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Prime Minister
Not resolved except for
ECGD which is being
pursued bilaterally.

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PRIME MINISTER

I was grateful for the discussions which you initiated last week on my Department's PES position. I am writing to set out the basis on which I believe that Peter Rees and I are agreed that we should now proceed.

2 We have now agreed the following baseline:

<u>1985/86</u>	<u>1986/87</u>	<u>1987/88</u>
£millions	£millions	£millions
✓ 884.5	809.6	734.2

This baseline excludes regional expenditure and any local authority - relevant current expenditure; and will need to be adjusted to take account of the revised wage and salary assumption for PES agreed by the Cabinet and the detailed manpower targets when they are agreed with the Chief Secretary (I have agreed in general to a 3% manpower cut by 1 April 1988 subject to consideration of phasing and the need to bid for new staff for the takeover of the Radio Investigation Service, for the Companies Registration Office, and for the new scheme of regional incentives). On this basis, I understand that my programme will be regarded as "agreed" for the purposes of the operations of MISC 106. I accept that, as with all such agreed programmes, the Chancellor and Chief Secretary reserve the right

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to make further proposals should MISC 106 fail to identify the savings we need to keep within the agreed totals.

3 Peter Rees also has further points which he wishes to put to me in respect of the ECGD programme in 1986-7 or 1987-8. He and I will pursue this bilaterally, outside the operations of MISC 106.

4 I am copying this minute to Nigel Lawson and to Peter Rees.

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9 October 1984

DEPARTMENT OF TRADE & INDUSTRY

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