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FROM: CHIEF SECRETARY

DATE: 31 October 1985

Prime Minister  
Agree to  
Support work

Strongly?  
PRIME MINISTER

Delv  
111

Yes - absolutely  
with  
me

PUBLIC EXPENDITURE: 1985-86 OUTTURN

I am sending this minute to warn colleagues that claims on this year's Reserve are now expected to go beyond the amount available in the Reserve, so that we are facing the prospect of an overspend on the 1985-86 planning total. This is most worrying, not least in view of the increase in the Reserve in this year's Budget to meet the pressures that were building up from expenditures outside colleagues' direct control. This increase was presented as prudent and realistic, but also adequate. The pressures have remained intense; but they reinforce the need for adequate control in areas where we have some discretion.

2 I recognise that at this stage in the year any general moratorium or across-the-board reductions in provision would have damaging consequences for efficient management. But if we eschew such action, it is essential that colleagues should be vigilant in avoiding any overspend on provision and, where necessary, should take action to prevent it. For my part, I will apply firmly and strictly the existing cash limit and other controls. I will insist that colleagues offset any bids on the Reserve wherever possible by savings elsewhere within their programme. I will be especially reluctant to concede any increase in a cash limit. Even where the increase is in a demand-led programme, the scope for offsetting savings must also be explored, in line with the rules established for the new-style Reserve. Extra unanticipated receipts or an underspend arising on one

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cash limit should not be used to finance additional expenditure elsewhere, but should be surrendered to the Reserve, again in accordance with the normal rules. The same firm approach must be applied to nationalised industry EFLs. I have asked my officials to take a similar line in their discussions with all spending departments.

3 I am aware that this approach will mean some unpalatable choices; but we must show that our in-year expenditure control mechanisms can be made to work if our plans which will be published in the Autumn Statement and White Paper are to carry credibility. I hope therefore that colleagues will give their full support to these efforts to minimise any potential overspend this year, and if at all possible to remove it.

4 I am copying this letter to other members of Cabinet, and to Sir Robert Armstrong.



JOHN MacGREGOR

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