

cc: Mr Culpin (Treasury)
All Press Officers

PRIME MINISTER

*You have already agreed with the Chancellor that
the para Bernard dislike should be taken out.*

PRESS HANDLING OF CABINET

AT 10/7

1. Please see the attached minute from the Chancellor's private office to Andrew Turnbull.

2. I have no problems with paragraph X - ie repeating last year's formula, but I would suggest for ease of understanding we should add on to the fourth line the following:

"The total for the new year 1988-89 - ie the new year which comes into the forward planning as the programme is rolled forward - should be broadly at 1987-88 level (in real terms)."

3. I am, however, very concerned about paragraph Y on proceeds of privatisation (of Britoil, B/Airways (we hope), British Gas etc).

4. Para Y as set out by the Treasury will fuel stories that the Cabinet yesterday:

i. reaffirmed its determination to stick to its medium term financial strategy, having increased its contingency reserve by £2m at the last budget to cope with increased costs;

ii. then, because proceeds of privatisation are regarded as offsetting public expenditure, agreed to the additional £2bn which is expected from these being allocated to additional Government spending;

iii. so what the Government is doing, in spite of all its protestations about not being for turning, is now U-turning;

iv. the extent of the U-turn is something like £4bn - £2bn increase on contingency and £2bn relaxation on asset sales;

v. a £4bn boost in one year is more than even the Opposition parties would dare to advocate;

vi. so what this Government is doing is kidding you it is keeping public expenditure under control while, at the same time, it is pumping in more on contingency and spending asset sales (instead of cutting taxes);

vii. this Government is really in the business of U-turns.

5. The above states the extreme scenario. You can't stand that appearing in Friday's newspapers. You really have to present a rigorous face to the world.

6. The question is how? I suggest the following:

i. state the outcome as para X;

ii. reaffirm the Government's commitment to the control of public expenditure;

iii. emphasise that there is a ^{scope for increased value} ~~very cold wind blowing~~ against ~~increases over and above published programmes;~~

for money for which the Government as the Budget Commission or the Treasury have been shown

iv. reiterate the Government's commitment to the reduction of direct taxation; and

v. note the uncertainty of the proceeds of privatisation, given B/Airways problems.

I would avoid being too specific.

Conclusion

7. I hope you will agree to my speaking on the lines of para X of the attached Treasury letter, plus para 6 immediately above.

B Ingham

BERNARD INGHAM

10 July 1985