

13 June 1985

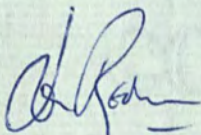
PRIME MINISTER

I would like to raise the following with
you tomorrow:

Public Expenditure

The prospects for Economic Policy
for the next 3 years

Follow-up work on local government
finance.



JOHN REDWOOD

13 June 1985

PRIME MINISTER

PUBLIC EXPENDITURE

In previous rounds, the pattern has been a series of agonising bilaterals between the Treasury and spending departments. Leak and counter-leak has ensured the maximum damage to the Government's case, and has underwritten the Government's reputation for cutting everything in sight. There is a tendency for Ministers to bring forward the politically most sensitive areas to cut, and for the Treasury in desperation to agree to some of them.

More damage follows from announcing, over a three month period, all the bad news: prescription charges, dental charges, local authority grants, other grant reductions, water rates, etc. Then come the supplementary estimates; the pay assumption; interest rates; rate increases in Scotland; or nationalised industry losses which have been underestimated. So the totals are not delivered, the cuts are not made, real expenditure goes up, and yet the Government has a reputation for endless cutting.

This agony might be worthwhile if it achieved a reshaping of the pattern of government expenditure: but policy objectives are largely realised by spending more in the target areas, seldom less in the undesirable ones.

Is there a better way?

There may not be a better way, given the way in which Ministers get most of their briefing from strongly placed departments keen to voice a departmental line without reference to the wider political interest.

However, you could try a new approach. Why not have just one meeting at Cabinet level to settle the totals as at present, and to divide them into aggregate blocks of expenditure allocated department by department? Then tell each Minister to deliver his total as best he can.

Ministers will still try and bring forward some bleeding stumps: these must be ignored. If necessary, the first Minister to take this line should be allowed to carry his threatened cut through. Others should then think twice.

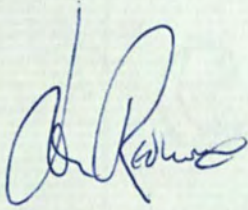
Good FMI systems should eliminate most budgetary surprises during the year. Why then so many supplementary bids? The new approach fixes the total for a department. Individual Ministers should decide how they spend it: any supplementary bids are therefore unnecessary. If there is a genuine problem, then a Cabinet star chamber should review the whole of a department's programme and the budgeting record for the year, before offering any new money.

More blocks
budgets may or
may not be a
good idea, but
the method by
which they
are set is
not adequately
spelt out. Is
this a recipe for
freezing the pattern of
expenditure according
to current priorities.

The Treasury may object to this, seeing it as a relaxation of the grip of their expenditure division over particular public spending. But given that we have not delivered the totals in recent years, and given the political damage we have incurred, is it not time to try something else - at least for this year? We cannot afford another damaging public expenditure round where both the politics are bad and the totals are not delivered. It is sometimes a good idea

for the Treasury to change the rules.

I agree. ✓
Ministers are
increasingly fighting
their case at higher
levels leaving them
Chairmen with too
much to do.



JOHN REDWOOD