

PRIME MINISTER

10 July 1985

PUBLIC EXPENDITUREThe record so far

Public expenditure (including debt interest) has risen by about £16 billion from £133 billion in 1978-79 to £149 billion in 1984-85 (all figures in 1984-85 prices). That is a real increase of one-eighth (12.7%) since the Government came to power. As a percentage of GDP, public expenditure has risen from just over 43% to almost 46% in the same period. So the tax burden has risen from 34½% of GDP in 1978-79 to 39% this year (excluding the North Sea).

The 1979 Manifesto stated:

"Any future government which sets out honestly to reduce inflation and taxation will have to make substantial economies, and there should be no doubt about our intention to do so. We do not pretend that every saving can be made without change or complaint; but if the Government does not economise the sacrifices required of ordinary people will be all the greater."

And the 1983 Manifesto was equally clear:

"We shall maintain firm control of public spending and borrowing. If Government borrows too much, interest rates rise, and so do mortgage payments. Less spending

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by Government leaves more room to reduce taxes on families and businesses."

Tactics

The Chancellor has found more money for departmental programmes within the same base-line for 1986-87 by:

- Reducing the Contingency Reserve from £6 billion to £5 billion.

- Increasing asset sales from £2.25 billion to £4.5 billion.

There was a case for a tougher stance at this stage. The Treasury now has no further fallback position. But the Chancellor's tactical judgment was that he needed to reveal his hand in order to get colleagues' endorsement of the total (especially as Peter Walker can point to the large extra receipts from BGC). If colleagues are reluctant to endorse the base-line, you could point out that the Chancellor has moved a long way towards them.

The major targets

It is probably best to avoid picking on specific departments tomorrow. But there are some obvious themes for saving money which most colleagues could endorse:

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- The administrative overhead is up by more than 9% in real terms since 1979. Running costs total £14 billion this year, and departments want £15 billion next year. That is 10% of all public spending. This is something the Chancellor is rightly gunning for.

- Under-used public sector assets. We need to attack the large land-hoarders - British Rail, PSA, the Water Boards - and sell off unused NHS accommodation. The Treasury paper refers to this.

- Government purchasing. We spent £7.6 billion on non-warlike goods and services in 1982. Too often, the public sector is a soft touch. A 5% cut in costs would save £400 million. Stocks worth £5 billion could be significantly reduced.

- Local authorities. The Audit Commission believes that something of the order of £500 million could be saved by the end of the Survey period.

- The nationalised industries. Excluding coal, the Treasury are aiming for a £500 million saving in 1986-87. In relation to total costs, that should be readily achievable.

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Presentation

The Government has increased spending in some areas (health, education) and cut it in others (housing, nationalised industries). These choices may be good politics, but it is impossible to get the message across if all Ministers leak to the press their heroic resistance to mean-minded Treasury cuts. We don't want a parade of bleeding stumps across the front pages of all the newspapers. And the device of using Parliamentary Private Secretaries to leak the reports of Ministers' discussions - such as Chequers last month - is absolutely unacceptable.

Could we use the big increase in asset sales to present our achievements in infrastructure spending? How about linking particular projects (eg new roads, hospitals and schools) with receipts from asset sales? This would be particularly effective within programmes (selling BR land to buy rolling stock, unused nurses' accommodation to buy hospitals). We might be selling the family silver, but we are spending the proceeds on improving the home. Indeed, our capital spending is much greater than receipts from asset sales.

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