

CONFIDENTIAL

MR. LANKESTER

I support the Chief Secretary's Public Expenditure

Prime Minister 1
Agree that Mr Heseltine must put forward the full options - i.e. the opposition cuts or the percentage cuts whichever are the greater? (Cabinet minutes were quite clear on this.)

Flag A

Mr. Heseltine's minute to the Prime Minister of 19th June is the latest instalment in an argument he has been having with the Chief Secretary about the Cabinet decision of 24th May.

2. The Chief Secretary's original proposal, in C(79) 11, was that Ministers should produce 'costed options' either on the lines of cuts discussed in Opposition (listed in C(79) 10) or on a percentage basis set out in his paper, whichever was the higher.

3. At Cabinet on 24th May, Mr. Heseltine argued that some of the cuts identified in Opposition had been ill-informed. The percentage cuts proposed by the Chief Secretary would be more far-reaching, and he was in favour of a search for the widest possible options. He sought flexibility to choose between the Opposition cuts or the percentage cuts. The Prime Minister agreed. In doing so, I am sure that she thought Mr. Heseltine was arguing for a wider, rather than a narrower, range of options to be identified and costed.

4. There followed a sharp exchange of views (Mr. Biffen's letter of 15th June and Mr. Heseltine's reply of 18th June) in which Mr. Heseltine argued for the right to put forward cuts which amounted to the lower of the Chief Secretary's percentages or the 'Opposition List'. The Chief Secretary, understandably, objected.

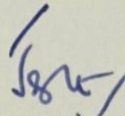
5. Mr. Heseltine now admits that he was wrong when he told Cabinet that the Opposition cuts were smaller than the percentage cuts. But he still wants special treatment for his Department. He is, in effect, asking for exemption from the 'equality of misery' ~~or~~ ordained by Cabinet.

6. It is going to be very difficult indeed to find acceptable public expenditure reductions on the scale wanted. It is essential therefore that the Cabinet should have the widest possible range of choice. Accordingly I think the Prime Minister should support the Chief Secretary against

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Flag C
Mr Biffen has
minuted yet
again (Flag D)

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Mr. Heseltine. If she agrees, then I think you might write (in her absence in Strasbourg) to Mr. Heseltine's Private Secretary, saying that she supports the Chief Secretary when he says (in his letter of 15th June) that for each of the main DOE public expenditure programmes, where the Opposition cuts amount to more than the percentages agreed by Cabinet, it is the former total which determines the size of the options for reductions to be identified. Within these overall totals, Mr. Heseltine is of course free to suggest alternatives to the cuts identified in Opposition, provided that they yield at least as much by way of savings.


(John Hunt)

20th June 1979

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10 DOWNING STREET

From the Private Secretary

21 June 1979

PUBLIC EXPENDITURE

The Prime Minister has considered your Secretary of State's minute of 19 June and the Chief Secretary's minute of 20 June on the above subject, along with their letters of 18 June and 15 June respectively.

The Prime Minister is clear that, on the basis of the Cabinet decision of 24 May, your Department must put forward options for reductions in its main expenditure programmes amounting to either the Opposition cuts or the percentages agreed by Cabinet whichever are the greater; she has asked that your Secretary of State should proceed on the basis of the Chief Secretary's letter of 15 June.

I am sending a copy of this letter to Alistair Pirie (Chief Secretary's Office, H.M. Treasury) and to Martin Vile (Cabinet Office).

D. A. Edmonds, Esq.,
Department of the Environment.

T.P. LANKESTER

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