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10 DOWNING STREET

From the Private Secretary

10 October 1983

Dear John.

PUBLIC EXPENDITURE SURVEY 1983

The Prime Minister held a meeting with the Chancellor and the Chief Secretary to discuss the handling of the Public Expenditure Survey. The Chief Secretary reported on the progress he had made and identified areas where disagreements remained.

It was agreed that the best procedure would be as follows. There would be a Cabinet meeting on 20 October as originally planned. The Chief Secretary would circulate a note on the state of play as it emerged from the bilaterals. This would not invite substantive discussion aimed at resolving the outstanding issues but would ask that they be remitted to a MISC Ministerial group.

The aim would be to settle with as many Ministers as possible before the Cabinet with only the difficult cases being remitted to the MISC group. The latter category would certainly include defence, and probably also agriculture and the energy nationalised industries, though Mr. Walker might yet make satisfactory proposals on the latter.

The Chief Secretary reported that he was close to agreement with Mr. Fowler on health and social security which, if the outcome on defence was satisfactory, would represent an adequate contribution. It would be necessary to consider the most painful options only if an adequate contribution from defence were not achieved. It was agreed that the Chief Secretary should try to reach a conditional settlement with Mr. Fowler.

It was agreed that in the week beginning 17 October, the Prime Minister would discuss with the Foreign and Commonwealth Secretary, during her normal weekly talk with him, the outstanding issues on the aid programme and the diplomatic wing. I should be grateful if you could arrange for the Prime Minister to have a note on the issues, and the Treasury's proposals, for the weekend of 15-16 October. The Chief Secretary should continue to narrow differences on education and industrial R & D, but if necessary the Prime Minister would see the Ministers concerned. (You should note, however, that Mr. Parkinson is due to be in the United States and Japan for the two weeks immediately after the Conservative Party Conference.)

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There was only a brief discussion of the substantive issues on defence though the Prime Minister noted the 40% increase in real terms in expenditure on equipment and the 19-20% increase overall. The possibility of phasing out the real increases rather than moving direct from 3% to nil was noted. It was expected that the issues would not be settled in the MISC group and would have ultimately to be decided in Cabinet.

It was agreed that the MISC group should be chaired by the Lord President. The Prime Minister would think further about the other members. The group would be asked to report back in time for a further discussion in Cabinet two weeks later.

There was a brief discussion of the Contingency Reserve, with the Prime Minister expressing a strong preference for maintaining the proposal that it should be held at £3 billion in 1984/5.

I am sending copies of this letter to John Gieve (Chief Secretary's Office, HM Treasury) and Sir Robert Armstrong (Cabinet Office).

*Your sincerely
Andrew*

(ANDREW TURNBULL)

John Kerr, Esq.,
HM Treasury.