

Tms 21 JUL 1983

Public spending: 2

Taking the strain for annual tug of war

Public spending, like an ocean liner, takes an inordinate length of time to change course after the wheel has been turned.

The demand by Mr Nigel Lawson, Chancellor of the Exchequer, for immediate cuts of £500m in departmental programmes to bring public spending closer to plan this year, small though the sum may be in comparison with total spending of £119,600m, has thus caused much anguish as departments search for quick reductions.

The anguish is made more acute because the cuts are falling, not on the over-spending programmes themselves, which are demand-determined and hard to trim in the short-term, but on cash-limited programmes that are already tightly budgeted.

Treasury projections suggest that public spending may be racing about £3,000m ahead of plans but Mr Lawson is said to regard his July measures as adequate.

It would be virtually impossible for departments to find further savings this year, especially by the autumn when the financial year will be half way through. But Mr Lawson will also be hoping that his

Today's Cabinet meeting marks the start of the annual battle between the Treasury and spending ministries. For Mr Peter Rees (right), Chief Secretary to the Treasury, it is likely to prove unusually gruelling. But, FRANCES WILLIAMS reports, the Treasury will probably achieve the cuts it wants.



preemptive strike will have prompted a search for economies from officials who may have taken too relaxed a view of spending discipline, making further action unnecessary.

The Chancellor had a second motive however. His cuts package was a warning shot across the bows of spending ministers in the run-up to the annual public spending review of plans for next year and beyond.

Mr Lawson is losing no opportunity to impress on his Cabinet colleagues that without a tight rein on public spending there will be no room for significant tax cuts over the life of this Parliament.

Departments have put in bids

totalling £5,000m more than the £126,400m envisaged for next year in February's public spending White Paper, which would have allowed for spending to stand still in real terms.

Mr Lawson, backed by the Prime Minister, will insist on sticking to published plans when the Cabinet meets to discuss the issue today.

The Government cannot rely on extra revenues boosted by economic recovery to come to the rescue, he will tell ministers. Other factors, such as lower inflation or a higher pound which reduces the sterling value of North Sea oil taxes, could equally well depress revenues, he will argue, implying more spending cuts.

This is all part of the traditional battle of words before the public spending round begins in earnest. The Chancellor will not in fact be demanding a reduction in published plans. He will instead ask ministers to agree to leave intact next year's £3,000m contingency reserve.

That would normally be reduced to accommodate some essential extra bids. By leaving it untouched Mr Lawson gives himself some leeway to cut taxes in the next Budget or to keep state borrowing on track without raising taxes if revenues are less buoyant than expected.

But that means a gruelling slog ahead for Mr Peter Rees, the Chief Secretary to the Treasury, when he begins the blow-by-blow negotiations with individual departments in September.

Some of the £5,000m excess will be lost without much ado as departments withdraw bids for new programmes and reduce the padding on others. But a hard core of necessary spending is certain to remain. Without the cushion of the contingency reserve, extra spending in one area must be financed by painful cuts in others.

Tomorrow: Defence spending