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Subject



File R.F.J. 33
A.A.B.
cc Master

10 DOWNING STREET

From the Private Secretary

31 October 1984

Dear Janet,

Public Expenditure Survey 1984

The Prime Minister held a meeting this evening to review the state of play on the 1984 public expenditure survey. Present were the Lord President, Chancellor of the Exchequer, Chief Secretary, Mr. Bailey, Mr. Gregson and Mr. Redwood.

The Lord President said the group had reach agreement with the Secretary of State for Social Services. All the Government's pledges had been observed and sufficient savings had been found without foregoing the uprating of child benefit for which it would have been difficult to secure Parliamentary approval.

He was hopeful of reaching a settlement with the Minister of Agriculture close to the group's original recommendations. This would create difficulties on capital grants and arterial drainage. On ADAS it had been agreed that savings should be offered on account, anticipating the implementation of the Bell Report.

The Secretary of State for Defence had argued successfully for additional expenditure in 1985/86 to meet the NATO commitment. He was seeking an additional £94m. in years two and three beyond the group's recommendation. He was also seeking a form of words which would imply a commitment to maintain the programme in real terms rather than cash. This would in effect reverse the outcome of last year's survey.

In discussion it was agreed that Mr. Heseltine's form of words was not acceptable. The difficulty he was facing was not so much that there was insufficient finance to meet defence commitments, though concern about the cost of the Trident programme was beginning to surface but rather that it would be difficult to defend politically, at home and

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abroad, small real reductions in the real programme. Large savings on procurement should enable commitments to be met with a lower real programme.

It was agreed that the Prime Minister, the Lord President and the Chancellor should meet Mr. Heseltine in an effort to secure agreement before Cabinet. This has been arranged to take place immediately after this week's Cabinet.

The Lord President reported on the difficulties encountered in discussion with the Secretary of State for the Environment. While the urban programme had been agreed, as recommended by MISC 104, nearer to the Chief Secretary than to the Secretary of State for the Environment, no agreement had been reached on the housing and other environmental service programmes. For housing the group recommended reductions of £527m. and £542m. and £480m. below base line in the three years. This would imply new public sector building of 14-20,000 a year compared with the 40,000 which Mr. Jenkin regarded as the minimum. Mr. Jenkin also considered the reductions in improvement grants to be excessive. The impact on the construction industry would be serious.

Mr. Jenkin had indicated to the group that he wished to argue his case in Cabinet. In these circumstances it was unlikely that he would wish to reach a settlement beforehand with the Prime Minister. Nevertheless the Lord President suggested that it would be helpful if the Prime Minister met him beforehand to familiarise herself with his arguments and to indicate that she would not be supporting him. The Prime Minister agreed to do this probably on Tuesday or Wednesday next week.

The Lord President said the Secretary of State for Energy had agreed to seek savings in the EFLs in the gas and electricity industries of £2.2b. over the next three years. After discussion with the industries Mr. Walker reported that savings of £1.6b. could be found which he believed could be pushed up to £1.9b. He did not believe they could be increased beyond that point.

The committee had been under the impression that his figures referred to the effect on EFLs. Subsequently Mr. Walker had indicated that his offer did not cover the additional corporation tax which the savings would produce so that the effects on the EFLs would be smaller. The Lord President said most of the group thought they would not be able to get Mr. Walker to agree to savings beyond £1.9b. but it was possible that Mr. Walker might be prepared to agree to go further in discussion with the Prime Minister. She agreed to meet him privately on Monday in an effort to

seek an agreement before Cabinet.

The Chancellor said he was anxious to settle public expenditure in one go at Cabinet on 8 November. This was essential if the Autumn Statement were to be produced, as intended, by 12 November. He believed this would be possible if Cabinet were faced with no more than one, or at most two unagreed programmes.

I am copying this letter to David Peretz (HM Treasury), Richard Broadbent (Chief Secretary's Office) and Mr. Gregson (Cabinet Office).

Your sincerely

Andrew Turnbull

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Miss Janet Lewis-Jones
Lord President's Office.