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Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq
Private Secretary
10 Downing Street
London
SW1

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Dear Andrew

PUBLIC EXPENDITURE: 1985 SURVEY PROSPECTS

The Chief Secretary thinks that the Prime Minister would find it useful to have a brief and preliminary appraisal of the prospects for this year's Public Expenditure Survey, as background for Wednesday's discussion of social security upratings.

Most departments have now sent to the Treasury the bulk of the material requested in the PES Guidelines, and Treasury officials have carried out a quick first appraisal of the position. Departments' bids for additional money rise from £4½ billion in 1986-87 to nearly £7 billion in 1988-89. The DHSS, when it has finally settled its social security bid, will certainly be the largest single contributor to these totals, with bids reflecting revised forecasting assumptions (not policy changes) of more than £1 billion in 1986-87.

In addition to this, there is strong pressure (which the Chief Secretary is resisting) in current Ministerial discussions to relax the target and holdback regime applied to local authority current expenditure. This could lead to an additional requirement of upwards of £½ billion a year. For 1986-87 about the same may need to be added for nationalised industries. On the assumption that Ministers take tough decisions to reject or offset discretionary additional bids wherever possible (and do not imagine the problem can be solved by asset sales) total cuts in programmes of perhaps £3 billion a year will need to be found if the Cabinet is to stick to the totals announced by the Chancellor on Budget day, and to retain credible Reserves for contingencies.

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The Chief Secretary believes that it will require very difficult decisions indeed to get back to these expenditure totals. The present analysis suggests, for example, that there will be no scope for additions to capital spending programmes - indeed, some further cuts in capital spending seem inevitable. Without a large contribution from social security, in order to limit the unavoidable increases in this programme flowing from higher inflation in May 1985, there seems little or no prospect of achieving total cuts of the order of magnitude required. The alternatives to such savings on social security current spending would have to be similarly difficult cuts in such areas as housing capital, the roads programme, defence equipment, prison capital and so on.

The Chief Secretary has asked me to emphasise the preliminary and provisional nature of this analysis. He recognises that its conclusions rest on a number of assumptions on which Ministers have yet to take decisions. But enough is already known, in his view, to indicate that the government faces a rough ride if spending is to be held to plan; and that every opportunity for savings must be assiduously pursued.

Yours ever
Richard Broadbent

R J BROADBENT
Private Secretary

EX		1986-87		1987-88		1988-89	
		Baseline	DEPT bids	Baseline	DEPT bids	Baseline	DEPT bids
		999,999	999999	999,999	999999	999,999	999999
	Survey baseline and proposed changes						
+	MUD	18,557	394	18,861	564	19,039	875
+	FCO-UDA	1,296	65	1,317	83	1,349	98
+	FCO-OTHER	603	49	619	50	635	71
+	EC	640	55	829	171	850	100
+	IBAP/AFF CAP	1,277	491	1,304	501	1,337	505
+	AFF domestic	713	36	699	47	717	32
+	FORESTRY	53	2	54	2	56	3
+	TRADE/INDUSTRY	1,162	61	980	65	1,007	92
+	ECCO	78	163	-43	138	-44	46
+	ENERGY	296	0	295	0	300	0
+	EMPLOYMENT	3,704	73	3,901	74	3,999	167
+	TRANSPORT	1,955	135	1,996	159	2,046	223
+	DOE-HOUSING	2,424	828	2,526	1113	2,589	900
+	DOE-PSA	-120	14	-128	24	-131	34
+	DOE-OTHER	847	135	860	130	881	128
+	HOME OFFICE	1,061	79	1,104	84	1,130	108
+	LCD	574	60	610	81	625	118
+	DES	3,418	74	3,505	85	3,593	90
+	OAL	332	22	342	27	353	38
+	HEALTH & PSS	14,947	319	15,624	359	16,015	762
+	SOCIAL SEC.	41,547	1209	43,553	1385	44,642	1949
+	CIVIL SUPER.	1,115	72	1,226	75	1,258	135
+	SCOTLAND	4,300	0	4,373	0	4,482	0
+	WALES	1,708	0	1,735	0	1,779	0
+	N. IRELAND	4,464	29	4,603	56	4,717	90
+	CHANCELLOR'S DEPT	1,825	153	1,842	212	1,888	132
+	OTHER DEPTS	365	62	396	67	406	69
	TOTALS (1)	139,060	4580	143,890	5552	147,080	6765

(1) Baseline totals include LA relevant current, NIEFLs, Reserves and special sales of assets

17/5/89