

cc: Lord President

PRIME MINISTERPUBLIC EXPENDITURE

At this afternoon's meeting, you will want to consider how to resolve the problems that remain in the public expenditure round. MISC 106 have had further contact with Mr. Jopling, Mr. Heseltine and Mr. Walker.

Mr. Jopling has indicated that he is prepared to move substantially towards the MISC 106 offer of

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the Lord President will be writing to him this afternoon to offer cuts of the order of

(-50)

(-80)

(-95)

He is hopeful that Mr. Jopling will accept this revised offer.

Mr. Heseltine has written seeking a further £94 million in years two and three. Even more difficult, however, is his request for a form or words which states that the Defence Programme is to be held constant in real terms in years two and three and that it should be adjusted should costs and prices develop differently from the forecast. In effect, he is seeking to re-open the battle of last year and put his programme, uniquely, on a real terms rather than a cash basis. Mr. Gregson is preparing a separate minute on this.

Mr. Walker has told MISC 106 that rather than make savings of £2.2 billion over three years he could find £1.6 billion which could possibly be extended to £1.9 billion. This would involve increases in electricity prices of 4½% a year an increase in gas prices of 6%, 7% and 8%. Since the meeting, however, a new complication has arisen. MISC 106 were under the impression that Mr. Walker was talking in terms of the effects on EFL's. He has now told the Secretariat that he was talking in pre-tax terms and that after allowing for the higher corporation tax which these savings would imply the effect on EFL's would be smaller, possibly by £300 - 400 million over the period.

Mr. Jenkin's position remains largely as set out in last night's minute though the Urban Programme has now been settled.

These remaining differences could be solved in the following way:-

(i) Mr. Jopling could be settled before Cabinet by MISC 106.

(ii) you could see Mr. Walker privately, without the Chancellor or Chief Secretary, to seek an agreement with him on a package of energy price rises which will increase the savings he has offered. For this to be successful the basis of his figuring will need to be resolved.

(iii) you could see Mr. Heseltine and Mr. Jenkin, not with a view to seeking a settlement, but to discuss their programmes, probe their arguments, and to indicate that you will be seeking the agreement of Cabinet to MISC 106's recommendations.

At the meeting, you will also have to consider the possibility that if you cannot get Mr. Walker to accept sufficiently large energy price increases, and he is showing signs of resisting anything more than the increases shown above there will be a substantial shortfall to be dealt with.

The scheduling of meetings will need to be settled in the light of the arrangements made for you to attend Mrs. Gandhi's funeral.

AS

31 October, 1984

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