



FROM: CHIEF SECRETARY  
DATE: 11 September 1984

PRIME MINISTER

**PUBLIC EXPENDITURE IN 1984-85**

I attach a minute to you, copied to colleagues concerned, about the substantial overspend we face on local authority capital expenditure in spite of the curbs announced last July. My minute proposes that local authorities should be asked not to enter into any further commitments for the rest of the financial year. This is against the background of the prospect that the Public Expenditure Reserve will be substantially overspent; I thought I should let you know the latest position in more detail.

2 When we were reviewing the position last July we were expecting an overspend of some £500 million. This figure has risen substantially. Three main factors are involved:

- i the prospective outturn on local authority capital; we suspected in July that the cash limit would be overspent and allowed £250 million in our assessment. But the new returns from local authorities mean we must add a further £250 million;
- ii the continuation of the miners' strike; as you know each week adds about £25 million to public expenditure;
- iii increases in interest rates which unavoidably affect some programmes, such as housing subsidies and export credit interest support.



3 The current position is being reviewed in detail by Treasury officials, but we must assume that we face a likely overspend of no less than £1 billion, even if the strike ends this month. Although less than 1% of total public expenditure, there is no doubt that a figure of this magnitude would be damaging to the credibility of the Government. So far we have resisted pressure to acknowledge such an overspend publicly, accepting only that the position is tight. But it will be difficult to avoid revealing the latest estimate at the time of the Autumn Statement in mid-November, a particularly sensitive time because of the importance of establishing market sentiment in the run up to the BT flotation. Of course the markets will be most concerned about the PSBR as a whole, and our assessment over the Summer was that the PSBR for the current year should not be much out of line with the Budget forecast. Nonetheless we must take action in those areas open to us to keep down the prospective overspend, and to indicate a continued determination not to see our plans exceeded. Hence my proposal in the attached minute.

4 As you will be aware, the other area where we might take action is an early increase in electricity prices, to shift some of the cost of the coal strike from taxpayer to electricity consumer. I am conscious of the disadvantages of this course, but the longer the strike proceeds the less will be the scope for offsetting the cost in this financial year, and the more exposed will we be to the charge of letting the expenditure situation drift

*J. Gier*  
J. PETER REES

[Approved by the Chief Secy.]