

PRIME MINISTER

BILATERAL WITH THE CHANCELLOR

The Chancellor and Chief Secretary will be on call for the end of your meeting with Mr Walker at 1730.

The Treasury have sent over a further letter, below, about pay and running costs. This is relevant to your meeting, but not central to it.

One point about the figures and presentation in the Chief Secretary's minute.

The Treasury list all the issues in dispute without distinguishing between bids they want to resist and cuts they are seeking. From the point of view of the outside world this is right: most things are seen as cuts. But internally the distinction is important.

The decisions on housing (except for an increase of £100 million), aid, the urban programme and energy need to be resolved in the Treasury's favour to get to the Treasury's forecast of £1.4 billion excess mentioned in paragraph 3. Broadly speaking all of these involve resisting bids.

For defence, Scotland (by stopping operation of the formula), Home Office, Education, and Social Security, the Treasury is asking whether you could accept cuts. These would need to be made for the planning total to get down to an excess of £1 billion (paragraph 9). The programmes which might potentially yield the biggest savings are defence, Scotland and Social Security. Energy is also one potential source of savings, but the situation there is very confused.

DNW

DAVID NORGROVE

25 September 1985

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PRIME MINISTERBILATERAL WITH THE CHANCELLOR

You are meeting the Chancellor for a bilateral tomorrow at 1730. The Chief Secretary will also be present.

The main item for discussion will be the state of play on the public expenditure survey, and the Chief Secretary has sent you the minute at Flag A. (I am sorry you are getting this so late: it was only received at 10.15 pm.)

You might start with a very brief report on your discussion with Mr. Walker. The Chancellor should give you a report on his G5 discussions. But I suggest you keep these and other items to a maximum of 10 or 15 minutes.

The note on the public expenditure survey speaks for itself, though it lacks detail (including in most cases figures) on the issues in dispute. You will want to go through these carefully with the Chancellor and Chief Secretary.

There is one point on running costs which you should be aware of. You have agreed the approach which the Treasury intends to take. But there is pressure from colleagues, starting from doubts about the way pay is to be handled (with each department making its own assumptions though with some steering from the Treasury), reinforced by the realisation that the running cost controls are for real. Mr. Younger's minute, at Flag B, shows the drift. It came in after your discussion of running costs with the Chancellor last week. Pay and runnings costs are likely to be raised at the public expenditure Cabinet. You should be aware, but you have more important issues to discuss at the bilateral.

DAVID NORGROVE

24 September 1985