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MSPM

Dear John,

BUDGETING IN GOVERNMENT DEPARTMENTS

You sent me a copy of your minute of 20th March 1986 to the Prime Minister together with the accompanying executive summary of the Multi-Departmental Review of Budgeting.

I am glad to note that, as the next step, the report is to be discussed with Permanent Secretaries. This will, of course, provide an opportunity for more detailed consideration of your four principles but perhaps I could just make one or two general points at this stage. In the first place, I very much welcome your acknowledgement that the Central Departments cannot prescribe precisely what is right for every situation. While the general thrust of our FMI development programme is in accord with the thinking underlying the four principles, I consider it important that departments should be free to interpret the

The Rt Hon John MacGregor OBE MP



principles in the light of their own particular needs and circumstances. To take one example, we fully recognise the need for budgets to figure in some form of planning cycle, but we would regard linkage with our own internal Long Term Costing process as a more immediate, and indeed realistic, objective than linkage with the PES process. Secondly, I assume that you would accept that the formulation of detailed plans must take account of the resource implications of any proposed new measures. I am aware that a great deal of effort is already being put into the current programme of work, which by any standards is extremely demanding in terms of both its scope and complexity; and all this at a time when civilian numbers are continuing to reduce. On the face of it, the further developments you are envisaging could add significantly to the workload and I think we would need to look very carefully at our order of priorities. This presumably is one of the aspects which you had in mind in acknowledging that there would inevitably be differences in timetables.

You make the point that the same principles and the changes that flow from them will need to be applied to programme expenditure. Our Executive Responsibility Budget system, which applies to a wide variety of executive activities, is specifically designed to cover such expenditure.



I note that you intend to publish the shorter version of the report and I see no objection to this.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues, other Ministers in charge of departments and to Sir Robert Armstrong and Sir Robin Ibbs.

Yours truly,
George

George Younger