

PRIME MINISTER

MEETING WITH THE CHANCELLOR AND CHIEF SECRETARY

(i) Public Expenditure in 1984/85

When Cabinet colleagues declined to support a moratorium on local government capital expenditure, the Chief Secretary was given leave to bring forward other proposals which would eliminate the overshoot in 1984/85. He has considered the possibilities but, apart from some limited savings and increased asset sales he has not identified any that colleagues would be likely to accept. He is therefore recommending that the Government acquiesce in a substantial overspend this year. If this is to be accepted, a special effort will be needed to explain it.

(ii) Public Expenditure Survey

The Chief Secretary has reported on the state of play following his bilaterals. He has made little progress and a great deal remains to be done. At the same time there are the difficulties of scheduling on which Sir Robert Armstrong has already reported to you.

The Chief Secretary recommends bringing forward the Economic Cabinet to next Thursday so that Lord Whitelaw's group can make an early start. You will need to discuss with him and the Chancellor the composition of the group. Mr. Tebbit is likely to be still in dispute and may therefore be disqualified. This would leave the choice between Minister without Portfolio, Chancellor of the Duchy, Lord Privy Seal, Home Secretary and Secretary of State for Scotland. The Chief Secretary seeks your approval to the circulation of a Cabinet paper. You will also want to go over with him and the Chancellor some of the very difficult options which will

need to be pursued.

(iii) Pay Factor

The Chief Secretary has circulated a note recommending that the pay factor for 1985/86 be reduced from 4 per cent to 3 per cent. This would save £200 million provided Ministers are not allowed to count the saving in their bilaterals.

The Chief Secretary can leave at this point. He is anxious to get back to his constituency.

(iv) Washington meetings

The Chancellor can report on these, in particular Argentina's agreement with the IMF.

(v) VAT on food

I understand you were unhappy about the terms of a letter drafted by the Treasury. There has been some correspondence between Mr. Jopling and the Chancellor on this. Part of the difficulty stems from the fact that the Treasury presentation begins by repeating your undertaking and then adds the caveat about the tax system not being immutable. This tends to undermine the undertaking. In my view it would be better if they reversed the sequence. The Treasury are of course, anxious to retain some flexibility at the margins of what is defined as food.

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AT

27 September, 1984