, Social Services, Education, the Foreign Office, Agriculture, and especially the Home Office. You may want to ask the Chief Secretary which departments seem most likely to need to go to the Star Chamber.

Setting up the Star Chamber

7. It will probably be too early to form a clear view on the remit for the Star Chamber, as the total to be shaved off outstanding bids will depend on progress with the remaining bilaterals. Very general terms of reference on the lines "... to resolve outstanding differences ..." have usually been considered acceptable for the purposes of setting up the committee .

8. You have already told colleagues that the Star Chamber will be chaired by the Lord President. The committee normally has four members in addition to the Chairman and the Chief Secretary, Treasury. You may want to discuss the likely candidates.

9. You will want to look for Ministers whose own programmes have been settled at modest levels, who carry conviction with their colleagues, and who have public expenditure experience. Four possibilities which the Treasury might favour are:

- a. Mr Wakeham, who is on the point of settling;
- b. Mr Howard, who is expected to settle shortly;
- c. Mr Clarke, if the Health Department programme can be settled;
- d. Mr Lilley, who has already settled (below baseline) and has Treasury experience as a former Financial Secretary.



10. If any of these are not available Mr MacGregor, a former Chief Secretary (provided he can settle) or Mr Parkinson might be alternatives. Mr King and Mr Waddington currently seem unlikely to have settled early enough to be considered.

#### Timing

11. If you can agree the membership at this meeting it would be possible to set up the Star Chamber before the Party Conference, which would enable it to get to work (if necessary) early in the week starting 15 October. An early move to set up the Committee might encourage some of the waverers to settle.

12. Alternatively you might wish to postpone a final decision on membership, and see which other Ministers might become available as a result of settlements in the margins of the Party Conference. This could, however, delay the start of any Star Chamber work, which might cause problems of timing since the Autumn Statement cannot be delayed beyond Thursday 15 November if it is not to be in the same week as impact day for electricity privatisation. You might want to ask the Chancellor and the Chief Secretary whether they feel that the risks are such that the setting up of the committee should not be delayed until after the Conference.

13. If you agree to the early establishment of the Star Chamber you will probably want to ask the Chief Secretary to minute you, copied to colleagues, seeking your formal agreement to setting it up.

A handwritten signature in black ink, appearing to be 'P F OWEN'.

P F OWEN

28 September 1990





COOPERATIVE

MARKET

