

NO

As

a H. Gregson (Personal)



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Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
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7 October 1983

Dear Andrew

## PUBLIC EXPENDITURE

For the Prime Minister's meeting with the Chancellor and Chief Secretary at 9 am. on Monday, I have been asked to send over the current draft of the Chief Secretary's Cabinet paper reporting the outcome of the bilaterals. He may well want to think further about the presentation of the issues, and a summary table has still to be prepared showing the changes from baseline (the latest versions of fuller tables for each year are enclosed instead). There are some specific areas where changes may need to be made:

(i) On health the draft paper shows a remaining gap of £32m in 1984/85, and larger figures for later years. The Secretary of State for Social Services has already reduced his additional bids very substantially, and I understand might be prepared to settle for lower figures as follows:

1984/85	1985/86	1986/87
+ 5	+ 123	+ 291

The Chief Secretary knows that a deal on these lines is being considered, and although he has not considered this offer in detail he may well wish to accept it as a reasonable outcome given the pressures on the health programme.

(ii) Mr Fowler may also be willing to accept a deal on social security expenditure. The effect, on the assumption that Treasury Ministers and the Prime Minister agree to the deal, would be to increase Mr Fowler's saving to the figure which the Chief Secretary is seeking in all three years. The draft paper will need to be amended to

reflect this. The Chief Secretary could have continued to press for more from this programme, but he has made the judgement that the consequences of this (eg no uprating of unpledged benefits) would be less acceptable than the further savings he is seeking from other programmes; and he believes it could be tactically advantageous to have settled with Mr Fowler before Cabinet, if this is possible. But it would be on the understanding that if other Ministers did not make all the savings sought, the social security programme would (as the draft Cabinet paper says) be a likely target area for seeking further reductions.

(iii) The draft paper does not yet include a paragraph on the nationalised industries, because the remaining differences on this front may still be resolved within the terms requested by E(LA) when sponsoring Ministers have reached firm views on the needs of their industries.

*Yours sincerely*

*J.S. Gieve*

JOHN GIEVE  
Private Secretary

Programme	Agreed change from White Paper	Departmental position	Treasury position	Total	Notes
Defence	-	+152	-270	+152/-270	Treasury resisting bid for AFPRB and inflation and seek strict interpretation of 3%
FCO-ODA	-	+20	-20	+20/-20	FCO pressing assorted bids. Treasury questioning need and seeking figure below baseline.
FCO-OTHER	-	+10	0	+10/0	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 <u>research to cover demand-led bids and make savings below baseline.</u>
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	+35	-	-	+25	Reduced bid accepted for maintenance and civil estate and unemployment benefit offices.
DOE-OTHER	-35	-	-	-35	All bids absorbed or withdrawn. £35m saving below baseline to be distributed in programme by Sec. of St.
Home Office	+40	-	-	+40	Inescapable bid accepted mainly for prisons.
LCD	-4	-	-	-4	Various savings.
DES	-	+101	+10	+101/+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	-	+5	-27	+5/-27	Inescapable bids for DDRB 1983 award, Family Practitioner service and demographic pressure - substantially offset by savings and NHS pay clawback. Treasury aim to hold to baseline less VAT clawback of £27m.
SOCIAL SECURITY	-	-43	-74	-43/-74	Inescapable bids for demand determined increases and DHSS administration more than offset by proposed adjustments in benefits. CST seeking some further 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.	-	-11	-43	-11/-43	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.
<u>TOTAL</u>	+583	+199	-576	+782/+7	

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	-	+40	-30	+40/-30	As for 1984-85
FCO-OTHER	-	+10	0	+10/0	As for 1984-85
EC	?	?	?	?	Figures not yet available
IBAP	+270	-	-	+270	Demand-led.
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	+48	-	-	+48	Mostly prisons.
LCD	-1	-	-	-1	Small savings
DES	-	+89	+20	+89/+20	As for 1984-85.
OAL	-	+20	0	+20/0	As for 1984-85
HEALTH AND PSS	-	+188	-27	+188/-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	-	-30	-61	-30/-61	Carry forward of savings for 1984-85. CST seeks some further savings, in benefits.
CIVIL SUPERANNUATION	-	-	-	-	-
CHANCELLOR'S DEPTS	+39	-	-	+39	As for 1984-85.
SCOTLAND, WALES, NI	-	+73	-71	+73/-71	Formula consequential 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 <u>real</u> increase in provision.
BUDGET AND OTHER					
PI SURVEY CHANGES	+1272	-	-	+1272	-
PAY CLAWBACK	-220	-	-	-220	As for 1984-85.
NATIONALISED INDUSTRIES	-900	-	-	-900	As for 1984-85.
<u>TOTAL</u>	+273	+836	-838	+1109/-565	

1986-87 £ million

Programme	Agreed change from Baseline	Departmental position	Treasury position	Total	Notes
Defence	-	+1650	+110	+1650/+110	MOD seek carry forward of 3% commitment, plus Falklands extension. Treasury seek no real growth and limit Falklands cost.
FCO-ODA	-	+60	-30	+60/-30	As for 1984-85
FCO-OTHER	+9	+14	-	+23/+9	Agreed increase for overseas students. Remainder 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;
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	+62	-	-	+62	As for 1985-86
LCD	+16	-	-	+16	Demand-led for legal aid. Bid of £25m partially offset.
DES	-	+72	-60	+72/-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	-	+546	-27	+546/-27	As for 1985-86
SOCIAL SECURITY	-	+308	+277	+308/+277	Major increase in number of pensioners. Treasury seeking partial offsetting savings in benefits.
CIVIL SUPERANNUATION	+50	-	-	+50	Demand-led.
CHANCELLOR'S DEPTS (C&E, IR)	+20	-	-	+20	As for earlier years
SCOTLAND, WALES, NI.	-	+166	-112	+166/-112	Formula consequentials.
LA CURRENT	-	+708	+355	+708/+355	As for 1985-86
BUDGET AND OTHER PRE-SURVEY CHANGES	N /A	-	-	-	-
P. CLAWBACK	-220	-	-	-220	As for 1984-85
NATIONALISED INDUSTRIES	-2000	-	-	-2000	As for 1984-85
<u>TOTAL</u>	-2272	+2910	-577	638/-2849	

## Draft Cabinet Paper

## Public Expenditure to 1986-87

On 21 July, the Cabinet invited me to hold bilateral discussions with spending Ministers, with the aim of maintaining total public expenditure in the next two years at the figures shown in the last White Paper (Cmnd 8789), and for 1986-87 holding the total constant at the proposed baseline. For the last two years of this Parliament, I was asked, in the Prime Minister's minute of 5 August, to explore the possibilities of continuing at about the same constant level of real expenditure. Cabinet also invited me to consider the likely pattern of civil service manpower up to 1988, with the aim of securing reductions to reach an overall target of well below 600,000 by that date.

2. In July, I estimated that there were 'inescapable' additional bids of some £2.5 billion for next year which would have to be offset in order to keep within the White Paper total of £126.4 billion. I have therefore been looking for savings to accommodate those additional bids which I had to accept as inescapable. My discussions with colleagues have made good progress towards the target and I am grateful for the cooperation I have received. We have identified and agreed between us net additions of some £580 million. These provisional agreements are indicated in Annex A. Spending Ministers are still pressing for further additions totalling £200 million (net of other savings). I am asking for the elimination of these remaining bids and further savings of some £580 million to offset the inescapable additions and bring us back to the baseline.

3. If all my outstanding proposals are accepted we will hold to the baseline. If any of them are rejected we will need to consider alternative ways of achieving our target. In view of the strong feelings of colleagues on some of the points at issue I have explored, in particular, the possibility of further reductions in the field of social security, including, for example, the abolition of death and maternity grants, reduced or nil uprating of at least some of the unpledged benefits, and further cuts in supplementary benefit for young unemployed people. In my judgement these are less acceptable than my proposals in Annex A.

4. The position in later years is also shown in Annex A; again there is a very wide gap, and most of my proposed reductions are needed if we are to achieve the objectives endorsed by Cabinet.

5. At Annex A I have listed, programme by programme, the agreements already reached and the outstanding issues, for all three years of the Survey. The outstanding issues are:

a. Defence

There is a case for restraining defence expenditure growth to something less than 3% per annum in real terms. But, on balance, I am prepared to plan on the basis of the 3% per annum commitment to the NATO aim up to 1985-86. I am not prepared to agree provision in excess of that commitment and my further proposal is that we do not plan for any real growth in defence spending after 1985-86. The Defence Secretary has not accepted my proposals (which would lead to reductions in the baseline) and has made further bids for additional provision.

b. Social Security

On Social Security, the Secretary of State and I have reached a provisional agreement for 1984-85, in which he would absorb all his demand-led and administrative bids (£190m). The Secretary of State has in addition offered savings below the baseline of £43 million. All these savings are carried forward into the later years. I have, however, asked the Secretary of State to agree to additional savings of some £30 million in each year. I have suggested that these further savings should come from limited adjustments to Housing Benefit. These would, among other things, reduce the number of very small beneficiaries by at least 500,000.

c. Health

My provisional agreement with the Secretary of State for 1984-85 provides real growth in current resources for the Hospital and Community Health Services (HCHS) of 0.9%, in line with additional costs imposed by demographic change. It also allows for a realistic provision for demand - determined family practitioner service expenditure. The Secretary of State seeks 1% growth in HCHS resources in each of the later years, and has offered to continue into those years the savings agreed for 1984-85. My proposal, on which we have not reached agreement, is to reduce expenditure to the baseline (adjusted for the changed arrangements for VAT on contracted-out services). The savings required to achieve this (particularly in 1986-87) would involve major changes in charging policy (such as reducing or eliminating exemptions from charging, relating prescription charges more closely to the cost of drugs, and introducing new charges), major additional efficiency savings (each 1% saves £80m a year), or reduced real growth in the HCHS.

d. Industry

The Secretary of State has asked for £50 million extra for R&D over the Survey period. I would like to help but we cannot afford to at the moment. Indeed I must seek the cuts shown in Annex A if I am to meet my overall target. These cuts need

not be too painful: we have more than doubled spending in this area since we took office and can continue to support the most worthwhile activities within a reduced provision. Reductions in the existing very generous grant levels would secure most of the economies I am seeking.

e. Agriculture

Agriculture Ministers want to hold expenditure slightly below a 'revised baseline' which reflects changes in demand-determined agricultural expenditure, and in doing so to accommodate, by savings elsewhere, bids for assistance to farmers on 'marginal land', larger capital grants for horticulture and support for a marketing initiative by the Sea Fish Industry Authority. I accept that the increases in demand-determined agricultural expenditure must be accommodated, and am prepared to consider the additional bid. However, I consider that substantial net savings can be found, leading to totals below the original baseline, by reductions in the rates of agricultural and horticultural capital grants and savings in other areas.

f. FCO/ODA

The main items in the Foreign Secretary's bid are the BBC External Services (largely extra provision for modernising the monitoring service and for pay), the British Council (to maintain the 1983-84 level of activity) and, for 1986-87, assistance to overseas students. I accept the bid for overseas students and do not propose any cuts below the baseline. In my view, however, any further provision for other items should be met by offsetting savings. On aid, the Foreign Secretary's bid would restore bilateral country aid to slightly below its 1982-83 level in cost terms. Because of inevitable increases in multilateral aid, provision at the baseline will require some continuing fall in bilateral aid. I have proposed cuts of £20m, £30m and £40m, mainly by reducing the amount within the programme which is at present unallocated.

g. Local authority current expenditure (future years)

The Secretary of State for the Environment has bid for increases of 3 per cent and 2 per cent over the survey baseline for 1985-86 and 1986-87 (£640 million and £708 million). In correspondence with colleagues I have indicated that I could not do more than carry forward the increase in the allocated provision agreed in E(LA) for 1984-85: £355 million. That would give growth rates in allocated provision of 3½ and 3 per cent with total provision growing less fast. The unallocated margin would be reduced and eventually eliminated. Colleagues have indicated that they would find the implied growth rate in total provision unrealistically low.

6. I do not believe we should go back on our earlier decision by adding £½ billion to public expenditure next year. I therefore ask my colleagues with outstanding bids to withdraw



them. I also invite Cabinet to approve the further savings listed in Annex A, or to suggest alternative economies.

7. During these discussions I have tried, as directed, to look ahead to the later years of this Parliament. If the savings I have suggested in the Survey years were all agreed and the resulting trends carried forward, it seems likely that public expenditure would remain roughly constant in real terms, and decline as a ratio to GDP. But we need these savings, and more, if we are to achieve the significant tax reductions which we have agreed are necessary. The public debate on longer-term prospects, which we agreed in July to be necessary, has already begun and I suggest that we should return to this issue when the Survey discussions have been completed.

[Not attached] 8. As agreed in July, I have reviewed with colleagues the manpower plans for their departments for all the years up to 1988. Annex B contains agreed figures for each department for each year, and it explains their status. I invite Cabinet to approve these target figures as a basis for departmental planning, and for publication.

9. To sum up, I ask Cabinet:

- a. To approve the changes in expenditure plans already provisionally agreed in bilateral discussions (indicated by asterisks in annex A).
- b. To endorse my request for withdrawal of the outstanding proposals for additional expenditure (marked # in Annex A).
- c. To approve the further savings which I have proposed (marked with a double asterisk in Annex A).
- d. To approve for eventual publication in the 1984 Public Expenditure White Paper, along with the usual supporting explanation, the resulting programme totals for the years up to 1986-87.
- e. To agree that the programme totals for 1984-85 should be published in summary form in the Chancellor's Autumn Statement.
- f. To note that I intend to make further proposals on the handling of longer-term issues in due course.
- g. To approve, for publication in the Autumn Statement, the manpower plans set out in Annex B on the basis described there.

DEFENCE	£m		
	1984-84	1985-86	1986-87
• Agreed	-	-	+ 450
# Departmental position	+ 152	+ 337	+1173
•• Treasury position	- 268	- 281	- 290

Provision has been agreed for 1986-87 Falklands costs.

The Secretary of State is seeking annual real growth in excess of 3 per cent up to 1985-86, and real growth of 3 per cent in 1986-87. He <sup>also</sup> argues that defence provision should be based on the March FSBR forecasts of inflation rather than the cash factors; and seeks compensation for the extra costs of the 1983 AFPRB, DDRB and TSRB awards.

The Chief Secretary accepts the commitment to annual real growth of 3 per cent up to 1985-86; but disputes that annual growth should exceed 3 per cent in these years, and does not wish to plan for any real growth after 1985-86. He argues that defence, like other provision, should be based on the cash factors, and that any extra pay costs can be accommodated without additional cash.

## OUTCOME OF BILATERALS

FCO (including ODA)

	<u>1984-85</u>	<u>1985-86</u>	<u>£m</u> <u>1986-87</u>
# Departmental position	+30	+50	+83
** Treasury position	-20	-30	-21

The Foreign Secretary seeks additional resources mainly for bilateral aid, but also for the British Council, BBC External Services and sundry other items. The Chief Secretary believes that any necessary provision for these items can be found from existing resources and seeks further cuts in aid and in FCO administrative expenditure and manpower.

On the ODA side the Chief Secretary is seeking cuts of £20, £30 and £30 million. On the Diplomatic wing he has accepted additional provision in 1986-87 for overseas students but believes any further provision for other items can be found from existing resources.

AGRICULTURE AND FISHERIES

	£ million		
	1984-85	1985-86	1986-87
# Departmental position	+ 27.3	+ 10.9	+ 6.6
** Treasury position	- 19.7	- 39.1	- 53.4

Agriculture Ministers want to hold expenditure slightly below a 'revised baseline' which reflects changes in demand - determined agricultural expenditure, and in doing so to accommodate <sup>by savings elsewhere,</sup> bids for assistance to farmers on 'marginal land', larger capital grants for horticulture and support for a marketing initiative by the Sea Fish Industry Authority. The Chief Secretary accepts that the increases in demand determined agricultural expenditure must be accommodated, and is prepared to consider the Agriculture Ministers' additional bids, but argues that substantial net savings can be found, leading to totals below the original baseline, by reductions in the rates of agricultural and horticultural capital grants and savings in other areas.

FORESTRY

	£ million		
	1984-85	1985-86	1986-87
* Agreed	-3	-4	-5

The saving results from a review of the Forestry Commission's management structure.

## CONFIDENTIAL

Department of Trade and Industry

	<u>1984-85</u>	<u>1985-86</u>	<u>£m</u> <u>1986-87</u>
Agreed	-	-	-
# Departmental position	-51.7	-65.3	-84.7
** Treasury position	-96.2	-126.7	-157.0

The Secretary of State wants increases for industrial R & D and aircraft and aero-engine R & D of £52.2 million over the Survey period. The Chief Secretary seeks cuts of £125 million on these items.

## 10. DEPARTMENT OF ENERGY

	£ million		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	- 8.8	- 10.1	- 18.5
** Remaining Treasury proposal	- 2.0	- 2.0	- 2.0

Efficiency savings and higher contributions to nuclear R&D from the Generating Boards, as beneficiaries, have been agreed. Treasury propose, in addition, a further small contribution from British Nuclear Fuels Ltd.

Department of Employment

	<u>£m</u>		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Provisionally agreed	-55	-134	-215

The provisional agreement is largely the product of substantial demand-  
determined savings, offset in part by additional bids (much the biggest  
of which is for the Enterprise Allowance).

CONFIDENTIAL

OUTCOME OF BILATERALS ON DEPARTMENTAL PROGRAMMES

ECGD

	£m		
	1984-85	1985-86	1986-87
• Agreed	+2.0	+33.3	143.1
○ Departmental position		not applicable	
Treasury position		not applicable	

The Chief Secretary acknowledges that expenditure on ECGD's programmes is either already committed or demand-determined and is very sensitive to economic assumptions. He accepts that the bids reflecting these are effectively irresistible. Small savings of £2.5 million, £6.4 million and £7 million over the 3 Survey years are secured.

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Department of Transport (other than nationalised industries and local authority current expenditure)

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	-20/-40	-35	-20

The Secretary of State has agreed to net reductions in his programme, though provision for motorways and trunk roads will be higher than before. [Acceptance of a cut of £40m in 1984-85 is dependent on agreement to end-year flexibility or over-allocation. The matter should be resolved shortly. '-20/-40' as above is a reference to the figures that will appear in the White Paper, not to the terms of the possible deal on over-allocation.]

CONFIDENTIAL

Department of the Environment - Housing (Excluding local authority current expenditure on non-HRA housing)

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	-475	-500	-525

[The figures are conditional on the Chief Secretary and the Secretary of State agreeing on a scheme of end-year flexibility for local authority capital.]

*To be resolved before Cabinet*

Department of the Environment - Other Environmental Services (Excluding local authority current, Regional Water Authorities and BWB)

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	-35	-55	-65

The agreed reductions will be allocated within the programme by the Secretary of State.

Department of the Environment - PSA

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	+25	+25	+25

Increases for expenditure on maintenance of the civil estate and improvements to Unemployment Benefit Offices

CONFIDENTIAL

OUTCOME OF BILATERALS

Home Office

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u> <sup>£m</sup>
* Agreed	+40	+48	+62

The Home Secretary has sought extra resources for prisons to finance increases in manpower and to permit additions to the building programme. Extra provision for the Criminal Injuries Compensation Board is also included.

Lord Chancellor's Department

	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u> <sup>£m</sup>
* Agreed	-4	-1	+16

The Lord Chancellor has agreed to reduce his bid for legal aid in 1986-87 to £20m and to provide a further offset of £4m from the court-building programme.

## EDUCATION AND SCIENCE

		<u>1984-85</u>	<u>1985-86</u>	<u>£m</u> <u>1986-87</u>
	Agreed	-	-	-
#	Departmental position	+130	+136	+140
**	Treasury position	+10	+20	<del>80</del> -60

The Secretary of State seeks additional provision for local authority capital expenditure; for the universities (allowing for some savings); and for science. Prospects for increasing his provision for science by reallocation from other Departments' R and D programmes are being examined separately. The Chief Secretary seeks further savings in the universities. There is agreement inter alia on an addition for student awards necessitated by increased student numbers, to be offset in part by changes in the conditions on which awards are given; these may prove controversial.

## ARTS AND LIBRARIES

		<u>1983-84</u>	<u>1984-85</u>	<u>£m</u> <u>1985-86</u>
	Agreed	-	-	-
#	Departmental position	+12	+20	+25
**	Treasury position	0	0	0

The Minister for the Arts seeks additional provision for new building by the British Library; improvements, repairs and maintenance in the national museums and galleries; the National Heritage Memorial Fund and acceptances of heritage property in lieu of tax; and the National Film Archive.

Confidential

<u>Health</u>	<u>£m</u>		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
* Agreed	+5		
# Departmental position		+188	+ 546
** Treasury position	-27	- 27	- 27

The agreement for 1984-85 provides real growth in current resources for the hospital and community health services of 0.9% in line with additional costs imposed by demographic change. It also allows for a realistic provision for demand.- determined family practitioner service expenditure. The Secretary of State seeks 1% growth in HCHS resources in each of the later years, and has offered to continue into those years the savings agreed for 1984-85. The Chief Secretary seeks to reduce expenditure to the baseline (adjusted for the changed arrangements for VAT on contracted-out services). The savings required to achieve this (particularly in 1986-87) would involve major changes in charging policy (such as reducing or eliminating exemptions from charging, relating prescription charges more closely to the cost of drugs, and introducing new charges), and/or major additional efficiency savings (each 1% saves £80m a year), and/or reduced real growth in the HCHS

## CONFIDENTIAL

NATIONALISED INDUSTRIES (to be updated in line with <sup>separate</sup> note)

	£ million		
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Agreed	-	-	-
# Departmental position	-480	-720	-1740
** Treasury position	-800	-1100	-2150

External finance has now been virtually settled for all industries other than those sponsored by the Secretary of State for Energy. The Chief Secretary is seeking further cuts of at least £600 million over the three years of the Survey in the coal, gas and electricity industries. The main points at issue are the size of the NCB's future investment programme; the extent to which any continued freeze in electricity prices can be offset by increases in efficiency coupled with a relatively small squeeze on investment and working capital; the size of the increase in gas prices from January 1984 and the scope for cutting gas costs.

LOCAL AUTHORITY CURRENT EXPENDITURE RELEVANT FOR RATE SUPPORT GRANT<sup>+</sup>

	1984-5	1985-6	1986-7
<u>England</u>			
• Agreed	+495	-	-
# DOE position		+ 559	+ 374
** Treasury position		+ 274	+ 21
<u>Scotland</u>			
• Agreed	+ 54	-	-
# SO position		+67.5	+28.5
** Treasury position		+34.5	+12.5
<u>Wales</u>			
• Agreed	+ 4		
WO position		Formula consequence of provision agreed for England with flexibility on capital/current split	
Treasury position		Formula consequence of allocated increase agreed in England	

Decisions were reached in the summer on 1984/5. The Secretary of State for the Environment has bid for cash increases of 3% and 2% in 1985/6 and 1986/7, which he argues is the minimum necessary for realism. The Treasury has offered to carry forward the increase agreed to allocated provision in 1984/5, £355m, to 1985/6 and 1986/7. The Secretary of State for Scotland has asked for the formula consequence. The Welsh Office indicate that they too would want the formula consequence of the agreed provision for England with the option to add some of the enhancement to their capital programmes.

<sup>+</sup> Figures underlying PEWP (Cmnd 8789). Not reflecting Budget NIS adjustment



Public expenditure  
file

10 DOWNING STREET

From the Private Secretary

Robin,

I attach a draft PS letter on the 1983 PES. There have been two developments since this morning

(i) Treasury opinion now favours a written paper, sufficiently detailed to set out in black and white the agreements reached, but not so much so as to provoke discussion. I have left the draft open

OK

(ii) The Chancellor favours having Lord Cockfield on MISC, possibly at the expense of Mr Tebbit. Mr Gregson feels it would be strange not to deploy a Cabinet member with an economic policy background like Lord Cockfield on MISC. ~~Therefore~~ He would add Lord C, which would still, in his view, leave the group reasonably balanced. If you agree, I will confirm with Prime Minister.

I agree

I have checked the precedents re Chancellor on MISC. He chaired in 1979 and 1980 but after 1980 experience, a neutral

I agree

PTO



10 DOWNING STREET  
Chairman was used in 1981. Chancellor  
was not a member. In 1982 there was no  
MISC. I suggest we stick to 1981 formula.

AT.