

CC MASTER

A File

NOTE FOR THE RECORDPUBLIC EXPENDITURE

10-45am

The Prime Minister held a meeting today to discuss the state of play on the Public Expenditure survey. Present were the Lord Chancellor, the Chancellor of the Exchequer, the Chief Secretary, Mr Bailey and Mr Gregson.

The Chancellor said that even if MISC 106's recommendations on the two outstanding programmes were accepted in full it would not be possible to get back to the target which the Cabinet had set in July. He could justify substituting the 1984 White Paper figures in 1985-86 and 1986-87 and the Red Book figures for 1987-88. This would require savings of

537

548

414

from the two remaining programmes. If the MISC 106 recommendations were delivered in full that would yield an excess of £150 million in each year, relative to the new base line. This represented the Treasury's maximum room for manoeuvre. He saw little prospect, however, of settling the two outstanding programmes while making concessions as small as this. The Prime Minister said that to allow totals higher than the revised base line could upset those colleagues who had settled already.

On gas and electricity, the Chancellor said it was essential for Cabinet to conclude on the firm figures, at least for year one. An undertaking by Mr Walker to consult the industries further with a view to seeking further savings would not suffice as it would make it impossible to finalise the Autumn Statement in time for issue on Monday. The Prime Minister and the Lord President felt it would be extremely difficult to secure further savings on gas and electricity even though there was a good case for such savings

SLHAFQ

The meeting then considered whether it would be better to seek a settlement with Mr Walker before Cabinet. It was felt, however, that the credibility of MISC 106 would be undermined if, having circulated a recommendation, a settlement was made before Cabinet with Mr Walker which required no further concession on his part.

One possibility would be for the Prime Minister to see Mr Walker before Cabinet, not in an attempt to settle, but in an effort to explore options. At Cabinet a settlement could be sought which conceded Mr Walker's bid of minus 62 in year one but instructed him to seek further savings from the industries in years two and three. These further discussions would need to be completed before the White Paper. The Autumn Statement would take credit only for what had been achieved so far.

For housing, the gap between Mr Jenkin and MISC 106 was

630	820	960
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If no additional savings were secured from Mr Walker the Treasury could afford to concede to Mr Jenkin:

250	350	350
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ie. about one-third of the gap. The Treasury would be able to bridge the excess over the revised planning total by trimming the contingency reserve and by higher asset sales, but it could go no further. It was agreed that the Prime Minister's meeting with Mr Jenkin should not seek to secure a settlement but should test his arguments and explore what scope for employment he had.

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Andrew Turnbull

7 November 1984