

PRIME MINISTER

11 January 1985

PUBLIC EXPENDITURE

The meeting could look forward, not rake over the ashes.

1. Making the present figures stick

There are several threats to the agreed figures for 1985-86.

a. There could be further political pressures to undo  
tough decisions when the Public Expenditure White Paper  
 is published at the end of January. Cutting  
expenditure on home improvement grants in 1985-86, the  
health charges, and the sustainability of the zero real  
growth in the defence programme in the later years may  
 attract adverse comment. The spending Ministers must  
explain their case to back-benchers in advance of the  
publication of the White Paper.

b. An important change was introduced in 1984 when all  
changes in public expenditure became claims on the  
Reserve, rather than just changes resulting from policy  
 decisions. The Reserve has been breached this year.  
What are the prospects for holding the £3 billion  
Reserve for 1985-86? If we do, the Reserve will have  
 crumbled in our hands as an instrument of expenditure  
 discipline.

- c. If interest rates are slightly higher, or unemployment rises, then the export credit budget or the social security budget will rise further. Increased take-up of benefits is another problem. It is important that the public expenditure figures for central government don't become works of fiction, as the local authority figures already are.

All this shows the need for a firm line in dealing with any expenditure pressures during 1985-86. The employment measures which need extra cash have to be financed by offsetting savings elsewhere, or from the overall budget arithmetic and the welfare reviews.

## 2. The next expenditure round

The objective for the 1985 round should be to stick to the figures agreed this time. This year was touch and go. We missed the original expenditure target of £131.6bn by £0.4bn. And that was after finding an extra £500 million of asset sales, £400 million of extra council house receipts, and some pretty helpful economic assumptions. The Treasury's list of suggested Policy Reviews at Annex 1 is fine. Could we not add:

1. Delivery of savings from defence procurement under the Levene initiative, to be shared between MOD and Treasury.

2. Abolition of BNOC.
3. Auctioning North Sea licences as a matter of course.
4. Reduction in free agricultural advisory services.
5. A review of foreign currency exposures and costs of current protection.
6. The PSA, procurement of supplies and size of the public sector estate.
7. Simplifying planning.

### 3. Handling

Changes in procedures won't make hard decisions any less hard. But there are ideas you might wish to consider.

*What did it show?*

First, very little use was made of FMI material during the public expenditure negotiations. It was difficult for the Chief Secretary or colleagues on MISC 106 to question whether entire functions carried out by departments should exist at all, or how well they were being performed.

Shouldn't we try to build FMI material more into expenditure negotiations? The Chief Secretary and Star Chamber should have clear and concise management figures showing cost and effectiveness of programmes

The idea of reviews of capital expenditure and stock holdings (para. 23) is a good one, as is the manpower planning and administrative overhead control (para. 24).

The idea of an assessment of public expenditure options in the summer is not very helpful. The trouble is that spending Ministers are rather like schoolboys who won't tell on each other to teacher. The risk is that instead of a clear endorsement of the public expenditure total in July, the Treasury is weakened by having a qualified endorsement with lots of conditions about specific programmes being left untouched. The ground rules for any such discussion would have to be very tough.



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