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FROM: CHIEF SECRETARY
DATE: 18 March 1986

Prime Minister 2

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PRIME MINISTER

PUBLIC EXPENDITURE: 1985-86 OUTTURN

The FSBR published today shows that we are expecting the outturn for the public expenditure planning total in 1985-86 to be £133.9 billion. This figure is slightly below the last Budget's planning total of £134.2 billion.

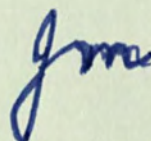
2. The major part of the estimated underspend of £0.3 billion represents an allowance for slippage to 1986-87 of some back pay due to teachers following their 1985-86 pay settlement; and there is still uncertainty about the outturn, particularly in relation to local authority expenditure. But if our estimate is validated, it will represent an important achievement, being the first time since 1982-83 that the planning total has not been exceeded in the course of the year. Not only is this achievement important in itself, in helping to keep the PSBR this year within the figure in last year's Budget; it will enhance the credibility of our expenditure plans for future years and our macro-economic strategy generally.

3. This welcome outcome has meant some difficult decisions. It has required us to keep firmly and strictly to existing cash limits and other controls; and colleagues have also played their part by avoiding overspends or taking action to offset potential claims on the Reserve. I am most grateful for everyone's co-operation, particularly following my minute to you of last October which warned of the prospect of an overspend.

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4. It is I am afraid already clear that 1986-87 will probably be another difficult year. But I hope, with the same cooperation of colleagues from the outset, that we will again be able to register an outturn within plans.

5. I am copying this minute to other members of the Cabinet and to Sir Robert Armstrong.



JOHN MacGREGOR

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