

PRIME MINISTER

Bilateral with the Chancellor

The Chancellor will want to concentrate on public expenditure. The main issues are:-

- i) Outstanding questions on individual programmes.
- ii) Bridging the gap on the totals.
- iii) Announcing the outcome.

These issues are covered in full in the Cabinet Office brief.

Since the brief was prepared the Chancellor has had a meeting with Mr. Buchanan-Smith. The latter reported that the Electricity and Gas Boards were resisting the price proposals in the MISC 99 package. Sir Denis Rooke will only accept 5 per cent if he is given a financial target for the next two years. He is hoping to close off options on increases in gas prices. The Electricity Boards argue that the 3 per cent increases would cause them to exceed their financial targets.

*in attached envelope.*

The Chancellor is still considering what approach to take at the meeting and a minute will come over later tonight. He may advise that Energy Ministers should make a further effort to persuade the industries or he may take up an offer from Department of Energy to deliver the public expenditure savings by other means.

Other issues are:-

- i) NIC. The Chancellor is likely to recommend no change in rates, a maximum rise in the upper earnings limit and a cut in the Treasury contribution of 2 per cent.

- ii) After his presentation to the Cabinet on bridging the gap the Chancellor will go on to discuss the Industry Act forecast and the negative fiscal adjustment. You will want to go over with him in advance.
- iii) EC net contribution. You said you were not happy with the Chancellor's proposal to use the conventional assumptions. You suggested using the uncorrected figures. The Chancellor is likely to say that this would show the EC contribution £700m. higher. This would raise the programme total. This could only be prevented from raising the programme total if the contingency reserve were reduced by a corresponding amount.
- iv) RSG. I minuted you earlier on Patrick Jenkin's wish to reopen the hold-back positions in the RSG settlement. The Chancellor will argue that the tough hold-back provision was a quid pro quo for a high rate of grant and that it is wrong to modify one element of the package. The Chancellor has considered your suggestion that hold-back should not apply where spending is below GRE. He feels this is tantamount to an increase in targets for many authorities and will cause expenditure to rise.

*Inty Clark  
pp A. Turnbull.*

9 November 1983