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Public Expenditure Pt 10

Prime Minister

Earl PA 2



PRIME MINISTER

MS

The Treasury are giving Mr Pym  
the option of an immediate  
deduction from this year's cash  
limit for last year's overspend  
or wrapping this up in the  
decision on the much bigger  
question of the forecast overspend  
for this year. No need for you  
to take a view at this stage.  
~~At~~ the Treasury are going ahead  
with the PAE idea.

CASH LIMITS

I must respond to the Defence Secretary's minute of 8 July.

PL

2. Let us first be clear about terms. There is no question  
of excluding the possibility of an agreed policy decision to  
increase a cash limit during the year. Obviously in present  
circumstances there must be a strong presumption against such  
increases, and grounds for considering them need to be compell-  
ing. But where a spending Minister believes an increase necess-  
ary and justified, it can be proposed. If Treasury Ministers  
and the spending Ministers are unable to reach agreement, the  
matter may have to be resolved collectively.

14/7

3. My minute of 3 July was concerned with overspending of cash  
limits where no policy decision to increase has been agreed in  
this way.

4. Here I am sure that we must maintain the general policy of  
deducting the amount of any overspend in one year from the cash  
limit for the next. I am glad to see that the Defence Secretary  
does not object to this in principle.

5. I recognise the problems of the defence cash limit this year.  
The facts are currently being sorted out by officials. When this  
has been done I expect to be discussing the problems with the  
Defence Secretary. I wrote to him (with a copy to you) on 9 July.  
It remains my view that a deduction in respect of the overspend  
last year should be agreed now. I should prefer that it also be

announced now, but if the Secretary of State prefers to include it in a later, more comprehensive announcement when we have settled the outcome of the wider review of this year's cash limit now in progress, I would go along with that.

6. The proposal that the PAC might investigate overspends (in the sense just discussed) where they involve a Supplementary Estimate, as well as those involving an Excess Vote (which the PAC already customarily investigate), should affect only a very few cases. It will be for the PAC themselves to decide whether to take up the idea, but if they do, it will be a minor, but appropriate and useful, reinforcement of the discipline of cash limits and of our commitment to proper control of expenditure.

7. The proposal has been the subject of correspondence between officials. Some initial criticisms were based in part on misunderstanding. In particular the C & AG has now agreed after discussion, that this is a proper area for the PAC.

8. The paper for the PAC has been amended to take account so far as possible of the comments made. I am sorry that the Defence Secretary still has reservations, but I have no doubt that the proposal is sensible and right. Since it is relevant to the PAC hearing on 16 July mentioned in my earlier minute, I have authorised the Treasury to put in the paper, and discuss it then with the PAC.

9. I am sending copies of this minute to members of the Cabinet and to the Minister of Transport, and to Sir Robert Armstrong.

W. J. B.

JOHN BIFFEN  
14 July 1980