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Prime Minister (2)

MS 15/7

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POLICY UNIT

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PRIME MINISTER

PUBLIC EXPENDITURE - HITTING THE TARGETS

You are well aware of the anxiety and determination we all share at the outset of this Parliament that the government should:

- a. set targets for public expenditure which enable us to fulfil our aspirations to reduce government borrowing, interest rates and inflation and to promote economic growth;
- b. hit those targets.

Even if the Chief Secretary's targets are the best we can agree on, the danger remains that even those can be achieved only by a series of hasty cuts exercises each year. These "July measures" always diminish the government's authority and cumulatively build up the impression that we are not in control of events.

There are two ways of ensuring that we hit the bullseye steadily each year:

- i. keeping a higher contingency margin. You have already discussed this with Nigel;
- ii. asking each department to work up a reservoir of standby savings.

In addition to the £2 billion of target savings, departments would be asked to suggest how they might save, say, the same amount again, in case the targets are not met because of lower-than-expected growth or overruns on demand-led programmes or nationalised industries' EFLs.

These standby savings could be discussed rationally and in good time - though without firm commitment - between colleagues, instead of having to be squeezed out of departments by the Chief Secretary at the last minute in the autumn bilaterals - often with disastrous consequences to the affected service and its customers.

"Ah, but Whitehall doesn't work like that", would be the answer. No, but every sensible business or family has to think ahead and make provision for the rainy day.

/We suggest that

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We suggest that you invite colleagues on Thursday:

- i. to endorse the Chief Secretary's targets;
- ii. to work up a reservoir of standby savings for 1985/86-1988/89 to be discussed in outline, along with the target savings already asked for by the Chief Secretary.

FERDINAND MOUNT

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