c/c J.V.

Ref: A09434

CONFIDENTIAL

Prime Minister

Mentioned to you by Sir R. Armstrong this morning. You will see that the Secretary of State for Scotland is unavailable. Agree that Sir R. Armstrong should proceed as he suggests, if necessary?

Yes

FERB 10.9.

PRIME MINISTER

Public Expenditure Survey: 1982

The Cabinet agreed in July that the aim in the next stages of the 1982 Public Expenditure Survey should be to hold to the existing planning totals for 1983-84 and 1984-85, and invited the Chief Secretary, Treasury to hold bilateral discussions with spending Ministers accordingly (CC(82) 38th Conclusions, Minute 5). The outcome of the Chief Secretary's discussions is due to be taken in Cabinet on 21st October.

2. I understand from the Treasury that, although the Chief Secretary still has some way to go before he has completed his bilateral discussions, he thinks it unlikely that he will be able to report to Cabinet, on the basis of those discussions, that the prospective public expenditure figures are within striking distance of the existing planning totals. There are likely to be some programmes - defence and housing, for example - which can be settled only by your intervention or at Cabinet. But there are others which the Chief Secretary may not be able to settle bilaterally but might be susceptible to resolution in a small group of Ministers outside Cabinet.

3. It would be possible simply to let this situation develop and to take whatever action seemed appropriate in the light of the Cabinet discussion on 21st October. But that may not be the best way of proceeding. The Cabinet has already set the underlying policy: it could do no more than reaffirm (or weaken) it on 21st October. And because the Government has announced its intention, in response to the recommendations of the Treasury and Civil Service Committee, of publishing its expenditure and other plans in more detail this autumn than in past years, time will be short if spending Ministers wait until after 21st October before getting down to serious negotiations. It seems worth making every effort to settle as much as possible outside Cabinet before 21st October.

4. This points to the setting up of a small Ministerial Group to do the work that was done last year by the Ministerial Group on Public Expenditure (MISC 62). The group would operate within the framework of the Cabinet's decision in July; and its recommendations would be reported to Cabinet in time for the discussion on 21st October. Because of the Party Conference and other timing constraints, such a group would have to do most of its work in the latter part of September.

5. I suggest that the Home Secretary might be asked to act as Chairman, with the Chief Secretary, Treasury, the Lord President of the Council and the Chancellor of the Duchy of Lancaster as members. I understand that these Ministers are expected to be in this country during the latter part of September.

6. This membership differs from that of MISC 62 (and the group would therefore have a different serial number, though the same title) in leaving out the Secretaries of State for Industry and Scotland and including the Lord President of the Council and the Chancellor of the Duchy of Lancaster. The two non-departmental Ministers have no expenditure programmes to protect. I am afraid that the Secretary of State for Scotland will be in North America until 29th September, and will not be available. We could try the Secretary of State for Industry, but he is one of those whose programmes the group is likely to need to consider. The Secretary of State for Wales will be out of the country. The Lord Privy Seal is a possibility; but she will be out of the country from 20th to 24th September.

7. Because the Chief Secretary's series of bilateral meetings is still in progress it is not yet possible to be sure that a group on these lines will be needed. The Chief Secretary does not expect to be able to make a firm assessment of the need for about 10 days; by then, of course, you will be in the Far East. I therefore propose, if you are content with the approach suggested in this minute, that you should authorise me to approach the Home Secretary, if after consultation with the Chief Secretary it seems clear that such a group needs to be set up. I should then send round a minute, making clear the purpose for which the group was, with your authority, being set up.

Yes MT

RCA

Robert Armstrong

10th September 1982