

Covering SECRET

FROM: M L WILLIAMS *File*

DATE: 3 JULY 1984

*Questions?*  
*NO*

PS/CHANCELLOR

cc PS/Chief Secretary  
Sir P Middleton  
Mr Bailey  
Mr Anson  
Mr Scholar  
Mr Pirie  
Mr Gray  
Mr Mortimer  
Miss Barber *6A*

PM's QUESTIONS: STATE OF THE RESERVE

I attach the additional briefing that you requested today  
for No 10.

*M L Williams*  
M L WILLIAMS

*→ Mr Turnbull*

Reserve under pressure: need for "July measures"Line to Take

The government intends to stick to its spending plans. I see no need for any general package of measures.

Background

1. Reserve is £2 $\frac{3}{4}$  billion; so far just £ $\frac{1}{2}$  billion formally charged and announced [major items are to meet part of cost of health service review body pay decision (7 June £233 million) and for summer supplementary Estimates (14 June, £226 million)]7.

Secret

2. Potential claims (not announced): EC contribution (£425 million) nationalised industries EFLs (£300 million), LA current (£1,800 m), LA capital (£250-£1250 million), unemployment benefit etc £300m. [Miners' strike relatively modest, mostly included in EFL figures]7.

Secret

3. EC contribution:

	£ million			
	1984-85	1985-86	1986-87	1987-88
Public Expenditure White Paper	375	550	600	-
Settlement	800	850	725	800

Extra (£425 million) in 1984-85 will be charged to Reserve.

Defensive

1. If pressed on the Reserve: Accept the position is potentially tight. But it is early in the year, there are inevitable uncertainties and we can expect downs as well as ups. Situation quite unlike that obtaining this time last year.

SECRET

2. If pressed on need for offsetting action: If increased demands arise on particular expenditure programmes, offsetting savings will be found, in the normal way, wherever possible.
  
3. If pressed on local authorities:
  - i. LA current: Yes, regrettably indications are for another current overspend by local authorities. That is why the Government is bringing forward its rate capping proposals and abolishing GLC and metropolitan counties;
  
  - ii. LA capital figures published yesterday imply an overspend of £0.3 billion in 1983-84. Yes, provisional outturn figures suggest there was an overspend last year. On implications for or position this year. The figures are still being analysed and implications being considered.
  
4. If pressed on EC contribution

The likely outturn this year will be higher than the stylised figure in our published plans. But if we had reached no agreement at Fontainebleau we would have received no refunds at all this year and our net contribution would have been very much higher still.

See also line in Mr Peretz's letter to Mr Powell of 2 July (copy attached)

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