



FROM: CHIEF SECRETARY  
DATE: 29 October 1984

PRIME MINISTER

**MISC 106: STATE OF PLAY**

The note of 30 October by the Secretariat sets out very clearly the position reached. The Group has made major progress in what we knew would be an extremely difficult task. But its work has demonstrated the difficult decisions required in order to achieve the planning totals endorsed by Cabinet in July.

2 Perhaps you would allow me, before you embark on discussions with colleagues whose programmes have yet to be settled, to highlight what seem to me the key implications of the Secretariat's report:

(i) Even after taking credit for the Group's proposals for all other programmes, achieving the overall targets requires the acceptance in full of my proposals for gas and electricity. Only in 1986-87 is there any significant leeway; and the 1985-86 position is particularly tight. The bulk of the "savings" Peter Walker is aiming to achieve are needed simply to offset the industries' bids for extra provision; their contribution to the overall need for savings below baseline is inadequate.

(ii) Any further concession beyond the Group's proposals on the other programmes yet to be settled - Defence; FCO/ODA, Agriculture and Environment - would widen the gap still further.

3 I am conscious that this presentation puts the position starkly; but the fact is that the margin for manoeuvre in my original proposals for the range of programmes remitted to MISC 106 has now been fully used up.

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4 The Secretariat's report also points to a difficult decision which you will need to take in the next few days on the timing of further Cabinet discussion of public expenditure. The danger is that a November 8 Cabinet - with substantial discussion probably on Energy, Environment and Agriculture - would lead to something short of a conclusive result. If that were the case we should almost certainly have to abandon the aim of publishing the Autumn Statement before BT Impact Day raising all the problems discussed in the Chancellor's minute to you of 24 October. The Chancellor and I are to discuss all these issues with you tomorrow.

5 I am copying this minute to the Lord President and to Sir Robert Armstrong.

PR

PETER REES

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