

S E C R E T

FROM: CHIEF SECRETARY *At*

DATE: 29 JULY 1983



Prime Minister

MCS 24/1

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PRIME MINISTER

PUBLIC EXPENDITURE: THE LONGER TERM

At Cabinet on 21 July, it was agreed that you would consider how discussion of longer-term public expenditure prospects could best be arranged.

2. The Chancellor and I see this problem as falling into two parts. The more immediate is the Public Expenditure Survey period (up to 1986-87) and the remaining years of this Parliament up to 1988-89. This minute only deals with that aspect. But as you have pointed out there are also longer-term questions which carry over into the next Parliament. We want to stimulate public debate on these questions as you have indicated and the Chancellor will be sending you a further minute with some suggestions on that.

3. My immediate concern is the handling of the bilaterals with spending colleagues. I shall need to start these early in September, and before each I must send a letter to the spending Minister setting out the scale of savings I have to ask him to find in his programme.

4. In these discussions, my first priority of course, must be to get back to the White Paper total for the coming year 1984-85. But I also need to agree figures consistent with our objectives for the two following years, (1985-86 and 1986-87), to be published in the next White Paper. It is important that the study of the longer term problems, up to and beyond the life of this Parliament, is not used as an excuse for avoiding hard decisions about the Survey period.

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5. But if we are to change the trend of public expenditure and make progress towards our medium-term tax objective, it is vitally important that Ministers and their departments should look at radical options. Some of these will need legislation, and most of the bigger changes will take time to take effect.

6. Too often, in previous Surveys, totals for the coming years have been kept down by short-term expedients. Departments have accepted low figures for later years, in the knowledge that these are "provisional" so that they can hope to argue for increases in the next Survey. Departments then continue to plan internally for a higher path of spending, and never face up to the difficult medium-term choices, even if they are subjected to a cash squeeze.

7. Hence I am very concerned that this time, at the start of a new Parliament, Ministers and their departments should be required to look further ahead, and should plan their programmes on the basis that expenditure constraint is not a temporary interruption in an upward trend, but will continue throughout this Parliament and beyond.

8. You have already asked Cabinet colleagues to review the scope for fundamental policy changes in their programmes. In line with this, I suggest that in my preliminary letter to each spending Minister before the bilaterals, I should set out the proposals which are intended to hold his programme to the required levels in the Survey years, and that I should go on to say that I also want to consider with him the broad implications of such proposals for the later years 1987-88 and 1988-89. For example, in relation to defence, I would argue not only that the NATO 3% growth commitment should be suspended for the single year 1986-87; I would also seek agreement that the resultant lower path for defence spending should continue over the two following years.

9. This approach would be greatly reinforced if you would be willing to send a minute to colleagues, on the lines of the

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... attached draft, making clear to them that the bilaterals should cover the medium-term prospects for their programmes, and that you are expecting me to look ahead to 1988-89 when I report back to Cabinet in late October.



PETER REES
29 JULY 1983

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