

Prime Minister

Then sets out the background
to the E(A) meeting

17 September 1984

MR TURNBULL

AT 17/9

PUBLIC EXPENDITURE

For 1984-85, we are heading for a spending overshoot of about £1 billion. Overspending by local authorities, the miners' strike, and the health service pay settlement together have bust the £2.75 billion Contingency Reserve.

Major public expenditure questions coming before the Prime Minister in the next few weeks include:

- Local authority capital at E(A) tomorrow
- Regional policy at E(A)
- The seminars on local government, health, and social benefits.

In mid-October the Chancellor will be reporting the outcome of the expenditure bilaterals.

These things need to be viewed against the sombre future prospect on public expenditure. Bids for additional expenditure range from £5 billion in 1985-86 to £8.5 billion in 1987-88. If you assume:

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1. that the Treasury only gives away the irresistible bids caused by higher inflation, unemployment etc, and fights off all the rest;
2. we cut the Contingency Reserve for next year to £3 billion;
3. and for once we deliver the nationalised industry EFLs already agreed,

then there is a gap to be covered by further cuts of approximately £2 billion in 1985-86 and in 1986-87, rising to £3.5 billion in 1987-88.

These savings have to be found - to preserve our credibility as expenditure and tax cutters, and to resume the road to lower interest rates.

The Treasury is already looking at some politically difficult options:

- £0.5 billion off housing capital expenditure
- getting rid of most of Norman Tebbit's special schemes for industrial support
- reducing capital grants for agriculture, halving R&D, and charging more for drainage and advice;

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- increases in health charges
- up to £0.75 billion off social benefits.

We should be getting rid of unnecessary subsidies to industry and agriculture, and expenditure on social benefits has to be cut back. But the client groups will moan.

If these options can't be delivered, then the fallback is across-the-board cuts. But the Treasury's fear is that colleagues will argue that these are simply the same unpalatable options reinserted through the back door. If enough Cabinet Ministers parade the bleeding stumps of programmes already cut and argue against further reductions, there is a risk that the Treasury will fail to achieve the expenditure target.

A crucial political figure is likely to be Norman Tebbit, because the public expenditure announcement is due in mid November, shortly before the flotation of BT. Conceding that public expenditure will overshoot by £1 billion or £2 billion will hardly help the sale. We hope that this will encourage him to urge reductions on colleagues.

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