

PREM 19/1701

Public Expenditure and

Cash Limits

ECONOMIC

POLICY

(in folder attached) ① Govt Expenditure Plans 1985-1986 to 1987-1988 vols I & II Jan. 1986.
 ② Public Expenditure 1986 Report by PES Committee 1987-88 to 1989-90 MAY 1986

Part 1: May 1979

Part 34: Dec. 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
5.12.85		21.5.86					
12.12.85		22.5.86					
16.12.85		23.5.86					
17.12.85		30.5.86					
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Attached folder contains:

The Government's Expenditure Plans 1975-86
to 1987-88 Volumes I & II

January 1986.

PART 34 ends:-

HMT to DN 30/s

PART 35 begins:-

DN to PM 3/6.

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CC/BA



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

30 May 1986

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury

Prime Minister ²

John

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M

1986 PUBLIC EXPENDITURE SURVEY: HEALTH

This letter sets out my proposals for the health programme under the guidelines for the 1986 Survey. Detailed information will be contained in letters at official level.

A good record on health is clearly of crucial importance. To achieve it we need as a minimum to make the additional provision set out in the appendix to this letter.

The background is that our strategy for increasing the efficiency of the National Health Service is producing results. The cost-improvement programme launched in 1984-85 has produced cumulative cash savings of £105 million in 1984-85, £230 million in 1985-86 and £390 million in 1986-87. In addition there have been substantial increases in the number of patients treated within existing resources. Though savings are becoming more difficult to achieve and there are risks that they will be presented as cuts, I expect health authorities to continue with their cash-releasing programmes at a substantial level, giving a cumulative annual value of £820 million, or 7 per cent of their resources, by 1989-90. I also expect them to continue to increase the numbers of patients treated.

But this will not be enough to meet health needs. First, the justified demand for services has increased and will continue to increase because of the growing numbers of old people, new developments and opportunities in medicine and new problems such as AIDS and drug misuse. Second, the cash that we planned to use for service development has had to be used for increases in pay, mainly for Review Body awards. (Our own negotiated settlements have been below the level negotiated elsewhere within the public and private sectors.) As a result, in spite of increased numbers

of patients treated, we have not made enough headway in tackling the deficiencies of the Service, reflected most conspicuously in over-long waiting lists and waiting times. There is also the problem of providing adequate care for groups such as the mentally ill - highlighted, for example, in 'The Times' articles on schizophrenia. We have made progress in improving services in under-provided parts of the country, but this has led to heavy pressure for increased efficiency and service rationalisation in better-provided areas, especially but not only in London. This has been happening at a time when there is legitimate and widespread expectation that, as our economic policies bear fruit and consumer spending rises, the public will expect to benefit through improvements in health care. Present plans allow only increases in NHS spending over the Survey period of 0.3 per cent, 0.6 per cent and -0.5 per cent over forecast inflation.

What we need is an adequate and realistic baseline and targeted spending over the next two years to tackle key problems. This is the purpose of my proposals. I comment below on the main items.

It remains essential that we should provide extra resources for the increasing number of very old people. I have, however, reduced my bids to reflect the gradual slowing down in the rate of growth in the elderly population over the period. On pay, my bids cover the continuing costs of the 1986 Review Body awards. For the future, I am assuming that any increase in pay over the rate of inflation will be covered by increases in efficiency (ie the cost-improvement programme - though the money is, of course, then not available for services), but as this year has shown, it is not possible to predict in advance whether Review Body awards can be handled without additional provision in future years.

On waiting lists, experience shows that authorities can make real impact by a combination of better management and extra resources to remove bottlenecks (theatres, diagnostic services etc) and to invest in equipment to introduce new quicker forms of treatment (eg day case ophthalmic treatment using lasers). To make a major impact I propose we should spend £60 million on this over two years.

We also need to find ways of continuing to improve services in under-provided regions and districts without having to cut services in London and other cities, in particular Liverpool and Manchester. The RAWP review is most unlikely to justify stopping redistribution altogether, and if we simply halt the process there will be an outcry from the RAWP gainers, especially Trent, West Midlands, East Anglian, Oxford, Wessex and South Western. I propose instead that for the next two years, whilst the review is completed and its implications worked through, we should make funds available to losing Regions to help them tackle problems in the location and organisation of their acute services, for example, deferment of closures until planned developments are in operation and the development of new facilities such as day surgery.

Funds for these purposes would be made available to regions only against specific plans which would show how they would be used to improve standards of service.

The remainder of my bids are to enable the Service to respond to new needs which we cannot reasonably refuse to provide for; principally AIDS, drug misuse, the introduction of a breast cancer screening programme, more frequent cervical cancer screening, extra spending on supra-regional services such as heart and liver transplants, and new medical developments such as lithotripters to dissolve kidney stones. Finally, I want to make some additional funds available for community care, including help for authorities to build up services ahead of the run down and closure of the large mental illness and handicap hospitals, so tackling another area where we are open to serious criticism.

Spending carefully on these items will enable us to make quick improvements in the areas where we are particularly vulnerable and to bring in new treatments and preventive measures of a kind that people value very highly.

The practical consequences of holding to the baseline provision would be grave. The health service would be forced next year to reduce services by about 1 per cent - equivalent to about 100,000 in-patient cases - in the face of growing numbers of old people and of new pressures. Our committed policies for service improvement would be frustrated and new proposals - as in my bids - could not go ahead. Waiting lists would inevitably rise substantially and in many hospitals only emergency admissions might be possible. Cuts would have to fall disproportionately on under-provided regions and districts, who would be unable to open new hospitals now being built to put right service deficiencies and provide for growing populations.

Hospital and Community Health Services - Capital

I propose an increase of £50 million in 1987-88 to invest in more rapid progress in rationalising the NHS estate and providing new facilities which will produce revenue savings.

Centrally Administered Health and Personal Social Services

This programme covers a wide range of over one hundred central HPSS budgets and the administrative costs of the Family Practitioner Services. Most fall within a single cash limit. There are urgent needs for new developments on AIDS services, teenage smoking, coronary heart disease, children under five, intermediate treatment, child abuse and drug misuse, all of which occasion national concern, and which require between £24 million and £27 million in the various Survey years. I have nonetheless decided that these will have to be funded through economies, improved efficiency and reviews of priority within the cash limited programme.

What I cannot do, however, is to absorb also the demand-led elements of expenditure on EC Medical Costs and Welfare Food where increased requirements of some £8 million, £16 million and £22 million have been identified, and I have no alternative but to seek increased provision of these amounts.

Family Practitioner Services

We have met and have corresponded recently about issues affecting the provision for the Family Practitioner Services (FPS). In particular we have discussed the problems associated with finding measures to meet the balance of commitments arising from previous Surveys. Our officials have agreed what that balance is and it is included in the bids set out in the Appendix. The figures include the knock-on effect of the DDRB settlement and other pay in 1986-87.

The bids I am making over and above the carried over commitments from earlier Surveys and the DDRB effect are modest for 1987-88 (£27 million) and 1988-89 (£29 million). They comprise the increase in the profit level allowed in the Pharmaceutical Price Regulation Scheme - for which you already have details - and small service development bids which are largely to allow for the supply of blood testing strips for the improved control of diabetes and extension of the high risk groups for Hepatitis B vaccination. The higher bid in 1989-90 is mainly to finance the year-on-year growth of the FPS, eg more doctors, dentists, prescriptions, which has not under the PES rules been allowed for in the baseline.

I cannot, of course, contain the demand-led requirements of the FPS within the existing provision without specific savings measures. As we agreed, our officials have been in touch about the scope for savings. They have looked at a number of possibilities most of which we have considered in previous Surveys; most have considerable practical or political difficulties. I have myself looked carefully at the possibilities of further savings from the FPS; there are some but they are limited in scope. My officials will let yours have the full details but as things stand I can see prospects of saving only about £30 million in each of the years. This includes the amount I expect to raise from the proposed changed role of the General Practice Finance Corporation to fund the PPRS profit increase.

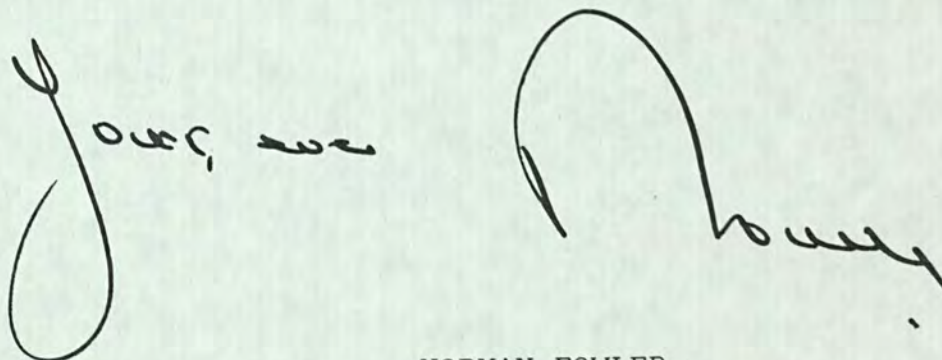
187 One of my outstanding commitments was on prescription charges and on which I need to raise £10 million over and above the amount necessary to keep in line with the cost of the service. (This £10 million is included both in the £66 million outstanding commitments in the Appendix to this letter, and in the £30 million savings mentioned in the previous paragraph.) This is likely to require an increase in the charge from £2.20 to £2.60 from 1 April 1987. I do not need to spell out the political difficulties of such an increase - it would be a considerable lead on inflation. Indeed the present level of the prescription charge means that nearly a third of prescriptions paid for have a cost which is lower than the charge. In the dental service we recover, on average, two-thirds of the cost of a chargeable treatment. I shall be exploring possible changes to the structure of prescription charges and dental charges to see whether a more acceptable way of raising the additional income is available.

After taking account of savings which seem likely to be achieved we are left with a gap of £113 million in 1987-88. This is largely accounted for by the knock-on effect of the DDRB award and by the "unallocated" saving of £40 million related to an assessment of the possible outcome of the Consultative Document on primary health care. However, the Consultative Document has only just now been published and the consultative period now extends to the end of this year. Given the time that I shall need to consider the outcome of the consultations and - as important - the time needed to negotiate and implement changes, it would be unrealistic for you and me to plan for cost savings in 1987-88.

You and I have been much concerned about applying proper disciplines to spending on the FPS and both our Departments have put a great deal of effort into improving forecasting. I am sure you are as glad as I am that we are reaping the rewards of that work. Improved accuracy in the last Survey has put us - for the first time - in the position where I do not need to bid for additional provision to cover increased demand.

I recognise that the total of my bids is substantial. Some of this is inescapable such as the knock-through of pay, but the essence of what I am proposing is a limited amount of additional resources targeted on specific areas like waiting lists. I believe that that would have very real benefits in demonstrating our commitment to the health service.

I am copying this letter to the Prime Minister, the Lord President and the Secretaries of State for Scotland, Wales and Northern Ireland.

A handwritten signature in black ink, appearing to read 'Norman Fowler', written in a cursive style. The signature is positioned above the printed name.

NORMAN FOWLER

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Appendix of Bids
£ million

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<u>Survey Baseline</u>	15937	16617	17032
<u>Hospital and Community Health Services: Current</u>			
1. Restoring lead over inflation to meet pressure from growing number of elderly people	10	33	171
2. Consequences of 1986 Review Body Awards	153	159	165
<u>Service Priorities</u>			
3. Waiting lists	30	30	-
4. London/RAWP	25	25	-
5. AIDS	10	20	30
6. Breast cancer screening	10	20	30
7. Cervical cancer screening	15	16	16
8. Supra-regional services	4	7	11
9. Community care	<u>20</u>	<u>20</u>	<u>20</u>
Total HCHS Current	<u>277</u>	<u>330</u>	<u>443</u>
<u>Hospital and Community Health Services: Capital</u>			
10. Rationalisation of estate and new facilities to produce revenue savings	<u>50</u>		
Total HCHS Capital	<u>50</u>		
<u>Centrally Administered Health and Personal Social Services</u>			
11. Welfare food	5½	8	10
12. EC medical costs	<u>2</u>	<u>8</u>	<u>12</u>
Total CA HPSS	8	16	22

Family Practitioner Services
(Contractors)

13. Re-assessment of FPS items discussed in earlier Surveys	66	127*	128*
14. Inflation in 1989-90 (0.5%)	-	-	14
15. 1986 DDRB award and other pay consequences	50	51	53
16. Demand not in baseline	-	-	151

Service Priorities

17. Blood test strips for diabetics	8	8	9
18. Pharmaceutical Price Regulation Scheme - profit level	15	20	14
19. Hepatitis B vaccine	<u>4</u>	<u>-</u>	<u>-</u>
Total FPS (Contractors)	<u>143</u>	<u>206</u>	<u>369</u>
<u>Total Additional Bids</u>	<u>478</u>	<u>552</u>	<u>834</u>

* Final figure to be settled in the light of the outcome of discussion on the Consultative Document





10 DOWNING STREET

We should
consider the
aid increase
in conjunction

with
DIT's wishes
of consistency
because of DIT
not

Prime Minister

I am in touch

regularly with Robin

Butler about expenditure

on security. I suspect
something can be worked
out.

Ken will want to focus
on the passages on
aid expenditure, where to
foreign security passages
on increase. Para. 14
CDP 3075.



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FCS/86/147

THE CHIEF SECRETARY OF THE TREASURY

Public Expenditure Survey - FCO Programmes

1. In accordance with your guidelines I have scrutinised the programmes of the two wings of the FCO for the coming three years. Rather than troubling you with some possible suggestions for expansion, which would certainly yield worthwhile returns, I have decided to concentrate on the practical strength of our foreign policy and aid effort.

See para 14.
2. There are only two areas where I believe the political imperatives require us to make a modest increase in resources. The first is the Aid Programme. Our decision last year to check, and marginally to reverse, the decline in the aid programme was a well-judged response to the huge growth in people's interest in the plight of the world's poorer countries. The Geldof factor continues to grow in strength. More and more people have become involved in the work of the voluntary organisations, and will be expecting a matching response from Government.

See para 5.
3. The second area is the security of those whom we employ to forward our interests overseas. The rising tide of international terrorism, and our leading role in combatting this, has sharply increased risks to Government representatives and property. Failure to provide enhanced protection would expose us to severe criticism.

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1. ~~CDD - to see~~
2. ~~Prime Minister 2~~

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JW
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4. Before coming to the detail, I should like to make one other general point. The new policy of control by running cost limits has shown itself to be a useful innovation - and makes me reasonably confident of finding efficiency savings to achieve my targets and to help bridge the gap between the 2½% cash uplift factor and UK cost and pay increases. The resulting increase in flexibility in deployment of Diplomatic Service manpower will help us to keep pace with growing (and changing) demands for FCO services from public, Parliament and Ministerial colleagues; although this means that I shall have to forego some of the staff savings envisaged in 1983, I shall still be able to live within the prescribed financial limits.

DIPLOMATIC WING

5. The baseline in the three Survey years is (£ million):-

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
My only bids are:-	660	693	711
<u>Revised Economic Assumptions</u>			
Overseas Price Movements	-1.5	-1.6	-1.6
<u>Changed Operating Environment</u>			
Security	9.2	9.4	10.2
<u>Other</u>			
Secret Whitehall-wide Project		0.1	1.0
PSA underfunding	1.3	1.0	0.8

In the accompanying letter my Principal Finance Officer is providing the necessary supporting detail and noting other potential developments which, if they materialise, may need to be considered.



6. The figure for Overseas Price Movements has been calculated by officials on the agreed basis. It is at present negative (because of favourable exchange rate movements) but will be recalculated on 30 September in accordance with past practice.

Security

7. The threat of terrorism and other forms of violence against those who represent Britain overseas is growing sharply. In the past two years three officers (two British Council, one Diplomatic Service) have been assassinated and a number injured. Since the US attack on Libya, there have been (excluding hoaxes) 55 recorded threats to our posts. Some have been quite specific, for example in Sudan where we have sent a Royal Military Police close protection team. The Residence in West Beirut has been badly damaged. Libya has representatives in 54 countries throughout the world; the threat is therefore widespread, and not confined to the immediate trouble spots. This is in addition to the high rate of violent crime in many countries, particularly in Africa and the Caribbean, where we have had to provide safe havens and watchmen to prevent staff being attacked in their own houses.

8. I have withdrawn security PES bids in each of the last three Surveys and have devoted some £2 million a year from offsetting savings and improved efficiency to increase security expenditure. I have also made a £2.1 million adjustment between ODA and FCO (Diplomatic Wing) programmes, which I have subtracted from my bid as you requested in correspondence resting with your letter of 14 January. The 1985 Efficiency Scrutiny recommended that between £30 and £40 million needed to be spent on security over the coming years on Diplomatic Service posts. The sums I am seeking also include an element for the British

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Council whose staff are often vulnerable to attack. My plans are to strengthen physical and technical protection where the violent threat is highest by providing more local guards, alarm systems, radio communications, closed circuit TV and various physical barriers. We must also provide more armoured vehicles for Heads of Mission and move to new premises for about 12 of our more vulnerable offices such as Damascus and Kuwait.

9. At home we are rightly strengthening the resources available to the police to fight crime and terrorism. Other Foreign Services, including the French and Italians, have considerably increased their security expenditure recently. The US State Department are planning to spend \$4 billion over the next 5 years. I am satisfied that the extra expenditure which I propose, averaging less than £10 million a year, is the least that is consistent with our assessment of the risks, our obligations to staff and our commitment to Parliament. If circumstances worsen we may need to improve protection yet further.

Secret Whitehall-wide project and PSA underfunding

10. Officials are in touch about the highly classified new information technology project which affects various Whitehall Departments. They are also discussing the FCO's specific requirements now that Departments rather than PSA itself are to have financial responsibility for certain accommodation work. I fully support this process of devolution from PSA to Departments, but as I said in my minute to you of 23 December 1985 the civil estate is underfunded and Departments will be unable to undertake this extra work without an adequate transfer of funds.

Manpower and Running Costs

11. I welcome the new emphasis on running cost limits as a control mechanism. I envisage no increase in my net running costs apart from a small element of my security



bid and any adjustments agreed to cover new work on electoral registration overseas. I suggest that our officials should agree revised gross totals in the light of the September calculation of Overseas Price Movements and any increases in fees which may be made.

12. I recognise the continuing importance of manpower control, as emphasised in your minute to the Prime Minister of 17 February. However the target I agreed in 1983 to reduce staff by 350 (5.2%) by 1 April 1988 needs re-examination in the light of the growing demand for FCO services. The number of British business visitors using our services per man year of staff is increasing by 4% annually and the consular case load and work on immigration control are also increasing. I am switching more resources into narcotics control and action to deal with terrorism. Information technology is a good example of a field where an increase in staff (in FCO's case 37 in the last four years) is creating running cost savings; but net staff savings will not come through until 3-4 years from now.

13. We have contracted out 140 jobs and saved a net 64 from inspections and post closures but have had to create 55 new slots to deal with growing demands around the world. After examining carefully the scope for further reductions I conclude that the target for staff savings by 1 April 1988 should be adjusted to 220 instead of 350.

AID PROGRAMME

14. The baseline for the net Aid Programme is (£ million):-

	<u>1987/8</u>	<u>1988/9</u>	<u>1989/90</u>
	1230	1269	1301
My bid is for	30	65	110

/15.



15. It was right to cut back aid in the period when we were laying the foundations for our own economic recovery. We defended this by saying that our ability to do more depended upon a strengthening of the economy. Last year we made a small improvement in the planned provision, so as to avoid a further decline in the real value of our aid. We just got by politically with that. But as Sports Aid has followed Live Aid, public enthusiasm for the aid programme has continued to grow - particularly amongst young people, for whose support we need to make a special effort. As the election approaches and with the economy in its sixth consecutive year of growth at or above the European average, we shall be under increasing pressure to honour the undertaking so often repeated that we would do more when we could afford it. I believe the time has come to redeem that pledge - and that we need now to press for an aid programme that is edging upwards again, however modestly.

16. I have not reached this conclusion easily, knowing all too well the continuing pressures on public expenditure. But the aid programme has more than played its part in reducing the burden of public expenditure; the 16% decline in real terms since 1978/79 compares with an overall increase in public expenditure of nearly 9% and a rise in GNP of 7%.

17. Much of the criticism has focussed upon our performance against the 0.7% of GNP target for aid, to which as you know we are committed, and which is widely used, internationally and domestically, as the yardstick for our intentions. It has fallen from 0.44% for the years 1979/80 to only 0.33% in 1985; on present plans it will fall to about 0.31% in 1986, and progressively further in later years. Many of our critics argue that we should set out positively to reverse this trend, by

/planning



planning for an increase of, say, 0.01% each year. That would mean bidding for something like £70m in 1987/88, £150m in 1988/89 and £245m in 1989/90. Given our other difficulties (and objectives) a bid on that scale is, of course, out of the question. But I believe we could deflect much of the criticism, and put ourselves in a better light, if we could show that aid was planned to grow, after 1986, at least in step with the economy; at least our GNP performance would not then get any worse. I therefore propose only that we plan to increase the aid programme at about the same rate as we now expect GNP to grow. This would mean additions to the existing PES baseline for aid of £30 million, £65 million and £110 million.

18. The level of our aid in recent years has fallen increasingly behind what other countries are doing, as the following table shows:

	Aid as % of GNP		Total Aid (\$bn 1984 Prices)	
	<u>1979/80</u>	<u>1984</u>	<u>1979/80</u>	<u>1984</u>
UK	0.44	0.33	1.8	1.4
Netherlands	0.96	1.02	1.2	1.3
Canada	0.46	0.50	1.3	1.6
Germany	0.44	0.45	2.6	2.8
France (excl dependencies)	0.36	0.52	1.7	2.6
Japan	0.30	0.35	3.1	4.3
US	0.23	0.24	7.6	8.7
Italy	0.13	0.33	0.4	1.1

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We are the only major donor to have reduced aid in real terms and, indeed, as a percentage of GNP. This has not only made us more vulnerable to criticism at home but has made it more difficult for us to play as constructive a role in world affairs as we should be doing.

19. This decline in the relative size of our aid programme has been bad too for British industry. As other countries have expanded their total aid programmes, multilateral aid has grown. We have succeeded in mitigating the financial consequences for ourselves by large but unobtrusive cuts in our share of contributions, while maintaining industry's access to the substantial business that these programmes generate. But because our total aid has fallen we have not been able to avoid a fall in the real value of our bilateral country programmes of as much as 35% since 1979 (on present plans they will fall further). As a result we are subject to growing criticism for not doing enough through aid to help British firms stay in traditional markets, especially in Asia and Africa. The reduction in our bilateral aid, most of which is tied and comes back to Britain in some form, has had a marked effect on job prospects in many firms. By comparison, the Japanese bilateral programme is now five times larger than ours; and Germany is now committed to spend in India alone two and a half times more than our total programme there.

20. It is against this background that I make my present proposal of a small increase in planned aid. I believe that reversing the downward trend in our aid is the right decision politically and will be widely welcomed in this country, not just by the aid lobby but also by British industry.



21. The ODA's Principal Finance Officer will be writing to provide background detail. He will also be writing about a minor bid in respect of superannuation which we need to make for technical reasons

22. I am copying this minute to the Prime Minister, the Lord President, the Home Secretary and the Secretaries of State for Employment, Environment, and Trade and Industry.

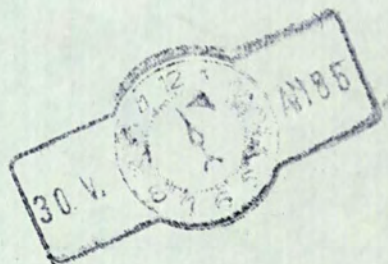
Robert Curran (Private Secretary)

PP

(GEOFFREY HOWE)

(Approved by the Secretary of State and signed in his absence)

Foreign and Commonwealth Office
29 May 1986





~~CEB9~~

MO 8E

mb

1. ~~CDP~~ ^{CDP} + fee

2. Prime Minister ²

As Yinger's bids are in the annex.

JDS
30/5.

CHIEF SECRETARY TO THE TREASURY

PES 86

1. Your guidelines coincidentally but conveniently request bids at a time when I am completing my first look into the Departmental books through our Long Term Costing process.

It may be helpful if I indicate briefly the position here as I find it, as background to my approach on PES.

2. What the costings showed was a programme excess against agreed resources over the first few years of the planning period running at more than £1bn a year. I had the excesses analysed, and about half of them are due to PES 85 cuts or to factors, such as defence inflation and uncompensated AFPRB awards, over which we have little control. The remainder consists of cost growth on the substantial programme set in train as a result of the Defence Budget increases since 1978/79. The programme as costed takes into account the present and foreseeable benefits from the efficiency programme, notably in the areas of the control of defence manpower, the procurement of defence materiel, and in supply.



3. The action I have taken is to impose severe cuts, not simply to relieve the short term problem, but to make necessary adjustments to longer term plans. The outcome is that I have plans for the first few years which, subject to what I say below, taking one year with another, and on economic assumptions about the relatively favourable economic situation, would enable me to manage, but only just. As you will have seen from my comments on this year's Defence White Paper, I have had to strike a careful balance in presentation both to acknowledge the problem and to indicate that we can cope.

4. If we are going to be able as a Government to retain the hard earned credit we have achieved from defence it is crucial that I do not lose more resources through PES. Already, it is becoming very difficult to justify a position in which Defence was enabled to invest in a continuing programme to meet a vital national need, only to find the funds made available being, not stabilised, but taken away. I simply cannot afford arbitrary cuts on the baseline through a cash uplift for 1989/90 lower than the foreseen level of inflation. Even more, I cannot afford any substantive cuts in any year.

5. There are additionally some relatively small adjustments which should be made to the Defence programme which either need not be presented as additional public expenditure or which could be justified on grounds of equity. The Falklands adjustment and



the dockyards pension issue fall into the first category. Full compensation for the AFPRB awards, which we do not determine but simply have to accept and which we cannot offset by reducing the size of the Forces, falls into the second. They would help me out of all proportion to the cost, and are set out in the schedule, enclosed.

6. I am very ready to discuss all this with you if you wish. But I must emphasise that the outcome of PES 86 must give me at least an outside chance of successful management.

7. I need not I think dwell on the contingent claims of which you are already aware such as the EC customs position and vehicle licensing. Perhaps I should add that the outcome of MISC 127 will have to be judged by me in the light of the factors set out above.

8. I am copying this minute to the Prime Minister, to other members of OD and to the Secretary of State for Trade and Industry.

the review of shipbuilding.

J. F. Howe.

Private Secretary.

*Approved by the Defence Secretary
and signed in his absence.*

Ministry of Defence

30th May 1986

ADDITIONAL PROVISION SOUGHT FOR DEFENCE

(£m cash)	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>
1. Baseline	18,817	18,990	19,268

<u>Bids</u>			
2. 3% inflation uplift for 1989/90			94
3. Falklands costs subsumed from 1988/89 onwards			198*
4. Costs of 1986 AFPRB award	105	108	112
5. Cost of post-contractorisation Dockyard pension	36	37	38
6. PRS Part I Civil Works cost	3	6	6

7. Total Bids	144	151	448

* In substitution for the traditional Falklands increment.

1. The proposed additions to defence provision are set out in tabular form above. Line 5 would be offset against a future Paymaster General's liability.

2. Taking the bids in order:

a. 3% uplift for 1989/90

The 1986 Survey Guidelines allow a 2½% cash inflation uplift for all programmes in 1989/90, while GDP inflation for that year is forecast to be 3%. The effect for Defence would be an arbitrary cut of £94m, to add to the 6% reductions proposed for 1986/87-1988/89. The increases agreed for Defence between 1978/79 and 1985/86 are committed to a continuing programme. The substantial efficiency improvements made or planned for the Department are taken into account in the plans. The £94m would impact directly on the programme, and represent a further and visible resilement from this Government's view of

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the requirement for defence. There would be both operational and political consequences.

b. Falklands costs subsumed

In the course of PES 85 the previous Secretary of State for Defence agreed to accept the 1988/89 baseline without an addition for the Falklands. This required the defence programme to absorb £192m in 1988/89 and subsequent years. However, in arriving at the baseline for 1989/90 the cash uplift factor has been applied to the 1988/89 baseline less £192 million. As a consequence of the PES 85 decision the uplift should be applied to the full 1989/90 baseline. The resulting bid for £198 million in 1989/90 removes the need for a separate Falklands addition.

c. 1986 AFPRB Award

Service pay awards are independently assessed and their implementation is subject to Government approval. Defence has not received full compensation for Service pay awards since PES 82, resulting in a reduction in the funds available for the remainder of the defence programme amounting to some £3.7 billion over the 10 year period of an LTC. A consequence of this, within a defence budget that is reducing in real terms, is a switch from capital (equipment) to current (pay) expenditure; SDE 86 shows the proportion of the budget for equipment to be falling to 44.6% in the current financial year. This decline will continue the faster if defence has to absorb further pay rises above the rate of inflation. As a result of the award of 7½% this year, the full additional cost to defence above the level allowed for will exceed £100 million a year, or £1 billion over the period of an LTC.

d. Dockyard Pensions

Contractorisation of the Royal Dockyards is scheduled for early 1987. Once contractorisation has taken place, future pension costs (which currently fall to be met

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in due course by the Paymaster General) will be passed on to MOD as overheads. In the absence of compensation, this means that contractorisation will result in a net loss to defence, a point which has already resulted in unfavourable comment in Parliament. Although full compensation would result in a technical increase in public expenditure, it would be meeting a cost that would otherwise fall in later years to the Paymaster General's Office. Compensation for defence would provide an important presentational advantage for Dockyard contractorisation.

e. PRS Part I Civil Works Costs

The bid reflects the decision that Departments should assume responsibility for the resources in this area from 1 April 1987. The details of the bid will be supplied by officials.

4. Implications for Gross Running Costs. Of the above bids, only (a) and (c) have implications for MOD's gross running costs. The additions implied over the current base-line provision for unning costs are:

(£m cash)	<u>1987/88</u>	<u>1988/89</u>	<u>1989/90</u>
3% uplift in 1989/90	.		27
AFPRB Award	3.5	3.6	3.6



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The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

Prime Minister ²
To be aware in
relation to your meeting on
Workfare on Monday.
DJS 30/s
30th May 1986

MB
Dear Chief Secretary,

1. I am writing to let you know the DE Group's bids for PES 1986, and the reduced requirements and other offsetting savings we have identified. Fuller supporting justification, and other relevant detail, is in Annexes 1 and 2. My officials will be giving yours fuller information as required.

2. The policy of containing all bids within baseline presents particular difficulties for the DE Group. Some 80 per cent of our baseline is accounted for by employment, training or enterprise measures, whose importance to the government's anti-unemployment strategy has been recognised in the significant expansions announced in recent Budgets. We are nevertheless undertaking to meet the cost of all proposed additions to our programmes, save where (as described in Part A of Annex 1 and paras 3-8 below) there is a clear precedent or other special consideration justifying an additional allocation.

RESTART

3. I am asking for £37 million (rising to about £40 million) to extend the whole Restart programme, to allow the 6-months unemployed to benefit from it. The pilots are proving very successful, and I am convinced that the results from the six month unemployed will, if anything, be greater than the 12 month group. Though technically a net additional bid for DE, the extension will (even on our original cautious assumptions) yield net savings both in public expenditure and net exchequer terms.

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INNER CITIES INITIATIVE

4. Treasury agreed to a contribution from the Reserve to pilot this initiative during the current year. I am asking for provision to maintain the present modest, potentially cost effective, level of expenditure throughout the PES period.

DE RUNNING COSTS

5. I am seeking extra resources to cover the consequentials for DE of DHSS proposals to replace NUBS by 1990; to introduce a Common Rules Package from April 1987; and to implement the Social Security Review. All these proposals stem from DHSS policies. NUBS 2 will yield net running cost savings (to DHSS) from 1990-91, the Social Security Review substantial benefit savings (again to DHSS) from 1989. A bid is also made for the extra DE costs stemming from technical delays to implementation of the DHSS-led TRES project.

6. Additional running cost bids are also made to cover the impact of higher unemployment assumptions (affecting the NUBS); and of the above average costs to the DE Group of the proposed salary restructuring for clerical and ADP grades, resulting from our exceptionally high proportion of clerical staff. It is not practicable to absorb these extra costs - nor those of the DHSS linked additions - given the limited scope for further efficiency improvements (compared with the major gains of recent years, already reflected in the baseline); and the extent to which, since 1985, the Group has already absorbed pay increases above the reflation factors allowed.

PROPERTY REPAYMENT SYSTEM

7. A bid is presented - as required by Treasury - for our extra costs arising from the transfer to departments of PES bidding responsibility for all major works, from April 1987. A bid is also necessary for Part II works and minor maintenance, for which PSA's baseline is known to be insufficient.

TOTAL NET ADDITIONS TO BASELINE

8. Our proposed net additions total some £75m, £79m and £84m, of which the running costs element is £35m, £43m and £49m.

PROPOSED SWITCHES WITHIN THE DE GROUP BASELINE

9. Part B of Annex 1 describes in detail the areas where I propose to fund additional provision from savings made within the baseline. Among the smaller increases, I propose to



provide for a National Council for Vocational Qualifications; small-scale initiatives by City Action Teams (to continue the provision announced in connection with shipbuilding redundancies in the North East); a new programme to promote enterprise formation by young people; a further expansion of £5m-£6m a year for tourism; and a modest increase for sheltered employment.

10. The major element in my proposals is however the extension of TVEI on a national basis to begin in September 1987. I am writing separately to you and colleagues in parallel with this letter with my proposals which I would like to discuss urgently with you because of the need to announce the terms of the extension in my forthcoming June White Paper on education and training of young people. All I do now is to note that I am proposing that the extension be funded through the MSC on a basis equivalent to £30,000 in the pilot stage.

11. To cover these bids, and also the excess requirement for Redundancy and Insolvency Payments (£9.3m, £5.1m and £2.6m net of our reduced requirements), which I undertook to find as part of the 1986 Budget deal, I need to find savings of £35m, £56m and £80m. You will see from Annex 2 that I propose to find £20m a year of this from the Community Programme. The resources available provide for 255,000 filled places, which I now intend to operate as a ceiling for the programme.

12. I have considered whether part or all of the remaining savings required could be found from the adult training budget but have decided that we should not further reduce a budget which has already fallen steadily in real terms in recent years. To do so would in my view sit very uneasily with our range of policies for mitigating the effects of unemployment and of making the labour force more flexible and competitive. We would have considerable presentational problems both publicly and with the Commission in defending any cuts, which would I believe be wrong in any case. The better strategy is to seek to make better use of the money we have, particularly to stimulate enterprise business growth and to increase support for the long-term unemployed - increasingly end-on to our RESTART offerings. We need too to continue a range of programmes designed to stimulate employers to provide training provision themselves to a greater degree. I have instituted a further review with the MSC of our policies to continue the momentum for change established last year so that we can look to significant re-shaping (to begin in 1987/88 and to take full effect in 1988/89) which will allow us to offer training to even more people than at present.

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13. I am therefore prepared instead to undertake to find the remaining required savings (£15m, £36m, £60m) from the Youth Training Scheme. Various policy options that could yield savings of this order have been identified in our officials' agreed paper on the funding of the TVEI. One of those, the freezing of YTS basic grant and managing agents fee for 1987/88 at present levels (with protection for premiums and umbrella places), which would save the £15m required for 1987/88, and the same amount in each subsequent year towards the larger savings required then, I am prepared to say now we should adopt. As regards the further savings required for the subsequent two years, given that none of the other options is desirable for its own sake - and the impracticability of forecasting spending out-turn until we have more experience of 2-year YTS - I would wish to defer a decision until future PES rounds.

I am copying this letter to the Prime Minister, the Lord President, the Home Secretary and the Secretaries of State for Wales, Social Services, Northern Ireland, Environment and Scotland.

Yours sincerely,

Iain Mackinnon

[PRIVATE SECRETARY]

[Approved by the Secretary of State and
signed in his absence]

ADDITIONAL BIDS

A PROPOSALS FOR NET ADDITIONS TO BASELINE1 Re-start: extension to 6 month unemployed

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions required:	37.3	39.9	40.5
Of which:			
- Programme cost: MSC	20.1	22.4	22.6
- Running costs: MSC	15.0	15.4	15.8
UBS	0.9	0.8	0.8
DHSS	1.3	1.3	1.3
Manpower	<u>Man-years</u>		
MSC	1000	1000	1000
UBS	239	221	221
DHSS	140	140	140

2 Extra provision is sought to widen the scope of the Restart Programme to include the six month unemployed as well as the twelve month unemployed. A net addition to the DE baseline is considered well-justified, as likely to present net savings both in terms of public expenditure and exchequer cost. The scale of these savings depends on the numbers off the count and length of time they stay off, neither of which can be firmly estimated without a pilot examination. Nonetheless net public expenditure savings on the extension to Restart would be of the order of £6.5m in 1987/88 and £15m in later years if an additional 5% of the client group left the count on average for 22 weeks. Break even in all years would be achieved from 18 weeks. Net exchequer savings of some £13m and £25 could be achieved at 22 weeks - break even by 14 weeks.

3 These assumptions are based on experience of the behaviour of the 12 month unemployed in the pilot areas. They may be too pessimistic, as prima facie there is scope for extra effect among the 6 month unemployed. Statistical comparisons over the first

3 months of the pilots suggest a potential 6-8% extra effect on the long term unemployed, and these figures may well rise over the coming months. It is early yet to estimate the length of time off the count, but analyses of mid April data are showing satisfactorily growing percentages. For example, of those leaving the count after a first letter from MSC but before an interview, 39% have already been off over 11 weeks (at a time when the scheme had only been running some 15 weeks).

4 The count effect implied by the 5% for 22 weeks assumption would be as follows averaged over the year:

1987/88	1988/89	1989/90
22,660	28,700	28,700

5 The additional provision would allow for:

- an extra 1.3 million interviews by MSC (with consequent adjudication work in UBS or DHSS)
- 20% of these people to attend Restart courses; and
- 10,000 more to take up the Jobstart allowance.

Output and performance data would be monitored separately, in the same way as for the twelve month unemployed. Requirements for the later two years would be reviewed in the light of findings of any pilot or of the first year's operation.

6 The consequence of not allowing the bid would be to forgo the potential net public expenditure and Exchequer savings, and favourable effects on the unemployment count.

7 Inner Cities Initiative

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total addition required:	8.2	8.5	8.6
of which:			
- Programme cost	7.2	7.4	7.5
- Running costs	1.0	1.1	1.1
Manpower	<u>Man-years</u>		
DE	41	41	41

8 The Inner Cities Initiatives (ICI), first announced by Ministers on 6 February 1986, aims to achieve a better coordination of Government help to certain small inner city areas. It provides through some additional funds a measure of flexibility in supporting innovative projects bringing direct help to local people which do not otherwise sit squarely within existing programmes. The overall objective is to increase the effectiveness of central Government programmes in meeting the needs of communities in urban areas suffering from particularly severe problems - in particular through improving their employment prospects and encouraging enterprise.

9 The bid is to maintain expenditure throughout the PES period at the level agreed by Treasury for 1986-87. The implication is that the initiative will continue during this period without modification. The sums involved represent only about 10% of what Departments are already spending in these areas. The initiative is to use the money in part to 'lever' substantially larger resources from the private sector into the areas so that the overall effect on the communities is considerably greater than the £8m would suggest.

10 The method of evaluation is currently being considered by a group of officials who will be reporting to MISC 104 in July. The aim is to establish a framework of evaluation criteria which will enable informed judgements to be made about the success of this experimental programme. Subject to such fuller evaluation, Ministers regard this as a valuable policy initiative likely to yield significant policy benefits at relatively low cost.

To the extent that the programme succeeds in reducing numbers on the unemployment count, there would be offsetting benefit savings.

11 Net additional resources are sought, as a logical corollary of Treasury's agreement to fund the bulk of the current year's requirements from the Reserve. It is not feasible to absorb the cost within baseline in addition to the other extras which DE is undertaking to find (paras 35 to 80). If the bid is not allowed, the potential benefits mentioned in para 10 will be forgone.

12 National Unemployment Benefit System (NUBS) 2

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	0.1	0.3	7.2
	<u>Man-years</u>		
Manpower	9	18	578

13 The DHSS National Unemployment Benefit System (NUBS) computers are due for replacement by 1990. The system uses an obsolete programming language and is generally ill equipped for the increased complexity of programming requirements since NUBS' development at the end of the 1960s. The suppliers, ICL, will not maintain the present system after 1990. The project is part of the DHSS operational strategy and DHSS will bear most of the cost. The new system will have major implications for the methods of processing benefits in local offices and UBS staff will be heavily engaged in the planning and implementation of the programme.

14 The NUBS 2 system is not a straight replacement of NUBS 1. The system will provide new facilities including the transfer of claims between offices and the automatic link to other computerised benefit systems including Incomes Support and the Departmental Central Index. There will be a radical examination and assessment of all procedures and it is hoped to eliminate all manual claims. The resultant staff savings, in 1990-91 and beyond, should more than offset the implementation costs.

However, during the PES period there will be additional costs to develop the system and to train all users. Training will involve many new procedures and staff will have to understand and be able to operate the links to other computer systems. A minimum of five days training is expected for each member of staff.

15 The bid arises for reasons quite outside DE's control. It cannot be absorbed, for the general reasons described in paras 22-23 and 29-30. If the additional resources bid for are not provided, the department could find it impossible to implement NUBS 2 with the consequential breakdown of the payments system with the demise of NUBS 1. The net staff savings provisionally expected (para 14) would be forgone.

16 Social Security Review and Common Rules Package

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	4.5	7.5	6.5
	<u>Man-years</u>		
Manpower	493	863	713

17 DHSS are introducing a Common Rules Package from April 1987 and are forecasting major reductions in programme expenditure. The intention is to treat claimants under similar rules whichever benefit they claim. Unemployment benefit rule changes are being introduced by DHSS causing unavoidable administrative cost increases in DE. The increases are due largely to more claimants having (and exercising) their right to appeal on questions of benefit entitlement, to the greater numbers of overpayments to be recovered under the new rules and to the recovery of the other benefits eg sickness benefit, from the new income support payments. DHSS are still working up the detailed procedures but at this stage continuing costs of 230 staff are estimated.

18 Proposals in the Social Security Review are expected to yield some 2,000 staff savings in DHSS from 1989 onwards. The proposals will, however increase UBS administrative costs because

the new Social Fund loans being introduced from April 1988 will be recoverable from unemployment benefit and income support payments. Recovery is costly as individual arrangements will have to be made and DHSS are forecasting 1 million loans a year. A second change being introduced from April 1987 (which allows long term unemployed claimants to earn a higher wage before their income support payments are abated) will also increase staff costs. The current forecast is for 280 staff in 1987-88 and 650 thereafter. The bid assumes that a computer programme for identifying eligible claimants can be devised by 1989-90, enabling a fall of 140 in staff costs.

19 The bid arises for reasons over which DE has no control and cannot be absorbed, for the general reasons discussed in paras 22-23 and 29-30. If the bid is not allowed, DE will be unable to implement the Social Security Review (with its associated DHSS savings) and Common Rules package.

20 Revised Economic Assumptions

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Addition required (all running costs)	3.7	6.0	6.1
	<u>Man-years</u>		
Manpower	255	255	255

21 Following the higher unemployment assumptions issued in the Treasury letter of 6 November, Treasury agreed to an increase in the manpower baseline. This is reflected in the 1986 Public Expenditure White Paper. No corresponding financial adjustment was made. The present bid is to cover this; and also to allow for manpower and money consequences of the further increase in unemployment assumptions, issued by Treasury on 28 November.

22 As described in the 1986 Public Expenditure White Paper and in the PES Report, UBS productivity, in terms of the ratio of claimants to staff, has improved steadily in recent years.

The improvement is expected to continue, due to more efficient working methods, notably the TRES programme (1900 staff savings). The bid takes account of these expected savings; and also of decisions taken, since PES 1985, to reduce the level of scrutiny of UBS claims, and to continue 6-monthly signing for postal claimants.

23 The proposed post-Tres survey may possibly identify additional savings, but those cannot be anticipated. Hence no scope is seen for finding the resources to cope with higher unemployment, from further efficiency savings. Not allowing the bid would mean placing further burdens on an already overstretched system, with consequent delays in payments, and increases in payment errors. The latter could well lead to an even greater increase in costs on DHSS' benefit programmes.

24 Terminal Replacement Enquiry System (TRES): Slippage

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement (all running costs)	2.1	0.2	-
	<u>Man-years</u>		
Manpower	325	35	-

25 Some 1900 staff savings in local offices, resulting from TRES, are allowed for in the baseline. However, now that implementation has begun, DHSS have found they cannot maintain required serviceability, due to hardware and software problems; or support implementation to the necessary level because of the loss of key computer staff. Implementation has therefore been held up while the problems are rectified. The bid reflects the resulting delay in achieving UBS savings (the total to be achieved is not affected). The reasons why the bid cannot be absorbed, and the consequences of not allowing the addition, are as described in paras 22-23 and 29-30.

		£M		
		<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
(i)	<u>CO/CA/ADP</u> <u>restructuring</u>			
	Additional requirement (all running costs)	8.8	9.3	9.7
	Of which: DE	5.8	6.1	6.3
	MSC	3.0	3.2	3.4
(ii)	<u>Treasury</u> <u>incremental Factors</u>			
	Additional requirement (all running costs: DE)	1.0	0.8	-

27 The CO/CA/ADP restructuring will cost, on average, an additional $\frac{1}{3}\%$ across the civil service. The DE Group faces an above-average cost because of our relatively high proportion of clerical staff: 73%, compared with 37% in the civil service as a whole. The bid at (i) represents the cost to the Group in excess of $\frac{1}{3}\%$.

28 The baseline assumes incremental progression factors, provided by Treasury, of +1.2% in 1987-88 and +0.7% in 1988-89. Latest Treasury information gives incremental progression factors of +1.6% and +1.0%. The bid at (ii) is to cover this increase.

29 The DE Group has already absorbed, or is preparing to absorb:

- the 1.9% excess cost of the 1985 pay award (£11m for the DE Group in 1987-88);
- The 1% excess cost of the 1986 award (£6m for the Group); and

- the first $\frac{1}{3}$ % effect of the 1986 CO/CA/ADP restructuring package (£2.2 m for the Group).

All these increases carry forward into later years.

30 As explained in more detail in para 22, virtually no scope is seen for further efficiency savings in the UBS. Similarly, in the rest of DE, significant staff savings compared with baseline have already been allowed for: through a reduction in the scope of wages inspection, closure of DE's typist training centres, contracting out of security services, implementation of planned review reports, organisational improvements and other efficiency savings. The present bids already allow for significant reductions made to divisions' PES proposals, following intensive scrutiny and consideration by senior management and Ministers. Further reductions could not be achieved without significantly curtailing activities in ways which Ministers would find difficult to defend politically.

31 Changes in the Property Repayment System (PRS)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
(i) Part I			
Additional requirement (non-running costs)	6.5	4.5	3.7
(ii) Part II			
Additional requirement (non-running costs)	2.5	2.1	2.1

32 Part I (major new works: over £150,000). From April 1987 departments will be required to carry on their own programmes the cost of major new works previously borne by PSA. The existing DE baseline provides only for the UB0 improvement programme.

The bid covers known requirements for DE HQ and out-stations, and for PSA resource costs. The additional bid represents the minimum necessary for upkeep of the DE estate. If these resources are not made available, there could be serious effects on staff moral and efficiency; with higher costs in later years through delaying essential work.

33 Part II (minor works: up to £150,000) and maintenance up to £5,000. Departments will also assume responsibility for these works from April 1987. Increased charges to DE will be partly offset by reductions in PSA's accommodation charge; but PSA admit their baseline provision is insufficient. The bid reflects the additional amount necessary for the upkeep of the DE estate. The consequences of rejecting the bid will be similar as for Part I.

34 Total Net Additions to Baseline Proposed

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions	74.7	79.1	84.4
Of which:			
running costs	35.4	42.7	48.5

B ADDITIONAL BIDS FOR WHICH OFFSETTING SAVINGS CAN BE FOUND

35 Redundancy and Insolvency Payments

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Net additional requirement	9.3	5.1	2.6

36 DE Ministers undertook, as part of the 1986 Budget package, to find offsetting savings to cover the excess of current forecast requirements for redundancy and insolvency payments, over agreed PES provision. Following the April meeting of the DE/Treasury monitoring group, the excess requirements totalled £20.2m, £23.0m and £24.3m. We assume (following earlier discussion with Treasury officials) that the reduced requirements shown in Annex 2,/-^{paras 1-6} totalling £10.9m, £17.9m, £21.7m - may be offset against these overbids. This leaves the net overbid of £9.3m £5.1m £2.6m, shown above, for which further offsetting savings need to be found.

37 National Council for Vocational Qualifications

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	3.0	3.0	1.0

38 The bid is net, and assumes a combined contribution to the costs of the NCVQ of £2m, £2m, £1m for the three years from DES, Welsh Office and Northern Ireland Office (ie the total costs to government are £5m, £5m, £2m). It is intended that contributions from other departments would be channelled through the DE.

39 It is proposed to establish the NCVQ under the joint sponsorship of DE, DES, Welsh Office and Northern Ireland Office. It would act as a national focus for the reform of the vocational qualifications system and for the establishment of a new framework of national vocational qualifications. Reform is needed to facilitate the creation of a better skilled, better qualified and more competent workforce.

40 In 1987-88, the gross provision of £5m would be allocated as follows:

- £3m on the NCVQ's running costs and its research programme.
- £2m on publicising and marketing the new national vocational qualifications framework.

It is likely that substantial expenditure on marketing will be needed for at least another year, but the allocation of expenditure after 1987-88 will be reviewed in the light of developments. There are no running cost or manpower implications for DE. The NCVQ will begin to earn income once it becomes established, and it will be expected to become largely self-financing after 1989-90.

41 The NCVQ will be expected to provide a new structure for vocational qualifications which will be acceptable to existing examining bodies and to employers, and to provide a "seal of approval" for qualifications which meets its criteria for national vocational qualifications. The NCVQ's performance will be judged by the quality and acceptability of the new framework by the target date of 1991. Further, the NCVQ is intended to become largely self-financing from the income it will earn by charging examining bodies for the use of its "seal of approval". Income will depend upon the NCVQ's effectiveness and credibility, and performance will therefore also be judged on financial grounds.

42 The NCVQ is an entirely new and radical development and there is no existing programme which could be expected to absorb the cost. If the bid is not allowed, the NCVQ cannot be established. The existing poorly structured assortment of unrelated vocational qualifications would then continue to inhibit attempts to modernise and improve the skills of this country's workforce.

43 COMETT

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	0.5	0.8	1.3

(Note: The bid may be reduced if a German proposal to reduce the programme's budget is accepted).

44 COMETT is a European Community action programme to improve education and training for new technology by encouraging closer co-operation between higher education and industry to their mutual benefit. The programme should give firms improved access to high level training and should enable higher education provision to be more closely related to industry's needs. The programme will include:

- the development of university-enterprise training partnerships;
- transnational exchanges to provide work experience for students and academic staff and academic fellowships for industrial staff;
- the joint development of advanced training programmes by higher education and industry;
- training projects involving multi-media systems including open and distance learning.

Ministers have agreed that costs will be shared between DES (the Lead Department) DTI and DE in the ratio 45:35:20.

45 The "outputs" of the programme in the UK will depend on what share eventually comes to us. However, the indications are that the UK is well placed to derive a share of the programme at least equal to the UK contribution. In some areas (eg distance learning) the UK comparative advantage is substantial. Moreover, many projects can be expected to be developmental, so that the ultimate benefits will be spread more widely. Since, however, the exact allocation of funds will be for the Commission to decide, it is not possible to give details in advance.

46 This is a wholly new programme, and there is no existing budget that could absorb the cost. It is, however, not possible to leave this provision unchanged. UK Ministers' have agreed the programme at the Social Affairs Council and DE has agreed to pay its share.

47 ILO Subscription

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement -	0.2	0.2	0.2

48 The UK is a founder member of the International Labour Organisation and has a permanent seat on its Governing Body. The purpose of this expenditure is to meet the UK's share of the ILO's budget. That share is determined in relation to an agreed scale of assessment. The ILO scale of assessments is a slightly adapted form of the UN scale. A revised UN scale, putting up the UK share was agreed in December 1985. The ILO is expected to finalise its own scale at this year's Conference in June. As a consequence of that revision the UK's ILO subscription will increase from 4.63% of the budget to 4.87% in 1987, ie an increase of 5.18%.

49 60% of ILO costs are incurred in Geneva. The current annual Swiss inflation rate is around 2½% and the budget can be expected to increase annually by at least that rate. The revaluation factors included in the baseline are therefore sufficient to cover this increase but not the additional 5% already described and we therefore have to increase the existing baseline by this percentage.

50 Department of Employment monitor ILO budget proposals carefully and are prominent among delegations seeking to control expenditure and secure value for money. The UK strongly supports the ILO's central role of adapting and monitoring international labour standards and its useful technical work on employment issues. It has shown itself resilient to political attacks on its essential functions from countries opposed to these objectives.

51 Failure to pay the increased subscription in full would mean that we would be in breach of our ILO membership obligations with the ultimate consequence that we would lose our voting rights.

52 City Action Teams (CATs)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	1.0	1.0	1.0

53 The bid is to continue the £1m a year provision for special initiatives, announced in connection with British Shipbuilders redundancies in the North East. At Treasury's request a detailed case, covering specific objectives and evaluation criteria, is being prepared.

54 Youth Enterprise

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	2.0	2.0	2.0

55 The bid covers a contribution towards a fund for giving small loans (under £5,000) to young people setting up in business. It would be associated with the establishment of some 35 Youth Enterprise Centres around the country, where young people who are thinking of going into business on their own can receive specialist advice, counselling and some limited workshop or office space. The Centres would be grafted onto existing Local Enterprise Agencies or enterprise workshops wherever possible. A contribution to some administration costs associated with the establishment of the Centres may also be involved.

56 For both parts of the bid the assumption is that the department's funds would only be made available on a matching basis and that the other partner in the programme would be a private sector umbrella organisation bringing together the various bodies already undertaking small-scale activities in this field. The original proposal for this programme came from the private and voluntary sector bodies themselves.

57 The provisional breakdown of the annual £2 million bid is £½ million for the running costs of the Youth Enterprise Centres and £1½ million for the contribution to the loan fund.

58 Administrative support to the programme within DE would be provided by existing HQ and regional staff, particularly those already engaged in support for the Local Enterprise Agency movement.

59 Some repackaging of MSC's training and other measures in support of this programme is envisaged, from within existing resources.

60 The programme's objectives are:

- (a) to overcome the well-documented difficulties experienced by young people in obtaining suitable advice, finance and premises to help them go into business in their own right.
- (b) to offer an alternative way into employment for an age group (especially the current 18-25 year olds) which is disproportionately affected by long term unemployment and has not benefitted from the full range of other training and employment measures now available.
- (c) to encourage the existing private and voluntary sector bodies working in this field to come together in a more effective national grouping.

61 Measurement of success will be in terms of the number of young people entering self-employment or setting up small firms; survival rates; and numbers of other employees taken on by the new enterprises. Some positive evidence is already available from pilot youth enterprise work (eg in Newcastle) undertaken by the private sector.

62 Tourism

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	5.2	6.3	6.4

63 The Tourism budget is used to fund three activities:

- The British Tourist Authority (BTA) which has responsibility for promoting tourism to the UK from overseas.
- The English Tourist Board (ETB) which promotes tourism within England to both domestic and overseas visitors.
- Section 4 grant aid for tourism projects - administered by ETB.

64 The proposed additional bid reflects the Secretary of State's wish to give continued emphasis to tourism as a vehicle for job creation, especially in areas of high unemployment. In seeking this extra funding the Secretary of State is responding to the bids by the Boards for an increase of 25% over baseline to maintain and develop the present policies and programmes. This is seen as unrealistic in the present economic climate and he has decided that a 10% increase for the first year, on top of a baseline uprated by the 2½% inflation factor, and continued through the PES period, is appropriate and reasonable. This gives an extra £5.2 million in the first year and consequential increases in subsequent years.

65 The division of the additional money between the Boards and the proportion to be allocated to Section 4 has not yet been agreed and will have to be discussed with the Boards. However the Secretary of State has been impressed by the result of the departmental study to assess cost-per-job generated from Section 4 projects and wishes to give greater emphasis to this scheme, encouraging both 'honeypot' projects and assisting small businesses. (A separate submission has been made to the Treasury on the future of the Section 4 scheme in England.) He also wishes the Boards to continue their promotion of areas of high unemployment with tourism potential which, it is recognised, is likely to attract a lower than average percentage contribution from the trade for joint marketing ventures, and to maintain BTA overseas operations and promotions at current levels.

66 The results of the Section 4 study show that, taking into account extra spending and business generated both directly and indirectly from Section 4 aid, the gross cost per new job at regional level is around £5,000. This takes no account of savings to the Exchequer from taxes and reduced social security benefits.

67 More generally, the job creation from tourism can be directly related to the amount of money spent by visitors, both domestic and foreign. The Boards estimate a potential for growth of 50,000 jobs per year on average, and in 1985 - a record year for overseas visitors - that 70,000 new jobs were created. The effect of the Boards marketing activities in generating visitors and spending is hard to assess, but the UK is perceived, internationally, to be a very successful generator of tourism business in a highly competitive market, and other countries look to BTA for example. Because of marketing activity by BTA and the industry, the UK has a very wide spread of markets, and is developing more (eg Far East) and relatively good seasonal distribution. This has considerable benefit in difficult times, for example, the UK will suffer less than other countries from a drop in the number of American tourists due to terrorism, even though the USA represents our biggest single overseas market.

68 A Financial Management Review of the Boards being undertaken this year will include the mechanism for measuring the cost-effectiveness of marketing programmes, complementing the work done earlier on Section 4.

69 If the bid is not allowed, and because (due to an oversight) no reflation has been built into the 1987-88 and 1988-89 baseline, the Boards would face a significant reduction in provision in real terms. They would find great difficulty in giving sufficient emphasis to the marketing campaigns directed at areas of high unemployment as these are unlikely to generate as much revenue from the trade as more popular destinations. The effect of ceasing a campaign so quickly would be to undermine the effect of the first year's efforts. It takes several seasons to build up an effective campaign. Promotions overseas would suffer, and depending

on the relative levels of inflation, BTA might have to withdraw from some markets altogether and close offices (though this would not generate savings in the year of closure). The number and/or size of Section 4 projects would have to be limited, with consequential reductions in jobs created.

70 Sheltered Employment

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	3.9	4.8	6.5
Of which Remploy	1.2	3.4	5.1

71 The bid (which in respect of Remploy is considerably less than the company itself proposed) aims to maintain an acceptable balance between the various parts of the sheltered employment programme. As the following table shows, the bid implies a small percentage reduction over the period in the number of Remploy places (though less than the reduction that would occur if no additional provision was made), with a more-than-offsetting increase in sheltered placements:

72	<u>March 1987</u>	<u>March 1988</u>	<u>March 1989</u>	<u>March 1990</u>
Remploy	8,950 (8,750)	8,800 (8,250)	8,650 (7,750)	8,500 (7,250)
Workshops	5,600 (5,675)	5,600 (5,200)	5,600 (4,950)	5,600 (4,750)
SPS	2,900 (2,750)	3,200 (3,100)	3,500 (3,500)	3,800 (3,950)

Note Figures in brackets show estimated places if the bid is not allowed.

73 A reduction of some 450 in Remploy's manpower is assumed. The possibility of a greater reduction cannot be ruled out; particularly as no estimate can be made now of costs which would be incurred in the termination of employment - including for non-approved workers. The assessments as a whole are highly provisional, as the reduced bid has not been discussed with Remploy.

75 Technical and Vocational Education Initiative (TVEI)

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Additional requirement	10.0	33.0	58.0
Of which: MSC			
running costs	1.0	1.5	2.4

76 TVEI is at present a pilot scheme and will, at its peak, cover only three to four per cent of the pupils in the 14-18 age group. The Initiative is designed to improve the relevance of the school curriculum to adult and working life and to enable pupils to acquire skills which will be of direct use to them in employment. The objective of the proposed expenditure is to allow an extension of TVEI into all schools and colleges throughout England, Wales and Scotland, so that all 14-18 year olds will have the opportunity to be involved in courses which place emphasis on acquiring skills relevant to work. This will lead the way to a more flexible, adaptable and better-motivated young workforce.

77 In the 1987-88, the proposed provision of £10m will enable those education authorities whose funding for pilot projects is coming to an end to maintain the momentum of the changes which have taken place in a few schools and colleges, and to extend the changes throughout the authorities' areas. Expenditure in later years increases as more authorities progress from pilots into full TVEI extensions. The proposed funding is on a basis equivalent to £30,000 per participating school, compared with the average of £80,000 in the pilot stage.

78 The TVEI extension is expected progressively to apply to the bulk of schools and colleges in every education authority throughout the country. Output therefore will be measured in terms of the number of authorities, schools, colleges and pupils benefitting from the extension. The fundamental nature of TVEI makes it difficult to quantify performance measures. However, records will be maintained of the cost per pupil involved, the qualifications gained by TVEI pupils and their destinations after leaving TVEI.

79 In the absence of the proposed extension, the benefits provided by the TVEI pilot schemes will be dissipated as current funding runs out. The opportunity to bring about a radical and permanent change in the relevance and effectiveness of the curriculum for 14-18 year olds will have been lost.

80 TOTAL ADDITIONAL BIDS FOR WHICH OFFSETTING SAVINGS CAN BE FOUND:

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Total additions	35.1	56.2	79.0
Of which running costs	1.0	1.5	2.4

REQUIREMENTS, AND FURTHER OFFSETTING SAVINGS PROPOSED

REDUCED REQUIREMENTS

1 The following reductions have already been taken into account in arriving at the net additional bid for Redundancy and Insolvency payments described in Annex 1 (paras 35 to 36).

2 Small Firms

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	-	0.6	1.1

The decreases reflect the reducing level of grant available to Local Enterprise Agencies viz:

First two years	£20,000 maximum
Third year	£15,000 maximum
Fourth/fifth years	£10,000 maximum,

partly offset by small assumed growth in the number of LEAs supported.

3 CP/CI Grants

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	0.2	0.3	0.3

These are small residual savings from the October 1985 restructuring of National Insurance contributions.

4 Job Release Scheme

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	10.7	16.2	18.1

These forecasting reductions are as agreed by the joint DE/Treasury monitoring group.

5 Career Development Loans

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Reduced requirement	-	0.8	2.2

The savings reflect a re-profiling of expenditure, following agreement with the banks on a 2-tier portfolio guarantee (18 months at 40% and 18 at 20%), rather than a uniform 30% guarantee as originally proposed. (It is proposed to absorb a corresponding increase in expenditure in 1987-88).

6 A TOTAL REDUCED REQUIREMENTS

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	10.9	17.9	21.7

B PROPOSED FURTHER OFFSETTING SAVINGS

7 It is proposed to make the following further savings to cover the additional bids set out in Annex 1, Part B.

8 Community Programme

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Proposed savings	20.0	20.0	20.0

The savings would be achieved by operating the 255,000 figure for CP places, announced in the 1986 Budget, as a ceiling rather than a target. The planning profile would assume an actual total of filled places running slightly below the ceiling, to ensure that it is not exceeded.

Youth Training Scheme

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Proposed savings	15.1	36.2	60.0

10. The bulk of the remaining excess requirement is accounted for by the proposed TVEI extension (Annex 1, paras 75 to 80). The recently agreed DE/Treasury paper on the funding of TVEI recognises that the YTS budget is the prime candidate; but that there are severe difficulties in forecasting at this stage the savings that might arise naturally, for example from a shortfall in numbers joining YTS, or in average length of stay. The paper identifies policy options that could yield additional savings if required. It is proposed to adopt one of those now, the freezing of YTS basic grant and managing agents fee for 1987/88 at present levels (with protection for premium and umbrella places) which would save some £15m in each year. DE Ministers wish to leave any further selection of options, to yield the balance of the savings required in later years, until future PES rounds. Meanwhile they are prepared to make a non-specific commitment to find the total savings, shown above, for 1988-89 and 1989-90, required to cover the TVEI and other remaining overbids in Annex 1, Part B.

11. B TOTAL FURTHER OFFSETTING SAVINGS PROPOSED

	£M		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	35.1	56.2	80.0



COVERING CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

NBN.

30 May 1986

Dear David,

1986 PUBLIC EXPENDITURE SURVEY REPORT

The 1986 Public Expenditure Survey Committee Report has now been completed and is being circulated to departments at official level.

For the first time this year, the Report does not include any information on additional bids or reduced requirements; in accordance with the procedures proposed in the Chief Secretary's minute of 6 February to the Prime Minister, any proposals for net additional resources are instead to be the subject of Ministerial letters to the Chief Secretary. As indicated in his minute of 21 March, the Chief Secretary will be arranging for a summary of Ministerial proposals to be circulated in June.

The Chief Secretary thought that colleagues would find it helpful to have copies of the Report at the same time as it is circulated at official level. I therefore enclose a copy for the Prime Minister, and I am sending copies of this letter and the Report to the Private Secretaries of Cabinet colleagues and Sir Robert Armstrong.

*
 in folders*
 attached to
 file

Yours,

Jin

JILL RUTTER
 Private Secretary

COVERING CONFIDENTIAL



NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CUBG

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
London SW1P 3AG

Prime Minister²
Modest - but of kind
will expect to gain from the
operation of the formula.

30 May 1986

JRS
2/6.

Dear John,

PES 1986

I write to advise you of my bids for additional expenditure over the three Survey years.

My bids and offsetting savings may be summarised as follows:-

	1987-88	1988-89	1989-90
Agricultural Development Programme	-	0.2	3.9
Agricultural Research and Advisory Services	2.0	1.4	1.8
Industry	7.6	-	20.5
Total Bids	9.6	1.6	26.2
Reduced requirements for housing subsidies	- 8.2	-12.8	
Net Bids	+ 1.4	-11.2	+26.2

Details of my bids and savings are provided in the Annex to this letter. Michael Jopling's PES letter to you describes the UK bids flowing from the Government's policy and CAP commitments including some of the agriculture bids

MAG14801

AGRICULTURE, FISHERIES AND FOOD

The Minister for Agriculture, following consultation with his agricultural colleagues, is submitting a number of bids which arise on these programmes reflecting overall UK policies and those of the EC. There are a number of points (which will be in the MAFF letter) which are basically Scottish and which are described below.

Agricultural Development Programme (ADP)

	£m		
	1987-88	1988-89	1989-90
Additional Bid	-	0.2	3.9

The Agricultural Development Programme (ADP) for certain Scottish Islands has been the subject of earlier correspondence. Although it has received approval in principle from the Council of Ministers there are still some technical matters to be sorted out. As these are resolved the estimates set out below may have to be varied.

	1987-88	1988-89	1989-90
Estimated ADP Expenditure	-	3.9	7.7
Estimated Expenditure under existing schemes	-	3.7	3.8

It is appreciated that there may be some difficulty in accepting such a bid. There are however a number of points. First, the Agriculture and Fisheries programmes are already under great pressure. A number are demand-led and whilst discussions are proceeding on how more might be done to control these we cannot look for savings over and above those required in recent PES rounds. Second, some elements of the programmes are already facing quite severe cuts following decisions in 1984-85 and further adjustments to accommodate even important initiatives coming from the EC are really unthinkable. Third, whilst the rules on additionality are fully understood the UK economy does stand to gain quite a bit from FEOGA if we are able to work up an acceptable package under the ADP. Fourth, a good deal of political importance is attached to this programme and the way the EC initiative has been received in the Scottish Islands. The bid is modest in relation to the political goodwill it will generate. Certainly it will be unacceptable politically to refuse to follow through the general commitment we have already given to implementation of the programme.

Agricultural Research and Advisory Services

	£m		
	1987-88	1988-89	1989-90
Additional Bid	1.0	1.0	1.0

Decisions were taken in the 1984 PES round to cut the level of public support to Agricultural Advisory and R & D Services. The thinking behind this decision was, however, concerned primarily with achieving cash savings rather than reducing services. We have, therefore, been looking to generating income from new charges for both advisory and statutory services. The implications of this have been discussed with Treasury officials who have helpfully suggested that this should be the subject of a separate Ministerial letter indicating the implications for redundancies and associated costs (which it has already been agreed would fall on the Reserve) if no adjustment is made to the level or phasing of the savings to be achieved in Scotland. The illustrative figures associated with the bid are noted above and will be explained more fully in a separate letter.

Pay Realism

	1987-88	1988-89	1989-90
Additional Bid	0.418	0.439	0.813

This bid relates to the pay of staff of the Scottish Agricultural Research Institutes and Colleges and parallels one which is being submitted by Michael Jopling for MAFF. It updates the bid allowed in last year's PES round and takes account of the recent Civil Service pay award which will apply automatically to SARI/SAC staff.

Pensions etc payable to staff in the Scottish Agricultural Colleges and Research Institutes (SARI/SAC)

	1987-88	1988-89	1989-90
Additional Bid	0.535	-	-

There has already been an exchange of correspondence at official level about this. The Department of Agriculture and Fisheries for Scotland Superannuation Scheme 1975 was introduced for staff of the SARI/SAC with the approval of Treasury and is by analogy with the Principal Civil Service Pension Scheme which is funded from the Civil Superannuation Fund. However, because of the conventions of Supply Estimates and PES it has fallen upon cash limit Vote Class XVI, 2 to meet the continuing increase in costs arising from increases in the number of staff retiring and the effect of the annual pension inflation factor outstripping the PES inflation factors. We have so far been able to meet the shortfall from estimating savings elsewhere in my AFF programme, and indeed have been able to do so for 1988-89 and 1989-90. However, there remains a shortfall of £0.535m in 1987-88 and we regard it as entirely iniquitous to make policy savings to cover this expenditure over which we have no control.

THE INDUSTRY PROGRAMME

The main point is that we have inadequate provision for expenditure on regional assistance. This is the subject of Ministerial correspondence with Mr Paul Channon and we expect the necessity for a bid to be averted by a redistribution of aggregate provision for Great Britain, to reflect the evidence that the distribution on which existing Survey figures are based was wrong. There is a technical point relating to ERDF non-quota receipts passed on to the private sector which Treasury officials have indicated should be entered formally as a bid (£0.6 million in 1987-88), although there is an established agreement that the processing of such receipts will not affect the expenditure programme of sponsoring Departments.

We consider that there is also a need for an increase in provision for the SDA in 1987-88 and 1989-90. The Agency's capacity for action has assumed even greater political importance than usual in the wake of the Gartcosh closure and the recently announced redundancies in shipbuilding and railway engineering. We think it is imperative that we maintain the Agency's gross spending provision at this year's level in real terms, in order to avoid a contraction in the level of activity. Even this will leave us vulnerable to criticism given the effect of the Garden Festival on the normal pattern of the Agency's activities particularly on land renewal. A particular aspect of the latter is the need to tackle a substantial backlog of work on clearing industrial dereliction. Derelict land clearance is one of the principal objectives of the Government's urban policy and the present inability of the Agency (one principal instrument for delivering urban policy in Scotland) even to keep pace with the increase in dereliction is a matter of growing political embarrassment. The additional requirements are:-

	£m		
	1987-88	1988-89	1989-90
Additional Bid	7.0		20.5

The high figure for 1989-90 is, of course, mainly due to the fact that the baseline figure is derived from the abnormally low figure for 1988-89, which reflects the one-off peak in receipts from the Garden Festival.

The range of the Industry programme is narrow; the only significant area of expenditure not already mentioned is the Highland and Islands Development Board. The Board's provision is already to be squeezed, through planned cash reductions, at a time of considerable pressure on them and we see no scope for further reductions.

HOUSING SUBSIDIES

We have reduced requirements for housing subsidies which, although they are within the block, are subject to special PES arrangements under the 'concordat'. The reductions are:-

	£m	
	1987-88	1988-89
	8.199	12.840

MANPOWER

Since May 1979 Scottish Office manpower (excluding the Prison Service) has been reduced by some 1340 (16.5%). Our present targets require a further reduction of 184 (2.7%) by 1 April 1989 in the number of staff who were in post on 1 April 1986. (The required reduction is 240 (3.5%) measured from our manpower target for 1 April 1986, which we had to undershoot simply in order to avoid a breach of the cash limit - not because there was insufficient work to justify the target figure.)

Considerable satisfaction can be taken from the contribution which the Scottish Office had made to our overall drive to reduce Civil Service numbers. But looking



ahead to the next critical period, we believe that we may be handicapping ourselves unnecessarily if we do not now allow a slow down in the rate of contraction. Some diminution in traditional standards of service may be acceptable in some areas, but we have reached the point where we are unable to pursue initiatives (on which Ministers will be judged by the electorate) as we would wish. This includes the delivery of an acceptable Scottish dimension to national initiatives such as those in relation to drug misuse and crime prevention: it also includes areas of education and housing policy where purely Scottish considerations apply.

Officials will be writing to their Treasury counterparts about the details underlying the assessment made by Scottish Office Ministers. In short, however, we believe that the Scottish Office manpower targets should be relaxed to the extent of the following:

1 April 1987	1 April 1988	1 April 1989	1 April 1990
9040	9013	9008	9030

These are minor changes - amounting only to a slow down in the rate of reduction, rather than a net increase - when compared with developments in the major network departments. But we shall ensure that the additional staff are deployed to make the most significant direct contribution to the effective delivery and presentation of our policies.

Running Costs Cash Limits

Cash limits on running costs were introduced last year on the basis that it would be appropriate to move to realistic assumptions for pay increases. The Scottish Office settled on +5% for 1986-87, +3.5% for 1987-88 and 3% for 1988-89. In the event the pay settlement for 1986-87 was 6% together with numerous special awards which brought the overall cost to the Scottish Office up to about 7% of our pay bill. We are taking exceptional steps to contain these additional costs during the present financial year but if we are to secure the effective delivery and presentation of Government policies in Scotland, adjustments are required to the cash limits on our running costs for the forward years. Changes are also required to reflect realistic pay assumptions for 1987-88 and other items such as the costs of the information technology and greater expenditure on training, both designed to make the more effective use of staff resources. Similar considerations apply to the minor Departments and the Scottish Prison Service. Officials have already been in touch on the details but, when full account is taken of the efficiency savings which we have in progress, the reviewed running costs cash limits we require are as follows:-

		£m
1987-88	1988-89	1989-90
148.6	153.4	157.3

THE SCOTTISH PRISON SERVICE

In the Prison Service we need to increase manpower levels to cater for substantially higher inmate numbers than were forecast in PES 85 and for the likelihood that numbers will increase further. This situation can be met only by keeping open Low Moss Prison, which we had planned to close as Shotts II was commissioned, with its staffing consequentials. More security staff and instructors are needed to provide a satisfactory regime for the larger prison population. Treasury officials have been informed of our proposals for prison service manpower increases and of their reasons.



incorporated in the foregoing table I will, at your officials' suggestion, be writing to you separately about one point not in Michael's letter ie a bid for £1m in each year of the Survey which will, if conceded, reduce the call on the Reserve.

To ensure the effective delivery and presentation of our policies in Scotland I require the following revised manpower totals for the Scottish Office, and my four minor Departments.

1 April 1987	1 April 1988	1 April 1989	1 April 1990
9040	9013	9008	9030

For the same reasons I also require the following adjustments to the running costs cash limits for the Scottish Office and my four minor Departments.

			£m
1987-88	1988-89		1989-90
148.6	153.4		157.3

For the Scottish Prison Service, the manpower totals needed to maintain present standards of security and to cater for an increasing prison inmate population are as follows:-

1 April 1987	1 April 1988	1 April 1989	1 April 1990
3145	3356	3386	3401

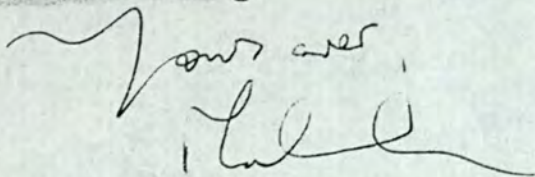
The revised cash limits for the running costs of the Prison Service, related to these manpower targets, are as follows:-

			£m
1987-88	1988-89		1989-90
63.4	66.3		68.1

Details of these requirements are provided in the Annex. I should make clear that I propose to meet the increased running costs in the three Survey years from within the Scottish block.

I look forward to discussing the above bids when we resume our deliberations on the overall size and shape of the Scottish programme.

Copies of this letter go to the Prime Minister, the Lord President, Douglas Hurd, Michael Jopling, Paul Channon, Tom King and Nicholas Edwards and to Sir Robert Armstrong.



MALCOLM RIFKIND

MAG14801

CBA



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

Prime Minister ²
JHR
30/5.

30 May 1986

Dear John

PES 1986

You asked us to look at our programmes very carefully in the light of the Prime Minister's wish that we should give our closest attention to avoiding requests for additional bids. I have made this one of my first priorities and I have been helped in producing a prompt reply by the detailed appraisal which Nicholas Ridley had already made and with which I generally agree.

The Department has made good progress both in reducing expenditure in real terms - a reduction of 8 per cent between 1982-83 and 1986-87 with a further projected decrease of 4 per cent in the survey years - and in concentrating on productive capital investment rather than subsidies. I am sure that such investment in the roads programme in particular will continue to yield good economic and political returns. It is vitally important to the business sector, reducing transport costs, stimulating development and promoting trade and tourism; and we need to be seen to be meeting the needs of all road users who continue to grow in number and contribute an increasing tax yield to the Exchequer. In order to maintain the momentum of the programme, I have reluctantly concluded that I shall need some additional resources, and that these cannot be found from the other programmes under discussion in this part of the expenditure round.

A very important element now in the national and local road new construction programmes is the need to carry out schemes to meet the Channel Tunnel timetable, and to serve Stansted. I believe that the only way of allaying the concern of people in the areas affected in Kent and Essex is to show we are willing to provide the necessary infrastructure to serve these developments. But without an additional bid this would mean displacing other schemes.

The Channel Tunnel and Stansted related schemes come at a time when both national and local programmes are in any event under severe restraint. To illustrate this I have set out, in Annex 1

this letter, details of the national roads schemes which we shall be able to start in the survey years with our existing provision, and those which we would also be ready to start but would have to postpone because of lack of provision. You will see that the M20/A20 schemes to serve the Channel Tunnel come at a time in 1988-89 and 1989-90 when an unusual number of high priority, high spending schemes are due to start. Indeed, the M40 extension and A20/M20 schemes alone will take up 85 per cent of the amount available for new starts in 1988-89. Such a narrowly focussed programme would be criticised by industry and commerce and by local communities who would see their hopes of badly needed by-passes receding into the distant future. It might also put businesses at risk in the construction industry because of the limited number of tendering opportunities available.

In these circumstances, I am making a bid for new construction on national roads of £10 million in 1987-88, £20 million in 1988-89 and £30 million in 1989-90. This would enable me to add to the programme those schemes in column B of Annex 1. I should emphasise that it represents a drastic scaling down of the size of bid which would enable us to start all the schemes which are ready and would yield good economic and environmental benefits. This would require £40 million in 1987-88 and £100 million in each of the two later years. Nor does the bid include any provision for a third crossing at Dartford. If this has to be classified as a public sector project, I shall need an extra £25 million in 1988-89 and £35 million in 1989-90.

On the local authority part of the network the position is if anything even more critical. The 1987-88 baseline will leave room for only £2 million more for new starts than in 1986-87, which was £27 million lower than the year before. In 1986-87 we had to refuse 50 major schemes fully meeting our criteria (some of which are mentioned in Annex 2). At our present rate of progress nearly half the 550 towns and villages lacking bypasses will still be waiting for them by the year 2000.

For new construction on local roads, therefore, I regard additional provision of £12 million in 1987-88, £35 million in 1988-89 and £50 million in 1989-90 as a minimum defensible requirement. After accommodating the roads necessary to serve the Channel Tunnel and Stansted and encouraging greater provision of safety fences, as urged upon us by the Transport Committee, this would enable me to attempt next year some 10 extra schemes of the kind I have listed in Annex 2. The bid does not include provision for roads in London Docklands, which has been covered in the DOE bid and which I support. I should add that increased survey provision would need to be matched by a realistic amount of Transport Supplementary Grant if it is to be effective. I shall be writing to you about this following discussions between our officials.

The second main problem with both national and local roads concerns the maintenance and strengthening of bridges, of which we have about 10,000 on the national network and on the local network some 40,000 pre 1922 bridges together with nearly as many more recent structures. Nicholas Ridley warned you last year that the Department was beginning to get disturbing evidence of

deterioration, particularly in the older ones, resulting from corrosion and similar problems and from increased traffic, particularly heavy lorries. The full scale of the problem is now becoming clearer. It is one we cannot duck. If bridges become dangerous, they cannot be used and in that event the disruption can be enormously costly. Delay in tackling the problem can only make them more expensive to deal with later.

Our recent estimate is that the cost of remedial work on the older local bridges alone could amount to some £300 million in the next decade. However, we are not yet at the end of our investigations and in present circumstances, I consider that bids of £10, 15 and 20 million for national roads and £5, 10 and 15 million for local roads would be the minimum to ensure that we make an effective start in tackling the problem. The lower figure for local authorities is because I would expect them to treat some of the work as current expenditure.

A different set of problems is raised by the widespread public concern about the rapid decline in the level of the UK merchant fleet, exacerbated by flagging out. As you know, recent debates in both Houses of Parliament have shown that this concern is shared by Members of all Parties, notably amongst our own supporters. There are fears that, if present trends continue, we shall not be able to ensure that there are sufficient vessels and crews available for civil resupply in an emergency. I have, therefore, concluded that a scheme to assist the shipping industry is essential. My officials are urgently examining the options, and I shall be putting proposals to colleagues before the Summer Recess. Meanwhile, I am clear that any effective scheme is likely to cost in the order of at least £30 million a year, and that I am not in a position to find this kind of money within my existing survey provision.

Finally, as regards programme expenditure, I have not included anything in my bid for the potentially heavy liability for the cost of restructuring at the Port of London Authority (PLA) and the Mersey Docks and Harbour Company (MDHC). You may recall that in last year's round, Nicholas Ridley gave up ports provision for which there was no identified requirement on the understanding that if there were unforeseen costs of restructuring agreed by colleagues, you would be prepared to consider sympathetically some supplementary provision from the Reserve.

On manpower and running costs I believe, like my predecessor, that the right way of managing the fee-earning businesses is on a net cost basis of control. I understand that a detailed proposal for managing the driver test organisation will reach us shortly from our officials, for implementation in 1987-88. There is an awkward transitional problem about the fee receipts line because of incorrect assumptions made last year about cost increases and the flow of receipts from extra driver examiners. As a result, fee income was over-estimated. We have revised downwards the projections of receipts and costs for the fee-earning businesses, in line with latest demand forecasts. On a PES, cash-flow basis an adjustment is, I regret to say, unavoidable to balance the leads and lags in the flow of receipts. Thereafter, the aim must be to manage changes in demand, both up and down, within broadly neutral PES effects.

manpower, I firmly believe that we must continue to keep up the pressure on reducing civil service numbers (and costs). The Department's manpower target is planned to reduce by 325 (2%) by 1.4.88. In addition, in Driver and Vehicle Licensing (DVL), our manpower plans provide for the absorption of 2% annual growth in the volume of transactions equivalent to about another 100 staff.

Furthermore, there is the prospect of a reduction of some 250 driver examiners, which will be a useful further contribution to the Government's overall manpower target.

But I must register two qualifications about the target. First, there is a requirement for extra staff at DVL because of changing procedures for the prosecution of VED evasion cases. When the Crown Prosecution Service begins, the police will no longer be willing to prosecute and I understand that the Crown Prosecution Service is not prepared to take this on. This will mean new responsibilities for the Department from 1988-89 which cannot possibly be absorbed. It will entail a build-up to an extra 150 staff by the middle of the PES period, which should of course be matched by savings on police resources.

Second, I should like to defer from 1987-88 to 1988-89 some 50 of the savings which fall on the non-fee-earning parts of the Department where work is buoyant and productive, eg the roads programme and the Channel Fixed Link. Economies are planned which will require 1%-2% manpower savings. But the base for making further cuts is smaller now that the fee-earning parts of the Department are effectively ring-fenced. So, while I am determined that we shall achieve the manpower target, I hope you can agree to a slightly more gradual downward path.

On running costs, I can find no way of avoiding a small, additional bid. I share your views that running costs have to be kept in check. But the baseline for the non-fee-earning parts of DTp (Central) allows a per capita increase of under 1% for 1987-88. There is no practical scope for looking to Driver and Vehicle Licensing for offsetting resources. That baseline has to absorb the extra cost of restructuring the clerical grades and provide resources for a major IT cost-saving initiative. These are very proper pressures on managers. However, the combined effect of pressures from the pay settlement and other recent clerical initiatives on DTp(C) leaves me with no realistic option but to make a limited bid for running costs.

Finally, there are unavoidable bids for administrative capital. We plan to absorb the capital costs of the major IT investment in the DVL and fee-earning businesses which will provide a very significant pay-off. But there are other demands of a "spend-to-save" kind (eg electronic telephone exchanges) which we cannot find from savings. Also, you will not be surprised that I find it necessary to bid, under the new rules for paying for major new accommodation works. At present there is no PES provision for works which are necessary to reduce costs and increase efficiency.

I am afraid that I can offer only limited offsetting savings - £5 million for local ports and £7 million for local car parks - and even these could be difficult and controversial. In addition, I am prepared to absorb within my overall programme the extra cost

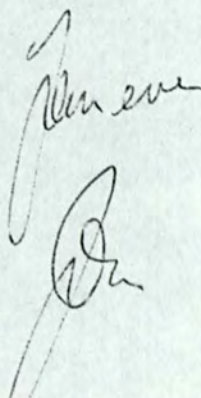
of increased royal travel and the refurbishment of the royal train.

In sum my bid is as follows:

	1987-88	1988-89	1989-90
<u>Additional Bids</u>			
National Roads			
- new construction	10	20	30
- bridges	10	15	20
Local Roads			
- new construction	12	35	50
- bridges	5	10	15
Shipping	30	30	30
Administration			
- running costs	8	12	13½
- capital	3½	2½	0
- shortfall in receipts	6	6	6½
<u>Offsetting savings</u>			
Local ports	5	5	5
Local car parks	7	7	7
<u>Net Bid</u>	72½	118½	153

While I very much regret having to make a bid for any extra resources, I should emphasise once again that I have scaled it down severely to what I believe is realistic in the circumstances and have concentrated it in the main on areas which give us good opportunities to take credit for new initiatives.

I am sending copies of this letter to the Prime Minister, the Lord President, the Secretary of State for the Environment, the Secretary of State for Scotland, and the Secretary of State for Wales, and to Sir Robert Armstrong.



JOHN MOORE

NATIONAL ROADS

	1987/88	1988/89	1989/90
(a) Within baseline (priority schemes)	M40 Warwick section M3 Bar End - Compton M63 Stretford - Eccles St 4 M3 Compton - Bassett A406 Gt Cambridge Road A406 Fallogen Way - Finchley High Road A361 North Devon Link Final Stage A5 Telford - Shrewsbury A42 Measham Ashby A43 Kettering N Bypass A43 Pear Tree Hill - Wendlebury	M20 Maidstone - Ashford A20 Folkestone - Dover A2 Improvements M40 Extension Gaydon to Banbury M42/M5 Catshill - Lydiate Ash	A303 Mere - Wincanton A303 Sparkford BP A46 Leicester Western BP A47 Norwich S BP A47 Gorleston Relief Road A40 Ealing Western Circus
(b) With extra bid of £10m - £20m - £30m	A27 Brighton BP A27 Pevensey BP A30 Blackwater inpt A30 Launceston-Plusha A35 Dorchester A46 Coventry E A69 Brampton A523 Macclesfield Inner Relief Road A66 Bowes - Country Boundary A46 Newark Relief Road A52 Bottesford BP A47 Acle BP A47 Castor and Ailsworth BP A47 Narborough BP A47 Eye BP A140 Dickleburgh BP	A42 Castle Donington A1 Bramham - Wetherby A406 Hanger Lane - Harrow Road A406 Chingford Rd - Hale End Rd A30 Okehampton - Lannceston	Urgent schemes delayed from earlier years, especially A30, A303, A41, A47 and possibly some sections of M1/A1 link.
(NPV return on schemes (a & b))	£1: £1.40	£1: £1.60	Expected to be at least £1: £1.60

NATIONAL ROADS (Continued)

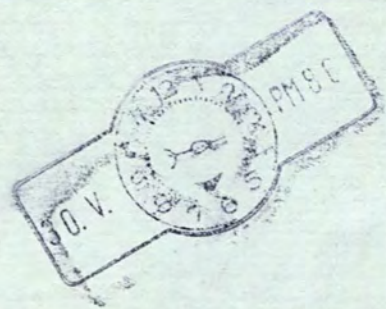
	1987/88	1988/89	1989/90
(c) Cuts/schemes unlikely to start	<p>Cut in regional programme.</p> <p>Reduction in response on safety works/initiatives.</p> <p>Cut back in scheme preparation.</p> <p>NB M1/A1. If ready will have to be delayed or all of (b) starts will have to be delayed.</p>	<p>All remaining programmed new starts (40 schemes of which half are bypasses) include</p> <p>A41 Berkhamsted BP</p> <p>A41 Kings Langley BP</p> <p>A47 Thorney BP</p> <p>A47 Guyhirn Div</p> <p>A47 Walpole & St Johns BP</p> <p>A59 Burscough BP</p> <p>A21 Robertsbridge BP</p> <p>A30 Mitchell BP</p> <p>A30 Plusha - Bolventor</p> <p>A30 Summercourt BP</p> <p>A30 Zelah Impt</p> <p>A303 Ilchester - S Petherton</p> <p>A35 Charmouth</p> <p>A11 Newmarket - Red Lodge</p>	<p>A11 Four Wentways Junction</p> <p>A41 Aston Clinton BP</p> <p>A13 Wennington - Mar Dyke</p> <p>A16 Louth BP</p> <p>A6 Market Harborough</p> <p>A17 Leadenham BP</p> <p>A65 Addingham BP</p> <p>A65 Draughton BP</p> <p>A41 Chester Impt</p> <p>A417 Brockworth BP</p> <p>A23 Warninglid Flyover - Brighton</p> <p>A249 Iwade BP</p> <p>A259 Rye BP</p> <p>A3 Milford BP</p> <p>A21 Lamberhurst</p> <p>A140 Scole BP</p>
(NPV return on schemes (c))		£1: £1.70	Expected to be at least £1: £1.70

Examples of bypasses and relief road starts which could not be accepted for 1986/87

Ledbury	(Hereford & Worcester)
Dorchester Western	(Dorset)
Braintree & Rayne	(Essex)
Newcastle Under Lyme	(Staffordshire)
Foleshill-Hollbrooks	(Coventry)

Examples of bypasses and road starts which could not be accommodated in 1987/88 without the additional bid

Bicester	(Oxfordshire)
Guisborough	(Cleveland)
Baldock	(Hertfordshire)
Maldon	(Essex)
Burton-on-Trent	(Staffordshire)
Maidstone	(Kent)
Stratford	(Warwickshire)
Merton	(London)



FROM:

CONFIDENTIAL

ce Bp

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.



HOUSE OF LORDS.
LONDON SW1A 0PW

30 May 1986

The Chief Secretary to
the Treasury
Parliament Street
LONDON
SW1

NBP

My dear John:

Public Expenditure Survey 1986

I have personally reviewed my requirements for public expenditure in the period up to 1989-90, in accordance with the guidelines which we all agree.

2. The paper attached describes the reasons why I am impelled to seek additional resources of manpower and money to maintain reasonable standards of performance in the court service in England and Wales; to avoid the innocent remaining for long periods on remand in custody and the guilt benefiting from delay. The growing volume of criminal cases coming to trial in the Crown Court means that extra money is also required for criminal legal aid. It is clear from the options set out in the paper, that the savings which would be required in civil legal aid to offset additional bids could only be achieved at great political and social cost.

3. At the moment we are awaiting the outcome of the Efficiency Unit's scrutiny of the determinants of legal aid, and I am due to return to E(A) Committee about the outcome of discussions with the legal professions about remuneration. Once we know the position on both of these, I shall want to take stock and consider what level of further additional bid is necessary. In the meantime my assessment of requirements for legal aid on current assumptions is set out in paragraphs 30 to 32 of my paper. I have made provision in my additional bids only for the extra cost of new policies.

4. Subject to my reservation on legal aid the programme which I consider necessary and the level of bids additional to those in the PES baseline, are set out in Annex 1 to this letter. My assumptions are set out in some detail in my paper and there is more technical supporting information in a number of Appendices which my officials will send to yours. But the main points to which I would like to draw your attention are summarised in this letter.

The court service (including Headquarters and Tribunals)

5. When we agreed gross running cost targets in the 1985 survey I accepted your proposals subject to a number of reservations set out in my letter of 30 September 1985. I was unhappy about the target for 1986-87 which was 5.9% above the running costs provision for 1985-86. I pointed out that if volume growth in business did not slow down then I doubted if I could meet the burden of actual pay increases and other costs beyond my control without a more realistic target for 1987-88 and 1988-90 as a consequence of reducing the base for 1986-87.

6. My fears have materialised. Volume growth seems set to continue at historic rates and the pay settlement for 1985 and 1986 have hit me particularly harshly. In addition a large proportion of running costs relate to growing accommodation needs, particularly for courtrooms and to judicial salaries and fees not met direct from the Consolidated Fund. I know that officials are discussing the possibility of excluding these judicial costs from the definition of running costs..

7. I see no prospect of reducing work in the courts. In the Crown Court this is dictated by committals for trial. In civil business it is dictated by the number of actions initiated by members of the public. Nevertheless the additional requirements set out assume annual increases in productivity of 3% a year for the Crown Court and 2% a year for county courts expressed as disposals per head. After taking account of these, gross running costs would rise by 11% in 1987-88, 6% in 1988-89 and 7% in 1989-90. But I propose to cover fully from fees the increase in gross running costs devoted to civil business. The large increase in 1987-88 is partly due to the need to make up ground being lost in 1986-87.

8. Capital expenditure for the court service is mainly on office machinery and computers. For these I have included additional expenditure of £5.6m in 1988-89 and £6.7m in 1989-90 to carry out plans for information technology. This expenditure is contingent on a full study report which will not be available until mid-1987. Benefits would not accrue until after the PES period, but I see no alternative if we are to ensure that the pit-falls in introducing new technology are successfully avoided.

9. I understand that in the course of this survey there will be a transfer of resources from PSA to client departments, who assume responsibility from 1 April 1987 for the resource costs of specialised major works. These figures are not at present in my baseline programme nor in my revised programme. My officials have still to examine in detail requirements for other PSA expenditure for which responsibility will be assumed from next year, namely the resource and works costs of major projects for office and general accommodation. I have not therefore yet included these in my additional bids. They could be of the order of £3.5m in 1987-88; and about £1m in 1988-89 and 1989-90.

Appropriations-in-aid

10. Most of the receipts under this heading are fees in respect of civil business. Demand is buoyant and fees now cover total costs. If this continues it would be difficult to justify increases in rates during the coming year. Moreover it is impossible to defend the deteriorating service for which the business community as well as individuals depend on redress and for which they are willing to pay. The income of the county courts totalled £78.4m in 1985-86 of which only £70.1m was appropriated in aid.

Other court expenditure

11. Work in the courts calls for a balance of resources other than the manpower related costs mentioned earlier. The three further elements covered in the attached Table are judicial salaries etc which are paid direct from the Consolidated Fund (others count as running costs and are paid from a Vote); expenses of jurors and court reporting which are paid from the Legal Services Vote; and expenditure arising from the court building programme which is borne in a Property Services Agency Vote. This expenditure is largely determined by the volume and complexity of criminal business and I cannot find offsetting savings. I could not contemplate any real reduction in the court building programme for which considerable momentum has built up.

12. Unless committals for trial are reduced (and the recent increase in policy resources makes this unlikely) I see no prospect of avoiding growing and unacceptable backlogs without increases in court resources as well as more legal aid expenditure. In 1985 the average time suspects were remanded in custody was 10 weeks. Unless steps are taken to improve the throughput of cases this period will probably increase to 15 weeks by the end of the decade. In 1985 about 3,000 defendants remanded in custody did not go on to serve a prison sentence because they were either acquitted or given non-custodial sentences. I understand that it costs about £250 a week to keep these people in custody. Thus there would be significant offsetting savings by improving waiting times in the Crown Court.

13. I am asking my officials to let yours have any additional information which they require to supplement this paper as well as passing on the additional Appendices mentioned. I need not burden you with them. I am, of course, ready to discuss my additional bids with you at any time.

Northern Ireland Court Service

14. Since 1980 the Northern Ireland Court Service was contended with an increasing tide of business in the courts there despite almost static manpower. This has been achieved at a heavy cost in terms of efficiency and morale. I believe that a point has now been reached where additional manpower resources are essential, to relieve a hard pressed staff and to permit the allocation of additional resources to the development of new technological solutions to the Service's longer-term problems. The Court Service wishes to bid for additional sums of £0.8m, £1.0m, and £1.1m, largely for manpower, in the survey years 1987-88, 1988-89 and 1989-90.

15. Additional resources are also required in relation to accommodation needs, principally in connection with major new works. Three courthouses require to be replaced on account of age, including the Crumlin Road Courthouse, Belfast where all trials of terrorist-type offences take place before a judge sitting without a jury. The provision of these buildings is as necessary investment to ensure the proper conduct of court business in the future. The overall sums required are £3.9m, £5.5m and £3.1m in the survey years already quoted.

16. Finally, the rising volume of business in Northern Ireland brings with it a requirement for additional funding for legal aid. Here the bids are for £1.7m, £1.8m and £2.6m in the survey years, but the principal component in each bid is a sum of £1.5m in respect of the possible future costs of major trials based on the evidence of informers, where the number of defendants tends to be large and the trials are very lengthy.

17. Officials in the Northern Ireland Court Service are writing to yours, giving details of all these additional requirements which are summarised in Annex 2 to this letter and which I fully support.

Land Registry

18. I must also press the case for additional resources for the Land Registry as shown in Annex 3 to this letter not only to carry forward the programme for compulsory registration after 1986 but also meet the Registry's burden of work which is already heavy and certain to rise with own occupation and increasing availability of mortgage funds from traditional and new sources. But increased revenues follow from increased applications and there should be no net effect on public expenditure. Nevertheless it is necessary to increase the Land Registry's provision for gross running costs.

19. Details of this bid have already been discussed between Land Registry and Treasury officials. Supplementary information, as required by the survey guidelines will also be provided.

20 I am copying this letter and enclosure to the Prime Minister, the Lord President, the Home Secretary, the Secretary

of State for Northern Ireland and the Secretary of State for
Scotland.

Yrs,

A handwritten signature in dark ink, consisting of a large, stylized initial 'L' followed by several loops and a final flourish.

FROM THE RT. HON. LORD HAILSHAM
OF ST. MARYCROFT, CH. FRS. DCL



1986 PUBLIC EXPENDITURE SURVEY

Memorandum by the Lord Chancellor

Introduction

Expenditure allocated to the Lord Chancellor's Department (LCD) is described in Table 3.11 of the January White Paper on Government Expenditure plans (Cmnd 9702). The main components as shown in the PESC Report are:

	£m				
	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<u>Court Services</u> (incl. HQ and Tribunals)					
Running Costs	180.7	190.9	193.9	198.8	203.8
Other	4.7	8.2	5.2	4.9	5.0
Appropriations-in-aid	-127.6	-135.7	-139.6	-143.2	-146.8
Total⁽¹⁾	57.8	63.4	59.4	60.5	62.0
Jurors & Shorthand Writers	26.1	26.9	27.3	27.9	28.6
Court Building	24.0	34.4	41.3	39.0	40.0
Consolidated Fund	22.8	26.3	27.2	28.6	29.3
<u>Legal Aid</u>	325.3	356.3	399.7	442.2	453.3
<u>Costs from Central Funds</u>	62.5	54.5	21.9	21.7	22.2
<u>Legal Aid Admin.</u>	20.5	24.6	26.5	25.9	26.5
TOTAL LCD⁽¹⁾	539.0	586.4	603.3	645.8	662.0

(1) May not sum because of roundings.

It is clear from the detailed examination of needs which I have undertaken in this survey that I need additional resources of the order of £26m in 1987-88, £48m in 1988-89 and £60m in 1989-90 and that I will need to come back to colleagues later about legal aid. A breakdown into the main components for the proposed new programme is set out in Annex 1 to this paper.

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2. The purpose of this paper is to consider the factors which determine the size and shape of the bulk of LCD expenditure which is spent on the court service and legal aid and its administration by the Law Society. All the expenditure is devoted to tasks dictated by influences largely outside my direct control. Other Ministers frequently sponsor new legislation creating new or redefining existing offences or changing procedures e.g. Roskill. The number and gravity of criminal cases coming to the higher criminal courts depend on social factors; the ability of the police (whose numbers have risen since 1979 from an average of 111,000 to 121,000) to detect and apprehend; the future effectiveness of the Crown Prosecution Service (CPS) the number of cases which are referred to the higher courts by magistrates; and a commensurately high demand for legal aid whose unit costs are rising beyond general inflation.

3. Civil business, where concern about delays, cost and complexity led me to establish the Civil Justice Review, is initiated in the county court and the High Court by plaintiffs who pay fees at appropriate stages in the course of any action. These fees fully cover relevant costs and receipts are in excess of the targets agreed with the Treasury. Legal aid for pursuing and defending civil cases has grown from £26.6m in 1979-80 to an expected £132m in 1989-90. As for criminal legal aid this is partly because volume has grown but also because of higher unit costs.

4. The factors outlined above have led to increasing pressures in the courts, though important strides have been made following the financial management initiative. I look in the longer term to information technology, particularly in the county courts, releasing resources (see paragraphs 26 and 27). But it is clear that time is against me. Resources available for 1986-87 are already seen to be woefully inadequate. There is no scope for further improvements in productivity of the scale needed to cope with the rising tide of cases, particularly in the Crown Court.

5. It is an essential aspect of the government's law and order policies that justice should be dispensed quickly and fairly. This objective is in serious jeopardy because of the severe bottle-necks, particularly in London. Unless the numbers of cases coming before the higher courts can be cut back (e.g. by reducing the number of either-way cases), they can only be disposed of by increasing manpower and money for the court service and allocating more expenditure to criminal legal aid.

6. The remainder of this paper provides a detailed explanation of requirements under the following heads:

- Crown Court objectives and forecast of workload (paragraphs 8 to 14).
- county court objectives and forecast of workload (paragraphs 15 to 18).
- new policies and procedures (paragraphs 19 to 21).
- disposal of cases in the Crown Court (paragraphs 22 and 23).
- output of process in the county courts (paragraphs 24 and 25).
- information technology strategy (paragraphs 26 and 27).
- resources needed for the court service (paragraphs 28 and 29).
- legal aid needs (paragraphs 30 to 35).
- summary of proposals (paragraphs 36 and 37).

Crown Court objectives and forecast of workload

8. In the Crown Court, my principal objective is to provide for the speedy and effective administration of justice. This means keeping backlogs of cases and waiting times to the necessary minimum, both to secure the quality of justice (the innocent should not languish in jail longer than absolutely necessary and the guilty should not benefit from delay because evidence is weakened) and to contain the pressures on remand prisons.

9. The Beeching Royal Commission recommended that the waiting time between committal and trial in the Crown Court should be held as close as possible to 4 weeks, particularly when the accused is in custody. As it is, the national average waiting time in 1985 was about 14 weeks; over 10 weeks in custody cases and over 15 weeks in bail cases. 45% of custody defendant and 65% of bail defendants whose cases were dealt with waited more than 8 weeks for their trials to come on. The waiting times in London are conspicuously longer than elsewhere; almost 16 weeks in custody cases in 1985 and almost 26 weeks in bail cases. The variations between circuits are shown in Annex 2. I take the view that in principle an 8-week average waiting time in the Crown Court is the maximum defensible target, taking due account of the balance between administrative requirements in the listing of cases and the need to bring cases on as quickly as possible compatibly with the interests of justice.

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10. The trial workload of the Crown Court has increased by about 65% since 1979. This surge in the caseload and the cumulative effect of resource constraints have served to preclude any appreciable reduction in waiting times in recent years. By the end of 1985, the Crown Court backlog had reached a record level of over 23,000 cases. Some worsening of delays overall is envisaged for 1986-87 because available resources supported by increased effort cannot keep pace with expected growth in cases.

11. Concern about delays, and the consequent pressures on the prison remand population have repeatedly been expressed, for example by the Home Affairs Select Committee in its 1984 Report on the remand system. The Home Secretary was prompted by the political concern to make provision in the Prosecution of Offences Act 1985 for statutory time limits to be set for criminal trials. The field trials now under way serve to focus further attention on the length of waiting times and the need for measures to reduce those waiting times, particularly in London and the South-East.

12. The level of committals for trial to the Crown Court depends on the extent of activity in earlier parts of the criminal justice system. The number of police, the level of recorded crime, the clear-up rate, the percentage of persons arrested who are charged, and the proportion of defendants appearing before magistrates for indictable (including "either-way") offences who are committed for trial all affect the workload of the Crown Court. The Home Office are unable to offer any clear-cut guidance on the level of impact each of the above factors has on Crown Court workload. There has however been an increase in the last of these factors, i.e. in the proportion of defendants aged 17+ dealt with at magistrates' courts who were committed for trial. This has risen from 18% in 1980 to 22% in 1984. Without this increase, the number of committals for trial received in the Crown Court would only have risen by approximately one-third of the amount that they actually did over this period.

13. In addition to those factors listed above which influence Crown Court workload, the introduction of the Crown Prosecution Service and the (likely) modest reclassification of offences under a new Criminal Justice Act will also play their part. At this stage, however, it is not possible to estimate with any precision their potential impact on the volume of Crown Court workload. No allowance has, therefore, been made for these factors in my projections.

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14. Committals for trial to the Crown Court have increased at an average rate of around 9% per annum since 1980. My best forecast is that this rate of growth will continue throughout the forthcoming PES period, resulting in an increase from 83,800 cases committed for trial in 1985-86 to 118,000 in 1989-90. Full results of this projection are shown in Appendix I.

County court objectives and forecast of workload

15. The overall objective for county courts is to enhance the efficient management of the business of the courts to promote their effectiveness as the appropriate means of resolving disputes and enforcing judgments and orders. The number of proceedings issued is governed overwhelmingly by the general level of consumer debt and the extent to which creditors regard the civil process as cost-effective. Restrictions on access to civil justice would be politically unacceptable.

16. The county courts cover the cost of civil business, by fees, and the service currently being provided provokes a significant level of criticism. There are two main areas of criticism. Having paid a substantial fee for issuing proceedings, plaintiffs justifiably complain of delay in various stages of their cases which are under the court's control; e.g. the service of documents, the listing of hearings and the recovery of money and goods through the bailiffs. Reasonable standards of performance, measured against key indicators, are increasingly not being met due to restraints upon manpower and other running costs in the face of a rising workload.

17. The effectiveness of civil proceedings is judged by the degree of success courts have in enforcing their judgments. Due to a reduction in the number of bailiffs, the service provided has inevitably deteriorated, to such extent now that it is increasingly difficult to justify the fees taken from creditors. Those creditors who are deterred from asking court proceedings for this reason may in consequence either fail to recover, or look to less scrupulous means, for pursuing recovery of their debts. On the other hand bulk users of the county court are increasing because of the high level of recovery from issue of summonses.

18. County court business is very different from that undertaken in the Crown court. Its pattern is complex and is considered in more detail in Appendix II. County court "units" are used to project the workload of the courts during the PES period. These units are an aggregation of different areas of work undertaken in the courts, weighted to allow for different levels of staff time that have to be devoted to each of these areas. I consider this a better measure of the workload

of county courts than counting cases regardless of complexity. In the unit projection the trends from 1980 to 1985 (3.4% average growth per annum) are extrapolated forward to give an average annual increase between 1985-86 and 1990-91 of 2.9%. Detailed results are shown in Appendix II.

New policies and procedures

19 The forecasts of receipts in the Crown and county courts only take account of existing policies and procedures. But the workload is also influenced by new policies and changes in procedures at varying stages of consideration and which frequently originate in other departments. I attempt to evaluate the impact of these on the court service and on legal aid as soon as they come to my attention. This is made particularly difficult because of lack of precision about the numbers and types of case involved and a persistent failure on the part of most legislating departments to accept that they should secure resources to cover the knock-on effects for my programme, both in terms of legal aid and court service provision generally.

20 In the last few months my officials have been developing costing models, which will, at the very least provide better insights into the factors which may influence resource requirements; enable the LCD better to intervene with other departments before irrevocable decisions are made; and allow policy evaluation to take place after implementation. Since the 1985 survey a number of initiatives will have resource implications for which provision must be included in the current forecasts. There is no scope for covering these from savings in the existing programme where PES transfers have not been made. I must therefore seek additional resources in the current survey. Details, including agreements about PES transfers from other departments or the Treasury's Reserve, are in Annex 3.

21. The Civil Justice Review, to be completed in December 1987, embraces major factual studies by outside consultants of all the main business of the civil courts - personal injuries, small claims, debt, housing and commercial cases. The purpose of the review is, in particular, to reduce delay, cost and complexity. This will involve reforms in jurisdiction, procedure and court administration. These reforms are unlikely to reduce the net input of staff and expenditure into the civil justice system. They will provide defined opportunities to improve efficiency. They will also lead to a significant sharpening of objectives, to be accompanied by improvements in effectiveness.

Disposal of Cases in the Crown Court

22. In the last few years cases have been increasing at an average rate of about 9%. This has meant prolonged waiting times. The scope for increasing output in the light of sustained high growth and reducing resource inputs (particularly manpower) is now more limited than ever before. We cannot provide more sitting days in the courts without more Crown Court expenditure. Court staffing (clerks and ushers) are at a bare minimum and cannot absorb increased work. Over half the staff time is spent on pre-trial paper work and post-trial taxation of bills. There are backlogs in taxations.

23. I have carefully examined the relationship between various inputs (court buildings, judge power, manpower etc) and the effects on waiting times. There is necessarily a balance to be struck in using available and additional resources in the most cost-effective way. Recruitment of circuit judges paid direct from the Consolidated Fund poses problems. The balance of need has to be made up of additional recruitment and sittings of part-time judiciary paid from Voted moneys. To be fully effective as early as possible training is essential and an enhanced Judicial Studies Board programme is necessary over the PES period. A detailed description of my officials' analyses is contained in Appendix III. I have concluded that if growth of cases follows historical trends the waiting time without new resources could reach up to 38 weeks in England and Wales by 1990 compared with my objective of 8 weeks and a national average of 14 weeks in 1985 (as described in paragraph 9 above). The effect on the law and order programme would be politically damaging with innocent defendants remaining in custody and increasing numbers being wrongly acquitted.

Output of Process in the County Courts

24. Since 1981, the number of proceedings commenced in county courts has increased by 16%. The main productivity increases responsible for enabling that increase to be handled by an almost constant level of staff - the establishment of bulk issue sections in county courts - is referred to in Appendix II, but a recent reduced rate of increase in the number of debt proceedings issued and increasing backlogs indicates that the short term scope for further productivity improvements in this area will be very limited.

25. The administration of the debt recovery process (including the production of court documentation, accounting for money and fees and the enforcement of warrants) is particularly manpower-intensive. It currently consumes almost 3,000

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of the 5,500 staff employed in county courts. These procedures are based on manual record keeping and accounting systems. Though some productivity gains have resulted from the deployment of a number of micro computers, which deployment will continue to be extended over the next two years, major productivity gains can only result from fundamental changes to the procedures and the systems on which they rely.

Information Technology Strategy

26. After careful consideration of a report produced by independent consultants, I have concluded that the only way of securing significant increases in county court productivity lies in the development of an Information Technology (IT) strategy which will lead to the establishment of a centralised "Claims Registry" to handle "debt recovery" processing. A summary of the proposed IT Strategy is at Appendix IV. This includes tentative details of the projected costs, savings, and timescales associated with the Claims Registry.

27. I am, of course, well aware of the potential difficulties involved in the implementation of such a fundamental change in procedures and the risks involved in a computer project of this nature. But I see no alternative if the necessary productivity gains are to be made. Specific approvals will be sought on completion of the full Study Report, scheduled for mid-1987. No additional expenditure is expected to fall in 1987-88. But it is likely that £12m more than I had allocated to IT in the following years will be needed to implement the strategy and I have tentatively included this in my bids. In addition there may be a requirement for additional manpower during the peak phasing-in period.

Resources needed for court services

28. Manpower savings agreed in the past have assumed privatisation and contracting out which have largely been achieved. Further cost-effective privatisation is hampered by shortage of cash in the short-term e.g. to meet redundancy payments. Computerisation of the staff-intensive manual procedures was the other major measure necessary to improve output and effectiveness as described above. It is essential for this initiative to succeed and for the lessons learned from earlier abortive projects to be applied. The preparation necessary cannot bring improvements during the period covered by the 1986 survey. In the meantime additional judicial resources manpower and allied expenditure is necessary to avoid a breakdown. I do not consider it reasonable to seek offsetting savings from the legal aid programme to finance court services, because of the similar pressures arising on criminal legal aid (see paragraph 30 et seq).

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29. The assumptions used in calculating requirements, including targets for increases in output are set out Appendix V. The resulting running cost needs are:

	£m			
	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	(Estimate)			
<u>Gross Running Costs</u>				
Salaries	95.0	100.9	105.2	109.2
Judicial Fees	18.0	20.4	21.0	21.6
Admin. Expenditure	26.1	(30.0)	31.7	33.5
IT current		(3.8)	3.8	4.5
PRS	50.1	54.4	58.0	64.0
Other ⁽¹⁾	1.8	2.8	4.8	6.7
	<hr/>			
	190.9	212.3	224.4	239.5
Baseline	(190.9)	(193.9)	(198.8)	(203.8)

(1) VAT Tribunal and cost of new policies (Annex 3).

These figures give year-on-year increases in running costs of:

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
	%	%	%
	11.2	5.7	6.7

The reasons for such increases despite output per head rising are the high growth of criminal business; higher than average burden from TSRB salary awards; a growing estate of court buildings; and the gross costs of dealing with civil business which is financed from fees. In addition there are additional requirements, as shown in Annex 1 for the cost of full-time judiciary borne on the Consolidated Fund and for jury and court reporting costs borne on the Legal Services Vote.

Legal aid needs

30. 98% of cases dealt with in the criminal higher courts are legally-aided. It follows that increasing crime and disposals means an increased number of criminal legal aid bills. Moreover unit costs are rising at higher rates than inflation. I have agreed with you (Chief Secretary) in the context of 1986-87 Estimates that officials should investigate this. My officials are separately discussing with circuits how costs can be restrained. But the scope for reductions in our best

forecasts for this "demand-determined" expenditure is small. Even severe restrictions on eligibility for criminal legal aid, for example confining to those on supplementary benefit or FIS (which would probably need primary legislation and would cause political uproar) would only save £20m to £35m. I have therefore asked my officials to look at the legal aid programme as a whole in drawing up a list of options for securing offsetting savings additional to the estimating reductions identified for the Legal Aid Fund.

31. The amounts we would need to find to stay within the January White Paper figures for the legal services programme (excluding new measures; the outcome of discussions on remuneration and assuming that we are successful in bringing costs down for criminal legal aid) would be:

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Criminal legal aid	+24.6	+29.3	+38.7
Legal Aid Fund	- 2.1	-11.7	+ 4.7
Central Funds	-	-	+ 2.0
Balance to find	+22.5	+17.6	+45.4

32. The forecast increase for criminal legal aid in the higher courts assumes volume growth consistent with disposals in the Crown Court described elsewhere in this paper and that annual increases in costs will gradually reduce from the current level of 11% a year to 6% in 1987-88, 5% in 1988-89 and 4% in 1989-90. If, despite these efforts costs continue to rise at current rates my additional requirements for criminal legal aid would be:

	£m		
	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Criminal legal aid	29.8	38.8	53.1
Balance to find	25.8	27.1	59.8

These figures do not include the cost of a further payments on account scheme, because colleagues have not yet agreed to a permanent scheme: but I expect to be coming back to colleagues on this later in the Summer.

33. The list of options in Annex 4 shows that changes in the scope, eligibility and cost of legal aid cannot be effected without serious political difficulty. All would require secondary legislation: and most of those options which would secure savings of the order required would need primary legislation. It would be particularly difficult to explain why cuts were being made in the civil legal aid and advice and assistance programmes, when these are generally within the existing budget, solely in order to absorb the increased cost of criminal legal aid.

34. Of all the options identified the only ones it would be possible to achieve within the PES timescales are those involving restrictions on eligibility and scope. It would be difficult to avoid restrictions on the scope of the scheme which would not be arbitrary. Restrictions on the scope of this scheme would cause us to fall foul of the European Convention on Human Rights. To save the sums of money necessary, legal aid eligibility would have to be restricted to people at, or very near, supplementary benefit levels. The proportion of the population eligible for legal aid would be reduced from around 70% to perhaps 30% or less. The Efficiency Unit study may point to other possibilities, though these are likely to be longer term; and the remuneration discussions with the Bar and the Law Society may have an impact on the amounts required to be saved. One way of making substantial savings without prejudicing the government's overall objectives would be to look to other lay advice agencies to provide at least part of the advice currently provided under the Green Form Scheme. This looks a promising option, but it would require primary legislation.

35. The Law Society received a substantial increase in grant for administering legal aid in last year's survey (of the order of 27% excluding the 24-hour duty solicitor scheme). I consider it reasonable that they should be restricted to current levels of expenditure plus allowance for computer purchase and these are the figures included in the bids. The Law Society have, however made bids of flm to f7m above these levels on grounds that the service given would otherwise deteriorate to the point of collapse. My officials have been discussing with the Law Society a comprehensive system of monitoring and control of the legal aid administration cash limit. In general the aim is to enforce a regime of running cost control consistent with that applied in the civil service.

Summary

36. I conclude that:

(a) it is not politically acceptable to allow the result of current pressures in the courts. My longer-term aim is to secure a transfer of manpower from the county courts to the Crown Court through computerisation. But there is an interim peak to be covered, given the current growth rates, for which I must make an additional bid in this survey.

(b) growth in crime produces increases in criminal legal aid. The only offsetting savings would have to come from legal aid and could only be achieved at great political and social costs. But until the outcome of the efficiency scrutiny and discussions on remuneration are known I cannot provide firm figures for additional bids nor a preference for particular options amongst those listed in Annex 4.

37. The scope for reducing the scale of additional bids for the court services and criminal legal aid is very limited, depending so significantly on events outside my control. In any event it will be necessary to:

(i) consider further the reclassification of offences with a view to reducing the numbers coming to the higher criminal courts and thus cut down the unit cost of disposing of criminal cases.

(ii) continue efforts to secure the appointment of the required number of circuit judges to improve disposals and to cover the balance of needs from judiciary paid from the Administration of Justice Vote.

(iii) take action to keep down running costs in the courts by careful control of expenditure and improvements in throughput and output per head.

(iv) watch closely the implications of new policies for expenditure in the courts and on legal aid.

(v) follow-up the work in hand aimed at controlling legal aid costs and securing value for money.

PROPOSED NEW PROGRAMME 1987-88 TO 1989-90

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<u>Court Services (incl. HQ and Tribunals)</u>			
Running Costs	212.3	224.4	239.5
Other	6.3	11.2	12.7
Appropriations-in-Aid	-146.2	-150.5	-154.5
TOTAL	72.4	85.1	97.7
Jurors & Shorthand Writers	32.3	34.3	36.5
Court Building	41.3	39.0	40.0
Consolidated Fund	32.2	33.9	35.8
<u>Legal Aid</u>	403.9	450.3	460.8
<u>Costs from Central Funds</u>	21.9	21.7	24.2
<u>Legal Aid Admin</u>	25.5	29.0	27.3
TOTAL LCD	629.5	693.3	722.3

Additional Bids 1987-88 to 1989-90

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
<u>Court Services</u>			
Running Costs	18.4	25.6	35.7
Other	1.1	6.3	7.7
Appropriations-in-aid	- 6.5	- 7.3	- 7.7
TOTAL	13.0	24.7	35.7
Jurors & Shorthand Writers	5.0	6.4	7.9
Court Building	5.0	5.3	6.5
Consolidated Fund	5.0	5.3	6.5
<u>Legal Aid</u>	4.2	8.1	7.5
<u>Costs from Central Funds</u>			2.0
<u>Legal Aid Admin</u>	- 1.0	3.1	.8
TOTAL LCD	25.2	47.5	60.4

Manpower

Additional bids included above
incl. the conversion of 121
casual posts to counted staff

<u>1.4.86</u>	<u>1.4.87</u>	<u>1.4.88</u>	<u>1.4.89</u>	<u>1.4.90</u>
	586	911	1200	1318

WAITING TIMES OF DEFENDANTS DEALT WITH DURING 1985

		(WEEKS)	
	All Defendants	Defendants Committed in Custody	Defendants Committed on Bail
Midland and Oxford	9.1	8.1	9.4
North Eastern	12.6	9.1	13.6
Northern	10.8	8.7	11.4
South East Provinces	16.2	11.5	17.5
South East London	23.5	15.7	25.7
Wales and Chester	9.2	6.6	9.7
Western	10.6	7.7	11.6
E&W less London	11.8	8.9	12.7
E&W Total	14.0	10.1	15.2

MEASURES WITH RESOURCE IMPLICATIONS FOR LCD FOR WHICH PROVISION HAS NOT YET BEEN MADE

MEASURE	COST £M						COMMENTS
	1987-88		1988-89		1989-90		
	Legal Aid	Court Services	Legal Aid	Court Services	Legal Aid	Court Services	
1. Pre-trial restraint and confiscation orders in drug trafficking cases	-	0.2	2.0	0.2	2.0	0.2	The Court Services costs represents 1 Master/Judge. The Chief Secretary has recognised in correspondence that the Lord Chancellor will be making a claim against the Reserve and that such a claim will be greatly outweighed by the predicted gain to the Consolidated Fund from monies confiscated.
2. The Criminal Justice Bill - Roskill - Prison Disciplinary Tribunals - extending the confiscation order provisions - reclassification of offences - other provisions	-	-	2.4	0.8	2.6	0.9	The Chief Secretary is prepared to consider justified bids for modest additions.)))))) These proposals are not yet) sufficiently advanced to be) included in this year's PES) Bid.))
3. Changes in the operation of the statutory charge	1.8	-	1.3	-	0.5	-	The Lord Chancellor has already announced his acceptance of this in principle.
4. Green Form for the housebound	1.0	-	1.0	-	1.0	-	"
5. Fee Policy Working Group proposals	1.4	-	1.4	-	1.4	-	Although the proposals offset expenditure on Court Services by £11m, some of the fees, particularly matrimonial ones, will be met by the legal aid fund.
6. VAT Tribunals takeover and implementation of Keith		2.6		3.7		5.6	Bid on Reserve accepted, but a formal additional bid necessary.
TOTAL (All figures rounded to nearest £100,000)	4.2	2.8	8.1	4.7	7.5	6.7	

Immigration Appeal Tribunals: if we take these over, a PES transfer will be forthcoming.

Longer term proposals

The Family Law Reform Bill: illegitimacy. The Lord Chancellor wishes to proceed with this when he is able to meet the cost from within his own resources.

The following have not all been costed but could have significant resource implications to be taken account of in PES exercises in future years:

- Legal aid for defamation (hinging on a European Court case)
- Legal aid for tribunals
- The Booth Report
- Criminal legal aid remuneration
- The Family Court
- Civil Justice Review

LEGAL AID OPTION CUTS

1. Raise the contribution fraction for civil legal aid from $\frac{1}{4}$ to $\frac{1}{2}$ of disposable income

Estimated saving:

1987/88	1988/89	1989/90
£9m	£9m	£9m

Implications: This would require Regulations subject to affirmative resolution. The previous Labour Government reduced the contribution fraction from 1/3 to 1/4 in 1979 because there was evidence that people were refusing legal aid because the contributions level was set too high. The savings assume present levels of eligibility and scope. They would of course be overtaken if the more radical options at 7, 8, 9 and 11 below were adopted.

2. Double the rate of Contribution collected in criminal legal aid

Estimated savings:

1987/88	1988/89	1989/90
£2m	£2m	£2m

Implications: This would follow logically from the first option (since the rate of criminal legal aid contributions is roughly the same as for civil legal aid, expressed weekly) and again could be done by Regulation. Doubling the rate of contribution would not double income because the difficulties in enforcement and collection, already apparent in criminal legal aid, would increase. Savings would be overtaken if the more radical option at 10 below were adopted.

3. Impose a £25 fee on all applications for civil legal aid with exemption for people on supplementary benefit and FIS

Estimated savings:

1987/88	1988/89	1989/90
£6m	£6.3m	£6.5m

4. Impose a £10 fee on all applications for Green Form (excluding people on supplementary benefit and FIS)

Estimated savings:

1987/88	1988/90	1989/90
£4.7m	£5m	£5.3m

/ ..

Impose a £25 fee on all applications for criminal legal aid (excluding people on supplementary benefit and FIS) refundable if applicant subsequently acquitted

Estimated savings:

1987/88	1988/89	1989/90
£2.5m	£2.8m	£3m

Implications of 3, 4 and 5: These three options could be taken together (indeed it may seem illogical to impose one without others). All envisage the application fee being an extra payment on top of the contribution which the applicant is assessed as being able to pay. In all cases primary legislation would be required. There may be problems with collection (particularly where criminal legal aid is concerned) which could significantly reduce the savings. These options would of course be overtaken if options 7 to 11 were adopted.

6. Extend the contribution period for civil legal aid from one year to end of proceedings

Estimated savings;

1987/88	1988/89	1989/90
£5m	£5m	£5m

Implications: This would almost certainly require primary legislation.

It would also add to the administrative burden of both the Law Society and the DHSS who could expect to be asked to carry out a greater number of redeterminations. This option would be overtaken if options 7, 8 or 11 were adopted.

7. Confine legal aid eligibility to people on supplementary benefit or family income supplement

Estimated savings:

1987/88	1988/89	1989/90
(£13.4m)	(£4.4m)	£24.9m

8. Confine legal aid eligibility to people below the lower income limit i.e. supplementary benefit plus 16%

Estimated savings:

1987/88	1988/89	1989/90
(£11.7m)	(£3.6m)	£3.6m

Implications of 7 and 8: Those two options would involve a significant reduction in the proportion of the population eligible for legal aid, perhaps to something like 30-40% from the present 70% figure. Option 8 would be the less drastic measure, though the political uproar would be as great. It might be possible to do either by Affirmative Resolution, though the Act is worded so as to require both an upper and lower limit and any attempt to manipulate this might be open to challenge. Savings only begin to accrue in the third year: the first and

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Second years would produce increases in net expenditure because the immediate loss of contribution income would be offset by bills which continued to be paid from certificates already issued.

9. Confine Green Form to those on Supplementary Benefit or FIS

Estimated savings:

1987/88	1988/89	1989/90
£26m	£29m	£32.3m

Implications: This would require primary legislation. The political implications, both in terms of restructuring access to advice and of restricting the incomes of solicitors would be considerable. It would deny any state assistance with preliminary legal advice to all except those at what is effectively poverty level.

10. Confine criminal legal aid eligibility to those on supplementary benefit or FIS

Estimated savings:

1987/88	1988/89	1989/90
£20m	£30m	£35m

Implications: Primary legislation would certainly be required. We would be accused of denying people access to a proper defence, and this option, even more than 6 and 7 might be open to challenge on Human Rights grounds.

11. Confine the scope of the civil legal aid scheme to matrimonial, domestic violence and personal injury cases

Estimated savings:

1987/88	1988/89	1989/90
(£4.5m)	£0.4m	£17.2m

Implication: This could be done by affirmative resolution but it would be highly arbitrary. It may well breach the Human Rights Convention. The main areas excluded would be contract, adoption and guardianship, and negligence claims. Savings would only begin to accrue in the second year because payments would continue to be made in respect of those bills still to come in from certificates already issued.

UNIVERSITY OF CALIFORNIA





01-405 7641 Extn

cc BG
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

NBN.

The Rt. Hon. John MacGregor, MP,
Chief Secretary,
H.M. Treasury,
Parliament Street,
LONDON, SW1P 3AG.

29 May 1986

Dear John,

PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

I set out below additional bids and an off-setting saving for the Treasury Solicitor's Department. His Department's Votes also provide for my own Department.

(1) Wytch Farm: Monitoring Expenses

Provision is required for the legal costs of monitoring an agreement between the British Gas Corporation and HM Treasury and the Dorset Bidding Group relating to the Wytch Farm Oil Field. Under the agreement the Treasury expect to receive in the order of £130 million in the first instance and a net production interest in oil saved and won by members of the Bidding Group. The agreement has been assigned by the Treasury to the Treasury Solicitor without consideration. The net production interest is to be monitored for a period of about three years. This work is very specialised and private firms with the necessary expertise are to be invited to submit tenders. Estimates of the costs indicate annual expenditure of about £25,000.

The provision sought for the non-cash limited Vote is therefore 1987-88 £25,000, 1988-89 £26,000 and 1989-90 £26,000.

/Cont'd.....2



(2) Accommodation: Queen Anne's Chambers

The Treasury Solicitor has been faced with a very large and unforeseeable increase in the accommodation charge for Queen Anne's Chambers. When PRS was introduced the PSA placed the building in the "Central London C" category, but recently (and on policy grounds) it was uprated to "Central London B". This produced a sudden increase in the cost of £876,000. From the current year however the PSA has changed its charging from an average cost for the category to the actual cost of the building and this has produced a substantial saving. A re-examination of the occupation has enabled a small block of rooms to be given up reducing the cost further. The net effect of these reductions has been to reduce the additional provision sought to, 1987-88 £549,000, 1988-89 £563,000 and 1989-90 £577,000.

(3) Rayner Scrutiny Action Plan: Support Groups

The scrutineer's report recommended, inter alia, the setting up of support groups in the Treasury Solicitor's litigation divisions to improve their efficiency by releasing lawyers and members of higher grades in the administration group from the more routine work. Output from the divisions would therefore be expected to rise together with a reduction in the turnround time in dealing with correspondence. A working party considering these support groups recommended a staff of twelve typists (probably agency typists) and six clerical assistants for them. Only five typing posts would be available from the existing complement and therefore provision is sought for an additional thirteen staff. Including the necessary additional office machinery the estimated additional cost would be, 1987-88 £187,000, 1988-89 £177,000 and 1989-90 £182,000.

(4) Pay

As a result of having to absorb over several years the cost of pay increases in excess of the built-in assumptions, the provision to meet



the pay of both the Treasury Solicitor's and my own departments is very considerably below that required. A particularly heavy burden was imposed last October by the removal of the upper limit for the Earnings Related National Insurance Contributions. Whilst every effort is made to reduce costs, the pay and accommodation costs form a large proportion of the total running costs of small departments so that the scope for savings is very limited. By way of illustration the actual expenditure for 1985-86 shows the following break-down:-

	Treasury Solicitor's Department	Law Officers' Department
	%	%
Pay	65.4	58.0
Accommodation	21.9	14.7
Agency Typists	5.2	2.1
Ministerial Vehicles	-	10.1
Other running cost expenditure	7.5	15.1
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

Further pressure will build up from the current pay round and the restructuring of the legal class but, without taking these into account, the estimated additional requirement is for 1987-88 £478,000, 1988-89 £490,000 and 1989-90 £502,000.

(5) Crown's Nominee Costs

A further examination of the costs charged for administering estates which are bona vacantia reveals that the offsetting receipts can be increased. Staff costs are a large element in these costs. The estimated increase in receipts is 1987-88 £216,000, 1988-89 £221,000 and 1989-90 £227,000.

A table summarising the proposals is attached.



- 4 -

I have considered these proposals and can see no further scope for significant savings without impairing the ability of these departments to function efficiently and effectively.

I should finally add that I have recently succeeded in negotiating a change to the procedure for directing the disposal of charitable bequests which would otherwise fail for uncertainty. Hitherto such directions have been made by Her Majesty on the advice of the Home Secretary based on my opinion. Under the new system the Home Office and the Palace will be cut out entirely and I shall myself make the direction under a warrant granted to me by Her Majesty. This should serve to speed up the procedure and will cut out the administrative costs of carrying out this function in the Home Office and the Palace.

Yours GC.
Michael.

Copies of this letter go to the Prime Minister and the Lord President.



SUMMARY OF ADDITIONAL BIDS FOR THE TREASURY SOLICITOR'S DEPT.

	1987-88 £	1988-89 £	1989-90 £
<u>Programme Expenditure</u>			
(1) Wytch Farm: Monitoring Expenses	25,000	26,000	26,000
<u>Running Costs</u>			
(2) Accommodation: Queen Anne's Chambers	549,000	563,000	577,000
(3) Rayner Scrutiny Action Plan: Support Group	187,000	177,000	182,000
(4) Pay	478,000	490,000	502,000
<u>Offsetting Savings</u>			
(5) Crown's Nominee Costs	-216,000	-221,000	-227,000





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cc BS
ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

29 May 1986

The Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London
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NBP 7.

Dear John

PUBLIC EXPENDITURE SURVEY 1986: CROWN PROSECUTION SERVICE EXPENDITURE

I write in accordance with PES(WM)(86)7 to bid for an increase in the public expenditure survey baseline of the Crown Prosecution Service for each of the survey years.

Details of the bid are given at Annex A. It has two main elements:-

- (a) bringing the 1985 public expenditure survey into line with the 1986/87 Estimate provision;
- (b) new work not in the current baseline.

I will deal with each in turn.

As the Crown Prosecution Service had not begun at the time of the 1985 PES the figures provided then were most uncertain. The 1986/87 Estimate is based on the more up-to-date information available from the implementation process and resulted in increases of £15.833 million for Class XX Vote 26 and £2.891 million for Class XX Vote 27 (these two Votes correspond precisely with PES Programmes 090802 and 090102 respectively). The PES baseline has



in consequence been revised and provision has also been made for an underlying volume assumption of an increase in casework of 5% per year. Inflation has been assumed to be 5%, 4% and 4% respectively for each of the survey years except in that element of Programme 090102 which concerns Counsel Fees. The Bar has made a claim for an increase of up to 40% and has pressed its case strongly enough to force, and win, a judicial review of the Lord Chancellor's Department's handling of the negotiations. The bid therefore includes an increase of 20% at 1986/87 prices in respect of Counsel Fees.

These more accurate Estimates produce a revised baseline which makes up the whole of the bid for Programme 090102. There is one item of new work which is fees for receivership in the case of confiscation of the proceeds of drug traffickers - a Home Office initiative. They also form a substantial part of the bid for Programme 090802 but in this case there is also a need for additional resources to fund other new work given to the Crown Prosecution Service since the 1985 survey. The principal items in a regrettably long list are:-

- (a) Advance disclosure - this is a consequence of the Magistrates' Courts (Advance Information) Rules 1985 (SI 1985 No. 601) and no Estimate of the resources necessary could be made at the time of the 1985 Survey. The cost consequences are now seen as likely to be significant.
- (b) Payment of witness expenses - in the absence of any other department willing to take on this work it has fallen to the Crown Prosecution Service.
- (c) Bail applications - a new function as a consequence of the Prosecution of Offences Act 1985, the cost of which could not be estimated at the time of the 1985 Survey.



- (d) Specified proceedings - the proceedings specified as not being within the remit of the Crown Prosecution Service were not defined as widely as was expected at the time of the 1985 Survey.
- (e) Introduction of time limits - a Home Office initiative.
- (f) Tape-recording of evidence - a further Home Office initiative.

No provision has been made for any extra work which may result from the Home Secretary's proposals on extradition. Here, I must emphasise that we are relying on the Home Office assessment that savings from proposed procedural changes will offset any increased costs arising from an increased volume of extradition traffic.

Annex B shows a summary of the contributions of the revised baseline and this new work to the bid for Programme 090802. The associated gross running costs are shown at Annex C. My officials are letting yours have fuller details of these bids.

The substantial increase in this PES round for the Crown Prosecution Service arise from a set of complex reasons. The Service itself however is a simple department. It exists to take over the conduct of cases instituted by the police. This is a single programme of work completely dependent on other departments both for the volume of its work and the environment in which it must pursue its business.



The single Programme means that no offsetting savings can be made in other parts of its work. The simplicity of the Service's task also means that the consequence of insufficient funds is equally simple. The work cannot be cancelled, nor can it be postponed for any period of time which would be financially useful. It therefore has to be done and if we do not have the resources to do it ourselves then we have to pay someone else to do it for us. An outside agent costs considerably more than a full time lawyer in the Civil Service and insufficient funds therefore mean, paradoxically, increased costs. This direct and inverse relationship between the number of staff in the Department and the number employed from the private sector is probably unique to the Service.

I am sending a copy of this letter to the Prime Minister and the Lord President.

Yours etc.

Michael.

ANNEX A

1986 PES BID - CROWN PROSECUTION SERVICE

£000's

<u>P.E.S. PROGRAMME</u>	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
090102 1986	44,145	48,155	52,542
1985 Baseline	<u>42,240</u>	<u>43,284</u>	<u>44,366</u>
BID	<u>1,905</u>	<u>4,871</u>	<u>8,176</u>
090802 1986	123,135	133,723	145,514
1985 Baseline	<u>70,681</u>	<u>72,718</u>	<u>74,536</u>
BID	<u>52,454</u>	<u>61,005</u>	<u>70,978</u>
TOTAL BID	<u>54,359</u>	<u>65,876</u>	<u>79,154</u>

ANNEX B

PES 1986 PROGRAMME 090802

£000's

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
Baseline	109,548	119,127	129,576
New Work	<u>13,587</u>	<u>14,596</u>	<u>15,938</u>
	<u>123,135</u>	<u>133,723</u>	<u>145,514</u>

ANNEX C

GROSS RUNNING COSTS

£000's

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>
1986 PES	118,185	128,812	140,413
1985 PES	67,911	69,949	71,698
BID	<u>50,274</u>	<u>58,863</u>	<u>68,715</u>



The Prime Minister



CF

With Compliments of the

Lord Advocate

Lord Advocate's Chambers
5/7 Regent Road
Edinburgh EH7 5BL

Telephone: 031-557 3800

CCB9.

29 May 1986

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

NBN.

1986 PUBLIC EXPENDITURE SURVEY - CROWN OFFICE AND PROCURATOR FISCAL SERVICE

I am fully aware that the message contained in your minute to the Prime Minister dated 6 February was intended to discourage additional PES bids this year. Nevertheless I would be failing in my duty - and laying myself and my officials open to Treasury criticism - if I did not recognise and attempt to make provision for known additional expenditure. With the object of achieving a realistic PES base-line for future years, my officials have been identifying factors which will have resource implications for my department.

As I have mentioned in previous correspondence, I am deeply concerned that this department must be in a position to meet its expanding commitment. This inevitably comes back to finance, or the lack of it and, more and more, the demands upon our limited resources which emanate from outside agencies over which we have no control. An 8% increase in the number of cases reported by the Police last year, with a 58% rise in serious crime prosecuted in the High Court during the same period, placed an intolerable strain upon my staff and budget. As you know we were allocated a Supplementary earlier this year and that, together with judicious use of available resources, enabled us to weather 1985/86. The Government's anti-crime campaign will undoubtedly result in even more cases being submitted for prosecution; these will include serious cases of fraud and drug trafficking. We must be able to meet the challenge fully and comprehensively.

I think it might be useful to mention some of the major factors which will influence expenditure in the PES years ahead and which will figure largely in my additional bids.

MANPOWER

The point has been reached when our current staff numbers cannot absorb

further workload increases. The department's needs have been re-assessed and I am bidding for an amount to bring my 1 April 1987 complement to 1,028 against the Treasury approved figure of 1,042. This would include a necessary and vital injection of staff into the Crown Office based Fraud Unit which has proved to be so worthwhile since its inception in June 1984. The team now badly needs a leader plus additional legal and support staff to enable those serious cases to be dealt with expeditiously. This work which covers cases reported by other Government departments such as the Inland Revenue and Customs and Excise is presently seriously hampered by lack of resources.

An Information Technology Strategy Report carried out by a CCTA Consultant on behalf of my department has recommended the service-wide expansion of computerised systems to achieve effective control of case administration in Procurator Fiscal Offices. To achieve the target set, two additional Computer Unit staff will be required. These are included in the projected 1 April 1987 complement.

The matter of tape recording police interviews with suspects has still to be finally settled but I anticipate that it will be introduced and will have a resource implication for this department. While the degree of involvement by my department is as yet unclear I must make provision for staff and supporting equipment. The best manpower estimate to date would mean the employment of 11 additional Typists.

PAY

Following discussions with other departments my officials have advised me that exceptionally I should include in my bid a pay factor increase for FY 1987/88 over and above the amount already inbuilt.

ACCOMMODATION

Treasury note PECS(86)8 of 20 May explains changes in the method of funding Major New Works which are due to take effect from 1 April 1987. I am bound to say there is still a deal of confusion surrounding this change in policy, the implementation of which seems to have been carried out with undue haste. In effect, my officials have estimated and bid for multi-million pound projects which are scheduled to commence in the next FY, without an accurate base-line upon which to make realistic assessments.

I know you would wish me to achieve off-setting savings and this will be done wherever possible. Indeed it is anticipated that implementation of Part III of the Transport Act 1982 will considerably increase fixed penalty revenue in the years to come. However, you will appreciate the difficulties in a department like mine whose expenditure is demand

led. Nonetheless, we have sought and will continue to seek the most cost effective ways of conducting our business. One project worthy of mention is the computer aided drafting system currently being installed in Fielden House which it is confidently expected will negate bill printing costs currently incurred by my department.

I trust you will accept the need for additional PES funding including the provision of £2.5m for accommodation/new build which in total will add £4.2m to our present 1986 Survey Baseline. Meanwhile, my officials will be sending a comprehensive list of bids to their opposite numbers in Treasury.

I am copying this letter to the Prime Minister, the Lord President and Nicholas Ridley.

CAMERON OF LOCHBROOM



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

The Rt Hon John MacGregor MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

Prime Minister 2
To note that Mr Walker
is making no bids for extra
resources in the Survey.

DWS

May 1986 29/5.

This letter of course does
not cover the nationalised
industries for which Mr Walker
is responsible.

I have been considering my Department's position with great care in the light of the guidelines you circulated under cover of your minute of 21 March to the Prime Minister.

There are severe pressures on my budget from many directions. The UK Atomic Energy Authority have identified the need for sharply increased expenditure in the coming years to meet the imperative need to deal safely with the radioactive waste materials arising from programmes carried out in the past on my Department's behalf. A particular difficulty is the need to find an alternative disposal route for wastes which it had been intended to dump at sea, now that this option has effectively been closed. The AEA point out with every justification that this difficulty arises from Government decisions, and is not of their making. My Advisory Council on Research and Development (ACORD) has argued strongly to me that valuable R&D should not be abandoned in order to meet these costs. More generally, while the Authority's requests to the Department for programme letter support were made before Chernobyl and did not involve any significant change in nuclear safety R&D, in the aftermath of that accident all the pressures will now be to step up our expenditure in this area.

We need to show that the Government is not neglecting energy efficiency and R&D into non nuclear forms of energy, as members of the Energy Select Committee recently accused it of doing.

The need for R&D into offshore safety remains, though there are beginning to be indications that it may be difficult to continue to secure large contributions to it from the oil industry. And it remains essential for the long term health of the UK offshore supplies industry that my Department join with them in R&D to help give them a technological "edge".

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Nevertheless, after taking all these factors into account, and having carefully reviewed my priorities, I can tell you that I do not intend to seek net additional PES resources for my Department over the Survey period. We shall as usual deal with voted expenditure in support of the coal industry in the IFR context.

You should however be aware of one major uncertainty overhanging our administrative expenditure, relating to the need for my Department to vacate its current HQ building in a few years' time. We have virtually no control over this; the lease expired in 1982. At this stage we do not know when we will have to move out but our landlords (Thames House Estates) are pressing PSA for a latest date of around 1988-89. A number of possible buildings in which we might relocate have been identified, but there is uncertainty about the size of all of them, and about when they would be ready for occupation. At this stage it must be anyone's guess where and when we will end up, and what the cost will be - though PSA estimate the costs of fitting out any new building as up to £5 million or more.

I have seen Sir Robert Armstrong's minute of 1 May to the Prime Minister, in which he explains that with effect from 1 April 1987 major works such as the fitting out of our new building should be met from Departmental votes, subject to some exceptions. One of these exceptions is where the works are for Estate rationalisation. The fact that our departure from THS is forced on us, and that it facilitates a series of further moves in the Civil Estate suggests to me that our move is part of estate rationalisation. This means that the costs mentioned above should be borne by PSA, which is anyway the logic of the situation, since we have little or no freedom of action in the matter, and, left to ourselves, might make different decisions.

If however our move does eventually involve the Department in costs of the order suggested by the PSA, and, despite the considerations mentioned above, we are required to bear them, I will certainly need to seek the necessary additional funds from you, since it will be quite out of the question for us to absorb such costs within our already tightly constrained and relatively small administration vote.

I am sending a copy of this letter to the Prime Minister, and to Nicholas Ridley.

A handwritten signature in black ink, appearing to read "Peter Walker". The signature is stylized and written in a cursive hand.

PETER WALKER

CONFIDENTIAL

Econ Pol: Public Expenditure Pt 34



From ADMIRAL SIR DAVID WILLIAMS GCB DL
VICE-CHAIRMAN



COMMONWEALTH WAR GRAVES COMMISSION

2 MARLOW ROAD

MAIDENHEAD BERKSHIRE SL6 7DX

Telephone: 0628 34221

Our ref: ACC 15/3

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

NBPM

(31/5)

28 May 1986

PUBLIC EXPENDITURE SURVEY COMMITTEE - 1986 SURVEY
DEPARTMENT 013 COMMONWEALTH WAR GRAVES COMMISSION

I am writing in accordance with the guidelines for this year's Public Expenditure Survey to put forward a bid for additional resources made necessary by inescapable changes in economic assumptions. The extent of the bid is:

	1987-88 £000	1988-89 £000	1989-90 £000
Present baseline	11,898	12,164	12,468
Additional bid	567	613	628
Requested baseline	12,465	12,777	13,096

2. The increase for 1987-88 is made up as follows:

	£
Exchange rate deterioration	+ 423,000
Overseas inflation higher than provided	+ 249,000

Deferment of structural maintenance	+ 672,000
	- 105,000

	+ 567,000

Bids for subsequent years are those required to update the 1987-88 requested baseline by the PES standard factor of 2½% for each year.

3. This request for additional resources is made necessary solely by economic factors which are outside the Commission's control but which have substantial effect upon the two thirds of Commission expenditure which is incurred overseas.

4. We have rigorously examined our programme for the period under review, which is entirely one of basic care and maintenance, but we are unable to offer any off-setting savings beyond the deferment of structural maintenance mentioned above. The Commission fully appreciates the need for economy but would draw attention to its record of substantial staff reductions. With the pressures placed on resources by the very age of the cemeteries and memorials for which the Commission is responsible, scope for economies is very limited and all reasonable steps have already been taken. The request now put forward does no more than permit the Commission to continue with a reduced programme of essential maintenance which would barely enable it to keep up the standards to which all its member governments have committed their support.

5. I must add that the effects of exchange rate deterioration are already being felt and if rates remain broadly as at present we shall have to ask for a supplementary grant from member governments for the financial year 1986-87. On present indications, the share of this falling upon the British government will be of the order of £400,000 and it is on the assumption that such an amount will have been provided, if necessary, that the additional bid for the three following years has been compiled.

6. I am copying this letter to the Prime Minister and the Lord President of the Council, as requested in the guidelines; and also to the Defence Secretary as Chairman of the Commission.

(SGD.) D. WILLIAMS

Copied to

The Rt Hon Margaret Thatcher MP
Prime Minister and First Lord of the Treasury
10 Downing Street
London
SW1

copied to
Env. Affairs
Litter Prob.

PRIME MINISTER

Dec 1986

DEPARTMENT OF THE ENVIRONMENT

Mr. Baker is the first Minister to put in his public expenditure bids (letter below) which for DoE "central" and PSA amount to nearly £400 million in 1987/88 alone. (I understand that Mr. Ridley will be reconsidering these bids.)

He has also sent you a minute below proposing a National Environment Works Scheme (NEWS) designed to clean up Britain. This is in reply to your request to him to bring forward proposals.

The Scheme looks worthwhile and interesting. And it certainly sounds worth pursuing (though the Chief Secretary is huffy about it).

The difficulty is that Mr. Baker has rushed ahead without consulting. He has already lined up the private sector people to run it, and he planned (before his departure) an announcement for 9 June. Most of the initial money would come through Lord Young's provision of 5,000 Community Programme places, but the small remaining amount has no clear source. Mr. Baker has not committed himself to finding the money within his existing provision, and where the money will come from in later years is unclear. The Chief Secretary objects, and in effect wants NEWS to be considered in the Survey. DoE are concerned that Richard Branson, who is to be Chairman, will give up if there is a delay.

Agree that the Scheme looks very promising, but invite Mr. Ridley to discuss it further with Lord Young and the Treasury in the light of the Chief Secretary's comments?

MGA

DAVID NORGROVE

23 May 1986

If we delay it - we shall lose it and those who have been enthused will be disillusioned. I have been drawing himself to get on with such scheme
Mike - please look sympathetically at this. pub

fw

PRIME MINISTER

PUBLIC EXPENDITURE

You agreed with the Chancellor that it would be a good idea for you to remind spending Ministers of the need for restraint in proposing increases to their public expenditure programme.

Spending Ministers have been asked to submit letters setting out any bids to the Chief Secretary by the end of May. So this Cabinet is the last one at which you might affect their letters.

A speaking note is below.

N.L.W.

N.L. WICKS
21 May 1986

BM2ANI

PUBLIC EXPENDITURE: SPEAKING NOTE

We shall soon be starting the 1986 public expenditure survey. The Chief Secretary asked colleagues to scrutinise their programmes personally with the aim of avoiding increases in the plans agreed in the autumn and to write to him by the end of this month if they had to propose any increases.

It is all the more important now to manage within the totals already agreed for central government programmes. Local authority spending has been rising very fast - 8 per cent this year according to their budgets. The local election results mean that our supporters will find it even more difficult to stop this, particularly since the pay of local authority employees is rising so fast.

We cannot afford to lose control over public expenditure. This would put at risk not only our achievement in reducing inflation but would endanger our ability to make further progress in reducing interest rates which is essential, both politically and economically.

So I do ask colleagues to avoid a contentious public expenditure survey and to meet any unavoidable increases by reordering priorities in their own programmes wherever they can, and to do their utmost to avoid asking for more money.

I must also ask colleagues to refrain from any public campaigning, briefing, lobbying or whatever in support of their bids and programmes. I would have to take a very serious view of any such action. It would damage the Government's credibility, unsettle our supporters and provide ammunition to our opponents. It must not happen.

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

21 May 1986

Dear David,

PUBLIC EXPENDITURE SURVEY: SPEAKING NOTE

I understand the Prime Minister did not use the speaking note I sent under cover of my letter of 13 May. *File with NLW*

... The Chief Secretary and the Chancellor have suggested a few amendments to the note I sent last week. I attach a revised draft.

The Chief Secretary thought it might also be useful if the Prime Minister could consider cautioning against conducting the public expenditure round through the columns of the Press.

*Yours
 Jill*

JILL RUTTER
 Private Secretary

CONFIDENTIAL

PUBLIC EXPENDITURE: DRAFT SPEAKING NOTE FOR THE PRIME MINISTER

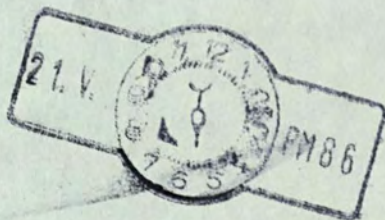
We will shortly be starting on the 1986 Public Expenditure Survey. The Chief Secretary asked colleagues to scrutinise their programmes personally with the aim of avoiding increases to the plans agreed in the autumn and to write to him by the end of this month if they had to propose any increases.

2 Restraint of public expenditure is always painful, and it is clear that the pressures we will face this year will be exceptional. For example, local authority spending has been rising very fast - up 8 per cent this year according to their budgets. Next year we face more hostile authorities, a problem compounded by already severe upward pressures on pay among local authority groups.

3 Nevertheless, we cannot afford to lose control over public expenditure. X This would put at risk not only our achievement in reducing inflation but would endanger our ability to make further progress in reducing interest rates which is essential, both politically and economically. X

4 Despite the severe pressures, we need to avoid a contentious Public Expenditure Survey this year. So I do ask colleagues to do their utmost to meet any unavoidable increases by redetermining priorities in their own programmes and to avoid asking for increased allocations.

POSTAGE WILL BE PAID BY ADDRESSEE



CCP/15



For bids folder

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

20 May 1986

PESC 1986 - DOE (CENTRAL)

The new arrangements for handling the PESC round this year require Ministers in charge of Departments to write to you personally setting out their bids for any extra resources. I welcome this change as a useful opportunity to explore thoroughly the political ground before we commit ourselves collectively to a precise figure for the planning total at our July Cabinet meeting.

I have looked very hard at my own Departmental programmes. I should like to have avoided the need to bid for additional resources, especially on the scale of the bids set out below, which I know will be unwelcome to you. But in each separate case there are compelling political and practical reasons for the additional expenditure proposed. Another settlement on the lines of last year's would leave our opponents holding all the cards in relation to the sensitive issues of housing, urban and rural regeneration, and conservation.

Housing

The public are already conscious that something is deeply wrong with the state of our housing, and our opponents are increasingly seeking to capitalise on this perception. There are undeniable problems of disrepair in the stock, both public and private, and of homelessness. Our Local Authority Stock Condition Inquiry identified a backlog of work in the public sector amounting to £19 billion. That figure is in the public domain and we cannot refute it. Authorities are concentrating resources on renovation. But the backlog is not standing still. With the present level of repairs, we may be just holding the line. This backlog of repair affects nearly 4 million homes and 10 million people. Their unsatisfactory living conditions affect family life, schooling, health. Politically we must be able to point to some degree of progress on this problem. And it is not a question of public expenditure or privatisation. Resources to get these properties into a basic tolerable state are essential if privatisation is to follow. Otherwise, we are not going to see any progress in breaking into these intractable municipal territories.

For the private sector the results of the forthcoming English House Condition Survey should start to become available during

next year. The recently published results of the London Survey show that, despite the increase we achieved in improvement grants in 1982/83, we have made little progress in reducing the incidence of serious disrepair, because of the accelerating decay of our ageing stock.

Homelessness is increasing and is causing rising public concern. Last year 93,000 households were accepted as homeless, and 15,500 had to be placed in expensive and unsatisfactory bed and breakfast accommodation. Here we get the worst of both worlds - we look uncaring in the face of a serious social problem, and at the same time we throw money away in an obviously wasteful fashion on a temporary stopgap which is clearly no solution at all.

These problems are the legacy of past mistakes - bad design, bad planning, and bad management. We urgently need to take a new direction to stop local authorities creating new problems of the same sort, and to escape from the difficulties we are now in.

It is clear what we have to do. We have to concentrate on getting the private sector back into investing in housing, and on giving people more choice, and more say in the management of their own homes and their immediate environment. I have two main tools: first, my Department's recently created Urban Housing Renewal Unit (UHRU). This unit works with outside consultants on devising schemes for revitalising run-down local authority housing estates, on bringing in better and more effective management, and on identifying and pursuing opportunities for privatisation. It has made a good start with the £50m of resources it has available for 1986/87, its first full year of operation. It needs more if it is not to flounder and if we are not to lose the ground we have gained. We can also do more in this context to promote our crime prevention policies.

The other tool I am seeking to use to bring in the private sector is the Housing Corporation. My officials have already been discussing with yours pilot schemes which could bring private finance into providing accommodation for homeless people, elderly people, and young job-movers. Only 30% of the cost of these schemes would fall to the public purse, where at the moment, the public sector would expect to pick up 100% of the bill. A small investment in extra PESC resources now will pay handsome dividends in future.

The problems, however, are so vast that we cannot expect these new initiatives to solve them all immediately. Meanwhile, if we allow the £19 billion backlog of repair in the public sector to continue to grow, it will become steadily harder to get the private sector to take it on. We therefore need to maintain the level of resources applied through the local authority main stream capital allocations, as a basis on which to launch our expanding programme of privatisation. We are, in any event, constrained by my predecessor's assurance to Parliament that authorities would be given allocations equal to at least 80% of 1985/86 levels.

These needs for extra resources to deal with urgent housing-related problems crystallise into bids for 1987/88 as follows:

For UHRU targetted schemes to revitalise/privatise run-down council estates:	(£50m of which would be spent through UP mechanisms)	£200m
--	--	-------

For housing associations to provide accommodation for priority groups including for the homeless, young job-movers and the elderly; to develop pilot schemes to bring in private finance; and to further home ownership:		£100m
--	--	-------

To provide for an increase in real terms in local authority housing provision, mainly for renovation:		£650m
---	--	-------

Finally under Housing, the latest forecasts of local authorities' expected entitlements to housing subsidy show that we shall need further provision on the PES baseline in 1987/88 of £21m, and in 1988/89 of £39m.

Local Environmental Services

On Programme 8, we must honour the undertaking we gave that authorities would get at least 80% of their 1985/86 capital allocations. Without this, we might face serious risk of legal challenge. A big bid can anyway be justified on grounds of need. The resources would go to meet the mounting pressures which local authorities, not least our own supporters, are faced with for investment in important services such as waste disposal, industrial development for local job creation, clean air and so on. I am not complacent about recent overspending on LA Capital; but the fact that a large proportion of the overspend is attributable to LES, coupled with virement within the cash limit, shows just how much priority authorities give to this programme. Even with my bid, which is for £125m, gross provision would be below this year's likely outturn in cash terms, representing a continuing real terms squeeze.

Aside from LES, I consider it essential to enter bids on Programme 8 for additional expenditure falling under two broad heads - urban regeneration and countryside. Both of these areas are of major political importance and we need to be in a position in the run up to the General Election where we can be seen to be pursuing positive policies with visible results.

Urban Renewal

The first head relates to the Urban Group. Here I am reviewing the mainstream Urban Programme, reallocating resources within it so as to concentrate on the areas of greatest need, giving priority to capital projects involving physical renewal and environmental improvement rather than social schemes, and redirecting resources to those local authorities who are prepared to work co-operatively with us and with the private sector. For this purpose we need to maintain adequate provision for Urban Development Grant. I therefore cannot make offsetting savings to make room for the essential new initiatives we must undertake to retain political high ground.

I need to bid for £20m to fund the first tranche of applications for Urban Regeneration Grant, for which we are taking powers in the Housing and Planning Bill, and where we will be making grant available direct to private developers rather than via the local authority.

Another area of great importance is crime prevention. I propose we should respond directly and promptly to growing public anxiety about crime in our cities, and I suggest we follow-up the Prime Minister's January seminar on crime prevention with a quick programme of low cost crime prevention measures in high crime areas. This would need a further £20m for the Urban Programme.

We also need to maintain a vigorous programme of derelict land reclamation and I propose a further £20m for that purpose.

Finally, the two Urban Development Corporations in London and Merseyside are now recognised as highly effective agencies for urban renewal, and I seek additional resources of £60m in 1987/88, both to maintain the momentum they have built up and continue to attract private investment, and to replicate this successful initiative in other areas where concentrated effort is needed to get the local economy going again. E(A) Committee recently commissioned me to study the possibility of setting up a new UDC on Teesside, which has Europe's largest concentration of derelict and vacant industrial land. I am investigating as a matter of urgency the potential benefits such an agency could bring to the East of Birmingham, and consultants have virtually completed a study of the needs and possibilities in the Trafford Park area of Manchester. I shall bring specific proposals to colleagues very soon. This bid includes £10.5m for roads in London Docklands, essential in order to open up the potential of the eastern sector and to service the Canary Wharf development. I am discussing this element with Nicholas Ridley.

Rural Economy

The second main head relates to the countryside, in which I include support for the rural economy. We are being accused of neglecting our rural base. The Development Commission has a key role in fostering rural development and in helping rural communities, and Nigel Vinson is convinced that there is scope for significantly increasing economic aspects of the

Commission's activities. He has put to me proposals for increasing the Commission's outlay by £10m a year, but I think it more realistic to move towards that level in stages over the next 3 years and my bid £3m-£6m-£9m over the 3 years of the Survey reflects this. I also propose additional investment of £15m a year to cover the Countryside Commission, habitat protection under the Wildlife and Countryside Act, and for some essential research into pollution and pollution abatement. This research is also aimed at providing the basis for commercial development of pollution control technology, one of the obvious growth markets.

Departmental Administration

I am compelled to bid for £8m for departmental administration in 1987/88, and slightly less for later years. For several years our efficiency drive in the use of manpower and other resources has enabled us to absorb the excess between the cost of pay settlements to DOE and the additional provision permitted us. Although the drive for savings continues unabated we can no longer find sufficient to offset the new demands resulting from collectively agreed policy initiatives, and the rise in salary and other costs, and the investment required if we are to make longer term savings.

OD(HD) earlier this year discussed civil defence and the state of preparedness in the water industry. They marked a programme of remedial action as of very high priority. This programme will need an additional £2.8m-£4.3m-£5.8m over the period of the Survey.

Finally, as you know, the work on the restoration of Hampton Court after the recent fire will need extra resources. We shall need £1m in 1987/88; £2m in 1988/89; and £2m in 1989/90.

Savings

Against these needs for additional resources I can find only minor savings: £2.1m per year, from reduced demand for sewerage grants; plus some larger savings from the New Towns in the two later Survey years, reflecting success in increasing the share of investment costs borne by the private sector.

All the figures are in the attached table. Officials' supporting material follows separately.

We are discussing the needs of the BWB and the Water Industry in the context of the Nationalised Industries' IFR. I wrote separately to you on 19 May about the PSA.

Conclusion

As I said at the beginning of this letter, my bid is regrettably a high one. But these are the very areas of expenditure where a caring approach is increasingly expected of us. I am convinced if we do not end up planning for extra resources on the scale I have suggested - mainly in order to prevent further deterioration - our opponents will exploit this to the full.

Finally, I wrote to you on 14 May about the capital control system. As you know, the links between the system in force and public expenditure provision are complex. Sufficient to say here that under any of the alternatives open to us a bid on the scale I have suggested seems to me to be necessary; and in any case we are most unlikely to have a new system in place for 1987/88.

I am sending copies to the Prime Minister, Nicholas Ridley, Malcolm Rifkind, and Nicholas Edwards.

Thames
Kenneth

KENNETH BAKER

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PESC 1986

£ million

Programme Title	1987/88		1988/89		1989/90	
	Baseline	Bid	Baseline	Bid	Baseline	Bid
HOUSING PROGRAMME						
Capital:						
Public sector renovation	1545	570 ⁽¹⁾	1529	580 ⁽¹⁾	1550	590 ⁽¹⁾
Provision for rent	1084	165 ⁽²⁾	1017	155 ⁽²⁾	1031	155 ⁽²⁾
Private sector renovation	390	200	373	200	378	200
Home ownership	191	15 ⁽³⁾	189	5 ⁽³⁾	193	5 ⁽³⁾
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Gross Capital	3210	950	3108	940	3152	950
Receipts	-1481	-	-1335	-	-1335	-
Current ⁽⁴⁾	639	21	639	39	656	-
HOUSING NET PROGRAMME⁽⁴⁾	2368	971	2412	979	2473	950
DOE OTHER PROGRAMME						
LES Capital	179	125 ⁽⁵⁾	177	127	182	122
Urban Regeneration Grant	-	20	-	21	-	21
Urban Programme (Crime prevention)	232	20	237	25	241	25
Derelict Land	81	20	84	20	86	20
Urban Development Corporation	86	60	89	100	91	100
Development Commission	28	3	28	6	29	9
Royal Palaces and Parks	37	1	38	2	39	2
Countryside Commission	18	2.8	18	3.1	19	3.3
Nature Conservancy Council	32	8	33	8	34	8
Other Environmental Bodies (NEWS/Litter bid)	9	2	9	2.5	9	2.5
Departmental Administration	104	8	106	7.3	109	7.5
Environmental Research	39	2	40	3	41	3
Civil Defence	0.2	2.8	0.2	4.3	0.2	5.8
<u>Reduced Requirements</u>						
New Towns	-36	-	-26	-15	-25	-28
Other water services (sewerage grants)	4	-2.1	4	-2.1	4	-2.1
DOE OTHER: NET BID	929⁽⁶⁾	272.5	952⁽⁶⁾	312.1	976⁽⁶⁾	299.0

- Notes:
- (1) Bid includes £50m to be spent through the Urban Programme
 - (2) Bid includes £55m for Housing Corporation provision
 - (3) For Housing Corporation Low Cost Home Ownership
 - (4) Figures exclude rate fund contributions, which is now outside the Housing Survey total
 - (5) Figure subject to assumptions on Local Authorities' discretionary spending power
 - (6) DOE Other Total Baseline



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ACB



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

DW

My ref:

Your ref:

19 May 1986

[Handwritten signature]

[Handwritten initials]

PES 1986: PSA EXPENDITURE

This letter deals with the additional bids for expenditure by the PSA. I am enclosing at Annex A a table showing the bid arithmetic, and PSA officials will be letting the Treasury have the details. I have excluded from the bids any expenditure on work which will become the PES responsibility of other departments under the proposals agreed by the Prime Minister on 12 May. I very much welcome this clarification of bidding responsibilities.

PSA remains responsible for expenditure on managing the civil estate and for some capital works. We are starting from a very low baseline - in fact a minus quantity since PSA's receipts exceed its expenditure. You will have seen from Sir Robert Armstrong's minute of 1 May to the Prime Minister that there is now general and justified apprehension amongst departments that accommodation expenditure is underfunded. You will also recall from your correspondence with George Young about the provision for major new works in 1986/87 how few even of the most urgent works PSA is currently able to tackle. You will not therefore be surprised that I need to present a substantial additional bid for PSA expenditure.

MAJOR NEW WORKS

Officials will be sending the Treasury a full list of all the bids for major new works projects, together with the case for them.

There is insufficient money in the present baseline even to fund continued work on projects which are expected to be in progress at the start of 1987-88. £8.5m is needed for these in 1987-88 and £1.4m in 1988-89 if we are not to incur the considerable nugatory expenditure and the damaging effect on departments' operational requirements of cancelling the projects.

Although in future the bulk of the schemes to meet other departments' operational needs will become the PES responsibility of other departments, PSA will still deal with some works, including those which affect several departments. Colleagues will no doubt wish to put their views on the case for such schemes to the Treasury; all the departments concerned have been fully consulted in drawing up the list. This part of the bid accounts for £20.3m in 1987-88, £15.1m in 1988-89 and £14.5m in 1989-90.

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The bid includes £7.3m in 1987-88, £9.4m in 1988-89 and £3.8m in 1989-90 for major estate rationalisation schemes expected to have a five year or shorter payback period. Your predecessor provided some money for such work in 1985-86 on a one-off basis and officials will be letting Treasury have a review of progress detailing the substantial savings to the Exchequer being secured as a result.

The remainder of the major new works bid revives the concept of a programme to replace expensive leased property with freeholds. Such a programme would allow both planned purchases and building work; the growth of the rent bill indicates what we have lost by not pursuing this policy in the past and we are probably about to experience another round of public criticism on the subject following a recent Environment Committee hearing. I propose a provision of £10m a year, a relatively small sum but one which would nevertheless make an impression if we could continue with the programme on a steady basis from one year to the next.

MINOR NEW WORKS

The £5m a year proposed covers the smaller estate rationalisation schemes (about £0.2m a year) and energy conservation projects (about £3.3m a year) which also have a 5 year or shorter payback period. We have been criticised by the PAC for failing to fund spend to save work like this, and should take into account both the present public emphasis on energy conservation and the set-back recently experienced in the rate at which the government is managing to cut its own energy consumption on the civil estate. In addition, work costing £1.5m a year is needed to improve fire standards. Many of our buildings do not qualify for a fire certificate at present (including the one in which you work) and the recent series of large fires in public buildings in the past few years, including most recently that at Hampton Court, shows that this is not just an academic issue.

RENTS

The PSA rent bill has been rising at about 9% a year, partly reflecting the effect of the expiry of old leases, and this rate of increase is expected to continue, despite reductions in the size of the estate. The annual roll-forward allowance in the Survey baseline has now dropped to 2½% and is totally inadequate to cover the increase. Nor can it be offset by increasing receipts. Those from traditional repayment customers have been falling, partly because to raise money PSA have had to sell some of the property in question to the tenants. It is not open to PSA to increase PRS rent receipts by more than allowed in the agreed system of annual rent reviews, which links most annual increases to movements in the GDP deflator. The result is to leave a large gap, £26.2m in 1987-88 rising to £54.4m in 1989-90, between the net baseline provision and the forecast.

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DISPOSALS

The effect of increased rent requirements was partly offset in 1985-86 and 1986-87 by boosting disposals to £23m each year. However the scope for selling off empty buildings and surplus land is now being rapidly exhausted; not only is the annual level of disposals expected to fall over the Survey period, but sales will increasingly be of revenue earning property, so making the long term funding problems worse.

MAINTENANCE

PSA has been drawing up annually a 3 year forward programme of requirements and sending the full details to your officials. We shall be doing so again in 1986. Even after the changes to PRS delegations which take effect next April, PSA's present level of funding will be only about 85% of that needed to meet the most basic annual requirements. At this level we shall be adding to the existing backlog of work of over £100m, a very short-sighted policy when deferring work increases the ultimate cost of doing it by about 8% for each year's delay. The £15m bid proposed for 1987-88 would prevent a further increase in the backlog; and the £25m proposed for 1988-89 and the £35m for 1989-90 would halve it by 1989-90.

VACANT SPACE

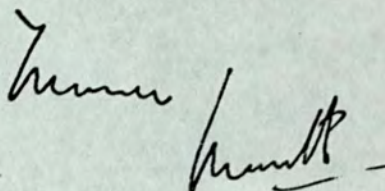
PSA's target is to reduce the amount of vacant space by about a fifth of its previous level. Substantial progress has been made in surrendering leases and in disposals, but the total to be tackled has turned out to be larger than expected. As a result, PSA is faced with meeting a larger share of the PRS charges and the government's contributions in lieu of rates than expected. Every effort will be made to reduce the vacant space charge by getting rid of space as fast as possible, but we have to allow for other departments accelerating the rate at which they vacate space and hand it over to PSA as part of their own moves to reduce accommodation costs. PSA are also badly hampered by the fact that there is no money at all in 1986-87 for further estate rationalisation schemes, often an essential prelude to a surrender or disposal.

THE CONFERENCE ESTATE

An extra £3.5n was provided in the 1985 Survey to cover the net cost of operating the Conference estate, but only for 1986-87. A study by consultants which is nearing completion has confirmed that the operating deficit of the new Conference Centre cannot be completely eliminated.

I shall be writing to you separately next month about the results of this study. Meanwhile our best assessment is that another £3m a year is required.

I am sending copies of this letter to the Prime Minister; to all departmental Ministers with an interest in the PSA works programme; and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Kenneth Baker', written in a cursive style.

KENNETH BAKER

* List of Ministers attached.

	1985-86	1986-87	1987-88		1988-89		1989-90	
	Forecast	Provision	Baseline	Bid	Baseline	Bid	Baseline	Bid
Major New Works	72	51.0	21.8	46.1	15.8	35.9	16.2	28.3
Minor New Works	33	27.2	27.1	5.0	27.8	5.1	28.5	5.2
Fees	13	12.5	6.4	-	6.6	-	6.7	-
Disposals	- 23	- 22.8	- 22.0	-	- 16.0	-	- 16.4	-
TOTAL CAPITAL :	89	67.9	33.3	51.1	34.2	41.0	35.0	33.5
Rent Payments	207	225	230.6	18.7	236.4	34.7	242.2	46.0
Rent Receipts	- 33	- 33.3	- 34.1	+ 7.5	- 35.0	+ 8.6	- 35.9	+ 8.4
TOTAL RENTS :	174	191.7	196.5	26.2	201.4	43.3	206.3	54.4
Maintenance	76	84.2	79.7	15.0	81.7	25.0	83.8	35.0
Running Costs	31	29.1	31.2	-	32.0	-	32.8	-
TOTAL MAINTENANCE ETC	107	113.3	110.9	15.0	113.7	25.0	116.6	35.0
Vacant Space	39	46.1	49.7	9.0	50.9	9.5	52.6	10.0
Administration	75	73.6	80.0	9.0	82.0	9.0	84.1	9.0
Conference Estate *	(1.5)	(5.0)	(1.5)	3.0	(1.0)	3.0	(0.5)	3.0
PRS Rent Receipts	-433.6	-425.3	-437.3	-	-446.4	-	-455.7	-
PRS Other Receipts	-145.1	-142.5	-142.3	-	-147.7	-	-153.2	-
TOTAL PRS RECEIPTS :	-578.7	-567.8	-579.6	-	-594.1	-	-608.9	-
TOTAL OFFICE PROGRAMME :	- 93.2	- 75.2	-109.2	113.3	-111.9	130.8	-114.7	144.9
PARLIAMENTARY WORKS :	9.2	9.3	14.4	2.4	14.7	5.9	15.1	9.9
TOTAL PSA :	- 77.0	- 65.9	- 94.8	115.7	- 97.2	136.7	- 99.6	154.8

* Provisions for expenditure on the conference estate are included in the other lines shown in this table.

The Rt Hon Lord Hailsham of St Marylebone PC CH FRS DL
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Paul Channon MP
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

The Rt Hon Douglas Hurd MP
Secretary of State for the Home Department

The Rt Hon Peter Walker MP
Secretary of State for Energy

The Rt Hon George Younger MP
Secretary of State for Defence

The Rt Hon Malcolm Rifkind MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Norman Fowler MP
Secretary of State for Social Services

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Nicholas Ridley MP
Secretary of State for Transport

The Rt Hon Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Kenneth Clarke QC MP
Paymaster General

The Rt Hon Sir Michael Havers QC MP
Attorney General

The Rt Hon Lord Cameron of Lochbroom QC
Lord Advocate

PRIME MINISTER

PUBLIC EXPENDITURE

You agreed with the Chancellor last week that it would be a good idea for you to remind spending Ministers of the need for restraint in proposing any increases to their programmes.

Spending Ministers have been asked to send letters setting out any bids to the Chief Secretary by the end of May. Cabinet next week, 22 May, will probably be too late to affect their letters, so I suggest you say something tomorrow. A possible speaking note is below.

DAVID NORGROVE
14 May 1986

CONFIDENTIAL

BM2AMM

PUBLIC EXPENDITURE: SPEAKING NOTE

We shall soon be starting the 1986 public expenditure survey. The Chief Secretary asked colleagues to scrutinise their programmes personally with the aim of avoiding increases in the plans agreed in the autumn and to write to him by the end of this month if they had to propose any increases.

It is all the more important now to manage within the totals already agreed for central government programmes. Local authority spending has been rising very fast - 8 per cent this year according to their budgets. The local election results mean that our supporters will find it even more difficult to stop this, particularly since the pay of local authority employees is rising so fast.

We cannot afford to lose control over public expenditure now and we need to avoid a contentious public expenditure survey. So I do ask colleagues to meet any unavoidable increases by reordering priorities in their own programmes wherever they can, and to do their utmost to avoid asking for more money.

COVERING CONFIDENTIAL

CCBG
B/UP

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

13 May 1986

Dear David

PUBLIC EXPENDITURE SURVEY: SPEAKING NOTE

I understand it was agreed at the Prime Minister's meeting on Survey prospects on 9 May that there would be advantage in the Prime Minister reminding spending Ministers of the need for restraint in proposing any increases to their programmes at the end of May. This might be done at Cabinet ... either this week or next. I attach a draft speaking note that the Prime Minister may wish to use for this purpose.

Yours,

Jill

JILL RUTTER
Private Secretary

COVERING CONFIDENTIAL

PUBLIC EXPENDITURE: ~~DRAFT~~ SPEAKING NOTE FOR THE PRIME MINISTER

^{shall soon}
We ~~will shortly~~ be starting ~~on~~ the 1986 public expenditure survey. The Chief Secretary asked colleagues to scrutinise their programmes personally with the aim of avoiding increases to the plans agreed in the autumn and to write to him by the end of this month if they had to propose any increases.

Recent developments underline the ~~importance of managing~~ ^{need to manage} within the totals already agreed for central government programmes. Local authority spending has been rising very fast - 8 per cent this year according to their budgets. ~~The~~ ^{and} local election results ~~will reduce the ability of~~ ^{mean that} our supporters ~~to reverse the tide,~~ ^{will find it even more difficult to stop this,} particularly ~~given~~ ^{the} price ~~the pressures on pay among local authority groups~~ ^{employees} is rising so fast.

We cannot afford to lose control over public expenditure now and we need to avoid a contentious public expenditure survey this year. So I do ask colleagues ~~to do their utmost~~ ^{to do their utmost} to meet any unavoidable increases by ~~redetermining~~ ^{reordering} priorities in their own programmes, and to avoid asking for increased allocations.

whenever they can

do their utmost to



SECRET

NOTE FOR THE RECORD

cc Mr. Unwin

PUBLIC EXPENDITURE

The Prime Minister today discussed with the Lord President, the Chancellor of the Exchequer and the Chief Secretary the minute sent by the Chief Secretary about the prospects for the survey dated 8 May. Sir Robert Armstrong and Professor Brian Griffiths were also present.

The Chancellor said the outcome in 1985/86 had been good, with an underspending. The position in 1986/87 was more difficult. There were greater pressures and it would be a struggle to stay within the planning total. However, with firmness it should be possible to achieve this. 1987/88 was even more difficult. The main problem was local authority spending, where both pay and numbers were rising too fast. Last year the circle had been squared by increasing the figures for privatisation. This could not be repeated.

The Prime Minister strongly agreed that it would be wrong to increase the figures for privatisation receipts. This would look like fiddling the figures.

The Chancellor said it would probably be necessary to increase the planning total. The Prime Minister reacted sharply, but implicitly accepted this possibility in arguing that it would be wrong to mention it to Cabinet early in the Survey: to do so would give an impression that there was scope for increased spending.

The Chief Secretary then took the Prime Minister through the table attached to his minute. In view of the local election results, the figures for local authority spending would probably be too low. The figures in the table resulted from the assumption made in this year's Public Expenditure White Paper, by which local authority spending had been carried forward flat in cash terms, and also from the constant growth

SECRET

of local authority spending itself. The Lord President commented that the RSG percentage could not be further reduced: reductions tended to hit Conservative-controlled local authorities.

The Chief Secretary said there were only two large candidates for real savings: defence and Scotland. The Prime Minister's first response was that neither would be a good candidate for reductions. She could not see how defence was going to get through. The Lord President thought Mr. Younger would produce "a bit" but then dig in. He despaired of the Scottish block. The Prime Minister remained very sceptical about the prospect of securing a reduction in the cash already allocated to defence, but accepted that the Treasury could make the attempt.

DN

(DAVID NORGROVE)

9 May 1986

SECRET AND PERSONAL - CMO



FROM: CHIEF SECRETARY

DATE: 8 May 1986

✓CB9
B/WP

10

PRIME MINISTER

PUBLIC EXPENDITURE: PROSPECTS FOR THE SURVEY

The Chancellor of the Exchequer and I are coming for a talk with you and the Lord President about the prospects for the 1986 Public Expenditure Survey. I hope that this will be useful in setting a general context for some specific decisions which have to be taken in the next few weeks.

2 I have not yet had colleagues' bids for the Survey, but the main outlines of the problem facing us are already clear. It is summed up in the attached table covering the first two years of the new Survey.

3 The biggest single problem is local authority current expenditure. The evidence from local authorities' budgets is that their current spending this year will be 8 per cent up on last year.

4 We are about to start discussion on the 1987-88 RSG settlement in E(LA). Kenneth Baker has proposed an addition to provision of £3.2 billion (£3.8 billion after taking account of the consequentials for the territories) - equivalent to a 1 per cent real increase on 1986-87 budgets. I will be proposing a 2 per cent real reduction, implying an addition to provision with consequentials of £2.8 billion.

5 But even with a tough settlement along the lines I am proposing we have to recognise that, on past experience, actual expenditure will exceed provision. We will do well to achieve a real terms standstill on this year's spending. That in itself would use £3½ billion of the Reserve for 1987-88 and £4½ billion for 1988-89 bringing down the Reserves in those two years to £2½ billion and £3½ billion. But Reserves at that level would be lower than prudent,

SECRET AND PERSONAL - CMO

especially in the light of pay pressures from local authority groups, which the employers, dominated by Labour controlled authorities, will have little inclination to withstand. There is every risk that pay pressures will push local authority spending still higher.

6 On top of that, there will be strong pressures for increases - which I hope will be modest - on central government education and law and order programmes; and we may see further upwards creep in the take-up of social security benefits. Developments in the European Community suggest that, even after holding the 1.4 per cent ceiling, our budget contribution will be higher than planned. In the nationalised industries, the fall in the oil price substantially worsens the position of coal, but should bring some offsetting improvement for steel and rail.

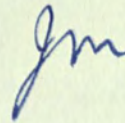
7 I will, of course, be looking toughly for savings on all Departments, but it would be unwise to count on achieving net reductions in the present provision for overseas aid, agriculture, trade and industry, employment, the nationalised industries, transport, housing and health.

8 The Chancellor feels, and I agree, that we should not attempt to resolve our difficulties in this Survey by further proceeds from sales of assets. The present target of £4½ billion a year is already substantial, although we expect to achieve it.

9 There are two programmes where I can see scope for substantial reductions: defence and territorial expenditure. On defence, a Cabinet committee has already decided on a reduction in R and D and considerable economies are being made on procurement and stockholding: the fall in the oil price also helps the defence programme. If the Exchequer were to have a share of these savings, it would be possible to reduce the programme by £1/3 billion in 1987-88 and £1/2 billion in 1988-89. We are soon to discuss the result of the exercise on territorial expenditure with you. I think that we could reasonably make an adjustment in the Scottish block to take account of the fall in population, in advance of undertaking a full needs assessment.

SECRET AND PERSONAL - CMO

10 I am copying this minute to the Lord President and the Chancellor of the Exchequer.

A handwritten signature in blue ink, consisting of the initials 'jm' in a cursive style.

JOHN MacGREGOR

SECRET AND PERSONAL - CMO

	<u>1987-88</u>	<u>1988-89</u>
Planning total	143.9	148.7
Reserves (after Budget measures)	6.0	7.9
Subtract further net increases (very speculative):-		
Social security	0.5	0.75
Nationalised industries	-	-
EC	0.1	0.1
Education/Law & Order	0.25	0.25
	<hr/>	<hr/>
Remaining Reserve	5.15	6.8
Add back cuts in-		
Defence	0.35	0.5
Territorial	0.15	0.15
	<hr/>	<hr/>
Remaining Reserve	5.65	7.45
Local authority current*		
England	2.4-3.2	3.2-4.2
Territorial	0.4-0.6	0.6-0.8
	<hr/>	<hr/>
Remaining Reserve	2.85-1.85	3.65-2.45

*On basis of prospective E(LA) bids.

PRIME MINISTER

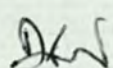
PUBLIC EXPENDITURE: PROSPECTS FOR THE SURVEY

The largest single source of spending pressure mentioned in these papers is local authority expenditure. The Chancellor and the Chief Secretary will probably be seeking a steer from you on how tough you want to be.

I am not sure how much you can say about it at this stage. Obviously you will want to be as tough as possible. But the figures for local authority expenditure provision discussed in these papers cannot be translated into estimated rate increases without assumptions about rate support grant and likely local authority overspending. Nor can you give a view very sensibly about what you would like to see unless you have some idea of how grant is likely to be distributed between the different kinds of local authorities and with it an idea of the likely pattern of rate increases (not just the average).

There is no way all these aspects can be decided by finding the solution to some grand simultaneous equation. But I am sure you would wish to keep closely in touch with discussions on local authority spending this year, to avoid the nasty surprises which resulted from last year's settlement.

You might ask the Lord President and the Chief Secretary to keep you closely in touch with the progress of the discussions this year.



DAVID NORGROVE

8 May 1986



cc BS
B/UPS

CONFIDENTIAL

P 02049

PRIME MINISTER

Public Expenditure: Meeting at 9.30 am on Friday, 9 May

The Chancellor of the Exchequer and the Chief Secretary are coming to see you tomorrow morning to discuss public expenditure. The Lord President will also be present.

2. No specific decisions will be required. As I understand it, the Chancellor's main objectives are:-

(i) to give you a preliminary account of the (already very worrying) prospects for the forthcoming Survey, and to seek general guidance from you and the Lord President on how tough you think it will be possible to be in order to keep to the planning totals;

(ii) as a result, to register firmly with you the context in which other more immediate expenditure decisions will need to be taken (eg on local authority and territorial expenditure).

eg particularly police manpower

BACKGROUND

3. It is already clear that the Reserves in 1987-88 and 1988-89 (there is, of course, no figure for 1989-90, the new year in the coming Survey) will be under very great pressure. The figures for those two years in the January Public Expenditure White Paper were £6.3 billion and £8.0 billion respectively. The employment measures announced in the Budget reduced this to £6.0 billion and £7.9 billion.

4. The biggest single threat is local authority current expenditure. No new decisions have yet been taken. The figures in the White Paper simply repeated the 1986-87 cash figure. It is clear, however, that this will be substantially exceeded. Local authorities are

budgeting for a cash increase overall of some 8 per cent (4 per cent real), which would add up to £2.0 billion in 1986-87. The Chief Secretary will separately be proposing that in 1987-88 there should be a 2 per cent reduction on the 1986-87 outturn. Even this would add around £2.25 billion to the GB total in 1987-88. But it must be extremely doubtful whether this would be realistically attainable; even holding 1987-88 to the same level as the (inflated) 1986-87 outturn is likely to be very difficult. This would add around £3.5 billion in 1987-88 and £4.5 billion in 1988-89. The effect of this alone would be to reduce the Reserves in those two years to only some £2.5 billion and £3.5 billion respectively.

Other Spending Pressures

5. But that is only the start. It is already clear that there will be strong pressure on the Treasury to concede extra spending on the following programmes to:-

- Education and Science (teachers pay, universities etc - it seems inconceivable that the teachers' pay dispute can be settled satisfactorily without substantial expenditure over and above the £1.6 billion over 4 years already offered);
- Law and Order (especially legal aid);
- Housing and Construction (the Environment Secretary will no doubt take up again his last year's crusade on this, backed by external reports about the poor state of public sector housing);
- Health and Personal Social Services (especially the implications of the Review Body awards);
- European Community Budget (a substantial supplementary budget, which will increase our net contribution, albeit moderated by the Fontainebleau mechanism, seems inescapable;



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- Nationalised Industries (the current negotiations between the ESI and the NCB are bound to add to coal costs, although there could be some compensating reductions elsewhere as a result of lower oil prices (eg BSC and BR)).

6. In addition to all these there is the usual uncertainty of the social security programme. I have put it to the Treasury that the prospect of lower than forecast inflation should this year work to their advantage. They fear, however, that increased take up could more than offset this, and past experience suggests that, whatever happens to the economy, these figures invariably move in the wrong way from the public expenditure point of view.

Scope for offsetting savings

7. The Chancellor may want to outline to you his preliminary view of the possibilities. At official level, the Treasury think the cupboard is pretty bare. However, the following will presumably need to be considered:

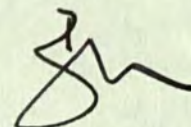
(i) Asset sales: I doubt whether there is much if any scope this time for increasing the planned programme which already provides for net receipts from asset sales of £4.2 billion and £4.1 billion in 1987-88 and 1988-89 respectively. The Treasury still believe that they can attain these figures, but there are inevitable uncertainties and it would be most imprudent, and tactically very unwise at this stage in the Survey exercise, to count on any further substantial relief this year from this quarter;

(ii) Territorial expenditure: you are due to hold a meeting on 22 May to discuss the report I have already put to you. Treasury Ministers will no doubt want to make a preemptive strike by urging you to take the toughest possible line on this. I think the only practical and realistic option will be to go for a population related adjustment in the Scottish base, which could save around £130 to 160 million in each of the Survey years;

(ii) Reductions in other programmes: the Treasury have not yet completed their assessment of the possibilities, but you may want to ask for the Chancellor's preliminary view. It is clear that little will be obtained without very tough decisions indeed, and you will want to judge how far you can expect your Ministerial colleagues to be read to accept these. I have no doubt that the Treasury will again set their sights on the defence programme, although the new Defence Secretary is said to be very worried about the 1986 long-term costings, and is likely to resist vigorously any attempts to cut his budget further. One possibility here must obviously be to translate into a quantified reduction in the overall defence budget the February E(A) decision that the Defence R&D programme should be constrained to the figures in the 1985 Costings.

HANDLING

7. You will want to ask the Chancellor and the Chief Secretary to run over the above ground and to give you their assessment of how serious the prospect is, and of what sort of decisions would be entailed in order to keep to the present planning totals. As noted above, no immediate decisions are required, but you may want to consider whether it would be helpful to take an early opportunity to issue a general injunction to Ministers to approach this year's Survey, and in particular their own additional bids, with the utmost stringency. A suitable opportunity for this might be Cabinet on 22 May. This would be before the deadline (end-May) for submission of bids to the Chief Secretary; and could be in the context of looking forward to the various issues that will need to be resolved between the spring or summer recesses, including the Cabinet public expenditure decision in July.



J B UNWIN

8 May 1986
Cabinet Office



COMMINGIOL



CC 2/3



MO 8V

MINISTRY OF DEFENCE
 MAIN BUILDING WHITEHALL LONDON SW1

Telephone 01-~~3307222~~ 218 2111/3

9 April 1986

NBRN

Dear Jill.

PUBLIC EXPENDITURE SURVEY 1986

I wrote to you on 1st April to put down a marker that, while he would not wish to hold up the issue of the PES guidelines on that account, my Secretary of State had not had an opportunity to study the draft guidelines before their circulation.

WILL REQUEST IF REQUIRED

Mr Younger has now studied the guidelines and has commented on two points. The first is the proposal that the new cash uplift factor for programme expenditure and running costs should again fall short of forecast inflation. The resulting half per cent squeeze in 1989/90 is, in Mr Younger's view, at odds with the wish to maintain the existing baseline in the two earlier years; nor does it provide a realistic starting point for future cash planning. In any case, the Defence Secretary would view extremely seriously any prospect of a further decline in the real provision made by the Government for defence; this is a point to which we will return, as necessary, at the appropriate stage in the conduct of the Survey.

The Defence Secretary's second comment concerns the proposed treatment of Falklands costs. We recognise that what is proposed is the procedure adopted last year. But, in the light of the agreement in PES 85 that the defence budget would forego the addition of £192M for Falklands expenditure in 1988/89, the Defence Secretary wishes to reserve his position on how these costs are treated in the current survey. This too is a point which can be pursued at a later stage.

Copies of this letter go to the Private Secretaries to the Prime Minister and other members of the Cabinet, Paul Thomas (Minister of State's Office, Privy Council Office) and Michael Stark (Cabinet Office).

Yours sincerely,
John Howe
 (J F HOWE)

Ms Jill Rutter
 HM Treasury



RBB



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

3 April 1986

NBM

Dear Chief Secretary,

GUIDELINES FOR THE 1986 EXPENDITURE SURVEY

Thank you for sending me a copy of your minute of ^{at 11am} 21 March to the Prime Minister covering guidelines for the 1986 Public Expenditure Survey.

I welcome the handling changes you propose, and I fully agree with the need for us all to consider rigorously the case for any proposals for net additions to the baselines. I was pleased to see your undertaking to circulate as soon as possible in June what will I hope be an agreed summary of any such proposals, as Nicholas Ridley suggested in his letter of 24 February. This will help for our subsequent collective discussion of the options and political priorities.

I also think you are right to emphasise the importance of the baseline for the later years of the Survey. I am, however, less happy at your suggestion that baselines for 1989/90 should be raised by less than your inflation assumption. We must of course continue to press for improvements in efficiency in all programmes. But the scope for such savings on some programmes is now limited so that any real reductions in provision can now show themselves only in ways which are very visible and painful for us politically.

I note your warning about the problems arising from proposals which test the definitions of public expenditure. My officials are already in discussion with yours over the details of a number of schemes to involve risk-bearing private funding in support of the voluntary housing sector. They will represent a very important means of supplementing public provision in an area of increasing political importance. I hope that the discussions now begun will be satisfactorily concluded before we are too far into the PES round.

I am asking PSA officials to continue discussions with yours about possible mechanisms for private funding of investment in office building.

Finally, we are all very conscious of the presentational problem presented by the present treatment of local authority current expenditure. Such expenditure is different from the generality of public expenditure, in that it is outside our direct control - we can only exert influence on it. Moreover, at the margin higher local authority current spending has to be financed out of local

rates and charges and is therefore self-balancing for the short-term economic strategy decisions on national taxes and on spending. This is intrinsically different in its impact on the Budget from, for example, uprating social security benefits. Some therefore argue that we should remove local authority current expenditure entirely from the public expenditure equation. We have made a stick for our own back by presenting the local authority current expenditure figure as though it were an integral part of and similar in kind to other main elements of the planning total. Consequently, since we have always inserted a figure in the Public Expenditure White Paper much lower than we know will be achieved, given the limits of our influence, we appear to "fail" every year in our attempt to "control" this spending. It is common ground that we should put a much more realistic figure but in any case I consider that we should look at ways and means of separating it out much more sharply than we do at present.

I am copying this letter to the recipients of yours.

Yours sincerely

JH Conant
Private Secretary

(Approved by the Secretary of State and signed in his absence)

KENNETH BAKER



cc/2



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

31 March 1986

Dear John

W
2/4

I have seen your minute of 21 March to the Prime Minister about the guidelines for the 1986 Public Expenditure Survey. *at top*

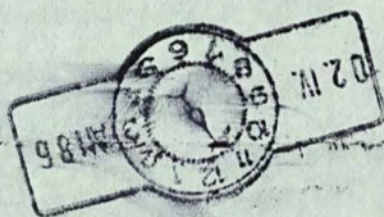
I very much agree that we should aim to establish reliable plans for all three survey years, and to avoid setting unrealistic figures which then become the subject for additional bids in later years.

As regards definitional issues, I shall, as you know, be putting forward proposals for moving a number of businesses in the Department to a net cost basis, and for the financing of the Dartford Crossing. I do not see any difficulty about getting these issues resolved before the Summer Recess.

I am sending copies of this letter to the Prime Minister, other members of Cabinet, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.

Nicholas
Nicholas

NICHOLAS RIDLEY



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(87)

ech



bc BG

10 DOWNING STREET

From the Private Secretary

24 March 1986

GUIDELINES FOR THE 1986 PUBLIC EXPENDITURE SURVEY

The Prime Minister has seen the Chief Secretary's minute of 21 March about the guidelines for the 1986 Public Expenditure Survey.

The Prime Minister is content with the proposed guidelines, subject to the views of colleagues. She agrees in particular that proposals which raise issues of the definition of public expenditure need to be considered carefully and in a timely way. She endorses the procedure set out in the Chief Secretary's minute.

I am copying this letter to the Private Secretaries to members of Cabinet, Paul Thomas (Minister of State's Office, Privy Council Office) and Michael Stark (Cabinet Office).

(David Norgrove)

Ms. Jill Rutter,
H.M. Treasury.

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DJG

PRIME MINISTER

GUIDELINES FOR 1986 SURVEY

The Chief Secretary's proposals for the 1986 Survey are along familiar lines. As usual in recent years, he proposes that the uplift for the final year should be $\frac{1}{2}$ per cent less than inflation. This makes room for some re-ordering of priorities later.

He also (paragraph 6) suggests that if Ministers wish to propose changes in public expenditure definitions they should be brought forward in time to be examined before the Summer Recess, and, if they are not, the normal rule should be that they are deferred until the following Survey.

I have a personal interest in this, having carried out a review of public expenditure statistics a year or two ago. With the pressure to hold down public expenditure, Ministers have been very willing to look for statistical changes to make an apparent saving in public expenditure which did not in fact help make room for tax cuts. The Statutory Sick Pay scheme is an example. It reduced civil service numbers but it saved public expenditure only by changing the (Treasury) definitions, and the CSO in fact continue to regard expenditure under the scheme as public expenditure. There is quite a list of things which are equally dubious.

Agree to endorse the Chief Secretary's proposals, including that on statistics?

Y
W
ms

D.N.

DAVID NORNGROVE

21 March 1986

L04ADJ

PRIME MINISTER

21 March 1986

GUIDELINES FOR THE 1986 SURVEY

The Chief Secretary's minute makes three important points:

- i. If there are any additional bids, they should only be put in as the result of a direct decision by the Minister himself in a letter copied to you.
- ii. The baseline for 1989-90 should be created by uprating the baseline for 1988-89 by 2½% - about ½% less than inflation.
- iii. Departments should avoid fiddles - such as fake contracting-out - which may reduce the public expenditure figures but don't change anything in the real world.

I recommend that you endorse the Chief Secretary's minute, though it might be sensible to wait a few days in case colleagues wish to comment.

David Willetts

DAVID WILLETTS

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JCBG



FROM: CHIEF SECRETARY

DATE: 21 March 1986

Prime Minister

Paragraphs 4 and 6 are under reading.

PRIME MINISTER

GUIDELINES FOR THE 1986 PUBLIC EXPENDITURE SURVEY

DWS
21/3

In my minute of 6 February I set out proposals for changes in the organisation of the 1986 Survey. Your Private Secretary's letter of 25 February recorded that you were content with the new approach and asked colleagues to give their closest possible attention to avoiding requests for additions to their programmes. In doing so, I urge colleagues to examine closely their programmes for the whole Survey period so that we have reliable plans for all three Survey years and can again keep additional bids to a minimum in future Surveys.

... 2 I now attach draft detailed guidelines for the conduct of the Survey. These follow the same general format as in earlier years, but reflect the changes in procedure this year. Subject to any comments from colleagues by 27 March, I propose that the guidelines should be formally circulated as a PESC paper in the first week of April.

3 In his letter of 24 February the Secretary of State for Transport asked that information about any proposals colleagues feel obliged to make for net additional provision should be circulated by the Treasury as soon as they have been assembled. I should reiterate my hope that colleagues will not feel it necessary to make such proposals. But I can confirm that, if any are made, I will arrange for a summary of them to be circulated, with appropriate supporting material, as soon as possible in June.

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4 I would draw colleagues' specific attention to the proposal in paragraph 6 of the guidelines that the initial departmental baselines for 1989-90, the new third year of the Survey, should be based on an uplift of $2\frac{1}{2}$ per cent. This repeats the figure adopted for the final year in each of the last two Surveys and, again as in 1984 and 1985, is $\frac{1}{2}$ per cent below the inflation assumption for the new year set out on Budget day in the revised MTFs. I believe colleagues should be able to offset a small real reduction in resources through improved efficiency and productivity. And this approach provides a small margin for manoeuvre to permit re-assessment of priorities while still allowing the aggregate planning total to be held broadly constant in real terms. I shall of course be making detailed proposals for the planning totals in July.

5 The treatment of running costs will follow the same processes as for the main programme expenditure, except that proposals for changes in provision, additions or reductions, in gross (rather than net) running costs provision will be required.

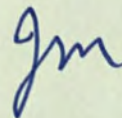
6 I would also stress one other point which is not mentioned in the guidelines. During the last Survey, a number of proposals were put forward which raised issues of the definition of public expenditure. For example, there have been proposals to reduce public expenditure by netting off payments against associated receipts; or to replace what would otherwise have been public investment with privately financed projects. Some of these proposals were raised at a very late stage, when MISC 120 was well into its work. The issues raised by such proposals are often complex. We need to be sure that an activity is genuinely transferred to the private sector without any

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guarantee. For if it is not, the Government's claim on resources will not have been reduced and, notwithstanding an apparent reduction in the planning total, we will have done nothing to reduce the pressure on funds for investment or to facilitate reductions in the burden of tax. Indeed, if such savings are used to justify increases in expenditure elsewhere we will have made the position worse. I hope colleagues will reflect carefully before putting forward any ideas on these lines this year; and if they do wish to do so ensure that this takes place at an early stage in our discussions when there is adequate time for officials to explore the detailed implications. I suggest that, unless such proposals are brought forward in time to be examined before the Summer Recess, the normal rule should be that they are deferred until the following Survey.

7 I am sending copies of this minute to members of Cabinet, the Minister of State (Privy Council Office) and Sir Robert Armstrong.



JOHN MacGREGOR

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PESC(86)
PESC(WM)(86)

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

GUIDELINES FOR THE 1986 SURVEY

Note by the Treasury

Introduction

The Chief Secretary's minute of 6 February to the Prime Minister proposed some changes to the arrangements for the early part of this year's Public Expenditure Survey. In particular, he proposed that additional bids should not be included in the Survey Report prepared by officials. Instead, Ministers should themselves write to him if, after having carefully scrutinised their programmes, they concluded that it was essential to seek net additional resources. The Prime Minister has asked Ministers to give their closest personal attention to avoiding requests for additions to programmes (her Private Secretary's letter of 25 February refers).

2. Against that background, this paper sets out guidelines for the conduct of the 1986 Survey and for the preparation of the 1986 Survey Report. The general arrangements for this year's Survey are explained in the main sections of the text, and detailed guidance for the conduct of the Survey can be found in the Annexes.

3. This PESC paper contains the following sections and Annexes:

- I TIMETABLE (paragraph 4)
- II THE SURVEY REPORT (paragraphs 5 to 15)
- III MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE (paragraphs 16 to 23)
- IV LOCAL AUTHORITIES (paragraph 24)
- V NATIONALISED INDUSTRIES (paragraph 25)
- VI EUROPEAN COMMUNITY EXPENDITURE (paragraph 26)
- VII FURTHER INFORMATION (paragraph 27)

- ANNEX A: 1986 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH - JULY
- ANNEX B: CONSTRUCTION OF THE BASELINE
- ANNEX C: PREPARATION OF PESC REPORT CHAPTERS
- ANNEX D: PREPARATION OF MINISTERIAL AND OFFICIAL LETTERS
- ANNEX E: INFORMATION ON ECONOMIC COMPOSITION AND TERRITORIAL CONSEQUENCES.

I. TIMETABLE

4. A table setting out the key departmental dates for the preparation of the 1986 Survey Report was circulated with Mr Turnbull's letter of 10 February to Mr Wilson (copied to PFOs). A more detailed timetable, including dates for the submission of Ministerial letters, is now attached at Annex A. Departments are asked to submit running tallies setting up the baseline by 11 April, and draft texts of the Survey Report by 15 April. The baselines will be set and agreed by 9 May - before the draft Report is circulated. Ministerial letters should be sent to the Chief Secretary by 30 May.

II. THE SURVEY REPORT

5. The aim of the 1986 Survey Report will be to provide an analytical data base designed to help the conduct of the Survey. Given the increasing emphasis being placed by Ministers on what public spending programmes are achieving rather than simply the resources they are consuming, the Report will also focus on the outputs to be achieved from the baseline expenditure. Without the inclusion of material on additional bids, the Report should be shorter than in previous years. It will provide

(i) a record of the cash baselines (separately identifying gross running cost and manpower baselines) from which discussions will start; and

(ii) a statement of the main output and performance measures and targets.

The Baseline

8. Annex B gives detailed information on the construction of the departmental baselines to 1988-89. Departmental baseline figures for the new year 1989-90 will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1988-89, adjusted as necessary in accordance with the guidance at Annex B. In the case of Defence this will, as last year, apply only to the non-Falklands element of provision.

Texts

7. The baseline provision will have been described in the public expenditure White Paper (Cmd 9702). Where it is possible to improve on that description eg by updating it, this should be done briefly in the introductory paragraphs.

8. As indicated in paragraph 5, the Survey report should provide information on outputs as well as inputs. Last year, departments were asked to include a short summary of their main performance indicators, and the principal steps being taken to improve value for money (VFM) through greater efficiency and effectiveness. This was a useful exercise and led to a valuable improvement in the PEWP. It is proposed to build on the start made then in assembling quantitative value for money information as clearly and concisely as possible.

9. Departments are therefore invited to extend the coverage of their main output and performance measures in this year's Report. In particular, it should be an objective this year to increase the information given on forward looking performance targets, together with a comparison of outturn with past targets. This information should be quantified in tabular form as far as possible. (NB: Output and performance measures are here taken to include 'indicators', or proxy measures used when output or performance is not directly measurable.)

10. As part of this exercise, departments are asked to summarise in their Survey texts the objectives and output in relation to capital (and associated maintenance) expenditure in the baseline.

11. A short descriptive passage on the baseline for gross running costs and manpower should be provided, concentrating on any significant year on year changes, and the effects of improvements in value for money and increased productivity eg from efficiency initiatives.

12. Annex C provides more detailed guidance on the preparation and organisation of departmental chapters.

Smaller departments

13. As in previous years, the smaller departments will be covered in two chapters: "Chancellor's Departments" and "Other Departments". For the texts, departments should provide a short summary of key improvements in output and performance. The more detailed information described in paragraphs 9-10 however will still be required by Treasury expenditure divisions.

Supporting analyses

14. It is intended that the Survey Report will include supporting material broadly along the lines of the Annexes in the 1985 Report, with the exception of Annex E (Economic classification of proposed changes to the baseline). The form of the Annex on local authority capital expenditure will be amended to show the composition of provision relevant to the main cash limit in England (DOE/LA1) and to other cash limits, to provide a clearer basis for Survey discussions. Arrangements for the preparation of the information on the economic classification of proposed changes are discussed later (paragraph 21).

Preparation of 1986 Report

15. As usual, Departments and Treasury divisions are asked to ease the task of editing and reproducing the Report by adhering to the standard conventions set out in Annex C.

III MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE

16. The Chief Secretary has asked Ministers to write to him by the end of May if, having scrutinised their programmes, they still wish to put forward proposals for net additional resources. This should cover all departments for which they are responsible, including those in the chapter on "Other Departments" (see paragraph 13). As discussed below, the Treasury will require detailed supporting information for such proposals. Information will also be needed on additional gross running costs (even if offset by receipts), on reduced requirements and offsetting savings in these cases and also where Ministers propose to meet additions within the overall baseline. The following paragraphs explain how this information should be forwarded to the Treasury.

Ministerial and Official letters

17. If Ministers find it necessary to write, the Ministerial letter should say why the Minister considers it essential to put forward proposals for net additional resources, and why the upward pressures cannot be accommodated through offsets and improved efficiency. It should set out the additional resources requested with a brief description of why they are sought - eg as the result of a proposed change in policy, estimating change or revised economic assumptions. It should specify what the extra resources are designed to achieve, as compared with the output of the baseline programme, and set out the measures of output and performance which would be used later for evaluation. The letter should include a summary of the extent to which the net additional bid takes account of reduced requirements and proposed policy adjustments elsewhere; it should also state what action would be necessary if the resources had fully to be found from within the department's existing provision.

18. Detailed supplementary information on any of these aspects should be provided in supporting material provided at official level. This is described in Annex D. In the case of departments not seeking net additional resources or proposing net reductions, it will still be necessary for official letters to be sent to the Treasury. In order to provide the background for subsequent collective decisions, these should give details of reduced requirements together with proposed reallocations of provision reflecting Ministerial scrutiny of priorities within their programmes.

19. Any Ministerial letters should be copied to the Prime Minister, the Lord President and other Ministers in charge of departments who would be affected. Official letters should be sent by the Principal Finance Officer to the appropriate Head of Treasury expenditure Group (or division in the case of small departments), with copies to other departments affected. All letters should provide an estimate of the impact of any proposals on other programmes or another Minister's policy. More detailed guidance on the preparation of these letters is at Annex D.

Running costs and manpower

20. Additional resources sought for gross running costs and manpower, either as part of a proposed addition to programmes or as a separate proposal, should be identified in Ministerial letters, together with any offsetting savings. Official letters should indicate clearly whether the proposals are to be financed from running costs savings or from programme expenditures and provide supplementary information which will be used to

inform discussions between officials. The information on the baseline is broadly on the lines requested for 1986-87 in PESC(WM)(86)2. Detailed information will also be required on any proposed additional expenditure, reduced requirements, offsetting savings, or reallocations which affect the baseline for running costs and manpower. The intention this year is that running cost and manpower issues should, wherever possible, be resolved in discussion between officials in departments and expenditure divisions before the Ministerial bilaterals. Detailed guidance on the further information required is contained in PESC(WM)(86)[] .

Economic composition and territorial implications of proposed changes to baseline

21. Annex E gives details of the information the Treasury needs to collect about proposed changes to the baseline, and how it should be prepared. This information should be forwarded, on a copy of the form attached to Annex E, with the official letter sent to the Treasury. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1986 Survey by copying relevant Ministerial and official correspondence to the respective Secretaries of State. ST3 division in the Treasury will advise in any case of doubt - Larry Woodman (233-7893) on Northern Ireland or Tony Davis (233-8045) on Scotland and Wales.

Economic assumptions

22. Where they are needed, revisions to specific economic assumptions will be issued to the Departments concerned.

Options for reduction

23. In parallel with the decision not to ask departments to include material on additional bids in the Survey Report, departments are not themselves asked to set out options for reduction designed to produce a given percentage reduction in the baseline in each year. There may however, be areas where the Treasury believes that there are options which could, if it proved necessary, be used to offset requests for additional resources or to produce savings, but which have not been identified by departments. In such cases, the Treasury will need to ask for these options to be costed; if so, departments should, as last year, provide the Treasury with the necessary information.

IV LOCAL AUTHORITIES

24. Local authority relevant current expenditure will, as in previous years, be considered separately in E(LA). Details of local authority current expenditure need not be included in departmental chapters. Proposals for

adjustments to programmes which will not be covered by discussions in E(LA) should be included in the Ministerial and official letters. (See Annex D).

V NATIONALISED INDUSTRIES

25. The external finance of the nationalised industries, and related expenditure as agreed by the Treasury and sponsor Departments (including redundancy provision), will be separately considered in the Investment and Financing Review. Arrangements for this have already been notified to sponsor departments.

VI EUROPEAN COMMUNITY EXPENDITURE

26. PESC(EC) will continue to consider spending allocated to programme 2.7, as last year. Under the proposed new arrangements for the operation of EURO-PES, Departments seeking negotiating authority to agree levels of Community R&D expenditure which would go beyond the EURO-PES baseline and could not be covered by transfers within EURO-PES are expected to write to the Treasury identifying the offsetting domestic savings which could be made. In the case of Ministers seeking net additional provision, information should be included in the letters referred to in section III above.

VIII FURTHER INFORMATION

27. The PESC(WM) papers listed below are also relevant:-

[LIST]

General questions arising from this paper should be addressed to the secretaries, Ros Dunn (233-4801) or Peter Barnes (233-4679). Questions on departmental running costs should be addressed to Mike Hoare (233-7188) or Paul Harris (233-7259), and on manpower to Ron Carpenter (233-4913).

MRS R M DUNN

P D P BARNES

986 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-JULY

- MARCH Friday 14 March Last date for departments to comment on formats of main departmental tables.
- Thursday 20 March PESC(WM) paper seeking running tallies to amend PES database issued.
- APRIL Friday 11 April Last date for departments to submit running tallies to amend PES data-base for years up to 1988-89.
- Tuesday 15 April Last date for departments to submit draft survey report texts to expenditure divisions.
- Wednesday 30 April Last date for expenditure divisions to send survey report texts to GEP1
- MAY Friday 2 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year, and more detailed PESKEL reports to expenditure divisions and departments.
- Wednesday 7 May Last date for departments to submit running tally forms to reallocate 1989-90 provision.
- Friday 9 May Last date for final comments on Survey report tables
- Monday 19 May Draft Survey Report circulated to PESC
- Thursday 22 May PESC meeting on Survey Report. Last date for comments on draft report.
- Friday 23 May Final report sent for copying and distribution
- Friday 30 May Survey Report available and circulated to Ministers. Last date for Ministerial and official letters to the Chief Secretary and expenditure divisions.
- JUNE 6 June Last date for departments to submit detailed forms on running costs. [NB May be changed in the light of the timing of the 1986 pay settlement].

Mid-June Chief Secretary discusses Ministerial proposals for additional resources with colleagues as necessary.

[Mid-June [E(LA) discussions of Local Authority Current expenditure].

JULY Early July EA discussions of nationalised industries

Early July PUBLIC EXPENDITURE CABINET

CONSTRUCTION OF THE BASELINE

The starting point for the 1986 Survey will be the cash plans published in Cmnd 9702, adjusted for any Budget policy changes and classification changes.

2. For the new third year, 1989-90, baseline figures for programme expenditure and running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figure for 1988-89. In the case of defence this will only apply to the non-Falklands element of provision. The baseline for local authority relevant current expenditure in each programme in 1989-90 will be the same as in 1988-89.

3. "Baseline" figures for manpower numbers at 1 April 1987, 1 April 1988 and 1 April 1989 are as published in Cmnd 9702 except where subsequently amended by agreement with the Treasury. There is no general formula for creating manpower "baselines" for 1 April 1990; departments should show their indicative planning figures for that date within their running costs.

Switches within departmental figures

4. PESC(WM)86[] asks departments to align PES and Estimates for 1986-87 - this may involve switches between sub-programmes, economic categories or spending authority codes - [and to make certain other changes]. In line with the new procedures for Departmental review of priorities during April and May, however, the general rule is that the baseline figures to be included in this year's Survey Report will not provide for any other switches. In particular, switches into running costs from other expenditure should not be made (except where already made in Estimates or by prior agreement with the Treasury). This will apply to the three Survey years 1987-88 to 1989-90.

5. There may, however, be some minor and non-contentious adjustments, such as to reflect changes agreed before but not fully incorporated in the Cmnd 9702 database, and moves to repayment for particular services, which Departments now wish to reflect in the 1986 Survey baseline. Minor switches of this sort may be implemented by prior agreement with Treasury expenditure divisions.

6. Running tallies for any agreed changes to the baseline, for all years of the Survey, or forward years as appropriate, should be sent to the Treasury by 11 April.

PREPARATION OF PESC REPORT CHAPTERS

Coverage of the Report

As last year the Report will consist of an Introduction, Departmental Chapters and Supplementary Information in Annexes. The Chapters will cover the same departmental groupings and breakdowns as in last year's Report and as listed in Table 2.2 of the 1985 Autumn Statement.

Departmental tables

2. Each PESC report chapter will start with a table showing the baseline analysed by spending authority and function. One of the annexes to the Report will give an analysis of each Departmental grouping by broad economic category. Formats for the chapter tables have been discussed and agreed bilaterally with Departments. The baseline tables and figures will be supplied by GEP data unit.

Texts

3. The summary table should be followed by a brief description of the main areas of spending within the baseline. This should if possible improve on but not unnecessarily duplicate the descriptive material available in Cmnd 9702.

Output, performance and VFM

4. The main body of the text should be devoted to details of main output and performance measures together with other information about steps to improve value for money. The information should be presented in tabular form wherever possible, with the emphasis on forward looking targets.

5. This information, should cover as much of the baseline as possible, with appropriate cross-references to the main table, and show what the provision currently in the baseline is expected to achieve.

6. Similar information on outputs and objectives should also be provided

in relation to capital (and associated maintenance) expenditure in the baseline. This should include a brief statement of the criteria by which capital projects (under the control of the department or other spending authorities) are appraised and the procedures used to apply them. Departments should outline how the projects or programmes comprised by the baseline match up against these criteria, with some quantitative indication given of NPVs or other net benefits expected. The text of the Report should not list individual projects or set out in detail the procedures for appraising them. But where such information is not available Treasury divisions may seek it from Departments.

Running Costs and Manpower

7. The text of each chapter should have a section showing the aggregate baseline provision for running costs and manpower.

Surplus land and empty buildings

8. Departments are also asked to produce updated targets for disposals of surplus land and empty buildings, and latest estimates of their performance against those targets. This information will not be included in the Survey Report, but will be required by expenditure divisions.

Format

9. The editors suggest that the usual conventions are observed on format:-

- i. Texts should be attached to, not incorporated in, a covering note. Typing should be on White A4, 1½ spaced, 1½ inch margin. There should be no heading of the kind "Draft passage for PESC Report". To facilitate reproduction Treasury expenditure divisions are asked to send a top and a spare copy to GEPI division. (see also paragraph 8 below)
- ii. Please avoid the use of capitals as far as possible.
- iii. It will be understood that all figures in the Report are in cash, unless otherwise stated.

- iv. Please write "per cent not "%".
"1987-88" not "1987/88" or "1987-8"
"a year" not "per annum" or "pa"
"£ million" not "£m"

 - v. Please avoid abbreviations except where these are very familiar eg "NATO". Give an initial explanation of unfamiliar abbreviations, thus "Commonwealth Development Corporation (CDC)."

 - vi. In the top right hand corner please type the name of the Department in block capitals eg : HOME OFFICE

 - vii. Please number the paragraphs, or, if the particular piece of text will follow another relating to the same Department, leave spaces for paragraph numbers.

 - viii. Where tables are supplied, years should run along the top of the table, not down the side.
10. Typescript should be submitted in the normal way. Departments are encouraged, if possible, also to submit word processor discs compatible with the machines used by their expenditure divisions - normally Rank Xerox 630 machines.

PREPARATION OF MINISTERIAL AND OFFICIAL LETTERSMinisterial letters

Ministerial letters are only necessary if proposals are made for net additional resources or additional gross running costs. In order to facilitate the task of assembling the information contained in the letters, it would be helpful if they follow the format below as far as possible. For each proposal therefore, the information should be provided as follows:-

- Proposed changes in each Survey Year, set out in tabular form.
- A summary of the extent to which proposed increases are offset by reduced requirements and proposed policy adjustments elsewhere.
- Explanation of why the need for net additional resources arises, including any implications for gross running costs.
- Description of what the additional expenditure is expected to provide and what value for money is expected to be achieved including quantified output and performance data; and for capital expenditure, NPV or similar information justifying the proposal.
- An explanation of the consequences of leaving provision unchanged.

If additional resources are required for more than one reason, the proposals should be listed in broad order of priority.

2. Proposals for changes to nationalised industry expenditure, and local authority relevant current spending should not be covered. Switches out of local authority non-relevant current or capital expenditure should only be proposed, and will only be allowed, where the Treasury is satisfied that explicit policy changes will ensure delivery (whether resulting from policy or estimating changes).

3. Increases for 1986-87 should not be proposed as part of the Survey exercise - any such proposals will be dealt with as they arise through the year as part of the operational control of the Reserve and in year departmental control of running costs and manpower.

Official letters

4. Supporting material provided at official level will be required in two circumstances. First, to provide further more detailed explanation of the proposals outlined in the Ministerial letters, which Departments wish to put forward or which the Treasury may request. The letters should explain how the need has arisen eg policy changes, estimating changes, etc. They should also give details of reduced requirements for provision already in the baseline resulting from revised economic or demographic assumptions, or proposed policy changes. This should be done by setting out the potential reduction in each survey year, in tabular form, together with a brief explanation of how the saving has arisen.

5. Capital and comparable maintenance expenditure proposals should be supported by a summary of the information justifying them. This will normally include details in each case of: a clear statement of objectives; the expected return (eg NPV, and/or other measures of net benefit); alternatives considered; the material factors in the proposed decision; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

6. Second, where a Minister is not seeking any net addition to provision, letters should be sent at official level giving details of any reduced requirements, together with proposed reallocations within the baseline resulting from the Ministerial scrutiny of priorities within programmes. This should include any reallocation between running costs and programme expenditure.

7. For all proposed changes to the baseline, the official letters should also indicate the spending authority concerned and whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control.

8. Running cost and manpower proposals must be separately identified in all cases, whether or not changes for the baseline provision are proposed.

Details of the information required are set out in PESC(WM)86[].

9. Paragraph 19 of the main paper, and Annex E, give details of the information on the economic composition and territorial consequences of proposed changes to the baseline needed by the Treasury. Copies of the form attached to Annex E should be returned to the Treasury with the official letters.

10. All letters should be sent to the Treasury by 30 May. Supplementary information on running costs should be sent in by 6 June [NB may be changed in the light of the timing of the 1986 pay settlement].

INFORMATION ON ECONOMIC COMPOSITION AND TERRITORIAL CONSEQUENCES

The Treasury needs to collect information about proposed changes to the baseline:

- i. departmental running costs: The effects of proposed changes on departmental running costs need to be set out to help monitor the future profile of running costs in total. The figures should be consistent with the detailed breakdowns on forms DRC3 (See PESC(WM)(86)[]).
- ii. other economic categories: Attention also needs to be given to other economic categories, notably the capital/current split and subsidies. This information is given to the Treasury forecasters to help prepare the forecasts for the July Cabinet and the Autumn Statement.
- iii. territorial consequences: ST3 division in the Treasury, the Scottish and Welsh Offices and the Northern Ireland Departments need to work out the consequences for the territorial blocks of agreed bids and savings.

It would be helpful if departments would provide the basic information needed by completing copies of the form attached to this Annex (one, or more if necessary, for each year of the Survey) and forwarding them to expenditure divisions with their official letter by 30 May. Divisions will check the information, particularly on territorial consequences, consulting ST3 and will forward it to the Secretaries.

Name of originator:

Tel No:

Economic Categories

Territorial implications(5)

Bids(1) Reduced Requirements & Offsetting Savings	£m Total cost (3)	Gross Depart- mental Running Costs	Other pay	Other current goods & services (gross of charges)	Fees and charges	Current grants (4)	Current subsidies on goods & services	Capital spending (gross)	Capital receipts	Capital grants	Net lending (by Govt sector) (6)	Wales	Scotland	N.Ireland
---	----------------------------	--	--------------	--	------------------------	--------------------------	--	--------------------------------	---------------------	-------------------	---	-------	----------	-----------

Additional bids

Reduced
Requirements

Offsetting
savings

(1) Please give very brief descriptions so that the editors can cross refer to the Official letters for more information. Downward changes in the estimate of the cost of existing policies should be shown as reduced requirements.

(2) Please list bids and reduced requirements and offsetting savings in the order in which they are covered in the letters.

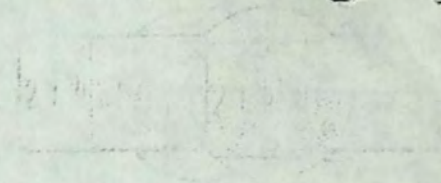
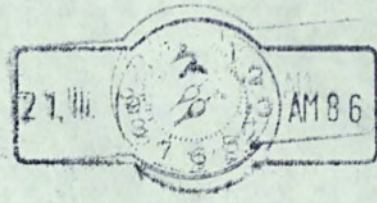
(3) Total cost of bids/reduced requirements/offsetting savings should be shown here if possible; where the cost is split between economic categories, the broad proportions of the cost should be shown under the appropriate heading in cash.

(4) NB: subsidies aim to reduce or remove prices, grants do not.

(5) Please indicate if possible whether bids/reduced requirements/offsetting savings have territorial implications eg by "yes", "no" or "some".

(6) Please indicate with C or NC beside each item whether the net lending is on commercial terms (C) or not (NC). NC should include both net lending at a subsidised rate and in circumstances where commercial lending would not be forthcoming.

PLEASE CONTINUE ON SEPARATE SHEET IF NECESSARY (spares can be produced by photo copying blanks)



CCB9



FROM: CHIEF SECRETARY
DATE: 18 March 1986

Prime Minister 2

DHS

18/3

PRIME MINISTER

PUBLIC EXPENDITURE: 1985-86 OUTTURN

The PSBR published today shows that we are expecting the outturn for the public expenditure planning total in 1985-86 to be £133.9 billion. This figure is slightly below the last Budget's planning total of £134.2 billion.

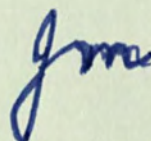
2. The major part of the estimated underspend of £0.3 billion represents an allowance for slippage to 1986-87 of some back pay due to teachers following their 1985-86 pay settlement; and there is still uncertainty about the outturn, particularly in relation to local authority expenditure. But if our estimate is validated, it will represent an important achievement, being the first time since 1982-83 that the planning total has not been exceeded in the course of the year. Not only is this achievement important in itself, in helping to keep the PSBR this year within the figure in last year's Budget; it will enhance the credibility of our expenditure plans for future years and our macro-economic strategy generally.

3. This welcome outcome has meant some difficult decisions. It has required us to keep firmly and strictly to existing cash limits and other controls; and colleagues have also played their part by avoiding overspends or taking action to offset potential claims on the Reserve. I am most grateful for everyone's co-operation, particularly following my minute to you of last October which warned of the prospect of an overspend.

CONFIDENTIAL

4. It is I am afraid already clear that 1986-87 will probably be another difficult year. But I hope, with the same cooperation of colleagues from the outset, that we will again be able to register an outturn within plans.

5. I am copying this minute to other members of the Cabinet and to Sir Robert Armstrong.



JOHN MacGREGOR

CONFIDENTIAL

CONFIDENTIAL



18 III 1986



10 DOWNING STREET

From the Principal Private Secretary

17 March 1986

Thank you for your letter of today's date about the outcome of the recent meeting of Ministers on public expenditure matters.

I am sorry that my record of this meeting has given rise to misunderstanding in the Northern Ireland Office. But I am clear that the exercise commissioned at the meeting was to go further than simply checking the expenditure facts. It is perhaps worth pointing out that the remit to the Cabinet Office was phrased in tentative terms - "What flexibility there might be in the next PS round for taking any remedial action which might be agreed".

I am sending a copy of this letter to Brian Unwin (Cabinet Office).

N.L. Wicks

Jim Daniell Esq
Northern Ireland Office



March 12th 1986

My dear Nigel,

Thank you for your letter about my proposals for the Budget. Of course, I appreciate that the contents of the Budget are for you to decide.

However, we will as a Government have to return later this year to the problems of homelessness, which is continuing to rise - with grave social and political consequences - as well as the problems of the large City estates until we can privatise them.

It was thoughtful of you to draw my attention to the article in 'Today', which I'd overlooked. I suspect that you may be the only member of the Cabinet who reads this paper - I'll have to scan it more carefully!

I do hope that we might be able to have a word about this structure. Yours ever
Peter

CUBG



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 March 1986

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1

Pamie Nister 4
DHL
13/3

Ken Baker

ML

PUBLIC EXPENDITURE WHITE PAPER

Thank you for your letter of 25 February suggesting a number of public expenditure measures for the Budget. I have discussed your proposals with John MacGregor.

I firmly believe that it is best to consider public expenditure priorities in the context of the annual Public Expenditure Survey, and to confine the Budget to tax matters. There have of course been one or two exceptions to this general rule in the past, but they have been relatively few in recent years, and I hope they will be fewer still in the future.

While I do not therefore want to include your proposals in the Budget, I found it helpful to have this indication of your priorities. If there are any measures which you are particularly anxious to get ahead with now, you may want to get in touch with John, who would be happy to discuss reordering priorities within your existing expenditure plans for 1986-87. If, however, you want to seek additional resources, or to reorder your priorities for 1987-88 and later years, John's minute of 6 February to the Prime Minister suggests a way forward.

Meanwhile, I am grateful for your pre-Budget thoughts. But I must say that I am concerned at the growing tendency for colleagues' representations to appear in the newspapers, which certainly does not make it any easier to consider them properly. There is an example on the front page of "Today" for 11 March, headed "Budget Plan to Beat the Burglar", setting out one of the proposals which you and Douglas Hurd have urged on me. I very much hope this is not going to become a regular feature of the Budget process.

I am copying this letter to the Prime Minister and Douglas Hurd.

Nigel Lawson
NIGEL LAWSON

Leon Pol

PUBLIC EXPENDITURE

PT 34





CEBA

Prime Minister²

QUEEN ANNE'S GATE LONDON SW1H 9AT

Re Hurd's comment
on Mr Baker's Budget
representations.

6 March 1986

DLW
6/3

~~DLW~~
m

~~DLW~~

Dear Nigel,

will request if required

I should like to support the line suggested by Kenneth Baker in his letter of 25 February, particularly as regards crime prevention.

Crime prevention schemes can be beneficial not only as regards their immediate effect in reducing crime, but also in providing employment and improving relations between the police and the public. Properly targetted, they can help reduce the risk that we will have riots in our inner cities this summer. It is, of course, impossible to prove the precise relationship, but it remains my judgment that some demonstration in the budget that the Government has the activities described by Kenneth Baker well up its list of priorities, and is taking initiatives to bring some kind of improvement, can reduce the sense of hopelessness which provides the climate which the criminals and political extremists can turn into riot.

The cost of disorders, not only in the long-term effect on our society and economy, but in the short-term as regards dealing with the damage and the irresistible demands for further expenditure on law enforcement, are so great that it may well be worth taking out some extra insurance.

I am copying this letter to the recipients of yours.

Love,
Douglas

ECON POL

PUBLIC EXP.

PT 34

✓ cc B9



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

N807

4th
 + March 1986

Dear Malid,

PUBLIC EXPENDITURE: 1985-86 OUTTURN

with DEN

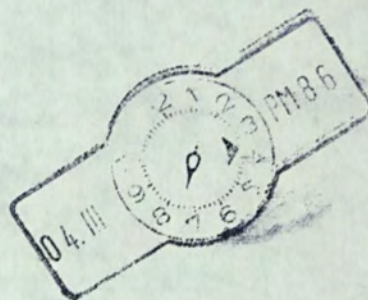
Thank you for your letter of 26 February. Since you were able to accept the housing package proposals in my letter of 25 February we can regard the position on this as settled. I note that you will be responding separately on the industry package in the next few days.

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, Kenneth Baker, other members of E(A) and Sir Robert Armstrong.

Yours,
 JH

JOHN MacGREGOR

ECON POL PUBLIC EXPEND : PL34





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CCBG

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

28 February 1986

Dear Chief Secretary.

PUBLIC EXPENDITURE: 1985-86 OUTTURN

As foreshadowed in my letter 26 February I am now in a position to reply to the proposals in your letter of 25 February about the industry package.

I must re-emphasise the point which I made at our meeting on 4 February that the written agreement by my officials, to which you refer was to offset the additional expenditure on regional assistance if other Departments' forecasts that they would have no underspending on regional assistance remained firm. They have not done so. Paul Channon is now forecasting a very substantial underspend. I have made the point in my letter to him yesterday about provision for 1986-87 that this year's forecast outturn for the three Departments involved is very close to their aggregate provision. What went wrong was the distribution of provision between Departments, which was recognised at the time it was done to be very crude.

Notwithstanding my view on this issue of principle, I have tried to be helpful. Having offset about a third of the original forecast of additional spending at the time we identified later a further very substantial offset in the form of a reduction in NSHEB's EFL. My letter of 12 February contained no suggestion whatever that I anticipated that you would rule this out. George Younger made it absolutely explicit in his letter to you of 9 December that he was offering the reduction as an offset against any future calls on the Reserve. We received no indication from you that this would not be acceptable. Is it reasonable for you to seek to take a different view after all this time?

Your problem is to keep additional spending within the total which we have set for the Reserve this year. I have been obliged to incur a small part of that additional spending and you are pressing me to specify other areas of my programmes where spending will be less than planned. I am doing so by pointing to the reduction in NSHEB's spending against its planned EFL. I do not see how you can say that the reduction does not count. Neither do I agree your argument for doing so. I accept that, in

principle, EFLs are ring fenced for the purposes of the Survey discussion, although I understand that you agreed to some of Leon Brittan's bid in the last Survey being offset from reductions in EFLs within his programmes. However, I know of no agreement that ring fencing applies for the purpose of the arrangements governing calls on the Reserve. I must press you again to let matters rest on the basis of George Younger's letter of 9 December.

I am pleased to be able to let you know that my additional spending on regional assistance is now forecast to be about £5 million less than we had been expecting. The amount not already offset is therefore only £9 million. The EFL reduction is therefore over £3 million more than the amount to be offset.

I said in my letter of 12 February that I could not find other reductions but in order to be helpful we have carried out another detailed examination of my Votes to see if anything could be found. The forecast underspending which has emerged as we come nearer to the year end is very modest, amounting to about £2.4 million in total spread across six Votes. When we met on 4 February I stressed the considerable political importance of the SDA and HIDB being allowed to use their excess capital receipts. I very much hope that on the basis of the EFL reduction you will now be able to agree to this.

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, other members of E(A) and Sir Robert Armstrong.

Yours sincerely
Andy Rinning

ANDY RINNING
Private Secretary

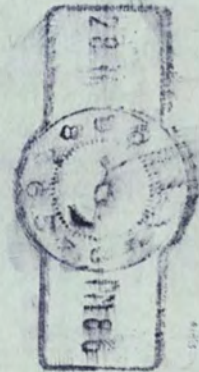
Approved by the Secretary of State
and signed in his absence

ECON POL

Public Appointments

PT 34

Faint, mostly illegible text, possibly bleed-through from the reverse side of the page.





CC BG
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

26 February 1986

NBN

Dear John

PUBLIC EXPENDITURE : 1985-86 OUTTURN

Thank you for your further letter of 25 February in response to my letter of 12 February setting out proposals for dealing with the calls which I have been obliged to make on the Reserve in relation to regional assistance to industry and housing support grant.

I entirely accept that the proper course in relation to English local authority capital overspending is to eliminate it and that you are trying to do so. My proposals have always related to the arrangements which are appropriate until such time as you succeed and I shall continue to approach the matter in that context.

I have no difficulty with your wish to keep the housing and industry packages separate or with your proposal that the £3.5 million surrender to the Reserve from my SO/LA2 cash block should be wholly regarded as offsetting the need for additional housing support grant expenditure. (I was, incidentally, taken aback at your suggestion that I had in any sense gone back on my agreement to surrender the £3.5 million simply because I proposed to apply part of the surrender as an offset within the industry package.) I remain disappointed at your stance on the question of the SSHA's potential tax liability but I reluctantly accept that we shall have to return to it in 1986-87, if it arises.

Since I am accepting your housing package, I have instructed my officials to proceed immediately with arrangements for bringing forward the outstanding HSG Order. We are now absolutely up against the time limits for carrying it through this year.

I shall respond separately to you on the industry package in the next few days.

I am copying this letter to the Prime Minister, Nicholas Edwards,
Paul Channon, Kenneth Baker, other members of E(A) and
Sir Robert Armstrong.

*Yours ever,
Malcolm*

MALCOLM RIFKIND

ECON POL: Public Expenditure: Pt 34

I am copying this letter to the Prime Minister, Mr. Robert A. Brown,
Paul Charbon, Kenneth Baker, the members of the
and

[Faint handwritten notes and scribbles]

UNIVERSITY OF



UNIVERSITY OF

^{FINE}
SECRET

SRW 8



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	LCO	MOD	MAFF	CO
	FO	WO	DOT	
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	HO	DHSJ	PAO	
	DES	COL	SO	
			JT	

10 DOWNING STREET

25 February 1986

From the Private Secretary

Dear Richard,

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

The Chief Secretary's minute of 6 February to the Prime Minister set out a possible new approach to handling proposals for additional spending in the Survey. The Prime Minister is content that it should be adopted this year.

The Prime Minister asks her colleagues to give their closest personal attention to avoiding requests for additions to their programmes. With public spending already far too high, pressures for still higher spending should be met by reordering priorities and by greater efficiency, not by seeking extra resources.

I am copying this letter to Private Secretaries to members of the Cabinet, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

Yours ever,
David

(DAVID NORGRÖVE)

Richard Broadbent, Esq.,
Chief Secretary's Office,
HM Treasury.

SECRET

JB



CCBG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Whitehall
London
SW1

NBN

25 February 1986

Dear Malcolm,

PUBLIC EXPENDITURE: 1985-86 OUTTURN

Thank you for your letter of 12 February which responds to my points on your regional assistance and housing overspends. *at trap*

You say that you do not wish to pursue your arguments about English LA capital overspending at this stage, but may want to return to them later. You will not expect me to change my view on the subject. The right answer is to deal with English overspending and that is what I am trying to do.

I note that there are two respects in which you are unable to accept my housing package. First, you appear to have gone back on your offer to surrender to the Reserve the £3.5 million not required for allocations under SO/LA2. I must hold you to your original offer to surrender the full £3.5 million. It is most unlikely that the underspend on the two cash limits will be sufficient to offset all the additional money that you require for HSG. The £1.8 million would therefore, in effect, have to come from the Reserve.

Second, you press me to give a firm undertaking to help you with the problem of the SSHA's tax liability if it arises. I am not pressing you to hold back allocations to cover the SSHA tax liability. But you cannot expect me to give you a firm commitment at this stage to help you with the problem; indeed the presumption must remain that the sum will be found from savings in the expenditure under your control. I shall be prepared to consider the funding of the SSHA's tax liability in the light of the general public expenditure considerations at the time.

ECON POL
Public Exp PT34,

As regards your overspend on regional assistance, you will have seen Paul Channon's letter of 14 February making clear that he cannot find the savings necessary to release his underspend on regional assistance.

Given the position on SO/LA2 I cannot accept that any of the reduction there is available to offset your regional assistance overspend. Your letter suggests that in putting forward the reduction in the NSHEB's EFL as an offset you were aware that EFLs are ring-fenced from other public expenditure. This is not an abstract concept. It is a long established principle that EFLs are ring-fenced from spending on other departmental programmes. The control regime is different. EFLs depend on views about future trading conditions as well as Ministers' intentions for the industry. There is no justification for allowing say higher revenue reflecting improved trading conditions to be transferred to a department's programme to be spent on unrelated activities.

I approved your Winter Supplementary following the specific written agreement by your officials that the increased expenditure would be offset by savings, should a transfer of regional assistance from another department not be available. In his letter of 26 November George Younger referred to this agreement, and assured me that he would do everything possible to avoid an overspend on his Votes. I am therefore very disappointed that you are now saying that you cannot find any savings on your Votes. I must ask you to look again. If you can offer savings to offset a reasonable part of the £14 million overspend I will, I must say with reluctance, be prepared to accept some claim on the Reserve; and agree to the SDA and HIDB using their excess receipts.

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, Kenneth Baker, other members of E(A) and Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR





2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

Prime Minister 2

The total cost of all
these measures were
adopted would be
£150m in 1986-87

My ref:

Your ref:

25 February 1986

Don Mitchell

25/2

PUBLIC EXPENDITURE WHITE PAPER

At Cabinet on 13 February I indicated my hope that you might find it possible to include in the Budget some modest cost-effective public expenditure measures which would nevertheless be highly attractive in political terms. The measures would be labour intensive, and would all be capable of implementation in 1986-87 without serious carry-over into later years.

There are a number of initiatives possible within the framework of our overall strategies and policies. Within my own responsibilities, I have given further thought to the sort of measures which I believe colleagues will find attractive, where we could bring forward necessary expenditure and make a visible impact on some of the problems which are increasingly coming to concern ordinary people.

The following measures concentrate primarily on leveraging in private sector finance, and on jobs. Together, they would make a coherent package;

i Crime Prevention

There is growing public anxiety about crime. Accordingly, I suggest we should support, through the UP, low-cost physical security measures - window locks, doors chains, etc - in the homes of vulnerable people in high-crime areas. This programme would follow directly from the Prime Minister's 8 January seminar on crime prevention. A scheme has been successfully piloted in Hammersmith and Fulham.

We could spend £20m in 1986-87 on a major attack on this problem and reach almost half a million homes. This might support about 1,000 jobs.

ii Improvement and Privatisation of Council Estates

We want to break up, as fast as possible, the monolithic housing estates, and give the people who live there more control over their own lives and a greater stake in their own surroundings. We should therefore build on the successful launch of my Urban Housing Renewal Unit to target local authority expenditure on turning round run-down council estates, improving their management, and getting the private sector in. I had allocated £50m of my Housing Programme for this purpose in the coming

year, but that figure is already substantially over-subscribed. We must not let slip the opportunity to exploit to the full the potential of this powerful catalyst to privatisation. We could spend up to an additional £50m in 1986-87. The work could support about 6,000 jobs.

iii Start-up Units for New Businesses

It is vital to get small businesses moving fast in the inner cities but also in areas of acute rural poverty. I propose therefore that we extend the UP and Development Commission programmes of providing managed workshops and start-up units in inner city and rural development areas where private providers have not yet moved in. These programmes have demonstrated their cost-effectiveness as a way of creating permanent jobs, and we could get up to 2,000 employment opportunities out of £20m in 1986-87.

iv Derelict Land Clearance

Our new strategy for derelict land clearance is proving very effective and popular. We concentrate very heavily on hard end uses, to provide sites for new industry and commerce with its associated job opportunities, and at the same time to take pressure off the Green Belts. The present programme is barely keeping pace with growing new dereliction. £50m in 1986-87 would make visible and tangible improvements in a very short space of time by clearing a further 800 hectares.

These seem to me the most attractive propositions. There are other measures I could bring forward if resources were available. The figures are a realistic estimate of what could be achieved within 1986-87, and we could control the programmes to stop any serious carry-over into 1987-88. The measures would, however, not just give short term results, but would also have useful longer-term benefits. They would encourage and promote self-help, and would stimulate initiative in those communities where they are most desperately needed, and where it is vital to change, by every means we can, the depressing and defeatist culture of total reliance on the public sector.

There would also be political attractions in increasing the Housing Corporation's allocation by, say, £10m to enable it to fund very deserving schemes in Shire areas in the south of England which have had to be put on ice because of my request to the Corporation to concentrate on stress areas. These include sheltered schemes for the elderly, the disabled and mentally handicapped, and other special needs groups, which will virtually stop next year. However, expenditure of at least an equal amount would have to be carried forward into the next year to complete the schemes.

I am copying this letter to the Prime Minister, and to Douglas Hurd, David Young, Paul Channon and Kenneth Clarke as the other Ministers directly involved.

Kenneth
KENNETH BAKER

The Rt Hon Nigel Lawson



010

CONFIDENTIAL

CEBG



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

Princie Porter 2

JHS

24 February 1986

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Dear John

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

I have a good deal of sympathy with your analysis of the way that the public expenditure planning round has been working. I think it right that any additional bids should be put forward by Ministers personally, and the timetable you suggest will give us more time to look critically at the analysis coming forward from our Departments.

I note that the additional bids will be put together by the Treasury to form the basis of the July Cabinet paper on public expenditure. It would help us all to prepare for that if a summary of the proposals you receive in May could be circulated to colleagues as soon as they have been assembled. And to provide some basis for a meaningful discussion on spending priorities, I hope the Treasury will find it possible to circulate information, in some detail, on the reasons for the additional bids which colleagues have found it necessary to put forward.

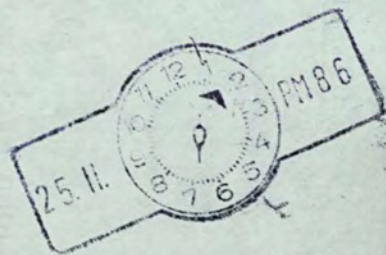
I am copying this to the Prime Minister, to Cabinet colleagues, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

John MacGregor

Nicholas Ridley

NICHOLAS RIDLEY

CONFIDENTIAL



D. P.
CONFIDENTIAL

PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

No Ministers have commented on the minute to you, attached, from the Chief Secretary.

Content now to agree the proposal, with a strong statement of the need for Ministers to make every possible effort to offset increases in expenditure through offsetting savings and improved efficiency?

*Y
no net*

DN

DN

24 February, 1986.

CONFIDENTIAL

JD56



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CCBG

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

12 February 1986

Dear John,

PUBLIC EXPENDITURE : 1985-86 OUTTURN

Thank you for your letter of 7 February setting out your position following our meeting on 4 February.

You do not mention our discussion of the implications for Scotland of the substantial and continuing capital overspending by English local authorities. I remain wholly unconvinced by the argument that we should disregard the indefensible distortion which it introduces into the normal operation of the arrangements for the Scottish and Welsh blocks and the blatant inequity involved in relation to access to the Reserve. (This inequity is starkly illuminated by the fact that you are already citing difficulties with the 1986-87 Reserve, to which the forecast £300 million overspend by English local authorities must be a major contributing factor at this early stage, as a justification for imposing penalties on my local authority capital programmes next year.) However, in view of my need to resolve the outstanding points involved in our discussion of my calls on the Reserve this year, I am prepared to leave for longer term discussion, in the context of the forthcoming Survey, the need to recognise the genuine level of provision for comparable programmes in determining the Scottish and Welsh blocks.

Turning to the immediate problem of this year, my main priority is to secure your agreement to the use by the SDA and HIDB of their increased capital receipts. Since our meeting this problem has come to the attention of the media and brought closer the possibility of the serious political damage which both George Younger and I had predicted. The problem has been linked by the media with several other issues which in themselves require careful political handling, including the review of the SDA and the closure of Gartcosh. It is imperative politically that I am able to announce a favourable outcome on the receipts issue as soon as possible. You will be aware that the amount of money involved has diminished significantly, due to changes in the timing of some of the receipts, and it seems to me absurd to risk a major political reverse for the sake of sums which must be marginal to your calculations on the

Reserve. I have to point to the fact that political considerations have in the past been deemed sufficient by colleagues to justify refraining from additional restrictions through the local authority capital expenditure control system in England, which would have enabled the scale of overspending to be curtailed by amounts which dwarf those at issue in relation to my problems with the SDA and HIDB. I hope therefore that you can agree immediately that I should inform the SDA and HIDB that they may spend their increased receipts, which would not add to my claims on the Reserve.

In order to move towards a solution of our other disagreements, I am happy to make an offer to cover the balance of the additional expenditure on assistance to industry, £14.1 million, without prejudice to the outcome of your separate correspondence with Paul Channon. I would propose to meet this primarily from the reduction in the NSHEB's EFL surrendered in December, in response to your request to George Younger for help with your problems on the Reserve which now amounts to £12.3 million. I suggest that the first £1.8 million of the reduction which I have agreed to make in my SO/LA2 cash block should be regarded as contributing the balance. (I have examined all my other Votes and am unable to offer alternative reductions.)

I appreciate that earmarking £1.8 million of the reduction in SO/LA2 for this purpose would, if we cannot agree my right to call on a share of Paul Channon's forecast underspend on RDG, leave less of my increased obligation to pay housing support grant covered by definite offsetting reductions. In the circumstances, I would be prepared to set aside my objection in principle to your proposal that I should be penalised in 1986-87 by loss of end-year flexibility on both the SO/LA2 and SO/LA1 cash blocks. However, I can only do so if you are prepared to go further than you have gone in relation to the possibility of a substantial tax payment by the SSHA next year.

I explained at our meeting that reductions are only available from within SO/LA2 because of the substantial unallocated margin which was kept, in good faith, to cope with the uncertainty about SSHA tax. You suggest, in effect, that I should be able to do the same thing next year. Quite apart from the question whether it would be justifiable that I should be asked to do so, you are mistaken in suggesting that there should be little practical difficulty. Virtually all of the SO/LA2 provision has already been notified to authorities through provisional allocations. Such unallocated margin as there is has to meet my legal commitment to allow authorities to carry forward their underspending from this year. This claim arises to the extent that underspends exceed overspends which attract penalties. In other words the same circumstances which would maximise the net underspending on the cash block this year and thus provide you with the greatest help with the Reserve will give me the greatest problems next year. Having already reaped this benefit yourself, it is surely reasonable that you should give a firm undertaking to help me with the problem of the SSHA's tax liability if it arises.

As I have mentioned above, your approach to Paul Channon's underspending on RDG is central to the overall arithmetic of my difficulties. I continue to believe that it is contrary to earlier understandings that you should seek to deny me access to that underspending on the grounds that Paul's programmes make other calls on the Reserve. However, even if one were to accept your view on that point I find it very difficult to regard as reasonable the terms of your

letter of 7 February to Paul. I had understood your difficulties with the Reserve to be a matter of simple arithmetic. The planning total has been collectively agreed and we all accept that its relationship to outturn is a matter to which some importance is normally attached. On that basis I, and other colleagues, have done our best to meet you in terms of matching pluses and minuses. Your letter to Paul, however, attaches considerable importance to more abstract concepts, such as ring fencing, which you use to argue that some reductions in public expenditure do not count as minuses in the balancing up exercise on which we are all engaged. I am bound to say that I find this approach artificial. At various stages this year my programmes have suffered very real, and politically difficult, reductions and you continue to press me, while at the same time apparently ruling out of account quite substantial reductions in public expenditure on grounds which seem to me to be divorced from those hard realities.

I am copying this letter to the Prime Minister, Nicholas Edwards, Paul Channon, Kenneth Baker, other members of E(A) and Sir Robert Armstrong.

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND

ECON POL

PUBLIC EXPENDITURE

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7

PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

Below is the minute you discussed in advance with the Chancellor, Chief Secretary and Lord President about the handling of public expenditure bids in the next survey.

There is a question when you should reply.

If you reply immediately it would look like a put up job and you will be appearing to stifle discussion of the proposal.

If you reply too late, a bandwagon against the proposal could build up which might mean in the end that the Chief Secretary would have to back down - bad for him in advance of the survey.

I suggest waiting to see how the first one or two comments come in. If they are strongly against then you can consider whether and how to intervene. The merits of the Chief Secretary's proposal are arguable, as you pointed out when it was discussed. But it is important that he should not appear to be defeated on a matter of this kind.

Content to wait for the first replies before you consider your own?

DN

yes not

David Norgrove

10 February 1986

CONFIDENTIAL

CC DG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1A 2AU

NBN

7 February 1986

Dear Malcolm,

PUBLIC EXPENDITURE: 1985-86 OUTTURN

I have now considered the position following our meeting on 4 February to discuss the issues raised in my letter of 28 January to you.

On Regional Development Grant, you will see that I have written to Paul Channon asking whether he is prepared to find genuine savings to offset the RDG provision he has offered to help with your overspend. This is now a matter of some urgency and I hope that you will be ready to respond quickly when I receive Paul's reply.

On housing, you agreed to surrender to the Reserve the £3.5 million allocations that you do not require for Housing Defects Act expenditure or to help authorities who, through no fault of their own, have fallen short of the level of receipts estimated when giving them their initial allocation. This will offset part of the £20.3 million required for HSG. However you said that you were not prepared to agree that the remainder of the sum required should be offset against any shortfall on your cash limits SO/LA2 and SO/LA1 to the extent of reducing carry forward into 1986-87 under end-year flexibility. You argued that the Reserve would benefit from this underspend in any case and that the problems of the Reserve in 1985-86 should not prevent additional expenditure, justified by end-year flexibility, in 1986-87. On similar grounds, and since there was still uncertainty about the amount required, you said that you were not prepared to agree at this stage to meet any tax payments by the SSHA in 1986-87 within your baseline.

I have considered the position further and cannot agree to relax the requirement that the remaining sum required for HSG should be a first call on any underspend on the two cash limits and reduce the scope for end-year flexibility. Were we able to predict precisely the extent

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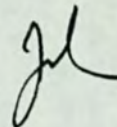
CONFIDENTIAL

of the underspend at this stage in the year I should be pressing you now to reduce your cash limit by that amount and surrender it to the Reserve. Your cash limits would accordingly be reduced and there would be no question of carry forward into next financial year. It is only for practical reasons, because there is still uncertainty about the outturn, that we need to proceed instead in the way I have suggested. And I must emphasize again that the position on the Reserve next year is no easier than this.

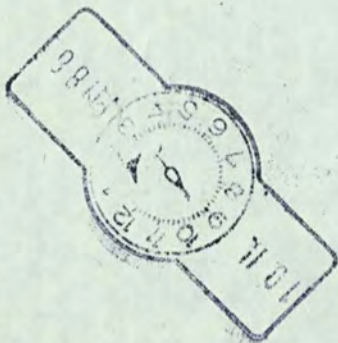
On the other hand, I accept that since you do not yet know the extent of the SSHA's tax liability next year you cannot give a firm commitment to meet the cost within your provision next year. I am therefore prepared to leave this question on one side until the extent of the SSHA's liability, if any, has been determined. But I should make it clear that if there is a liability I shall be pressing you very strongly to meet it within your provision since you have had sufficient warning of, at least, the major part of it.

I am copying this letter to the Prime Minister, Nicholas Edwards, Kenneth Baker, Paul Channon, other members of E(A) and Sir Robert Armstrong.

Yours etc,



JOHN MacGREGOR



CONFIDENTIAL

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FROM: CHIEF SECRETARY

DATE: 6 February 1986

PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

With the 1986 Public Expenditure White Paper now published, we need to decide on the arrangements for the early part of this year's Public Expenditure Survey.

2 In the new Survey we will need to hold to the plans we have set if, as we have claimed, expenditure is to remain broadly stable in real terms and decline as a proportion of national income. It is too soon to make any firm assessment of the difficulties we shall face in achieving that objective. But it is clear that it will not be easy.

3 In the 1986 Survey there will not be room for additions to programmes which it proved possible to make within the overall totals in the last Survey. The privatisation programme is in top gear and additions to the planned level of proceeds cannot be expected. The scope for financing net additions to departmental provision within the established planning totals will therefore be extremely limited. With decisions yet to be taken on local authority current spending, the Reserves are very tightly set, so there will have to be a clear presumption that all departments must seek to live within their existing baselines, with pressures for extra resources met by cutbacks elsewhere and - of particular importance - improvements in efficiency and effectiveness.

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4 Against that background I think we must consider carefully whether the established Survey procedures, particularly in the early stage of the process, are best adapted to the situation we will face. My conclusion is that, in one major respect, there is room for improvement.

5 As I look back over the last Survey and its predecessors, I am struck by the fact that, despite our agreeing programmes in cash - often with great difficulty - at the end of each Survey, by the beginning of the next Survey only a few months later there are bids for further additions regularly amounting to £6 billion or more. Sometimes some of these bids are understandable. But all too often they involve re-presenting bids rejected in earlier Surveys. We then face an uphill task in getting back to the baseline, with exaggerated press reports of Cabinet arguments and the label of "cuts" being attached to the process of rejecting bids for more. In practice, the great majority of bids for net additions to cover new policies have had to be rejected; but the process is wearisome and damaging.

6 I think that the way in which the Survey is conducted in its early stages at official level provides a large part of the reason for this situation. The Survey Report, which performs the essential role of providing an agreed statement of the existing level and objectives of programmes, also provides an occasion for the aggregation of a large number of additional bids.

7 It is in all our interests to keep to a minimum the demands which the public expenditure process imposes on us and the controversy which it stimulates. Given the very narrow margins in the plans, I therefore ask that colleagues should this year give their personal attention to avoiding requests for additions to their programmes. With this in mind I suggest that officials should be asked not to include additional bids (or options for reductions) in the Survey Report.

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8 Instead I ask Ministers personally to scrutinise priorities within their programmes, and make every effort to accommodate upward pressures through offsets and improved efficiency. If, having done so, they nevertheless conclude it is absolutely essential to put forward proposals for net additional resources, they should write to me by the end of May, with copies to yourself, the Lord President and other Cabinet colleagues directly affected, setting out their proposals. These letters should give detailed support to any outstanding bids, explaining why they are unavoidable and what savings they would make if it became necessary to do so.

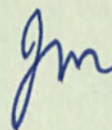
9 This material could then be put together by the Treasury, along with information on any possible options for reductions I might ask colleagues to prepare, and form the basis of my paper to the Public Expenditure Cabinet in July. Before putting that paper to Cabinet I would have the opportunity for a discussion with any colleagues who feel that they have to put forward proposals for additions and see if there is any alternative before bringing them to Cabinet.

10 I envisage that, as soon as possible after the Budget, I shall be making detailed proposals for this year's Survey guidelines, including the question of establishing the baseline for 1989-90, the new third year of the Survey. But I am minuting now on this general procedural change, so that it can be taken into account in the way Departments approach the Survey over the coming months. I do not propose any change in the timetable for the Survey report which would set out the basic facts and figures of Departments' existing plans. We would aim for the final formal document to be circulated before the end of May, the time by which I suggest colleagues should write to me if there are any additional bids that they wish to press.

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11 I am sending copies of this minute to Cabinet colleagues, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of the letters 'jm' in a cursive, stylized script.

JOHN MacGREGOR

SECRET

COMMUNICATIONS

11



SUBJECT
cc Master.

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DGQAVL

5



cc: Mr. B. Unwin, CO
Prof. Griffiths.

10 DOWNING STREET

From the Private Secretary

4 February 1986

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

The Prime Minister today discussed the Chief Secretary's minute of 31 January with the Lord President, the Chancellor of the Exchequer and the Chief Secretary.

The Chief Secretary explained that the proposals in his minute were designed to encourage a presumption against additional bids: officials would no longer produce them for the Survey report and if a Minister had to put his name to them bids would probably be scrutinised more carefully. The Prime Minister expressed some concern that the proposals could mean that Ministers' own personal standing would become even more closely engaged in support of their bids than it was at present. It was, however, agreed that the proposals were worth a try for the 1986 Survey.

It was also agreed that last year's Chequers discussion of public expenditure priorities should not be repeated this year: its result had on balance probably been to increase the pressure for higher spending. If colleagues wished to have a discussion of priorities this could be taken at the usual July public expenditure Cabinet.

The Prime Minister felt it would be useful for colleagues to have a presentation on the UK's economic performance, particularly by comparison with its competitors, before the public expenditure discussions began. Some aspects would be discussed at Cabinet on 13 February, and the Chancellor agreed to consider a presentation at No. 10, perhaps by Sir Terence Burns, on a Friday morning before the public expenditure round began. The timing of a presentation would need to be further considered, and it would not be mentioned to colleagues at this stage.

In a brief discussion of some individual spending programmes, it was agreed that, whilst spending on law and order should remain a high priority, the level of police pay was probably now excessive. But it would be difficult to rein it back. The Chief Secretary drew attention to the very limited areas in which it would be possible to look for

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savings. The Lord President was very doubtful about the scope for securing savings in territorial provision during this Parliament, but agreed that it was right for the proposed review to go ahead.

I am copying this letter to Joan MacNaughton (Lord President's Office) and Tony Kuczys (H.M. Treasury).

David Norgrove

SNH

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

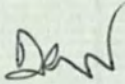
PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

You are holding a meeting to discuss the Chief Secretary's minute of 31 January. Mr. Unwin and the Policy Unit have commented.

The Treasury proposal looks to be worth a try, though I doubt myself that it will make much difference one way or the other.

Lord Whitelaw (and Brian Unwin) did a magnificent job last year in bringing the Star Chamber to a successful conclusion. They held I think around 30 meetings in the space of some two weeks. The Lord President was from time to time very depressed during this process and everything possible must be done to try to relieve the strain both on him and on the system which has evolved in the past few years.



(David Norgrove)

3 February 1986

DCA.02

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PRIME MINISTER

3 February 1986

HANDLING THE 1986 EXPENDITURE SURVEY

The Chief Secretary's proposals for changing the Survey are attractive and ingenious. The habits of putting in additional bids and taking every minor dispute to Star Chamber have become too deeply engrained. The Treasury are right to try to recover some ground. It is, anyway, worth changing the rules just to knock departments off balance.

But there is a risk that introducing a stronger presumption against every single additional bid may be so tough as to be unworkable. The Chief Secretary wants a system where a Minister only writes requesting an additional bid, copying the letter to you, in the most exceptional circumstances. But many spending Ministers will be able to point to estimating changes in their programmes arising from new inflation or interest rate forecasts. If 25 letters come through your office, each one beginning with a long account of how economic assumptions have changed, the exercise will be less effective. How about restricting the special letter to other bids?

The summer expenditure Cabinet will become more important. Hitherto, the judgment has been that Ministers are more likely to put their heads in the noose of sticking to the baseline if they are not confronted with the implications of that decision for individual programmes. A more open discussion of what that means increases the risk that the total will not be endorsed. I believe this risk is worth running, but you should be aware of it.

David Willetts
DAVID WILLETTS

SECRET



CCBkup

2

Prime Minister

P 01898

MR NORRGROVE

From: J B UNWIN
3 February 1986

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY (CHIEF SECRETARY'S MINUTE OF 31 JANUARY)

You may like to have a few comments on the Chief Secretary's minute, the background to which I have discussed with Treasury officials in the light of last autumn's Star Chamber experience.

2. The Treasury have considered, and rejected, a number of more radical options for changing the annual public expenditure procedure. These range from a drastic curtailment of the Survey report itself (a massive exercise, of which only the tip of the iceberg eventually enters into the decisions that Ministers have to take) to a radical new treatment of local authority spending (eg scoring as public expenditure only that element financed from central government funds). Treasury Ministers have, however, rejected any such radical changes and the only new proposal in this note is the treatment of additional bids.

3. As you know, the PES report has tended to become a Christmas tree for adornment by Departments with long strings of additional bids. As the Chief Secretary comments, their purpose has become debased over time and in general they now serve primarily to stake out the negotiating position of the Minister concerned. This has in turn driven Treasury officials to write into the report offsetting savings options which both they and Departments know to be politically unrealistic, but whose inclusion has become a standard element in the ritual.

4. The Chief Secretary now proposes, therefore, that officials should not include additional bids in the PES report itself (presumably the Treasury would in return exercise a self-denying ordinance on proposals for offsetting savings); but that a Minister who feels he must table such bids, should do so personally in writing to the Chief Secretary by the end of May. This would then enable the Chief Secretary to discuss these before making his report to Cabinet in July.

5. I think that there are some risks in this for the the Treasury. I suspect that spending Ministers will respond to the Chief Secretary's invitation with not many fewer additional bids than would have been tabled by officials under the old rules



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in the PES report. Such bids would also then imply a greater degree of personal commitment by the Minister concerned, making it more difficult for the Chief Secretary to discount them when preparing his July report to the Cabinet. The net effect, therefore, might be to make the subsequent bilaterals (and the fall out to the Star Chamber in the autumn) more rather than less difficult.

6. If the Prime Minister arranges a discussion, I think that it would be worth exploring this possibility further with the Chief Secretary. Is he really confident that it will make his task easier? Is there not a risk that he will find his hands more tied at the July Cabinet than they would have been under the old system, despite its defects? If, however, the Chief Secretary is convinced that this change is worth a try - reinforced by strong support from the Prime Minister on the lines that only absolutely unavoidable bids should be submitted by Ministers under the suggested new procedure - then the new idea had better be given a run.

7. The Chief Secretary has no new suggestions of substance on the Star Chamber. He merely suggests that the Prime Minister should warn the Cabinet in July that the Star Chamber would be working rigidly within whatever margin was left within the plans after his bilaterals with spending Ministers. This is in fact the basis on which the Star Chamber has already operated. The catch is that Departments do not, and will not, trust the Treasury. Just as they try on additional bids themselves purely for negotiating purposes, they know that the Chancellor and Chief Secretary will always have some magic device up their sleeve to help square the numbers when the crunch comes. As the Chief Secretary says, the asset sales card has probably now been played to its maximum; but colleagues will not be convinced that, at the end of the day, there is not some other legitimate scope for "massaging" the figures (eg through the Reserve assumptions or the economic assumptions and derived revenue projections).

8. I suspect, therefore, that it is wishful thinking to suppose that any exhortations in July about the role of the "Star Chamber" will have any significant deterrent effect. That said, however, it will clearly be important to keep to a minimum the issues going to the Star Chamber. Last autumn's Star Chamber agenda was the biggest so far, and I think it was clear to all involved that it would be extremely difficult to cope successfully with any more. However, the alternative - taking more issues at Cabinet itself - would for a number of obvious reasons create even greater problems; so that there is no feasible alternative to the Star Chamber or something like it.



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9. The Chief Secretary's minute does not mention the possibility of another priorities discussion by the Cabinet like the one at Chequers last July. This is because Treasury Ministers do not want one. They regard it as an unnecessary interference in the Survey process, which is likely from their point of view to do more harm than good. If, however, a meeting is held, the Prime Minister may wish to raise this. My own view last year was that on balance it did serve a useful purpose. On the negative side, it at least prevented members of the Cabinet from being able to argue that they had had no opportunity to discuss expenditure priorities. More positively, some themes emerged that were carried through and influenced the subsequent discussions. Most notable was the general feeling that the time had come to start reining back on defence expenditure. I felt that this did play a part in the Star Chamber's deal with the then Defence Secretary which, though short of the Treasury's aspirations, nevertheless marked a significant change in the pattern of defence budget expenditure.

J B UNWIN



SECRET



FROM: CHIEF SECRETARY

DATE: 31 January 1986

PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

I have been considering what lessons we should draw from the 1985 Public Expenditure Survey for the handling of this year's exercise. This minute sets out my conclusions. I also attach a draft of a minute that, if you are content, I propose to send to Cabinet colleagues.

Outcome of the 1985 Survey

2 In all the circumstances I think the outcome of last year's Survey was reasonable. For 1986-87 and 1987-88 it was possible to hold to the planning totals set at the time of the 1986 Budget. The revised plans, detailed in the latest public expenditure White Paper, show that there is now the opportunity to turn the corner and break the upward trend of spending. The plans have been reasonably well received by commentators and the markets. And we are beginning to get across the message about value for money.

3 But we need to recognise how we were able to hold to the planning totals. Provision for total departmental expenditure in 1986-87 was increased by £4 billion, in large part as a result of demand led increases (particularly in social security following the inflation 'blip' in 1985); and to provide for local authority spending. £1½ billion of this was accommodated by the normal process of allocating money from the Reserve as plans for the forward years are firmed up. The other £2½ billion came from extra privatisation proceeds, without which it would not have been possible to balance the books. As in 1984, only a few departments found savings from changes in policy.

Prospects for the 1986 Survey

4 If we are to hold to our strategy, we need to stick to the published plans and achieve our objective of holding expenditure level in real terms.

5 This will be extremely difficult:

(i) our present provision for local authority spending is unrealistically low. In the last Survey we did not decide on local authority current spending for 1987-88 and 1988-89 although we provided some extra money in the Reserves for those years. Realistically, local authority spending is likely to absorb all the extra money we will have available in the Reserves to allocate to programmes;

And public sector pay is becoming ever more difficult

(ii) extra privatisation receipts will not be available. The programme is now in top gear.

6 In the next Survey, therefore, all additions to programmes will have to be matched by savings.

7 I have been thinking about how best to tackle the next Survey given this prospect. The suggestions below are intended to do two things: to minimise the number of bids; and to maximise the incentive for departmental Ministers to reach agreement with me on where savings should be found to match any unavoidable bids. Progress in these two areas will increase the chances of a successful outcome to the next Survey.

Changes in Approach

8 It is striking that, only a few months after we reach difficult decisions on cash programmes in one Survey, the next annual cycle regularly starts with enormous further bids coming in from spending Ministers. For the first

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year of the Survey the additional bids have repeatedly been of the order of £6 billion, with even higher figures in the later years. Some part of the bids may, I recognise, be unavoidable, for example in the big demand-led programmes. But the greater part is avoidable, and all too often involves re-presenting bids rejected by earlier Surveys. We then face an uphill task in getting back to the baseline, with exaggerated press reports of Cabinet arguments and the label of "cuts" being misleadingly, and often damagingly, attached to the process of rejecting bids for more. The need to balance all bids with savings in the next Survey will make this problem acute.

9 So I have been considering how we can avoid starting the Survey with a mountain of additional bids. If there was a complete procedural answer to the problem it would have been found before now. But I think that we must take steps to disturb departments' habits of using each new Survey as the opportunity to put forward a shopping-list of additional bids. The process of departmental officials regularly assembling additional bids from April to June, before we have considered the prospects collectively at Ministerial level, has become institutionalised. There is every incentive to departments to build up the highest opening negotiating position they can.

10 This year I propose that we should get it across to our colleagues at the outset how wasteful this process has been, and urge them to give their personal attention to avoiding additional bids. One way is by greater effort to find efficiency savings or by re-ordering priorities within their programmes. With this in mind, I propose that the Survey report prepared by officials as a basis for our discussions should not include additional bids. If, despite these efforts, a Minister cannot avoid requesting more money, he should write to me about it, with a copy to you, and other colleagues who would be directly affected, by the end of May.

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11 As well as setting out why he believed the bid was unavoidable, he should say what offsetting savings he will achieve; I could then discuss the position with him before putting proposals to Cabinet in July. If you will add your authority to my request to Ministers to restrict their additional bids, that will be enormously helpful.

12 But there will still be bids, some of them unavoidable. I am conscious of the heavy burden that the resolution of these bids can ultimately place on the Star Chamber under the Lord President's leadership. Moreover, the Star Chamber's existence encourages some Ministers to prolong their discussions with me without seriously seeking agreement. I have considered whether it would be possible to ease this load on colleagues by radical changes in this part of the procedure, but reluctantly I have come to the conclusion that it is not (yet) possible to do without the Star Chamber. I have therefore looked for ways to ensure that its work is kept to the essential minimum and that there is the maximum incentive for individual Ministers to settle with me bilaterally.

13 An important element in this is for spending Ministers to feel that, if they take their programme to the Star Chamber, they stand to lose as well as gain. This might be achieved if you were to warn the Cabinet in July that the Star Chamber would be working rigidly within whatever margin was left within the plans after my bilaterals with spending Ministers. If that message carried conviction - and, as I have said, it is certainly the case that asset sales will not come to the rescue this year - spending Ministers might well feel that it was in their interests to settle with me rather than wait for a share of whatever was left at the stage of the Star Chamber.

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14 The precise handling in July will need to be considered in the light of developments in the opening phase of the Survey. For this reason the attached draft minute to colleagues does not touch on it, and focuses on the handling up to the end of May. It will in due course need to be supplemented by a formal Survey guidelines document, which I propose to circulate as soon as possible after the Budget. Apart from procedural aspects this will cover the question of the uplift factor for 1989-90. It will also cover the handling of running costs and manpower in the new Survey, where we need to build on the procedures established last year in creating the running costs target for 1986-87.

15 Meantime, over the coming weeks, I shall be giving thought to the key priority areas on which we shall need to focus in this year's Survey. Some important reviews, such as R and D and legal aid, have been completed or are under way. You are shortly to take a meeting about territorial provision. We will need all the savings we can get from reviews of this sort to offset the inevitable upward pressures.

16 Before I circulate the attached minute, I should like to know that you are content that I should do so. I am sending copies of this minute and the attachment to the Lord President and the Chancellor of the Exchequer. You may think that it would be useful if the four of us were to have a word about it.

Jm

JOHN MacGREGOR

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DRAFT MINUTE

PRIME MINISTER

HANDLING OF THE 1986 PUBLIC EXPENDITURE SURVEY

With the 1986 Public Expenditure White Paper now published, we need to decide on the arrangements for the early part of this year's Public Expenditure Survey.

2 In the new Survey we will need to hold to the plans we have set if, as we have claimed, expenditure is to remain broadly stable in real terms and decline as a proportion of national income. It is too soon to make any firm assessment of the difficulties we shall face in achieving that objective. But it is clear that it will not be easy.

3 In the 1986 Survey there will not be room for additions to programmes which it proved possible to make within the overall totals in the last Survey. The privatisation programme is in top gear and additions to the planned level of proceeds cannot be expected. The scope for financing net additions to departmental provision within the established planning totals will therefore be extremely limited. With decisions yet to be taken on local authority current spending, the Reserves are very tightly set, so there will have to be a clear presumption that all departments must seek to live within their existing baselines, with pressures for extra resources met by cutbacks elsewhere and - of particular importance - improvements in efficiency and effectiveness.

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4 Against that background I think we must consider carefully whether the established Survey procedures, particularly in the early stage of the process, are best adapted to the situation we will face. My conclusion is that, in one major respect, there is room for improvement.

5 As I look back over the last Survey and its predecessors, I am struck by the fact that, despite our agreeing programmes in cash - often with great difficulty - at the end of each Survey, by the beginning of the next Survey only a few months later there are bids for further additions regularly amounting to £6 billion or more. Sometimes -if, for example, there has been a marked deterioration in the prospects for inflation - some of these bids are understandable. But all too often they involve re-presenting bids rejected in earlier Surveys. We then face an uphill task in getting back to the baseline, with exaggerated press reports of Cabinet arguments and the label of "cuts" being attached to the process of rejecting bids for more. In practice, the great majority of bids for net additions to cover new policies have had to be rejected; but the process is wearisome and damaging.

6 I think that the way in which the Survey is conducted in its early stages at official level provides a large part of the reason for this situation. The Survey Report, which performs the essential role of providing an agreed statement of the existing level and objectives of programmes, also provides an occasion for the aggregation of a large number of additional bids.

7 It is in all our interests to keep to a minimum the demands which the public expenditure process imposes on us and the controversy which it stimulates. Given the very narrow margins in the plans, I therefore ask that colleagues should this year give their personal attention to avoiding requests for additions to their programmes, particularly in 1987-88 and 1988-89 for which figures have already been set. With this in mind I suggest that officials should be asked not to include additional bids (or options for reductions) in the Survey Report.

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8 Instead I ask Ministers personally to scrutinise priorities within their programmes, and make every effort to accommodate upward pressures through offsets and improved efficiency. If, having done so, they nevertheless conclude it is essential to put forward proposals for net additional resources, they should write to me by the end of May, with copies to yourself, the Lord President and other Cabinet colleagues directly affected, setting out their proposals. These letters should give detailed support to any outstanding bids, explaining why they are unavoidable and what savings they would make if absolutely necessary.

9 This material could then be put together by the Treasury, along with information on any possible options for reduction I might ask colleagues to prepare, and form the basis of my paper to the Public Expenditure Cabinet in July. Before putting that paper to Cabinet I would have the opportunity for a discussion with any colleagues who feel that they have to put forward proposals for additions and see if there is any alternative before bringing them to Cabinet.

10 I envisage that, as soon as possible after the Budget, I shall be making detailed proposals for this year's Survey guidelines, including the question of establishing the baseline for 1989-90, the new third year of the Survey. But I am minuting now on this general procedural change, so that it can be taken into account in the way Departments approach the Survey over the coming months. I do not propose any change in the timetable for the Survey report which would set out the basic facts and figures of Departments' existing plans. We would aim for the final formal document to be circulated before the end of May, the time by which I suggest colleagues should write to me if there are any additional bids that they wish to press.

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11 I am sending copies of this minute to Cabinet colleagues, the Minister of State (Privy Council Office) and Sir Robert Armstrong.

JM

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CONFIDENTIAL

CC 130



NBN.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

28 January 1986

Dear Malcolm,

PUBLIC EXPENDITURE: 1985-86 OUTTURN

Your letter of 17 January pressed the merits of some of the considerable number of claims on the Reserve this year. In addition to those covered in your letter there are several other bids associated with Supplementary Estimates from Scotland.

Regional policy

You argue in your subsequent letter of 20 January (not copied to others) that the additional receipts expected to accrue to the Scottish Development Agency and the Highlands and Islands Development Board are not windfall receipts but the result of vigorous new efforts from top management. In the circumstances I should be prepared to accept that the benefit of these receipts should be retained by those bodies as part of an overall settlement of your claims. The point of principle will need to be addressed in the forthcoming review of each body.

You also refer to the possibility of calling into play underspends on the Department of Trade and Industry's provision for Regional Development Grants. This possibility was also raised in Nicholas Edwards letter of 9 January. The overriding need to protect the Reserve means that any solution will have to ensure that sufficient savings are identified overall to meet all the extra calls on the Reserve. If Paul Channon will agree to find elsewhere from his provision the necessary offsets to cover claims on the Reserve then I could accept your argument for offsetting under and overspends on the three departments' regional assistance votes. However without Paul's agreement I shall have to insist, as had been explained to your officials, that the overspend arising on your votes should be constrained by offsetting action on them.

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I could in the same way accept a reallocation now of regional assistance provision for 1986-87 as you have suggested in your letter of 17 January to the Secretary of State for Trade and Industry (not copied to all). However any proposal for offsets between the departments once an overspend on any one department's regional assistance provision is in prospect will need to be considered in the light of other likely calls on that department's overall provision.

Housing

Your letter refers to my request for offsetting savings to meet an increased requirement for Housing Support Grant (HSG) and to the conditions I placed in my letter of 18 December on the issue of £7 million further allocations for expenditure covered by your SO/LA2 cash limit. (I understand that the further £1 million for the Housing Corporation is not now required). We also have to resolve the question of meeting the Scottish Special Housing Association's (SSHA) tax liability, should they fail in their appeal, now that any payment will not be made until 1986-87.

I recognise the difficulties that you face in finding offsetting savings, and that it would be difficult to avoid making the £7 million allocations (and that they will not affect outturn). Equally, you have recognised the problems I face on the Reserve. I am therefore prepared to agree to a compromise on the following lines which meets some, but not all, of both our concerns.

Provided you are prepared to:-

- i. surrender as an offsetting saving the £3.5 million or so that would remain unallocated from SO/LA2 after issuing the further £7 million in allocations;
- ii. assure me that you can find no other offsetting savings;
- iii. undertake that the remaining £16.8 million required for HSG should be a first call on any underspend in 1985-86 on cash limits SO/LA2 or SO/LA1, so reducing or eliminating end year flexibility into 1986-87. (I understand SO/LA2 is currently forecast to underspend by some £8.5 million after adjusting for the unallocated £3.5 million referred to above).
- iv. agree to meet the SSHA's tax liability, if any, within your PES provision for 1986-87 and subsequent years;

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I am prepared to agree to:-

- (a) a claim on the Reserve of the balance of the £20.3 million in respect of the requirement for HSG;
- (b) your issuing further allocations of £7 million under the SO/LA2 cash limit.

LA capital

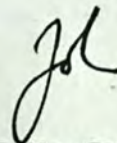
Your letter also expresses concern about overspending on LA capital, which I share. But there is no case in equity for compensating Scotland for this lapse in control. The existing rules clearly allow for adjustments to the Scottish block when provision for comparable English programmes is changed. There are no agreed arrangements for ensuring overspend (or underspend) in England automatically leads to adjustments in the size of the territorial blocks. Nor has a case for such arrangements on the grounds of need been made.

As I made clear in my letter of 21 November to Nicholas Edwards, the solution to English overspending is not to validate it but to bring it under control. We did make strenuous efforts to make the provision for LA capital spending in England more realistic in last year's Survey. As a result provision was increased on previous plans by £145 million and Scotland received its formula increase despite the fact that allocations to English local authorities in 1986-87 will be £200 million lower than in 1985-86.

We do of course need to take steps to ensure the LA capital control system in England is improved and I hope that you and other colleagues will support Kenneth Baker's proposal to legislate for this purpose in the 1986-87 session. But I cannot agree with any implication that overspending on one programme can be used to justify other overspends. Nor do I think it correct to imply Scottish spending in 1985-86 is suffering because of overspending on English LA capital. This prospective overspend was one of the reasons why the Chancellor had to increase the Reserve by £2 billion in his 1985 Budget. The loss has been to our fiscal objectives for the economy as a whole. And the fact remains that in 1985-86 net capital spending per head in Scotland was £114 compared with £65 in England (£145 compared with £108 gross).

I am copying this letter to the Prime Minister, Nicholas Edwards, Kenneth Baker, Paul Channon, other members of E(A) and Sir Robert Armstrong.

Yours ever,



JOHN MacGREGOR

ECON POL

PUBLIC EXPENDITURE

PT 34



CONFIDENTIAL

CBG



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1

NBPA,

28th January 1986

Dear Kenneth,

LOCAL AUTHORITY CAPITAL OVERSPEND 1985-86

Thank you for your letter of 3 January. I am glad you share my concern.

I acknowledge, of course, that there were always uncertainties about the percentage of spending power which authorities were expected to use in the current year. But in the Survey discussions you made the point that my proposed figure of 85 per cent was high by past standards and argued for a lower figure. I will simply comment that if I had known that later information would indicate a figure as high as 88 per cent, I would have started from a different position myself and would have taken a different view of your 83 per cent proposal for 1986-87.

We will need to make sure that the same thing does not happen again for 1987-88. I welcome your agreement that the estimates and percentages should be looked at again if the present control system still applies, to ensure the best possible chance of delivering the cash limit. But I hope that, as you have proposed, there will be legislation early in the next Session to give us a better system of control in 1987-88.

I am copying this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

Yours,
JH

JOHN MacGREGOR

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ECON POL

PUBLIC EXPENDITURE

PT 34





SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

MSB.7.

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 January 1986

Dear Chief Secretary,

PUBLIC EXPENDITURE : 1985-86 OUTTURN

will request needed at top
Your letter of 9 January to George Younger pursued the question of offsetting reductions for the Winter Supplementary Estimate already taken, and the further call on the Reserve which I am seeking to make, to cover additional expenditure on Housing Support Grant which is necessary as a result of movements in interest rates. In considering your letter I have taken stock of my Department's overall position in relation to the Reserve. I have also given thought to the significance of Kenneth Baker's letter of 3 January to you about forecast local authority capital overspending in England this year and next. Briefly, it seems to me that it highlights wholly unjustifiable differences in the degree of control which is being sought over different programmes as well as serious flaws in the treatment of my programmes in the Survey framework. I cannot accept the political consequences of this position.

I would like to reiterate George Younger's sympathy for your difficulties with the Reserve this year. It must be a matter of concern to all of us because the existence of such extensive pressure on the planned total creates difficulties in relation to the need to make calls on the Reserve which are genuinely unavoidable and where offsetting reductions are either unachievable or extremely damaging in their consequences.

Your request for offsetting reductions to match the additional provision for housing support grant is a perfect example of this. As you recognised in your letter of 20 November, calls on the Reserve for this purpose are normally exempt from the standard obligation to examine the scope for offsetting reductions by virtue of the 'concordat' covering the effect of interest rates on housing subsidies. You will appreciate that an unexpected request for offsetting reductions of the scale required made so late in the financial year is very difficult to meet, particularly since I have already made offsetting reductions in my programmes for several other purposes this year. I could not find scope for further reductions. (In this context it may be helpful if I correct a misapprehension in your letter of 18 December to Michael Ancram; no underspend is forecast on my SO/LA1 cash limit block this year.) Moreover, for reasons which I will address later in this letter, I think it is inequitable that I should be asked to do so and that you should seek to link this with the important issue of the Scottish Development Agency's additional capital receipts.

The other call on the Reserve which I am obliged to make arises from higher than forecast spending on regional policy. I understand that the provisional forecast of the cost for Britain as a whole this year, made at the time of the introduction of changes in regional policy at the end of 1984, has proved to be too low by something of the order of £25 million. However, the error is unevenly distributed in relation to the crude territorial split of the GB forecast agreed for working purposes by my Department, DTI, the Welsh Office, and Treasury. As a result my Department and the Welsh Office look likely to require about £20 million each in excess of our shares and DTI to require about £15 million less. Given the forecasting uncertainty arising from the regional policy changes it is no surprise that this situation has arisen. In recognition of this, the agreement reached by officials towards the end of 1984 provided for a redistribution, if one were needed, and in the circumstances I consider that my Department and the Welsh Office should be only asked to consider the scope for offsetting reductions towards our overspends less a proportionate share of DTI's forecast underspend. I calculate that this figure would be no more than £13 million for my Department (towards which we have already contributed a reduction of £6.8 million). However, I gather that your officials have argued that DTI's forecast underspend should be set against other calls on the Reserve which Leon Brittan is obliged to make rather than using it to adjust the territorial split of provision in accordance with the inter-Departmental agreement. I cannot accept this and I see from Nick Edwards' letter to you of 9 January that he is similarly opposed.

The third issue which concerns me is your suggestion, in your letter of 18 December to Michael Ancram, that the additional capital allocations which I consider it essential that we make to housing authorities from within the unallocated amount of the SO/LA2 cash limit block should be dependent on the identification of offsetting reductions for my calls on the Reserve. Since these allocations would have no effect on the outturn, because they are concerned with expenditure which is already committed, I think it is unnecessary to impose such a condition. I must press you to reconsider.

At this point I think it is relevant to turn to the implications of Kenneth Baker's letter to you of 3 January. His statement that overspending of about £300 million on local authority capital spending in England is already forecast in respect of 1986-87 raises fundamental issues. It must reopen the correspondence which you had with George Younger and Nick Edwards in the latter part of the recently concluded Survey.

It was central to your response to the arguments, in favour of Scotland and Wales being compensated for the inequitable treatment implicit in the regular occurrence of very large overspends by English local authorities, that your agreements with Kenneth Baker and colleagues would ensure that such overspending would not occur again after this financial year. Since that is patently no longer the case I am bound to return to the need to seek compensating arrangements for Scotland.

The existence of regular 'built in' overspending in England has two consequences for Scotland (and Wales). The one on which the correspondence during the Survey concentrated was, as you are aware, that it tends to produce settlements on lower PES figures for the relevant English programmes, because colleagues make concessions in the knowledge that the capital control system allows expenditure to exceed the PES figures. I shall wish to return in this year's Survey to the need for

a method of counterbalancing the fact that adjustments to the territorial blocks are determined on a false basis.

For the present I must press you to an agreement which takes account of the forecast overspend by English local authorities this year of about £750 million, the formula equivalent of which is of the order of £90 million. As a first step toward this I wish to address the other aspect of the effect of 'built in' English local authority overspending, which was not dealt with in the earlier correspondence; that is, its effect on the Reserve.

'Built in' overspending of this kind is, in effect, a hidden reduction in the size of the Reserve. It is plainly inequitable to other colleagues whose programmes generate genuinely unpredictable and unavoidable additional expenditure that a large proportion of the agreed Reserve is to all intents and purposes unavailable. It seems to me wholly unacceptable that you should seek to suspend the concordat on housing subsidies, in respect of additional expenditure of £20 million, when £750 million (or possibly substantially more, since Kenneth Baker refers to "fairly wide" error margins) of this year's Reserve has been pre-empted by the laxity in the capital control system for English local authorities' capital expenditure.

Problems of access to the Reserve constitute a double penalty for my Department, compounding the original loss of PES resources. Since a remedy to the latter problem remains to be settled, it is essential that we implement compensatory arrangements immediately in relation to problems with the Reserve. I must ask you to waive your requests for offsetting reductions for my remaining claims on the Reserve (which would include agreement to payment of the £4.6 million of housing support grant required in respect of 1984-85). I must also ask you to cease to impose restraints on specific proposals of mine which involve no call on the Reserve: allocations to cover already committed expenditure within SO/LA2 and the use of forecast additional capital receipts by the SDA (and by the HIDB in respect of a much smaller amount of such additional receipts, which have not previously been the subject of correspondence).

I must emphasise that these matters are more than questions of financial principle. They raise substantial political issues. The most readily apparent point is that I am being asked to accept inequities which are glaringly obvious in the local authority field and which undermine my efforts at tight control. However, the pressures which I am placed under in relation to the Reserve also have severe political repercussions. The most serious of these is the difficulty which will arise if I am unable to allow the two development agencies the use of their higher than forecast capital receipts. The damage which this will do to our credibility in Scotland is wholly out of proportion to the sums of money involved. The scale of Kenneth Baker's reported overspending puts this clearly in perspective.

I am copying this letter to the Prime Minister, Nick Edwards, Kenneth Baker, Leon Brittan, other members of E(A) and Sir Robert Armstrong.

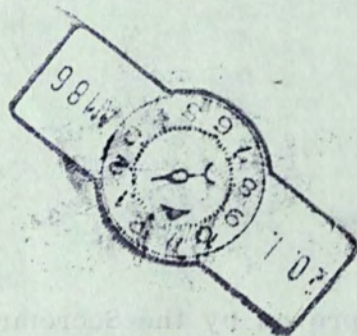
Yours sincerely

Hollinsworth

Approved by the Secretary of State
and signed in his absence

ECON POL PT34

Public Expenditure





Treasury Chambers, Parliament Street, SW1P 3AG

William Fittall Esq
Private Secretary to the Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

14 January 1986

Dear William,

1986 PUBLIC EXPENDITURE WHITE PAPER (Cmnd 9702)

... I enclose a Confidential Final Revise copy of the Government's Expenditure Plans 1986-87 to 1988-89, which is being published at 3.30pm on Wednesday 15 January. The Chief Secretary wished to ensure that Cabinet colleagues received their copies of the White Paper in advance of publication.

I am sending copies of this letter, and of the White Paper, to the private secretaries to other members of Cabinet and to Sir Robert Armstrong.

Yours sincerely
R J Broadbent

R J BROADBENT
Private Secretary





cc: Mr. Ingham
Prof. Griffiths.

10 DOWNING STREET

From the Private Secretary

7 January 1986

PUBLICATION OF 1986 PUBLIC EXPENDITURE

WHITE PAPER

The Prime Minister has seen and noted your letter of 3 January which described the plans for publication of the 1986 Public Expenditure White Paper on 15 January.

I am sending copies of this letter to the Private Secretaries to members of Cabinet, the Chief Whip and Sir Robert Armstrong.

David Norgrove

Paul Pegler, Esq.,
Chief Secretary's Office.

089

GEWT (86) 1
6 January 1986

H M TREASURY

GUIDE TO EXPENDITURE WORK IN THE TREASURY

FRANCHISING AND PRIVATE FINANCE PROPOSALS

Note by the Secretary

Amendments to the Guide will be issued from time to time as policy and practice in the areas covered by the Guide change. The first agreed amendments reflecting the Treasury's attitude towards franchising and private finance proposals are attached.

Please remove and destroy existing Sections 7, 11, 15 and 31 and substitute the attached revisions.

J W HARVEY

EXPENDITURE, PUBLIC EXPENDITURE, OTHER EXPENDITURE, VOTED EXPENDITURE: WHAT ARE THEY?

The descriptive labels and definitions of expenditure numbers are bewilderingly complicated at first sight. This Section tells you how and where to find all the precision and detail that you need about what expenditure is.

2. If you have come back to expenditure work, or have moved to a new area of it, it reminds you to bring yourself up-to-date and to learn any aspects that are special to the new job.

Public expenditure is defined in the White Paper

3. 'Public expenditure' is spending covered by the annual public expenditure Survey (PES) and the public expenditure White Paper (PEWP). In broad terms, it is what the public sector as a whole (central government, local authorities and public corporations) spends in the world outside the public sector. In detail it is much more complicated.

4. A narrative definition is brought up-to-date each year in explanatory and technical notes of PEWP, usually its Part 6.

5. The definition of expenditure used in the PEWP (known as the 'planning total') is closely related to the system of national accounts run by the Central Statistical Office. This means that it is relatively easy to relate the PEWP numbers to statistics about the economy as a whole. Work is in hand to make it even easier, following an internal Treasury study in 1984-85 - the Review of Public Expenditure Classifications (REPEC).

The FIS Procedures Manual for classification codes

6. The detailed classification codes used to identify each unit of expenditure by the department spending the money (spending authority) the object of the spending (functional programme) and type of purchase (economic/national accounts category) is in the Treasury's Financial Information System Procedures Manual, Part A.

Other expenditure

7. 'Other' expenditure is government expenditure not directly featuring in PES and PEWP though it often helps to finance expenditure that is dealt with in them. For example, rate support grant (RSG) paid to local authorities is an example of 'other' expenditure. This is because it is a financing transaction between central and local government. What public expenditure includes is what the local authorities spend, partly financed by such grants. Note, however, that government finance to nationalised industries and many other public corporations does score as public expenditure, because of the different nature of the control process.

8. Other expenditure is often referred to as 'non-Survey' or 'non-public' expenditure. This provides such simple contrasts as 'public' and 'non-public'; though it can seem odd to refer to 'voted, non-public expenditure' (of which RSG is an example).

Voted expenditure and the Summary and Guide (S and G)

9. Voted expenditure is financed by money authorised by Parliament for departments. Supply Estimates are presented to Parliament each year to get this authority. You will realise straightaway that voted expenditure in Supply Estimates includes both 'public expenditure' (but not all of it) and 'other' expenditure. RSG is paid from voted money.

10. Voted spending is also classified by functional programme and economic or national accounts category as well as by vote and subhead (which implies a classification by department). The extra codes needed for monitoring actual spending for votes in the APEX system (see Sections 8 and 25) are also included in the FIS Procedures Manual Part A.

11. A summary list of all votes, and key particulars of each, is included in the annual Summary and Guide to Supply Estimates (S and G, formerly called the Chief Secretary's Memorandum) published with the Estimates booklets on Budget day.

Comparing the coverage of PES and Estimates

12. A simplified diagram of how the coverage of public expenditure compares with the coverage of votes is included in the first section 'Supply Estimates and public expenditure' of the Summary and Guide.

The computer as a dictionary

13. The computerised data bases described in Section 8 store all the definitions of all existing types of spending : so if you want to check how a particular item is defined/classified, ask the computer.

People to help you

14. You should be able to learn a lot from your immediate colleagues in your division - depending on how long they have been in post.

15. In case of doubt, or to check a point beyond their knowledge, ask GEP3. There will be a member of its Data Unit working on what is now spent in your area of spending. GEP3, Branch B helps with classification points.

16. On new proposals, always check in good time what the classifications should be with Branch B of GEP3. They, with colleagues in the Central Statistical Office, are responsible for the integrity of classification systems and you must heed their guidance.

17. Remember that one of the oldest tricks that departments try is to get some proposal classified as outside the definition of public expenditure and hence outside the controls of the Survey. There are two different sorts of things to watch out for. First, it may not be right to net proposed "charges" (see section 23) off in PES; they may have to be scored as revenue on the other side of the public sector accounts.

18. Secondly, sometimes departments come up with unusual ways of financing a project which may appear to take it outside the definitions of public expenditure. For example, obtaining some equipment on a hire purchase or leasing agreement helps spread the payments; but the equipment still has to be bought on day one and, as far as the economy is concerned, the public sector may as well have bought it outright. Other proposals involve the private sector investing in projects with some form of government guarantee or indemnity; again, this is little different from the public sector doing the investing. Sometimes proposals simply involve the swapping of assets with the private sector (financial or physical assets) which has no real effect on the economy; but it reduces recorded public expenditure, giving the department room for spending somewhere else. These schemes are often thought up just because they avoid public expenditure controls; and they are often more expensive than the more straight forward or conventional route. There are therefore rules against them or at least about their careful handling. (The rules are summarised in an internal guidance note circulated by GEP2 on 18 October 1985; a longer paper was sent to departments by the 2PS in May 1985. These papers and the related "Ryrie Rules" are available from GEP2).

19. If you are suspicious of a scheme proposed by a department, get advice from GEP2 or PSE (or PE2 if a nationalised industry is involved), and from GEP3 on the classification. Ask TOA if there is a potential problem of propriety..

1. The written sources described are all in your division. If you need extra copies ask the Library for the White Paper and the Summary and Guide; and Committee Section for the FIS Manual.

THE PUBLIC EXPENDITURE SURVEY: WHO TAKES PART IN THE TREASURY AND THE MAIN STAGES

In the Treasury the public expenditure Survey (PES) starts around Budget time. It starts earlier in spending departments. The key decisions are announced in the Government's Autumn Statement (late in October or early in November) and work on the public expenditure White Paper takes over. This Section outlines how the Survey is conducted in the Treasury. Each stage is clearly defined and directed.

Who takes part

2. Your **Second Permanent Secretary (2PS)** directs operations within the framework of objectives set by Ministers.

3. All members of the public expenditure sector are involved (see Section 3 on Organisation). **Each expenditure division** deals with its own departments.

4. The **General Expenditure Policy (GEP)** Group steers and co-ordinates to ensure that the specific groups and divisions act as parts of a whole - urging one to be tougher, and, much less often, another to be less draconian - assembles the annual Survey Report and prepares the overall submissions to Ministers and papers for Cabinet.

5. **GEP3** monitor the data base of cash figures. **SCS** division provides computing services to both GEP and specific expenditure divisions.

6. While the main Survey is proceeding, **PE Group** are managing the annual **Investment and Financing Review (IFR)** of the **nationalised industries** and **LG Group** is managing the survey in respect of the Government's plans for **current spending by local authorities** (their capital spending is handled in the main Survey). These feed into the main Survey. Their special features are noted in Sections 14 and 15.

Survey guidelines

7. Each Survey starts by the Treasury issuing guidelines for its conduct and for preparing the Survey Report. **GEP** initiates them. They are discussed in draft with specific expenditure divisions and (informally) with the Principal Finance Officers of some departments and submitted to the Chief Secretary for approval. He seeks concurrence from Cabinet colleagues. Finally, usually in April, they are issued as working instructions to all departments as **PESC** and **PESC(WM)** papers (see Acronyms).

8. Typical sideheadings are:

- Aims and objectives of the Survey Report
- Timetable (detailed in an Annex)
- Additional bids and offsetting savings
- Options for spending reductions
- Value for money.

Special features are highlighted, such as the introduction of separate targets for the running costs of each department (see Section 21).

9. If the Survey is current, study a copy. If you start your new job in the Winter, find time to read the Guidelines for the latest Survey as part of your self-training for the next one.

Constructing the baseline

10. The baseline is the set of detailed figures that the Survey will confirm or change. This makes it important that the figures should be unambiguous and a genuine baseline for all changes. Later in the Survey, the Ministerial negotiations are always about changes - up or down - from the baseline.

11. Baseline figures for the first two years stay close to the cash plans in the previous public expenditure White Paper - the end-product of the previous Survey. The rules for such differences as are permitted are in the Guidelines.

12. Initial figures for the new final year are generated by the Treasury computer as a percentage change from the White Paper's final year applied to all (or nearly all) programmes.

13. Your spending department may ask if it may re-arrange some of its planned spending between items. The rules are annexed to the Guidelines.

Compiling the survey report

14. Detailed in-house guidance on handling this stage - about the Treasury's objectives, the style of the report, even arrangements for typing - is discussed with divisions before being finalised. Sometimes the 2PS adds a note to the Grade 3s in charge of expenditure groups stressing key Treasury objectives. One Treasury aim at this stage is to garner material that can be deployed later to put the Chief Secretary in the best negotiating position in his bilaterals with each spending colleague.

15. The Survey report assembles the background factual material about:

- The baseline
- Spending departments' additional bids
- Reduced requirements
- Offsetting savings offered
- Value for money
- And special analyses.

Each expenditure division vets the draft chapter(s) provided by its spending department(s). The aim is to probe the strength of their bids; encourage more or bigger savings; propose additional cuts in plans (you can require the spending department to cost what your ideas would save on its programme); and end up with a clear text that meets instructions. In practice it is not usually possible to alter departments' figures much at this stage: the point is to test them and begin to set up the Treasury's negotiating position.

16. Material on policy options for reductions is kept separate from the more available Survey report. Some of it may be politically sensitive.

Cabinet's decisions on strategy and target totals

17. By late June the Survey report is circulated as background material to Ministers and the Treasury has the lists of possible options for reductions in plans. GEP then takes the lead in putting together the Treasury assessment of the 'Survey pressures' - the strength of the bids for more and the prospects for cuts elsewhere. This judgment is balanced against the Chancellor's strategy for taxation and the latest macro-economic forecasts, to establish the Treasury line. The Chief Secretary then puts a paper to Cabinet proposing what the 'planning total' for public expenditure should be for each year of the Survey.

18. GEP group continues to be the focal point for this paper. It is usually prepared at some speed, in consultation with the Central Unit and others in the Treasury.

Bidding letters to departments

19. Each bidding letter has a common element prepared by GEP group, which reminds Ministers of the overall position. This element is given to expenditure divisions with any necessary instructions. Expenditure divisions then complete the letters for the Chief Secretary to send, one to each spending Minister, setting out what the Treasury wants to discuss with him. They are issued by the end of July to provide the agendas for the Chief Secretary's bilaterals with spending Ministers which usually start early in September.

Briefing for bilateral negotiations

20. In this phase, the task is to give the Chief Secretary the ammunition he needs. Good briefing for the Chief Secretary is vital for his bilateral negotiations. A standard format has been developed which all expenditure divisions are expected to use so that he knows where to look for what he wants.

21. All the knowledge in your division needs to be brought to bear: make sure that in the press of business you do not lose sight of useful ammunition (including debating points) that your colleagues may have gleaned.

22. Another lesson of experience is the need to have agreed in advance with the spending department just what numbers will be in front of both Ministers to lessen the chance of their getting at cross-purposes and losing precious time and energy. Your spending department will not necessarily be trying to make your task easy and you may have to make an effort to get them to agree common ground in advance.

23. A good way of doing this is to meet with your opposite numbers before the Ministerial bilateral to make sure that what should be common ground is so. Try to clear away minor differences and sound out negotiating positions.

24. Beware the last minute new proposal; or hitches in the normal flow of information. Beware also of "savings" that are really statistical or financial devices aimed at getting around public expenditure controls (see Section 7).

25. On the substance of the briefing, the better you and your division know your spending department and its doings, the more cogent the arguments and the more telling the examples for the briefs.

Bilaterals

26. The Chief Secretary is normally supported by your 2PS or his deputy, the appropriate head of specific expenditure group (or the head of division), a representative of GEP and a minute-writer (probably a Principal) from the expenditure division. The visiting Minister has his team. An agreed record is prepared.

27. The Treasury tries very hard to settle all matters in these bilaterals but sometimes there has to be recourse to a wider group of Ministers.

Final decisions

28. The form of the final stage varies. An ad hoc group of Ministers may be set up. In recent years such groups have been nicknamed the Star Chamber, recalling the court revived by Henry VII after the Wars of the Roses to curb the powers of the barons. Its conclusions are reported to Cabinet, with any disputes still outstanding.

The Autumn Statement

29. Once the final decisions have been taken or endorsed by Cabinet, there is a rush and press of activity to finalise the brief announcements in the Autumn Statement and prepare all the detailed briefing nevertheless needed in connection with it. GEP takes the lead and specifies what is needed from expenditure divisions.

30. Meanwhile, instructions for compiling the public expenditure White Paper are in hand and departments and expenditure divisions are busy on text and numbers - see Section 13.

References

1. Copies of all the documents referred to in this Section are in your division.

NATIONALISED INDUSTRIES, THE INVESTMENT AND FINANCING REVIEW (IFR), EFLs AND IN-YEAR MONITORING

The nationalised industries, as part of the public sector, are covered by the public expenditure Survey and in-year monitoring but because of their nature are treated separately. This Section outlines the Public Enterprises (PE) Group's work on the annual investment and financing review (IFR) of the industries, on monitoring the resulting external financing limits (EFLs) which are a form of cash limit; and on changing EFLs, if it becomes necessary. It complements Sections 10- 13 on the public expenditure Survey, Section 25 on Monitoring and Section 29 on operating cash limits. It is derived from much fuller guidance prepared by PE Group for its staff. Members of PE Group should put a copy of that into this Guide in place of this Section.

PE Group works with sponsor departments

2. Each nationalised industry has a sponsor department: for example, the Department of Transport for British Rail and the Department of Energy for the National Coal Board. The relevant Secretary of State is responsible to Parliament for his industries. PE Group work through these sponsor departments. They have relatively little direct access to the industries.

The investment and financing review (IFR), EFRs and EFLs

3. The purpose and conduct of the annual investment and financing review (IFR) closely resembles that of the Survey. Much of the guidance in Sections 10-13 applies.

4. Nationalised industries' external finance rather than their total expenditure counts towards the public expenditure planning total (PEPT). An industry's external finance requirement (EFR) is the finance it needs from outside the business: in broad terms it is the difference between capital requirements and net funds generated by the business. This external finance includes government finance to the industries (subsidies, grants and loans), any borrowing from UK capital markets and overseas, and the capital value of assets they lease.

5. For an individual industry, access to external finance is controlled by an annual external financing limit (EFL). EFLs serve the same purpose as cash limits in public expenditure control. EFLs are determined in the annual IFR.

6. Sometimes industries or departments propose novel financial arrangements, aimed at taking a project outside the definitions of the planning total, thereby avoiding EFL control. In many cases, these arrangements are often more expensive than the conventional financing route, but the statistical change has no real economic effect (see section 7). There are therefore rules against them, or at least about their careful handling. If you are suspicious of a proposal, consult PE2.

Who takes part

7. All members of the PE Group are involved in the IFR. Each branch deals with its own industries through the sponsor departments. PE2 steers and co-ordinates. GEP group are consulted throughout to keep the IFR in step with the Survey and PE complete Position Reports (see Section 27).

Main stages of the IFR

8. The normal sequence of the IFR is:

- 1 - the head of PE Group writes to sponsor departments in January commissioning basic data and giving outline guidelines and timetable;
- 2 - by late April, sponsor departments return IFR tables, after preliminary scrutiny of the information provided by each industry. Each industry makes its own economic assumptions;
- 3 - in late April/early May, a more detailed letter commissions draft texts about each industry's bids for external financing for three years ahead;
- 4 - by-end May, PE receive draft texts from sponsor departments. Much of the material focuses on deviations proposed by the industries from the detailed breakdown of the external financing limits agreed at the end of the previous IFR (which provides the baselines for the first two years of the current IFR). The baseline for the third year is, like the main Survey baseline, computer-generated;
- 5 - by late-June, PE has vetted the draft texts. PE2 has prepared the introduction and tables and has assembled the IFR report as background material for Treasury Ministers and Ministers in charge of sponsor departments;

- 6 - in July, a Cabinet Committee discussion serves the same function as the July Cabinet on the Survey. A paper by the Chief Secretary, drafted by PE Group, is circulated to the relevant Ministers inviting them to endorse his recommendations on aggregate target figures to be achieved and, in financial terms, the main potential areas for savings (eg reducing current costs, improving profitability, increasing tariffs, reducing working capital, lower investment). There is liaison with GEP at all stages;
- 7 - following the meeting, the head of PE Group normally writes to sponsor departments seeking revised bids to reflect any changes in trading conditions and the thrust of Ministers' overall targets for nationalised industries finance over the IFR Survey period. PE staff discuss with their opposite numbers in sponsor departments how best to identify and achieve any necessary reductions, to prepare for the Chief Secretary's bilaterals with sponsor Ministers;
- 8 - PE prepares a bidding letter for the Chief Secretary to send to each sponsor Minister shortly before his bilateral meeting, setting out the Treasury's proposals for his industries' EFRs. For the bilateral meeting, a general brief by PE2 sets out the background and PE branches provide material specific to each industry, setting out the baseline; bid figures; explanations of bids and the Treasury's recommendations for specific savings to be sought as well as an overall acceptable outcome for each industry;
- 9 - sometimes there is recourse to a wider group of Ministers when agreement cannot be reached bilaterally;
- 10 - individual EFLs for the coming year are announced in the Autumn Statement. External finance figures for the following 2 years may be given but only in aggregate.

PE work for the White Paper

9. PE commissions material for the separate part of the public expenditure White Paper on the nationalised industries. This includes a detailed breakdown of EFLs agreed in the IFR. PE2 co-ordinates production, prepares tables and an introductory summary and, in conjunction with appropriate PE branches, edits the individual industry sections. They pass the finished material to GEP1 which handles printing and publication arrangements for the White Paper as a whole. PE2 also co-ordinates general and specific briefing on nationalised industries for the briefs GEP1 assembles for use at and after publication.

Treatment of privatised industries

10. An industry's EFR continues to be included in the public expenditure planning total until it is privatised. Stylised assumptions may need to be made in the IFR and the PEWP if it is expected that an industry will be privatised in the Survey period. This is decided case by case.

Corporate Plans

11. In addition to the IFR, there is a programme for comprehensive annual assessments, by Ministers, of each industry's plans and performance, including a corporate plan submitted annually and normally spanning 3-5 years. These plans summarise developments since the preceding plan and describe and quantify, as far as possible, expected business developments. An industry's plan should be consistent with strategic objectives agreed by the sponsor Ministers and the industry, as well as any collective Ministerial decisions.

12. The aim of these corporate planning procedures is to give the Government a measure of control over the industries as businesses, leaving the IFR as the means by which their public expenditure impact is regulated. PE Group's ambition is to complete corporate plan work each year in time to inform the IFR.

13. Guidelines on the objectives, content and timing of corporate plan and performance reviews were summarised in a letter from the Chancellor of the Exchequer to the Secretary of State for Trade and Industry and other colleagues on 19 December 1983.

In-year monitoring of nationalised industries

14. PE monitor nationalised industries' performance closely during the year.

The monthly funds flow statement

15. Most industries submit a monthly funds flow statement (MFFS) to the appropriate sponsor department within four weeks of its end. The sponsor department checks it and forwards copies to PE.

Nationalised industries financial information system

16. PE2 has a computerised system, the nationalised industries financial information system (NIFIS) to hold this information and all the data needed for the IFR and the PEWP. For in-year monitoring it contains profiles for each significant element of cash flow and types of external finance with which the actuals are compared.

Reviews by Ministers

17. Ministers collectively review industries' financial performance every three months on the basis of the information provided by the MFFS, focussing upon estimates of overall outturn for external finance, investment expenditure and borrowing.

18. Information in the MFFS is also used for PE Group's inputs to the Treasury's macro-economic and PSBR forecasting exercises.

In-year changes to EFLs

19. Each industry is expected to keep within its external financing limit (EFL). An undershoot, resulting eg from a better than expected trading performance, is welcome. An overshoot is a serious matter.

20. If it appears, perhaps through an MFFS return, that an industry may overshoot its EFL, the cause is immediately questioned through the sponsor department. The presumption is that the industry will take remedial action to keep within the EFL.

21. If adequate corrective action of a kind acceptable to the Government cannot be taken, Ministers may raise the EFL. The sponsor Minister normally writes to the Chief Secretary to make the case for an EFL increase. The PE branch concerned advises the Chief Secretary on the justification for an increase, clearing the draft submission with GEP2 as any addition to an EFL forms a claim on the Reserve (see Section 26), unless acceptable offsetting savings are offered elsewhere in the department's programme. An increase in the EFL has to be announced in a PQ by the departmental Secretary of State.

22. EFLs can also be reduced, if circumstances warrant. A formal reduction is most likely to be made when the sum in question is substantial and the change in need develops early in the financial year so that there would be a significant loss of control if the full EFL remained available.

The ring fence round nationalised industries in departmental programmes

23. Nationalised industry external finance is ring-fenced from spending on other departmental programmes. It would be wrong for a department to be able to spend more on its programmes simply because, for example, unexpectedly better trading conditions were resulting in an undershoot on the EFL of a nationalised industry that it sponsored.

EFLs and end-year flexibility

24. There is an end-year flexibility scheme for nationalised industries. Because an industry may experience difficulties in keeping its financing requirements within a particular figure by a particular day, it may be allowed to exceed its EFL at the year end through increasing short term borrowing by a sum within 1 per cent of forecast turnover plus fixed asset expenditure. This facility is intended to cater for short-term factors which would rapidly be self-correcting or which could be offset within a few months. It is available only in the last three months of the financial year.

25. The PE branch concerned must confirm in each case that it is appropriate to let the industry use the facility and, in particular, that the prospective overshoot could not reasonably have been foreseen earlier and remedial action taken.

26. The amount involved is agreed with the sponsor department. A corresponding reduction is made and announced in the EFL for the following year.

27. Further detail on the setting and operation of EFLs is given in a Written Answer from the Chancellor to Sir William Clark MP (Hansard, 4 August 1980).

WHAT THE TREASURY IS LOOKING FOR IN SPECIFIC EXPENDITURE PROPOSALS

The formal position is that only the Treasury can approve the spending of money authorised by Parliament. In practice, the Treasury delegates many spending decisions to departments, on the understanding that they will keep within agreed terms and conditions. This Section outlines three reasons why the Treasury sees proposals in advance and introduces other, more technical, Sections about specific decisions. They are also relevant to following Sections about aspects of financial management.

Is the proposal novel or contentious?

2. Expenditure which does not have Treasury authority is not properly chargeable to a department's appropriation account (that is the account of what it has spent, audited by the National Audit Office - Section 46). The phrase "novel or contentious" has been used for a long time as a catch-all for the kind of proposals which should be referred to the Treasury for this reason (see, for example, Government Accounting B78, B103 and M9). The spending department has to decide whether it has the delegated authority to go ahead. Usually it plays safe.

3. Occasionally a department may submit such a proposal in the hope of shifting the responsibility for going ahead on to the Treasury. Take care not to be taken for a ride.

Will the proposal put pressure on control totals, now or later?

4. The Treasury anyway has a wider perspective, across all government spending, than any one department can have. So it should be actively involved in specific decisions which may commit a significant amount of taxpayer's money, now or over a run of years, or which could set a potentially expensive precedent or cause repercussions in other departments. In all these ways the Treasury's room for manoeuvre in subsequent public expenditure Surveys would be reduced.

5. Beware too of proposals for expenditure on public sector-type activities which the departments claim are outside the definition of public expenditure. Departments often think up schemes, eg novel ways of financing, which are geared precisely at trying to avoid public expenditure controls (see Section 7). Such schemes may add to the cost of a project: there are therefore rules against them, or at least about their careful handling. If you are suspicious of a scheme proposed by a department, get advice from GEP2 or PSE (or PE2 if a nationalised industry is involved), and GEP3 on the public expenditure classification.

What standard of planning and appraisal does the proposal show?

6. Oversight of your spending department's internal management and performance means that you need to see some cases (sometimes picked at random) to test how well it is planning, appraising and evaluating its proposals. This will be specially true when objectives are fuzzy. (See Sections 4 and 5 on the Treasury's role in relation to spending departments and on Delegating authority to a department).

References

1. There is a copy of Government Accounting in your division. If you need an extra copy of the Sections revised in 1985, ask Committee Section.





Prime Minister 2 ^{cc/SG}
To note that the
Public Expenditure White
Paper is to be published on
Wednesday 15 January.

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
No 10 Downing Street
London
SW1

3 January 1986

Dear David,

PUBLICATION OF 1986 PUBLIC EXPENDITURE WHITE PAPER

The text of the 1986 Public Expenditure White Paper was cleared in correspondence before Christmas. We now need to finalise arrangements for publication.

The White Paper is on schedule for publication in the second half of the week beginning 13 January as planned, a week earlier than in 1985. The Treasury is due to answer Questions on Thursday of that week. The Chief Secretary feels it would be desirable to avoid publication on that day and proposes therefore that the White Paper should be published at 3.30 pm on Wednesday 15 January. Informal consultations have identified no other major publication or announcement planned for that day.

It is established practice that there is no Oral Statement upon publication of the White Paper. Instead, there is usually a debate in the House a few weeks after publication. It would, however, seem appropriate - as before - to announce the date and time of publication in a Written Answer beforehand, and to place copies in the Vote Office on publication day. The Chief Secretary proposes therefore that the publication details should be announced in a Written Answer on Tuesday 14 January in the terms attached.

As in the past, the Chief Secretary will be arranging on-the-record briefing for the press. As the White Paper is a long and complex document, we envisage issuing embargoed Confidential Final Revises on the day before publication.

The Chief Secretary is keen to ensure that the public expenditure plans are presented actively and positively. A considerable number of departments issued their own press notices at the time the summary figures

were announced in the 1985 Autumn Statement, and the Chief Secretary hopes that departments generally will hold press conferences or issue press notices commenting on and explaining their figures in the White Paper.

I am sending copies of this letter to the Private Secretaries to members of Cabinet, the Chief Whip and Sir Robert Armstrong, and to Bernard Ingham.

Yours sincerely,
Paul

PAUL PEGLER
Assistant Private Secretary

DRAFT PQ

To ask Mr Chancellor of the Exchequer: when he intends to publish the 1986 public expenditure White Paper.

DRAFT REPLY

"The Government's Expenditure Plans 1986-87 to 1988-89"
- Cmnd 9702, Vol I and II will be published at 3.30 pm
on Wednesday 15 January, and copies will be available
in the Vote Office.



CCBG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/50246/85

Your ref:

1-3 JAN 1986

J. Mm,

NBPV

LOCAL AUTHORITY CAPITAL OVERSPEND 1985/86

Thank you for your letter of 16 December.

I share your concern about the increased estimate of potential overspending on local authority capital in England in the current year. The £1bn estimate we are now making on the returns for the first half of the year is within, though near the top, of the range of £400m to £800m which we estimated after the first quarter returns. This forecast is still of course subject to fairly wide error margins. Like you I have however concluded that there is nothing we can do about this within the current year. Any requests for restraint in the current climate would have little or no effect, and would cause us major political difficulties given the pressures that are building up for increases in capital expenditure.

I do not understand quite what point you are making about the percentage use of spending power in 1986/87. At the time of our PESC discussions our estimate, again on the basis of first quarter figures, was that authorities might be using some 81% of their total spending power in the current year. But we all recognised quite clearly that there was a wide range of possible outcomes in the current year. Indeed, my officials' monitoring report to Treasury said explicitly that gross expenditure in this forecast was likely to be understated. Your officials were well aware that the 81% estimate of spending power was likely to increase.

You appear to imply that we argued that using an 83% assumption for 1986/87 in place of our original assumption of 85% would avoid an overspend in that year. That is not the case. I made very clear to you in our final discussion that in using an 83% assumption we would be building in the likelihood of some degree of overspending in 1986/87, though at a level considerably below that in the current year. I understand that at a recent meeting of officials an overspend of some £300m in 1986/87 was suggested as a realistic forecast. That seems a reasonable assumption in the light of present information. It would imply an 88% use of spending power in that year on the basis of present information.

As your officials know, before the PESC round next year we are taking steps to improve the quality of our information about local authorities' accumulated receipts.

When we come to 1987/88 I agree that we shall have to look at these estimates and percentages again if we are still operating with the present control system. But prediction of these totals can never be a precise calculation under present arrangements.

I am copying this letter to the Prime Minister, members of EA and to Sir Robert Armstrong.

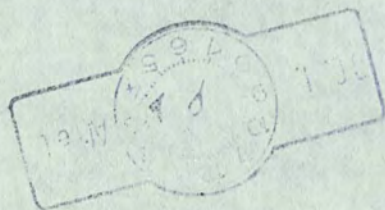
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homer*
homer

KENNETH BAKER

ECON POL

PUBLIC EXPENDITURE

PT 34



CONFIDENTIAL

cbs
✓

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
 Secretary of State for Scotland
 Scottish Office
 Dover House
 Whitehall
 London
 SW1

NBP7.

20 December 1985

Dear Secretary of State

**LOCAL AUTHORITY CURRENT AND CAPITAL EXPENDITURE:
 SCOTLAND AND WALES**

Thank you for your letter of 11 December commenting on mine of 21 November to Nicholas Edwards.

As I said in that letter, I agree that Scotland and Wales should receive the full formula consequential of any additions to the English local authority current baseline which is allocated to services and GREs. If the decisions for England continue to follow the pattern of those taken this year for 1986-87 in this respect, Scotland and Wales will continue to receive automatic formula consequentials. I was simply saying that I do not accept that it would automatically be right to do the same, regardless, if the settlement for England took some different or novel form. We might then need to consider how far the circumstances of Scottish and Welsh local authority current expenditure were in fact comparable, and what consequentials were appropriate.

I understand that our officials are due to discuss this issue. Perhaps the next step is for us to see what they conclude.

I am copying this letter to the Prime Minister, Nicholas Edwards, Tom King, other members of E(A) and Sir Robert Armstrong.

Yours sincerely

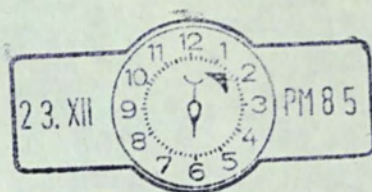
Approved for JOHN MacGREGOR
 by the Chief Secretary]

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PUBLIC EXPENDITURE

PT 34





10 DOWNING STREET

Prime Minister 2

The Treasury had
expected 600 overspend,
not 750. Some other things
(eg Cable & Wireless) have
gone better than expected, so
the Treasury are not yet
saying the Reserve will be
burst.

I am more disturbed about
the second paragraph; the
83 per cent assumption was
however part of the deal done to
stop Mr Baker going to Cabinet
over housing expenditure.

JHS
17/12

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
London
SW1P 3EB

16th
December 1985

Dear Kenneth,

LOCAL AUTHORITY CAPITAL OVERSPEND 1985-86

I was very disturbed to learn that we face an increased overspend of £750 million on your cash limit for LA capital in England. Such an increase is most unwelcome as an extra pressure on the Reserve. Our offices discussed and agreed the terms in which it should be announced in order to avoid exciting speculation that the Reserve will be broken. As you know, the position is very tight and it is with great reluctance that I have to accept there is little we can do to affect the position in year.

I am particularly concerned on this occasion because, at your insistence, only a short time ago in the PES round we agreed that allocations could be set assuming 83 per cent use of total spending power because, so we were informed by your officials, authorities were only using 81 per cent this year. Your new forecast, so soon after, now implies that authorities will be using 87 per cent of their total spending power. I shall have this very much in mind when we come to consider 1987-88.

I am copying this letter to the Prime Minister, members of E(A) and to Sir Robert Armstrong.

Yours ever,
JG

JOHN MacGREGOR



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Prime Minister
To note that this
is now being finalized.

DW
(6/12)

Treasury Chambers, Parliament Street, SW1P 3AG
David Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

16 December 1985

Dear David

1986 PUBLIC EXPENDITURE WHITE PAPER

The Autumn Statement gave the summary results of the 1985 Public Expenditure Survey. The next stage in the annual cycle is the publication of the 1986 Public Expenditure White Paper.

This year the White Paper was published on 22 January. For 1986, publication is envisaged during the week beginning 13 January; I will be writing later about the detailed publication arrangements.

The White Paper will be published in the same format as in recent years, with a summary Volume I and a more detailed Volume II. Further improvements and extensions of the material are being incorporated. The summary Volume I will include improved graphics and much greater emphasis on output, performance and value for money than in previous years.

There have already been extensive official discussions between departments on the content of the White Paper. I now enclose the draft in the form in which it is being printed for the final proof stage (I am sorry that the timetable means I have to circulate Parts III - VII in the form of marked up proofs which are inevitably bulky. In most cases, however those departments immediately concerned will already be familiar with the material relevant to them).

not attached

A final check will need to be made of all the detailed figures following completion of the exercise to establish the new database. Some of the tables in Parts 2 and 3 in particular do not yet fully reflect the agreed figures and the charts need to be finalised. The key aggregates will, however, remain as in the Autumn Statement. The estimated planning total outturn for 1985-86 remains in line with the Autumn Statement figure of £134.2 billion, now incorporating a small allowance for shortfall. The planning totals for the forward years are £139.1 billion, £143.9 billion and £148.7 billion.

This arises from the greater detail shown in the PEWP - it's not a substantive change.

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During the Survey the question was raised whether it was appropriate to publish information on the implied real terms implications of the cash plans. Since the introduction of cash planning, the main emphasis has always been placed on the cash figures, reflecting the way in which the plans are drawn up. It has, however, become customary not only to provide assumptions of the expected rate of inflation but also to show the resulting calculations for the implied real terms figures. The Treasury and Civil Service Committee have pressed the government to go much further and provide much more information in real terms, but this has been resisted. The Chief Secretary has, however, concluded that it would not be sensible to cease publishing all the real terms figures. If they are not shown in the White Paper, the TCSC and others interested will do the calculations themselves, and at the end of the day at least as much attention will be focused on the results, and probably even more because it will be thought the government is trying to hide something. The Chief Secretary does, however, intend that the layout of Part I of the White Paper will emphasise more strongly than before that primary attention should be paid to the cash figures.

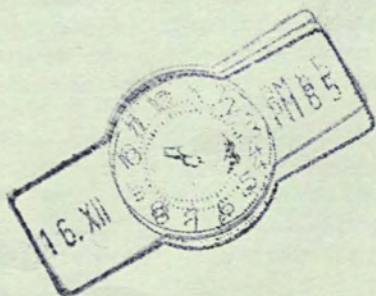
To meet the publication timetable, it will be necessary to finalise the White Paper before the Christmas break. The Chief Secretary would therefore be grateful for any final comments by midday on Friday 20 December at the latest.

I am copying this letter to the Private Secretaries to members of Cabinet, Paul Thomas (Office of Arts and Libraries), Mr Steel (Attorney General's Office), Murdo Maclean (Chief Whip's Office) and to Sir Robert Armstrong.

Yours ever
Richard

R J BROADBENT
Private Secretary

CONFIDENTIAL



COMMUNICATIONS



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

COVERING CONFIDENTIAL & PERSONAL

David Norgrove Esq
10 Downing Street.

16 December 1985

Dear David,

MONTHLY NOTE ON PUBLIC SECTOR BORROWING

I enclose this month's note on the PSBR.

The press notice giving the outturn figures for November will be published at 2.30 pm tomorrow, 17 December. The notice includes for the first time a new table on supply expenditure: there will be an explanation of the additional table in the press briefing, as well as in the press notice itself.

Yours sincerely

Rachel Lomax

RACHEL LOMAX
PRINCIPAL PRIVATE SECRETARY



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CCBG

The Rt Hon John MacGregor OBE MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

11 December 1985

NBM

Dear John,

LOCAL AUTHORITY CURRENT AND CAPITAL EXPENDITURE: SCOTLAND
AND WALES

I have seen a copy of the letter which you sent on ^{Re 33 att} 21 November to
Nicholas Edwards.

I am concerned about the second sentence of the last main paragraph of
your letter. It seems to suggest, although it is not clear, that there
may be occasions on which you think the formula should not apply to
changes in the English local authority current baseline. I cannot accept
this since it would be a complete departure from the terms of the original
agreement which established the formula arrangement and from the way in
which it has been operated hitherto. The formula applies automatically
to all changes in the English local authority current baseline and is not
dependent on the circumstances of any particular case.

I am copying this letter to the Prime Minister, Nicholas Edwards,
Tom King, other members of E(A) and Sir Robert Armstrong.

Yours ever,

George



10 DOWNING STREET

Michael Adam.

Could you ask the
Prime Minister to glance
at this as soon as possible
please? The Chancellor
would like her approval.

DLW

3/12



MR NORGROVE - No 10

David,

I'd be grateful for your
confirmation that the PM is
content for this motion to be laid
today for next Thursday's debate.

Philip Young

5/12



Treasury Chambers, Parliament Street, SW1P 3AG
01-233-4749

Miss Teresa Rolleston
Government Chief Whips Office
12 Downing Street
LONDON
SW1

5 December 1985

Dear Teresa,

MOTION TO APPROVE THE CHANCELLOR'S AUTUMN STATEMENT

As promised, following is the text of the motion, approved by the Chancellor, on which the debate on Thursday, 12 December will be founded:

"That this House approves the Autumn Statement presented by Mr Chancellor of the Exchequer on 12 November; welcomes the prospect of continuing low inflation and steady growth as the basis for maintaining the trend of rising employment; and congratulates Her Majesty's Government on the continuing reduction in the share of national income pre-empted by public expenditure."

It was your intention to table this today.

Yours ever,

B. O. Dyer
B O DYER

Copies to: PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Butler
Mr Anson
Mr Cassell
Mr Turnbull
Mr Evans
Mr Odling-Smee
Mr Gray
Mr Pratt

PART 33 ends:-

HMT internal minute 26.11.85

PART 34 begins:-

HMT to Chief Whip 5.12.85

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