



FROM: JOHN GIEVE

DATE: 18 May 1983

CHANCELLOR

cc Financial Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Mr Ridley  
Mr Bailey  
Mr Mountfield  
Mr Hall  
Mr Hague

"MAJOR SPENDING REVIEW LIKELY IF TORIES WIN"

The Chief Secretary has asked me to circulate Mr Mountfield's note below on the article in the Financial Times today. He intends to follow the line set out in the note and to say:

(a) that the longer-term trend; will have to be taken into account in the forthcoming public expenditure survey which will as usual get underway in the summer; and

(b) that Ministers have submitted reports on the manpower requirement of their departments and that these will have to be put together and considered after the election.

Mr S. [unclear]

PR  
G. [unclear]

JG

The Chancellor suggested  
that this should be sent to No 10.

JOHN GIEVE

John Gieve  
19/5

Mr R Evans

cc Mr Bailey

cc  
Mr Bailey  
Mr Wilding  
Mr Hart  
Mr Kelly  
Mr King  
Mr Hall

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"MAJOR SPENDING REVIEW LIKELY IF TORIES WIN"

You asked for a note about the story in the Financial Times this morning.

2. I have no idea where this one came from. But the facts are basically correct.
3. The "line to take" is, I suggest:
  - a. The Annual Public Expenditure Survey is, as usual, going on at the moment. But because of the Election, the usual timetable has been setback a little. Incoming Ministers will no doubt want to look at the results shortly after the Election.
  - b. It is no secret that there was a review, last year, of long term public expenditure plans. Ministers said at the time that there was nothing surprising in this. Any Government needs to review its long-term commitments from time to time. [Nothing has been said in public about the more recent developments. In fact, the Prime Minister did call for suggestions on further cuts - para 4 of the FT story. Para 5 correctly records Ministerial responses. But you should refuse to be drawn on this.]
  - c. It is also true that there has been a review of manpower requirements after the present 630,000 target is achieved on 1 April 1984. (It will be, so far as we can tell at present.) We have said to the Unions, and in public, that we are carrying out a review of requirements up to 1988. (For your own guidance, the results have been similarly disappointing: para 6 of the FT story is correct. But you should refuse to comment).
  - d. We do not know the intentions of incoming Ministers, even if the present Government is returned. There have been no substantive discussions with them yet. Obviously the topic will be high on the agenda after the Election. But you can correctly say that the rest of the article is pure speculation.

RM

P Mountfield

# out off will nsburg

minute telephone conversation with Mrs Thatcher on Monday, which obviously failed to yield the assurances he wanted about her presence at the summit. She acknowledged yesterday that it would have been difficult for her to attend. The general does not leave the field of battle when it is coming to its climax.

A British Government spokesman stressed that London had not sought the postponement. Nevertheless, Herr Kohl's decision is bound to cause satisfaction in Downing Street, because it removes any possibility of a damaging eve-of-poll clash with Britain's partners over the rebate on its 1983 payments to the EEC. British officials say that Mrs Thatcher was confident of securing a rebate whenever the summit was held. The government, said a spokesman, would be looking for a settlement of the rebate issue at the postponed meeting. British officials clearly believe that Mrs

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French leader criticises U.S.  
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# o confront udget

case running in the \$200bn range. Cuts could be achieved, he said, by adapting his original proposal to freeze domestic spending downward to reflect lower inflation figures. The President said that there

# Major spending review likely if Tories win

BY PETER RIDDELL, POLITICAL EDITOR

RENEWED Whitehall efforts to cut long-term public spending, and Civil Service manpower, look certain after the general election. The Conservatives will win a second term, and the Treasury recently completed two parallel cost-cutting exercises. But these failed to identify significant reductions in spending and manpower below currently planned levels. Consequently, the Treasury wants to launch the two reviews again if the Tories win the election.

The Conservative election manifesto, published later today, is expected to contain only a general reference to reducing the share of the public sector in total national resources.

The Prime Minister had asked spending departments to suggest cuts in expenditure beyond those already planned for the period up to the end of the decade. This was intended to provide room for the tax cuts which Mrs Thatcher wants.

Most spending ministers argued that their programmes had already been cut substantially and could not be reduced further without severely restricting services. Most were reluctant to discuss politically highly sensitive cuts ahead of a general election.

A related exercise to find further cuts in civil service staffing has also run into the ground because of the attitude of spending ministers. The aim had been to go beyond the current exercise of reducing the number of civil servants to 630,000 by April 1984. Treasury ministers and officials make no secret of their

dissatisfaction with this outcome. They are determined to put new impetus into the review after the election, if there is a Conservative government, when the normal annual survey of spending plans (the PESC exercise) comes before ministers. The Treasury hopes that Mrs Thatcher, assuming she is still Prime Minister, will put her political weight behind the exercise.

The review would follow last autumn's row over the leaked Think Tank paper on long-term trends in public spending. The central issue is that, on present plans, public expenditure is set to grow by around 1 per cent a year in cost terms after adjusting for inflation.

This trend will severely limit the scope for cuts in income taxation which a Conservative Government would want to make a priority.

According to present plans, the most that could be expected would be a reduction in the share of public expenditure in national income as the economy expands. At the time of the Budget, the Treasury projected a decline in public expenditure's share of Gross Domestic Product from 44 per cent in 1982-83 to 41.5 per cent in 1985-86. But this is heavily dependent on a continuation of economic growth at above the levels of recent years.

Consequently, the Treasury is urging a re-examination of all spending commitments to secure a cut in real terms, rather than just a commitment to maintain a broadly unchanged level. There has been pressure to avoid pledges to new projects in the manifesto. Election news, Page 10; Editorial Comment, Page 16; Tory attack, Back Page

# Tilling rejects new bid of £655m

By Ray Maughan

THOMAS TILLING—the construction materials, health care, engineering and publishing group—has firmly rejected a revised £655m bid from BTR. The latter yesterday added more than £116m to the cash terms of what was already the biggest UK bid.

Sir Patrick Meaney, the chief executive of Tilling, said, "there is a feeling of relief that the new offer is in the open. The terms were still derisory and rather lower than we had expected," he added.

BTR said this was its final offer. BTR, an industrial holdings group, estimates that the bid will cost £20m in underwriting, advertising, stamp duty and other fees. It was backed by aggressive buying of Tilling shares on the stock market yesterday, and by an indication that BTR profits in the first four months of this year are a fifth higher than those of the equivalent period of 1982. The group also confirmed that its total dividend will be raised to the same proportion, to 12p per share.

The bid will close on July 8, the day before the general election.

The offer is again in three forms. The cash bid has been raised by 40p per share, to 225p. Morgan Grenfell, merchant bank advising BTR, has underwritten £376.8m of the cash consideration. BTR will fund the balance from its own resources.

Mr Owen Green, chief executive of BTR, said after an annual meeting yesterday that full acceptance of the terms would not raise capital rowing above the value shareholders' funds. He made clear that the bidder has no intention at present of any of Tilling's principal assets, although a number of them had been received for non-industrial subsidiaries, notably Cornhill Assurance. Under the equity element of the bid BTR is now

# Watney to raise £50m through debenture stock

BY DOMINIC LAWSON

Watney is to raise £50m through debenture stock

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