

NBPM
AT 2013

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23 March 1984
Policy Unit

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PRIME MINISTER

Keith Joseph's letter suggesting a meeting to discuss public expenditure priorities has some merit.

The best way of carrying this out would be to hold a seminar at Chequers in July for all Cabinet colleagues, for a discussion concerning public expenditure priorities. There would need to be firm guidelines:

1. The existing published public expenditure limits would not be questioned. All discussion of priorities would take place within the already agreed framework for public expenditure control.
2. No Cabinet member would be able to argue the case for his own Department's budget.
3. There should be a common briefing paper setting out the basic facts concerning public spending totals, with some analysis of this expenditure against stated Government policy and Manifesto aims.

It should also be made clear that this meeting in no way pre-empted the usual PESC round. In the event of the meeting establishing clear priorities for increases and reductions, these would then form the basis for the subsequent detailed negotiations between Peter Rees and the individual spending departments. In the event of there being no clear results of a balanced nature, then PESC would continue as before.

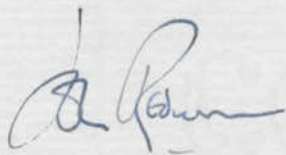
There are two other options which you could consider in response to Keith's paper. The first would be to hold a formal Cabinet on the subject: this seems undesirable, as minuted Cabinet decisions would give a degree of formality which could pre-empt the PESC round, whilst it would be more difficult to have a no-holds-barred discussion based on a sensible and politically-informed brief.

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The other option would be to invite Keith in and explain to him the present programme initiated by the Treasury of reviewing six major areas of public expenditure with a view to achieving reductions, and to enlist his support in this softly-softly approach.

Of the three options, we recommend the July seminar at Chequers. If you are worried about this miscarrying, then the option of a private conversation with Keith would seem the second best solution.

We have strong reservations about Keith's request for an extra £300 million of educational expenditure. There is plenty of scope to make compensating reductions in the education budget, particularly in higher education where there will shortly be considerable over-provision due to falling student numbers.



JOHN REDWOOD