



PRIME MINISTER

## PUBLIC EXPENDITURE WHITE PAPER: CONTINGENCY RESERVE

Thank you for your comments on the draft I sent you on Friday. They have been taken aboard in the draft which I am now circulating to our colleagues under cover of a separate minute to you.

2. The reference in the draft to converting the contingency reserve into a cash control has been removed. As I said in my earlier minute, the Chancellor and I will shortly be putting to you a proposal to move to cash rather than volume in our planning procedures for future years. I think that it would be better to put this proposed change in the operation of the reserve in 1981-82 to our colleagues at the same time as the proposals which are being developed in the Treasury for changing the general basis of the Survey to cash, so that they can be discussed together. The agreed changes can be mentioned in the Budget speech.

3. Your minute of 30 January to the Chancellor suggested that we should look again at the size of the contingency reserve in order to reduce the planning totals. The Chancellor and I have reexamined this. We had actually already reduced the figures somewhat before the Chancellor put them to you, but regretfully, after looking at it again, we have concluded that there is no scope for further reduction. I attach (for your eyes only) a list of some likely bids already foreseen - one or two have been virtually agreed already. There is very little left for unforeseen claims, yet some are bound to arise during the year.

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Prime Minister

Agree that

Contingency Reserve  
should not be  
removed?Yes  
not

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I entirely agree with you that we will have to take the most stringent line with any further bids. The Cabinet will have to reject bids which will undoubtedly be presented as being both desirable and urgent, in order to hold to the figures now suggested.

4. The large provision for the nationalised industries is based on an assessment of the position of individual industries, and is the realistic minimum we should allow.

5. I am sending you and our colleagues separately a note explaining that I cannot recommend adoption within the next two or three years of the more general end-year flexibility scheme, for departments other than nationalised industries, proposed last July by John Biffen. I should have liked to do this, but there is no room within our planning totals for the larger reserve that would be required.

L.B.

LEON BRITTAN  
11 February 1981



## CONFIDENTIAL

BASIS OF PROPOSED RESERVE (Volume only)

|   | £m, 1980 survey prices |         |         |
|---|------------------------|---------|---------|
|   | 1981-82                | 1982-83 | 1983-84 |
| Nationalised industries (including end-year flexibility)                        | 800                    | 1,000   | 1,000   |
| Rolls Royce   | -                      | 100     | 100     |
| BL  | -                      | 100     | 200     |
| Industrial and regional support (including 50+ on EFLs for energy prices)       | 200                    | 100     | 100     |
| Special employment measures   | -                      | 100     | 100     |
| Defence (partial offset to reduction in cash limit following 1980-81 overspend) | 100                    | -       | -       |
| Ports   | 75                     | 40      | 25      |
| MAFF - hill subsidies and EC fisheries policy                                   | 35                     | 35      | 35      |
| MCB grants for pit closures   | 20                     | 35      | 50      |
| Home Office - police and prisons  | 20                     | 30      | 40      |
| Overseas aid (carry-over)   | -                      | 10      | -       |
| Invalidity benefit - restoration of 5%  | -                      | 10      | 30      |
| Other foreseen  | 20                     | 30      | 45      |
| Total foreseen  | 1,270                  | 1,590   | 1,725   |
| Unforeseen claims   | 200                    | 400     | 250     |
| TOTAL (rounded)   | 1,500                  | 2,000   | 2,000   |
| <u>Memorandum</u><br>Cmnd 7841 (revalued)                                       | 1,400                  | 1,750   | 2,300   |

(i.e. proposed continuing  
more in  
Unit App)  
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