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Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
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Dear David

2 October 1985

3 OCTOBER CABINET

... I enclose, as discussed at various points earlier today, an opening speaking note for the Prime Minister's use tomorrow; a note on press handling arrangements; and a summary brief on running costs. The Chief Secretary has seen and is content with all this material.

Lawrence
Richard

R J BROADBENT
Private Secretary

SECRET

To open the discussion

SPEAKING NOTE FOR THE PRIME MINISTER

Restraint of public expenditure is an essential part of our strategy for a more enterprising society and a more productive economy. By holding back expenditure in a growing economy we will be able to reduce the burden of taxation. By lowering taxes we can stimulate initiative, ease the poverty and unemployment traps, reduce the cost of employing labour and moderate pay demands. In short, a low tax economy will work better and generate more jobs.

2. Frankly our record in restraining public expenditure is unsatisfactory. It has increased steadily in real terms and this year will be about 9% higher than when we took office. It will be about 3% higher as a proportion of GDP. Given that in our first Parliament we had to give priority to bringing public borrowing under control the result has been that taxes as a proportion of GDP have risen since we took office (from 33.9% to 39.1% in 1984-85).

3. Last July we set ourselves planning totals which would hold public expenditure broadly constant in real terms. We must stick to that objective if we are to deliver lower taxes. We must also demonstrate that this Government is capable of setting itself a budget and taking the decisions necessary to live within it.

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I must remind you that the planning totals were raised by £2 billion in the last Budget. We cannot allow that to happen again.

4 Although the Chief Secretary has scrutinised all departmental programmes with great care, it is extremely disappointing that there are additional bids still outstanding of £3 billion in 1986-87, rising to over £5 billion in 1988-89. We must be prepared to exercise priorities. I hope, therefore, that any Ministers who have not yet reached agreement will look again at their programmes to see whether their bids can be dropped or scaled down, and to identify what offsetting savings can be found. Investigations into Defence Procurement and the health service and the findings of the Audit Commission and the Efficiency Unit have all shown that the scope for greater efficiency savings is enormous.

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PRESS HANDLING AFTER PUBLIC EXPENDITURE CABINET

Objectives

- (i) To reaffirm the Government's determination to stick to its objectives on public expenditure.
- (ii) To counter the view that the state of the Survey is worse than previously experience at this stage.
- (iii) To discourage the speculation that the gaps are huge and unbridgeable, or that massive cuts in programmes are in prospect.
- (iv) To set out the procedure for the next stage of the Survey.

Normally after the Public Expenditure Cabinet, Bernard Ingham has released a statement to the press. There are no Lobby meetings (they are in Bournemouth) but he is likely to be questioned at subsequent Lobby meetings and it is important that he should not be drawn into discussion of the outstanding issues. A possible form of words is set out below together with responses to likely questions.

Press Statement

"The Cabinet discussed the Chief Secretary's report on the Public Expenditure Survey. The importance of holding to the Government's objectives for public expenditure and taxation was reaffirmed and it was agreed that programmes should be settled at levels which were consistent with those objectives. As in previous years, a smaller group of Ministers under the chairmanship of the Lord President is being established to examine outstanding differences on programmes and to make recommendations on how they should be resolved."

Q and A Briefing

(i) Is there still a gap of several £ billion?

Not going to be drawn into detailed discussion on Survey. There will always be reports of a large gap at this stage. These simply represent the additional bids departments are making rather than a realistic projection of the level at which they expect their programmes to be settled.

(ii) Can the planning totals still be achieved?

The Government remains determined not only to set the public expenditure totals at levels which can be afforded, as it did last July, but to take the decisions necessary to achieve those objectives.

(iii) Will the Treasury increase asset sales or reduce the Reserve to bridge the gap?

Cannot provide details on the arithmetic of the Public Expenditure Survey. Wait for the Autumn Statement.

(iv) Which programmes will go to the Star Chamber?

This is not finally settled. On a number of programmes discussions are continuing and agreement may be reached before the Star Chamber starts work after the Party Conference.

(v) Massive cuts in prospect?

No. The Government has set out a path for public expenditure broadly constant in real terms. The purpose of the Survey is not to cut expenditure in aggregate but to decide the allocation of resources between programmes. For the most part so-called cuts represent no more than the rejection of departments' additional bids.

(vi) Who is on Star Chamber?

Not yet settled.

(vii) When will the Autumn Statement be published?

Probably around the middle of November.

