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Prime Minister

You may wish to await
the Chief Secretary's reaction
to this before deciding
whether to comment.

CHIEF SECRETARY

mt

LM
7/4PUBLIC EXPENDITURE SURVEY 1983

Your minute of 28th March to the Prime Minister invited comments on your proposed guidelines for this year's Public Expenditure Survey. Two points are of particular concern to me.

2. First, the baseline provision that you propose undermines last year's settlement, which, Falklands costs apart, provided "in full for real growth of 3 per cent a year" (Cmd 8789). On the basis of your own Budget forecasts of inflation the baseline figures for 1984/85 and 1985/86 would imply real growth, on average, of little over 2% a year, while you yourself acknowledge in paragraph 3 of your submission, that the unrealistic 3% uplift factor for 1986/87 will imply a real reduction in department's spending. I do not regard it as right in principle that I should be placed in the position of demandeur in order to secure the funds needed to carry out the Government's existing commitments. If it is our intention to consider reductions in the planned defence programme - to which I should be opposed - we should do so openly and not by stealth.

3. Secondly, I do not consider that it makes any sense to consider options for effecting reductions of 5% in defence expenditure in 1986/87. The issue for that year, as I have recently advised the Prime Minister, is whether or not to extend 3% growth. There can be no question of a reduction which would undo the Government's achievements in previous years.



4. I should prefer the baseline for defence to be amended to meet my concern. I do, however, recognise that this could cause you difficulty with other Departments. I am therefore, with reluctance, prepared to accept the baseline proposals on the understanding that in PES negotiations the additional provision needed, in the light of the latest forecasts of inflation, to honour our existing defence commitments will be treated as a "bid" for technical purposes only and will not be disputed. For 1986/87 I am prepared to argue the case for a 3% increase in real terms; but I am not prepared to identify options for reductions below the baseline.

5. I am copying this minute to the Prime Minister, the Chancellor of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

WJH

Ministry of Defence
6th April 1983

ELON Pa

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*Exc 19
in 1983*



Prime Minister

You have agreed the

Treasury Chambers, Parliament Street, SW1P 3AG

PES guidelines

Rt Hon Michael Heseltine MP
Secretary of State
Ministry of Defence
Main Building
Whitehall
London SW1A 2HB

"subject to colleagues"

Await Mr. Heseltine's

11 April 1983

*reaction to his
letter?*

D. Gordon,

[Handwritten mark]

MCS 11/4

PUBLIC EXPENDITURE SURVEY

Thank you for your minute of 6 April.

I am unable to accord the defence programme the special treatment you seek. It would be unfair to colleagues to try to pre-empt collective decisions by allocating additional provision to defence before the Survey even starts.

I think it is wrong and unnecessary at this stage to anticipate or prejudge what those collective decisions might be; that will be the outcome of the Survey. My current object in setting the guidelines is to enable those decisions to be taken from a full choice of the possible options. Thus it is as helpful for the implications of possible reductions to be shown as for the implications of possible additions.

It follows that there must be a common baseline against which possible adjustments can be measured; and that all departments should follow an orderly procedure so that possible adjustments can be properly considered. That is what the Survey guidelines establish, and all I ask is that your department, like other departments, should follow them.

I quite recognise that, like other spending Ministers, you may wish to propose additions to your programme during the course of the Survey. At this stage I can undertake only to consider these proposals, not to accept them; almost inevitably there will be more PES claims on the public expenditure totals than we as a Government shall be able to accept.

I hope that in the light of the above you can reconsider your objections to the 1983 Survey guidelines, which I intend to be issued next week.

CONFIDENTIAL

I am copying this letter to the Prime Minister, the Chancellor
of the Exchequer, the Foreign Secretary and Sir Robert Armstrong.

Leon Brittan

LEON BRITTAN

CONFIDENTIAL

1 APR 1953

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Prime Minister

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

Mus 15/4

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

MO 8

14th April 1983

Leon

ms

PUBLIC EXPENDITURE SURVEY

Thank you for your letter of 11th April. I was surprised to learn from my officials that, notwithstanding the penultimate paragraph in your letter, the guidelines for the 1983 survey have in fact been issued, also dated 11th April! Nevertheless I think I should respond to the points you raise and record how I intend to proceed.

My concern is that in conducting the Public Expenditure Survey full regard should be paid to existing Government policy. In the case of defence our policy, collectively agreed and publicly stated, is to increase expenditure in real terms by 3% a year, with Falklands costs in addition. It is my responsibility to carry out that policy and I do not regard it as helpful or sensible to take as the basic assumption for the Survey that the funds to be allocated to Defence will be insufficient to enable the policy to be fulfilled. It is for this reason that, while I did not wish to cause you the awkwardness of altering the baseline for Defence, I suggested that the additional funds needed to meet our defence commitments should be treated in a different category from other bids. This special treatment, as you term it, derives directly from, and is justified by, our decision to accept a volume commitment in Defence - and not in any other programme.



As stated in my earlier minute, I accept the baseline and will make my bids for additional provision against it. But it is my expectation that my colleagues, including Treasury Ministers, will not seek to deny me the funds needed to fulfil our existing defence policy. Moreover, as previously indicated, I do not intend to identify possible programme reductions in 1986/87.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Yours
Michael Heseltine

Michael Heseltine

15 APR 1953

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Prime Minister

Mus 20/4

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
 Secretary of State
 Ministry of Defence
 Main Building
 Whitehall
 London SW1A 2HB

20 April 1983

Dear Secretary of State,
 PUBLIC EXPENDITURE SURVEY

Thank you for your further letter of 14 April which sets out clearly your approach to the Survey. As you will have gathered from my earlier letter we do not see eye to eye but I think it is best to leave the matter until our discussion of the issues later in the year.

I am copying this letter to the Prime Minister, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

yours sincerely

LEON BRITTAN
 (approved by the Chief Secretary
 & signed in his absence.)

ELON POR: Public Expenditure & Com. Limits

PT 22.

20 APR 1963

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