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COPY NO 77

CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 10 NOVEMBER 1983 at 10.30 am

P R E S E N T

The Rt Hon Margaret Thatcher MP Prime Minister

The Rt Hon Viscount Whitelaw Lord President of the Council

The Rt Hon Lord Hailsham Lord Chancellor

The Rt Hon Leon Brittan QC MP Secretary of State for the Home Department

The Rt Hon Nigel Lawson MP Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP Secretary of State for Education and Science

The Rt Hon James Prior MP Secretary of State for Northern Ireland

The Rt Hon Michael Heseltine MP Secretary of State for Defence

The Rt Hon George Younger MP Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP Secretary of State for Wales

The Rt Hon Patrick Jenkin MP Secretary of State for the Environment

The Rt Hon John Biffen MP Lord Privy Seal

The Rt Hon Norman Fowler MP Secretary of State for Social Services

The Rt Hon Norman Tebbit MP Secretary of State for Trade and Industry

The Rt Hon Lord Cockfield Chancellor of the Duchy of Lancaster

The Rt Hon Tom King MP Secretary of State for Employment

The Rt Hon Peter Rees QC MP Chief Secretary, Treasury

The Rt Hon Nicholas Ridley MP Secretary of State for Transport

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon John Wakeham MP
Parliamentary Secretary, Treasury

Earl of Gowrie
Minister of State, Privy Council Office
(Items 4 and 5)

Mr Malcolm Rifkind MP
Minister of State, Foreign and
Commonwealth Office

The Rt Hon Alick Buchanan-Smith MP
Minister of State, Department of
Energy

Mr John Gummer MP
Minister of State, Department of
Employment

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson (Items 4 and 5)
Mr A D S Goodall (Items 2 and 3)
Mr M S Buckley (Items 4 and 5)
Mr G Stapleton (Items 2 and 3)
Mr R Watson (Item 1)
Mr S B Hickson (Item 1)

CONTENTS

Item	Subject	Page
1.	PARLIAMENTARY AFFAIRS	
	Kincora Boys Home	1
2.	FOREIGN AFFAIRS	
	Grenada	1
	Lebanon	1
	Argentina	2
	Southern Africa	2
	Hong Kong	3
3.	COMMUNITY AFFAIRS	
	Community Budget and United Kingdom Refunds	3
	Steel	3
	Acid Rain	
4.	PUBLIC EXPENDITURE SURVEY 1983	
5.	ECONOMIC SITUATION AND PROSPECTS	

PARLIAMENTARY
AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

Kincora
Boys Home

Previous
Reference:
CC(82) 6th
Conclusions,
Minute 1

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he was being pressed to hold an inquiry under the Tribunals of Inquiry (Evidence) Act 1921 into the affair of the Kincora Boys Home. Two police investigations had considered that no further criminal proceedings should be taken, and he did not think that the House of Commons would approve the setting up of a Tribunal of Inquiry. He was, however, considering setting up some other form of inquiry which might help to halt the further spread of rumour and unfounded accusations.

The Cabinet -

Agreed that the Government should not appoint a tribunal under the Tribunals of Inquiry (Evidence) Act 1921 to inquire into the affair of the Kincora Boys Home.

FOREIGN
AFFAIRS

Grenada

Previous
Reference:
CC(83) 32nd
Conclusions,
Minute 2

2. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIFKIND), said that there had been no further military activity on Grenada, and the withdrawal of United States forces from the island continued. The Governor General, Sir Paul Scoon, who estimated that it would be between six and twelve months before elections could be held, had now announced the appointment of a nine-man, non-political, advisory council under the chairmanship of Mr Alistair McIntyre, the Grenadian Deputy Secretary General of the United Nations Committee on Trade and Development. Mr Antony Rushford, a former Legal Adviser at the Foreign and Commonwealth Office, now retired, was providing the Governor General with legal advice. The dispute over Grenadian credentials at the United Nations had not yet been resolved.

Lebanon

Previous
Reference:
CC(83) 32nd
Conclusions,
Minute 2

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that the situation in the Lebanon remained tense following the recent terrorist attack on the Israeli headquarters at Tyre. But the reported mobilisation by Syria seemed intended more for show than action; and the Israeli mobilisation appeared to have been a routine exercise which was now over. Some very limited progress had been made in the first round of the national reconciliation talks in Geneva, which had been adjourned. The leader of the Palestine Liberation Organisation (PLO), Mr Yasser Arafat, appeared likely to be forced to withdraw from Tripoli in humiliating circumstances. This would sharpen the division within the PLO and make it more difficult to assess what its future reactions were likely to be. The Minister of State, Foreign and Commonwealth Office, Mr Luce, had returned from a useful visit to the area, which had however revealed no sign of flexibility on the part of the Israelis and increased frustration on the part of the Arabs. The possibility of retaliatory action by United States forces for the terrorist attack on the American marines in Beirut on 23 October was a

continuing cause of serious concern. The Prime Minister had made the British Government's views clear to the United States Assistant Secretary of State, Mr Kenneth Dam in London, on 7 November. In a public statement later that day President Reagan had said that there would be no large-scale action: any retaliation would be limited and directed against a specific and pinpointed target.

Argentina

Previous
Reference:
CC(83) 32nd
Conclusions,
Minute 2

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE, said that the military junta in Buenos Aires had announced its intention of handing over power to an elected Government headed by Senor Alfonsin on 10 December, seven weeks earlier than originally planned. Senor Alfonsin had told a meeting of foreign ambassadors in Buenos Aires that his Government's policy towards the Falkland Islands would be based on a number of United Nations resolutions known to be unacceptable to the United Kingdom: he had also misrepresented the purpose of the British military dispositions in the South Atlantic, claiming that they constituted a threat to Latin America. In the forthcoming debate on the Falkland Islands at the United Nations General Assembly, support for the British position was expected to be on much the same scale as in the 1982 debate. Greece's decision to abstain was an improvement which would be helpful in encouraging Italy and France to follow suit. Mr Dam had expressed the view in London that Argentina's recertification by the United States Administration as qualifying it to buy arms from the United States was now a foregone conclusion, but that this did not necessarily mean that United States arms supplies to Argentina would be resumed in the near future.

In discussion it was emphasised that an American decision to resume arms sales to Argentina would have a damaging effect on British opinion in the context of cruise missile deployment. It was suggested that American attention could usefully be directed to a recent opinion poll published in the Daily Mail, which purported to show that 95 per cent of those questioned favoured a dual control system for cruise missiles deployed to the United Kingdom. Doubts were however expressed as to the significance of the poll's findings.

Southern
Africa

Previous
Reference:
CC(83) 27th
Conclusions,
Minute 1

THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE reporting on his recent visit to Southern Africa, said that his meeting with the Prime Minister of Zimbabwe, Mr Mugabe, had been friendly. Mr Mugabe had made no criticism of the United Kingdom. He had referred to the imprisoned white air force officers without giving any assurance about their release; but there were informal indications that the Government of Zimbabwe was considering releasing the officers concerned within the next two to three months. In Angola he had found the Angolan Government readier than ever before to admit the seriousness of the threat they faced from the dissident movement National Union for the Total Independence of Angola (UNITA) which was supported from South Africa. It appeared increasingly unlikely that either side could win the civil war in Angola. But the Angolan Government was more likely to seek increased support from Cuba and the Soviet Union than to seek a

reconciliation with UNITA. In South Africa he had found the Government elated by the result of the constitutional referendum, which they saw as providing them with a mandate for evolutionary reform. It was doubtful, however, whether the South African Government's ideas for reform would go very far towards meeting the aspirations of the black population.

Hong Kong

Previous Reference: CC(83) 30th Conclusions, Minute 2

THE PRIME MINISTER said that recent statements by the Chinese authorities to the effect that they would take unilateral action if agreement was not reached by September 1984 in the current negotiations with Britain about the future of Hong Kong contained nothing new. They were presumably intended to influence the climate in the run up to the next round in the negotiations, which was due to take place the following week.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Community Budget and United Kingdom Refunds

Previous Reference: CC(83) 32nd Conclusions, Minute 3

3. THE MINISTER OF STATE, FOREIGN AND COMMONWEALTH OFFICE (MR RIFKIND), said that the Special Council of Ministers on 9-12 November was discussing a paper by the Greek Presidency which suggested areas for decision at the European Council in December covering all the main aspects of the negotiation. While some of its elements were acceptable, its assumption of agreement to an increase in own resources and the reference to a Value Added Tax rate as high as 1.8 per cent were unhelpful. The Commission had also tabled a paper on the budgetary imbalances. This had been opposed by Mr Tugendhat, the British Vice-President of the European Commission, and was objectionable for two reasons: it would replace the present calculation of budgetary imbalances by an arbitrary measure of expenditure for each member state expressed as a percentage of its gross domestic product; and it would introduce a new method of allocating expenditure in the Community budget which would reduce the United Kingdom's apparent budgetary burden by about half. It was a clear attempt to get round the United Kingdom's insistence on net contributions as the basis of measurement. The Foreign and Commonwealth Secretary had already made it clear at the Special Council that the Commission's proposal, which merely shifted the accountancy and not the burden, was unacceptable.

Steel

Previous Reference: CC(83) 26th Conclusions, Minute 3

THE SECRETARY OF STATE FOR TRADE AND INDUSTRY said that Viscount Davignon, the Belgian Vice-President of the European Commission, claimed to have an idea for a new proposal on steel. His officials were meeting the Commission that afternoon. This development made an early meeting of the Council of Ministers (Steel) more likely.

THE PRIME MINISTER said that in her recent talks in Bonn the Federal Chancellor had made it clear that the Germans were most unlikely to agree to any increase in own resources at the European Council in December without a satisfactory arrangement on steel.

Acid Rain

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that, as part of the Germans' efforts to deal with the problem of acid rain, Herr Zimmermann, the German Minister of the Interior, was pressing very hard for a Community regulation which would involve the installation of catalytic converters on cars. The British automobile industry was very much opposed to this, and the United Kingdom would be resisting it.

THE PRIME MINISTER said that the Germans had not raised the subject of acid rain in her talks with Chancellor Kohl.

The Cabinet -

Took note.

PUBLIC EXPENDITURE SURVEY 1983

4. The Cabinet considered a memorandum by the Lord President of the Council (C(83) 34) about the 1983 Public Expenditure Survey. Their discussion and the conclusions reached are recorded separately.

Previous Reference: CC(83) 30th Conclusions, Minute 4

ECONOMIC SITUATION AND PROSPECTS

5. THE CHANCELLOR OF THE EXCHEQUER described the current economic situation and prospects, on the basis of which he expected to make his Autumn Statement on Thursday, 17 November.

The Cabinet-

Took note.

Cabinet Office

10 November 1983

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29

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LIMITED CIRCULATION ANNEX

CC(83) 33rd Conclusions, Minute 4

Thursday 10 November 1983 at 10.30 am

The Cabinet considered a memorandum by the Lord President of the Council (C(83) 34) about the 1983 Public Expenditure Survey.

THE LORD PRESIDENT OF THE COUNCIL said that the Cabinet had agreed in July that the objective of the 1983 Public Expenditure Survey should be to hold to the published totals for 1984-85 and 1985-86, and that total spending should be held at the same real level in 1986-87. The Chief Secretary, Treasury's minute of 18 October to the Prime Minister had reported on progress towards those objectives. Although good progress had been made, there were still at that stage gaps to be bridged of some £1.1 billion in 1984-85, £1.7 billion in 1985-86, and £2.5 billion in 1986-87. There were outstanding issues on defence, agriculture, foreign affairs, education, arts and libraries, and the nationalised energy industries; and agreement had not been reached on local authority current expenditure in 1985-86 and 1986-87. The Prime Minister had set up the Ministerial Group on Public Expenditure (MISC 99) under his chairmanship to try to resolve outstanding issues. C(83) 34 reported the results of the Group's work. Agreement had been reached on all outstanding issues other than the education and science programme. The basis of the agreements was described in Annexes A and B to C(83) 34. The Cabinet would wish to note in particular what had been agreed for the defence programme. It should also be noted that the agreed savings on the nationalised industries for which the Department of Energy was responsible assumed that the price of domestic gas would be increased by 5 per cent on 1 January 1984, and the price of electricity by 3 per cent in 1984-85 and 1985-86. The Secretary of State for Energy had told MISC 99 that he would use his best endeavours to persuade the industries to make these price increases; but that he could not guarantee that they would agree. If they did not, the Government had no statutory powers to force them to do so. One option would be to take such powers. MISC 99 had not ruled out that option, which would however be a matter for the Cabinet to consider. His own view was that, although legislation to take such powers would no doubt be controversial, it was essential to keep open the possibility that it might be introduced if it were needed. To abandon the possibility would unnecessarily weaken the Government's negotiating position with the industries.

There were two issues on the education and science programme: student grants, and university current expenditure. The proposals originally put by the Secretary of State for Education and Science to MISC 99 for savings in this area had included the abolition of the minimum award. MISC 99 thought that this was unlikely to be acceptable to the Cabinet and had invited the Secretary of State for Education and Science to advance

SECRET

PUBLIC
EXPENDITURE
SURVEY 1983Previous
Reference:
CC(83) 30th
Conclusions,
Minute 4

alternative proposals. These were described in Annex C to C(83) 34. They involved halving the minimum award, steepening the scale of parental contributions, and increasing the current value of student grants by 1 per cent a year less than provided for in existing expenditure plans. These changes would be controversial, but the savings were essential; and he and the other members of MISC 99 were satisfied that the proposals were the best that could be devised. On university current expenditure, MISC 99 believed that reductions of £50 million a year in 1986-87 were feasible. The baseline provision was nearly £1,450 million. The Secretary of State for Education and Science agreed that reductions were feasible, but did not consider that the figure of £50 million was realistic. The Secretary of State for Education and Science also considered that such savings as were achievable should be used to offset unavoidable cost increases and to fund improved provision elsewhere in the education programme. The Cabinet would need to decide this issue.

If the recommendations in C(83) 34 were accepted, the objectives agreed by the Cabinet would have been very nearly achieved. Some small gaps remained; but he understood that Treasury Ministers considered that they could be bridged, though admittedly with difficulty. He wished to pay tribute to all those who had taken part in the work of MISC 99 and to Ministers in charge of spending programmes for the hard work and spirit of co-operation which had made this result possible.

Nationalised
Energy
Industries

THE MINISTER OF STATE, DEPARTMENT OF ENERGY, said that he and his officials had had informal consultations with the gas and electricity supply industries. In the light of them, he thought that the gas industry was likely, although not yet certain, to agree to increase the price of domestic gas by 5 per cent as assumed by the recommendations of MISC 99. The electricity supply industry was likely to raise greater difficulties. It had recently been making very high profits, beyond what was required by its financial target, and was under pressures both internal and external to reduce prices. Until substantive negotiations with the industry had begun, it would be impossible to assess how serious the difficulties were. The Secretary of State for Energy would naturally use his best endeavours to persuade the industry to accept the Government's view on prices. But he had no statutory power to require it to do so; and he wished to have discretion to agree to proposals from the industry which would produce equivalent savings: for example, the industry might be able to reduce costs through greater efficiency.

In discussion the following main points were made -

- a. The electricity supply industry's current financial target had been set at a level which took full account of the recommendations for lower prices in a report by consultants. Recent developments in the economy might justify a more demanding target. Certainly the level of profits in the industry was not high in relation to either turnover or capital. On the other hand, the current financial target had been set only a year ago; and it was undesirable to change targets once they had been set.
- b. It would be wrong to attach too much importance to the absence of statutory powers over prices. Ministers had no power to set external financing limits or financial targets for many of the

nationalised industries; but they did so, and the industries accepted their actions. To limit Ministerial activity to matters for which there was specific statutory authority would be too restrictive.

c. It would be important to keep open the possibility of legislation, if that were needed to give effect to the Government's decisions on prices. If Ministers appeared to concede that they could not or would not legislate in this area, it would weaken the Government's standing with all the nationalised industries. But it would be better to apply pressure through financial targets than by taking powers over prices.

d. It was open to question whether the electricity industry could make savings on a scale sufficient to replace the £210 million additional revenue in 1984-85 that would flow from the price increase implicit in the recommendations of MISC 99. It could be argued that, if such savings were feasible, the industry should make them anyway, as a matter of good management, and still impose the price increase, which was no more than was justified economically.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that the savings recommended in C(83) 34 in respect of the nationalised industries, for which the Department of Energy was responsible, must be found. Although they noted that the Secretary of State for Energy wished to have some discretion in the way in which the savings were achieved, they considered that the increases in gas and electricity prices envisaged by MISC 99 were fully justified. In particular, the proposed electricity price increases avoided the risk, inherent in a price freeze, that subsequent price increases would have to be more severe than was desirable. The Secretary of State for Energy should make strenuous efforts to persuade the gas and electricity industries to accept the Government's views. The difficulties likely to be encountered with the electricity supply industry were noted but the Government would, if necessary, have to seek a revision of the financial target. It was part of the industry's understanding with the Government, as reflected in the letter sent to the Chairman of the Electricity Council on his appointment, that its prices should be determined within the financial framework set by the Government. The possibility of legislation should not be excluded; but it ought to be feasible, as in many other matters affecting nationalised industries in the past, to secure the Government's objectives by persuasion. Any additional savings which the industries were able to offer through increased efficiency would be welcome but the Cabinet was not ready at this stage to regard them as a substitute for desirable price increases.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Energy to be guided accordingly.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the recommendation in C(83) 34 for a reduction in university current expenditure of £50 million in 1986-87 was impracticable. Some savings were feasible. But they would be needed to offset unavoidable cost

increases. Savings on the scale proposed would require a combination of the following measures: closing university departments: closing one or two universities; and cutting non-pay costs, which constituted only 35 per cent of total current costs. Legislation would be required to close a university. Alternatively, it might be possible to make savings by reducing staff. But that would entail spending some £90 million in compensation; and there was no provision for such expenditure. Whatever the approach adopted, the universities would be certain to go back on their agreement to take an additional 3,500 students within existing expenditure provisions. He was committed to searching for all possible economies and to raising private finance to defray the general expenditure of the universities, and not only specific items of research. Eventually these measures would lead to reductions in public expenditure. But they could not provide savings of the size or on the timescale proposed in C(83) 34. If the Cabinet approved those proposals, it would be necessary to announce, within a matter of weeks, reductions in student numbers and legislation to close universities.

In discussion the following main points were made -

- e. Some members of the Cabinet pointed out that the savings proposed by MISC 99 amounted to only 3½ per cent of the existing provision. It was not plausible to suggest that savings of this order could not be found, especially as the universities would have three years in which to plan for them. On the other hand, it was argued that the universities faced inescapable cost increases; and that it was notoriously difficult, because of academic tenure, to make reductions quickly in the university pay bill, which made up 65 per cent of total current costs.
- f. It was argued that the estimate of £90 million redundancy costs put forward by the Secretary of State for Education and Science might be overstated. It appeared to assume that all reductions fell on the pay bill. Moreover, natural wastage, even among academic staff, was understood to be at the rate of 3 per cent a year. If only one-third of the resulting vacancies were not filled, there would be significant reductions in the pay bill after three years without redundancy costs. Such an approach did not seem unreasonable: it was, for example, relevant that the student/teacher ratio was lower in universities in this country than elsewhere in the world.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet approved the proposals in C(83) 34 on student grants. Before a decision could be taken on the appropriate level of university current expenditure in 1986-87 more information was needed. She would discuss the issues separately with the Ministers most closely concerned. It was important to resolve them quickly, so that the Public Expenditure Survey could be completed.

The Cabinet -

2. Approved the proposals in C(83) 34 regarding student grants.
3. Took note that the Prime Minister would discuss with the Ministers most closely concerned the appropriate level of university current expenditure in 1986-87.

THE CHANCELLOR OF THE EXCHEQUER said that in the light of the Cabinet's discussion the totals of programmes and reserves now exceeded the previously agreed objective by only £129 million in 1984-85, £392 million in 1985-86, and between £290 million and £340 million in 1986-87, depending on what was eventually decided about university current expenditure. He was most grateful to the Lord President of the Council and his other colleagues for achieving this. He was hopeful that the gaps could be bridged. The details for 1984-85 would have to be covered in his Autumn Statement on 17 November. The latest forecasts of social security expenditure suggested that there would be additional expenditure of £300 million in 1984-85. Against that, the delay in the flotation of Enterprise Oil would provide additional resources in that year. It was therefore probable that the planning total of just over £126 billion would be held.

In further discussion the following main points were made -

g. The figures for the defence programme set out in Annex B to C(83) 34 could be represented as falling marginally short of those required by the Government's adherence to the North Atlantic Treaty Organisation target of 3 per cent a year real growth in the defence budget up to and including 1985-86, depending on the methodology used. On the other hand it ought to be possible to present the Government's record and plans in a satisfactory light.

h. The recommendations of the recent report by Mr Clive Priestley into the finances and efficiency of the Royal Opera House (ROH) and the Royal Shakespeare Company (RSC) should be accepted, and the resulting expenditure charged to the contingency reserve. This was on condition that the two institutions accepted Mr Priestley's recommendations on possible savings and on improvements in financial management. It was for consideration whether money should also be found for increased funding for certain other operatic companies whose financial difficulties were no less acute than those of the ROH and the RSC. Such increased funding could help to make the proposed increases for the ROH and the RSC more politically acceptable, and the companies concerned would certainly argue that a scrutiny would show their need to be no less. On the other hand the Priestley Report related only to the ROH and the RSC; and the recommendations defined specific areas for savings and improved efficiency.

i. The material in Annex E to C(83) 34 on the split between current and capital expenditure was not satisfactory. It would be desirable to have better material when the Government's expenditure plans were published, but it was difficult to prepare such material. The Treasury depended for information on Departments, many of which had not yet completed allocating reductions in their programmes between current and capital expenditure. Moreover, the public accounting conventions on the distinction between current and capital expenditure were not satisfactory.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet were most grateful to the Lord President of the Council, the other members of MISC 99, and Ministers responsible for expenditure programmes for their contributions to the successful outcome of the 1983 Public Expenditure Survey. Except for the level of university current

expenditure in 1986-87, the recommendations in C(83) 34 were approved. Additional expenditure resulting from acceptance of the recommendations of Mr Priestley on the finances and efficiency of the ROH and the RSC would be charged to the contingency reserve. Proposals for parallel increases in provision for certain other operatic companies should be discussed between the Minister for the Arts and the Chief Secretary, Treasury. Although the Cabinet recognised the difficulty of providing material on the split between capital and current expenditure, it was important to make satisfactory information available. The Chief Secretary, Treasury should give thought to how this could be done, and circulate proposals to the Cabinet, at an early stage of the 1984 Public Expenditure Survey. Meanwhile, Departments should, as a matter of urgency, send to the Treasury any further information they might have, so that it could be collated and circulated to the Ministers concerned as briefing material for use when the Chancellor of the Exchequer made his Autumn Statement. The line to be taken in response to enquiries from the media about the progress of the Survey should be that the Cabinet had completed their consideration of public expenditure for the period 1984-85 to 1986-87, and that only one or two very minor points remained to be cleared up outside Cabinet; that outline plans for 1984-85 would appear in the Autumn Statement the following week; and that full details for all three years would be published in due course as usual in the Public Expenditure White Paper.

The Cabinet -

4. Took note, with approval, of the Prime Minister's summing up.
5. Subject to conclusion 3 above, and to the points made by the Prime Minister in her summing up, approved the proposals in C(83) 34.
6. Invited the Chief Secretary, Treasury to give thought to how more satisfactory information on the split between capital and current expenditure could be made available, and to circulate proposals at an early stage of the 1984 Public Expenditure Survey.
7. Invited all Ministers responsible for expenditure programmes to arrange for any further material that might be available on the split between capital and current expenditure to be sent urgently to Treasury officials on the basis described by the Prime Minister.
8. Agreed that the response to enquiries from the media about the progress of the 1983 Public Expenditure Survey should be as described by the Prime Minister.

Cabinet Office

11 November 1983