

PRIME MINISTER

18 October 1985

You held a good Seminar at Chequers before the Recess on controlling public spending. The main conclusions for reductions were:

Running Costs Treasury/Scotland obtained general agreement to a big drive for more value for money and tighter control.

Agriculture General agreement to cut subsidy in view of past CAP growth.

Defence General agreement to curb this programme, and to reduce R&D expenditure on defence.

DTI No more.

Law and Order General agreement to stop its growth.

The outcomes so far contrast starkly.

Running Costs Likely to rise by 7½% nominal, ie more than £1bn. Baseline envisaged 3.2% increase. So there is an overrun in excess of £550m.

Agriculture +£332m over baseline.
(inc. IBAP/AFF)

Defence Undecided (Treasury: -£300m; Dept: +£422m).

DTI (inc. ECGD) +£194m over baseline

Home Office +£43m

The argument over law and order has changed in view of the riots. However, on three of the four other programmes

singled out for reduction, we have an agreed overrun of around £1,100m! Defence is still to settle.

These results are all explicable - higher pay, higher interest charges, bigger food surpluses, etc. But they call into question whether there is any management control in any of these areas, and whether there has been sufficient search for offsetting savings.

Shouldn't you reopen the question of running costs, if nothing else, in view of this result? Options include:

- i. Implementing the £200m savings identified by scrutinies but not yet achieved.
- ii. Completing the present management targets exercise by April 1986 and ensuring delivery.
- iii. Converting staff inspections into running cost inspections, and bringing in outside consultants if departments still fail to meet these targets.
- iv. Suspending recruitment next year, saving c. ^{200m} ~~£500m~~ (except in Customs, Inland Revenue etc, where manpower brings in net revenue); and expanding Special Employment Measures, which will have the same employment effects as civil service recruitment at far lower cost.
- v. Setting tougher management targets for 1988.

You are meeting Robin Ibbs and Ian Beesley on 6 November, and could discuss these issues with them then. But to achieve real results you would need a meeting with senior Ministers soon.

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