



bcc : Mr Ingham

## 10 DOWNING STREET

*From the Principal Private Secretary*

10 July 1985

The Prime Minister discussed with the Chancellor this evening the handling of tomorrow's Cabinet meeting and the press line to be taken after it.

On the latter aspect, the Prime Minister endorsed the main formula proposed in your letter of 9 July to Andrew Turnbull. But the Prime Minister was unhappy about going as far as the further response suggested for use if necessary in the last paragraph of your letter, lest this might lead to stories that the Government was relaxing on control of programmes at a time when mischief would be made out of such stories. The Prime Minister and the Chancellor therefore agreed that spokesmen should avoid being drawn into any discussion about the implications of the agreed aggregates of expenditure for programmes: they should confine themselves to the line that the Government's decision at this stage was simply about the aggregates of expenditure and the constituent parts remained to be worked out and negotiated during the summer and autumn.

The Chancellor also mentioned his plans to change the presentation of the autumn statement, so as to omit up-to-date targets of the PSBR and an estimate of the fiscal adjustment. He would propose to defend this by pointing out the unreliability of such an estimate as a basis for discussion of tax changes. The Prime Minister said that she fully supported the Chancellor's proposal.

Mrs. Rachel Lomax,  
HM Treasury.

CONFIDENTIAL

SRW

SPEAKING NOTE FOR PUBLIC EXPENDITURE CABINET

mf

Restraint of public expenditure lay at the heart of our manifesto, and lies at the heart of our financial strategy. That restraint is essential not just to create room for reducing the burden of tax but also because we, as a Government, are committed to reducing the extent of state intervention.

Reduction of taxation which leaves people with the decision to spend and save as they wish is an essential element in developing a more responsible and enterprising society.

As we all know, controlling public expenditure is the most testing of all the tasks which a Government faces. It is a test both of its strength and of its coherence.

I urge Cabinet colleagues to reaffirm their commitment to the control of public expenditure; and to confirm that aggregate expenditure will be held to the established plans. I remind colleagues that, in his budget, the Chancellor was forced to add £2 billion to the Contingency Reserve in each year, and hence to the planning totals.

I do not believe we can afford to give further ground today. Our critics are seeking to portray us as a Government in retreat. We have to demonstrate convincingly that we still have confidence in our beliefs and that we are sticking to our plans, for if we do not do that, we will be in retreat.

Adherence to the established plans will, I know, put strong pressure on many programmes. But, as the Audit Commission demonstrated to us last week in local government, and as the Efficiency Unit is showing for central government, there is substantial scope for improving the service which our programmes deliver, without adding substantially to expenditure.

though we are not deciding these today

→  
→

As Ministers, it is our task to see that the programmes for which we are responsible are made more effective. What we want is not more expenditure but better expenditure.