Cc NO

3A

SECRET

FROM: THE CHIEF SECRETARY
DATE: 4 October 1983

PRIME MINISTER

PUBLIC EXPENDITURE: 1983 SURVEY

Cabinet on 21 July asked me to have bilateral discussions with colleagues with the aim of getting back to the public expendi ture totals for 1984/85 and 1985/86 published in the last White Paper. For 1984/85 this meant finding room for inescapable additions amounting to some £2.5 billion; the position in the two later years of the Survey is discussed in paragraph 6 below.

2. In the event, I have persuaded colleagues to offset some of these bids (including £0.25 billion on health and social security) within their programmes. The inescapable bids which could not be offset in this way so far amount to £1.9 billion. To meet these, after a rigorous and extended examination of programmes, I have so far secured savings of £1.3 billion (including £0.5 billion from environment, £0.2 billion from the pay clawback and £0.5 billion which I expect to get, following the E(A) remit, from the nationalised industries, though this is not all settled yet).

3. Thus there remains a gap of £0.6 billion. In addition to this, spending Ministers with whom I am in discussion are still pressing bids amounting to £0.5 billion, notably for Defence, Education and Health. I have asked for these to be offset or withdrawn and for further savings to be made. My bid has been for some £0.9 billion and my aim is to close the £0.6 billion gap and to bring us back to the baseline. However, I must in fairness stress that colleagues would see some of these savings (eg on social security) as politically acutely difficult, so that the position remains very tight indeed.

4. By the end of this week I should be able to let you have a full report and draft paper to Cabinet. But it is already clear that on most of the main issues outstanding (and some minor ones), colleagues are likely to insist on remaining differences being reported back to Cabinet. The present plan is for Cabinet to take this paper on 20 October, which means circulating it by 17 October at latest.

5. The first table in the Annex sets out the details, but it may help if I comment briefly on the main issues (I hope the others can either be resolved before Cabinet, or

bids withdrawn following Cabinet discussion):

i. Defence. My bilateral discussions with the Secretary of State for Defence have narrowed our differences but we have made no progress on the two main issues:

a. For 1984/85, I have in the first instance proposed a saving of £270 million, which strictly matches the NATO commitment for 3 per cent real growth above the cash limit for this year (after the 7 July cut). Michael Heseltine is arguing for three things: i. a restoration of the 3 July cuts to set a higher baseline for our discussions, ii. an addition above that baseline for the last armed forces pay award, and iii. a further upward adjustment for inflation. I have conceded none of these and reserved my position on whether I may need to seek more than £270 million until the full results of the bilaterals are clear.

b. For 1986/87, Defence want to extend the 3 per cent real growth; I have asked for a 3% cash additionon the same basis as for other programmes and no more. NP ii. Social Security. There are inescapable additions of £160 million on this programme (and more in prospect). To offset these, the Secretary of State has offered £180 million of cuts, mainly on housing benefit. I have had to bid high seeking, for example, reduced uprating of short-term benefits, reduced benefits for young unemployed, and the abolition of death and maternity grants). Some of these would be politically very difficult. My bids amount to £370 million and I recognise that Norman Fowler will not be able to agree to them in bilateral discussion with me.

iii. Agriculture. The difference here is quantitatively much less (£50 million) but the Minister is arguing strongly for a net addition above his baseline to meet demand-led and other commitments (glasshouses, marginal land), and I have said these must be absorbed, and some contribution made to the general problem, by cuts in capital grants and research.

iv. FCO/ODA. Again there is strong pressure from the Foreign Secretary for an addition above baseline for aid and other bids, and I have asked for a small net reduction, leaving a gap of £100 million between us.

v. Industry. The Secretary of State has offered a cut of £60 million, and I have asked for a further reduction of £30 million from industrial R&D. We shall of course need to consider this in relation to R&D generally, and I shall bring this out in my paper for Cabinet.

vi. Nationalised industries. The final table in the Annex shows offers by colleagues which fall short of meeting the remit from E(A) by only £65 million. I have sought further savings of £378 million and am confident of bridging the remaining gap. But the problem of the energy industries is a major one, particularly for the later years, and I doubt whether Peter Walker and I will be able to dispose of it bilaterally.

6. In my view we are unlikely to reach agreement on all these issues in Cabinet on 20 October. In some past years, remaining differences have been resolved by a smaller group of non-spending and Treasury Ministers (the "Star Chamber") holding discussions with the spending Ministers concerned. If you decide on this course, I assume that you will wish to ask the Lord President to take the chair. However, you will see that the

first two in the above list, defence and social security, are much the most important and difficult. They may need to be settled, as in the past, at a small meeting under your chairmanship. One possibility would therefore be to postpone the first report to Cabinet for a week, so that in the week beginning 17 October you could see the Secretaries of State for Defence and Social Services to secure agreed savings on the scale we need. I suggest you would want to show them the draft Cabinet paper beforehand, to demonstrate the scale of the remaining problem and contributions already made by other colleagues (eg Environment). If we could then report agreement on these major issues and a much smaller remaining gap to Cabinet on 27 October, it would be relatively easy for a 'Star Chamber' group to deal with the rest, and report back say a fortnight later (though any further delay would make the Autumn Statement inconveniently late).

7. The outcome in 1985/86 and 1986/87 is of course equally important, but depends very much on how these outstanding issues are resolved. You will see from the tables in the Annex that there is a very wide gap in both years, but that if we can get the right decisions (crucially on defence) the plans for later years should begin to show a significant downward trend. As agreed in Cabinet on 21 July, we shall need to consider how this can be reinforced in the remaining years of this Parliament. We cannot afford to let up; but provided that the Government's resolution is maintained, we should have established a much healthier trend.

8. I should also report to Cabinet on prospects for civil service manpower to 1 April 1988, which has been covered in my bilateral discussions. If I secure the savings I seek on MOD, I should secure my original target of less than 600,000 (even allowing a contingency margin of 5,000)

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9. I am sending copies of this minute to the Chancellor of the Exchequer and Sir Robert Armstrong.

J.G. Lieve

for P.R.

[Approved by the Chief Secretary]

4 October 1983

1984-85 £ million

Programme	Agreed change from White Paper	Departmental position	Treasury position	Total	Notes
Defence	-	+93	-270	+93/-270	Treasury resisting bid for AFPRB and seeking strict interpretation of 3%
FCO-ODA	-	+46	-22	+46/-22	FCO pressing assorted bids. Treasury questioning need and seeking figure below baseline.
FCO-OTHER	-	+21	-10	+21/-10	As for ODA
EC	?	?	?	?	Information not yet available
IBAP	+434	-	-	+434	Demand led. Figures still subject to upward revision.
MAFF	-	+30	-20	+30/-20	MAFF seek additional provision for demand-led and some other bids. CST seeking cuts in capital grants and research to cover demand-led bids and make savings below baseline.
Forestry	-3	-	-	-3	Various economies
DTI	-	-57	-92	-57/-92	DTI has conceded savings below baseline - mainly on regional and other assistance to industry. CST seeks further cut of £35m in industrial R&D.
ECGD	+2	-	-	+2	Interest support
Energy	-9	-	-	-9	Efficiency savings and reduction in nuclear R&D.
Employment	-55	-	-	-55	Reduced requirements and estimating changes. Economies in employment measures.
Transport	-	-20	-40	-20/-40	Mainly reductions in local authority capital expenditure.
DOE-HOUSING	-475	-	-	-475	Cuts in local authority new build (-130), improvement grants (-50), Housing Corp.and New Towns (-50) plus additional receipts (-295), offset by extra for LA renovation (+50).
DOE-PSA	+25	-	-	+25	Reduced bid accepted for maintenance and civil estate and unemployment benefit offices.
DOE-OTHER	-35	-	-	+25	All bids absorbed or withdrawn. £35m saving below baseline to be distributed in programme by Sec. of State.
Home Office	-	+57	+38	+57/+38	Inescapable bid accepted for prisons. Home Office seeking more.
LCD	-4	-	-	-4	Various savings.
DES	-	+150	+10	+150/+10	Department pressing assorted bids as in PESC report. Treasury resisting all but a small increase.
OAL	-	+12	0	+12/0	Mainly capital for museums and British Library. Not accepted by Treasury.
HEALTH AND PSS	-	+133	-27	+133/27	Inescapable bids for DDRB 1983 award, Family Practitioner service and demographic pressure - partially offset by savings and NHS pay clawback. DHSS still seek increase over baseline. Treasury aim to hold to baseline less VAT clawback of £27m.
SOCIAL SECURITY	-	-20	-388	-20/-388	Inescapable bids for demand determined increases and DHSS administration more offset than by proposed adjustments in benefits. CST seeking further major savings in benefits. Possibility of major new bids from revised estimates of take-up on Supplementary Benefit and Housing Benefit.
CIVIL SUPERANNUATION	+27	-	-	+27	Demand-led.
CHANCELLOR'S DEPTS (C&E, IR).	+53	-	-	+53	Mainly staffing and other administration expenditure some increase for MIRAS in IR.
SCOTLAND, WALES, NI.	-	+29	-53	+29/-53	Formula consequentials of other changes.
LA CURRENT	+525	-	-	+525	As agreed in E Committee.
BUDGET AND OTHER PRE-SURVEY CHANGES	+778	-	-	+778	-
PAY CLAWBACK	-220	-	-	-220	As agreed by Cabinet (excl. NHS).
NATIONALISED INDUSTRIES	-500	-	-	-500	E(A) remit likely to be achieved. See separate report.
TOTAL	+543	+474	-874	+1017/-331	

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1985-86 £ million

Programme	Agreed change from White Paper	Departmental position	Treasury position	Total	Notes
Defence	-	+350	-280	+350/-280	Carry forward of positions for 1984-85. MOD seeking extra funds to make good inflation.
FCO-ODA	-	+79	-30	+79/-30	As for 1984-85
FCO-OTHER	-	+24	-15	+24/-15	As for 1984-85
EC	?	?	?	?	Figures not yet available
IBAP	+170	-	-	+170	Demand led. Figures still subject to upward revision.
MAFF	-	+13	-39	+13/-39	MAFF seek extra for demand-led agricultural support and marginal lands. CST seeking further cuts in research and capital grants
Forestry	-4	-	-	-4	Various economies
DTI	-	-57	-115	-57/-115	Continuation of plans for 1984-85
ECGD	+32	-	-	+32	Interest support partially offset by reduction in provision for mixed credit matching facility.
Energy	-11	-	-	-11	Further efficiency savings and economies in nuclear R&D.
Employment	-134	-	-	-134	Replication of agreement reached for 1984-85.
Transport	-35	-	-	-35	As for 1984-85
DOE-HOUSING	-	-500	-590	-500/-590	Continuation of savings for 1984-85, but CST seeking increasing reduction in improvement grants or equivalent savings.
DOE-PSA	+25	-	-	+25	As for 1984-85 - maintenance
DOE-OTHER	-60	-	-	-60	Increasing savings on urban programme or equivalent economies in programme 8.
Home Office	-	+62	+44	+62/+44	Mostly prisons. Treasury seek lower rate of increase.
LCD	-1	-	-	-1	Small savings
DES	-	+175	+20	+175/+20	As for 1984-85.
OAL	-	+20	0	+20/0	As for 1984-85
HEALTH AND PSS	-	+323	-27	+323/-27	Continuing demographic pressure and carry forward of increases in 1984-85. Treasury aim to secure offsetting savings and hold to baseline. DHSS bid to make good inflation.
SOCIAL SECURITY	-	-42	-823	-42/-823	Carry forward of savings for 1984-85. CST seeks further major savings, in particular in housing benefit, scale rates for supplementary benefit and uprating of unpledged benefits.
CIVIL SUPERANNUATION	-	-	-	-	-
CHANCELLOR'S DEPTS	+39	-	-	+39	As for 1984-85.
SCOTLAND, WALES, NI.	-	+120	-94	+120/-94	Formula consequentials of other changes.
LA CURRENT	-	+640	+355	+640/+355	CST proposes to carry forward 1984-85 cash settlement for LA current allocation to services. LA Depts seek "realistic" increase involving higher real increase in provision.
BUDGET AND OTHER PRE-SURVEY CHANGES	+1272	-	-	+1272	-
PAY CLAWBACK	-220	-	-	-220	As for 1984-85.
NATIONALISED INDUSTRIES	-900	-	-	-900	As for 1984-85.
TOTAL	+173	+1207	-1594	+1380/-1421	

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1986-87 £ million

Programme	Agreed change from White Paper	Departmental position	Treasury position	Total	Notes
Defence	-	+1800	-110	+1800/-110	MOD seek carry forward of 3% commitment, plus Falklands extension. Treasury seek no real growth and to limit Falklands cost.
FCO-ODA	-	+121	-40	+121/-40	As for 1984-85
FCO-OTHER	-	+40	-40	+40/-40	As for 1984-85
EC	?	?	?	?	Figures not yet available
IBAP	+233	-	-	+233	As for 1985-86
MAFF	-	+9	-53	+9/-53	As for 1985-86
Forestry	-5	-	-	-5	As for 1985-86
DTI	-	-128	-197	-128/-197	As for 1985-86; increasing savings on regional support.
ECGD	-143	-	-	-143	Interest support. Assumed relative reduction in interest rates.
Energy	-19	-	-	-19	As for 1985-86
Employment	-215	-	-	-215	As for 1985-86.
Transport	-20	-	-	-20	As for 1985-86
DOE-HOUSING	-	-525	-730	-525/-730	As for 1985-86. Continued Treasury pressure for savings on improvements grants.
DOE-PSA	+25	-	-	+25	Maintenance of civil estate.
DOE-OTHER	-65	-	-	-65	As for 1985-86
Home Office	-	+85	+59	+85/+59	As for 1985-86
LCD	+16	-	-	+16	Demand-led for legal aid. Bid of £25m partially offset.
DES	-	+200	-60	+200/-60	As for earlier years.
OAL	-	+25	0	+25/0	As for earlier years. Treasury resisting bid and seeking to hold baseline.
HEALTH AND PSS	-	+754	-27	+754/-27	As for 1985-86
SOCIAL SECURITY	-	+1184	+326	+1184/+326	Major increase in number of pensioners. Treasury seeking major offsetting savings in benefits eg reduced uprating of unpledged benefits, abolition of death and maternity grants, cuts in benefit for young unemployed.
CIVIL SUPERANNUATION	+50	-	-	+50	Demand-led.
CHANCELLOR'S DEPTS (C&E, IR)	+20	-	-	+20	As for earlier years
SCOTLAND, WALES, NI.	-	+263	-106	+263/-106	Formula consequentials.
LA CURRENT	-	+708	+335	+708/+355	As for 1985-86
BUDGET AND OTHER PRE-SURVEY CHANGES	N /A	-	-	-	-
PAY CLAWBACK	-220	-	-	-	As for 1984-85
NATIONALISED INDUSTRIES	-2000	-	-	-	As for 1984-85
TOTAL	-2343	+4536	-403	-2193/-2746	-

NATIONALISED INDUSTRIES : 1983 IFR

Current Chief Secretary's Bid and Department offer compared to baseline

£ million cash

Industry	1984-85 CST bid	1984-85 current offer	1985-86 CST bid	1985-86 current offer	1986-87 CST bid	1986-87 current offer
NCB	+12	+131	-239	-148	-601	-493
ESI	-302	-152	-460	-345	-736	-711
NSHEB	-18	-18	-23	-23	-16	-16
SSEB	-25	-18	-25	-20	-107	-70
BGC	-150	-142	-334	-49	-404	-199
BNOC	-3	-3*	-2	-2*	-2	-2*
BSC	+152	+220	+2	+62	-50	0
BT	-332	-332*	+12	+12*	+12	+12*
PO	-14	0	-17	0	-16	0
Giro	0	0*	-1	-1*	0	0*
BAB	-76	-66	+95	+95*	+97	+97*
BAA	-6	-6*	-26	-26*	-54	-54*
BRB	-77	-77*	-65	-65*	-187	-187*
BWB	-1	-1*	-1	-1*	-1	-1*
NBC	-2	-2*	-5	-5*	-2	-2*
STG	-5	-3	-13	-9	-10	-10
BS	+86	+86*	+46	+46*	-11	-11*
CAA	+2	+2*	+11	+11*	-1	-1*
Water	-54	-54*	-62	-62*	-99	-99*
TOTAL	-813	-435	-1107	-530	-2188	-1747

* = settled

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30 September 1983
Policy Unit

PRIME MINISTER

PUBLIC EXPENDITURE

The bilaterals are drawing to their close. It seems fairly clear that Peter Rees will be some way short of what he needs.

There will be pressure to meet this shortfall by raiding the Contingency Reserve. It will be argued that this is a modest price to pay for a harmonious settlement and a united front. After all, we shall be told, £1½bn is now the "normal" level for the Contingency Reserve.

We believe that these siren voices should be sternly resisted. The Contingency Reserve was not intended as a "bilaterals reserve". It is crucially important to maintain the agreed level of the Contingency Reserve for the following reasons:

1. If we raid the Reserve again, it will be regarded as fair game in every future public expenditure round.

2. Previous experience reminds us that it is controlling expenditure in the first year of a PESC period which is the crux. We must not drift onto a higher base line. All our hopes of getting taxes down in the later years of this Parliament rest on keeping public expenditure down now.

3. It would be fatal at the outset of this Parliament to give the impression that this Government is beginning to be a soft touch. Any hint of diminishing firmness of purpose will be quickly picked up in other related areas of conflict, eg public sector pay negotiations.

4. To quote your own maxim: "In politics, the unexpected always happens". Falklands, the collapse of British Steel, the 1981 pit closure settlement: contingencies do arise and usually very expensive ones too.

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PRIME MINISTER

PUBLIC EXPENDITURE:1983 SURVEY

The Chief Secretary has now reported on the outcome of his bilaterals. Paragraph 7 of his minute suggests a procedure for avoiding major discussion in Cabinet while the outstanding differences are large. This would involve you in taking trilateral meetings with the Treasury and the two Secretaries of State (Defence and Social Security) whose programmes show the largest gaps. Cabinet would take public expenditure a week later and the Star Chamber would be used to resolve only smaller differences. You may want to discuss this with the Chancellor at your meeting tomorrow.

Also attached is a note by the Policy Unit advising that the Contingency Reserve should not be raided. This is not being suggested at this stage, but Policy Unit advice remains sound.

AT

4 October 1983