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File 20

PRIME MINISTER

27 June 1984

PUBLIC EXPENDITURE

Peter Rees is right to suggest:

1. More rigorous manpower targets. Between 1983 and 1987, there will only be a reduction of 200 jobs in the total central government machine as a result of changing functions.

During the Public Expenditure Survey negotiations, it would be helpful to stress the need for better results on manpower, and even to introduce lower targets for each department, which they have to meet or show good reason why they cannot.

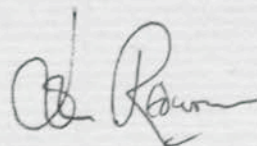
2. Peter Rees is right to draw attention to the need to make a sharp reduction in the bids from the nationalised industry area, and to say that the main part of this correction should take place through reducing costs. There is also, as he points out, considerable scope for squeezing working capital, selling assets and cutting out loss-making new investment programmes. We should avoid returning to using price increases in the nationalised industries as a surrogate method of taxation. However, it would be reasonable to encourage price increases in line

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with inflation, and we could sell the policy on the basis that the nationalised industries were holding their real price levels.

3. Contracting-out is a productive area for investigation. The paper as drafted does not take us any further forward in terms of delivering action. It is vital that the new Griffiths reorganisation of the Health Service treats this problem seriously. In order to encourage contracting-out in central government, Peter Rees might produce a paper on the areas where it could be best pursued, the advantages that would result, and the way in which it can be built in to the public expenditure exercise.
  
4. Local authorities. Local authority expenditure is still a mess. Leaving it to E(LA) may not produce the desired results, as there is an in-built majority against the Treasury view, and a lack of grip on the financial complexities involved. Should it not be brought to Cabinet as soon as possible, with the Treasury producing an incisive paper on what is needed to control local authority expenditure, and what will happen to colleagues' departmental budgets if the local authority pressures are not abated?



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