

PO-CH/NL/0661 PART A

PART 2/2

RFA

CA

GASMO

A. Organisation

Responsibility Centre
Date

Manager	AAT/H-GAS			
Heads of Division (with grade)	K. E. BRADLEY (Grade 6)			
Branch Heads with main areas of responsibility in 1985-86	Trading funds, repayment services, advice to TOA on accounting aspects of non-competitive Government contracts.	<p><u>E E ANSTEE</u> (Principal/Consultant)</p> <p>Commercial and financial accounting advice on commercial undertakings in the public sector, private sector companies, the form and content of trading and White Paper accounts, the privatisation of public sector bodies other than Nationalised Industries</p>		
Public expenditure totals to which responsibilities directed (where appropriate)	N/A (Advisory)	N/A (Advisory)		
Staff-in-post including heads of Division (1 July 1985)				
Total Staff-in-post (1 July 1985)				6

B. Allocation of Manpower/Resources between different areas of work

Responsibility Cent.
Date

(i) 1985-86

Area of work	% age
1. Trading Funds	17
2. Repayment services	2
3. Privatisation	15
4. Monitoring commercial undertakings in the public sector	20
5. Nationalised industries	5
6. Accounting standards	2
7. Non-Departmental Public Bodies	22
8. National Health Service	6
9. Advice to Expenditure Groups with responsibilities other than above	12
10. Ad hoc advisory role	8
Total	109

(ii) Changes since 1984-85

Increase in resources devoted to monitoring commercial undertakings in the public sector, improving the accounts and financial guidelines for Non-Departmental Public Bodies, and providing commercial and financial advice to Expenditure Groups. Decrease in Nationalised Industries area with the greater involvement of PEAU 2.

(iii) Changes expected in 1986-87 compared with 1985-86

Increased emphasis on the monitoring and advisory roles and dealings with NDPBs, continuing the trend noted above. Greater involvement in local authority financial arrangements.

1. To provide financial and accounting advice to Treasury Divisions and departments on issues arising on Trading Funds, existing and prospective.
2. To provide financial and accounting advice to Treasury Divisions and departments on issues arising on prospective repayment services.
3. To provide advice to Treasury Divisions and departments on financial and accounting matters in relation to private sector companies and commercial undertakings in the public sector, in particular in relation to privatisation and to monitoring bodies in which the Government has a financial interest.
4. To provide advice on the form of trading and White Paper accounts and other public sector accounts kept in commercial format.
5. To represent the Treasury interest in the Accounting Standard Committee's activities in relation to the public sector.
6. To provide the secretariat for the PESC(AM) sub-Committee.
7. To establish a register of firms wishing to undertake audit and accounting work in the public sector.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
1. To provide advice on financial and accountancy matters relating to the establishment of prospective Trading Funds.	Advice is being provided on the planned setting up of UKAEA as a trading fund with effect from April 1986, on the possible conversion of CISCO to a trading fund and on the establishment of a National Space Centre. Other candidates for trading fund status continue to be identified, eg Patent Office and ADAS.
2. To advise on the form of the annual accounts prepared by Trading Funds.	The final Trading Fund accounts for the ROFs have been prepared and approved. The 1984-85 accounts for the other Trading Funds are all at an advanced stage. Advice is being given on the form of the accounts to be adopted by UKAEA when it moves to Trading Fund status.
3. To provide financial and accounting advice on various privatisation issues.	Work in this area has increased and is now at a substantial level. Existing privatisation candidates will ensure that work at the current level continues until late 1986/early 1987.
4. To preserve the Government's constitutional position in relation to the accountancy profession.	The Division has again resisted attempts by the profession to assert jurisdiction over accounting standards in the public sector. Recently this has extended into auditing standards, with the profession seeking information on appointment letters. The Division is working on a revision of the guidelines covering the appointment to audit and accounting assignments, and it is expected that this will forestall a possible attempt by the profession to dictate responsibilities on such appointments.

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>5. To seek improved consistency and clarity in public sector accounts, in particular those prepared by the Nationalised Industries.</p>	<p>Due to delays in recruiting staff and an extended period of operating below strength, the Division has not been able to make the progress hoped for in this area. Work has now started on a post mortem of the published accounts for 1984-85 with a view to amending accounts directions as necessary for 1985-86. Legal difficulties may arise following advice received on Treasury powers in this area.</p>

Priority objectives	Comment/detail/progress expected in 1986-87
1. To provide advice on commercial and accounting aspects relating to the establishment of Trading Funds.	It is still uncertain whether CISCO will become a Trading Fund with effect from April 1986. If it does, advice will be required during 1986-87. UKAEA is set for Trading Fund status from April 1986, and advice will continue during 1986-87. If the Government decides to establish a National Space Centre, 1986-87 is likely to be the busy preparatory period.
2. To advise on the form of accounts prepared by Trading Funds and other public sector bodies.	<i>Subject</i> to the outcome of deliberations on the future of CCA, the form of accounts for 1986-87 will be reviewed along with financial objectives. Revised accounts for UKAEA will be required to reflect Trading Fund status.
3. To provide accounting advice on privatisation cases.	Work in this area has increased substantially and is expected to be at a high level in 1986-87.
4. To preserve the Government's constitutional position in relation to the accountancy profession.	While continuing to welcome advice on accounting and auditing standards from the profession, the Division will seek to ensure that standards for the public sector are developed in an independent and relevant fashion.
5. To improve the consistency and clarity of public sector accounts with specific emphasis on the larger NDPBs.	This will involve a revision of Section G of Government Accounting to include recommended formats of accounts as currently provided by DAO letters 13/83 and 13/84.
6. To establish a computerised register of firms wishing to undertake audit and accounting assignments in the public sector.	In order to ensure that the Government is seen to be operating fairly in allocating work of this nature and to streamline tender procedures, it is considered essential to introduce a data base. <i>In preparation for this there will be full research into what information other departments already hold about firms and consultancies to avoid duplication</i>

1. Tasks and targets detailed for each area of work where forward planning is feasible, and progress assessed against plan.
2. Time and cost budgets prepared for each area of work when feasible, and actuals compared with targets, drawing on time-recording practices.
3. For qualitative improvements (eg in the consistency and clarity of published accounts), progress assessed both incrementally and against a base-line.

(iii) Constraints on past and future performance, changes in organisation of work etc

CA Division was set up with effect from 1 October 1984. For the first 6 months 2 posts were unfilled (1/3 of the complement), causing a back-log of work. The Division is housed in unsatisfactory accommodation (on 2 floors at opposite sides of the building), but it is hoped that a suite of offices will become available by the end of the summer. The Division has been without its own secretarial and typing support, sharing those allocated to TOA (not without friction), but a PS post has been approved which it is planned to fill once the move to new accommodation takes place.

The Division is understaffed at the professional and support levels, requiring as a minimum additional posts at Principal and EO/HEO (accountant trainee) level. This would permit a better coverage and division of the work, in particular the creation of 2 Principal-led commands dealing respectively with commercial/private sector issues including privatisations and with public sector financial and accounting matters. (It is planned to regrade the Principal/consultant to Grade 6 with effect from 1 April 1986.)

A good case can be made for moving the repayment and fees and charges work currently handled by AFA Division to CA to complete the latter's coverage of accounts prepared on commercial lines and so remove the present unhelpful split of duties. *This switch is planned to take place with effect from 1 October 1986.*

With the planned move to more suitable accommodation and a strengthening of staff resources, constraints on performance will be lessened in comparison with the Division's first year of operation.

(i) Effect of 5 per cent reduction in resources available

Longer response times to requests for advice, and delays in completing standing tasks. Given the nature of the work, tasks cannot readily be reduced, but the Division might have to adopt a more selective approach to requests for advice in order to maintain timeliness in the more urgent and important cases.

(ii) Effect of 5 per cent in resources available

Requests for advice would be dealt with more promptly and comprehensively. A start would be made on the tasks which have received inadequate attention, in particular monitoring commercial undertakings in the public sector and appraising comprehensively the forms of accounts for NDPBs.

A. Organisation

Responsibility Centre
Date
GASMU

Manager				
Heads of Division (with grade)	B L J SPRATT (GRADE 5)			
Branch Heads with main areas of responsibility in 1985-86	<p><u>J C MAY</u></p> <p>Records of posts and personnel (incl. development of use of computers); skill scarcity analysis; career planning for 'E' staff; secretary of management committees.</p> <p><u>S N MARTIN</u></p> <p>Training schemes; recruitment; interdepartmental trawls and career interviews for HEO/SEO accountants; CPE; liaison with profession.</p>			
Public expenditure totals to which responsibilities directed (where appropriate)				
Staff-in-post including heads of Division (1 July 1985)	<p>GR. 5 - 1 EO - 2</p> <p>PRIN - 2 CA - 1</p> <p>HEO - 1 PS - 1</p>			
Total Staff-in-post (1 July 1985)				8

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date

(1) 1985-86

Area of work	% age
1 Records of posts and personnel.	30
2 Skill scarcity analysis.	10
3 Training schemes.	15
4 Recruitment.	15
5 Inter-departmental trawls.	10
6 Career Management.	10
7 Other, including GASETTE, publicity, etc.	10
Total	

(ii) Changes since 1984-85

An increase in effort on items 1 and 2 has been made since the arrival of new members of staff.

(iii) Changes expected in 1986-87 compared with 1985-86

The main changes are likely to be in a transfer of effort from item 1 and item 2 as the quality and effectiveness of the records improve, plus a marked increase in item 3 if the centralised training scheme becomes fully operational.

- 1 To raise the profile of the Government Accountancy Service to assist the development of an effective corp of professional accountants and other financially trained personnel to provide the necessary accountancy input to policy and decision making and operations at all levels throughout government departments.

- 2 To continue to act as the focal point for inter-departmental co-operation on recruitment, training, personnel management practice and machinery, grading standards, inter-departmental transfers and policy issues affecting the Government Accountancy Service.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>1 The maintenance of personnel records for each member of the GAS.</p>	<p>The arrears in transferring basic data to CMSR have been cleared and a procedure for the regular notification of changes by departments established. Priority is now being given to improving the quality and accessibility of the records by the extension of computerisation.</p>
<p>2 The recruitment and training of accountants.</p>	<p>Following a detailed review of both recruitment and training, new measures are being introduced in an attempt to improve both. The use of recruitment agencies and the setting-up of a centralised training pool are in their early stages and will be taken forward into 1986/87.</p>
<p>3 The identification of posts requiring accountancy skills.</p>	<p>GASMU's dealings with departments has, through shortage of staff, continued to be passive rather than active but more contact with departments will be made during the last quarter of 1985/86 and in 1986/87.</p>
<p>4 The ascertainment of skill scarcity.</p>	<p>This task is still behind schedule but is now being reviewed as the records are improved, and data should commence to be produced later in the year.</p>

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
5 The development of career planning.	Due to the delays in the replacement of staff the review scheduled for late 1984/85 did not take place. This is now targetted for completion by the end of the current year.
6 The preparation of a GASMU procedures manual.	Shortages of staff have caused this task to be afforded a low priority and the revised target date for completion is 30 June 1986.
7 The organisation and running of the Government Accountancy Service Conference.	Most of the planning and organising has been completed and the remaining outstanding tasks are in hand. The conference will take place at Surrey University, Guildford at the end of September, 1985.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
1 The maintenance of personnel records for each member of the GAS.	A continuing task. Improving the quality and accessibility of the records by extended computerisation is receiving high priority.
2 The recruitment and training of accountants.	A continuing task. The pilot scheme on the use of recruitment agencies will be maintained until about end-July '86 and then reviewed to determine whether it should be developed as a permanent feature. If the centralised training pool commences in September 1986 as planned this will require an increase in GASMU's resources to run it.
3 The identification of posts requiring accountancy skills.	A continuing task which will expand in 1986 as the ascertainment of skill scarcity from the records improves. Much more contact with departments is envisaged.
4 The ascertainment of skill scarcity.	A continuing task which has so far not progressed very fast. Preliminary research in 1985 as to the data necessary to ascertain the extent of the scarcity will produce results in 1986.
5 The development of career planning.	A continuing task. Action will be taken as the result of a review of career postings, secondments, etc to be completed by the end of 1985.

(ii) Priority objectives in 1986-87

Responsibility Centre
Date

Priority objectives	Comment/detail/progress expected in 1986-87
<p>6 The preparation of a GASMU procedures manual.</p>	<p>A continuing task with a revised target date of 30 June '86 for completion of the initial write-up of all procedures.</p>

D. (iii) Supporting information including performance measures

Responsibility Centre
Date

During 1984/85 performance measures for the work of GASMU could only take the form of a comparison of tasks performed against the planned programme and the general satisfaction of customer departments. This defect was due mainly to the inadequacy of one of the two Principals in the first half of the year and the delay in replacing him during most of the second half.

Performance measures for the type of work undertaken by GASMU staff are not easy to establish but will need to be studied as other high-priority work is cleared.

(i) Effect of 5 per cent reduction in resources available

Although such a reduction would amount to less than one-half of one person it would delay tasks now being tackled which are already behind due to the shortage of staff.

(ii) Effect of 5 per^{increase} cent in resources available

Would enable the remaining backlogs of work to be cleared and progress to be made in the all-important personal contacts with departments.

(iii) Constraints on past and future performance, changes in organisation of work etc

The constraints in the first half of 1984/85 were the necessity to re-distribute the duties of the two Principals to overcome the inadequacy of one of them and the delay in the replacement of the EO. A further constraint was the gap of some 4 months between releasing the Principal referred to above and effecting his replacement.

The position at 1 August 1985, is much improved with two new Principals and the replacement EO in post together with the additional EO agreed in last year's budget. Allowing for a brief learning curve for the new team much of the work that is behind schedule should soon to be cleared.

The major constraint on future performance, particularly if the new centralised training pool becomes effective, will again be shortage of resources if the additional staff requirement set out in the ^{1986/87}~~1985/86~~ budget is not approved.

A. Organisation

Responsibility Centre
Date

INTERNAL AUDIT DEVELOPMENT BRANCH

Manager				
Heads of Division (with grade)	M.L. TAYLOR (GRADE 5)			
Branch Heads with main areas of responsibility in 1985-86	J.J. Morris Head of IADB. Development A professional internal audit in Gov't departments, incl: provision of professional training.			
Public expenditure totals to which responsibilities directed (where appropriate)	13.5			
Staff-in-post including heads of Division (1 July 1985)				
			Total Staff-in-post (1 July 1985)	

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date

(1) 1985-86

INTERNAL AUDIT DEVELOPMENT DIVISION

Area of work	% age
(a) Promoting and monitoring the application of internal audit standards through:	
(i) Fieldwork in departments	50
(ii) Internal audit of some very small departments	6
(iii) Co-ordinating training arrangements and disseminating best practice by seminars, workshops etc.	29
(b) Supporting Treasury Divisions	8
(c) Creating central instructions and guidance	7
Total	100

(ii) Changes since 1984-85

Further guidance work has been programmed for 85-86. Fieldwork in departments has been slightly reduced over previous year. There has been a planned corresponding increase in the more indirect seminars and workshops, and in level of resources developing and monitoring training.

(iii) Changes expected in 1986-87 compared with 1985-86

There should be little change. The advent of a PAC hearing will increase briefing needs under area of work (c).

INTERNAL AUDIT

- a. To continue to define standards and develop guidelines for internal audit in Government departments and to promote and monitor their application.
- b. To further develop opportunities for interchange of ideas and experience between internal auditors in departments.
- c. To extend central training programmes so that all training standards are provided for.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>INTERNAL AUDIT</p> <ol style="list-style-type: none"> 1. To monitor the progress of each departmental internal audit unit against standards and guidelines. 2. To report on state of progress of each IAU to the departmental PFO and to pursue implementation of any agreed recommendations. 3. In pursuance of 2, to give internal audit advice and assistance as required and on demand. 4. To set up central training courses for computer audit specialists in partnership with Civil Service College. 5. To develop advice on implementing grading guidance and on status of head of internal audit. 	<p>This programme of work is well underway with work in a number of departments now complete. This work will continue into 1986-87 and will have a large contribution to make to briefing for PAC at end 1986.</p> <p>A number of meaningful reports have emerged during the year, building on 1984-85. In the main, recommendations are being accepted, but we will continue to monitor implementation. This work will continue into 1986-87.</p> <p>The urgency of 1 and 2 above, takes priority over this work area, but some work is being done. Departments are making some use of bought in consultancy skills, where relevant.</p> <p>A six module course is under development at CSC. First courses should be running from September 1985. We are keeping our input to the work well in hand.</p> <p>This work has carried forward from 1984-85 and has just started first draft stage. Should be finalised by Autumn. An agreed form of words has been created as a preliminary and is used in reports issued under 2.</p>

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>6. To produce at least 3 further chapters in Government Internal Audit Manual:</p> <ul style="list-style-type: none"> a. Performance Measurement b. Fraud and Corruption c. Value for Money <p>(NB. Chapter on Statistical Sampling now dropped).</p>	<p>Still in obedience.</p>
<p>7. To run conferences and workshops for heads of Internal Audit, Heads of Computer Audit and Senior Practitioners.</p>	<p>All have run to plan except for workshop for senior practitioner. These will not now be implemented until 1986-87.</p>
<p>8. To set up and participate in working parties and panels to help to resolve common problems in Government internal audit.</p>	<p>No new panels or working parties set up so far but we should have an Internal/External Audit Forum operating with NAO by Autumn.</p>

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p>INTERNAL AUDIT</p> <ol style="list-style-type: none"> 1. To complete the programme of monitoring and reporting on each departmental internal audit unit against standards and guidelines. 2. To finalise the delivery of computer audit specialist training and review its implementation by Civil Service College. 3. To develop further the existing internal audit management courses to ensure that they satisfactorily meet the Senior Staff Standard. 4. To specify all other training needs for internal auditors, looking particularly at post qualifying educations (PQE). 5. To complete the remaining Government Internal Audit Manual chapters. 	<p>The anticipated appearance before PAC will spur completion of this programme of work.</p> <p>This has been greatly helped by the improvement in Civil Service College resources for computer audit training. We would look for completion in the first half of 1986-87.</p> <p>Two reasonable courses are already running, but there is a need to align them more closely to the Senior Staff Standard. The work should present no problems.</p> <p>There is a training need for specialists who work with internal auditors which will require a standard specification. We will also produce a guideline for PQE training and use it to identify and set up the more fruitful courses.</p> <p>It is unlikely that this work will start until the second half of year. We will concentrate on a chapter on performance measurement as the highest priority of the three required.</p>

Priority objectives	Comment/detail/progress expected in 1986-87
<p>6. To start organising practitioner workshops so that internal auditors have a good opportunity to jointly explore good practice in particular audit areas.</p> <p>7. To set up a number of audit working parties enabling participants to jointly develop solutions to internal audit problem areas.</p>	<p>These will provide a useful vehicle for translating formal training into considerations of practical application. Such courses could follow on from 7 or arise through demand for a particular work area. We are unlikely to get more than one or two going in 1986-87.</p> <p>Two working parties are in existence looking at micro computers and training needs for small departments. An internal/external audit forum will also be operating. It might be possible to start one or two further parties going towards the end of 1986-87. There is a list of subjects awaiting study.</p>

1. A comprehensive budgeting/work measurement system is used to monitor performance. Priorities are set at branch meetings and allocation to individual budgets takes place.
2. Field performance of internal audit units is monitored through the departmental reviews.
3. A data base of information about internal audit units is held and is methodically updated through 6 monthly returns. Half yearly reports on staffing statistics and trends is produced for internal consumption and a generalised report is sent to all Heads of Internal Audit.
4. NAO monitor progress of IAUs as a measure of our performance.
5. The division works to a comprehensive statement of objectives which form the foundation for budgeting plans.

(i) **Effect of 5 per cent reduction in resources available**

We would cut back on the more peripheral work of guidelines and instruction and would also need to reduce the level of assistance given to departments.

(ii) **Effect of 5 per cent in resources available**

Speed up work on Workshops, Working parties and probably provide an additional manual chapter.

OBJECTIVES

Further development of financial management

- A Help to define policy, organisational arrangements and procedures for the development of departmental top management system. Help disseminate best practice.
- B Substantially increase our involvement in areas of programme expenditure. Help to define means of improving the financial management of programmes.
- C Distil policy, structure and organisational machinery for the development of budgetary control as an integrated part of the overall departmental system and which will form a successful instrument for improved planning, control and the management of expenditure.
- D Help define skills, techniques, advice required by budget holders at each level in the budget hierarchy and articulation the balance between "central" and "on the job" training.
- E Define and appraise existing training approaches/techniques: help disseminate best training practice through the proposed training working party.
- F Gather information on the role of accountants in the Service. Help clarify their most effective utilisation
- G Directly contribute to training courses in order to educate key staff in the concepts of improved financial management.
- H Increase our involvement in information technology and in particular, assess the suitability and effectiveness of management information software packages.

A. Organisation

AFA(MAAB)
Aug. 1985

Responsibility Centre
Date

Manager			
Heads of Division (with grade)	M L TAYLOR ASSISTANT SECRETARY		
Branch Heads with main areas of responsibility in 1985-86		D JAMIESON - MANAGEMENT ACCOUNTING ADVISORY BRANCH T DEVON E A GILL P SLADE J WELLER A HOLLIS D NOONEY R YOULE	Support HE Division " AEF,FP,PE and HF Division " LG Division " IAE " Accountancy aspects of IT developments, financial and accountancy training matters, ad hoc consultancy work Central team, multi-departmental review of budgeting Repayment, Fees and Charges, Central Issues
Public expenditure totals to which responsibilities directed (where appropriate)		N/A	
Staff-in-post including heads of Division (1 July 1985)		1 Gd 5 7P 1EO 1 Gd 6 1EO 1CO 1HEO 1 1/2PS	
		Total Staff-in-post (1 July 1985)	15 1/2

B. Allocation of Manpower/Resources between different areas of work

AF/A (MAAB) Responsibility Centre
 Aug. 1985 Date

(1) 1985-86

Area of work	% age
Financial Management Development	38
Assignments in departments	6
PES/Estimates Accounting Framework	4
Casework	4
Training skills, conferences, seminars, MAAB Management	25
Repayment, fees and charges	33
Total	110

(ii) Changes since 1984-85

13% increase - due to multi-departmental review of budgeting
 No change in overall effort
 + 3% increase - more involvement in charges resulting from FMI
 - 3% less involvement mainly in account of our need to ration our effort
 - 3% less involvement mainly on account of increased pressures elsewhere
 No change

(iii) Changes expected in 1986-87 compared with 1985-86

No change expected in work on repayment and fees and charges. All the other categories will be under pressure for more effort. We will ease the problem by utilising business students and supernumerary staff wherever possible. The addition of an HEO to MAAB Complement will also help. But the overall message is one of constantly increasing pressure as FMI developments take rest

NOTE(ii) Headings have been rationalised and linked into our internal time recording system. Descriptions are therefore different from last year.

TO PROVIDE MANAGEMENT ACCOUNTING ADVICE AND ASSISTANCE TO:-

- a) The Treasury and other departments in the development of financial management and the design and implementation of financial management systems.
 - b) The Treasury on specific issues and cases and on central financial and accounting arrangements.
 - c) The Treasury and the Cabinet Office (MPO) on the need for and use of financial and accountancy skills and on the training required to develop them.
 To produce the annual ready reckoner of staff and other costs
- Notes (1) To main a data base of up to date knowledge of specific areas of accounting in order to provide advice to central departments; in particular, information technology, capital asset accounting and local authority accounting.
- (2) To develop policy on fees and charges and provide advice and guidance to the Treasury and departments on its interpretation and application.
 - (2) To contribute to the development of policy on repayment matters and to the consideration of specific cases.

NOTES:

- (1) New task which started at the end of 1984-85
- (2) Tasks which are to be transferred to CA Division (together with staff) as from 1.10.86

D. (i) Progress on Priorities in current year *AFA (M777)* Responsibility Centre
 Date *August 1985*

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<ol style="list-style-type: none"> 1. To monitor, encourage and assist the development of delegated budgeting 2. To support expenditure groups by providing timely and relevant management accounting advice when required. 3. To encourage the development of comprehensive and integrated financial and accounting systems in departments and report progress to expenditure divisions. 4. To provide advice and assistance to the Treasury on the development of the central financial and accounting systems. 	<p>Major progress has been made by AFA leading the multi departmental review of budgeting. Interim results were presented to Chief Secretary and Sir R Ibbs on 24 July. A final report in December is expected to lead to further work in departments on a number of key issues.</p> <p>Staff shortages were overcome and professional support was made available to each expenditure division. Appreciation of the contribution made by management accountants varies. In some cases demand is outstripping supply; in others they are not yet being as involved as they should be. We will be taking action to try and correct this.</p> <p>A continuing task. The main progress during the year will be much better understanding gained by AFA of</p> <ol style="list-style-type: none"> a) the systems in the departments and b) the steps necessary to improve these. <p>The division has been involved in a number of these issues and the prospects are for further involvement as a result of the multi departmental review of budgeting.</p>
<p>NOTE: Priority objectives for 1985-86 in last year's return were left open depending on the views of the new TAA. In the event he endorsed AFA approach and the existing priority objectives were therefore continued.</p>	

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>5. To contribute to the identification of the financial and accountancy skills and knowledge needed by staff following the FMI</p>	<p>We are now:</p> <ul style="list-style-type: none">a) working in conjunction with the MPO training division on the training needs of budget managers. The MDR has identified the potential need for further work.b) Working up a paper proposing training requirements for staff in finance and accounts branches.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
1. To monitor, encourage and assist the development of delegated budgeting in departments.	(a) Continuing task
2. To support expenditure groups by providing timely and relevant management accounting advice when required.	(b) (i) Clear progress in solving the key issues identified in the Phase I report of the multi-departmental review of budgeting. (ii) Extension of budgetary control throughout departments.
3. To encourage the development of comprehensive and integrated financial and accounting systems in departments and report progress to expenditure divisions	(a) Continuing task (b) (i) Increasing demand for AFA assistance (ii) Provision of assistance in accordance with required timescale (iii) Acceptance of advice by the expenditure groups.
4. To provide advice and assistance to the Treasury on the development of the central financial and accounting systems.	(a) Continuing task (b) (i) Help define best arrangements for the development of top management systems and make substantial progress towards this. (ii) Substantially increase AFA involvement in areas of programme expenditure. (iii) Help to define means of improving the financial management of programmes.
5. To assist in developing arrangements in departments for improving financial and accounting skills and then monitoring them.	(a) Continuing task (b) (i) Advise and assist in implementing guidance on Vote restructuring. (a) Annuality, treatment of receipts, commitment liabilities, recharging procedures, as a part of or follow up to Phase II work on the multi departmental review of budgeting.
6. Increase our data base of knowledge of: (i) Information technology (ii) Capital accounting procedures (iii) Local authority accounting procedures	(a) Continuing task (b) Continue progressing tasks shown against 1985-86. Aim to clarify requirements and get recommendations accepted and implementation started.
	(a) New task (b) (i) Keep up-to-date on state of play in departments, identify key issues and draft guidance. (ii) Document arrangements in departments, obtain evidence of best practice in private sector. (iii) Keep up-to-date on and understand main procedures as a basis for providing accounting advice.

D. (iii) Supporting information including performance measures

A1-A (MARRS)
Aug. 1971

Responsibility Centre
Date

- (1) Developments, extension and greater use of budgeting systems in departments
- measures - amount of extension in departments
- comprehensiveness of budgets - inputs and outputs
 - evidence of use by management including anecdotal tales of savings
 - linkage of budgetary systems with other financial systems
- (2) Other data
- (i) Changes in demand for advice and assistance
 - (ii) Timeliness of contributions of advice and assistance
 - (iii) Activities completed by deadlines
 - (iv) Improving financial results on fees and charges.
 - (v) Extent to which advice is accepted

AFA (MARRSI)
Aug. 1981

Responsibility Centre
Date

(1) Effect of 5 per cent reduction in resources available

In staffing terms reduction would amount to about $\frac{1}{2}$ a professional. Work foregone would be supporting expenditure divisions or reduction in central research capacity. If the latter were chosen it would have very severe effects on longer term skills of AFA and contribution it could make. If the former, essential advice in assisting public expenditure control would be foregone. Neither options are in any way acceptable.

(11) Effect of 5 per cent in resources available

This would be used to meet the increasing demand for assistance which is now coming from some expenditure divisions. Alternatively further assistance could be given to departments developing improved financial systems. This would provide a basis for giving Treasury expenditure divisions better advice on the adequacy of developments in departments.

(11) Constraints on past and future performance, changes in organisation of work etc

For the present the permanent staffing position appears to be much more settled and we are past much of the learning curve . However the growing demand for accounting advice from some quarters has produced (and is still producing) severe strains. A case has been made - and accepted - for one additional HEO post to help alleviate this pressure. Wherever possible we utilise "free" help to cover our growing requirements. During the current year this will amount to:

- (i) One Hong kong secondee (SEO level) for 6 months
- (ii) Two supernumery HEOs and one supernumery SEO
- (iii) Six summer vacation students from three business schools

2. We now have a clearer idea of the mix and grades of staff required to achieve our objectives, future needs will involve:

- (i) Additional support staff at HEO and EO level who can assist the Principals and relieve them of some of their work
- (ii) A complement of 7 Principals as follows:
 - (a) At least 3 with in-service financial and management accounting experience in a spending department
 - (b) At least one with a Treasury background
 - (c) One with local authority experience.

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Staff Complement		680800	148519	868,312
Basic staff costs				
Casuals/Students		3000	3330	5,300
Specialists		-60300	-15075	-59,343
Total	522823	623500	136774	814,269
Overtime	2539	1300	9	950
Travel & Subsistence				
Overseas	1196			
Home	18773		3704	47,500
IT Equipment etc	11404			19,000
Economic Research				
Consultancies/Fees	729			250
Other (specify) <i>Conference Fees</i>	2195	2700	127	45,440
Total	559659	627500	140614	927,469
2. Non-bid items				
Entertainment	416			
External training	7260		2429	27,000
Government Car Service	21		26	
3. Receipts				
EC Travel	478			
Other	3001			

Notes

Conference fees and £35,000 for a video on the work of the Government Accounting Service.

2. Staffing Profile and Bid

Responsibility Centre: AA

a. Staff in Post

Date: / /

Date	Complemented Grade	Grade	Grade	Grade	Prin	Econ Adv	Stat	PSO	SEO	SSO	HEO	MSO	HEO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Casuals/Students	Use of Spclsts
		3	5	6																									
1 April 1985			2	3	13				6		3					2					2	3		3		3	40	N.K.	N.K.
1 July 1985			2	3	15				6		3					3					2	3		3		3	43		
																										(a)			

b. Staff Complement 1985-86

1 April 1985		2	3	15					8		2					3					3	2		3		2	43		
31 March 1986		2	3	14					8		2					3					3	2		4		2	43		
Avg. Complement 1985-86		2	3	14.6					8		2					3					3	2		3.8		2	43.4		
																										(a)			

c. Bid for 1986-87 by quarter

1 April 1986		3	3	16					11		5					3					4	3		3			51		
1 July 1986		3	3	16					11		5					3					4	3		3			51		
1 Oct 1986		4	2	16					11		5					3					4	3		3			51		
1 Jan 1987		4	2	16					11		5					3					4	3		3			51		
31 Mar 1987		4	2	16					11		5					3					4	3		3			51		
Avg Complement 1986-87		4	2	16					11		5					3					4	3		3			51		

* Please specify grade:

Notes:

(a) Senior Accountant

3. Breakdown of Staff Complement by Division

Responsibility Centre AA
Date

Date	Division																	Total
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HED	HED(D)	EO	RT	CO	CA	SPS	PS	Typist	SENIOR ACCT.	
1st April 1985	AFA CA GASMU			1	2	12	7	1		1		2	1		2			29
					1	1	1					1				2		6
				1		2		1		2		1			1			8
31st March 1986	AFA CA GASMU			1	2	11	7	1		1		2	1		2			28
					1	1	1					1			1		2	7
				1		2		1		2		1			1			8

The complement for CA Division includes an additional post for a PS which was agreed by EOG on 14 June 1985 although no COG has yet been received by EOG3.

- (i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86 (refer to work programme where appropriate)

The following changes for 1986-87 over 1985-86 are proposed:

- a. HEO post: the Division lacks adequate support. An HEO, particularly an accountant trainee, would provide much needed help in preparing briefing material, researching and operating a microprocessor. The post would offer the incumbent relevant accountancy experience.
- b. Additional Principal post: the Division would be more satisfactorily structured into 2 Principal-led commands, as described in section E(iii) of the Work Programme. Job elements comprise advising and assisting on policy developments, dealing with novel and uncommon case-work and representing the Treasury in discussions with other departments and public sector bodies.
- c. Regrading the existing Principal post to Grade 6 wef 1 *April* 1986: the post is held by a junior partner from an accountancy firm on secondment for 2 years. After an initial bedding-in period of 6 months, it is proposed to regrade the post to Grade 6 to reflect the status of the post and of the incumbent. *and to make his relationships with senior officers in departments less awkward.*
- d. Regrading the existing Grade 6 post to Grade 5 wef 1 October 1986: as set out in section E(iii) of the Work Programme a good case can be made for transferring the repayment and fees and charges work from AFA to CA. The changes set out above, coupled with the transfer of work from AFA, supports the case for regarding the Grade 6 post to Grade 5, so creating CA as *the* fully-fledged Division. *which it should be*

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

Being a Division providing commercial and financial advice, the work-load of CA, apart from standing tasks, is very much dictated by Government policy and Exp. Group needs. Work on privatisation cases, for example, has increased substantially and will be at a high level during 1986-87. A continuation of the privatisation programme, or an alternative programme with major financial implications, will make considerable demands on the Division. The staff estimate for 1986-87 is taut but reasonable for the foreseeable future and will allow a period of consolidation for the Division. The Division is however very light on support staff, and there may be a need for additional support at the CO/EO level.

(iii) General comments on patterns/history of resource use

SECTION 4:

MAAD
Responsibility Centre
Date

- (i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

Transfer of responsibility for Fees and Charges work transferred to CA Division 1.10.86.

Development detailed in Section (iii) below.

BUDGETING SECTION 4

(ii)

Several developments are taking place at once:

- a) Deeper level of involvement in matters affecting all departments. For example, the current multi departmental review of budgeting is identifying a number of issues in which AFA involvement, (either in the lead or in support of other parts of the centre), is likely to increase on a permanent basis.
- b) At the same time there is a growing need to associate the Division more closely with all the developments taking place in respect of the central government system of PES and Estimates. The multi departmental review of budgeting has emphasized the fact that budgetary systems cannot be looked at in isolation of these central needs.
- c) Developments now beginning to take place within departments require more attention to accounting detail and therefore much closer liaison than has been the case in the past. This is necessary to ensure that:
 - i) the wheel is not continually reinvented
 - ii) Departmental developments are all soundly based and consistent with each other.
 - iii) The division maintains up to date knowledge of the latest techniques, software packages etc.
 - iv) The division is sufficiently well acquainted with departmental developments in order to be able to provide sound advice to the Treasury expenditure divisions.
- d) Those expenditure division which are ahead of the others in recognising the need for more financial management

advice are tending to increase their call on the division for support and assistance.

- e) A requirement is growing to build up expertise in a number of across the board matters. Issues such as IT, capital assets procedures, local government accounting procedures, training needs of finance staff, stockholding matters, other multi departmental reviews, interest on capital etc are requiring the division to spend a growing proportion of its time in order to ensure that it is in a position to offer the proper advice when called upon.

- f) There is a growing demand in the division to participate in a number of ad hoc assignments. Because of the uncertain incidence of these, it is quite impossible to formulate detailed plans in advance of the quantity and timing of our involvement. What is absolutely certain however is that, rather like a management services organisation, it is vital for slack capacity to left in our programme in order to be able to tackle this work when the need arises.

(iii)

In the past, the division operated largely at Principal level because of the need for its officers:-

- a) to be sufficiently knowledgeable to cope with complex accounting problems.

- b) to have the status and maturity to deal competently with

senior officers at the centre and in other departments.

The division was headed at Grade 5 level but this officer also headed the Internal Audit Development Branch and directly supervised the Fees and Charges Section. Day to day running of the management accounting branch therefore required a Grade 6 officer.

Since the arrival of the Division in the Treasury and particularly over the last three years since the inception of the FMI, the pressure on both of these officers has been growing very fast. The arrival of TAA in the Treasury on 1 October 1984 has provided a further pressure on the time of the Grade 5. Taking on the multi departmental review of budgeting has, at the same time, involved a major increase in the demand on the time on the Grade 6. Attempting to control a span of work involving the work of 7 Principals all of whom are getting involved in the innovative sort of issues referred to in (ii) above has become steadily more difficult.

Likewise, lack of support staff has inevitably meant that the Principals spend a part of their time doing work inappropriate to their grades. Also, because of their seniority, they cannot spend the amount of time acquainting themselves with developments in departments that the job requires. Lower level support staff could, however, be so employed.

This requirement for support staff has already led to the division making, earlier in 1985, a case for an additional HEO and this was accepted in July 1985. Longer term developments in the division would it is considered best be met by further moves in the direction rather than by employing very expensive management consultants or senior officers at Principal level.

In order to maintain up to date knowledge of developments outside the central departments, it is considered up to 4 of the officers of the division - 2 Principals and 2 HEOs need to be on loan from departments and in total at least 3 of the Principals require to be experienced in departmental systems. Also, at least one of the Principals should be experienced in local authority matters.

The attached organisation tree summarises all of this. Also attached is a detailed list of the current objectives of the management accounting branch of the division.

MANAGEMENT ACCOUNTING DIVISION

PROPOSED STRUCTURE

M L TAYLOR

- PS

D JAMIESON

- 1/2 PS

D NOONEY

T DEVON

P SLADE

E GILL

J MELLER

A HOLLIS

R YOULE

Liaison Bedded out Accountants

Central Acctg Framework

HE Division

L G Division

AEF,FP,PE

IAE Division

Additional work DM, Division
Information Technology

Trading Services
Accounting Issues

MPO
DM
ST2
MOD(support to Level 1)

Follow up to work on MDR of Budgeting

HEO
Assignments

Top Management Systems
Capital Expenditure
Accommodation costs
Competitive tendering
Accounting Input to Non AFA MDR's
Local authority matters

HF Divisions

Financial Training

Policy Evaluation

Programme Expenditure

Purchasing, Stocks
ST1 Division

EC)
CA)
Administration

HEO

Ready Reckoner of

staff costs
Assignments

Additional Support

Other temporary and supernumerary staff

HEO and below

Additional Support

Hong Kong Secondee

Business School students

Local Authority Matters

Note: 2P's } To be 5 year secondees from departments
2HEOs }
1P } To be ex local authority

OBJECTIVES

Further development of financial management

- A Help to define policy, organisational arrangements and procedures for the development of departmental top management system. Help disseminate best practice.
- B Substantially increase our involvement in areas of programme expenditure. Help to define means of improving the financial management of programmes.
- C Distil policy, structure and organisational machinery for the development of budgetary control as an integrated part of the overall departmental system and which will form a successful instrument for improved planning, control and the management of expenditure.
- D Help define skills, techniques, advice required by budget holders at each level in the budget hierarchy and articulation the balance between "central" and "on the job" training.
- E Define and appraise existing training ^{Content, content and approach.} [approaches/techniques] help disseminate best training practice through the proposed training working party.
- F Gather information on the role of accountants in the Service. Help clarify their most effective utilisation [~~and management development.~~]
- G Directly contribute to training courses in order to educate key staff in the concepts of improved financial management.
- H Increase our involvement in information technology and in particular, assess the suitability and effectiveness of management information software packages.

Development of central accountancy framework

- I Progress: the reconciliation of vote and management accounts and assessing the implications of this for public expenditure policy issues such as annuality
- J Ensure that estimates restructuring encourages the closer linking of vote and management accounts.
- K Ensure that policy questions, post-REPEC continue to give sufficient weight to the advantages of gross public expenditure data
- L Define with greater precision the sort of management information we would like to see in PEWP.

Other assistance to Treasury expenditure divisions

- M Endeavour to make departmental management systems more "transparent" and "integrated" so that expenditure divisions can see what is decided and achieved and how and within what perspectives.

- N Contribute to the integration of macro economic expenditure planning and control with micro-economic control and value for money consideration

SECTION 4:

IADB
Responsibility Centre
Date

(i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

(a) Case for changing IADD from a branch (IADB) to a division headed at Grade 5 level put up September 1985.

(b) Additional SEO approved July '85. Needed to provide repayment IA Service to small departments.

(c) Case for full-time CA to replace casual CA currently going forward in EOG.

(11) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

No further increases in staff foreseen.

(iii) General comments on patterns/history of resource use

Complement for profession/technical staff has remained constant until now.

Capacity for more work at senior level has been created by increasing clerical support over the past 2 years.

ccc

RQPD

CISCO

DIRECTOR: R N EDWARDS (SP) - SUPPORT STAFF - 1 SEO + 1 EO + 1 PS

HEAD OF DIVISION (with grades)	MRS P A WILLS (P) AD/PAY	D A MONK (P) AD/OPERATIONS	D TRELIVING (P) AD/CENTRAL SUPPORT GROUP	J R HEBRON (P) AD/SYSTEMS & PROGRAMMING	
BRANCH HEADS MAIN AREAS OF RESPONSIBILITY In 1985/86	MISS J HILLARY (SEO) Paying Officer	T M READ (SEO) Computer Operations Management	I D KIRKPATRICK (SEO) Systems, Pay	H P DAVISON (SEO) Personnel System (DSR) Control	J DOBINSON (SEO) Administration Officer
	G R SKETCHLEY (SEO) Paying Officer Accounts Training Pay Control	B E PELOW (SEO) Operating System Software Support Job Control Programs	A STEPHENSON (SEO) Standard Payroll Quality Assurance Pay Policy and Procedures	B DRAPER (SEO) Superannuation MANDATE ADP Training	
	C J BURTON (SEO) Paying Officer Control & Reconciliation of Accounts	G HARROLD (SEO) Computer Resource Forward Planning and Procurement	MRS L REYNOLDS (SEO) Pay Maintenance and Development	H MANDERS (SEO) RAPPORT (On-line Personnel System)	
				M G COOK (SEO) MAISY	
STAFF IN POST BY GRADE AT 1.6.85	P - 1 SEO - 3 HEO - 8 EO - 30 CO - 108 CA - 21½	P - 1 SEO - 3 HEO - 12 EO - 14 CO - 2 SDP - 20 DP - 36½ CA - 2	P - 1 SEO - 3 HEO - 13½ EO - 24 CO - 7 CA - 3	P - 1 SEO - 4 HEO - 12½ EO - 16 CO - 8 CA - 1	SEO - 2 S/MESS - 1 HEO - 3 MESS - 6 EO - 4 SOG4 - 1 CO - 8 SOG5 - 7 CA - 6 SUP/TYP - 1 OK3 - 1 SP/TYP - 3 PKR - 4 TYPIST - 2 PORTER - 2
	TOTAL 171	TOTAL 90½	TOTAL 51½	TOTAL 42½	TOTAL 50
Public Expenditure totals to which responsibilities directed	<p>Overall responsibility for payroll budget of - £1,073 million At an annual operating cost of - £4,300,000 Total operating cost for all services - £7,400,000</p>				

COMPLEMENTS

1.4.83 - 434½

1.4.84 - 429½

1.4.85 - 421

1.4.86 - 417

B. Allocation of Manpower/Resources between different areas of work

(i) 1985-86

Area of work	MANPOWER	COMPUTER
	% age	% age
Monthly Pay	55	19
Weekly Pay	15	6
Standard Payroll	8	5
MAISY	5	19
DSR	8	32
Superannuation Awarding	4	4
Superannuation Index	2	2
MANDATE	2	7
CSC	1	6
Total	100	100

(ii) Changes since 1984-85

a. Utilisations remain broadly as last year. This, however, hides a substantial increase in the overall consumption of resource as witnessed by the growth in applications. MAISY and DSR now have in excess of 70 terminals connected to Chessington compared to 30 or so last year. We are providing additional facilities for CCTA(TS) work formerly at HMSO Norwich and the number of Standard Payroll accounts processed continues to increase.

b. At present the machine can be considered fully utilised. Our strategy is to upgrade to a superdual 2988, and until that is installed there is no spare capacity.

(iii) Changes expected in 1986-87 compared with 1985-86

a. Further increase may be expected in the computer resource for DSR as further data elements are added to the system and the progressive take-up by customers continues.

b. Computer resource is already fully stretched. Potential customers (eg DPP) wish to avail themselves of our services and our strategy includes the upgrade to a superdual 2988 which will make available a greater processing capability.

c. Additional customers committed to CCC since last year include DNS (Oct '86), SOCS (April '87), CPS (April '86), Forestry Commission and a substantial increase in LCD making the total payees 286,000.

1. a. To provide agreed computer services efficiently to government departments.
- b. To develop the computer services provided by Chessington so as to make the most efficient use of resources at Chessington and in customer departments.
2. Specifically, therefore:
 - a.
 - i. To pay the staff of payroll customer departments promptly, accurately and economically.
 - ii. To include all necessary statutory changes in the payroll system.
 - b. To meet the requirements of DSR customer departments promptly, accurately and economically.
 - c. To provide a reliable MAISY service to the departments using it.
 - d. To provide for Superannuation Division a computerised index retrieval service.
 - e. To provide for the whole Civil Service an efficient superannuation awarding service.
 - f. To provide a Standard Payroll package to participating departments and help them use it.
 - g. To provide a MANDATE service for SCS.
 - h. To provide computer facilities to CSC and CCTA(TS).

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
1. To ensure that the services offered to our customers are the most efficient possible.	GOOD PROGRESS - Productivity on the Pay Sections increased from 1350 to 1450 payees per clerk over the 84/5 year and a target of 1500 is being pursued by April 1986. Service to online users improved from 80% or so to over 95% during the year.
2. To operate improved control and monitoring machinery to bring about greater efficiency and financial control.	LITTLE PROGRESS - Whilst the CCC performance measures and budgetary controls continue to improve CCC Management and decision making, we have been able to mount only limited comparisons with analogous installations. Few other public or private sector installations seem to make use of such measures and we have spent much time advising other departments in how we use performance measures.
3. To consider portability of our systems to aid mainframe migration at next replacement and to increase the potential customer base for standard systems.	COMPLETE - We have found that greater portability of our systems would not attract a wider customer base at present and sufficient alternative options exist for providing a centralised pay system to the remaining independent pay centres. We will consider portability in relation to mainframe migration nearer to our replacement timescale.
4. To commence implementation of the objectives set out in the Chessington Strategy Document.	GOOD PROGRESS - Following approval of our long term strategy by HMT IT Strategy Committee we have committed to a work plan of various studies and reports. Significant items feature in our objectives for the target year. Progress on all items is monitored through the Steering Committee chaired by PEO.
5. To provide a Standard Payroll package and advice on implementation for Metropolitan Police Office.	GOOD PROGRESS - The necessary enhancements required for MPO take-on have been implemented and liaison between CCC and MPO has been good. MPO have, with CCC agreement, advanced the date of their staged transfer to Standard Payroll and their first live weekly pay runs will be in September '85.
6. To pursue with Policy Divisions the simplification of pay procedures.	SLOW PROGRESS - Pay Divisions are currently reviewing the rules on SPOP and ERA which could have a significant impact. Also the extension of the unified grading exercise to Prin level will assist. A recent move to reduce the number of CVD organisations was unsuccessful due to lack of support from other pay centres. In order to improve liaison between policy divisions and pay centres, Director CCC now chairs alternate CPC meetings with the AS, Pay 1. This enables more frequent meetings to be held.
7. To consider, and implement as appropriate, the greater integration of the systems currently run at CCC.	GOOD PROGRESS - With the increasing need for interchange of information between the systems at CCC we have convened a Working Party to review data usage. We have already determined a strategy for commonality of input which will reduce the inputting requirement on customer departments.
8. To develop a system of Direct Data Entry (DDE) for payroll input to Chessington.	GOOD PROGRESS - Following the successful replacement of the data preparation equipment work has commenced to analyse the system requirements for DDE.
9. To implement an extended form of repayment for CCC services.	GOOD PROGRESS - Repayment in its agreed form will be introduced from 1.4.86. Departments have been kept informed of developments and PESC transfers have been calculated.

D. (ii) Priority objectives in 1986-87

Priority objectives	Comment/detail/progress expected in 1986-87
1. To ensure that the services offered to our customers are the most efficient possible.	We shall continue to pursue improvements in efficiency and give highest priority to those user requirements leading to savings in customer departments. A target of 1550 pay clerk productivity has been set for April '87.
2. To consider automation of the Performance Indicator system.	Continuation of existing work towards implementation of preferred software by October 1986.
3. To evaluate Capacity Planning software to determine how best to improve the management of the computer resource.	Continuation of existing work in conjunction with CCTA Norwich. A report scheduled for April '86 will recommend an appropriate strategy.
4. To evaluate the benefits and implement, as appropriate, the transfer of the salary file from magnetic tape to disc.	A study in the target year will consider the costs of such a move against the benefits to customers from online access for interrogation and/or update to the salary file. Report date October 1986.
5. To provide a Payroll service to Department of National Savings.	Culmination of existing work with Department of National Savings in preparation for their adoption of the payroll from October 1986.
6. To provide a remote processing payroll service to SOCS.	Scottish Office management have now informed their TUS of the intention to use CCC as a payroll processing bureau from April 1987.
7. To provide payroll and MAISY service to Crown Prosecution Service (CPS).	CPS Management Consultants, Arthur Andersen & Co. considered Chessington more cost effective than private bureaux. CPS management have asked for service from April '86.
8. To pursue with Policy Divisions the simplification of pay procedures.	Continuation of existing work (see Section E(111) - Constraints). In particular we would wish to extend credit transfer facilities to Building Society payments.
9. To consider, and implement as appropriate, the greater integration of the systems currently run at CCC.	Following endorsement of the Strategy Document by IT Strategy Committee we are pursuing with customers the feasibility of greater integration of our services, and sharing of data between systems.
10. To develop a system of Direct Data Entry (DDE) for payroll input to Chessington.	Continuation of existing work towards implementation of a system in customer departments in 1986-87.
11. To implement an extended form of repayment for CCC services.	Implementation of the agreed policy at 1.4.86.

D. (11) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
12. To evaluate and implement, as appropriate SSADM techniques in system design.	Following completion of a pilot study in 1985-86 we will evaluate the technique and, if suitable to our needs, procure the necessary hardware/software and establish procedures for use within the target year.

D. (iii) Supporting information including performance measures

CHESSINGTON COMPUTER CENTRE
AUGUST 1985

Some 50 odd indicators are in operation at Chessington and are regularly reviewed at the monthly management meetings. The attached table brings together a number of those performance indicators in operation at CCC and shows, for the major services, at quarterly intervals, the three significant aspects - viz workload volumes; quality of service; responsiveness to change.

Performance in the last quarter has been affected by two major items. Firstly the introduction of the new data preparation equipment which considerably slowed the keying rates and secondly a new release of the PPL software for the MAISY AP system which proved less reliable than expected.

Over the year as a whole, however, there has been a considerable improvement.

CHESSINGTON COMPUTER CENTRE

PERFORMANCE MEASURES

INDICATORS	STANDARD/ TARGET	SEPT 84	DEC 84	MARCH 85	JUNE 85
WORK VOLUMES					
a. Payroll					
Average size	-	115,000	114,000	115,000	113,000
Average remote accounts	-	60,000	74,000	74,000	75,000
Queries outstanding	50	105	182	154	129
Average payees per CO (Mthly)	1,450	1,443	1,415	1,432	1,451
b. Superannuation					
Awards processed	-	6,600	31,481	36,670	37,045
c. MAISY					
Payments issued	-	20,132	21,043	23,777	17,846
d. DSR					
Personnel records held	-	91,686	91,685	91,992	92,141
QUALITY OF SERVICE					
Payroll					
Program errors - all users	75	78	83	58	39
CCC input errors	20,000	20,000	20,000	16,000	28,000
CCC pay recalculations	2,500	2,072	2,838	2,191	2,880
Accuracy of documentation	95%	98%	99%	98%	94%
b. Superannuation					
Awards abandoned	5%	4%	5.4%	10%	2.5%
Program errors	25	52	29	25	41
Index online service	90%	65%	91%	96%	92%
c. MAISY					
Run-time software errors	6	1	1	3	4
Online service	90%	83%	94%	101%	98%
d. DSR					
Program errors/enhancements	150	29	86	170	105
Online service	90%	83%	96%	97%	95%
RESPONSIVENESS					
a. Payroll					
Error o/s over 3 months	0	28	8	32	16
Enhancements outstanding	150	157	150	139	145
Accuracy of amendments	75%	N/A	80%	87%	83%
b. Superannuation					
Error clearance rate	2 days	2 days	2 days	2 days	2 days
Enhancements outstanding	5	18	18	10	11
Accuracy of awards processed	90%	N/A	N/A	95%	95%
c. MAISY					
Run-time software error clearance rate	5 days	7 days	7 days	2 days	2 days
Enhancements outstanding	30	24	47	37	33
d. DSR					
Error clearance rate	1 day	½ day	½ day	1 day	½ day
Enhancements outstanding	100	34	10	3	112

(i) Effect of 5 per cent reduction in resources available

We are aiming to save a further 4 posts in 1985/86 (1%) and, added to the 1% staff saving achieved in 1984/85 and the 13% staff saving achieved in 1983/84, it is unlikely that further reductions beyond 1-2% in 1986/87 could be achieved by good housekeeping means. Savings of up to 5% could only be achieved by transferring back to our customer departments between 10 and 12,000 pay accounts; withdrawing the DSR service; or withdrawing the Standard Payroll support to one or more customer departments. Each of these proposals would have the effect of increasing the manpower requirements of the customers involved to a greater extent than the posts saved at Chessington.

(ii) Effect of 5 per cent increase in resources available

Chessington is already providing a reasonably comprehensive service to its customers for payroll, DSR, MAISY, Superannuation purposes and has sufficient manpower resources to cater for anticipated changes and enhancements. A 5% increase in staff would not therefore be used to provide a better service as the current aim of the Centre is to provide that level of service for less overall cost. Therefore we would be seeking to use such an increase in staff resources for additional work.

In practical terms a 5% increase would represent some 20 to 30 posts and if these were applied en bloc to the clerical sections this would allow more payees to be paid from CCC. From recent experience it has been found that there are economies of scale in adopting a centralised pay policy and this in itself leads to a significant net saving over the Civil Service as a whole.

Alternatively the 5% increase could be applied to the MAISY system to make the Management Information System available to more customers where this would result in overall savings.

(iii) Constraints on past and future performance, changes in organisation of work etc

The difficulty experienced in attracting and retaining the right type of EO programmer continues. Since February 1985 we have taken part in both a CCTA sponsored London local recruitment drive and a CSC sponsored local recruitment exercise for CCC and MAFF at Guildford. In both cases the initial response was good but the long delay between application and posting meant that the return from the exercises was a disappointing 4. Annual temporary promotion of COs, locally recruited continues, and CSC are mounting a second local recruitment exercise.

A further constraint on the efficient operation of a pay system is the increasing complexity of the pay system itself. We have already identified numerous pointers which we believe would lead towards the simplification of the system but the timescales and costs involved in their agreement with all relevant parties and negotiation of changed conditions of service suggest that this will be a continuing problem.

We are also constrained by the finite amount of computer processing resource available to us. Since last year DNS, SOCS and Crown Prosecution Services have asked to use our systems. The nature of the on-line systems at CCC, particularly DSR, is also such that their adoption by customer departments will be on a progressive basis. We therefore have to ensure that the capacity available to us is sufficient to satisfy this increasing requirement. To this end we need to upgrade our computer to a superdual 2988 and financial approval is currently being sought for purchase in 1985/6.

Whereas plans have been made to partially overlap the General Ledger and Accounts Payable suites of the MAISY system in order to allow a form of extended 2 shift working, the advent of the large CPS MAISY workload effectively prevents its achievement. The third shift together with two additional programmers, is however, the only staff cost involved in providing for CPS MAISY needs from which through economies of scale, significant operating savings to the central departments will accrue.

Expense Type	Spend in 1984-85	Agreed bid for 1985-86	Forecast Outturn £5/6 + Overspend - Underspend	Bid for 1986-87
Basic Staff Costs	3422475	3624366	-	3948000
Casuals	4769	-	-	-
Other Pay Costs	1836	6000	-	6000
Chessington Bonus	1497	2000	-	-
Overtime / Travel Time	63053	73000	-10000	65000
Telephone Operators	10082	14500	-	10000
Accommodation Costs	620247	638000	-	566000
Minor Works under £1000	15389	25000	-	60000
IDS	2340	3300	-	3300
Furniture and Fittings	82493	25000	-	25000
Custody Guards	118906	85100	-	89000
Fuel and Utilities	88385	88000	-	98000
Contract Cleaning	61958	67400	-	50000
Training	28548	46300	-15000	46000
Catering Support Costs	31358	39000	-	39000
Travel and Subsistence	13517	17150	-3000	17000
Postage	64234	76000	-5000	66000
Giro and Banking	81013	83100	-	84500
Telephones	71333	148000	-55000	64000
Conference Teas	296	500	-	500
Stationery	26977	35000	-70000	91000
Printing, Binding, Reprographic)	85613	153384	-	34000
Office Machinery	50874	76000	-35000	64000
Recruitment Advertising	-	1000	-	3000
Magnetic Tape Transfers	45806	50500	-	50000
Excess Rent Allowance	2993	5000	-	3500
Laundry	5601	10000	-9000	1000
Fees	-	26000	-	26000
Miscellaneous	1898	1400	-	2000
Computers - Capital	440643	304000	+346000	184000
Computers - Current	371981	336000	-33000	504000
TOTAL	5816115	6060000	+111000	6199800

Notes:

Receipts:	Trading	9924446	992,000	+35000	2090000
	Refunded VAT				12500

2. Staffing Profile and Bio

Responsibility Centre: Chessington C.C.

Date: 1 8 / 85

a. Staff In Post

Completed Date	Grade 3	Grade 5	Grade 8	Pr In	ECR Adv	Start	PSO	SEO	SSO	HEO	Sen. Messengers	Mess. Engin. P/10/1	Sec. Guard 4	Sec. Guard 5	EO	Sen. Data P/10	Data P/10	Sept Typ	Office Keeper Col II	CO	CA	SPS	PS	1YP	Appx. Kept	Total	Casuals/Substit	Unk.
1 April 1985			1	4				14		45½	1	8	1	7	86	17	43½	1	1	140	33½		-1	4	4	422½		
1 July 1985			1	4				14		44	1	9	1	7	84	24	39	1	1	142	34½		1	5	4	416½		

b. Staff Complement 1985-86

1 April 1985			1	4				15		48	1	9	1	7	92	22	44	1	1	138	33		1	5	4	427		
31 March 1986			1	4				15		47½	1	9	1	7	90½	22	44	1	1	136	33		1	5	4	423		
Av. Complement 1985-86			1	4				15		47.8	1	9	1	7	91.4	22	44	1	1	137.2	33		1	5	4	425.4		

c. Bid for 1986-87 by quarter

1 April 1986			1	4				15		48½	1	9	1	7	93½	22	44	1	1	135	29		1	5	4	422		
1 July 1986			1	4				15		49½	1	9	1	7	94½	22	44	1	1	136	29		1	5	4	425		
1 Oct 1986			1	4				15		49½	1	9	1	7	96½	22	44	1	1	142	30		1	5	4	424		
1 Jan 1987			1	4				15		49½	1	9	1	7	96½	22	44	1	1	141	30		1	5	4	433		
31 Mar 1987			1	4				15		49½	1	9	1	7	95½	22	44	1	1	141	30		1	5	4	432		
Av. Complement 1986-87			1	4				15		49½	1	9	1	7	95¾	22	44	1	1	140	29¾		1	5	4	431		

* Please specify grade

Notes: The manpower targets for Chessington are 423 posts at 1 April 1986 and 418 posts at 1 April 1987.

3. BREAKDOWN OF STAFF COMPLEMENT BY DIVISION

CHESSINGTON COMPUTER CENTRE
AUGUST 1985

DATE	DIVISION	GRADE 6	PRIN	SEO	HEO	EO	CO	CA	PS	SUPT TYPIST	TYPIST	SG4	SG5	SDP	DP	OK2	PKR	S.MESS	MESS	PORTER	TOTAL	
1.4.85	DIRECTOR	1		2	3	5	9	6	1	1	5	1	7			1	4	1	6	3	56	
	PAY		1	3	8	30	111½	22														175½
	OPS		1	3	12	15	2	1						22	44							100
	SP		1	4	11	13	7½	1														37½
	CSG		1	3	14	29	8	3														58
	TOTALS	1	4	15	48	92	138	33	1	1	5	1	7	22	44	1	4	1	6	3	427	
31.3.86	DIRECTOR	1		2	3	5	9	6	1	1	5	1	7			1	4	1	6	3	56	
	PAY		1	3	8	29	106½	18														165½
	OPS		1	3	12	15	2	1						22	44							100
	SP		1	4	10½	12½	8½	1														37½
	CSG		1	3	15	32	9	3														63
	TOTALS	1	4	15	48½	93½	135	29	1	1	5	1	7	22	44	1	4	1	6	3	422	

- (1) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

Resource requirement changed significantly in a number of respects during the year. The overall computer workload seems set to increase by some 50% due to provision of services to Crown Prosecution Service and DNS particularly and to the expanding needs of other departments. In order to support this increase, the bid includes:

- i. A further 9 posts (14 posts are to be transferred from the relevant departments offset by productivity savings of 5).
- ii. Capital expenditure of £517,500 to enhance the computer to superdual 2988 status.
- iii. Expenditure of £69,000 on fixed discs to support the increasing databases.

Control
b.f

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

A continuing need for comparatively modest capital expenditure is foreseen to meet the expanding needs of departments to store larger amounts of data on disc and for greater terminal communications with the Centre.

Beyond this, however, the computer enhancement to superdual 29E8 should meet customer departments' needs for the immediate future.

(iii) General comments on patterns/history of resource use

The overall bid for stationery, printing, binding and reprographic has been reduced by a further £33,000 to more closely reflect our needs. A reduction of £72,000 in accommodation charges between 85/6 and 86/7 reflects PSA's ability to charge for specific sites and buildings rather than averaging costs over districts as hitherto.

At the same time PSA seem likely to delegate more responsibility for works to departments in increasing the minor works maximum from £1,000 to £5,000. The increased bid (£25,000 - £50,000) reflects this.

A. Organisation

Responsibility Centre

Date 16 August 1985

Manager				
Heads of Division (with grade)	TREASURY VALUER (GRADE 4)			
Branch Heads with main areas of responsibility in 1985-86 WHOLE DEPARTMENT	MR P J DAHLHOFF			
Public expenditure totals to which responsibilities directed (where appropriate)	XIV 5 £121.2m(net) XII 4 £0.313m(net)			
Staff-in-post including heads of Division (1 July 1985)	43			43
				Total Staff-in-post (1 July 1985) 43

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date 16 August 1985

(1) 1985-86

Area of work	% age
Valuation of Crown premises	59
Finance payments and receipts	27
Diplomatic, etc	14
Total	100

(11) Changes since 1984-85

NONE

(111) Changes expected in 1986-87
compared with 1985-86

NONE

To maintain the survey and valuation of property in the occupation of the Crown in order to establish and update the bases upon which contributions in lieu of rates are made.

To ensure that the payments made to local authorities are in accordance with Government Accounting in respect of Crown and Diplomatic occupations.

To effect recoveries where due.

To implement proposals (if accepted) to effect RGPD's payments through MAISY, and to computerise the Finance Branch database.

To conclude any outstanding problems that arise from the revaluation of Crown properties in Gibraltar.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
Scottish Revaluation	Now completed (within timescale)
Diplomatic recoveries	Procedures now implemented to issue claims more quickly.
Working Practices	Review of payments procedures concluded, link with MAISY for payments, and computerisation of Finance Branch database to be discussed with higher management, and if proposals approved necessary equipment purchased, installed and system worked-up.
Gibraltar revaluation	Preparation in hand for complete revaluation of all Crown property in Gibraltar. On target for completion by December 1985.

D. () Priority objectives in 1986-87

Priority objectives	Comment/detail/progress expected in 1986-87
<p>If accepted to effect payments through MAISY</p> <p>Computerisation of Finance Branch database</p> <p>Diplomatic claims - Further examination of outstanding claims for past years, and methods of achieving recovery</p>	<p>Full implementation</p> <p>Work up and fully implement</p> <p>Full examination, but with no legal redress available results may be limited.</p>

D. (iii) Supporting information including performance measures

Responsibility Centre

Date 16 August 1985

We have looked yet again at the feasibility of producing meaningful performance measures. The further review has served only to confirm the conclusion reached previously that we cannot devise such measures.

To some extent RGPD has the characteristic of a Treasury expenditure division in that it exercises control over expenditure by ensuring that rate contributions are not too high. It follows that total Rateable Values and total amounts paid to local authorities cannot provide useful measures of output, any more than total public expenditure provides a useful measure of output of any one Treasury division. RGPD in its professional capacity also has an advisory role to other Government departments, certain public bodies and research councils, where output cannot readily be measured.

(i) Effect of 5 per cent reduction in resources available

This could only be achieved by a reduction of 2 staff. It would lead inevitably to a slowing down of the work process and would leave us open to criticism from E&AD and local authorities.

There is no single item of work that can be forgone.

(ii) Effect of 5 per cent in resources available

An increase in staff (provided we had choice of grade) could lead to a consequent speeding up of certain procedures, but we would not claim this would necessarily lead to an improvement in working practice.

(11) Constraints on past and future performance, changes in organisation of work etc

From August 1985 staff in the Groups (1 & 2) have become further involved in the PRS CERIS operation, thus adding to the workload of 14 of my staff without addition to complement. This, together with PRS work already assumed, is a constraint on the performance of the long recognised valuation and payment function of my department. The provision of a PSA CERIS VDU may, however, provide a useful spin-off for obtaining information available to PSA and currently provided to us manually.

The only change in organisation foreseen is the possible saving of one staff consequent upon payments being effected through MAISY and the computerisation of Finance Branch database. This is dependent upon (a) higher authority approving the necessary equipment (b) the system being worked up and approved, and (c) the staff saving being demonstrated.

1. Budget Bid Form

Rating of Government Property Department
Date: 20 September 1985

Expense Type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
Basic staff costs	474888	512000	121626	545,618
Casuals	-	-	-	-
Overtime	7134	7000	2009	8,000
Agency Typists	20220	20800	5837	23,200 (2)
Telephone Operators	12818	17200	3365	14,500 (3)
Accommodation Charge	115393	117000	29170	148,410 (4)
Minor works under £1000	3100	3300	52	3,400
Government Car Service	5566	6300	800	5,000
Fuel and Utilities	4078	5500	-	5,800
Contract Cleaning	6977	9200	1879	9,700
Travel and Subsistence	41453	46000	6178	41,500 (5)
Office Machinery	-	700	-	720
Telephones	11744	13500	3008	14,700 (6)
HMSO Services	8522	9300	1094	9,300
Information Technology	-	10000	-	3,000 (7)
Removals	405	9000	-	9,450 (8)
Postage	2221	3400	320	2,450
Furniture and Fittings	4660	3300	176	3,400
Recruitment Advertising	-	-	485	500 (8)
Training	-	-	-	- (9)
Miscellaneous	208	700	2	470
TOTAL	719387	794200 (a)	175992	849,118 (10)
Receipts	508370	470000	226557	420,000 (11)

NOTES: Although recruitment advertising and Training are central budgets for the main Treasury, as the full administrative costs of RGPD are met from subhead C1 of the Treasury Vote, RGPD should bid, and have a budget, for these items.

NOTES:

- (a) Agreed budget, but too late for Estimate print.
- 1 Includes £12,500 for introduction of Unified Grade 7.
 - 2 Based upon currently hourly rates, plus 5 per cent.
 - 3 Based upon anticipated outturn plus 5 per cent.
 - 4 Because of a change in PRS charging methodology rent costs are up by over 36 per cent and rates by over 15 per cent.
 - 5 Home £39,000, Overseas £2,500. These figures are after adjustment for additional visits in 1985-86 concerned with revaluation, but they allow for increased motor mileage with effect from 1.4.1985.
 - 6 Based upon anticipated outturn plus 5 per cent, plus additional costs of CERIS (£575 per annum) plus MAISY link (£1,200 per annum).
 - 7 Based on the assumption that IT package is approved in 1985-86. This sum represents cost of a maintenance agreement, software and associated costs.
 - 8 Associated with competition for Valuers.
 - 9 By agreement with the DTO EOG will bid centrally for RGPD's training costs.
 - 10 The bid for 1986-87 over 1985-86 at plus 7½ per cent is distorted by the 26.8 per cent increase in the Accommodation Charge, over which we have no control. This apart the bid is 3.7 per cent above last year's agreed budget.
 - 11 The reduction in receipts reflects a change in PRS charging methodology.

2. Staffing Profile and Bid

Rating of Government
 Responsibility Centre: Property Department
 Date: 16 / AUG / 1985

a. Staff In Post

Date	Complemented Grade	Grade 4	Grade 5	Grade 6	Prin	Econ Adv	Sen Value	PSO	SEO	SSO	HEO	MSO	HED (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	Sen Mess.	Mess.	Asst Stat	CO	CA	SPS	Paper Keeper	Photo Printer		Total	Costs/Students	Use of Micists
	4	5	6																										
1 April 1985	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
1 July 1985	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1

b. Staff Complement 1985-86

1 April 1985	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
31 March 1986	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
Av Complement 1985-86	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1

c. Bid for 1986-87 by quarter

1 April 1986	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
1 July 1986	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
1 Oct 1986	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
1 Jan 1987	/	/		/		8		/		/						7		/	2		15	2	/	/	/		43	2	1
31 Mar 1987	/	/		/		8		/		/						7		/	2		15	2	/	/	0		42	2	1
Av Complement 1986-87	/	/		/		8		/		/						7		/	2		15	2	/	/	/		42.8	2	1

* Please specify grade

Notes: The manpower targets for RQPD are 43 staff at 1 April 1986 and 42 staff at 1 April 1987.

SECTION 4:

Responsibility Centre

Date 16 August 1985

- (1) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

NOT APPLICABLE

(ii) **Developments for which there may be longer term resource requirements (ie beyond 1986-87)**

The Secretary of State for the Environment has said that he will announce his proposals for a review of the rating system towards the end of 1985. It is not clear what the Government's precise intentions are but should it involve the revaluation of all non domestic property in England and Wales it will be necessary for all Crown property, which represents some 5% of value of the whole, also to be revalued. Consequent additional resources would be required to meet

- (1) Stationery and printing costs
- (2) Postage
- (3) Travel and subsistence
- (4) Additional staff

Until details are known it is not possible to quantify the costs but these are likely to be considerable.

(iii) **General comments on patterns/history of resource use**

NOT APPLICABLE

FROM: D S B SIMPSON
DATE: 4 November 1985

1. Mr Kemp
2. Sir Peter Middleton
3. Minister of State

cc Mr D Butler
Miss J Kelley
Mr D Truman
Mr E J Needle
CISCO Directors
CISCO RCOs

OPERATIONAL REPORT - 1 APRIL 1985 - 27 SEPTEMBER 1985

Directly Run Units

The attached summary shows the provisional trading results for CISCO's directly managed restaurants for the half-year ended 27 September 1985. The half-year budget and the final results for the first half of 1984-85 are shown for comparison. The format reflects the changes to catering subsidy arrangements which were introduced on 1 April 1985 and some items have been annotated to facilitate comparison with the corresponding period in 1984-85.

Summary of Trading

1. Sales

Total sales were 16% higher than in the first half of 1984-85. Allowing for the effect of price increases there was a volume increase of 10%, of which business at new units accounted for 5½% and increased business at existing units for 4½%. Allowing for price increases, the average spend was virtually unchanged.

2. Gross Profit Margins

At 48.1% the gross profit on food sales was 1.8% below budget, but 0.5% above the margin realised in 1984-85. The overall gross profit percentage of 40.1% was exactly the same as last year: the cash gross profit was 0.2% (or £4,000) below budget.

3. Staff Costs

There was an excess of 0.3% on budgeted staff costs.

4. Other Costs

Due largely to the introduction of coin and vending machines and the increased usage and cost of disposables mentioned in my earlier reports the budget provision has been exceeded by £77,000. A special effort is being made by managers to minimise these costs: some success was achieved in September. Our experience of the need for a larger provision will be reflected in next year's budget.

5. Surplus/Deficit

The overall result is a deficit of £149,000 compared with a budgeted deficit of £60,000 and a deficit of £116,000 in 1984-85.

6. General

The size of the overall trading deficit is slightly disappointing. However, gross profit percentages normally increase in the second half year and, if successful, the action being taken by managers to restore the position will ensure that the larger cash profit margins associated with increased business are achieved.

Manpower

CISCO's staff in post on 1 October 1985 numbered 1059½ compared with 1050 at 1 April 1985 and the target figures of 1070 at the latter date and 1056 at 1 April 1986. Although there was a net increase in the half year due to the timing of changes in unit structure and the recruiting pattern, the actual figure at 1 October 1985 was slightly below the deemed target for that date. The current central forecast for 1 April 1986 is a small excess: the extremes of the range of possible outturns are 1040 and 1071. Any necessary measures will of course be taken to meet the April 1986 target.

Value for Money Targets

The results for CISCO's direct units were as follows:

	First half 1984-85	First half 1985-86	Change
1. Sales per full time staff equivalent in real terms	£36.70	£40.44	+10%
2. Exchequer cost per transaction in real terms	25.10p	22.84p	- 9%
3. Headquarters cost per £ of sales	11.1p	10.2p	- 8%

D.S.B. Simpson
D S B SIMPSON

CIVIL SERVICE CATERING ORGANISATION
OPERATIONAL REPORT - DIRECTLY MANAGED RESTAURANTS

Period Nos 1-6 ended 27 September (123 trading days)

ACTUAL 1985/86

BUDGET 1985/86

Period Nos 1-6 ended 28 Sept 1984
ACTUAL 1984/85
(123 trading days)

SALES & MATERIAL COSTS

Food
Sundries
Tobacco
Bar

OTHER INCOME

Departmental subsidies (1)
Productivity Bonus recoveries
Cleaning Charges (2)
Miscellaneous

OTHER OPERATING COSTS

Staff costs
Other expenditure

TOTAL

	Income f'000	Expenditure f'000	Margins	
			f'000	% of sales
	3822	1984	1838	48.1
	1311	1004	307	23.4
	195	176	19	9.6
	391	261	130	33.4
	5719	3425	2294	40.1
	2458	-	2458	
	121	-	121	
	32	-	32	
	38	-	38	
	8368	3425	4943	
		4708	(4708)	
		384	(384)	
	8368	8517	(149)	

	Income f'000	Expenditure f'000	Margins	
			f'000	% of sales
	3691	1849	1842	49.9
	1235	945	290	23.5
	210	184	26	12.3
	392	252	140	35.8
	5528	3230	2298	41.6
	2458	-	2458	
	121	-	121	
	32	-	32	
	33	-	33	
	8172	3230	4942	
		4695	(4695)	
		307	(307)	
	8172	8232	(60)	

Income f'000	Expenditure f'000	Margins	
		f'000	% of sales
3275	1716	1559	47.6
1102	830	272	24.7
191	168	23	11.8
359	235	124	34.4
4927	2949	1978	40.1
2174	-	2174	
241	-	241	
159	-	159	
64	-	64	
7565	2949	4616	
	4405	(4405)	
	327	(327)	
7565	7681	(116)	

NOTES

(1) Departmental subsidies:

In 1984-85, these comprise Special Service Credits and percentage grant. In 1985-86, Departments are meeting the operating deficit as calculated in CISCOS fixed price quotation.

(2) Cleaning Charges:

In 1984-85, Cleaning credits included the refund to CISCOS of the additional cost of operating overlarge kitchens. These are not now calculated separately. For 1985-86, any such additional cost is reflected in the operating deficits covered by departmental subsidies.

CENTRAL MANAGEMENT OF THE CIVIL SERVICE:
CIVIL SERVICE CATERING SERVICES (HM TREASURY)

SUMMARY OF PROGRAMME OUTTURN, and the ACCOUNT of the sum expended, in the year ended 31 March 1985, compared with the sum granted, for the expenditure of the Civil Service Catering Organisation (Treasury) in connection with the provision of catering services.

SUMMARY OF PROGRAMME OUTTURN

Section	Estimated			Actual		
	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000	Gross Expenditure £000	Appropriations in Aid £000	Net Expenditure £000
PROGRAMME 13.3						
CENTRAL MANAGEMENT OF THE CIVIL SERVICE						
A	1,768	1,558	210	1,422	1,487	(65)
B	1	-	1	-	-	-
Total	<u>1,769</u>	<u>1,558</u>	<u>211</u>	<u>1,422</u>	<u>1,487</u>	<u>(65)*</u>

This figure is £55,000 less than the net total of expenditure on the Appropriation Account, being the difference between the Appropriations in Aid realised (£1,487,000) and those authorised to be applied (£1,422,000).

E. Middleton

ACCOUNT

Service	Grant	Expenditure	Expenditure compared with Grant	
			Less than Granted	More than Granted
	£000	£000	£000	£000
PROGRAMME 13.3				
SECTION A				
CIVIL SERVICE CATERING ORGANISATION				
A1 Civil Service Catering Organisation: Headquarters	1,558	1,347	211	-
A2 Experimental catering services	210	75	135	-
SECTION B				
DIRECTLY MANAGED RESTAURANTS (NET)				
B1 Payments and receipts (net) (1)	1	-	1	-
GROSS TOTAL	£ 1,769	1,422	347	-
	<u>Estimated</u>	<u>Realised</u>	Surplus of Gross Estimate over Expenditure	
	£000	£000		
Less:				
A2 Appropriations in Aid	1,558	1,422	347	Difference between estimated and applied Appropriations in Aid
			135	
NET TOTAL	£ 211	-	Net Surplus to be surrendered 211	

Actual surplus to be surrendered

£211,000.00

The surplus of £215,254.00 shown in the Account of the Vote for Civil Service Catering Services for the year ended 31 March 1984 has been surrendered.

(1) For details see Notes

RECEIPTS	<u>Estimated</u>	<u>Realised</u>
	£000	£000
Receipts payable to Consolidated Fund		
(i) Receipts of classes authorised to be used as Appropriations in Aid	1,558	1,487
(ii) Receipts of other classes	-	140
	-----	-----
Gross Total	1,558	1,627
Appropriated in Aid		1,422

Net Total		205

Actual sum payable separately to Consolidated Fund		£205,031.92

Details of Receipts

	<u>Estimated</u>	<u>Realised</u>
	£000	£000
(i) Receipts of classes authorised to be used as Appropriations in Aid		
Subhead A2		
Recovery of the cost of CISCO headquarters organisation from departments using their services	1,458	1,386
Recovery of the administrative cost of providing various restaurant committees with the staff to manage their restaurants, and fees from other bodies for professional catering advice	100	101
	-----	-----
Total	1,558	1,487
	-----	-----
(ii) Receipts of other classes		
Excess of receipts over expenditure in respect of directly managed restaurants (Subhead B1)		139
Miscellaneous		1

Total		140

P

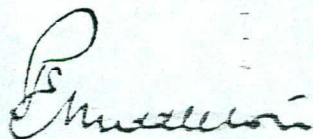
Notes
Details of Expenditure

SUBHEAD B1	Estimated	Actual	Saving	Excess
	£000	£000	£000	£000
DIRECTLY MANAGED RESTAURANTS (NET)				
Salaries, wages, etc, of 1,277 staff	8,078	7,780	298	-
Supplies and services	6,934	7,544	-	610
Contributions on account of accruing liability for superannuation	1,496	1,470	26	-
£	16,508	16,794	324	610
Less				
Trading receipts from CISCO restaurants within government establishments	10,089	10,721	632	-
Recoveries from user departments	5,753	5,435	-	318
Recovery of deductible input VAT	390	397	7	-
Subsidy for experimental catering projects (transfer from subhead A2 of this Vote)	210	74	-	136
Miscellaneous receipts	65	306	241	-
NET TOTAL EXPENDITURE	£ 1	(139)	1,204	1,064

Net saving £140

Other Notes

Expenditure on the provision of accommodation, fuel and light and certain equipment costs in directly managed restaurants is borne on other Votes.



Accounting Officer

23 September 1985

STATEMENT OF ASSETS AND LIABILITIES AT 31 MARCH 1985

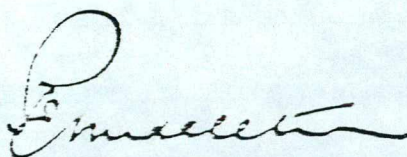
	Liabilities £	Assets £
Paymaster General (Vote Account)		115,746.00
Consolidated Fund Extra Receipts		10.00
HM Paymaster General - Treasury Votes Cash Account		661,209.06
Outstanding Payable Orders	417,373.12	
Out of date Payable Orders	132.52	
Till Floats		13,041.40
MCD Wages Standing Deposit		58,405.90
CCC Payroll Deposit		500,000.00
Salaries and Wages Advances		149.03
PSA Minor Equipment Advance		1.60
Personal Imprests		61.97
Season Ticket Advances		1,774.74
Prepayments		584.55
Bulk Purchase		1,239.90
Overpayment Salaries and Wages		863.78
Payroll Control Account	486,128.29	
AP Creditors Control - Employees		18,486.51
YAT	557,475.88	
Miscellaneous	21,123.57	
Unallocated Receipts	433,850.67	
Ministry of Agriculture, Fisheries and Food		7,172.00
British Telecom	7,265.37	
Cabinet Office and CSO		8,219.00
Central Office of Information	0.03	
Customs and Excise		16,883.00
MCD Navy	24,906.54	
PE		1,091.89
DGST(N)	343.00	
DGDA	6,707.51	
Department of Education and Science	173.00	
Department of Employment	1,010.00	
Department of the Environment		1,330.23
Department of Transport	740.00	
Property Services Agency		2,340.00
Export Credits Guarantee Department	327.00	
Foreign and Commonwealth Office	872.00	
Government Communication Headquarters	1,586.00	
Health and Safety Executive	0.45	
Department of Health and Social Security	3,386.00	
Historic Buildings and Monuments Commission	159.00	
Home Office		2,585.68
Inland Revenue	176.00	
Land Registry		8,466.00
Lord Chancellor's Department	458.00	
Management and Personnel Office		24,211.00
Department for National Savings	2,179.00	
Overseas Development Administration		150.00
Office of Population Censuses and Surveys		600.00

CENTRAL MANAGEMENT OF THE CIVIL SERVICE:
 CIVIL SERVICE CATERING SERVICES (HM TREASURY)

1984-85, Class XIII, Vote 14

STATEMENT OF ASSETS AND LIABILITIES AT 31 MARCH 1985

	Liabilities £	Assets £
Post Office		22,185.08
Public Records Office	71.60	
Royal Mint		3,662.24
Scottish Office	250.00	
Department of Trade and Industry	4,388.54	
HM Treasury	638.00	
Welsh Office	132.00	
Balance carried down		501,382.53
	£1,971,853.09	£1,971,853.09
Balance brought down	501,382.53	
Net Debits and Credits recorded after 31 March 1985		916,006.93
Surplus as shown in Appropriation Account	211,000.00	
Net receipts payable to Consolidated Fund	203,624.40	
	£916,006.93	£916,006.93
TOTALS	£916,006.93	£916,006.93


 Accounting Officer

23 September 1985

Manager	H P EVANS			
Heads of Division (with grade)	S.J. DAVIES (SEA)	G J HOWE (SEA)	R JAMES (SEN PRINCIPAL)	
Branch Heads with main areas of responsibility in 1985-86	EA1	EA2	EA 3	
	<p>P Allum - Personal sector - Forecast co-ordination.</p> <p>S Brooks - Pay and prices</p> <p>B Naisbitt - Company sector</p> <p>L Hunt - Labour market.</p> <p>The responsibilities of EA1 and EA2 cover analysis of current developments, research and forecasts in the areas listed.</p>	<p>R Barrell - Balance of payments current account</p> <p>G Hacche - North Sea Oil, capital account and exchange rate.</p> <p>W Hood - Domestic financial forecast.</p>	<p>D Rampton - Programming and development.</p> <p>S Carruthers - Central database.</p> <p>D J Baker - Support for econometric research, and secretary of Treasury economists computer users' group</p>	
Public expenditure totals to which responsibilities directed (where appropriate)				Management (US + PS)
Staff-in-post including heads of Division (1 July 1985)	9	8	9	2
	Total Staff-in-post (1 July 1985)			28

A. Organisation

Responsibility Centre
Date 11 OCTOBER 1985

Manager	SEDGWICK			
Heads of Division (with grade)	SEA POST (VACANT)			
Branch Heads with main areas of responsibility in 1985-86	<p><u>FEU</u></p> <p>P ROWLATT advice and research on domestic financial and monetary issues.</p> <p>M COURTNEY economic analysis of exchange rates and balance of payments flows. External aspects of macroeconomic policy.</p> <p>S PICKFORD (temporarily to replace unfilled SEA post) economic advice on EC matters (including forecasts of the EC budget), trade policy, and general international economic policy issues.</p> <p>R AARONSON economic advice on overseas aid, export subsidies and credit, and international debt.</p>			
Public expenditure totals to which responsibilities directed (where appropriate)		Management (US + PS)		
Staff-in-post including heads of Division (1 July 1985)	7	2		
	Total Staff-in-post (1 July 1985)			9

WORK PROGRAMME

A. Organisation

Responsibility Centre
Date 11 OCTOBER 1985

Manager	ODLING-SMEE			
Heads of Division (with grade)	RILEY (SEA)		MELLISS (SEA)	
Branch Heads with main areas of responsibility in 1985-86	<p style="text-align: center;"><u>MP1</u></p> <p>GRICE Medium-term financial strategy, general economic strategy.</p> <p>SPENCER Fiscal and other macro-economic policy analysis</p> <p>BREDENKAMP Analysis and quantification of macro-economic policies and policy packages</p>	<p style="text-align: center;"><u>MP2</u></p> <p>OWEN Medium- and long-term developments in the economy.</p> <p>WHITTAKER Management of the Treasury model, macro-economic research and liaison</p> <p>KELLY Special studies, including advice on empirical methods</p>		
Public expenditure totals to which responsibilities directed (where appropriate)			MP Management	
Staff-in-post including heads of Division (1 July 1985)	6	7	2	
wpa	Total Staff-in-post (1 July 1985)			15

MANAGEMENT IN CONFIDENCE

B. Allocation of Manpower/Resources between different areas of work

Responsibility On
Date

(1) 1985-86

Area of work	% age
1. Policy analysis (Macro-economic strategy; MTF5; fiscal policy monetary policy; international macro-economic issues; international trade and payments; trade policy; policy on international debt; quantification of effects of policies; macro-economic aspects of other policies such as labour market measures, public expenditure policy, pensions, depletion policy, nationalised industries, special studies on monetary issues; comments on others' policy proposals).	25
2. Analysis of current developments (Data collection and improvement; regular and occasional notes on current developments, eg on pay and prices, economic activity, oil, monetary conditions, company financial position).	15
3. Forecasting (Internal forecasts; published forecasts; economic assumptions for PEWP, etc; assessment of outside forecasts).	20
4. Policy analysis, analysis of current developments, forecasting (1-3 cannot always be separated, eg qualitative and analytical work that contributes both to submissions on policy and to forecasts, PQs, speeches, briefs, TCSC work, NEDC work, representation at international meetings, etc.)	10
5. Intermediate products that contribute to 1-4 (Maintenance, development and publication of Treasury model; other research; data base management; computer programming and management)	30
Total	100

(ii) Changes since 1984-85

1. No significant changes between the five main areas.
2. Within policy analysis, there is more work on labour market measures, public sector investment, fiscal policy (including the fiscal/monetary mix), the behaviour and control of the broad monetary aggregates and credit, the role of the exchange rate (including periodic reexamination of the EMS), and the international debt problem.
3. Within analysis of current developments, there is more work on the nature of unemployment, and monitoring and forecasting international debt developments.
4. Within intermediate products, there is more work on the modelling of the supply side and on methods of solving the Treasury model on the assumption that the expectations of economic agents are consistent.

(iii) Changes expected in 1986-87 compared with 1985-86

1. No significant changes between the five main areas.
2. More on the supply side and hence the analysis of possible medium and long-term developments.
3. Analysis of fiscal and monetary policy measures to be based increasingly on the assumption that expectations are forward-looking.

The general aim of EA, MF and FEU is to assist - by way of analysis, assessment and forecasts - the formulation and presentation of policies required for the achievement of the Government's macroeconomic objectives.

2. Within this general aim, more specific aims are:

- i. to develop further and refine analysis of the government's macro-economic strategy;
- ii. to analyse and assess the various policy instruments, in particular the approach to monetary and fiscal policy, and the effects of different policy measures;
- iii. to consider macro implications of other policies;
- iv. to monitor, assess and generally improve our understanding of current macroeconomic developments, both domestic and external, and our understanding of how the economy works;
- v. to prepare forecasts of macroeconomic developments, both for internal circulation and for publication;
- vi. to prepare analysis of various international economic issues.

Nearly all these can be characterised as advice to Ministers. The main exception is the preparation of material to be published in official documents, such as the FSBR, Autumn Statement and EPR.

3. The three divisions are taken together as a single responsibility centre because many of the areas of work and the tools of work are closely related to each other. For this reason, their work, together with staff management and planning, is co-ordinated on a regular basis by the Chief Economic Adviser. It should be noted, however, that FEU also has reporting responsibilities to the Deputy Secretaries for Public Finance and Overseas Finance and provides advice to their respective groups, and also on some issues to the Deputy Chief Economic Adviser. Other responsibility centres contribute to some of the aims above, notably PSF and EF2 in respect of (iv) and (v).

4. There have been no significant changes in aims in the last year.

wpc

D. (1) Progress on Priorities in current year

Responsibility Centre
Date

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
Analysis of policy measures	Some work on profit-sharing schemes (contribution to Monck paper on Profit-Sharing, Co-operatives, Two-Tier Wages and Jobs). Other possible budget measures not yet considered but now up-dating analysis of specific tax and expenditure measures in the light of new data and re-assessments of economic relationships. Papers on Macro-economic Effects of Pensions Proposals. Contributions to scorecard of Major Policy Reviews. Cost per job measures and infrastructure expenditure.
The MTFS	Papers on Public Expenditure and the MTFS. Briefing and comments on papers etc by Congdon, Gavyn Davies, Employment Institute, Kaldor and Ward, Bracewell-Mines, Hattersley, Blanchard et al, Dornbusch, articles in National Institute Economic Review and Oxford Economic Policy Review.
Analysis of the framework of macro-economic policy	<p>i. Progress has been made in our understanding of the implications for fiscal monetary policy of making different assumptions about how financial markets form and their expectations. More work will be done on effects of changing fiscal/monetary mix. Work under way on role of money GDP within the MTFS.</p> <p>ii. Paper on Approaches to the PSBR. Implications for setting the PSBR of specific proposals (eg introducing private sector capital into public sector projects, student loans, ECGD deficit).</p> <p>iii. Contribution to Treasury paper for an interdepartmental group on employment effects of various measures under DE chairmanship.</p>
Analysis and design of monetary policy	<p>i. There has been considerable work on the framework and presentation of policy monetary policy and analysis of alternative frameworks, such as exchange rate rules and regimes.</p> <p>ii. There has been work on the reasons for the high growth of credit and broad money together with analysis of the effects of various instruments for control Papers on the effects of funding. Treasury/Bank paper on broad money. Work on alternative measures of broad money. Published paper on personal sector holdings of liquid assets.</p>
Analysis of international economic issues	<p>i. There is now an established framework for monitoring and forecasting international debt developments. This work serves as background material to the periodic reviews of various aspects of policy on international debt that are carried out as necessary in conjunction with EF and AEF. Papers on debt prospects.</p>

D. (1) Progress on Priorities in current year (continued)

Responsibility Centre
Date

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
Assessment of current monetary conditions	<ul style="list-style-type: none"> ii. There was considerable work on international trade issues, particularly in the run up to the OECD Ministerial meeting and the Summit. Work is still needed on occasions in the run up to a GATT round. iii. Contributions to Treasury papers for TCSC on the US dollar and the EMS, and appearances before TCSC. iv. Trade trends in UK and other countries. Appearance before House of Lords Committee. EPR article. v. EPR article on overseas assets and investment. <p>There is regular analysis as an input to the monthly discussion on monetary conditions and policy.</p>
Assessment of economic developments especially in relation to forecasts	Continuing requirement. Continuing emphasis on labour market development, including earnings, labour supply and unemployment. Paper on Employment and Unemployment Statistics.
Preparation of internal forecast	June forecast completed. October forecast under way. Reports to be produced: (i) Main forecast report (ii) Public finances (PSF) (iii) Oil production and revenues (EA2) (iv) Financial forecast (EA2).
Preparation of published forecasts	Forecasts expected to be published in November and March. Part 1 of Autumn Statement (Economic Prospects for 1986), containing forecasts to the end of 1986 and average errors from past forecasts, to be produced.
Analytical research, including development of macroeconomic model designed to improving our understanding of the economy and policy	<ul style="list-style-type: none"> i. Consistent expectations solutions of the model developed, and now beginning to be applied to policy analysis ii. Small supply model being constructed. Should be working by end of year. Will assist analysis of medium-term economic developments. iii. New equations for exports of manufactures and consumer durables have been/are soon to be completed.
Improve Computer facilities, including database and software	Comprehensive review indicated need for better database facilities, more graphics, and word-processing, more responsive research and model running to be achieved by installing micros and shift away from SPERRY mainframe shared with CSO. Three PCs already operating in EA3; request for further six for managers still under consideration by EOG. Trial of MIMER System for database management underway, and assessment to be completed this autumn. Introduced new econometric packages (RATS, SHAZAM, PC-SORITEC). Planned increase in graphics capacity limited because of unexpectedly high costs on mainframe.

D. (ii) Priority objectives in 1986-87

Responsibility Centre
Date

Priority objectives	Comment/detail/progress expected in 1986-87
<p>Analysis of policy measures</p> <p>The MTFS</p>	<p>Analysis of the effects of measures for the 1987 budget.</p> <p>Regular annual event. Involves the preparation of a large number of projections on different assumptions about policy and other factors, and the drafting of the relevant FSBR chapter.</p>
<p>Analysis of the framework of macro-economic policy</p>	<ol style="list-style-type: none"> i. Continuation of work on the fiscal and monetary policy mix ii. Analysis of the role of money GDP. iii. Analysis of implications of way the labour market works for policy framework.
<p>Analysis and design of monetary policy</p>	<p>There will be continuing appraisal of the public framework and presentation of monetary policy and exchange rate. There is likely to be considerable work in FEU and HF3 on the roles of broad money, credit and the exchange rate.</p>
<p>Analysis of international economic issues</p>	<p>The main problem areas in 1986-87 are likely to be international debt, trade policy, and exchange rate fluctuations and possible exchange rate regimes (such as the EMS).</p>
<p>Assessment of current monetary conditions</p>	<p>There is likely to be work to refine techniques.</p>
<p>Assessment of economic developments especially in relation to forecasts</p>	<p>Continuing requirement</p>

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
Preparation of internal forecasts	Continuing requirement for 3 forecasts per year
Preparation of published forecasts	Statutory requirement for two published forecasts per year
Analytical research, including development of macroeconomic model designed to improving our understanding of the economy and policy	<ol style="list-style-type: none"> i. Use of stochastic simulations to analyse model properties. ii. Applications of supply-oriented models to the analysis of medium-term developments. iii. Work in various specific areas: company sector behaviour, personal consumption, balance of payments and exchange rate.
Develop computer facilities	See separate paper on IT bid for 1986-87 by this Responsibility Centre. This would provide for a considerable expansion of PCs, aimed at meeting demand flexibly. In addition we expect to formulate a bid soon, in consultation with other groups in the Treasury and particularly GEP, for a mainframe to replace the SPERRY now being shared with CSO.
wpd2 p.2	

MANAGEMENT IN CONFIDENCE

D. (iii) supporting information including performance measures

Responsibility ()
Date

X Accuracy of Forecasts: regular exercises conducted by EA. These are published in detail every few years (the last being June 1981 EPR), and averages from these exercises are included alongside government forecasts of eg output, inflation, balance of payments and PSBR as an indication of the size of possible errors (see eg 1985-86 FSBR table 3.8).

Assessment of performance of Treasury model including;

- standard comparative simulations, conducted three times a year to monitor properties of each new version of the model
- assessment of modelling implications of each forecast; problems experienced with the model during the forecast round discussed and acted on;
- Overall Model Properties Group considers experiments, eg very long run simulations, to check for robustness and consistency.

New system commenced in 1985-86 for recording, for each division, main items of work performed during each month, and prospects for the next month. These records are circulated within the RC and to Sir Terence Burns, and are referred to in the regular management meetings with Sir Terence and Senior Economic Advisers. In addition, plans for major pieces of analysis are considered and discussed with Sir Terence twice a year.

(i) Effect of 5 per cent reduction in resources available

A cut in resources is most unlikely to be accompanied by an equivalent cut in demand for the responsibility centre's output. Therefore, the main result of a cut in staff resources is likely to be some reduction in the quantity and quality of work done. Some recent examples of important work that has been squeezed out even with our existing resources are shown below under E(ii). Over the longer term a reduction in resources would lead to a distinct deterioration in our understanding of the economy and our familiarity with the wider debate about economic developments and policy because we could not keep up-to-date with the analysis of economic developments and new thinking about the economy and economic policy. This would have adverse consequences for the quality of policy advice, the reliability of forecasts and other quantitative work and the public presentation of policy, eg in official publications, appearances before Parliamentary Committees and representation at international meetings.

(ii) Effect of 5 per cent in resources available

There would be some general increase in the quantity and quality of work done. In practice we found that there are a number of pieces of work that are planned, but are either delayed, or not carried out at all, or are done superficially, due to shortage of resources. Examples from the last six to twelve months include:

- (a) analysis of economic determinants of medium-term public expenditure trends;
- (b) updating of the analysis of the effects of changes in the oil price - the latest analysis in the Powell/Horton working paper was carried out in spring 1984;
- (c) post-mortems of forecasts, especially the financial forecast;

E. Options and Constraints

(ii) Effect of 5 per cent increase in resources available (continued)

- (d) improvements to the data base for UK and world economies, including more links with sources of data in other government departments;
- (e) improvements in understanding and modelling of various specific sectors of the economy, including:
 - the determination of the exchange rate
 - the determination of fixed investment, especially outside manufacturing, including the role of the cost of capital and expectations of output and prices
 - the term structure of interest rates
 - the determination of bank borrowing
- (f) the documentation of the Treasury model. We have an obligation to provide full documentation for public users, but probably now provide less helpful and up-to-date information than most other model proprietors;

A 5 per cent increase in resources would limit the tendency for this kind of thing to occur.

(iii) Constraints on past and future performance, changes in organisation of work etc

Much of the work of the responsibility centre is open-ended in nature, with output being limited by resources rather than by demand. With more resources, we could certainly produce more relevant work that would contribute towards fulfilling our aims. The resources which matter here are professional staff - both quantity and quality. Computer time is a constraint only in some peak hours: current computer facilities offer scope for further improvement in efficiency. On the research side, in particular, output will always be dependent on the interests and comparative talents of available staff. Another important limitation is the need to retain flexibility of capacity, so that resources can be quickly switched between topics of interest, in response to changing Ministerial priorities and pre-occupations.

One important development that would improve performance is reduced staff mobility. (Some economic adviser posts have had 2 or 3 incumbents already so far in 1985-86.)

At the moment, it seems likely that there will have to be increased resources devoted to the labour market and to the framework and presentation of macro-economic, and especially monetary, policy.

FMI: EA/MP/FEU RESPONSIBILITY CENTRE

IT COSTS IN 1986-87

Introduction

This responsibility centre is a heavy user of computer facilities: notional charges by the CSO for use of the SPERRY mainframe shared with CSO and GEP are expected to be about £1 million this financial year. Currently, almost all computing power is provided by the mainframe.

2. Future developments have been reviewed. EA3 conducted a series of reviews, mostly in 1984, that identified user requirements in the areas of databases, graphics, office facilities, research, model running. Recently EA3 have spelt out ways of meeting these demands, in a paper soon to be circulated to the ITSC: "User Requirement for new computer facilities". This proposes (i) increased use of micro processing as an economical and efficient way of providing economists with an individual (or divisional) source of computer power, and (ii) access to a mainframe for database and modelling applications. A change in mainframe offers the prospect of a much greater choice of software and lower running costs, as does increased use of micros.

3. Some of these developments were outlined in last year's FMI return by this responsibility centre and some progress made in the course of 1985-86: EA3 have installed three IBM PC-ATs, and are testing their potential for research, model-running and office facilities. An application to EOG for a further six such systems, for office use by senior economists including the Chief Economic Adviser, is under consideration.

4. The proposals in this paper for 1986-87 are consistent with the framework for computing in the Treasury Economic Service outlined in the review and developed further in the User Requirement. Specifically, the proposals for 1986-87 provide for:

- (i) Using micro systems to take demand off the mainframe, using off the shelf software.

(ii) Improvement and extension of integrated office and presentation facilities (word processing, spread sheet/tabulation and graphics).

5. The ultimate aim of integration of all applications implies simultaneously developing both PC's and mainframe facilities. All hardware purchases will need to fit in with this overall strategy which emphasises choice and flexibility, particularly in the area of software.

1985-86 Expenditure

6. Expenditure already made within the current financial year (to end August):

	£ 000's
Terminals	5
3 PCs + Software (now in EA3 for testing)	30
	—
	35
	—

7. Expenditure expected to be made before the end of the current year includes purchase of MIMER; 6 PCs for an office system for senior economists; further terminals; graphics devices; and printers.

8. The amount expected to be spent for the year as a whole is within the original budget of £182,000. It is possible that some of the items in 1985-86 will be delayed. (This possibility is reflected in an additional bid for 1986-87).

1986-87 Expenditure

(i) Office systems

9. The first phase of the system replacing and extending the BLEASDALE service is scheduled for the current year. The second phase to be consistent with the office pilot is scheduled for 1986-87. This would include compatible systems for the whole of EA Management. Decisions will be made nearer the time, and in the light of experience with the existing PCs in

EA3, about the deployment of PCs within the RC: in particular the relative advantages of deploying PCs, in the light of demand for office systems, econometric research and model-running, will be reassessed. Depending on the demand for PCs within divisions - which may be heavy for research purposes - the second phase of the office system could be postponed and the PCs used instead as additional workstations for divisions.

	£ 000's
5 PCs	20
Software	6
	—
TOTAL	26
	—

(ii) Networking

10. This is preliminary work, to be co-ordinated with other (office pilot) work being done elsewhere. This will provide very high speed communications between PCs and mainframe, so that model files, programs and large prints can be transferred. Unless this is done, the usefulness of micros, particularly under heading (iii) will be reduced.

Wiring/Nodes/Software	20
-----------------------	----

(iii) Shifting demand from the mainframe to the micro: workstations

11. Some of the work currently done on the mainframe can be run much more cheaply on micros with suitable off the shelf software (eg SORITEC, PCGIVE). Initially this would be on the basis of at least 1 PC per division.

	£ 000's
5 Micro systems (+ Hard disc & second Screen) (capable of running SORITEC)	48
Software	8
	—
	56
	—

12. More heavyweight (model) applications should also be practicable on more powerful machines, assuming no substantial communications problems with mainframe discs and fast printers. These may need to use XENIX or a mainframe operating system.

	£ 000's
3 PCs (For MP)	36
Software	6

	98

Total (including amounts specified in paragraph 11)	

(iv) Distributed printers

13. One of the reasons for decentralising applications is to improve response and user control. The avoidance of long turn round times on printing is therefore important. Medium speed laser printers will provide a fast turnaround for small to medium sized prints.

2 Printers: one each for FEU and MP	36
-------------------------------------	----

Summary

14. The overall list is provided below. Decisions on a number of items depend on departmental IT strategy decisions.

	£ 000's
(i) Office system <u>or</u> additional workstations	26
(ii) Networking	20
(iii) Workstations	98
(iv) Distributed printers	36
Total	180
Memo: Possible expenditure on items delayed from 1985-86	50
(v) Total	230

15. If the budget for both 1985-86 and 1986-87 is spent in full, the cash budget for the two years will be the same. The budget for 1986-87 includes, as item (v), an allowance for items delayed from 1985-86. If this were to happen, the total spend for the two years would be the same, but distributed differently. It should be noted that item (v), £50,000, is already included as part of the 1985-86 budget.

16. This programme of expenditure in 1986-87, taken with the items planned for the remainder of 1985-86, will provide all the managers in the RC (plus the Chief Economic Adviser) with a PC (or terminal to a Bleasdale) for use in word-processing, graphics, tabulation etc. In addition each of the six divisions will have (on average) about 2 micros for use for research, model-running, data retrieval, and word-processing. As paragraph 9 makes clear, the mix of expenditure in 1986-87 will depend on how demand evolves and on the results of the current tests on the IBM PC-ATs in EA3.

17. In addition to the proposed expenditure on IT capital equipment, there are the CSO charges for use of the mainframe. The level of these charges depend on the rates set by the CSO and on the volume of use by this responsibility centre, and there is a lot of uncertainty on both. These are notional charges: the Treasury does not pay cash to the CSO. But these charges do provide an indication of the resources used. It is helpful to bring together in one table the CSO charges with the Treasury FMI capital cost budgets:

		£ 000's	
	1984-85	1985-86	1986-87
Capital cost (Treasury FMI budget)	(small)	182	180(230)**
CSO charges (including overheads)	880	1050 *	see text

* 20 per cent up on 1984-85 outturn (the same growth rate as forecast for TES use in total)

** see paragraphs 14-15

18. The CSO charges for 1986-87 depend upon the volume of total demand by the EA/MP/FEU responsibility centre, the proportion of demand met by the mainframe, the capacity of the mainframe, and the charging rates. The installation of a number of PCs in 1986-87, as proposed in this paper, will reduce the demand on the mainframe, but only on a limited scale in the first year. Perhaps up to half the forecast growth rate of 34 per cent could be accommodated on the PCs.

19. We are considering replacement or enhancement of the SPERRY mainframe as a matter of urgency for 3 basic reasons:

- (i) To improve the price performance of the existing systems.
- (ii) To provide for growth in use: the present system will be saturated during the next 6 months.
- (iii) To gain the advantages of a more fertile software/operating system.

20. There is an urgent need to off load the mainframe, if at all practicable, to avoid having to upgrade the present installation to 4 processors. this issue is considered in greater detail in the User Requirement and will need to be considered together with other Treasury needs. Even with much increased use of micros, more mainframe power will probably be needed.

21. But whatever decisions are taken on the mainframe, the use of micro systems looks set to provide an efficient and economical solution. That is the basis for this bid for 1986-87.

EA/MP/FEU

16 October 1985.

MANAGEMENT IN CONFIDENCE

MACRO-ECONOMIC RESEARCH BUDGET: PROPOSALS FOR 1986-87

It is proposed that the Budget for 1986-87 should be 5% above that for 1985-86, to allow for inflation but no real growth (Table 1). This gives a figure of £250,000, of which over 80% (£210,000) is accounted for by the Treasury's contribution to the ESRC Macro-economic Modelling Consortium.

Table 1
Macro-Economic Research Expenditure
(£ thousand at current prices)

	ESRC Modelling Consortium	Other	Total
1983-84 (outturn)	128	36	164
1984-85 (outturn)	185	52 ¹ / ₂	237 ¹ / ₂
1985-86 (budget)	200	38	238
1986-87 (budget*)	210	40	250

*1985-86 Budget increased by 5% to allow for inflation

Expenditure in 1985-86

2. The current position regarding expenditure in 1985-86 is set out in Table 2. The Macro-economic Modelling Consortium, other macro-economic models, and the Academic Panel, consultants and conferences are explained fully, with one exception, in the attached report on expenditure in 1984-85. The exception is the purchase of a forecast for the Warwick Bureau. The Bureau can only include the Treasury model in the comparative work that it does on macro-economic models if it has a forecast base. We cannot provide this for obvious reasons, and in order to avoid delays in the provision of a forecast using the version of the model that will become available in January 1986, we wish to set aside a small amount of money. It is possible that in the event we shall be able to ensure that the Bureau receives a forecast base without any expenditure on our part.

Table 2
Macro-Economic Research Expenditure 1985-86

	<u>£</u>
ESRC Macro-economic Modelling Consortium	200,000
Other macro-economic models:	
LSE model (Bean)	1,500
CASS studentship (Blake)	1,000
Purchase of forecast for Warwick Bureau	1,000
TOTAL	3,500
Academic Panel, consultants and conferences:	
Panel fees and expenses	7,900
Consultants' fees and expenses	2,000
Conference fees and expenses	4,500
TOTAL	14,400
Company sector behaviour:	
Estimation of prices and outputs (Wickens)	5,000
Econometric methodology (Wadhvani)	750
Effects of Inflation (Wadhvani)	1,500
TOTAL	7,250
Data:	
AGB Index	1,500
NOP Data	250
Permanent income measurement	2,200
Expectations data	5,000
TOTAL	8,950
Unallocated	3,900
TOTAL	238,000

3. Some of the expenditure under Data is also a continuation of expenditure in 1984-85. However, we are planning to extend the project on expectations data to a consideration of how well these data predict actual outcomes and to an examination of how they can be modelled. We have also contracted out a study of whether information collected by EC-financed consumer surveys can provide measures of permanent income.

4. The projects connected with company sector behaviour follow our increasing interest within the Treasury in this area. We produced a theoretical model of company sector behaviour in an optimising forward-looking framework. As we were unsure how to set about obtaining empirical estimates, we engaged Professor Wickens to do some empirical estimation of the price and output equations that were implied by the model. Dr Wadhvani was asked to consider the econometric problems involved in estimating the Euler equations of this model, that is the price and output equations that result from a profit maximisation assumption, of the theoretical model. This work complements that of Wickens and it is expected that it will benefit econometric techniques in the Treasury. Quite separately, we are asking Dr Wadhvani to carry out a survey of the empirical work that has been done of the effects of inflation on factor demands and company sector behaviour.

5. If current plans work out unchanged, we expect to underspend the Budget by about £4,000. However, experience in the last two years has shown that we may need to arrange small projects towards the end of the financial year, which could use up most of this. On the other hand, there could be delays with some of the on-going projects.

Proposals for 1986-87

6. The ESRC Macro-economic Modelling Consortium and expenditure on the Academic Panel, consultants and conferences are expected to continue throughout next financial year. In addition, we plan to spend small sums on the same data requirements as before. The studies of permanent income measurement and expectations data will be coming to an end next year, and so will involve lower expenditure.

Table 3Macro-economic Research Budget 1986-87

ESRC Macro-economic Modelling Consortium	210,000
Academic Panel, consultants and conferences	15,000
Data	5,000
Estimation of "stock" of public current expenditure on education, health and defence hardware	5,000
Trade barriers and tariffs	5,000
Effects of 1984 CT changes	10,000
TOTAL	250,000

7. Once these have been taken into account, there remains only £20,000 of uncommitted expenditure. We are investigating the possibility of splitting this in three ways. First, we would like to start some work on the measurement of the "stock" of public current expenditure in areas where such expenditure is really in the nature of capital expenditure, eg education, some health expenditure, defence hardware and perhaps R&D expenditure. This is relevant to the approach to the PSBR that was discussed in the Odling-Smee/Riley National Institute Economic Review paper. It is unlikely that £5,000 would be enough to complete such a project, but we envisage a preliminary investigation in the course of 1986-87, perhaps extended into the following financial year if it is successful. Secondly, we are considering various pieces of work aimed at estimating the effects of protection in the UK. These might include a general equilibrium analysis of the costs of protection in general, and small studies of the industrial impact of specific measures, such as voluntary restraint agreements.

8. The final proposal for new work is for a study of the effects of the 1984 changes in corporation tax. When those changes were being considered, and more generally when major changes in taxation or other measures are being discussed, we are often asked what was the experience of earlier tax changes. Our usual approach to answering such questions is to look at the aggregate time series data, to try to identify the impact of the specific tax change. With relatively small changes this may be the best that can be done. But with a large discrete change such as this one, additional

information should in principle be available from a survey of companies. Such a survey was conducted by Professor Reddaway of the introduction of the Selective Employment Tax in the 1960s. We believe that a survey of companies could reveal some very interesting information about company behaviour in response to changes in taxation.

9. Such a study would be well beyond the resources of our research budget. It could only be carried out if the bulk of the money were available from some other source. However, it is possible that other fund giving bodies, especially the ESRC, may be prepared to finance such a study, and we propose to start discussion with them shortly. It would clearly increase our influence on the project if we were able to put in some money of our own. The amount proposed, £10,000 is probably the minimum that would make us appear serious.

MACRO-ECONOMIC RESEARCH EXPENDITURE 1984-85

Expenditure by the Treasury on macro-economic research contracts amounted to £237,500 in 1984-85. Of this, £185,000 was the Treasury contribution to the ESRC Macro-economic Modelling Consortium. The remaining money was spread over a number of research projects, which can be grouped under the following six headings: other macro-economic models, operation of the Treasury model, unemployment and the labour market, data, Wharton subscription, and Academic Panel and conferences. The expenditure on each project is shown in the attached table.

ESRC Macro-Economic Modelling Consortium

2. The Treasury is a partner in this Consortium to the extent of 25%, with the ESRC contributing almost all of the rest (the Bank makes a small contribution). The present arrangements last for four years, beginning with the 1983-84 academic year. Financial year 1984-85 was therefore the first full year of the arrangement.

3. The Consortium supports a number of outside modelling teams, most of which produce forecasts, and helps to improve their quality by financing new research. The Treasury benefits from this in a number of ways:

a. the range of outside forecasts helps the Treasury to improve its own forecasting efforts and contribute to a better informed background against which economic agents make decisions;

b. the research by outside modellers and the diversity of views of how the economy works that is reflected in the models suggest ways in which our own modelling might develop, and illustrate the consequences of making different assumptions about how the world works for policy analysis, etc;

c. the activities of the Macro-economic Modelling Bureau at Warwick University, which is funded by the Consortium, includes evaluating and comparing the models supported by the Consortium and also the Treasury model, which improves our understanding of the Treasury model and may suggest ways of improving it.

Experience suggests that the Consortium is a much more cost-effective way of supporting macro-economic modelling research than the previous ad hoc arrangements.

4. Some specific advances in 1984-85 that were made by the groups supported by the Consortium include:

- a. the development of a financial sector based on a portfolio approach by the London Business School;
- b. research on company sector behaviour by the National Institute;
- c. research on labour markets by City University Business School.

Other Macro-Economic Models

5. We have also been contributing to other macro-economic models, but on a much smaller scale: £15,000 in 1984-85.

6. One of these, the City University Business School model, also received funds from the Consortium, but our additional direct contribution enabled them to start work earlier and to examine the effects of changes in macro-economic policy on aggregate supply. The payment in 1984-85 was the last of three annual payments. From the second year onwards we were somewhat sceptical about the value of this project to the Treasury. Although there were many ideas in the model, we had doubts about some of the empirical work that went into it. It was probably poor value to provide money in order to speed up the work.

7. We have now received a paper which fulfils the remit to use the model to examine the effects of policy on aggregate supply. The paper is quite interesting in that it shows the effects on output, inflation and employment of a range of 'supply side' policies such as changes in the level of National Insurance Contributions, standard rate of tax, and reductions in labour supply brought about, for example, by a lowering of the retirement age. In some cases the model is not able to give a comprehensive picture of the effects of these types of policies but the results underscore the dangers of looking at the demand side alone.

8. Our contribution to the LSE model is a relatively small part of the total funding. The payment in 1984-85 was the second of three annual contributions. The LSE model is an interesting supply-oriented model which is being carefully estimated. Since we ourselves are working on the development of a small model with a supply side, it is helpful to have access to the work of others. When the model is slightly more advanced we shall, as part of the terms of the contract, mount it at the Treasury.

9. The programme of research into small models (PRISM) is mainly concerned with investigating the implications for optimal policies of different expectations formation processes. The CASS student who is attached to us is also working on the same issues under the direction of Professor Currie. Our contribution to PRISM enabled the work that the student was doing, involving reducing the size of the Treasury model and applying rational expectations to the reduced version, to proceed despite a shortage of PRISM's own funds. We hope that this work will lead to a better understanding of the implications of changing the assumptions about expectations formation in the Treasury model.

Operation of the Treasury Model

10. The loan of a micro-computer to the PROPE team at Imperial College is to enable them to conduct experiments with the Treasury model on a micro. Since this may well be the direction in which we ourselves will want to go for at least some applications, it is helpful to have the PROPE team, who are very experienced in this area, to conduct experiments. The micro is being lent to them for three years.

11. A paper on how to measure the margins of error that surround simulation results was commissioned from Stephen Hall, who has worked on this subject in relation to the National Institute model. Although we were sceptical about whether we could make much headway in measuring the margins of error, mainly because so many important co-efficients have been imposed on the Treasury model rather than freely estimated, we thought that we should explore what could be done. The study made a number of constructive suggestions about how to overcome these problems but many of our doubts remain.

Unemployment and the Labour Market

12. The single project in this area was the study by Layard and Nickell of the causes of British unemployment. An interim grant had been paid in 1983-84, and the final grant was paid in 1984-85 on receipt of the final report. A revised version of the report was published in the National Institute Economic Review, February 1985.

13. Although Layard and Nickell had been working in this area for some time, our project caused them to bring together their thoughts in a coherent paper which, in some ways, is the culmination of much of their work. It is generally regarded by economists who work in this area as a substantial contribution to the debate on the rise in unemployment. Although we would not necessarily agree with everything in it, we have definitely clarified our own thinking about unemployment as a result.

Data

14. Data relating to the means of payment were collected from AGB Index and NOP Data. As on previous occasions, the Treasury shared the cost with the Bank.

15. A study was commissioned from Simon Wren-Lewis of the available measures of expectations of future prices, output and investment, and of how they relate to the outturn data. The report covered the field comprehensively and has led us to believe that more use can be made of expectations data. We are planning to mount these data on our own computer and it is also possible that we shall follow up the work by commissioning a new study of how to model the expectations data. A revised version of the report was published in the August 1985 issue of the National Institute Economic Review.

Wharton Subscription

16. This was the subscription to the Wharton forecast of the US. It is used mainly by the Embassy in Washington, although it is also helpful as background material for the WEP forecasts.

17. It is inappropriate that this item should appear on the research budget, and with effect from 1985-86 it is being borne on the EF budget.

Academic Panel and Conferences

18. The broad aim of expenditure under this heading is to keep macro-economists in the Treasury in touch with research and thinking elsewhere. In addition, in the case of the Panel, we benefit from the critical analysis of our own work that Panel members bring to bear. In 1984-85 there were 8 meetings of the Academic Panel, implying an average cost per meeting of about £800.

19. Among the conferences that Treasury macro-economists attended in 1984-85 were: macro-economic modelling conference at Warwick University, various IFS seminars, AUTE conference, a seminar at the Institute of Petroleum, and the conference on forecasting. In addition, contributions were made to the expenses of the forecasting conference and a conference on unemployment organised by LSE Centre for Labour Economics.

Macro-Economic Research Expenditure 1984-85£

ESRC Macro-economic Modelling Consortium		185,000.00
Other macro-economic models:		
CUBS model (Beenstock)	8,834.00	
LSE model (Bean)	3,500.00	
PRISM (Currie)	2,000.00	
CASS studentship (Blake)	500.00	
TOTAL		14,834.00
Operation of Treasury model:		
Loan of micro to PROPE	12,004.27	
Errors in simulations	750.00	
TOTAL		12,754.27
Unemployment and labour market		1,000.00
Data:		
AGB Index	1,328.64	
NOP Data	143.75	
Expectations data	2,000.00	
TOTAL		3,472.39
Wharton subscription		10,246.00
Academic Panel and conferences:		
Panel fees and expenses	6,325.06	
Conference fees and expenses	3,862.07	
TOTAL		10,187.13
TOTAL		237,493.79

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Basic staff costs				
Staff Complement		902800	205096	988,609
Casuals/Students		60200	20293	74,112
Specialists				
Total	862637	963000	225389	1,062,721
Overtime	5010	4200	486	6,500
Travel & Subsistence				
Overseas	10057		2566	11,100
Home	1071		271	1,200
IT Equipment etc	3543	182000	5795	180,000
Economic Research		238000		250,000
Consultancies/Fees	1126			
Other (specify) <i>International Database</i>		10400		10,900
Total	883444	1397600	230507	1,522,421
2. Non-bid items				
Entertainment	243		194	
External training	9682		332	
Government Car Service	61			
3. Receipts				
EC Travel	1923		158	2,000
Other	9252			

Notes

The spends on Economic Research and International Database cannot yet be identified.

Details attached

12 man-years at £6176/man-year

1984-85 actual plus 10% plus £1000

1984-85 actual plus 10%

to 230,000* Details in separate paper

Details in separate paper

1985-86 bid plus 5%

1984-85 actual plus 10%

All bids are at estimated 1986-87 prices so that a meaningful total can be obtained, although the instructions said that travel and subsistence should be at 1985-86 prices.

* The bid of £180,000 assumes that the IT Equipment budget agreed for 1985-86 will be fully spent. It appears that it may be under-spent by perhaps £50,000 and, if so, we would like to bid for a budget for 1986-87 that is £50,000 larger.

Staff Complement

	<u>No.</u>	<u>Standard Pay Costs (£)</u>	<u>Expenditure (£)</u>
Grade 3	3	39,741	119,223
Grade 5	5	29,061	145,305
Grade 6	1	26,739	26,739
Principal	1	21,979	21,979
SEO	2	16,641	33,282
HEO	1	14,548	14,548
EO	2	11,099	22,198
CO	2	8,069	16,138
CA	2	6,292	12,584
SPS	2	11,231	22,462
PS	6	9,398	56,388
Economic Adviser	16	20,099	321,584
Senior Economic Assistant	8	11,703	93,624
Economic Assistant	3	9,409	28,227
Statistician	2	21,152	42,304
Senior Assistant Statistician	1	12,024	12,024
TOTAL	<hr/> 57		<hr/> 988,609

2. Staffing Profile and Bid

Responsibility Centre: EA/MP/FSU

Date:

a. Staff in Post

Completed Grade	Grade 2	Grade 3	Grade 4	PLA	Econ Adv	Stat	PSO	SO	SSO	MSO	MSO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Comms/Students	Un Sp
1 April 1985	3	4	1	1	18	2		1	1	1		7		2			3		3	1	2	5			55	N.K.	2
1 July 1985	3	4	1	1	17	2		1	1	1		6		2			3		3	1	2	4			52		

b. Staff Complement 1985-86

1 April 1985	3	5	1	1	16	2		2		1		8	1	2			2		2	2	2	6			56	10	
31 March 1986	3	5	1	1	16	2		2		1		8	1	2			2		2	2	2	6			56	10	
Av. Complement 1985-86	3	5	1	1	16	2		2		1		8	1	2			2		2	2	2	6			56	10	

c. Bid for 1986-87 by quarter

1 April 1986	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	
1 July 1986	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	
1 Oct 1986	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	
1 Jan 1987	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	
31 Mar 1987	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	
Av. Complement 1986-87	3	5	1	1	16	2		2		1		8	1	2			3		2	2	2	6			57	12	

- Please specify grade.

Notes:

- (1) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

Staff Complement Most of the increase between 1984-85 outturn and 1985-86 agreed bid reflects underspending relative to complement in 1984-85. Nearly all (89%) of the increase between 1985-86 and 1986-87 is attributable to the rise (of 8.5%) in standard pay costs. In addition, one new Economic Assistant is required to work on policy analysis. At the moment there is only one assistant for three Economic Advisers in the macro-economic policy analysis division (MP1), so that the advisers have to do assistants' work (especially data collection and manipulation, and model simulations) and neglect their own work on policy analysis.

Casuals/Students Students are very valuable as research assistants. So far in 1985-86 we have been using more than we originally planned because there is plenty of work and because unfilled complements plus reduced NICs (Budget 1985) have provided room within our total staff budget. We require the same number of students (12) in 1986-87 as we have been employing in 1985-86. (The budget for 1985-86 was for 10 students.)

Overtime The bid for 1985-86 was clearly an under-estimate, now that we know the outturn for 1984-85. The bid for 1986-87 has therefore been based on the latter, which has been uprated by 10% to allow for inflation. In addition, we expect that the change in eligibility of Economic Advisers for overtime payments will lead to increased claims being made during forecasts and the pre-Budget period. The additional £1,000 is based on the assumption that claims are made for 10 hours a week in 15 man-weeks.

Travel and Subsistence Price uprating only.

IT Equipment The bid assumes that the IT equipment budget agreed for 1985-86 is fully spent. Our present estimate is that it will be underspent, perhaps by £50,000. We would like agreement that the 1986-87 budget will be increased by the full extent of the underspend in 1985-86. Details are provided in a separate paper.

Economic Research Price uprating (5%) only. Details are provided in a separate paper.

International Data Base Price uprating (5%) only.

Non-Bid Items and Items still Budgeted Centrally No marked changes foreseen.

Treasury Model Royalties Receipts in 1985-86 and 1986-87 are expected to be lower than in 1984-85 because one of the forecasting clubs has ceased using the Treasury model.

(ii) Developments for which there may be longer term resource requirements (beyond 1986-87)

The main area where there may be longer-term changes is IT equipment; these are mentioned in the separate submission. The contribution to the ESRC Macro-economic Modelling Consortium (£210,000 in 1986-87) could in principle change with effect from the autumn of 1987, but there is no reason at this stage to envisage any significant adjustment.

(iii) General comments on patterns/history of resource use

Breakdown of Staff Complement by Division

Responsibility Centre
Date

6/2/86

Date	Division																	Total
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SNO	HNO	HNO(D)	NO	MT	CO	CA	SPS	PS	Typist	OTHER	
1st April 1985	EAI	1		1								1	1	1			6 ^(a)	11
	EA2			1							1			1			6 ^(b)	9
	EA3				1	1	2	1		2							3 ^(c)	10
1985	MPI	1		1									1	1			4 ^(d)	8
	MP2			1								1		1			5 ^(e)	8
	FEU	1		1								1		2			5 ^(f)	10
31st March 1986	EAI	1		1								1	1	1			6 ^(a)	11
	EA2			1							1			1			6 ^(b)	9
	EA3				1	1	2	1		2							3 ^(c)	10
1986	MPI	1		1									1	1			4 ^(d)	8
	MP2			1								1		1			5 ^(e)	8
	FEU	1		1								1		2			5 ^(f)	10

- (a) 4 x Economic Adviser
2 x Senior Economic Assistant
- (b) 3 x Economic Adviser
2 x Senior Economic Assistant
1 x Economic Assistant
- (c) 2 x Statistician
1 x Senior Assistant Statistician
- (d) 3 x Economic Adviser
1 x Senior Economic Assistant

- (e) 3 x Economic Adviser
2 x Senior Economic Assistant
- (f) 3 x Economic Adviser
1 x Senior Economic Assistant
1 x Economic Assistant

MANAGEMENT IN CONFIDENCE

~~WORK PROGRAMME~~

A. Organisation

SCS/ETS/PEAU

Responsibility Centre

Date 10 October 1985

Manager	I C R BYATT			
Heads of Division (with grade)	J Draper (5)	G P Smith (5)	R B Stannard (5)	G A C D Houston (5)
Branch Heads with main areas of responsibility in 1985-86	<u>J Parrett</u> CS manpower statistics <u>M Lock</u> CS manpower planning, support for Cabinet Office (MPO) PM Group <u>C Bell</u> CS manpower planning <u>J Whipp</u> Computing services <u>F O'Hara</u> Statistical applications <u>M Sharratt</u> Support for Pay Group <u>I Taylor</u> Implementing REPEC recommendations	<u>R P Short</u> Indirect taxation: tax/benefit modelling <u>I J Scotter</u> Personal direct taxation: co-ordination of tax ready reckoner <u>Mrs S K Holmans</u> Advice to ST group; demography (micro advice on RPI and some other items to ESG)	<u>PEAU 1</u> <u>R Kosmin</u> (part-time) Post Office, steel and shipbuilding <u>C Richardson*</u> Economic advice on aviation to PE3 and on energy policy <u>M Parr</u> Water industry and general policy issues	<u>PEAU 2</u> <u>H J Hyman</u> Privatisation and general policy <u>R G S Smith</u> Accounting advice on financial control of individual industries
Public expenditure totals to which responsibilities directed (where appropriate)				
Staff-in-post including heads of Division (1 July 1985)	41	6	4	4
	Total Staff-in-post (1 July 1985)			55

* On secondment from Government of Victoria

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date

(1) 1985-86

Area of work	% age
<u>SCS</u>	
Statistical support to policy groups (inc. MPO)	24
Computing support to Treasury expenditure groups	19
Civil Service Statistics	22
	—
	66
	—
<u>ETS</u>	
Support for FP	6
Support for ST	2
Ministerial briefing and PQs	2
Own work programme, i.e. R & D and ad hoc exercises	3
Common services, e.g. tax ready reckoner	—
	—
	13
	—
<u>PEAU</u>	
Support for PE	10
Support for ST	—
Independent contributions:	
- Privatisation and regulation	3
- Control of output of Nat. Industries	5
- Control of efficiency of Nat. Industries	2
	—
	20
	—
Total	100

(ii) Changes since 1984-85

SCS

There is very little change in the allocation of staff effort between areas of work. The transfer of the Civil Service manpower data system Mandate from Comshare to Chessington CC will cut cash payments to the bureau and increase allied service computing costs. At the same time extended development work on the Financial Information System (FIS) will also increase allied service computing costs.

ETS

Mrs Holmans joined division

PEAU

Increased emphasis on privatisation of utilities.

(iii) Changes expected in 1986-87

compared with 1985-86

SCS

Fewer staff will be employed on Civil Service manpower statistics but the effect on the percentage distribution of staff effort will be small. Computer bureau charges will continue to fall as the pay data system is transferred to an in-house micro-computer. The allied service computing costs may rise as the new development of FIS will need to be run in parallel with the existing system.

ETS

None envisaged

PEAU

Reduction of work on technical aspect of nationalised industry accounts

SCS

1. To take part in forming policy by supplying appropriate statistics about Civil Service pay, manpower and personnel matters and helping to ensure that they are interpreted effectively. Some of this support is provided to parts of the Cabinet Office (MPO), mainly PM Group, and the Medical Adviser.
2. To provide appropriate computing support to Treasury groups dealing with public expenditure.
3. To provide and publish accurate and timely statistics of Civil Service manpower.

ETS

1. Support for FP, especially their aim to ensure wider economic interests are taken into account.
2. Support for ST1 on social security and to ESG on demography, RPI etc.
3. Information and advice in response to Parliamentary and Ministerial enquiries.
4. Contribute to major ad hoc exercises on tax and social security policy.
5. Undertake research and development on analysis and modelling of the effects of tax/social security policies, linking with IR, DHSS, CSO and outside researchers.
6. To provide 'common services' such as maintenance of the tax ready reckoner and the tax benefit manual.
7. To administer outside economic research.

PEAU

1. Support for PE and ST3 by the provision of specialist advice.
2. To consider how best to develop regulatory regimes for privatised utilities.
3. To improve the framework for the financial control of the industries remaining in the public sector.
4. To bring about improvements in nationalised industries' accounting policies.
5. To promote structural change in loss-making nationalised industries.
6. To devise improved measures of efficiency in nationalised industries.

D. (i) Progress on Priorities in current year

Responsibility Centre
Date

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p><u>SCS</u></p> <p>(1) Improve collection, processing and interpretation of Civil Service manpower data.</p> <p>(2) Plan and start the implementation of the recommendations of the REPEC report.</p> <p>(3) Maintain computing services support to GEP and other expenditure groups.</p> <p>(4) Improve all computing services.</p>	<p>(a) Improvement in the accuracy, coverage and timeliness of the data so that necessary statistics are available when required; the early publication in July of the annual volume, Civil Service Statistics, has been maintained; procedures to monitor performance bonuses are being set up in close consultation with Cabinet Office (MPO); new extension of unified grading will involve changes to the data systems.</p> <p>(b) Closer collaboration with the users of manpower statistics, particularly the Cabinet Office (MPO) to improve timeliness and relevance of statistical input to policy making: a statistician has been bedded out with PM Group to improve liaison; the manpower planning manual, previously issued by the CSD in 1975, has been completely revised and updated and issued to departments.</p> <p>Started early in 1985 under joint SCS/GEP management. Programming work under way for revised PES/Estimates, linkage and reconciliation tables; to be operational for 1986-87 Estimates. Options under investigation for implementing REPEC recommendation to amalgamate PES and Estimates data bases; target for proposing new data base structure is end-November 1985; full specification to be prepared subsequently.</p> <p>The computer system is being developed continually to reflect the changing requirements of users, particularly the simplification of its use. Major development will be required later this year and next as a result of implementing the recommendations of the REPEC (Norgrove) review; rate of progress will depend partially on the results of the Mimer trial (see D(i)4c).</p> <p>(a) The manpower statistics system Mandate has been transferred from Comshare Ltd to CC Chessington where a far better service is provided; completion of the transfer has been delayed because of incompetence at Comshare; the DHSS strike has caused delays; and further improvements in timeliness are necessary.</p>

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
SCS (CONT)	<p>(b) As a result of the review of the pay data computer system part of the system is being transferred in-house to a micro-computer; transfer of the rest will be considered next year.</p> <p>(c) The review of computing for FIS recommended a trial of the data base management system Mimer as a first step; the trial is now under way on the Sperry Computer; subsequent development to FIS will depend on the trial's outcome, the Treasury's future IT strategy regarding mainframe computing and the REPEC requirements.</p> <p>(d) The laser printer was used for producing four Supply Estimates booklets this year and the intention had been to extend to all booklets in 1986-87. However, because of very high computing demand the response from the Sperry has been erratic and GEP have decided to limit full laser production to the same four booklets next year.</p>
<p><u>ETS</u></p> <p>(1) To improve capability for policy analysis</p> <p>(2) To pursue a medium term development programme for inter-departmental modelling work</p> <p>(3) It is not possible to be specific at this stage on priorities for the main policy work</p>	<p><u>Modelling and policy analysis</u> - development of a CSO/IR/Treasury tax/benefit model has been under way since the beginning of 1985 and good progress is being made. We hope to have a basic working model operational by end year. We have also acquired or are acquiring models from outside researchers for use on our micro (Mr Short leading on this).</p> <p><u>Support for FP/ST: contribute to major policy exercises</u> - The division has contributed to major analyses of policy - notably on the Fowler reforms in relation to the proposed personal tax changes. Analytical work on pension proposals. NIC changes and employment consequences. Some involvement in LG Finance issues. Have contributed comments etc. on draft tax Green Paper. This and the Fowler reforms seem likely to occupy a good deal of time this year.</p>

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p><u>PEAU</u></p> <p>(1) To consider how the privatisation programme can be used to increase competition in the nationalised industries.</p> <p>(2) To improve the framework for the financial control of industries remaining in the public sector.</p> <p>(3) To bring about improvements in nationalised industry accounting policies.</p> <p>(4) To devise improved measures of efficiency.</p>	<p>Contributed to work on privatisation of water, gas and airports. Change in emphasis of work now that competition has a lower priority in the programme. More emphasis being placed on regulatory regime.</p> <p>Nationalised industry legislation, enabling reform of balance sheets now suspended (<u>sine die</u>). Bilateral discussions stalled except for Post Office (largely consequences of privatisation proposals).</p> <p>Proposed legislation dropped. Defensive actions taken to preserve CCA in nationalised industries. Outside expert group on accounting for economic costs going well and should report in autumn.</p> <p>Review of performance measures near completion. Longer term objective to include costs of capital depends on improved accounts (above).</p>

D. (ii) Priority objectives in 1986-87

Responsibility Centre
Date

Priority objectives	Comment/detail/progress expected in 1986-87
<p><u>SCS</u></p> <p>(1) Maintain and improve the existing systems for the collection, presentation and interpretation of Civil Service manpower data.</p> <p>(2) Complete implementing recommendations of REPEC report</p> <p>(3) Maintain computing services support to GEP and other expenditure groups for their collection and processing of financial (public expenditure) data.</p> <p>(4) Improve computing services including systems and programming work, to develop the manpower and financial systems.</p>	<p>Necessary continuation of service.</p> <p>(a) Further improvement so that necessary and accurate statistics are available when needed: the usefulness of the new quarterly tables for Cabinet Office (MPO) will be monitored; if possible the publication of Civil Service Statistics will be brought forward to June; the effect of extending unified grading will be monitored; continuing support in monitoring performance bonuses.</p> <p>(b) Continue to ensure the relevance and to improve the statistical input to policy making: close co-operation with PM Group in Cabinet Office (MPO) will be maintained; the issue of the revised manpower planning manual will be followed with other simple explanatory papers, interdepartmental meetings and lectures at CS College courses to spread the use of manpower planning in departments.</p> <p>Finish the redevelopment of PES and Estimates systems within an amalgamated database (see D(ii)(4)(c)).</p> <p>Necessary continuation of service.</p> <p>See (2), (3) and (4) (d) of D (i).</p> <p>(a) Simplification of the data provided for Mandate by departments is planned; this should reduce the load on departments and improve accuracy.</p> <p>(b) The future development of the Centrally Managed Staff Record will be reviewed.</p>

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<u>SCS</u> (CONT)	(c) The FIS computer system will be redesigned in the light of the Treasury's IT strategy, to extend its use to all expenditure divisions, to make it easier to use, to make it more reliable, particularly at busy periods, and to include all developments needed in the amalgamation of Estimates and PES data bases.
<u>ETS</u>	
(1) Support for customer groups. We cannot forecast what our main policy concerns will be. This depends on Ministers and our customer groups.	Difficult to foresee how work on tax and social security changes will develop. Depends mainly on progress on social security reform (Fowler), changes in local government finance (Baker) and the proposed reform of personal tax (Chancellor).
(2) Improving capacity for policy analysis. Continue making progress on the modelling/analysis side.	Tax benefit model will be in operation in 1986-87. But it will require development (possibly bigger sample, possibly behavioural effects).
<u>PEAU</u>	
(1) To consider how to devise economically efficient regulatory systems for privatised utilities and, where possible, to use the privatisation programme to promote competition.	Need to develop existing accounting work to apply to regulated utilities in the private sector. Need to consider economics of general methods of regulation. Progress will depend on how quickly the government recognises the need to systematise regulatory regimes for privatised utilities.
(2) To improve the framework for the financial control of industries remaining in the public sector.	Negotiations on new capital structures, which adequately reflect the cost of capital, are likely with the Post Office, possibly with electricity, and, subject to privatisation, water. The existing corporate planning mechanisms will be kept under review.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p><u>PEAU</u> (CONT)</p> <p>(3) To bring about improvements in nationalised industries' accounting policies.</p> <p>(4) To devise improved measures of efficiency.</p>	<p>Defending CCA is a top priority. Discussions with individual industries on recommendations of expert group and general marketing of its conclusions.</p> <p>Investigate ways in which cost aims could be used in regulatory systems.</p>

D. (iii) Supporting information including performance measures

Responsibility Centre
DateSCS

- (1) All staff record times spent on different types of activity; divisional figures are aggregated monthly.
- (2) All consulting and service work is monitored at regular progress meetings with customers; one-off projects are similarly monitored by steering groups. For the individual a written contribution to his annual report is obtained from his major customers.
- (3) Maintenance of statistical data bases and provision of statistics are assessed by (a) monthly reports showing numbers of enquiries answered within 1, 2, 3 ... days; (b) monitoring when regular returns and publications are issued compared with pre-arranged timetables; (c) comparisons of data from different sources to determine accuracy; (d) close contact with customers to ensure their requirements are necessary and are subsequently satisfied.
- (4) Maintenance of and improvements to computer systems are monitored at monthly progress meetings against a rolling six-month forward programme. Each project is vetted by the customer to check that his specification is fulfilled; comparisons are made between completion and due dates, planned and actual staff effort involved.

ETS

- (1) Staff record time spent on different activities. Division makes an annual report setting out its main achievements.
- (2) Main test of performance on work done for FP and ST1 is client satisfaction. One adviser is fully dedicated to work of ST1. There is very close contact with FP.
- (3) Difficult to judge success with major pieces of policy analysis. The division's work on company taxation bore fruit in the 1984 Budget changes. But extensive work on the taxation of pensions and savings did not lead to any Budget changes. The division took an important role in analysing employment measures for the 1984 Budget and did much detailed work directly for the Chancellor on the employment effect of changes in the structure of NICs. What further tax initiatives there might be in 1986-87 is scarcely possible to say.
- (4) The division (together with CSO and Inland Revenue) has been developing its capability for (micro) tax analysis. This will be operational in 1986-87; the extent of analysis possible and response times will be relevant in judging performance.

D. (111) Supporting information including performance measures (continued)

Responsibility Centre
DatePEAU

- (1) Staff record time spent on different activities. Annual report is prepared setting out main achievements.
- (2) Main test of performance on work done for PE (and ST3) is client satisfaction. Regular meetings are held with PE to discuss work programme. Views of PE are sought for annual reports of PEAU staff.
- (3) Difficult to judge results of more free standing work (as with ETS). Work on RPI-X for BT was disappointing, primarily because BT withheld information. Papers on competition and privatisation were welcomed by the Chancellor, but have had a limited impact on the privatisation programme. Work on regulation of privatised utilities is potentially important for future privatisation programme, but the extent of any implementation will also depend on political factors. The work on the accounting approach to nationalised industries is acknowledged (outside as well as inside the Treasury) to be a significant contribution to the principles of CCA and to its application in the nationalised industries.

(i) Effect of 5 per cent reduction in resources availableSCS

A reduction of two staff below current levels is already planned for this year in the manpower statistics branch. This reduction is possible because of the improved efficiency in the manpower data system Mandate since transferring it from Comshare to Chessington CC. No adverse effect is expected on quantity or quality of output.

ETS

Since most of the work is demand determined, the reduction would have to be on development work - D (ii) (2) above.

PEAU

Marginal decrements in resources would be accommodated by reducing depth of analysis and response rate on reactive work. The proposals for a data bank would be dropped.

(ii) Effect of 5 per cent ^{increase} in resources availableSCS

An increase of 2 staff would be allocated to computing to assist in the redesign of FIS and then implementing the new design, including the modifications to the system stemming from the REPEC review.

ETS

Since most of the work is demand determined, the increase would have to be on development work - D (ii) (2) above.

PEAU

This would be used to expedite the completion of a data bank and faster progress on nationalised industries modelling.

(iii) Constraints on past and future performance, changes in organisation of work etc

SCS

The reorganisation of computing in SCS Division last year and the transfer of Mandate from Comshare to Chessington CC will have saved four posts over a two-year period. At the same time the quality of output has been maintained and the quantity increased, e.g. extension of unified grading, ethnic monitoring.

A constraint on achieving computing objectives (e.g. simplifying the FIS system for more users, extending the use of laser printer for publications) is the inherent complexity of the Sperry computer and its associated need for skilled programming staff, together with the limited capacity available to FIS users at busy times of the year. Decisions on the Treasury's IT strategy, particularly concerning main frame computing, will have a major bearing on meeting computing objectives.

ETS

Constraints on future performance. We may be constrained by lack of computer expertise in developing our modelling/analytical capacity to the full. We will consider whether EA3 might help here; but cannot be too specific at present.

PEAU

Need to consider how the work of the unit should best evolve, given the expected reduction in technical work on accounting, when the report on CCA and economic cost and the necessary follow up is completed. The accounting work on corporate planning has not developed as originally expected and this, too, needs to be taken into account when considering the work and organisation of the unit. The extent and speed of privatisation will also affect the scale and type of work.

In the case of both ETS and PEAU, the supply of staff, especially well qualified economic advisers, has been a serious constraint, manifesting itself both in rapid turnover and vacant posts. This problem is likely to continue and could, unfortunately, easily intensify.

MANAGEMENT IN CONFIDENCE

1. Budget Bid Form Administrative Expenditure

Responsibility Centre

PEAU/ET/SCS

Date

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Basic staff costs				
Staff Complement		830600	174819	846,269
Casuals/Students		6000	1507	
Specialists		-254100	-63525	-297,066
Total	692511	582500	112801	549,203
Overtime	742	3100	827	3500
Travel & Subsistence				
Overseas	2721			3000
Home	3831		416	3000
IT Equipment etc	250062	252800	19767	190,000
Economic Research		89000		77000
Consultancies/Fees		15600		55000
Other (specify)				
Total	949867	943000	133811	880703
2. Non-bid items				
Entertainment	127		131	
External training	800			1000
Government Car Service				
3. Receipts				
EC Travel				2000
Other				

Notes: I regret that expenditure figures on economic research are not yet available.

2. Staffing Profile and Bid

Responsibility Centre: PEARL/ET/SCS

a. Staff in Post

Date: / /

Date	Complemented Grade	Grade 3	Grade 5	Grade 6	Prin	Econ Adv	Stat	PSO	SEO	SSO	HEO	HCO	HED (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Casuals/Students	Use of Specialists
	1 April 1985		1	3		3	3½	7		3		6			1	14				1	2	6	1		3		1	55½	N.K.
1 July 1985			3		2	5½	7		3		7			1	15	1				2	6	1		2		1	56½		

(a)

b. Staff Complement 1985-86

1 April 1985	1	4		2	4	7		2		8			1	3	15					6	1		5		1	60	1	
31 March 1986		4		2	4	7		2		8			1	3	15					6	1		4		1	58	1	
Avg. Complement 1985-86	0.2	4		2	4	7		2		8			1	3	15					6	1		4.2		1	58.4	1	

(a)

c. Bid for 1986-87 by quarter

1 April 1986		4	1	1	5	7		1*		7			1	3	13	1			1		6	1		4		1	57	-	
1 July 1986																													
1 Oct 1986																													
1 Jan 1987																													
31 Mar 1987																													
Avg Complement 1986-87																													

* Please specify grade.

Notes:
(a) 1 x SDP

* 1 SEO post is to be regraded to HEO; this should be reviewed 1.7.86

3. Breakdown of Staff Complement by Division

Responsibility Centre PEAU/ET/SCS
Date

Date	Division																	Total	
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HEO	HBO(D)	EO	AT	CO	CA	SPS	PS	Typist	OTHER		
1st April 1985	PEAU 1			1									$\frac{1}{2}$	$\frac{1}{2}$		1		2 ^(a)	5
	PEAU 2			1		2							$\frac{1}{2}$	$\frac{1}{2}$		1		3 ^(b)	5
1985	ET			1									1			1			6
	SCS	1 ^(d)		1			2	8			15		4			2		11 ^(c)	44
31st March 1986	PEAU 1			1									$\frac{1}{2}$	$\frac{1}{2}$		1		2 ^(a)	5
	PEAU 2			1		2							$\frac{1}{2}$	$\frac{1}{2}$		1		3 ^(b)	5
1986	ET			1									1			1			6
	SCS			1			2	8			15		4			1		11 ^(c)	42

(a) 2 x Economic Adviser

(b) 2 x Economic Adviser

1 x Senior Economic Assistant

(c) 7 x Statistician

3 x Senior Assistant Statistician

1 x SDP

(d) Miss M. Brown's post as head of the "old" Expenditure Support Group (EI/OR/PSE/SCS). Following her resignation on 31/5/85 the post has transferred to PSE. The PS post attached to the Grade 3 post has also been transferred.

SECTION 4:

Responsibility Centre A 'et/s'
Date

- (1) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

For Responsibility Centre

Some reduction in staff numbers. Increase in consultancies to allow for development of FIS. Increase in training provision - which may not be adequate.

Special factors for SCS

Reasons for changes in 1986-87 compared with 1985-86

The reduction in SCS complement shown in Table 2 is due to (a) the expected completion later this year of much of the work of the team set up to implement the recommendations of the REPEC report and (b) further re-organisation in the division stemming from the transfer of Mandate from Comshare to Chessington CC.

One extra post is included in the complement bid of Table 2 to absorb some of the additional computing work arising from the developments of FIS generated by the REPEC team and the review of FIS computing system. How much extra effort will be needed for this work is still not clear and for this reason a notional figure of £50,000 is included against consultancies/fees.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

For Responsibility Centre

Need to continue IT development, otherwise depends on next General Election.

Special factors for SCS

Longer term developments

As further aspects of the manpower statistics output are computerised, there may be scope for further staff reductions, but they cannot be foreseen at present.

(iii) General comments on patterns/history of resource use

For Responsibility Centre

Reductions in staff combined with increase use of capital

Special factors for SCS

Extending the use of computers and improving computing methods

Over the past few years this has resulted in statistical output of wider scope and better quality being produced by fewer staff at all levels. Staff are more fully employed in more interesting work.

Manager	M.J.SPACKMAN (3)(Econ)		
Heads of Division (with grade)	G.M.WHITE(5)(Econ)	J.B.JONES(5)(Science)	VACANT(5)(Econ)
Branch Heads with main areas of responsibility in 1985-86	<u>Economics of Industry division (EI)</u>	<u>Operational Research division (OR)</u>	<u>Public Services division (PSE)</u>
	D GRIFFITHS(Econ): Industry, agriculture, regional and innovation policy J STERN (Econ): Labour markets D J SLY (Econ): DM; Defence, R&D, procurement D DEATON(OR): OR support to IAE group	D N H BARKER(OR): Defence, Treasury organisation M G HUDSON (OR): Home, Education and Local Government P JORDAN (OR): Health, social security, territories Ms S LEWIS (OR): Output and performance measures	Ms L A MOUNTFORD (Econ): Health MRS P A PENNECK (Stat)(part time): Education, Channel Fixed Link, Environmental services C SPEEDY (Econ): Local Government, Housing, Urban programme MRS S M PUGH (Econ): Home, Roads
Public expenditure totals to which responsibilities directed (where appropriate)	£25 billion	£140 billion	£70 billion
Staff-in-post including heads of Division (1 July 1985)	6½	11	4½
	Grade 5 1 CO½ EA 3 PS1 SE Asst 1	Grade 5 1 PSO 3 SSO 2 HSO/SO 3	CO 1 PS 1 EA 2 Stat ½ SEAsst 1 CA 1
			22

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre ESG
Date 2.9.85

(1) 1985-86

Area of work	% age
<u>EI</u>	
Consultancy services to IAE group	12
DM and TOA groups	4
Direct input to industry and employment research and policy reviews	<u>14</u>
	30
<u>OR</u>	
Consultancy services to ST group	9
LG group	5
HE group	5
DM group	5
EOG group	4
Other Tsy groups	4
Special studies and development of performance measurement and expenditure forecasting	<u>8</u>
	40
<u>PSE</u>	
Consultancy services to ST group	8
LG group	5
HE group	4
other Tsy groups	4
Development & propagation of expenditure appraisal methodology	<u>8</u>
	30
<u>Total</u>	100

(11) Changes since 1984-85

Responsibility for providing economic services to DM group and TOA division has been transferred from PSE division to EI division.

Responsibility for providing economic advice to ST group on social security policy has been transferred from PSE division to ETS division.

(111) Changes expected in 1986-87 compared with 1985-86

A modest change of emphasis towards more central work on methodology and the dissemination of good practice.

1. To provide the Treasury with economic and OR input into issues of public expenditure policy and management (except for policy advice on nationalised industries and social security), by the main means described in the following aims.
2. To undertake special studies and research, often but not always commissioned by customer divisions, to develop methods of forecasting and monitoring expenditure (mainly OR) and to develop methods of appraisal and evaluation.
3. To advise expenditure divisions on the appraisal of specific expenditure proposals or bids from departments, and on the economic or OR aspects of policy or management reviews.
4. To promote the development and use of output and performance measures in departments generally, by disseminating ideas and good practice (OR).
5. To provide general accounts of economic trends and performance most relevant to industry and employment to contribute to briefs, Ministerial cases, speeches, PQs and international exchanges (EI).
6. To provide the economic input to all central management guidance to departments and to develop, issue and promote guidance on investment appraisal (PSE).
7. To advise EOG on internal Treasury organisation and information systems (OR).
8. To commission, monitor and apply the results of a programme of academic research on public expenditure issues of special concern to the Treasury.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>1. Consultancy priorities, reflecting expenditure divisions' own priorities and progress.</p> <p>2. Joint projects, special studies.</p>	<p>EI and PSE in mid 1985 both suffered serious staff shortages, with virtually a complete turnover of EI staff and PSE being at half strength. The staffing in EI and PSE has improved, but there are difficulties in prospect in OR.</p> <p>This consultancy work has included or will include major inputs into Industrial Support Review, Advance Faactory Group, social security monitoring and forecasting, rate support settlement and reform, pharmaceutical pricing, and the Channel Fixed Link, in addition to many other projects and a continuing heavy load of ad hoc advice in fields such as investment appraisal and output measurement.</p> <p>Of the work set down for 1985-86:</p> <ul style="list-style-type: none"> - EI prepared a paper in April on methodology of assessing employment related expenditure programmes: this may form the basis of a Treasury paper for the Manpower Group set up to consider this. - A small research project on why the test discount rate is/should be higher than the return on indexed gilts has been discussed with Professor Stern (Warwick) and is likely to be commissioned by PSE in the autumn. - work by EI on disaggregated labour markets has slipped, but a joint paper with MP on sectoral labour markets is likely to be completed in the autumn.

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>3. Central guidances and promotions.</p>	<p>A new programme of work is in hand in OR, widening the coverage of the PESC(D) series of papers. Several papers of case studies in financial management are programmed for issue in 1985-86.</p> <p>An investment appraisal guidance note on risk and uncertainty will be issued in the autumn.</p> <p>There has been little progress in acquiring more knowledge of investment appraisal guidance and procedures in other departments.</p> <p>A new priority which has developed is the maintenance of consistency of accounting criteria in the costing of capital and in charging untied customers for central services. Important precedents have been established, jointly with AFA division, in charging, the costing of stockholding, and the use of interest rates in management accounts.</p>

Priority objectives	Comment/detail/progress expected in 1986-87
<p>1. To provide professionally sound, relevant, timely and well presented services to expenditure divisions.</p>	<p>Continuing tasks. Priorities reflect those of customer divisions. Additional priorities from ESG include the examination of investment appraisal procedures in departments and how they can be approved; monitoring of implementation of the new DHSS computerised forecasting; applying the lessons of the Industrial Support Review to agricultural support and R&D funding.</p>
<p>2. To provide economic and OR services to the central divisions of the Treasury and the CCTA, and to the Treasury generally on central issues of public expenditure or financial management.</p>	<p>Continuing tasks. Priorities reflect those of the Department.</p>
<p>3. To continue a programme of development and dissemination of good practice in financial management as follows:</p> <p>3.1 PESC(D) papers</p> <p>3.2 Performance indicators</p>	<p>Objective to assemble, edit and issue well-received papers in 1986-87 at the rate of one every two or three months.</p> <p>Objective to set up by October 1986 a central record of ranges of defined performance indicators, covering eight functions, across several departments.</p>

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p>3.3 To maintain and develop the quality and coverage of central guidance on expenditure appraisal methodology.</p>	<p>Objective to issue during 1986-87 at least two Supplementary Notes, one about the handling of interest charges in public service costings, another providing guidance on some more advance technical questions, such as the potential for valuing non-marketed outputs.</p>
<p>3.4 To commission, monitor and make best use of cost-effective research programme.</p>	<p>Objective to have commissioning of all work to be undertaken during 1986-87 well in hand by January 1986 and to keep expenditure during the year close to budget.</p>
<p>4. To develop, by contributing to joint studies with other departments, by commissioning outside research and by in house work, better methods of appraisal and evaluating employment and industry programmes; and to ensure that these developments are applied.</p>	<p>Objectives in employment policy to ensure that the output of the Reid group on methodology for assessing employment related programmes is technically sound, clearly formulated and widely disseminated and that it is applied to all expenditure proposals which claim employment benefits.</p> <p>Objectives in industrial policy to commission and complete a block of research on disaggregated labour markets and to develop and apply some explicit guidance on the use of shadow prices for labour costs.</p>
<p>5. To manage the Treasury micro-economic research budget efficiently, effectively and economically.</p>	<p>Objective to steer the preparation and subsequent progressing so as to achieve a cost effective programme completed on time and within budget, and to ensure that all the necessary documentation and records are well presented, correct and timely.</p>

1. Each principal-equivalent in each division writes a monthly retrospective report, providing a breakdown of his/her time. From the Autumn of 1985 divisional heads will produce a quarterly retrospective and prospective report for his division: it is intended that these should include some explicit estimates of value for money provided by each division. Each division has a float file. The monthly reports, together with progress meetings, provide an effective body of information for heads of divisions and of the group to assess both individual performance and the quality and value of the Group's output.
2. For consultancy work, one telling measure is the intensity or otherwise of the customer's continuing demand for help. For specialists who are dedicated to expenditure groups, the customer provides a written contribution to his/her annual staff report.
3. For in-group work, control depends on assessment by more senior professionals. The use of and monitoring against target dates is strongly encouraged.
4. OR division has a computerised system for monitoring expenditure by project and customers, and also proposes to develop activity indicators, such as written requests for work, requests for computer runs, numbers of models developed or maintained and items of written advice. EI division have some monitoring of speed of response to requests for advice.

(i) Effect of 5 per cent reduction in resources available

Effect would be slower, more superficial responses to customers, the cessation of some activities, especially in central development work (objectives 3 and 4).

(ii) Effect of 5 per cent in resources available

Effect would be an improvement in timeliness and quality, and it would allow more work in areas such as development of output measures and performance measures, special studies and research into labour markets and industry, and development of investment appraisal.

(iii) Constraints on past and future performance, changes in organisation of work etc

As noted under D(i), there have been especially serious staff shortages in EI and PSE: government-wide recruitment problems of OR staff are likely to affect OR division in the coming year.

SCS division was transferred out of ESG on 2 June 1985

Date 2 September 1985

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87	Notes
1. Bid items					
Basic staff costs					
Staff Complement		475200	108657	519,976	
Casuals/Students		4500	2421	9,017	
Specialists		-253400	-63350	-240,72	
Total	460613	226300	47728	281,270	
Overtime	98			-	
Travel & Subsistence					
Overseas	1162		1249	2,500	
Home	4611		579	3,000	
IT Equipment etc				10,000	
Economic Research		23000		40,000	
Consultancies/Fees	5060		10120	-	
Other (specify)					
Total	471544	249300	59676	336,770	
2. Non-bid items					
Entertainment	120		40		
External training	15507		497	1,000	
Government Car Service	120		6	-	
3. Receipts					
EC Travel				-	
Other				-	

2. Staffing Profile and Bid

Responsibility Centre: Expenditure Support

a. Staff in Post

Date: / /

Complemented Grade	Grade 3	Grade 5	Grade 6	Prin	Econ Adv	Stat	P30	S80	S90	MB	MO	MO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Consults/ Students	Use of Spclsts
1 April 1985		3			7	3	1	2		3			2			1					1	1		2		26	N.K.	N.K.
1 July 1985	1	2			5½	2	3	1	1	3			2							1	1		3		25½			

b. Staff Complement 1985-86

1 April 1985		3			8	5	4	2	2						1					1½	1		3		30½		
31 March 1986	1	3			8	5	4	2	2						1					1½	1		4		32½		
Gr. Complement 1985-86	0.8	3			8	5	4	2	2						1					1½	1		3.8		32.1		

c. Bid for 1986-87 by quarter

1 April 1986	1	3			8	4	2	3	2									1		2	1		4	31				
1 July 1986																												
1 Oct 1986																												
1 Jan 1987																												
31 Mar 1987													NO CHANGE															
Gr Complement 1986-87																											½	

• Please specify grade:

Notes:

3. Breakdown of Staff Complement by Division

Responsibility Centre 45
Date 2.9.85

Date	Division																Total	
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SNO	HNO	HNO(D)	NO	NT	CO	CA	SPS	PS	Typist		OTHER
1st April 1985	EI OR PSE			1								1/2			1		4 ^(a) 12 ^(b) 6 ^(c)	6 1/2 15 9
31st March 1986	EI OR PSE	(d)		1								1			1	1	5 ^(a) 9 ^(b) 6 ^(c)	8 12 11

(a) 4 x Economic Adviser
1 x Senior Economic Assistant

(b) 4 x PSO
3 x SSO
1 x HSO
1 x SO

(c) 4 x Economic Adviser
2 x Economic Assistant

(d) Head of Expenditure Support Group - post formerly in SCS.

SECTION 4:

Responsibility **Cre** ESG
Date 2/9/85

Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

Need for more economic input into employment and industrial policy, and, to a lesser extent, into efficiency in central government administration and programme management.

(i) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

No special new developments foreseen.

(iii) General comments on patterns/history of resource use

EF

REF

EC

MANAGEMENT IN CONFIDENCE
WORK PROGRAMME

A. Organisation

Responsibility Centre **EP**
Date 25 September 1985

Manager	G E FITCHEW			
Heads of Division (with grade)	C W Kelly A/S		S W Matthews A/S	
Branch Heads with main areas of responsibility in 1985-86	<p><u>S P Hannah</u></p> <p>(a) Exchange rate and EMS, intervention, exchange markets</p> <p>(b) investment/management of Exchange Equalisation Account</p> <p>(c) Public sector foreign currency borrowing</p> <p><u>P M Walker</u></p> <p>(a) Balance of payments briefing and analysis</p> <p>(b) General debt and capital markets issues</p> <p>(c) Residual exchange control policy and</p> <p>(d) international capital movements codes.</p>		<p><u>P Patterson</u></p> <p>(a) Forecasts of world economy</p> <p>(b) Development of WEP model</p> <p><u>J Graham</u></p> <p>(c) Briefing on world economic developments</p> <p>(d) Contributions to WEP forecasts</p> <p><u>P T Sheridan</u></p> <p>(e) IMF issues</p> <p>(f) International monetary system</p>	
Public expenditure totals to which responsibilities directed (where appropriate)	Not applicable EF1		Not applicable EF2	
Staff-in-post including heads of Division (1 July 1985)	AS 1, EO 1 PS 1 P 1 EA 1 CA 1 HEO 1 CO 1 TOTAL 8	TOTAL 11	AS 1 SE Asst 1 CO 2 P 1 E Asst 1 PS 1 EA 2 HEO 1 EO 1	
Total Staff-in-post (1 July 1985)				21

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre EF1
Date 25 SEPTEMBER 1985

(1) 1985-86

Area of work	% age
(a) Exchange rate policy and management of the reserves	45
(b) Foreign currency borrowing programme	15
(c) Balance of payments	15
(d) General capital market issues, including Japan	20
(e) Residual exchange control policy, and other countries controls on capital movements	5
Total	100

(ii) Changes since 1984-85

- (a) The foreign currency borrowing programme has gone more smoothly than had been expected, occupying slightly less time.
- (b) There has been a significant increase in the time spent on issues connected with Japan.
- (c) More time has been spent on EMS issues; eg because of Parliament and public interest.

(iii) Changes expected in 1986-87 compared with 1985-86

Much the same as this year assuming no major changes of policy.

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre EF2
Date 24 September 1985

(1) 1985-86

Area of work	% age
(a) Review of world economic prospects.	25
(b) Development of WEP model	15
(c) Briefing on world economy	30
(d) IMF issues	25
(e) International monetary system	5
Total	

(ii) Changes since 1984-85

- (a) Similar to 1984-85
- (b) Some increase as research capacity of present staff has increased.
- (c) Similar to 1984-85, although some changes in composition.
- (d) Similar to 1984-85.
- (e) Some decrease as reforms proposed by G10 report are not of substantive nature, and most of the follow-up work in framework of IMF.

(iii) Changes expected in 1986-87 compared with 1985-86

- (a) Little change
- (b) Perhaps some further increase
- (c) to (e) Little change.

- (1) To monitor, provide advice, and develop policy on the sterling exchange rate, exchange market intervention and the foreign exchange markets, liaising closely with HF.
- (2) To continue with, and improve, the efficient management of the foreign exchange reserves.
- (3) To continue to roll-over existing foreign currency borrowing as it matures in a cost-effective way.
- (4) To brief ministers effectively and quickly on balance of payments developments.
- (5) To improve knowledge of international capital markets, particularly in Japan, and to secure easier entry by British financial institutions to Japanese markets.
- (6) To continue to monitor and advise on developments in Hong Kong.
- (7) To continue to encourage other countries to dismantle existing controls on capital movements and not to erect new ones.
- (8) To improve the work of the Committee on Capital Markets and Invisible Transactions of the OECD in liberalising trade in services.

BF2

- (1) To review world economic prospects regularly. To provide forecasts of developments in major countries and categories of country. To contribute to the Treasury's domestic forecasts. To assess prospects for debtor countries.
- (2) To maintain the existing econometric model of the world economy and to improve it.
- (3) To brief Ministers and senior officials on world economic developments and to advise on UK attitudes to other countries' policies.
- (4) To advise on UK policy towards IMF issues.
- (5) To analyse the functioning of the international monetary system and to advise on its future development.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>Stabilisation of reserves</p>	<p>The new intervention guidelines and the new arrangements for covering the foreign currency requirements of government departments have been working well. Reserve losses have been halted and the reserves have now received a major increment as a result of the recent \$2½ billion FRN. Reserve changes in the rest of the year will depend partly on the extent of concerted intervention as a result of the recent G5 initiative on the US dollar.</p>
<p>Foreign currency borrowing</p>	<p>The conventional programme has gone much better than at first looked likely. New borrowing so far this year under the conventional programme has exceeded repayment of maturing debt, leading to a small increase in the gross reserves. We have also now borrowed \$2.5 billion in the Government's own name.</p>
<p>Debt issues</p>	<p>Work continues, with others in the Treasury, to develop strategy and avoid expensive failures.</p>

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
World economic forecasts.	World economic developments have been broadly in line with the WEP forecasts, although not surprisingly we have not been able to predict precisely the timing of exchange rate movements, changes in oil prices etc.
WEP model development.	Work has started on improving the modelling of budget deficits. Research has recently been hampered by staff moves. However, the Bank of England have agreed to contribute to model research and development.
Briefing on world economic developments.	Briefing for the G7 Economic Summit was less onerous this year, but meeting other briefing commitments has nevertheless involved frequent overtime.
IMF issues.	Routine briefing for the Executive Director is proceeding satisfactorily. Fund policy issues (the Trust Funds, arrears, debt, the SDR) may take more time in the rest of the year.
International Monetary System.	The G10 report has been published, and follow up work will take place in the IMF Board over the next six months. Written evidence was submitted to the TCSC inquiry into the dollar and involved a substantial effort.

Priority objectives	Comment/detail/progress expected in 1986-87
Foreign currency borrowing	<p>Managing the programme should be easier in 1986-87, now that the inhibition on HMG borrowing has been removed. But we will still want to continue with indirect borrowing through the nationalised industries and other public corporations and will need to continue to look for different ways of doing this cost-effectively within the constraints imposed by their own borrowing needs.</p>
EEA management	<p>At our request the Bank of England have now launched a management review of the services they provide in return for the EEA management charge, against the cost-effectiveness of which there is currently a question-mark. We will need to ensure that this is pursued vigorously and the results carried through into the arrangements for dealing with Government departments foreign currency requirements.</p>
Reserves management	<p>There have been considerable difficulties with computerisation of the reserves management activities which the Bank performs on our behalf. We need to ensure that these are sorted out and that we are able to improve the way we monitor, assess and set policy for the management of the reserves portfolio.</p>
Capital market issues	<p>We need to improve our knowledge of the workings of other capital markets, particularly those of Japan, and to continue to press for more equitable treatment for British financial institutions wishing to do business there.</p>
Enhancing the CMIT	<p>The composition and procedures of the CMIT, and its co-ordination with other relevant OECD Committees, need improvement if the Committee is to fulfil its potential role in the work of the OECD on liberalising trade in services.</p>

D. (ii) Priority objectives in 1986-87

24.9.85

Priority objectives	Comment/detail/progress expected in 1986-87
WEP forecasts	To overhaul and improve sections of the model which have not been looked at for some years, notably the trade, prices and earnings equations. This should improve the usefulness of the model as a tool for forecasting and policy simulation.
Economic briefing	Further efforts to improve our understanding of the major countries (particularly Japan) in order to make our advice on their policies more effective (eg in G5, OECD, and IMF surveillance)
IMF issues	Monitoring of IMF programmes. Continue a high quality UK input to Fund policy discussions and to internal Treasury discussions on debt.
International Monetary Issues	Continue to work for a more stable and better functioning international monetary system in the context of the existing institutional framework.

D. (iii) Supporting information including performance measures

Responsibility Centre EF/

Date 25 September 1985

Success in rolling-over foreign currency debt is fairly easily measured, so too are changes in the level of the foreign currency reserves and the reasons for them. We collect information about both as a matter of course.

There is not a great deal of casework. But we do have a substantial workload in terms of regular and ad hoc briefing, almost always demanded to a rigorous timetable.

D. (iii) Supporting information including performance measures

Responsibility Centre EF2

Date 24.9.85.

Lack of resources constrains the rate at which we can develop the WEP model, and hence our forecasting and quantitative analytical capacity. This constraint may be eased a little as the forecasters gain more experience and can devote more of their time to research. Mr Graham's successor may be able to make a greater contribution to research, although his post is already heavily loaded. Employing a student for a full year and the sharing of research that we have agreed with the Bank of England may also help.

Lack of resources has also hampered analytical work on the major countries' economies and international monetary issues.

(i) Effect of 5 per cent reduction in resources available

As last year.

(ii) Effect of 5 per cent in resources available

SEE RF 2 ENTRY, WHERE EXTRA RESOURCES WOULD BE EMPLOYED.

(iii) Constraints on past and future performance, changes in organisation of work etc

Lack of time, and an imminent change in staff at principal level will continue to hamper EF1's ability to undertake longer-term analytical work and to improve our knowledge of international capital markets by reading or visits. We will also need to reply more on FEU than in the immediate past as a result of losing Mr Hannah's economic expertise.

(i) Effect of 5 per cent reduction in resources available

There are probably no complete activities that could be cut out. But there would be a decline in briefing standards, greater reliance on the Bank of England (eg on IMF briefs) and even less time to produce analytical/background papers. Specific options would be a reduction in WEP model research and cancellation of the Wharton subscription.

(ii) Effect of 5 per cent in resources available

An increase in staff resources of the order of 5 per cent could enable us to undertake a number of background studies (eg on the Japanese saving ratio and macroeconomic policy), to improve some of the country forecasts which at present get little attention and to undertake pieces of work such as an assessment of the past forecasting record.

(iii) Constraints on past and future performance, changes in organisation of work etc

A substantial part of EF2's workload is the preparation of country briefs and IMF instructions to tight deadlines. The number of such pieces produced can give some indication of the workload, but not of quality and does not allow for the heterogeneity of the product. Evidence of the influence of the UK on IMF decisions and other countries' policies is almost certainly too intangible to be of much use. In the case of the WEP forecasts we hope, resources permitting, to devote a little time to looking at the errors in recent forecasts.

Date

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Basic staff costs				
Staff Complement		301300	76143	335,700
Casuals/Students		5000	3580	6,300
Specialists				
Total	288553	306300	79723	342,000
Overtime	790	2300	430	2,300
Travel & Subsistence				
Overseas	10131	16900	2748	21,000
Home	916	300	231	560
IT Equipment etc	1091	8800		12000
Economic Research				
Consultancies/Fees				
Other (specify) <i>Wharton Subscription</i>	<i>N/K</i>	16000		12,500
Total	301481	350600	83132	396,460
2. Non-bid items				
Entertainment			18	
External training	3325			
Government Car Service			159	
3. Receipts				
EC Travel	1151			2,856
Other				

Notes

Total complement unchanged, but bid includes provision for 1 of the 2 HEO posts to be allocated as HEO(D) (see section 4).
Casual:- a research assistant to help with WEF research plus reserves and debt database.

Overtime requirement for Evening Reports (EF1) and briefing peaks (EF2).

Includes provision for IMF Spring Annual Meeting in Washington and a series of trips to Brussels for EC Monetary Committee meetings (Mr Fitchew is the current UK Alternate).

3 secure telephone installations still under discussion with EOG.

Represents subscriptions for centrally planned economy forecast (£2,500) and US forecast (for Washington Embassy) (£10,000).

2. Staffing Profile and Bid

Responsibility Centre: EF

a. Staff in Post

Date: / /

Complemented Grade Date	Grade 3	Grade 5	Grade 6	Prin	Econ Adv	Stat	PSO	SED	SSO	HEO	HSO	HEO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Casuals/Students	Use of Spclists
	1 April 1985	1	2		2	3					1		1	1		2			1		3	1		3			21	N.K.
1 July 1985		2		2	3					2			1		2			1		3	1		2			19		

b. Staff Complement 1985-86

1 April 1985	1	2		3	2					1			2		2		1			3	1		3			21	1	
31 March 1986	1	2		3	2					2			2		2					3	1		3			21	-	
Av. Complement 1985-86	1	2		3	2					1.8			2		2		0.2			3	1		3			21	0.8	

c. Bid for 1986-87 by quarter

1 April 1986	1	2		3	2					1		1	2		2					3	1		3			21	1	
1 July 1986	1	2		3	2					1		1	2		2					3	1		3			21	1	
1 Oct 1986	1	2		3	2					1		1	2		2					3	1		3			21	1	
1 Jan 1987	1	2		3	2					1		1	2		2					3	1		3			21	1	
31 Mar 1987	1	2		3	2					1		1	2		2					3	1		3			21	1	
Av. Complement 1986-87	1	2		3	2					1		1	2		2					3	1		3			21	1	

- Please specify grade:

Notes:

3. Breakdown of Staff Complement by Division

Responsibility Centre *EF*
Date

Date	Division																	Total	
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HEO	HEO(D)	HO	MT	CO	CA	SPS	PS	Typist			
1st	EF 1	1		1		2				1	1	1	1		2				10
April	EF 2			1		1		1		1		2			1			4 ^(a)	11
1985																			
31st	EF 1	1		1		2		1		1		1	1		2				10
March	EF 2			1		1		1		1		2			1			4 ^(a)	11
1986																			

(a) 2 x Economic Adviser
2 x Senior Economic Assistant

SECTION 4:

Responsibility Centre *EF*
Date

- (1) **Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86**
(refer to work programme where appropriate)
- 1) The reason for the mix in the HEO complement is that EF(1) continue to regard the work being carried out by Mr Flitton to be of a standard consistent with an HEO(D) grading.
 - 2) The bid for a casual for the whole of 1986-87 reflects concern that EF(2)'s growing research programme and WEP data management should not be allowed to fall behind. EF(1) may also require some extra capacity to assist with the expansion of their reserves and debt database.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

(iii) General comments on patterns/history of resource use

EF is a group which remains fairly constant in both size and structure. For most of the time it is a tightly stretched unit which because of the nature of some of its responsibilities has to be prepared to instantly commit thinly spread resources, often for indefinite periods of time. The sterling exchange rate crisis in late 1984/early 1985 is a good example of this.

A. Organisation

AEF

Responsibility Centre

Date 10/01/85

Manager	P. MOUNTFIELD(3)			
Heads of Division (with grade)	AEF1		AEF2	
Branch Heads with main areas of responsibility in 1985-86	<p>MS D J SEAMMEN(5)</p> <p>Miss M E Cund Overseas Aid Policy and Administration; Crown Agents; CDC; relations with Third World countries (except Latin America).</p> <p>C J E Legg FCO expenditure and manpower; British Council; BBC External Services; Aid and Trade Provision.</p> <p>P E Denison Multilateral aid including IBRD regional development banks and EEC aid</p>	<p>MRS A F CASE (5)</p> <p>N Sallnow-Smith Country problems with special reference to official debt in Latin America and Eastern Europe</p> <p>M Redley Trade policy</p> <p>H Bush General policy on export credit and ECGD PES</p> <p>R Adams Case work on export credit</p>		
Public expenditure totals to which responsibilities directed (where appropriate)	<p>ODA - £1,200m</p> <p>FCO - £600m</p>	<p>£450m (1985-86)</p> <p>plus £400m impact on PSBR from trading activities, also £33bn contingent risk</p>		on ECGD's guarantees)
Staff-in-post including heads of Division (1 July 1985)	<p>AS 1 HEO 2 CA 2</p> <p>Prin 2 EO 2 PS 1</p> <p>SEO 1 CO 2</p>	<p>AS 1, Prin 3, SEO 1,</p> <p>EO 1, CO 1, CA 1, PS 1</p>		
	+PS (Under Secretary		Total Staff-in-post (1 July 1985)	

B. Allocation of Manpower/Resources between different areas of work

Responsibility Cent...

Date 10/9/85

(1) 1985-86

Area of work	% age
PES/Estimates/manpower (3 Departments)	15
Financial management (3 Departments) + Management Review (ECGD)	5
General aid policy, including bilateral aid, briefing on Third World countries	10
Fringe bodies (Crown Agents, CDC, British Council, BBC External Services)	10
Aid and Trade Provision	10
Multilateral aid policy and briefing	10
Other case work country assessment and management	10
Export Credit policy	15
International Debt	15
Total	100

(ii) Changes since 1984-85

Deletion of CA post and some reorganisation of clerical support.

- Addition of work on trade policy, accompanied by extra resources (1 Principal and 1 EO). Addition of the EO (mid-85-86) should enable more resources to be devoted to international debt.

- Work on Management Review taken over from follow-up to Matthews

(iii) Changes expected in 1986-87
compared with 1985-86

Possible reorganisation of HEO and EO duties in light of staff inspection report

- Continuation of trade policy work at this level of resources due to be reviewed November 1985.

- Casework and country assessment work may be affected by changes in ECGD's operations. Timing very uncertain.

- Follow-up ECGD Management Review will gradually be absorbed in general PES/Manpower/Financial Control work.

1. Efficient and effective discharge of the normal responsibilities of a Treasury Expenditure Group in relation to ODA and FCO expenditure and manpower including:
 - (a) Briefing Treasury Ministers for PES discussions on the appropriate size of the expenditure programmes; and scrutinising Departments' Estimates.
 - (b) Ensuring that as far as possible programmes are not exceeded and briefing Ministers on claims on the Contingency Reserve.
 - (c) Dealing with individual expenditure proposals falling outside Departments' delegated authority.
 - (d) Improving management systems and concern for value-for-money within the ODA and FCO through the FMI and other means.
 - (e) Overseeing financial relations with non-departmental bodies notably Crown Agents, Commonwealth Development Corporation, British Council and BBC External Services.
2. Monitoring the work of the IBRD and Regional Development Banks and helping to promote their effectiveness at an acceptable cost to the UK.
3. To minimise the costs to the UK arising from country debt problems;
4. To monitor and advise on financial and economic policy issues in relation to Latin America and Communist bloc countries with particular emphasis on countries currently in the debt problem list, which may include countries in other regions;
5. To ensure that the costs of trade policy measures are fully taken into account in Treasury and other Department's decisions;
6. To identify priorities in trade policy in the light of overall economic management objectives;
7. Briefing and advice on trade policy issues;
8. To ensure that the aims of overall economic management are brought to bear in the formulation of export credit policies;

9. To minimise the exposure of the Consolidated Fund to the costs and risks of export credit insurance and subsidy through
- (a) control and monitoring of the expenditure and manpower resources available
 - (b) monitoring the performance of ECGD's credit insurance operations
 - (c) ensuring that Ministers' decisions on ECGD's structure and operations are carried through expeditiously.

1985/86

Date

10/9/85

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>To do the public expenditure job for FCO and ODA outlined as an aim.</p>	<p>Cyclical job, progressing according to timetable. FCO Overseas Price Movements compensation agreed. New running cost arrangements appear satisfactory so far.</p>
<p>To get FCO management to take their financial responsibilities more seriously.</p>	<p>Slow progress, but some encouraging signs.</p>
<p>To establish a programme with FCO for bringing the Diplomatic Estate within agreed standards.</p>	<p>Agreed asset recycling scheme is major step, but as yet no detailed programme put forward.</p>
<p>To achieve an agreed solution to the problem of financing pay increases in the BBC External Services.</p>	<p>Perry Review completed; progress, albeit slow, in implementation. BBC have accepted 3-year funding. Action plan soon. Financial arrangements to be agreed in or before PES.</p>
<p>To encourage the development of a new role for the World Bank as part of a coherent international strategy.</p>	<p>Requires continuing attention in international negotiations against resistance especially from US. Focus is increasingly shifting to the financial consequences of the Bank's future role, both in IBRD and IDA.</p>
<p>To improve the advice given to Ministers in relation to country debt problems and available as a basis for formulating a UK position in Paris Club negotiations by more systematic collation and analysis of economic data.</p>	<p>Improved advice on problem countries of particular current importance (eg Poland, Nigeria and Peru) both for Ministers and for Paris Club negotiations has enabled UK interests to be better identified and pursued. Database on 26 debtors now on line and regularly updated.</p>
<p>None for trade policy last year as this area of work assumed to be on a "care and maintenance" basis.</p>	<p>Major element in this year's work has been to establish Treasury's locus in trade policy issues, identify priority issues and build up contacts.</p>

1985/86

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>To make further progress in phasing out export credit subsidies in EC and OECD negotiations and to prevent any deterioration in the 1983 Consensus arrangements for market related interest rates.</p>	<p>1983 Consensus arrangements for market related interest rates holding-up and steps taken to increase transparency and discipline on mixed credits and to reduce subsidy in certain aircraft sales. Marked resistance to further reduction of subsidy from France and Italy. Agreement reached interdepartmentally on objectives of export credit policy over the next two years but these already under pressure as a result of Ministerial decisions in principle on doubling ATP budget and soft loans in Consensus meetings for the rest of the year, the major issue will be a realistic set of rates for low interest rate currencies.</p>
<p>To monitor the medium term financial objective for ECGD, agree a planning framework within which it can be rolled forward and to encourage effective financial management systems within the Department</p>	<p>ECGD's first Business Plan was disappointing. More effort from us will be required to get next year's on the rails. Progress on systems more generally will depend on concerted and speedy implementation of the Management Review.</p>
<p>To ensure that on financial performance and premium reviews sufficient account is taken of the Exchequer interest</p>	<p>Major review of premium structure should be available later this year which should enable clearer relation of premium to risk and more differentiated approach to premium increases with (hopefully) better return to the Exchequer.</p>
<p>To agree with ECGD on a more rigorous system for determining their general provision and, as a consequence, an adequate (higher) level of general provision against sovereign risk. To build on the new "risk review" arrangements to improve ECGD's credit analysis.</p>	<p>Discussions on provisioning about to begin. Risk analysis is to be improved within a new portfolio management system.</p>
<p>Follow-up Matthews Committee decisions</p>	<p>Follow-up was in form of a Management Review (with Treasury represented on the team). Review's conclusions broadly accepted by Ministers: major task now to ensure that ECGD gets on with it.</p>

1985/86

Responsibility Centre

Date

10/9/85

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>To explore alternative ways of financing export credit</p> <p>To deal with individual cases expeditiously and to secure decisions, especially in EGC, which limit the public expenditure consequences of interest support and ECGD's exposure in more risky markets</p>	<p>Export Bank Committee reported. Capital market financing of one large (£250m) project currently being examined. Use of alternative techniques likely to depend on changing FREF arrangements.</p> <p>Continuing work. Difficult to measure. New arrangements set in place in EGC to avoid expensive credit for defence sales.</p>

6/34
55/141

(ii) Priority objectives in 1986-87

Responsibility Centre

Date

10/9/87

Priority objectives	Comment/detail/progress expected in 1986-87
To do the public expenditure job for ODA & FCO outlined as an aim.	<u>Annual Task</u> No significant new developments expected; new running cost limits will be focus of attention.
To play significant role in review of Commonwealth Development Corporation.	<u>New Activity</u> Review scheduled for 1986; need to ensure all options are considered, including privatisation.
To monitor Crown Agents' financial position and promote appropriate decisions.	<u>New Activity</u> Latest information on CAs' future viability suggests we may again need to consider winding-up; if not, path to privatisation in 1988 requires clarification.
To continue pressure on FCO to improve financial management. [Comprehensive review with Pay 3 of FCO allowances.]	Continuing work; in particular to establish a programme for bringing the diplomatic estate into line with agreed standards. New activity. Ambitious objective; but this is the only major area of FCO expenditure not subject to radical scrutiny in recent years.
To make further progress in OECD on improving transparency and discipline in use of mixed credits.	Continuing work with AEF2. Further progress likely to be made difficult by stubborn French position on mixed credits but it is in the UK's interest to make further efforts.
To ensure that soft loan system is (i) successfully introduced, and (ii) operates efficiently without building up an unacceptable level of forward commitments.	First part should be completed by start of 1986-87 (ii) will depend on number of soft loan cases during the year.
World Bank financial requirements will require particular attention as negotiations proceed on the IBRD capital increase and the IDA replenishment.	<u>Increased Activity</u> Negotiations on the periodic increases in IBRD and IDA resources are reading a peak together, requiring Treasury input on financial aspects of ODA policy.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
To ensure that any prospective deterioration of sovereign debtors' prospects is identified and, where necessary, preparatory work set in hand to forestall damaging systemic effects	<p><u>Continuing work</u></p> <p>Despite progress made since 1982 by some debtors, the situation remains fragile. It remains important to keep a careful watch on developments so as to concert rapidly with other creditors should the position deteriorate.</p>
Get cost benefit methods into scrutiny of commodity agreements	<p><u>Continuing work</u></p> <p>Depends on MAFF/DTI attitudes; Tin, coffee, cocoa and rubber are main targets</p>
Press methods of calculating and publicising the cost of protection	<p><u>Continuing work</u></p> <p>Develop existing work programme, trying to get DTI support; alot depends on exporting opportunities in co-operation with IAE</p>
Question trade policies under Article IV IMF consultations	<p><u>Continuing work</u></p> <p>Start up problem to get trade aspects fully written up by Bank of England; but need for continuing scrutiny</p>
Ensure maximum "open market" approach to GATT round	<p><u>Continuing work</u></p> <p>Degree of in-year commitment depends on start date for round (mid-late 1986); and use DTI makes of interdepartmental group. Some preparation anyway for independent Treasury line</p>
More relevant and relative trade work in UNCTAD	<p><u>Continuing work</u></p> <p>Opportunity good in run up to UNCTAD VIII (early 1987)</p>

Priority objectives	Comment/detail/progress expected in 1986-87
<p>Make further progress in EC and OECD negotiations on reduction of export credit subsidies and greater discipline on tied aid.</p> <p>To ensure prompt and effective implementation of the Management Review recommendations.</p> <p>To encourage ECGD to make maximum use of capital market financing for exports with attendant subsidy and monetary advantages.</p> <p>To renegotiate margins banks are paid for pending fixed rate export finance with aims of reducing Exchequer costs and ensuring fullest use of capital markets.</p>	<p><u>Continuing work</u></p> <p>Realistically progress will be slow with the major obstacles at international level rather than in agreeing common line among UK departments.</p> <p><u>New activity</u></p> <p>Need to be involved in the drawing up of action plans and seeing they are adhered to; key appointments of outsiders; and the implementation of the new portfolio management system.</p> <p><u>Continuing work</u></p> <p>Use of capital markets still in the early stages with teething problems which demand Treasury and Bank attention. Our aim is to ensure that capital market financing considered in all appropriate cases (mainly larger projects). Will depend on new arrangements for FREF.</p> <p><u>New activity</u></p> <p>Renegotiation of bank margins will begin in Autumn 1985 but likely to be protracted and follow-up will take us into 1986-87. Following report on private sector export bank, these negotiations (depending on Ministers' views) may be widened to encompass a restructuring to provide a framework for non-bank financing.</p>

D. (11) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p>To deal with individual cases expeditiously and to secure decisions, especially in EGC, which limit the public expenditure consequences of interest support and ECGD's exposure in more risky markets</p> <p>To devise ways of making more effective use of the existing measures of subsidy calculation as applied to individual cases as a basis for improved policy decisions and control of costs generally</p> <p>Attempt to introduce greater selectivity into FREF system</p>	<p><u>Continuing work</u></p> <p>Success depends on how Ministers perceive the trade-off in important cases between costs and risks of export support and industrial employment and political considerations. Control of risk is dependent on progress with the implementation of the new portfolio management arrangements</p> <p><u>Continuing work</u></p> <p>Progress will depend on securing ECGD agreement and possibly further computerisation of FREF</p> <p><u>New activity</u> PAC report may provide opening. Real operation problems in ECGD could make it impossible to get far. Considerable political difficulties.</p>

D. (iii) Supporting information including performance measures

Responsibility Centre

Date 10/9/85

The Group has thought hard about performance measures, particularly since the previous Chief Secretary asked us to try during his visit last Spring. We have concluded that there are no meaningful measures available in this largely-policy-oriented block of work.

(1) Effect of 5 per cent reduction in resources available

More pressure all round and slight reduction in quality. If a post had to be lost the trade one, subject to review in any case, may be the most expendable. Changes in ECGD's systems following the management review could make it easier (less costly) to reduce resources put into case work.

Main area to suffer would be depth of knowledge of Departments. Visits (including involvement in FCO staff inspections) would be cut out. Treasury would play less part in bilateral aid (including debt) problems.

(11) Effect of 5 per cent ^{increase} in resources available

More effort on ECGD front - closer involvement in the management review changes would probably bring best pay off. Opportunity for one or two more field visits (eg to development countries; familiarisation visits to Washington; to industries benefitting from ECGD operations)

(111A) Constraints on past and future performance, changes in organisation of work etc

Actual achievement of objectives depends critically on factors outside Group's control: Ministers, other Departments, the views and actions of overseas countries. Much work is demand-led and must be done regardless of the level of resources available. The increase in resources for trade policy will enable Treasury interest to be more than on a care and maintenance basis.

Changes in organisation may need to be made to reflect changes in ECGD (notably a reduction in casework following the proposed move to portfolio management) but these are unlikely to come about in 1986-87.

Burden of overseas meetings at Principal to Under Secretary level puts an equally heavy burden on those left to mind the shop.

On expenditure side main constraint domestically arises from FCO distrust of Treasury, combined with their inexperience in financial management; this constrains sensible public expenditure discussions.

Internationally, constraints arise from UK's increasingly limited ability to influence international negotiations in our favour.

Date 10/9/85

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87	Notes
1. Bid items					
Basic staff costs					
Staff Complement		370500	80312	397,305(1)	(1) Staff complement costs do not include a sum for 1 AT post in AEF. It has been agreed that this post should not be included in the 1986-87 bid on the understanding that AEF could rebid for it later if necessary should the need arise.
Casuals/Students					
Specialists		12500	3125	8,159	
Total	318264	383000	83437	405,464	(2) These costs have in the past arisen out of AT training: the same qualification as for (1) above applies.
Overtime	1124	1100	634	1,495	
Travel & Subsistence					
Overseas	14113	19800	2986	18,820	
Home	903	1700	292	1,470	
IT Equipment etc		1200		1,200	
Economic Research					
Consultancies/Fees					
Other (specify) <i>Chatham House Subscription</i>		600		600	
Total	337404	407400	87349	429,049	
2. Non-bid items					
Entertainment	171		123	300	
External training	4178		100	- (2)	
Government Car Service	80		12	80	
3. Receipts					
EC Travel	1775			3,759	
Other					

2. Staffing Profile and Bid

Responsibility Centre: AEF

Date: 10 / 9 / 85

a. Staff in Post

Date	Complemented	Grade	Grade	Grade	Prin	Econ	Sturt	PSO	SEO	SSO	HEO	HSO	HEO	Sen	Sen	EO	SO	AT	Econ	Asst	CO	CA	SPS	PS	Typ	Other	Total	Casuals/ Students	Use of Spelists
	Grade	3	5	6		Adv						(D)	Econ	Asst	Stat				Asst	Stat									
1 April 1985	1	2			4				2		2		1			3		1			3	3		3			25	N.K.	N.K.
1 July 1985	1	2			5				2		2					3		1			3	3		3		25			

b. Staff Complement 1985-86

1 April 1985	1	2		5					2		2		1			4		1			3	3		3		27			
31 March 1986	1	2		5					2		2		1			5		-			3	3		3		27			
Avg. Complement 1985-86	1	2		5					2		2		1			4.8		0.2			3	3		3		27			

10% PSO
15% SSO
5% E Adv
40% Prin

c. Bid for 1986-87 by quarter

1 April 1986	1	2		5					2		2					5		-			3	2		3	1	26			
1 July 1986	1	2		5					2		2					5		-			3	2		3	1	26			
1 Oct 1986	1	2		5					2		2					5		-			3	2		3	1	26			
1 Jan 1987	1	2		5					2		2					5		-			3	2		3	1	26			
31 Mar 1987	1	2		5					2		2					5		-			3	2		3	1	26			
Avg Complement 1986-87	1	2		5					2		2					5		-			3	2		3	1	26			

20% PRIN
15% SSO
5% SEA
N/A

* Please specify grade:

Notes:

3. Breakdown of Staff Complement by Division

Responsibility Of AEF
 Date 10/9/81

Date	Division																	Total
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HED	HED(DI)	ED	RT	CO	CA	SPS	PS	Typist		
1st April 1985	AEF 1	1		1		2	1	2	1	2		2	2		2		16	
	AEF 2			1		3	1			2	1	1	1		1		11	
31st March 1986	AEF 1	1		1		2	1	2	1	2		2	2		2		16	
	AEF 2			1		3	1			3		1	1		1		11	

SECTION 4:

Responsibility Centre AEF
Date 10/9/21

- (i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

Reduction in 1 AT and 1 CA posts and bid for 1 Divisional typist
to reflect and improve work flow.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

Impossible to foresee clearly. International debt may blow up into a major problem. No other upward movements.

(iii) General comments on patterns/history of resource use

The Trade Policy post is new and subject to review anyway. Work on ECGD policy has continued and will continue at a high level. From about the end of 1986-87, if new control machinery can be agreed, the volume of casework should fall, and it may be possible to eliminate the SEO post. Similarly, new arrangements for handling Aid-and-Tradework have already allowed us to leave an HEO(D)/AT post unfilled. No other major changes.

~~CONFIDENTIAL~~
MANAGEMENT IN CONFIDENCE

A. Organisation

Responsibility Centre EC GROUP

Date September 1985

Manager	MR A J C EDWARDS (Grade 3)			
Heads of Division (with grade)	MR J MORTIMER (Grade 5)		MR G W HOPKINSON (Grade 5)	
Branch Heads with main areas of responsibility in 1985-86	MISS J SIMPSON UK net contribution to Community budget Financing of Community budget New 'own resources' decision and budget abatement Internal market and Intergovernmental Conference	MISS J BARBER European Investment Bank Community borrowing and lending Briefing for ECOFIN and other international meetings Enlargement of the Community EMS and Monetary Committee Relations with UK Parliament (including the Scrutiny Committee)	MR M DONNELLY Community budget process and procedure Budgetary and public expenditure aspects of Community policies including attribution and additionality. Budget discipline	MR J ADDISON Forecasting and monitoring net payments to Community institutions (Programme 2.7) and 'own resources'. Joint Secretary PESC(EC)
Public expenditure totals to which responsibilities directed (where appropriate)	For both divisions Gross expenditure of £3000 million approx. Net expenditure of £700 million approx.			
Staff-in-post including heads of Division (1 July 1985)				
	Total Staff-in-post (1 July 1985)			

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date

(i) 1985-86

Area of work	% age
Community budget procedure, coordination with UK Departments and improving EC financial control.	30
New 'own resources' and budget abatements.	20
Input to public expenditure survey	10
Internal market	6
European Investment Bank	6
Monetary Committee and the EMS	6
ECOFIN and other briefing	4
Enlargement	3
Budget discipline	7
Intergovernmental Conference to consider Treaty amendments	7
Relations with UK Parliament (Scrutiny Committee)	3
Relations with the European Parliament	2
Bilateral financial relations with certain European countries	2
Total	106

(ii) Changes since 1984-85

Work on new 'own resources' and future financing of the Community has diminished following introduction of Bill to ratify new own resources decision. Work on the internal market has been triggered by Commission's White Paper. The calling of an Intergovernmental Conference on Treaty amendments will require further work, probably continuing into 1986.

(iii) Changes expected in 1986-87
compared with 1985-86

Changes are difficult to forecast. Work on enlargement should be eliminated. Work on the EIB may diminish as the capital increase has been settled. Depending upon the outcome of the Intergovernmental Conference there may be some additional work on Treaty amendments. There may also be additional work on the internal market as the Commission translates its 'White Paper' into concrete proposals. There may well be pressure on the 'own resources' ceiling in 1987 and work may be generated if the Commission propose a further raising of the ceiling in 1987 or 1988.

1. *To reduce, so far as possible, the UK's net contribution to the European Community's Institutions
2. *To ensure that the UK receives the full amounts of abatement due under the Fontainebleau agreement.
3. *To ensure that the agreement on budget discipline is effectively implemented.
4. *To press for better value for money from Community budget expenditure.
5. *To ensure that UK Departments give full weight to economic and public expenditure considerations when assessing Community proposals and to operate the UK control mechanisms for Community expenditure, especially EURO-PES.
6. *To monitor and forecast effectively UK receipts from and payments to Community institutions.
7. *To pursue with IAE Division an effective policy to contain the growth in Community agricultural expenditure.
8. To safeguard the UK's interests within the European Monetary System and in dealing with other Community financial issues while, so far as possible, ensuring that the UK is seen to play a positive role.
9. *To protect the UK's interests within the European Investment Bank and ensure that Community borrowing and lending activities are in accordance with recent decisions on the capital increase and external lending ceilings.
- 10.*To coordinate briefing for European meetings, in particular ECOFIN and Budget Councils.
- 11.*To ensure that the Fontainebleau budget rebate system is effectively implemented.

Footnote: Items marked * involve substantial elements of advice to Ministers.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
1. Net budget contribution	1983 and 1984 budget refunds have been paid. Bill to ratify new 'own resources' decision now before Parliament: aim to obtain Royal Assent in October. New abatement system in place and provision made in the 1986 preliminary draft budget.
2. Budget discipline	Agreement at ECOFIN on the 'reference framework' for 1986, but 'cost of the past' and 'cost of enlargement' to be settled in the budgetary process. The agricultural expenditure guideline is in place and has been accepted by the Commission as well as by the Council.
3. 1985 and 1986 Community budgets	Intergovernmental agreement on finance for 1985 budget settled and the European Parliament adopted budget within 1% VAT ceiling on 13 June. 1986 preliminary draft budget received from the Commission. Preliminary discussions have taken place and Budget Council will take decisions on 17 September.
4. PES forecasting and monitoring	Monitoring system of payments and receipts now set up. Better contacts with Departments through PESC(EC) has helped improve forecasting methods.
5. EURO-PES	EURO-PES system firmly in place and is now an effective method for exercising control over Departmental policy towards Community expenditure
6. Financial control and Court of Auditors	Court of Auditors annual report discussed by the Council for the first time. Contacts with Court improved.
7. Financial regulation	Little progress so far. Problems still continue with other member states' attitudes and pressure on time. Also fear that revision of financial regulation might lead to re-opening of UK's abatement.
8. EIB	Capital increase now settled. The growth in lending implied by this is several percentage points lower than that in previous years, but still allows for real increases.
9. Enlargement	Negotiations with Spain and Portugal successfully completed. FCO will introduce a Bill to ratify the Treaty of Accession in October.

D. (11) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
1. Net budget contribution	Ensure that the Fontainebleau abatement system works properly and that the 1.4 per cent VAT ceiling is not breached. Ensure that the UK's interests are safeguarded in the review of the Fontainebleau mechanism (possibly late 1986 - new work)
2. Budget discipline	Ensure that budget discipline is effectively applied to the 1986 price fixing (in March 1986) and the 1987 budget (to be adopted by end-1986). This is a continuation of the Group's work.
3. 1986 and 1987 budgets	Subject the 1987 Community budget to a rigorous scrutiny ensuring so far as possible its policies are consistent with the UK's and that it does not exceed the 1.4 per cent VAT ceiling. Monitor the 1986 budget and try to avoid any overspend.
4. PES forecasting and monitoring	Continue to improve system for forecasting UK net contribution for public expenditure control purposes; continue to improve monitoring of UK payments to and receipts from the Community budget.
5. EURO-PES and non-additionality	Make EURO(PES) and non-additionality rules control mechanism on Community research expenditure as effective as possible.
6. Financial control	Continue work on improving financial control within the Community and make an effective contribution to the discussion of the Court of Auditors annual report. Press for the Court's 1986 report to be discussed by the Council in 1987, if necessary.
7. EIB	Ensure that third generation Mediterranean financial protocols are negotiated within the existing external lending ceiling. These negotiations should be completed end-1986 - this is new work.
8. Internal market	Push for greater liberalisation of financial and insurance services whilst protecting our position on tax harmonisation.

D. (iii) Supporting information including performance measures

Responsibility Centre
Date

We shall be watching closely the development of the UK's net contribution to the budget as a whole and to particular areas. It is not clear how one might devise a system of performance measures for work in this area. The Group will monitor its forecasting record with a view to improving the accuracy of its forecasting methods and explaining differences between forecast and outturn.

(i) Effect of 5 per cent reduction in resources available

Hard to foresee how the Group would accommodate this, with UK Presidency (July-December 1986) in the offing. Would probably hav to sacrifice work on EURO-PES, though Ministers have attached great importance to this.

(ii) Effect of 5 per cent in resources available

It has been agreed that as from 1 July 1985, the staff complement will be increased by one HEO (See budget return). This will enable greater attention to be given to Community budget expenditure although as yet the post has not been filled. As noted baove, the UK Presidency of the EC will impose a burden on the Group. An increase in resources would enable the Group (among other things) to make a more effective contribution during this period. At this stage it is difficult to assess exactly what the Group's needs might be because of the difficulty of predicting changes in the overall burden of work. Additional typing facilities, over and above the agreed full-time typist (see budget return), may be needed on a temporary basis.

(iii) Constraints on past and future performance, changes in organisation of work etc

Constraints

On Community budget matters it is necessary to reach agreement with other Departments in Whitehall and with our Community partners. This inevitably leads to compromises and a lot of abortive work. This represents a continual constraint on the Group's performance. Large amounts of foreign travel add to the pressures on the Group.

MANAGEMENT IN CONFIDENCE

1. Budget Bid For Administrative Expenditure

Responsibility Centre

EC

Date

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Basic staff costs				
Staff Complement	277041	280600	73670	329,056
Casuals/Students				
Specialists				
Total	277041	280600	73670	329,056
Overtime		1300	333	2000
Travel & Subsistence				
Overseas	10356	26000	2057	40,000
Home	8	500	9	500
IT Equipment etc	463	500		500
Economic Research				NA
Consultancies/Fees				NA
Other (specify)				See note
Total	287868	308900	76069	372,056
2. Non-bid items				
Entertainment	185		20	
External training			1225	
Government Car Service			36	
3. Receipts				
EC Travel			892	1800
Other				

Notes

1. Part of the reason why we are running a little ahead of budget this year is that we have an SEO blocking an HEO post.
2. The steep increase projected between 1985-86 and 1986-87 reflects an extra HEO post and ½ and extra typist post as well as pay increases.
3. The bid for 1986-87 does not include the cost of hosting the informal ECOFIN which the Chancellor will chair. The expected cost of this is £20,000. This sum to be charged centrally.
4. The Group may also need to publish some articles in EPR (or special supplements).
5. See also section 4.

2. Staffing Profile and Bid

Responsibility Centre: EC

a. Staff in Post

Date: / /

Complemented Grade Date	Grade 3	Grade 5	Grade 6	Prin	Econ Adv	Stat	PSO	SEO	SSO	HEO	HSO	HEO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Casuals/Students	Us. Spc.
1 April 1985	1	2		3				2		1					3					3	2		3	1/2		20 1/2	N.K.	N
1 July 1985	1	2		3				2		1					3					3	2		3	1/2		20 1/2		

b. Staff Complement 1985-86

1 April 1985	1	2		3				1		2					3					3	2		3	1/2		20 1/2		
31 March 1986	1	2		3				1		2					3					3	2		3	1/2		20 1/2		
Avg. Complement 1985-86	1	2		3				1		2					3					3	2		3	1/2		20 1/2		

c. Bid for 1986-87 by quarter

1 April 1986	1	2		3				1		3					3					3	2		3	1		22		
1 July 1986	1	2		3				1		3					3					3	2		3	1		22		
1 Oct 1986	1	2		3				1		3					3					3	2		3	1		22		
1 Jan 1987	1	2		3				1		3					3					3	2		3	1		22		
31 Mar 1987	1	2		3				1		3					3					3	2		3	1		22		
Avg Complement 1986-87	1	2		3				1		3					3					3	2		3	1		22		

* Please specify grade

Notes:

- The staff complement at B for 1985-86 shows two HEO posts as at 31 March 1986. It has been agreed that there should be an additional HEO as from 1 July 1985. It has also been agreed that the temporary typist should be full time. The difference between the complements in 1985-86 as shown and 1986-87 does not therefore represent a bid. The section b. figures should be amended.

3. Breakdown of Staff Complement by Division

Responsibility Centre *EC*
Date

Date	Division																	Total
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HEO	HEO(D)	EO	MT	CO	CA	SPS	PS	Typist		
1st April 1985	EC1	1		1		2	1	1		1		2	1		2	½		12½
	EC2			1		1	-	1		2		1	1		1	-		8
31st March 1986	EC1	1		1		2	1	1		1		2	1		2	1		13
	EC2			1		1	-	2		2		1	1		1	-		9

The two EC Divisions have their profiles combined at the request of the Division. EOG do not have details of the split between EC1 and EC2.

SECTION 4:

Responsibility Centre EC
Date

- (i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

The bid for 1986-87 reflects the agreed additional HEO post to work on budgetary matters and a full time typist which will reduce the burden placed on the personal secretaries in the Group. The bid for overtime (an increase of 50 per cent) reflects the additional burden imposed by the Presidency on clerical and typing resources. Likewise the increase in travel and subsistence reflects the expected increase in the amount of European travel which will be caused by the Presidency.

The Group's expenditure may need to increase on account of the Presidency. See also the note about the informal ECOFIN Council in Section 1.

See also notes to Section 1.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

As stated in the work programming return there will be pressure on the VAT ceiling in 1987 and the Commission may wish to produce proposals for its increase. Additional resources could be necessary to cope with negotiations on this and on the renewal or replacement of the abatement mechanism.

(iii) General comments on patterns/history of resource use

The EC Group has to react to events rather than determine its own path to secure its objectives. The staffing of the Group has therefore had to be adapted to suit the requirements of the moment. It has as a consequence been very difficult to plan both the resources required and their allocation between particular objectives.

FP

HF
ACCTS

PSF

MANAGEMENT IN CONFORMANCE WORK PROGRAMME

A. Organisation

Responsibility Centre
Date

Manager	G W MONGER			
Heads of Division (with grade)	MISS C E C SINCLAIR (PS)		H M GRIFFITHS (AS) -	
Branch Heads with main areas of responsibility in 1985-86	<p style="text-align: center;"><u>M D R HAIGH</u></p> <p>a. Policy on business and North Sea taxation</p> <p>b. Inland Revenue manpower and expenditure</p> <p><u>J M HALLIGAN</u> (left 26 July, not to be replaced at Principal level)</p> <p>A. Coordination of Budget Finance bills</p> <p>b. Policy on personal taxation, capital taxation and taxation of small firms.</p>	<p>leaving on 13 September, not to be replaced.</p> <p style="text-align: center;"><u>K M ROMANSKI</u></p> <p>a. General policy on indirect taxation</p> <p>b. EC taxation questions</p> <p>c. Vehicle Excise Duty</p> <p>d. Local authority manpower and questions</p> <p>e. Customs and Excise manpower and expenditure</p> <p>f. Budget security officer</p>		
Public expenditure totals to which responsibilities directed (where appropriate)	Inland Revenue £859m. Life assurance premium relief and mortgage interest relief at source	Customs and Excise £355m. received by non-taxpayers £117m.		
Staff-in-post including heads of Division (1 July 1985)	FP1 HE01 PS1 AS1 E01 P2 O02½	FP2 HE01 AS1 CO1½ P1 PS1		
Total Staff-in-post (1 July 1985)				US1 P3 E01 PS3 AS2 HE02 CO4

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date

(i) 1985-86

Area of work	% age
a. Providing an independent view on taxation matters	30
b. Ensuring wider Treasury and economic interests are taken into account. (Overlaps with a.)	20
c. Co-ordinating role eg on Budget briefing and Finance Bill	20
d. Taking the lead in areas that overlap	5
e. Expenditure division work in respect of the Revenue departments	20
f. Policy on Vehicle Excise Duty	5
Total	100

(ii) Changes since 1984-85

Work on policy on vehicle excise duty will reduce compared with 1984/85 as that was the subject of Ministerial interest last year following publication of the PAC report on evasion of the duty. The new estimate assumes that the future of VED does not have to be reconsidered in 1985/6.

The estimate of work on the Budget and Finance Bill co-ordination has been revised in the light of experience of the new arrangements introduced for the 1985 Budget.

(iii) Changes expected in 1986-87 compared with 1985-86

It is difficult to foresee as the pattern of work will depend on Ministerial priorities at the time, but, unless there is a significant change in these, it is unlikely to change much between the two years.

1. Providing an independent view on taxation matters in particular in response to concern or requests by Treasury Ministers.
2. Ensuring wider Treasury and economic interests are taken into account.
3. Providing a co-ordinating and advisory role for work on the Budget and Finance Bill.
4. Taking the lead in areas that overlap, especially between Inland Revenue and Customs and Excise.
5. Advising Treasury Ministers on the level of expenditure and manpower in the Revenue Departments; controlling these totals within approved plans and targets; and encouraging the Revenue Departments to improve their management and monitoring of resources.
6. Administering policy on Vehicle Excise Duty.

Priority objectives

Progress so far, constraints, prospects in rest of 1985-86

a. To advise Ministers on tax issues that concern them, including possibilities for tax reform

Following substantial reforms in 1984^{and 1985} Budgets, scope for further progress is rather more limited, expect possibly on personal taxation (see (b) below) The issues which will arise in the remainder of 1985-86 will depend on Ministerial concerns in the preparation of the 1986 Budget.

b. To advise Ministers on the preparation of the Green Paper on Reform of Personal Taxation

Complete draft of the Green Paper has been submitted to the Chancellor of the Exchequer. The aim is to publish it later this year.

c. To advise Ministers on the interaction of tax and social security, including the poverty and unemployment traps

FP have been involved in the tax and poverty/unemployment trap aspects of the current reviews of social security. The main obstacles are political and cost.

d. To advise Ministers of the implications for the UK of the EC Commission's proposals for approximation of indirect taxes within the Community

FP led an Interdepartmental Group which produced a Report for the Chancellor on the effects of harmonisation of indirect taxes. Now that the Commission's proposals have been published, albeit in general terms, we will be involved in briefing for meetings and participation in the further Commission studies which are envisaged, although much of the work will fall to Customs and Excise.

e. To monitor, and advise Ministers on the implications for the national taxation system of the review of local authority taxation

FP have been involved in studies of the distributional and other consequences of tax changes in this area, but the lead is with LG.

D. (i) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>f. To ensure that the necessary decisions are taken before the Budget on Vehicle Excise Duty.</p> <p>g. Working closely with CU, to ensure that work on the Budget and Finance Bill is properly coordinated between the Treasury, Inland Revenue and Customs and Excise; that submissions and briefing on the main budgetary questions are brought before Ministers in good time and provide them with the information they need; that the publications are briefing on tax matters at Budget time are ready as required by Ministers; and that Budget security procedures are properly formulated and observed in the Treasury.</p> <p>h. To be responsible for the control of expenditure and manpower in the Revenue Departments.</p>	<p>This tax is mentioned separately because, unlike all the others, policy is the responsibility directly of the Treasury rather than of the Revenue Departments. Submissions will be put to Ministers in good time.</p> <p>This work follows a largely standard pattern, but we have sought to streamline aspects of the procedures. Reductions were sought last year in the number of Budget delegations meeting Ministers and in the briefing for such meetings. Although external pressures may limit the scope for reducing the number of delegations seen by Ministers, we shall continue to strive to keep the number as low as possible.</p> <p>FP's new role as Finance Bill co-ordinator worked smoothly. The Budget starters exercise for the 1986 Budget has been started.</p> <p>The Revised Budget security procedures, which worked well, have been reviewed. The basic framework will remain unaltered, but revised instructions incorporating some minor changes will be issued in late autumn.</p> <p>Discussions are continuing with Departments in the context of this year's PES, and Estimates will need to be settled subsequently.</p>

Priority objectives	Comment/detail/progress expected in 1986-87
See comment	<p>It is too soon to say. Much will depend on the contents of the 1986 Budget and on what Ministers feel can be done subsequently. Generally Ministers may continue to attach importance to measures of tax reform, although progress may be harder to achieve the further we go into the life of this Parliament. Ministers are likely to continue to attach importance to bringing wider economic and political considerations into tax policy, and to making administration and collection of tax more efficient.</p>

D. (iii) Supporting information including performance measures

Responsibility Centre
Datea. Tax reform

This is the most important part of the Group's work. The Government's success in achieving tax reform will be reflected by the extent to which distortions are eliminated, the system is simplified or the tax base is widened. Considerable progress was made in all these directions in the 1984 and 1985 Budgets and FP advice may have helped to achieve this result. But there do not seem to be any useful performance measures in this area for the Group's work. This is both because achievement of the objectives is not quantified and because it depends mainly on what Ministers consider politically possible.

b. Budget and Finance Bill
co-ordination

The smoothness of the handling of Budget and Finance Bill coordination role - for instance, the time taken to deal with Budget representations, timely production of briefing and of publication of the Finance Bill, the extent to which the passage of the Finance Bill meets its timetable - could be said to be a measure of FP's performance in this area. But there are so many other factors on which good performance relies that it would be difficult to isolate FP's role. For example, the timeliness of decision taking, other pressures on Parliamentary Counsel's time, political factors, the need to rely on contributions from other Divisions and Departments can all affect the handling of the Budget and Finance Bill.

c. Control of revenue
Departments' expenditure
and manpower

The extent to which expenditure and manpower in the Revenue Departments is reduced or kept within targets can of course be measured. The difficulty about using such a measure in the assessment of Group performance is that Ministerial decisions in this area are not based solely on the criterion that Revenue Departments' manpower should be kept to the minimum possible. There are political pressures to devote more resources to dealing with drug smuggling, to anti-fraud work, and to services, such as provision of Customs facilities, whose costs could be recovered through fees. Some measures of tax reform, such as the introduction of independent taxation of married couples, may increase manpower requirements.

d. Correspondence

FP deals with a heavy flow of correspondence immediately after the Budget (up to 20 cases a week). The speed of dealing with this correspondence would be a practical indicator of efficiency, albeit in a very small part of the Group's operations.

(i) Effect of 5 per cent reduction in resources available

It is not easy to specify the effects of such a small reduction, which would amount in our case to less than one person. This is all the more true since so much of our work is providing a service to Ministers in which there are few compulsory tasks. Variations in the level of activity are likely to be reflected in variations in the quality of service, which will therefore tend to be impaired by staff reductions. It may be relevant that we gave up an E0 post in 1983-84 and have given up an Assistant Secretary post and a further E0 post in 1985-86.

(ii) Effect of 5 per cent increase in resources available

Again it is hard to specify the effects of such a small increase. But the argument set out under (i) is still true, and an increase in resources would tend to improve the quality of service to Ministers. FP's budget bid for 1985-86 seeks a casual CA for 7 months before and after the Budget. This would help to lessen delays in handling the peaks of correspondence, which arise in different parts of FP at different times.

(iii) Constraints on past and future performance, changes in organisation of work etc

The work of FP has a number of features which are peculiar to it.

First, there is, for that large area of our work involved in giving independent advice to Ministers, no clear remit or area of responsibility. The formal responsibility in nearly all cases rests with the Revenue Departments. What we do depends on Ministers' changing interest and their relationship with these Departments.

Secondly, the boundary with the two Departments is uncertain and subject to occasional bouts of border warfare, but working relationships are generally reasonably good.

Thirdly, the workload of the Group tends to vary over the lifetime of a Parliament, because major tax reforms are more likely to occur in the early years of the Parliament.

Fourthly, the work of the Group is highly seasonal, because of the central importance of the Budget. It is not unusual to find ourselves with not quite enough to do for half the year, and too much to do for the other half.

All these features of our work seem however to be inescapable as long as Ministers want a separate source of advice on taxation matters in the Treasury, as they seem to do.

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				
Basic staff				
Staff Complement		238600	64002	234188
Casuals/Students		1500		3670
Specialists		57400	14350	54396
Total	222300	297500	78352	292254
Overtime	1545	1000	1025	2500
Travel & Subsistence				
Overseas				N.A.
Home	860			1000
IT Equipment etc	5242		38	N.A.
Economic Research				N.A.
Consultancies/Fees				N.A.
Other (specify)				N.A.
Total	229947	298500	79415	295754
2. Non-bid items				
Entertainment				
External training	655			
Government Car Service	154		76	
3. Receipts				
EC Travel				
Other				

Notes

Assistant Secretary post given up.
1 Principal post will be retained on the complement but will be blocked by an HEO(D). HEO post, which was blocked by an EO, will be replaced by an EO on complement. Personal Secretary post will be replaced by Specialist Typist. Casual CA for 7 months.

43% of ETs Division, plus 20% of Principal in AFA, both as agreed with the Groups concerned.

Highly sensitive to timing of claims for and payment of Budget period overtime.

2. Staffing Profile and Bid

Responsibility Centre: FP

a. Staff in Post

Date: / /

Complemented Date	Grade 3	Grade 5	Grade 6	Prin	Econ Adv	Stat	PSO	SBO	SSO	MBO	MBO	MEO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other	Total	Casuals/ Students	Use of Spclists	
1 April 1985	1	2		3											1						4			3			16	NK	NK
1 July 1985	1	2		3											1						4			3			16		

b. Staff Complement 1985-86

1 April 1985	1	2		3																	4			3			16	1	10% PSO 20% Prin 50% E.T. Staff Resources
31 March 1986	1	1		3										1							4			2	1	15	-		
Av Complement 1985-86	1	1.5		3																	4			2.5	0.5	15.5	0.2		

c. Bid for 1986-87 by quarter

1 April 1986	1	1		3										1							4			2	1		15	1	20% PRIN 43% E.T. Staff Resources
1 July 1986	1	1		3										1							4			2	1	15	-		
1 Oct 1986	1	1		3										1							4			2	1	15	-		
1 Jan 1987	1	1		3										1							4			2	1	15	1		
31 Mar 1987	1	1		3										1							4			2	1	15	1		
Av Complement 1986-87	1	1		3										1							4			2	1	15	7/12		

* Please specify grade.

Notes:

- (i) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

An Assistant Secretary post and associated Personal Secretary has been given up, and the Principal post which dealt with budget and Finance Bill co-ordination, although retained on the complement is to be blocked by an HEO (D). These changes have been made in the light of our experience of the workload in 1985 and our expectations over the remainder of this Parliament. If our expectations prove to be wrong we shall need to restore a Principal to the Budget and Finance bill co-ordination post, or even bid for restoration of the Assistant Secretary post. In any event, the position should be reviewed at the start of the next Parliament. We have bid for an allocated typist because the 2 PSS will have very little spare capacity to do typing work for the Division - who regularly need urgent typing done to meet Ministerial and other deadlines. We have repeated our bid for a temporary CA in the post - Budget period (April to June inclusive) on the indirect tax side as this was found very useful in helping to deal with the post - Budget correspondence and filing. We have also bid for temporary CA in the pre-Budget period (December to March inclusive) to help on the Budget co-ordination side to help handle the large volume of Budget briefing which FP co-ordinates.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

If Ministers in the next Parliament show a keen interest in tax reform it will probably be necessary to increase the complement of FP in order to provide them with advice.

(iii) General comments on patterns/history of resource use

FP staffing depends on the volume of work on taxation; policy issues, which in turn depends on the political situation. From 18 staff in 1983 when FP took over expenditure and manpower control of the revenue departments, we had brought the complement down to 16 on 1 April 1985, and giving up one of the Assistant Secretary posts has now brought it down to 15.

A. Organisation

Responsibility Centre HF/
Date 2-9-85 Accounts

Manager	D L C PERETZ (3)			
Heads of Division (with grade)	M A HALL (5)	T F MATHEWS (6)	H G WALSH (5)	L WATTS (5)
Branch Heads with main areas of responsibility in 1985-86	<u>R B SAUNDERS (P)</u> -Building Society legislation -Registry of Friendly Societies -Credit Unions <u>D W JONES (P)</u> -Banking White Paper & Bill <u>D BOARD (P)</u> -Trustee Savings Banks (Secondary legislation and flotation) -Banking system & casework -European Banking legislation -Bank of England -National Girobank -City matters, including: Financial Services Legislation, Stock Exchange -Taxation of Financial Institutions -Conglomerate supervision	<u>MS H C GOODMAN (P)</u> -National Savings Policy -DNS manpower & expenditure <u>D B ANDREN (P)</u> -Use of NLF -Provision of Govt interest rates for public sector users -LA creditworthiness -Currency/coinage development; R Mint manpower and public expenditure; UK coinage contract. -Supply Division for NILO	<u>S N WOOD (P)</u> -Gifts/monthly funding meetings -Briefing on monetary developments -Domestic financial markets -Operation of monetary policy <u>S P HANNAH (EA)</u> -Analysis and forecasting of monthly monetary developments -Economic advice on operation of monetary policy and funding <u>S RIDLINGTON (EA)</u> -Economic advice on building societies and other financial institutions -National Savings economic advice -Input into financial forecasting -General economic support to HF1 and HF2	<u>P BINGHAM (6)</u> -Accounting for CF,NLF,EEA, EC: Swing on Exchequer balance -General election and European Assembly election expenses -Consolidated Fund payroll <u>R DEVEREUX (S)</u> -Forecasting and monitoring OGBR and development of techniques -Reporting OGBR results to Ministers
Public expenditure totals to which responsibilities directed (where appropriate)	Registry of Friendly Societies £2½m (gross)	DNS £158m Coinage contract £20m NILO £1m (gross)	No formal public expenditure responsibilities but policies affect debt interest	Bank of England Cash Limit £83m. Secret Vote £81m. Civil List £6m. Consolidated Fund misc Standing Services
Staff-in-post including heads of Division (1 July 1985)	11½	10	11	£52m. P00 £13m. 31
Total Staff-in-post (1 July 1985)				64½

B. Allocation of Manpower/Resources between different areas of work

Responsibility Cent HF/
Date 2-9-85 Accounts

(1) 1985-86

Area of work	% exp
<u>HF1</u> Banking etc	60
Building Societies	35
City matters	10
	105
<u>HF2</u> National Savings policy	25
Supply Division Control of DNS	25
Supply Division of Mint and NILO	5
NLF/PWLB policy and administration	35
Supply of notes and coin	10
	100
<u>HF3</u> Analysis and forecasting of monetary developments	35
Briefing	30
Advice on operation of monetary policy funding	35
	100
<u>Accounts</u>	
Payments from standing services on Consolidated Fund, and examining RPA claims.	45
Forecasting and monitoring the CGBR, and operating on the CF, NLF, EEA and European Community Account, plus Civil List.	55
	100
Total	

(ii) Changes since 1984-85

HF1 The Johnson Matthey Bankers episode has diverted considerable staff effort, from City matters in particular. The AS has spent - largely in consequence - a higher proportion of time on banking than expected. Our efforts to keep fully in touch with the financial services bill and the city revolution have suffered in consequence. We have played a less constructive role in tax matters than we would have liked. The TSB Bill also proved troublesome and time-consuming.

HF2 One Principal post vacant since April 1985, one CA post given up.

Accounts Reduction of 1 HEO (manager of RPA work) and 1 CO on complement.

(iii) Changes expected in 1986-87 compared with 1985-86

HF1 All work on TSBs will have ended, and work on the building societies, though heavy initially, should level out towards the end of the period. Hopefully the Johnson Matthey affair will have been resolved. But there will be increased activity on the Banking legislation from November to, say, May/June as it passes through the two Houses. Banking is likely to continue to dominate our efforts. But possibly City matters will benefit towards the end of the period at the expense of building societies.

Accounts Reduction of 1 Statistician and 1 CO on staff in post. Provision may be inadequate if volume of NLF lending transactions increases.

- HF1
1. See building societies bill through final stages. Implement secondary legislation.
 2. Prepare banking bill and see through main stages.
 3. Monitor financial services legislation, with a view to consistency with banking and building societies bills, and protection of Treasury interests.
 4. Co-operate with DTI and Bank in developing policies on co-ordination of supervision, including financial conglomerates.
 5. Co-operate with DTI in privatisation of National Girobank.
 6. Continue to build closer links with financial institutions.
 7. Make a larger contribution to work on developments in taxation which affects financial institutions and markets.
- HF2
1. Continue to obtain substantial funding from personal sector at minimum cost via National Savings.
 2. Continue to exert tight control over DNS manpower and expenditure, consistent with achievement of the National Savings target.
 3. Maintain efficient operation of NLF schemes, and look to change or improve them in response to monetary or other policy objectives.
 4. Ensure continued efficient and cost-effective provision of notes and coin by the Bank and Mint.

- HF3
1. Keep monetary conditions under appropriate control.
 2. Keep funding on track.
 3. Continue clarifying framework and public presentation of monetary policy.
 4. Improve techniques of monetary control including measures to reduce size of bill mountain.
 5. Improve monitoring and forecasting of monetary developments.
 6. Review debt selling techniques in context of new structure of gilt-edged market. Keep funding instruments under review to ensure funding needed for monetary control at minimum cost.
 7. Provide further advice to Treasury divisions on monetary policy implications of other policies.

Accounts

1. Obtain maximum efficiency and regularity in payments from, receipts to, and accounting for the Central Treasury Funds, taking into account NAO pre-audit requirement and (on payroll) the provisions of the Data Protection Act; and to guard the AO interest on the CF, NLF and EEA.
2. Continue to prepare the CGBR forecast (for monitoring the PSBR and FM3) required by the Bank daily to plan money market operations; and to improve on the forecasts.
3. Complete efficiently and accurately to NAO's satisfaction the examination of claims for electoral expenses.
4. Exercise the relevant manpower/expenditure controls over the cash limits for the Bank, PGO and, where appropriate, the Civil List.

Date 2-9-85

D. (1) Progress on Priorities in current year

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p><u>HF1</u></p> <ol style="list-style-type: none"> 1. Passing into legislation of building societies bill and TSB bill. 2. Passing into legislation of financial services bill and satisfactory establishment of new bodies under its provision. 3. Privatisation of Girobank. 4. Strengthen the banking supervision system. 	<ol style="list-style-type: none"> 1. TSB bill passed: Preparation of building societies bill on schedule for introduction in November. TSB bill took far more resources than expected because of parliamentary difficulties. 2. Bill said to be on target for introduction early November. But it has proved impossible to keep fully abreast of it because of pressure on resources both here and at DTI. 3. Decision in principle to privatise. Despite Treasury pressure, very slow progress by DTI. 4. Publication of Review Committee report and statement in June 1985. Good progress on proposals for legislation.

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p><u>HF2</u></p> <ol style="list-style-type: none"><li data-bbox="215 395 763 451">1. To fix an appropriate funding target and then to achieve it.<li data-bbox="215 651 790 707">2. To obtain maximum efficiency in DNS use of manpower and spending.<li data-bbox="215 842 835 962">3. To run NLF lending operations in a manner consistent with the AO's statutory duties, and to develop facilities.<li data-bbox="215 1098 707 1153">4. To monitor local authority credit-worthiness.	<p data-bbox="898 395 2224 619">Savings inflows are just on target following savings packages at end 1984-85. But subsequent loss of competitiveness indicates a shortfall which we will aim to restore later in the year if and when competitors' interest rates move. New indexed savings certificate developed and launched with fair success on 1 July. Further indexed instrument under development together with proposals to bring new gilt issues onto the NSSR. More fundamental review of savings instruments inhibited by vacancy at Principal level.</p> <p data-bbox="898 659 2201 810">1985 PES in progress. Regular quarterly monitoring meetings with DNS Finance Director instituted. Little prospect of cuts in DNS budget; indeed DNS will bid for extra manpower (up to 138) to handle proposed new indexed income bond, but have accepted that cost must be borne within existing provision. Further ideas on contracting-out under consideration.</p> <p data-bbox="898 850 2201 1066">Major review of NLF terms and facilities completed and implemented from 1 August resulting in significant reductions in variable/temporary interest rates and more flexible arrangements for premature repayment and refinancing; benefits monetary management and public sector borrowing costs. The NLF guide is being up-dated and will be reissued. Review of COBO to be completed before end-year, to determine whether new primary legislation is required to simplify and consolidate existing subordinate legislation.</p> <p data-bbox="898 1106 2201 1233">Credit-worthiness of rate-capped authorities and Liverpool continuously monitored in consultation with TSol, DOE, LG and PWLB, including responses to loan applications by Lambeth, Liverpool and Edinburgh (which were eventually withdrawn). Contingency planning for default by a local authority.</p> <p data-bbox="1765 1361 2056 1409">(continued overleaf)</p>

Date 2-9-85

D. (1) Progress on Priorities in current year (continued)

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>5. To supervise the Mint's trading activities, manpower and performance, and PES controls over the Mint and Bank of England.</p> <p>6. Further development of the coinage.</p>	<p>Improved Mint Corporate Plan submitted, considered and approved by Ministers. Development of the OR currency forecast model continues, for which we have a requirement for a micro-computer (we are negotiating with DNS for the loan of a micro). Bank capital expenditure responsibility passed to HF1 but classification problem remains with HF2.</p> <p>The Mint have shown a number of options to Ministers. We are keeping a watching brief on research commissioned from Nottingham University.</p>
<p><u>HF3</u></p> <p>1. Review of funding.</p> <p>2. Reducing bill mountain.</p> <p>3. Review of CTD scheme.</p>	<p>Decisions taken on level of funding of PSBR. Review of funding instruments has narrowed options down to two, on which further work is being done with the Bank.</p> <p>New arrangements for NLF and <i>PWLB</i> lending brought in. Secondary legislation facilitating short-term corporate bond issues made effective. Work in progress on possible similar legislation ^{on} sterling notes. Discussions taking place with Bank on alternatives to bills as means of providing money market assistance.</p> <p>Draft report prepared for discussion with Bank and Inland Revenue. Aim to submit to Ministers in Autumn.</p>

(continued overleaf)

(11) Priority objectives in 1986-87

Responsibility Centre
Date HF/Accounts
2-9-85

Priority objectives	Comment/detail/progress expected in 1986-87
<p><u>HF1</u></p> <ol style="list-style-type: none">1. Complete passage of building societies bill and ensure smooth coming into force.2. Introduce banking legislation in November 1986 and get through main parliamentary stages. Strengthen system of banking supervision.3. Successfully privatise National Girobank.4. Satisfactorily resolve outstanding problems involving Johnson Matthey Bankers.5. Secure UK interests in EC banking matters during UK presidency.6. Try to ensure adequate arrangements for co-operation between financial supervisors and supervision of conglomerates.	<ol style="list-style-type: none">1. Should receive royal assent in summer of 1986 and come into force 1 January 1987.2. Should have gone through House of Commons in 1986-87.3. Not wholly in Treasury hands: depends on speed at which DTI and the Post Office move.4. Ideally Bank will have sold off JMB, and the various investigations and law-suits will have been resolved. But events are not within the Treasury's control.5. HF1 will be supplying Chairman and representatives for Council Working Groups on Mortgage Credit Directive and banking recommendations.6. Progress will depend to an extent on resources available.

D. (11) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p><u>HF2</u></p> <ol style="list-style-type: none"> 1. As before, to fix an appropriate funding target for DNS and then to achieve it. 2. To obtain maximum efficiency in DNS use of manpower and financial resources. 3. To run NLF lending operations in a manner consistent with the AO's statutory duties, and to develop facilities. 4. To monitor LA credit-worthiness. 5. To supervise the Mint's trading activities, performance and manpower, and PES controls over the Mint. 6. Further development of the currency. 	<ol style="list-style-type: none"> 1. Subject to the demands of other related policy objectives, we should like to fix a more demanding target so that personal savings make a greater contribution to funding. We shall need to satisfy ourselves that the mix and relative costs/competitiveness of NS instruments is best fitted to the job. 3. Increase in workload as NLF borrowers proceed to privatisation, and in monitoring effects of new variable rate scheme and refinancing opportunities. Development of flexible roll-over and indexed lending schemes (Finance Bill Starters) and of PWLB temporary lending facility. 4. Rate capping and illegal budgets may continue to require close monitoring and difficult judgements in liaison with DOE, PWLB, T Sol. 5. Need to review Mint Corporate Plan if decision is not to proceed with further development of the coinage for next two years (see 6 below). 6. Need to seek decisions on whether to proceed with further development of the coinage this side of the next General Election. Need to bring improved coin demand forecast model into use, and to gain better insight into the Bank's forecasting methods for notes.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p data-bbox="197 288 255 316"><u>HF3</u></p> <ol data-bbox="197 389 772 1225" style="list-style-type: none"><li data-bbox="197 389 772 512">1. Continue contributing to effective formulation, presentation and execution of Government's monetary policy.<li data-bbox="197 584 772 643">2. Adapt funding to new structure of gilt-edged market.<li data-bbox="197 743 772 834">3. Continue endeavours to improve monthly forecasting of monetary growth.<li data-bbox="197 906 772 997">4. Further improve model of building society financial flows and main Treasury financial model.<li data-bbox="197 1101 772 1225">5. Improve analytical techniques for examining costs of funding, and adjust policy advice accordingly as required.	<ol data-bbox="884 587 2190 678" style="list-style-type: none"><li data-bbox="884 587 2190 678">2. New market structure should be in operation by mid 1986-87. Will entail some changes in authorities' relationship with market-makers. Should allow experiment with auctions of gilts.

D. (iii) Supporting information including performance measures

Responsibility Centre
Date HF/Accounts
2-9-85

HF1 Meeting Parliamentary timetables.

HF2 DNS funding target: achieving an adequate monthly striking rate.

HF3 Growth of monetary aggregates and development of monetary conditions.

Accounts

1. Accounting on main funds: To keep a record of all NAO enquiries, and their satisfactory resolution.
2. A weekly return (drawn from the computer) will show for each working day the difference between forecast and outturn on Exchequer balance. Items which cannot be forecast (or are agreed by the Bank as not to be forecast) will be shown separately, leaving a balance where the accuracy of the forecast can be measured. The target will be to reduce the difference between forecast and outturn from the current 30% in the range + £125m (viewed against daily exchequer turnover of around £1bn). The indicator will also be used to compare the success rate of the adjustments, given 3 times a day to the Bank, with outturn and over time.
3. A new reporting system (1 July 1985) will show monthly figures on a constituency basis of RPA claims being processed by HEO, 2 EOs and 2 COs.
4. PGO and Bank expenditure: Test against baseline provision.

D. (ii) Priority objectives in 1986-87 (continued)

Priority objectives	Comment/detail/progress expected in 1986-87
<p data-bbox="219 292 344 320"><u>ACCOUNTS</u></p> <ol data-bbox="219 387 792 994" style="list-style-type: none"><li data-bbox="219 387 792 480">1. Continuation of efficient day to day operation of central Treasury accounts.<li data-bbox="219 579 562 608">2. Forecasting CGBR.<li data-bbox="219 738 499 767">3. RPA payments.<li data-bbox="219 930 741 994">4. Manpower/expenditure control on PGO and Bank.	<ol data-bbox="898 579 2130 994" style="list-style-type: none"><li data-bbox="898 579 2130 643">2. Research several areas where forecast is weak eg National Insurance Fund and EC payments.<li data-bbox="898 738 2107 834">3. Improve the rate of clearance of election claims to at least 400 constituencies, so that we are better placed to deal with outstanding claims when next General Election is called.<li data-bbox="898 930 2085 994">4. To hold provision at existing PES levels. To pursue completion of PGO work on FMI.

(1) Effect of 5 per cent reduction in resources available

HF1 We would lose the capability to do some of our tasks. The legislative work takes absolute priority except for one-off cases (like JMB). This means that our work on the financial services bill or/(possibly)and briefing on city matters would probably have to go.

HF2 Monitoring the effect of the NLF reforms which will add to the workload in HF2 could not be undertaken but should be containable within existing resources. The additional workload will be greater in Accounts Division.

HF3 Would reduce clerical support with consequential cost of having to push extra burdens up the hierarchy.

ACCOUNTS

A 5% reduction equals a cut of 1 P or SEO, or 2 junior staff. Cut at the higher level would unacceptably damage the forecasting/monitoring of CGBR, with a cost far in excess of savings to be made. Cuts elsewhere means late, or inaccurate accounts, or slower payments/receipts, again risking sums in excess of savings. If payroll payments are wrong, Ministers likely to be severely embarrassed. Intolerable for Treasury Accounts to be adversely criticised, when Treasury the guardian of financial propriety. Present complement does not allow for prolonged absences when account taken, especially on payroll activities and main NLF/CF functions, of inexorable daily, weekly and end month deadlines.

(ii) Effect of 5 per cent increase in resources available

HF1 Depends on the form it took. There is already a bid in for extra secretarial help. This is essential and would ease pressures and speed up output. We could use more legal advice (but not on Treasury's budget). We would improve our coverage of City matters, and of the role of the banks and building societies, deepening our knowledge of banking and individual banks.

HF2 Any extra resources would be devoted to policy development work on National Savings funding.

HF3 Could usefully give much more attention to the implementation of policy relating to debt instruments of different types in order better to analyse results.

ACCOUNTS

No extra bid made; extra staff may be required if NLF lending takes off (or public sector exchange cover), or for a General Election. It would be desirable but not essential to have 1 extra CO to improve throughput of RPA claims.

(iii) Constraints on past and future performance, changes in organisation of work etc

HF1 The fact that we have two major bills on the go means that the third principal has an extremely broad remit. However good he is, he will find it difficult to cover adequately if work on Johnson Matthey Bank does not diminish.

2. The division is heavily worked, but not yet overworked. But we are tightly stretched and another prolonged major case like JMB would have to prompt a request for more resources.

3. We have good working relationships with Bank supervisors and the Registry. But bottlenecks and staff shortages in the Registry can make co-operation frustrating.

4. We have tried to step up Treasury attendance at relevant EC meetings on banking matters but this is difficult when the pressure of work is so heavy. HF3 could take on more of the work arising from the OECD Committee on Financial Markets.

5. We hope the increase in typing resources we have bid for will be approved. This will help enormously.

6. It is extremely frustrating and inefficient not to be provided with a substitute PS when the AS's secretary is away.

HF2 Responsibility for Bank of England capital expenditure has been transferred to HF1 but the residual problem of PES classification remains (it should be resolved before the start of 1986-87).

The Principal vacancy has been a constraint, particularly on NS development work. Lack of typing support has also been a constraint which could be eased either by an additional allocated typist in the Group or by a full-time PS in HF2.

(continued overleaf)

(111) Constraints on past and future performance, changes in organisation of work etc (continued)

HF3

1. Typing resources now improved by dedicated HF mini-pool, but still not adequate although the second (agency) typist is improving. Only one of the two typists can at present use the Xerox 630 and HF have bid for a third typist. Absence of a WP in the division is a major constraint on the rapid and accurate preparation of reports including tables and graphs.
2. Ten weeks without an Assistant Secretary in HF3 puts additional burden on Under Secretary and supporting staff, and means PS is frequently taken out by superintendents to cover for ^{absences} elsewhere over a far longer period than would be the case if the AS were simply away on leave.
3. HF3 accommodation is not satisfactory. The room shared by the HEO(D), EO and CA is particularly cramped. We hope for moves on bloc and no more than 2 to a room.
4. A second Reuters screen, in addition to that used by the Principal is needed for the AS and was bid for last year.
5. The terminal supplied for Mr Blower's use has been most helpful.

Accounts

The Division is in a state of flux, with a large turnover of staff (1 AS, 1 statistician, 2 SEOs, 3 HEOs, 4/5 EOs and 5 COs, 1 PS, 1 Typist already, or about to take place). That may well be the result of "hoarding" which has gone on in the past; but the Division is losing in some cases very experienced people, so performance may suffer until new staff learn their jobs.

MANAGEMENT IN CONFIDENCE

1. Budget Bid For Administrative Expenditure

Responsibility Centre HF/Accounts

Date 2-9-85

Expense type	Spend in 1984-85	Agreed bid for 1985-86	Current year Spend to 30 June	Bid for 1986-87
1. Bid items				(1)
Basic staff costs		831,000	219,113	905,968
Staff Complement				
Casuals/Students		7,800	1,507	5,500
Specialists		5,200	1,300	5,915
Total	810,877	844,000	221,920	917,383
Overtime	4,459	10,400	762	4,357
Travel & Subsistence				(2)
Overseas	2,806		967	5,747
Home	2,472		726	4,411
IT Equipment etc	57,202	53,600	317	14,188
Economic Research				
Consultancies/Fees	294			
Other (specify)				
Total	878,110	908,000	224,692	946,086
2. Non-bid items				
Entertainment	244		145	
External training	3,043		302	
Government Car Service	194		19	
3. Receipts				
EC Travel	223		144	1,680
Other	3,389			4,000

Notes

- (1) Assumes HF mini-pool is staffed by 3 allocated Treasury typists.
- (2) Overtime for Mr Peretz' PS, Mr Hall's PS, Mr Grinlinton, Mr Blower and the HF3 Economic Assistant.
- (3) Includes HF3 bids for an IBM Personal Computer. Also, a contingency bid for a Micro-Computer (for HF2) should it slip into 1986-87.

2. Staffing Profile and Bid

Responsibility Centre: HF/Accounts

Date: 2 / 9 / 85

a. Staff in Post

Date	Complemented Grade																										Total	Casuals/Students	Use/Specs	
	Grade 3	Grade 4	Grade 5	Grade 6	Prin	Econ Adv	Stat	PSO	SEO	SSO	HEO	MSO	HEO (D)	Sen Econ Asst	Sen Asst Stat	EO	SO	AT	Econ Asst	Asst Stat	CO	CA	SPS	PS	Typ	Other DP				
1 April 1985	1	3	2	7	2	2		2			9		1	2		14						18	2	1	3½	2		71½	NK	NK
1 July 1985	1	3	2	5	2	1		2			8		1	1		13				1		17	1	1	3½	2		64½		

b. Staff Complement 1985-86

1 April 1985	1	3	2	6	2	2		2			8		1	2		13						17	1	1	3½	3		67½	1	(5%PS)
31 March 1986	1	3	2	6	2	1		2			8		1	2		13						16	1	1	3½	3		65½	1	(10%SE)
Avg. Complement 1985-86	1	3	2	5	2	1.2		2			8		1	2		13						16¼	1	1	3½	3		66	1.3	(15%PR)

c. Bid for 1986-87 by quarter

1 April 1986	1	3	2	6	2	1		2			8		1	1		13					1	16	1		4½	4		66½	1	15%PR
1 July 1986	1	3	2	6	2	1		2			8		1	1		13				1		16	1		4½	4		66½	1	10%PR
1 Oct 1986	1	3	2	6	2	1		2			8		1	1		13				1		16	1		4½	4		66½	1	
1 Jan 1987	1	3	2	6	2	1		2			8		1	1		13				1		16	1		4½	4		66½	1	
31 Mar 1987	1	3	2	6	2	1		2			8		1	1		13				1		16	1		4½	4		66½	1	
Avg Complement 1986-87	1	3	2	6	2	1		2			8		1	1		13				1		16	1		4½	4		66½	1	

- Please specify grade.

Notes:

* Mr Mathews' secretary works 3 days a week ie is $\frac{3}{5}$ rather than $\frac{1}{2}$

3. Breakdown of Staff Complement by Division

Responsibility Centre HF/Account

Date 2-9-85

Date	Division																	Total
		Grade 3	Grade 4	Grade 5	Grade 6	Prin	SEO	HED	HEC(D)	EO	MT	CO	CA	SPS	PS	Typist		
1st	HF1	1		1		3		2		1		3		1	1	0.5		13.5
April 1985	HF2				1	2		2		2		2			0.5	0.5		10
	HF3			1		1			1	1	1	1	1		1	1	4(a)	12
	ACCOUNTS			1	1			2	4		9	//			1	1	2(b)	32
31st	HF1	1		1		3		2		1		3			2	1		14
March 1986	HF2				1	2		2		2		2			0.5	1		10.5
	HF3			1		1			1	1	1	1	1		1	1	4(a)	12
	ACCOUNTS			1	1			2	4		9	10			1	1	1(c)	30

(a) 2 x Economic Adviser
2 x Senior Economic Assistant

(b) 2 x Statistician

(c) 1 x Statistician

SECTION 4:

Responsibility Centre HF/
Date 2-9-85 Accounts

- (1) Reasons for changes in mix or level of resources required in 1986-87 compared with 1985-86
(refer to work programme where appropriate)

HF Group

Budget for HF1, 2 and 3 assumes EOG agreement to additional typing resources. It further assumes that these are met by allocated Treasury personnel whose costs would fall on HF/Accounts budget.

HF1

Notwithstanding the increase (in 1985-86) in HF1 staff resources, staffing is still pretty tight. It may be necessary to bid for one further addition if this is necessary to ensure that legislative work is completed on schedule.

HF3

The budget for HF3 also includes provision for an IBM Personal Computer which would improve security, speed and flexibility in dealing with ad-hoc requests and the regular monthly forecasts.

Accounts Division

Accounts Division is on course to complete the transition to its agreed complement of 30 by 1 October 1985, saving 1 Statistician, 1 Principal, 1 HEO and 2 COs from staff in post at 1 April 1984. Division's equipment costs are substantially down on 1985-86 budget. No marked change is forecast in stationery, printing or reprographic costs.

(ii) Developments for which there may be longer term resource requirements (ie beyond 1986-87)

Accounts Division

Nothing firm is forecast pending:

- (a) discussion with NAO on the provision of "high level form of Exchequer Accounts".
- (b) experience of take-up of NLF borrowing by public sector bodies following facility/rate changes.

(iii) General comments on patterns/history of resource use

Accounts Division

Resources are now reduced to a minimum level consistent with satisfactory performance of duties; if the risk at (ii)(b) above matures, Accounts will be inadequately staffed, and this could cause extra resource requirements before 1987-88.

No major equipment need is likely before 1990, when the BCL computer (for CF pay/salaries) will need to be replaced.

~~WORK PROGRAM~~
MANAGEMENT IN CONFIDENCE

A. Organisation

Responsibility Centre
Date 9.9.85

Manager	Miss M E Peirson			
Heads of Division (with grade)	Miss M E Peirson (G.5)			
Branch Heads with main areas of responsibility in 1985-86	<p><u>A</u> G I WEBB</p> <ul style="list-style-type: none"> i) Briefing on monthly outturn of PSBR and 3 month forecasts. ii) Short term (annual) forecasts of central government finance. iii) Debt interest forecasts (short and medium-term). iv) International comparisons of public sector finance. <p><u>B</u> S F D POWELL</p> <ul style="list-style-type: none"> i) Forecasts of public sector finances (income & exp. excl debt interest) ii) Supporting analysis, research and development. iii) Monitoring and assessment of forecast errors. 	<p><u>Note</u></p> <p>MR DEVEREUX in Accounts Division reports to Miss Peirson on monitoring, analysis and monthly forecasting of CGBR.</p>		
Public expenditure totals to which responsibilities directed (where appropriate)	—			
Staff-in-post including heads of Division (1 July 1985)	12.			
	Total Staff-in-post (1 July 1985)			12.

B. Allocation of Manpower/Resources between different areas of work

Responsibility Centre
Date 9.9.85

(1) 1985-86

Area of work	% age
i) Briefing on monthly outturn of PSBR and 3 month forecasts, and associated work on monthly profiles etc.	17
ii) Medium-term forecasts of public sector finance and associated development work.....	65
o/w central govt exp & borrowing (excl debt int)	20
taxes	5
debt interest	15
local authorities	10
nationalised industries	15
iii) Short-term forecasts of central government funds and accounts	7
iv) Contributions to (and briefing for) Autumn Statement, FSBR, PQs, TCSC, international organisations	7
v) Staff Management	4
Total	100

second half of
(ii) Changes since/1984-85

More time now spent by Branch B on local authorities and public corporations. Also, compared with last year's forecast of time spent by A/S during second half of 1984-85 on various activities, A/S actually spent much less time on (i) and much more on (ii).

(iii) Changes expected in 1986-87 compared with 1985-86

Nothing significant.

C. Aims for 1986-87

Responsibility Centre
Date 9.9.85

The aims are similar to those for 1985-86:-

1. To provide Ministers and senior officials with forecasts of the PSBR and its components, both annual and monthly, as part of the regular internal Treasury economic forecasts and of the forecasts which appear in the FSBR and Autumn Statement, and as regular monthly guidance on the likely short-term path of the PSBR both in itself and as an influence on the money supply.
2. To provide Ministers and senior officials and press office with briefing on these forecasts, and how they relate to outturn, both regularly and in response to ad hoc requests. To provide answers as necessary to Select Committees, individual MPs' PQs, questions from the general public, etc. To draft Part 6 of the FSBR and other parts of the FSBR and the Autumn Statement.
3. To carry out supporting assessment, analysis and research, including continuing to develop better methods of forecasting, particularly on:
 - (a) "funds and accounts" approach to forecasting public sector finances
 - (b) nationalised industries
 - (c) debt interest
 - (d) indirect tax equations.

Much of this work will be consolidation or continuation of work begun in 1984-85 and 1985-86. See also D(ii).

D. (1) Progress on Priorities in current year

Responsibility Centre

Date 9.9.85

Priority objectives	Progress so far, constraints, prospects in rest of 1985-86
<p>1. Provision of monthly briefing for Ministers on PSBR outturn and monthly profiles, including for monetary forecasts.</p>	<p>Even greater automation of monthly PSBR note, achieved by inclusion of computer-produced high-quality graphs. PCBR monthly forecasting accuracy improved, reflecting better (but still far from perfect) outturn data and close liaison with PE division.</p>
<p>2. Preparation of 3 internal and 2 published forecasts of the PSBR and its determinants.</p>	<p>As expected. Scope of detail in published 1985 Autumn Statement forecast likely to be reduced, but will not affect requirements for internal forecasting.</p>
<p>3. To develop a public sector model in "funds and accounts" form.</p>	<p>Proposals to develop a "funds and accounts" model of central government expenditure have been agreed. Good progress on specifying the model has been made and programming is nearly finished. It should be operational in the course of 1985-86. Extension to local authorities and public corporations will take longer.</p>
<p>4. To develop a disaggregated model of the public corporations sector.</p>	<p>PEAU are developing models of individual public corporations. It has been decided not to duplicate their work. Progress in PEAU has, however, been slow. CSO are now putting more effort into reconciling the various nationalised industry data, and when this has borne fruit it may be possible to estimate simple econometric models of each individual industry.</p>
<p>5. To complete the conversion and development of the public sector debt interest model.</p>	<p>Good progress. Model now in operational use.</p>
<p>6. To develop further the modelling of local authorities' current and capital accounts.</p>	<p>Work is in progress on developing the local authority sector on the Treasury model. And considerable progress has been made, following the taking-over of the coordinating role from GEP3, in building a framework within which to forecast the local authority sector.</p>
<p>7. To computerise PSF contributions to Autumn Statement and FSBR.</p>	<p>Much work completed and used in 1984-85. System now undergoing overhaul.</p>
<p>8. To improve outturn information on funds and accounts basis, particularly from PGO.</p>	<p>Accounts Division have achieved a valuable improvement in National Insurance Fund data. First conclusions on PGO data were pessimistic, but possibilities are still being pursued.</p>

Schedule 18

Amendment	Page	Line
* 273	174	35
* 274	174	37
* 275	175	36
* 276	182	31
* 277	182	38
* 278	200	38
	col.3	4
* 279	200	
	col.3	121

Mr John MacGregor

(Norfolk S - Con)

273

Schedule 18, page 174, line 35, at end insert—

5A. After section 26 there shall be inserted the following section—

26A. A potentially exempt transfer which would (apart from this section) have proved to be a chargeable transfer shall be an exempt transfer to the extent that the value transferred by it is attributable to property which has been or could be designated under section 31(1) below and which, during the period beginning with the date of the transfer and ending with the death of the transferor,—

(a) has been disposed of by sale by private treaty to a body mentioned in Schedule 3 to this Act or has been disposed of to such a body otherwise than by sale, or

(b) has been disposed of in pursuance of section 230 below.”

5B. In section 30 (conditionally exempt transfers) after subsection (3) there shall be inserted the following subsections—

(3A) The provisions of this section shall be disregarded in determining under section 3A above whether a transfer of value is a potentially exempt transfer.

(3B) No claim may be made under subsection (1) above with respect to a potentially exempt transfer until the transferor has died.

(3C) Subsection (1) above shall not apply to a potentially exempt transfer to the extent that the value transferred by it is attributable to property which has been disposed of by sale during the period beginning with the date of the transfer and ending with the death of the transferor.”

5C.—(1) In section 31 (designation and undertakings) after subsection (1) there shall be inserted the following subsection—

(1A) Where the transfer of value in relation to which the claim for designation is made is a potentially exempt transfer which (apart from section 30 above) has proved to be a chargeable transfer, the question whether any property is appropriate for designation under this section shall be determined by reference to circumstances existing after the death of the transferor.”

(2) After subsection (4F) of that section there shall be inserted the following subsection—

(4G) In a case where—

(a) the transfer of value in question is a potentially exempt transfer which (apart from section 30 above) has proved to be a chargeable transfer and

(b) at the time of the transferor's death an undertaking by such a person as is mentioned in section 30(1)(b) above given under paragraph 3(3) of Schedule 4 to this Act or under section 147 of the Capital Gains Tax Act 1979 is in force with respect to any property to which the value transferred by the transferor is attributable,

that undertaking shall be treated for the purposes of this Chapter as an undertaking given under section 30 above.”

5D. In section 32 (chargeable events) in subsection (1) after the words “after the transfer” there shall be inserted “(or if the transfer was a potentially exempt transfer, after the death of the transferor)”.

5E. In section 32A (associated properties) in subsection (2) after the words “after the transfer” there shall be inserted “(or if the transfer was a potentially exempt transfer, after the death of the transferor)”.

BOARD OF INLAND REVENUE

274

Schedule 18, page 174, line 37, leave out from 'transfers' to end of line 42 and insert—

in subsection (1)(b)—

- (a) in sub-paragraph (i) for the words "under the second Table in Schedule 1 to this Act" there shall be substituted "in accordance with section 7(2) above"; and
- (b) in sub-paragraph (ii) for the words "under the appropriate Table" there shall be substituted "in accordance with the appropriate provision of section 7 above".

(2) For subsection (2) of that section there shall be substituted the following subsections—

"(2) For the purposes of subsection (1)(b)(ii) above the appropriate provision of section 7 above is—

- (a) if the conditionally exempt transfer by the relevant person was made on death (but the property was not treated as forming part of his estate immediately before his death only by virtue of section 81(3) of the Finance Act 1986), subsection (1) of section 7; and
- (b) in any other case, subsection (2) of section 7.

(2A) The rate or rates of tax determined under subsection (1)(b)(i) above in respect of any chargeable event shall not be affected by the death of the relevant person after that event."

(3) In subsection (7) of that section at the beginning there shall be inserted the words "Subject to subsection (8) below".

(4) After that subsection there shall be added the following subsection—

"(8) Where after a conditionally exempt transfer of any property there is a potentially exempt transfer the value transferred by which is wholly or partly attributable to that property and either—

- (a) the potentially exempt transfer is a chargeable event with respect to the property, or
- (b) after the potentially exempt transfer, but before the death of the person who is the transferor in relation to the potentially exempt transfer, a chargeable event occurs with respect to the property,

the tax charged in accordance with this section by reference to that chargeable event shall be allowed as a credit against any tax which may become chargeable, by reason of the potentially exempt transfer proving to be a chargeable transfer, on so much of the value transferred by that transfer as is attributable to the property; and subsection (7) above shall not apply with respect to any tax so becoming chargeable".

275

Schedule 18, page 175, line 36, at end insert—

"12A.—(1) In section 78 (conditionally exempt occasions) in subsection (4) for the words from "and the appropriate Table" to the end there shall be substituted "and the appropriate provision of section 7 for the purposes of section 33(1)(b)(ii) is, if the settlement was created on his death, subsection (1) and, if not, subsection (2)."

(2) In subsection (5) of that section, in the substituted sub-paragraph (ii) for section 33(1)(b), for the words "under the appropriate Table" there shall be substituted "in accordance with the appropriate provision of section 7 above."

276

Schedule 18, page 182, line 31, at end insert—

"30A.—(1) In Schedule 4 (maintenance funds for historic buildings etc.) in paragraph 14 (rate of charge) in sub-paragraphs (1) to (3), for the words "under the appropriate Table", wherever occurring, there shall be substituted "in accordance with the appropriate provision of section 7 of this Act".

(2) After sub-paragraph (1) of that paragraph there shall be inserted the following sub-paragraph—

"(1A) The rate or rates of tax determined under sub-paragraph (1) above in respect of any occasion shall not be affected by the death of the settlor after that occasion."

(3) In sub-paragraph (6) of that paragraph for the words "ten years" there shall be substituted "seven years".

(4) For sub-paragraph (9) of that paragraph there shall be substituted the following sub-paragraph—

"(9) For the purposes of sub-paragraph (1) above the appropriate provision of section 7 of this Act is subsection (2), and for the purposes of sub-paragraphs (2) and (3) above it is (if the settlement was made on death) subsection (1) and (if not) subsection (2)."

BOARD OF INLAND REVENUE

277

Schedule 18, page 182, line 38, at end insert-

'31A. Where tax is chargeable under section 32 or section 32A of the 1984 Act by reason of a chargeable event occurring on or after 18th March 1986 and the rate or rates at which it is charged fall to be determined under the provisions of section 33(1)(b)(ii) of the 1984 Act by reference to a death which occurred before that date, those provisions shall apply (subject to paragraph 5 of Schedule 2 to that Act) as if the amendments of section 7 of, and Schedule 1 to, that Act contained in Part I of this Schedule had been in force at the time of the death.

31B. Where tax is chargeable under paragraph 8 of Schedule 4 to the 1984 Act on any occasion on or after 18th March 1986 and the rate at which it is charged falls to be determined under paragraph 14 of that Schedule by reference to a death which occurred before that date, that paragraph shall apply (subject to paragraph 6 of Schedule 2 to the 1984 Act) as if the amendments of section 7 of, and Schedule 1 to, the 1984 Act contained in Part I of this Schedule had been in force at the time of the death.'

278

Schedule 21, page 200, column 3, leave out lines 4 to 10.

279

Schedule 21, page 200, line 21, column 3, after 'Schedule 2', insert—

'in paragraphs 2 and 4, the words "the first of", in paragraph 3 the words "the second of".

PURPOSE OF THE AMENDMENTS

Government Amendments

These amendments adapt the CTT rules about heritage property to the Inheritance Tax, so that they mesh in with the provisions on potentially exempt transfers (PETs) and the reduction of the cumulation period to seven years. The amendments provide that conditional exemption will be available for PETs that prove to be chargeable on the donor's death if the property has not been sold meanwhile; modify the rules for calculating clawback charges; and make consequential technical alterations.

1. Amendment No. 273 inserts new paragraphs 5A to 5E into Schedule 18.

2. Paragraph 5A inserts a new Section 26A into the CTT Act. The Section provides that a PET that would otherwise become chargeable on the death of the transferor will be an exempt transfer if the property has meanwhile been given or sold by private treaty to one of the heritage bodies listed in Schedule 3 to the Act or if it has been accepted in satisfaction of tax. This avoids the need for a conditional exemption claim when a

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PET proves to be a chargeable transfer if the property has already passed to a heritage body.

3. Paragraph 5B inserts new subsections into Section 30. Subsection (3A) provides that a lifetime transfer can still be a PET, notwithstanding Section 30. Subsection (3B) provides that conditional exemption cannot be claimed in respect of a PET unless and until it becomes chargeable as a result of the transferor's death. Subsection (3C) bans a conditional exemption claim if the property is sold between the time of the PET and the death of the transferor.

4. Paragraph 5C inserts new subsections into Section 31. Subsection (1A) provides that the title to conditional exemption in respect of a PET will be determined by reference to circumstances existing after the death of the transferor - that is, at the time of the claim. Subsection (4G) ensures that if a suitable undertaking has already been given for the property before the transferor's death, in connection with an associated Maintenance Fund or a Capital Gains Tax exemption claim, and is still in force, it will cover the conditional exemption claim on the PET.

5. Paragraphs 5D and 5E adapt Sections 32 and 32A to PET cases so that a chargeable event (that is, an event which ends conditional exemption) can only occur after the death that attracts conditional exemption.

6. Amendment No 274 amends and extends paragraph 6 of Schedule 18. It makes changes in Section 33, which contains rules for calculating the tax payable on a chargeable event.

7. Subparagraph (1) and the first part of subparagraph (2) amend subsections (1) and (2) of Section 33 to preserve their

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existing effect of charging half of the death tax rate if the relevant conditionally exempt transfer was made in life and the full rate if it was made on death. The words in brackets in subsection (2)(a) exclude the use of the death rate when a transfer made in life was a gift with reservation that would have been chargeable under Section 81(3) if conditional exemption had not been given.

8. The second part of subparagraph (2) inserts a new subsection (2A). This provides that when the rate of tax for a chargeable event has been determined under Section 33(1)(b)(i), with the relevant person's earlier PETs left out of his cumulation, the rate will not be revised should those PETs prove to be chargeable transfers on the donor's subsequent death. Nor will the tax be increased to death rates if the donor dies within seven years after the chargeable event.

9. Subparagraphs (3) and (4) insert a new subsection (8) into Section 33. This is complementary to subsection (7), which is the credit rule that prevents a double charge when after a conditionally exempt transfer there is a chargeable transfer and either that itself is also a chargeable event or a chargeable event occurs thereafter. Subsection (8) provides that, when after a conditionally exempt transfer a subsequent PET is a chargeable event (because undertakings are not renewed), the chargeable event tax will be credited against any tax due because the PET later proves to be a chargeable transfer.

10. Amendment No 275 makes technical amendments to Section 78, reflecting the adoption of a single rate table while preserving the existing effect of the Section.

11. Amendment No 276 inserts a new Paragraph 30A into Schedule 18. This makes technical changes to Paragraph 14 of Schedule 4, which contains rules relating to the consequent

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tax charge on maintenance fund capital which can arise when this capital is withdrawn for non-heritage purposes and in certain other circumstances.

12. Sub-Paragraph (1) makes technical amendments reflecting the adoption of a single rate table. They preserve the existing effect of the provisions.

13. Sub-Paragraph (2) provides that where the rate of tax for property leaving a maintenance fund during the settlor's lifetime has been determined with his earlier PETs left out of his cumulation, the rate will not be revised should those PETs prove to be chargeable on his subsequent death. Nor will the tax be increased to death rates if the settlor dies within seven years of the property leaving the fund.

14. Sub-Paragraph (3) reduces the period mentioned in paragraph 14(6) of Schedule 4 from ten to seven years - that is, there will be seven-year cumulation of earlier charges instead of the present ten-year cumulation.

15. Sub-Paragraph (4) makes technical amendments to paragraph 14(9), reflecting the adoption of a single rate table. They preserve the existing effect of the provision.

16. Amendment No 277 inserts, new Paragraphs 31A and 31B into Schedule 18. These provide that when a heritage chargeable event or a charge on property leaving a maintenance fund occurs on or after 18 March 1986 and the rate of tax falls to be determined by reference to a death before 18 March, the rate will be calculated as if the amendments of Section 7 had been in force at the time of the death.

17. Amendments Nos 278 and 279 make consequential amendments to the repeals Schedule.

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PART II SPEAKING NOTES - NOT FOR CIRCULATION

18. These amendments affect the parts of the CTT Act which deal with conditional exemption for property of heritage quality and exemption for maintenance funds that support heritage property. These exemptions are of great value in preserving historic houses and works of art and making them available to the public. In altering them to fit in with the new inheritance tax we have tried to leave the structure of the existing regime intact, so far as that is possible, and we have been able to offer one or two modest extra measures of relief along the way.

19. The central amendment (No.273) concerns conditional exemption for potentially exempt transfers - which we are all learning to call PETs. The amendments make it clear that if a PET proves to be a chargeable transfer because the donor dies within seven years of making it, a conditional exemption claim can be made at the time of the death - though not before. We think that is proper. The death triggers the charge, and therefore the right to claim. The decision on the claim will be made by reference to circumstances at the time it is made rather than those at the time of the original gift.

20. We have included two special provisions about events between the time of the gift and the time of the claim. One applies if the property has been given or sold by private treaty to a national heritage body, or has reached such a body under the arrangements for property to be offered in satisfaction of tax, between the date of the PET and the time a conditional exemption claim could be made. In these circumstances a conditional exemption claim would be a mere formality, and we propose to cut out the red tape by giving automatic outright exemption to the PET.

21. The other special provision applies when the donee sells the property, otherwise than by private treaty to a heritage body,

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between the date of the PET and the date of the donor's death. A sale of heritage property involves a tax charge to claw back the benefit of conditional exemption. It would not be sensible to give conditional exemption for a PET if a clawback charge had already been triggered. A gift by the donee will not have this effect. If the donee of heritage property gives it away between the PET and the death, a conditional exemption claim can still be made if the new owner is prepared to give the necessary undertaking.

22. There will be some cases where property given away by a PET is already subject to a heritage undertaking because it has been given the corresponding Capital Gains Tax relief, or because a maintenance fund has been set up to support it. Provision is made for these undertakings to be applied in connection with the claim on the PET, so that they will not have to be duplicated - another useful cutting of red tape.

23. I turn now to the extra measures of relief I mentioned. They affect the way clawback charges are to be calculated. When property ceases to qualify for the special reliefs given for heritage property and maintenance funds that support heritage property a tax charge has to be paid. The rules are complicated, but they often involve looking back to the donor's cumulated lifetime giving. We have two easements to propose.

24. The first easement concerns the treatment of PETs. When a donor's cumulation is calculated while he is alive, his PETs are of course left out of account. If his subsequent death makes any of those PETs chargeable, the normal inheritance tax rules require previous cumulation calculations to be revised to bring them into account, and additional tax may be payable in consequence. We propose that these rules should not apply to heritage clawback charges. The amendments ensure that once a clawback charge has been calculated with the donor's PETs left out of account, it will not be revised because the PETs later prove to be chargeable.

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25. The second easement affects clawback charges that involve looking at the cumulation of a donor who died before 18 March this year. When the donor of conditionally exempt property has died before the clawback charge is due, the clawback tax is calculated as if the value of the property had been the highest part of his death estate. If we left this rule alone, a post-budget clawback linked to a pre-budget death would reflect the old CTT rules that cumulated all lifetime gifts in the preceding ten years. We propose that in these cases the clawback should be calculated as if the new inheritance tax rules, with seven year cumulation, had been in force when the donor died.

26. We also propose to allow the benefit of a reduced period in certain cases where maintenance fund clawbacks now depend on whether there has been a previous such charge in the preceding ten years. This ten year period will be reduced to seven years.

27. Finally, there are some technical amendments to ensure that the heritage reliefs will mesh properly with the main inheritance tax rules.

DEFENSIVE NOTES

Why are "supportive" undertakings given in connection with conditional exemption of associated properties not mentioned in the new subsection 5C.

28. A supportive undertaking is given under Section 30 and there is no need to deem it to have been given under that Section. Confirm that an undertaking previously given in connection with a claim for conditional exemption of associated property, and still current, will normally be acceptable in connection with a claim for conditional exemption in respect of the focal property.

NOTE FOR MINISTERS: Conditional exemption can be claimed for property ancillary to heritage property itself - land essential

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for the protection of the character and amenities of, and objects historically associated with, an outstanding building. In a case involving essential amenity land where exemption is claimed for the land alone - for example because the focal heritage property has not yet come into the tax net - undertakings have to be given for both building and land. The undertaking on the focal property is then "supportive" of the primary undertaking. The statement above confirms that such an undertaking will not need to be duplicated when the focal property itself comes up for conditional exemption.

[NOT FOR USE. The technicalities of this have not been finally resolved. The statement suggested is meant to allow administrative discretion to be exercised in the taxpayer's favour should there be any doubt.]

Why no other concessions for the heritage this year?

29. Considerable assistance has been given to the Heritage in recent years. Ministers have carefully considered the representations made by the representative bodies but have not felt able to do more this year. We hope they will see the proposed easements of the clawback charges as going a little way to meet their views on the rigour of those charges.

/BACKGROUND NOTE

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BACKGROUND NOTE

30. The capital transfer tax code contains a number of special and complex rules designed to encourage the preservation and retention in this country of property of national heritage quality. Successive Governments have accepted that this is best achieved by ensuring that property of this kind remains in private hands - where it can be looked after more cheaply and more efficiently than by the State. The quid pro quo is that owners have to allow public access to the property and keep it up. The principal provisions are the conditional exemption and the rules relating to maintenance funds.

Conditional exemption

31. Exemption is available in relation to transfers in life or on death of various categories of qualifying property - works of art etc of national, artistic, historic or scientific interest, land of outstanding historic, scenic or scientific interest and buildings of outstanding historic or architectural interest together with land essential for the protection of the character and amenities of such buildings and with the historically associated objects. The exemption is available for property held absolutely and in trust. The provision is known as "conditional exemption" because the exemption is conditional on undertakings being given (usually by the owner) to maintain the property, to preserve its character and to provide reasonable public access to it.

Clawback charges

32. The exemption is lost, and there is a chargeable event (known colloquially as a clawback charge) in relation to the property, on breach of the undertakings

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or on sale (other than by private treaty to certain national institutions concerned with the preservation of the national heritage - eg the national museums and galleries and the National Trust - and local authorities and universities). Where the property next changes hands by lifetime gift or on death, the exemption can run on if fresh undertakings are given.

33. Where a clawback charge is triggered, tax is charged on sale proceeds (or market value at the date of charge) at a rate derived from the circumstances of the last person who made a conditionally exempt transfer, or any other person who made a conditionally exempt transfer of the property in the thirty years before the chargeable event whom the Board of Inland Revenue may select - known as "the relevant person". If the latter is still alive, the taxable sum is charged as if it were a gift at the time of the chargeable event. If the "relevant person" is dead the taxable sum is taxed as the top slice of the death estate.

Heritage maintenance funds

34. A heritage maintenance fund is a form of discretionary trust set up on terms which provide that any income from the trust property must be applied for specific heritage purposes only - usually for the maintenance, repair or preservation of an outstanding building or outstanding land. The trust capital cannot be withdrawn for a minimum six-year period unless it is used for heritage purposes.

35. If the Board are satisfied that the property to be maintained is of appropriate heritage quality, that the maintenance fund deed complies with the requirements set out above (and meets certain other technical conditions) and that the amount of the proposed endowment is appropriate, the fund enjoys various capital transfer tax reliefs. The transfer of the endowment property into

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the fund is tax-free while capital distributions out of it which are applied for qualifying heritage purposes are exempt from the proportionate charge to tax which normally falls on discretionary trust distributions. The fund is also exempt from the ten-yearly charge which falls on discretionary trusts generally. It may also be treated favourably for income tax purposes.

36. If after 6 or more years in the fund, capital is withdrawn for non-heritage purposes there may be an exit charge depending on who the recipient is - if it is the settlor or his wife there would not normally be a charge but there would if, for example, the capital was distributed to the settlor's children. Likewise a charge may arise if the heritage property supported by the fund loses its heritage status or if undertakings given in respect of it are breached or if the terms of the maintenance fund are not observed. The rate of tax charged can vary. Depending on the circumstances, it may be a flat rate which tapers over time or a rate determined by reference to the CTT position of the settlor on the usual cumulative basis.

Discussions with the lobby

37. Revenue officials met representatives of the heritage lobby - Historic Houses Association, English Heritage and the Joint Committee (representing the Georgian Group, the Victorian Society and the Society for the Protection of Ancient Buildings and several other preservation bodies) - on 8 May to discuss the implications for the heritage of the IHT proposals. They expressed concern that some heritage owners may no longer choose to rely in future on the special heritage reliefs and may instead make lifetime transfers to their heirs in the expectation of surviving 7 years. This could result in problems in particular cases if the donor's expectation is not realised. But no major

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points of potential difficulty arose during the course of the discussions. Confidentiality precluded detailed discussion of the precise terms of the official amendments but, judging from the tone of the meeting, there is no reason to suppose that any of the intended changes will be controversial.

The Easements (paragraphs 23 to 25 above)

38. The easements proposed go further than the lobby initially expected consequential changes to go. They depart from technical purity but Ministers decided they should be given as a gesture to the lobby, who think the existing clawback provisions are too harsh.
