



Ref. A09678

Prime Minister <sup>①</sup>

PRIME MINISTER

Agree the proposal  
Yes not in paras 5<sup>and</sup> 6, as amended?  
Ms 8/10

Public Expenditure Survey

Introduction

The minute of 5<sup>th</sup> October from the Chief Secretary, Treasury reports progress in carrying out the Cabinet's decision (CC(82)(38<sup>th</sup>) Conclusions, Minute 5) that the aim in the current public expenditure survey should be to hold to the planning totals in the 1982 Public Expenditure White Paper.

2. The figures for 1983-84 stand as follows:

	<u>£ billion</u>
Baseline: programmes	116.3
contingency reserve	4.0
	<u>120.3</u>
Net additions to programmes resulting from decisions to date	1.8

The prospective net addition to programmes can be met, in the Chief Secretary's view, by reducing the contingency reserve by £1.8 billion to a new total of £2.2 billion.

3. In addition, there are outstanding issues on programmes (mainly defence, including the Falklands Garrison) and the nationalised industries (mainly electricity supply) totalling about £2.1 billion. The Chief Secretary, Treasury proposes that defence and electricity should be the subject of meetings between yourself, Treasury Ministers, and the spending Ministers concerned. He also mentions a number of matters which have been agreed between himself and the spending Minister but which may be politically contentious: a reduction in the real value of student grants, and an increase of council house rents by an average of £1.50 a week.



### General Position

4. The Chief Secretary proposes that the contingency reserve for 1983-84 should be £2.2 billion. He suggests (paragraph 9) that this might be further reduced by an unspecified amount in order to accommodate an increase in the defence programme. The result of that would be a reserve significantly less than this year's (£2.25 billion). This could be hard to hold. It is true that this year's reserve was adequate to accommodate the short-term costs of the Falklands campaign. Against this, the other pressures on the defence budget have been a good deal less than in some previous years; and central Government pay settlements next year may be harder to accommodate than they were this year (even now, there is the continuing uncertainty of the NHS pay dispute). There will be little room for manoeuvre if expenditure in 1983-84 is to be held to the planning total. This may affect the view of outstanding bids during the remaining part of the survey.

#### a. Defence

The figures are still fluid. There are no firm decisions - still less firm estimates of costs - regarding the future of the Falklands Garrison and the airfield, on both of which proposals are due to be taken by OD(FAF) in early November; and there is still dispute about the application of the pledge of 3 per cent real growth and the alleged relative increase in the prices of defence equipment. Treasury and Ministry of Defence officials hope to produce an agreed statement of the outstanding issues within the next few days. This will have to be settled between you, the Chancellor, the Defence Secretary and the Chief Secretary.

#### b. Electricity prices

The issues are described in the attachment to the Chief Secretary's minute. The electricity supply industry in England and Wales is bidding for an increase of up to £0.1 billion in its External Financing Limit for 1983-84. A price freeze would cost a further £0.5 billion. The Chief Secretary appears to accept that some reduction in price increases is justified, but does not indicate the likely cost. Decisions relating to England and Wales can be expected to have consequential effects for Scotland.

#### c. Social Security uprating

The November 1982 uprating is based on a forecast of 9 per cent price inflation;



the latest forecast is  $6\frac{1}{2}$  per cent. The Chief Secretary and the Secretary of State for Social Services have agreed to recover the excess of  $2\frac{1}{2}$  per cent at the November 1983 uprating. But this could entail a very low uprating. Ministers collectively may see political difficulties in this. It may also be argued that to restore the 5 per cent abatement of unemployment benefit, which the Chief Secretary suggests would be among the concessions needed to make the low uprating acceptable, would have undesirable effects on the labour market.

d. Student awards

The details have yet to be worked out; but the Secretary of State for Education and Science has undertaken to find  $\pounds 10$  million of savings in 1983-84. It is likely that he will do so by holding back increases in the level of awards to students living away from home. A proposal on these lines was part of the student grants package rejected by Cabinet last year. But the sums at stake are pretty small.

e. Council house rents

The Secretary of State for the Environment has agreed with the Chief Secretary on measures which are calculated to lead to increases in council rents in England averaging  $\pounds 1.50$  a week (12 to 13 per cent); the intention is to release funds within the housing programme for more capital expenditure. The effect on the Retail Price Index would be relatively small. But it would be politically contentious; Ministers may particularly wish to consider the possible implications for the attitude of the mineworkers.

Procedure

5. The Chief Secretary's proposal for restricted meetings under your chairmanship to consider defence and electricity prices seems sensible. There would be little point in setting up a Ministerial Group under the Home Secretary's chairmanship, as we thought might be helpful at an earlier stage of the public expenditure exercise. If there is to be a meeting on electricity prices, it would probably



be right to include the Secretary of State for Scotland as well as the Ministers suggested by the Chief Secretary. It will be important to ensure that papers for any meetings that may be arranged are agreed between Departments so far as the facts are concerned and circulated in sufficient time beforehand.

and  
social  
security  
uprating  
MUS

6. The student grants and council house rents proposals should be specifically endorsed by Cabinet. There should be no need for special meetings on the other issues mentioned in the Chief Secretary's minute.

REA

ROBERT ARMSTRONG

7th October 1982



FILE

RU

10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

The Prime Minister saw over the weekend your minute of 7 October (Ref: A09678) about the public expenditure survey.

The Prime Minister agrees to the procedure set out in Paragraphs 5 and 6 of the minute; except that she believes that the proposal for the 1983 social security uprating needs to be added to those identified in Paragraph 6 as requiring specific endorsement by the Cabinet.

M. C. SCHOLAR

11 October, 1982

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