

Ref. A083/2823

PRIME MINISTER

Public Expenditure Survey 1983

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The Chief Secretary, Treasury's minute of 4 October reports the current state of his bilateral discussions with spending Ministers and makes some suggestions for taking the public expenditure exercise forward. It is clear that this year's exercise will be more difficult than last year's. According to the tables attached to the Chief Secretary's minute, there is still a difference of over £1.3 billion in 1984-85 between spending Ministers and himself; the corresponding figures for 1985-86 are £2.8 billion and £4.9 billion. It will be necessary to consider with some care how best to make progress.

2. It is widely expected that there will be a progress report to the Cabinet on 20 October, followed by the setting up of a MISC ("Star Chamber") Group under the Lord President's chairmanship. The Cabinet would take note of the figures and outstanding issues and all Ministers would be exhorted to do better. In view, however, of the wide gap reported by the Chief Secretary, such a procedure might do more harm than good. The Cabinet has already decided that it is essential to hold to the published planning totals (CC(83) 24th Conclusions, Minute 5). That decision can hardly be strengthened: it might conceivably be weakened if it were put forward for re-endorsement. The present situation is different from that obtaining in 1981 when the figures to be aimed at in the Public Expenditure Survey were not settled until 20 October (CC(81) 33rd Conclusions, Minute 5). The danger is that by advertising in detail the lack of progress made, the task of the MISC Group would be made more difficult.

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3. Another approach would be to work through all the outstanding public expenditure issues in full Cabinet at successive meetings from 20 October onwards. This would however be cumbersome, leaky and likely to generate an atmosphere of prolonged dispute, and perhaps crisis.

4. If these two possibilities are rejected, the alternatives seem to be as follows:

- (i) resolve Defence and Social Security first, outside Cabinet (as the Chief Secretary has proposed), and then proceed with the progress report to Cabinet, but on 27 October, to be followed by the establishment of a MISC group under the Lord President's chairmanship to resolve the remaining issues;
- (ii) avoid substantive discussion of public expenditure in the Cabinet at this stage, and proceed straight to the setting up of a MISC group as soon as the Chief Secretary has completed his proposal of bilaterals.

Either of these options implies setting up a MISC group before the end of October.

Early resolution of Defence and Social Security outside Cabinet

5. It might be easier to bring the public expenditure exercise to a satisfactory conclusion once the Defence and Social Security figures have been settled. But the differences between the Chief Secretary and the two spending Ministers for 1985-86 and 1986-87 are even larger than those for 1984-85. These major issues will not be settled without your being involved. That argues for the first option.

6. There are, however, risks in the early informal meetings chaired by you which the Chief Secretary proposes. For example:

- (a) Your own authority would be engaged at what might prove to be a premature stage.
- (b) This would be particularly true if, as is not unlikely, either or both of the Secretary of State for Defence and the Secretary of State for Social Services insisted on taking his case to the Cabinet.
- (c) Substantial reductions in either of the two programmes will raise political difficulties, which would have to be brought to the attention of the full Cabinet.

(d) If you felt that you could not support the Chief Secretary's proposals, or not in full, it might make his task elsewhere more difficult: other spending Ministers would object that their programmes should not be made to suffer as a result of deals to which they were not party.

7. Some of these difficulties could in theory be avoided by putting the Defence and Social Security issues to the Cabinet on 20 or 27 October, in the context of a report by the Chief Secretary on the current state of the public expenditure exercise. But there would be a high risk of failure to agree and a lot of highly embarrassing leaking, as all parties tried to entrench their positions. Failure to agree on Defence and Social Security in Cabinet at this stage would make the other issues more difficult to settle in a MISC group. Those risks seem to me to be unacceptably high, and I do not recommend this course.

Postpone substantive discussion in Cabinet

8. The alternative is to avoid any substantial discussion in October of the public expenditure exercise: you would simply take the opportunity (say at the Cabinet on 20 October) to remind your colleagues of the Cabinet's decision in July; point out that a wide gap still remained (without going into details); ask spending Ministers to do more to reduce their bids or increase their savings; and tell them that a MISC group was being set up.

9. This course would not put much additional pressure on spending Ministers to settle. It would however enable the MISC group to be set up without circulating a paper to the Cabinet giving details of the outstanding differences and without promoting a discussion in the Cabinet which might weaken rather than strengthen the July decision to hold to the planning totals.

10. You would then need to consider whether to remit Defence and Social Security to the MISC group (even though it could probably not be settled there) or proceed straight to discussions between yourself, the Chancellor, the Chief Secretary and each of the Secretaries of State concerned.

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Composition of MISC group

11. If you decide to set up a MISC group, it will need to go into action quickly. It would therefore be helpful to have your instructions on its composition. Unless you intend to take the chair yourself - and I think you would be well advised not to do so, in order to keep yourself in hand for the issues that the MISC group cannot resolve - the natural composition would be:

Lord President of the Council (Chairman)
Lord Privy Seal
Chancellor of the Duchy of Lancaster
Chief Secretary, Treasury

This is small; but the smaller the better for a group which is likely to have a concentrated programme of meetings over a short period of time. It would be called the "Ministerial Group on Public Expenditure".

12. I should be grateful to know in due course which of the various options you favour.

A handwritten signature in dark ink, consisting of the letters 'R', 'A', and 'A' in a stylized, cursive script.

ROBERT ARMSTRONG

7 October 1983

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