

PUBLIC EXPENDITURE PRIORITIES

Sir Keith Joseph's minute of 21 March makes two suggestions:

(i) a bid for £300 million of additional resources to finance a performance-linked pay structure for teachers and to improve in-service training;

(ii) a discussion between Ministers on public expenditure priorities which would replace or reinforce the "options for reductions" which are a normal feature of the Public Expenditure Survey. The aim would be to identify substantial options for savings which would allow finance to be found for initiatives such as (i) above.

On (i) above, the correct response is to ask Sir Keith to discuss the proposal with the Chief Secretary, as would be done with any proposal for additional expenditure. The Policy Unit have strong reservations about this bid. They believe there is scope for making compensating reductions in the education budget, particularly in higher education where there will shortly be considerable over-provision due to falling student numbers. You have also doubts about paying teachers more to do what they should be doing anyway.

On (ii) above a Ministerial discussion of priorities should, in principle, be a good thing. A frequent criticism of the present public expenditure system is that it works incrementally, adding a bit here and removing a bit there. A wider discussion ought to improve the quality of decision-making.

Nevertheless, both John Redwood and I have reservations about the proposal and doubts as to what it would achieve. First, it could degenerate into a bidding session, each Minister pushing his own programme and making unrealistic proposals about savings in colleagues' programmes. Secondly, if divorced from the actual figures around which the normal bilaterals are conducted, the discussion could be too vague to be useful.

There are three options:

- (i) you could hold a formal Cabinet meeting on the subject. This seems undesirable as minuted Cabinet discussions would give a degree of formality which could pre-empt the PES round, and would preclude the kind of 'no holds barred' discussion which is being sought.
- (ii) you could hold a Seminar outside the regular course of business, either at 10 Downing Street on Friday or at Chequers. In order to prevent the discussion degenerating on the lines suggested above, you could suggest the following guidelines:

- (a) The existing public expenditure limits would not be questioned. All discussions of priorities would take place within the already agreed framework for public expenditure control.
- (b) No Cabinet member would be able to argue the case for his own Department's budgets and any proposals for increased expenditure should be matched by proposals for savings.

The documentation would be very simple, comprising the Green Paper on Longterm Public Expenditure and a common briefing paper - Policy Unit would be happy to produce this - setting out the basic facts on the changing structure of public expenditure, with some analysis of this against stated Government policy and Manifesto aims.

It would be important to co-ordinate such a Seminar with the PES timetable. One possibility is to have a Seminar at Chequers in September. I understand the Treasury would be against this as it is too close to the start of the expenditure bilaterals and Ministers would be coming along heavily briefed by their officials to defend their programmes. An alternative would be a Friday morning here before the Economic Cabinet takes place in July, and before Ministers get bogged down in the details of the bilaterals.

- (iii) You could invite Sir Keith in with Treasury Ministers to explain to him the present programme initiated by the Treasury of reviewing major areas of public expenditure with a view to achieving reductions and to enlist his support in this lower profile approach. (The areas the Treasury are reviewing are / agriculture,

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agriculture, territorial programmes, urban programmes, social security, family practitioner services and defence procurement).

✓ You might like to discuss this with the Chancellor at a bilateral on Wednesday. Of the three options, the third is likely to achieve as much as the second with less risk of going wrong. You may feel, however, that it would be a good thing to bring colleagues in more widely and adopt the second option.

AT

Andrew Turnbull
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