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PRIME MINISTER

20 November 1984

PUBLIC SPENDING

The public expenditure round contained too many fiddles in the final numbers: £500 million of extra asset sales; £750 million off the Contingency Reserve; £300 million on the total public spending permitted; and other "arrangements". There were too few directed reductions of expenditure as a result of improvements in the efficiency of managing existing programmes, or from the revision of bad policies.

We should begin planning next year's approach now. We should not regard 1985-86 spending as underwritten, where all that can happen is an inexorable series of raids on the Contingency Reserve until all that too is used up.

What can we do about policies?

It is nonsense to say that all the easy things have now been done and there can be no further cuts.

Department of Energy

* £40 million is being poured down the drain through losses and costs at BNOC: abolition would bring to an end the madness of buying oil dearly and selling it cheaply.

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* Many millions are being forgone by giving away onshore and offshore licences: these could be auctioned. Why not start this process this week with the onshore offerings?

A larger open-cast industry (eg 20 million tonnes) could bring at least an extra £100 million of profit to the NCB.

Agriculture

Capital and upland livestock grants are still too generous, the research and advisory services too well funded, and Forestry generously endowed. Another £150 million could come from here.

DTI

Regional Aid is now based on better principles, but is a very expensive "job-creating" measure. Cut funds by another £200 million.

* BSC is gobbling up £5 million a week. The coal strike is not a wholly satisfactory excuse. Tackle the underlying policy issues, and save at least £100 million a year.

* New management of BL can probably deliver £100 million more than is likely on current form.

Prune sponsorship as an activity and save at least £25 million.

DES

* Reduce the local authority HE sector. It duplicates many university courses, and is finding it very difficult to attract good students. Young people of the right age for HE are falling in numbers. Save a net £40 million. Do not go on cutting universities.

DoE

Gradually get on top of RSG to heavily subsidised authorities. Save eventually many hundreds of millions of pounds. (Nothing allowed in the totals for this.)

Deliver savings of £200 million on abolition of the Mets (more than the present all-too-modest target).

* Reduce structure planning to a very basic town and rural map with zones, and simplify planning generally. Save around £50 million.

<u>ECGD</u>

* Tame this beast with proper management. Save at least <u>£50 million</u>. This year they cost £400 million too much, as they got their sums wrong.

<u>Transport</u>

* Abolish Vehicle Excise Duty and halve the size of the Swansea operation. Save <u>£50 million</u>. Collect the revenue through an extra duty on petrol. This also stops the scope for evasion currently estimated at £175 million per annum on VED.

* Get a tighter grip on the ports, particularly the PLA, and save <u>£25 million</u>.

<u>Defence</u>

Better buying could save £400 million after allowing Defence to pocket an incentive fee of the same amount.

<u>Treasury</u>

Make this Budget a Budget which greatly simplifies personal income tax. Save <u>£50 million</u> on administration.

Scotland

Reduce total spending on Scotland to nearer the UK average for service support, and save £400 million.

Deregulation

Ask David Young to save, eg £50 millon by the second year of his deregulation drive, from reducing regulatory activities.

Administrative overheads etc

The administrative overhead and central government staffing bill of £16 billion is enormous in Government. Some of the policy areas suggested for review above would enable administrative savings to be realised. But simply encouraging 1 per cent per annum extra efficiency would deliver £160 million per annum.

Conclusion on policy areas and efficiency

Quite modest proposals, many of them in line with the central thrust of Government strategy, produce possible savings of £2,250 million. And this is without touching the largest Department of all, the DHSS. I think it is wrong to assume any savings from health that will not be ploughed back into the service: whilst enormous savings can be made, there are also many other things that need doing. There should be savings from the welfare programme, but we will have to wait and see from the reviews.

Additional spending

The Policy Unit from time to time suggests additional spending, although never without identifying equal or greater savings in other areas that could pay for the new policies. But we should not ignore new policies that require spending money.

The road programme could be expanded, and whilst it is not a strong generator of jobs in itself, acceleration of the East Coast port links, of the M40 into the Midlands, of the West country road network and of the A34 from Southampton to the Midlands would be vital elements in easing the transport of goods around the country, strengthening the fast-growing and more flexible East Coast ports, cutting business costs, and further reducing dependence on strike-vulnerable forms of transport. Planning delays have to be surmounted before you could spend any more.

Some money should be spent on a Benefits-plus system for the long-term unemployed, to price them back into work.

And special categories of disabled, like the blind, have a particularly strong case for better welfare treatment.

These and others could be easily accommodated, and money left over for tax cuts, if some of the crucial policy questions are tackled as suggested above, and if efficiency becomes a reality rather than a myth. I will be sending you a note shortly on the FMI, which could turn out to be very disappointing.

<u>What should be the next steps?</u>

If you agree with some of the logic of this note, you could:

1. Talk about the outline of it to Nigel at your next meeting.

2. Suggest to him a meeting on public expenditure options and the way they are reviewed. Willie, and possibly other members of MISC 106, could join in. It would be useful to hold the meeting before Christmas while memories are still fresh.

3. Ask Robert Armstrong to see that those policy areas above which I have starred, where you are in agreement, could be brought up to review either through Ministerial meetings or through the regular Cabinet Committee structure. Policy issues can then be discussed and savings identified well in advance of the last-minute deliberations of Star Chamber next year.

4. More life has to be breathed into the FMI: we will give you some suggestions next week.

5. The asset sales programme should be reviewed at E(A) and a new push given in those industries where delay has been the hallmark. Why not private capital in the water industry? Where is the BL plan? And the BAA?

JOHN REDWOOD