

CONFIDENTIAL

Ref. A0543

MR. LANKESTER

Public Expenditure

When the Prime Minister decided earlier this week to defer the resumed discussion of public expenditure for 1983-84 from today's to next week's Cabinet, she envisaged chairing a meeting of a small group of Ministers early next week to try and resolve the outstanding issues in advance of Cabinet.

2. I understand that the Chief Secretary has reached agreement with the Secretary of State for the Environment on housing, and with the Secretary of State for Education and Science on education; and that the Chancellor of the Exchequer and the Secretary of State for Defence are now in agreement on defence. All these agreements are being reported to the Prime Minister. If she is content with them, only the level of agricultural capital grants remains outstanding.

See para A

3. As you know, Sir Kenneth Berrill is chairing an official review of agricultural support policy generally, against the EEC and domestic backgrounds. This group has prepared an interim report on capital grants, but this does no more than rehearse the arguments advanced by the Ministry of Agriculture and the Treasury respectively, and state the options as: adoption of the MAFF figures (an increase of £30 million on the baseline figures); adoption of the Treasury figures (a £60 million cut in the baseline figures); or adoption of the existing baseline or some other compromise figure.

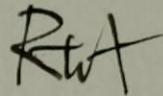
4. Any decision at present on capital grants could only be ad interim: it would not make sense for final decisions on the level of grants over the next four years to be taken in advance of completion of Sir Kenneth Berrill's review, due at the end of November. I believe that the best course at this stage would be to leave agricultural grants on one side for the time being, with a view to a decision being taken by Cabinet on 6th December. A decision is required by then, because any order cutting grants would have to be introduced before Christmas. The Treasury could be asked to prepare the White Paper for ~~the~~ present on the basis of the baseline figures, entirely without prejudice to later decisions. The figures could be adjusted as necessary at the proof stage, though if the decision was a

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radical one which involved more than a sentence or two of the accompanying text, they would probably have to resort to devices such as footnotes. This should not delay the White Paper beyond the mid-January date to which the Treasury is in any case now working.

5. If the Prime Minister agrees to proceed on this basis, we do not need to have a small group at this stage. The Chief Secretary might be invited to prepare for next week's Cabinet a brief report on the outcome of his further bilaterals and a proposal along the above lines for dealing with agricultural grants.

6. As to the defence programme, few other members of the Cabinet will be aware that there has been a disagreement here. The outcome will have to be presented to Cabinet at some stage, and I think it would be right to do this at next week's Cabinet so that public expenditure can be wrapped up completely (bar agriculture). This will require careful presentation: the Chancellor is apprehensive that there will be some resentment at Mr. Pym's apparently privileged access to the Contingency Reserve. I am inclined to think that the Prime Minister should present this outcome herself, at the end of the discussion; and I will let you have a speaking note in good time.



ROBERT ARMSTRONG

1st November, 1979



4 JRP

10 DOWNING STREET

*From the Private Secretary*SIR ROBERT ARMSTRONG
CABINET OFFICEPublic Expenditure

The Prime Minister was grateful for your minute of 1 November (Ref. ✓A0543).

The Prime Minister is content to postpone the public expenditure decisions on agriculture until 6 December; and since agreement has now been reached on housing and education expenditure, she agrees that there is no need to set up the small group under her Chairmanship which had been suggested earlier. She also thinks it would be a good idea if the Chief Secretary could circulate a brief report to Cabinet next week on the outcome of his further bilaterals with a proposal also on the lines suggested in your minute for dealing with agricultural grants.

On the question of the defence programme, we hope to arrange a meeting for the Prime Minister with the Defence Secretary, the Chancellor and the Chief Secretary to discuss the handling early next week. I am sure the Prime Minister would be grateful for a speaking note in the light of that meeting. (I am attaching a copy of the Chancellor's minute recording the agreement which has been reached.)

T. P. LANKESTER

KRB
—2 November 1979