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18 March 1985

Dear Robin

**BUDGET: PUBLIC EXPENDITURE**

I mentioned to Andrew Turnbull before the weekend that we were preparing a single positive speaking note about the public expenditure changes to be announced in the Budget. I enclose a copy. The Chief Secretary will be drawing on this note in his speech in the Budget debate on Wednesday 20 March and in subsequent contacts with the press. The note is in addition to the usual Budget brief which will provide standard Q and A type briefing.

Yours sincerely  
Richard Broadbent

R J BROADBENT  
PRIVATE SECRETARY

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## POSITIVE SPEAKING NOTE ON EXPENDITURE FIGURES

1 The control of public expenditure is central to the Government's continuing economic objectives:

- to defeat inflation through firm restraint on Government borrowing;

- to improve the performance of the economy and thus achieve higher growth and more jobs, by rolling back the public sector and reducing the burden of tax

2. In practice this means setting realistic and achievable plans and control figures, in line with the Government's unchanged objective of reducing the share of national income taken up by public spending.

3. The objective is being achieved. Expenditure has been falling as a proportion of GDP since 1981-82, apart from the wholly exceptional one-off costs of the coal strike. This fall is planned to continue with spending held broadly constant in real terms while the economy continues to grow.

4. And the Government has succeeded in sticking to cash limits on programmes within its direct control.

5. But it has, admittedly, been less successful in extending control over other programmes. For example:

(i) In demand-led programmes like social security, once rates and entitlements are fixed, spending depends on how many qualified applicants apply. This is a matter of forecasting, not control. But action is in hand to improve forecasting, and policy is under review to provide a simpler, more cost-effective system.

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(ii) Local authority current and capital spending is not directly controlled by central government, only influenced. But action is in hand here to make that influence more effective; eg rate-capping, tougher holdback rules on grant, and a lower prescribed proportion for capital receipts.

6 Substantial uncertainties are, however, bound to remain. Under a system of cash planning, the provision for uncertainties has to be reviewed from time to time. It is now clear, in the light of the 1984-85 outturn, that the White Paper Reserves are unlikely to be adequate. So they are being increased to make quite sure they are adequate to cope with unexpected developments.

7. This does not mean that the expenditure objective has been changed; progress has been made and will continue. Plans for individual programmes have also not been changed.

8. This does not weaken cash planning, or the detailed controls on individual programmes. It demonstrates the government's determination to budget on a realistic and prudent basis, and to ensure that spending is held within the planned levels.

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