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ECONOMIC POLICY

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PART 42 begins:-

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HOUSE OF LORDS.

LONDON SWIA OPW

25 May 1989

NBPM PRC6 2015

The Right Honourable John Major MP Chief Secretary HM Treasury Parliament Street London SW1P 3AG

Du John,

IN ATTACHED FOLDER

- In accordance with the guidelines agreed by the Cabinet I have reviewed the priorities within my departmental programme. As a result I am compelled to seek the additional resources described in the annexe to this letter.
- 2. My officials will as usual be submitting more detailed information to your officials. Meanwhile, I enclose Management Plans for LCD, Land Registry and Northern Ireland Court Service. The Public Record Office are in separate discussions with your officials about the form and content of their plan. Incorporated within these plans is information on output, performance and value for money.

LCD

- 3. When we concluded last year's negotiations you will recall that, in agreeing to accept a three year settlement for running costs, I made it clear that a combination of the wider economic background, and the major changes affecting my Department might force me to seek to reopen the agreement this year.
- 4. The intervening period has seen a number of developments which, collectively, leave me no alternative but to do so. These include the further development of the civil initiatives and their resource implications, the publication and discussion of the Green Papers on Competition Policy and the legal profession, the recent round of pay increases and the unforeseen growth in inflation. Although the Management Plan, which accompanies this letter, successfully demonstrates the requisite efficiency gains over a whole range of the department's activities, I do not believe, therefore, that it would be sensible or practical for me to seek to agree with you a revised three year settlement. The department is involved in a large management of change exercise. Many of the factors which affect the various businesses are liable to change over the period in question and often for reasons outside our control. In these circumstances, and notwithstanding progress in quantifying the likely resource effects, a future need for net additional resources over the Survey period is a real and unavoidable possibility which a three year settlement would deny us.

CONFIDENTIAL The Management Plan is built around my Departmental Strategy, the key elements of which relate to the reorganisation of civil business and competition within the professions. As you are aware from other correspondence I intend to pursue this through a phased programme of implementation geared to the Department's management capacity to deliver and the general capacity of the system to absorb the changes. Nevertheless, despite the phasing, some additional resources are required and these are covered in more detail in the official letter. These are carefully targetted increases and I shall be looking to all managers in the department to use maximum flexibility in the deployment of staff and resources during the period of implementation. Turning to the Green Papers, you will be aware that the precise resources implications of the proposals have yet to be quantified, although my bid does include the sum of £500K to cover the costs of setting up and running the proposed Advisory Committee. However, the real impact of the Green Paper on the current Survey relates more to the additional attention it has focused on the performance of the Courts. I must ensure that we do not attract undue criticism at a time when we are seeking to reform the legal profession. The effect of the recent round of pay awards has been much higher than 7. I anticipated last year. This is especially so in London and the South East where, largely of necessity, more than half my Department is situated. Whilst I welcome the moves towards more flexible pay, the extension of performance pay and increases in the maximum payable for local pay additions as an aid to recruitment and retention, the funds these demand cannot be absorbed within existing provisions. The problem is, of course, aggravated by the unexpected increase in inflation which makes it almost impossible to find savings to help finance pay settlements. As usual, expenditure on accommodation features large in my running costs expenditure. This has been given added emphasis in the current Survey because

- of the acquisition of new responsibilities for accommodation from 1st April 1990. I have to say that we have not been helped in our work to ascertain our requirements by the delays in sending us essential data.
- All these considerations make it necessary for me to seek additional provision for running costs of the order indicated at Table 2. Although the sums of money sought are not insignificant I must stress that I am not bidding for any additional manpower for continuing business beyond that already included in my published manpower plans. The additional manpower shown at Table 2 is solely for the implementation of the various initiatives and a detailed breakdown is contained in the official material. The revised provision I seek will enable the Department to pay the total number in the manpower plans plus the targetted additions referred to above, in the light of the assumptions we have made about pay and other price increases. I will, of course, have to look at my manpower plans afresh in next year's Survey and I cannot discount the possibility of increases being required then.
- Revised assumptions on price increases are largely responsible for the additional bids for general non-running costs and Jurors and Court Reporting. The latter also take account of the opening of new courtrooms.

CONFIDENTIAL The bid for judicial salaries payable from the Consolidated Fund takes account of revised numbers, including some additions for new initiatives, as well as higher assumptions then last year about TSRB pay awards. I must again seek increased provision for the court building programme. Notwithstanding its vital importance to the achievement of operational targets in the Court Service, the programme is little changed from last year. But, with inflation in the construction industry remaining high, the additional provision is necessary to keep the programme on target. Problems of inadequate and inaccurate forecasting of expenditure and poor and late information continue to undermine the programme's effective planning and control. An added difficulty this year is that PSA are moving to a new system of fee charging, to replace resource costs, and have not yet supplied precise details of how this will work. As usual, in order to arrive at the additional bid we have made a realistic estimate of likely slippage on the programme. However, in the light of events in 1988-89, we have been a little more cautious about this than in last year's Survey. Reduced slippage should, of course, continue as we make improvements in our project management. The position on legal aid remains very similar to last year. With the help of the Treasury we have been examing our forecasting techniques to try and improve their accuracy. The application of the Holt Winters forecasting method has been run on a trial basis and is now being evaluated. However, it is too early for this to have had any real effect on the forecasts produced for this year's Survey. Nevertheless, my bid for the first year is a modest one and,

- although it increases in the second and third years, the assumptions used are proper and defensible.
- The Legal Aid Board has now taken over the administration of legal aid. The Board is developing a corporate strategy and has already drawn up an I.T. strategy which was sent to your officials some weeks ago. The bid I am making includes additional funds to allow the strategy to proceed. The Board have already set themselves testing targets for improving efficiency and effectiveness within the administration of legal aid. These will involve some reorganisation of Area Offices etc. and it is necessary to seek additional funds to cover the cost of the consequential redundancies. In addition to these specific items, the Board is, like the Department, affected by higher than expected pay and price increases.
- The modest additional bids I am making for Office and Accommodation and Law Centres are dealt with more fully in the official letter.
- You will see from Table 2 that I have again costed separately the effects of major new policies on my Department's programmes and my officials will deal with this in more detail. Where possible, we have sought to keep your officials in touch with our work on the assessment of the resource implications of these policies and the only policies likely to be new to them are the Statute Law Database and the Report on Security at the Royal Courts of Justice.

- 19. You may recall that the Review of Government Legal Services conducted by Sir Robert Andrew recommended that work already in hand on a computerised database of statute law should be "pushed ahead as a matter of urgency". This work has been proceeding under the aegis of a committee chaired by my Permanent Secretary and I have agreed that my Department should take the lead in the management of this project. I am keen that this project should proceed as I believe it has the potential to bring considerable benefits to Parliamentary Counsel, Parliament and the whole of the Government Legal Service. A copy of the Preliminary Study Report is included with the official correspondence.
- 20. A comprehensive report on security at the Royal Courts of Justice has been conducted by the Security Services. This reveals some worrying deficiencies in the level of security currently provided and a Working Party here is examining how best to take this forward. The figures shown in Table represent the best estimate to date of the costs of implementation.
- 21. Turning to the other policies, the bid for legal aid resulting from the extended use of DNA testing in immigration cases is based on workload assumptions produced and agreed by Home Office and FCO. Your officials are familiar with the issues on satellite T.V. links and my bid is provisional pending a decision by Home Office Ministers on implementation. We corresponded on the Football Spectators Bill earlier in the year and you agreed that the resources issues should be resolved in this year's Survey. My bid for the Road Traffic Law Review is also provisional, pending decisions on a legislative slot becoming available.
- 22. The decision to set up a Patents County Court came out of the Copyright, Designs and Patents Act 1988. My officials are in correspondence with DTI officials about the possibility of a PES transfer. However, I thought it prudent to put in a formal bid at this stage.

LAND REGISTRY

- 23. The provisions sought by the Land Registry in its Submission seek simply to convert the fees paid by applicants for registration into the cash and resources needed to deliver registration services. I am pleased to say that target unit costs for 1988-89 have been met and the targets for the survey period provide for further year on year improvements. The Submission recognises the decline in property market activity but seeks to maintain output at the level needed to reduce the accumulated backlog of cases and so restore an acceptable level of service. The capital building programme reflects the need to meet the department's expansion and relocation plans as outlined in the Registry's Management Plan. These plans will continue to develop the potential in existing locations, the relocation of work from the south-east and to improve overall unit costs.
- 24. The effect on the department's workload of opening the register to public inspection (under the enabling provisions of the Land Registration Act 1988) cannot be reliably assessed. This will only become clear once the service is available and at this stage no specific provision has been sought other than some minor capital and current expenditure of preparatory work based on small system computing.

25. All the additional current and capital expenditure sought will be entirely covered by Land Registry fee receipts so no demand on public expenditure arises.

NORTHERN IRELAND COURT SERVICE

- 26. In the 1988 Survey the Court Service obtained increases in running costs for the first year, with a small nominal percentage increase in subsequent years which was to be reviewed during the 1989 Survey. While case disposals are expected to increase by 4.5% over the 1989 Survey period every effort is being made to contain this within present staffing and judicial complements. The Service is also endeavouring to contain and, where possible, reduce its general administrative expenditure. Because of their efforts in achieving better value for money and rationalising and computerising office systems the running cost bids in years one and two have been restricted to the percentage increases necessary to meet the present staffing ceiling pay costs. In year three there is an additional bid of £93K to meet the increasing costs of computer hardware and software support, rental reviews and the Senior Management Development Programme.
- 27. The capital building programme has suffered greatly in recent years due to security difficulties and intimidation of contractors. The upshot is a considerable amount of re-scheduling which has resulted in a reduction in provision in the first year and re-instatement in subsequent years. Provision is also being taken in the second and third years for the replacement of Dungannon and Antrim courthouses and the extension and refurbishment of Newry courthouse. The Grant-in-Aid to the Law Society to meet the administration costs of legal aid has increased by a little over £100k per annum, largely attributable to revised pay assumptions.
- 28. Finally, you mentioned last year your concern at the growing expenditure on legal aid, the degree of control and available management information. In the intervening period LCD officials and their counterparts in the NICS have been examining the financial and management information systems in use in both jurisdictions and a consultant has been engaged in NI to develop the systems necessary to support this function. Her report and recommendations should be available in September. I have also been concerned about the backlogs of civil business in the Legal Aid Department and, in order to increase efficiency, propose to reduce the work on initial case assessment by extending and encouraging the use of the Green Form Scheme. This will bring forward the payment of certain cases, necessitating additional provision of £674k in the first year, though this will largely be recouped in subsequent years. The bids for the second and third years relate to the increased use of Legal Advice and Assistance and Assistance by way of Representation.

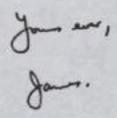
PUBLIC RECORD OFFICE

29. Funding for planning and construction of the Kew extension continues to constitute the major element of PRO's additional bids. The existing baseline contains a substantial element for this and other major capital projects but the bringing forward of building work at Kew and slippage on computer projects (largely due to difficulties in recruitment and retention of IT specialists) have

made a revised profile of expenditure necessary. These changes affect the design and implementation of the machine-readable data archive (MRDA) and computerised records information system (RIS); completion of work at Chancery Lane to convert the basement into reading rooms ready for the opening of the 1891 census returns in 1992; and continuing refurbishment and conversion of accommodation at both Hayes and Chancery Lane to provide additional record storage.

30. The major element within the running costs bid is pay, which constitutes 58 per cent of the running costs bid and almost 30 per cent of the total bid in the first year. This reflects both the artificially low baseline and "pay realism" with allowance made for pay settlements in the region of 9 per cent in first year and 8 per cent thereafter. Funds are also requested for four additional staff in each year of the Survey: deployment of these posts is expected to be primarily in the area of information technology and conservation. The need for additional searchroom staff in 1992 can be avoided by improved guidance to readers in the form of video-recorded introductions and more detailed catalogues: bids to fund the production of these by casual and consultancy staff have therefore been included. In respect of the general administrative expenses of the department, funds are sought to meet the rising cost of maintaining specialist accommodation both at PRO sites and at the British Film Institute; of training (largely as a result of central initiatives and the expansion of information technology); of travel (entirely as a result of the relocation of departmental records sections to the provinces); and of security. Market testing of security services in the course of the next year may result in savings from 1991-92 which will be offered as such in PES 1990.

31. My officials stand ready to provide whatever additional information is required. I am copying this letter and its enclosures to the Prime Minister, the Lord President, the Home Secretary, the Attorney General, the Secretary of State for Northern Ireland and the Secretary of State for Scotland.



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PES 1989 - LORD CHANCELLOR'S DEPARTMENT BASELINE

1992-93 1990-91 1991-92 1988-89 1989-90 Plans Plans Estimate Plans Estimate 272.446 279.257 252,545 238.988 214.377 Running costs 35.829 36.725 31.805 34.955 32.068 Non-Running costs Jurors & Court 40.835 39,839 36.419 38,868 33.957 Reporting Consolidated Fund 42,116 43.169 37.802 39.247 (Judicial Salaries) 34.687 84.429 81.651 82,370 63.42 80.202 Court Building Office and General 1.014 1.039 .992 2,761 1.050 Accommodation 650.294 545.284 598.252 634.433 487.819 Legal Aid Grants to Law .806 .826 .730 .768 .787 Centres Costs from 12,293 12.363 12.672 11.737 21.695 Central Funds Legal Aid 33.567 32.748 26.888 30.319 31.998 Administration .039

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Hague Convention

Aid

TOTAL

Appropriations-in-

PES 1989 - LORD CHANCELLOR'S DEPARTMENT
TABLE OF ADDITIONAL BIDS

			£million
	1990-91	1991-92	1992-93
Running costs	29.154	50.129	90.599
[of which new initiatives	3.931	4.133	3.933]
Non-Running costs	11.788	8.274	8.125
[of which new initiatives	3.927	1.242	0.122]
Jurors and Court Reporting	3.571	6.335	9.456
[of which new initiatives	1.643	1.643	1.643]
Consolidated Fund - judicial salaries	4.366	4.314	5.796
[of which new initiatives	1.334	1.334	1.334]
Court Building	29.400	28.630	26.671
Office and General Accommodation	1.508	0.0	0.0
Legal Aid	31.420	55.778	94.192
[of which new initiatives	25.173	25.073	25.073]
Law Centres	0.035	0.035	0.035
Legal Aid Administration	3.944	6.578	7.206
SUB TOTAL	115.186	160.073	242.080
Appropriations-in-Aid	0.0	0.0	0.0
TOTAL	115.186	160.073	242.080
MANPOWER PLANS	1990-91	1991-92	1992-93
	11,287	11,250	11,250

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CONFIDENTIAL

Department of Employment Caxton House, Tothill Street, London SW1H 9NF

> Telephone 01-273 5802 Telex 915564 Fax 01-273 5821

> > Secretary of State

The Rt Hon John Major MP Chief Secretary Treasury Chambers Parliament Street LONDON SW1 NOPM PACO NU,

25 May 1989

()eas John.

PUBLIC EXPENDITURE SURVEY 1989

ATTACHMENT IN FOLDER

In this year's Public Expenditure Survey I aim to build on the developments of the last 12 months, in particular the launch of Employment Training and Training and Enterprise Councils. initiatives address two of the major problems in today's labour market. First, the need to reduce the pressure on wages by increasing the supply of this labour; is particularly effective if those helped to take jobs would otherwise be receiving state benefits. Second, to increase the volume of employer funded skills training, particularly higher transferable skills.

judge that the momentum can be maintained without a significant increase in the baseline of our major programmes. But it is important that we make no further reductions below baseline. Last year's reductions of £300 million in YTS and ET in 1990-91 £400 million in 1991-92 have still to work through and we should not add to them. Training is becoming an increasingly important political issue and the period in which we set up TECs is not the time to make bigger cuts than we have already to the programmes for which they will have responsibility. I suggest our strategy should be to hold public expenditure broadly constant while using TECs to secure the large increase in training expenditure by employers which we are seeking. It is also vitally important that, through the stricter benefit regime, keep up the pressure to minimise the unemployment count, especially given the risk that a slowdown in economic activity may cause the count to rise slightly. My objectives are at annex 1 and are reflected in the structure of my detailed bids at annex 2.



As part of the Inner Cities Initiative I announced two pilot schemes, the Job Interview Guarantee Scheme and the Inner City Development Fund, which offer incentives to the long-term unemployed and other disadvantaged groups. I believe the pilots will form the successful basis for a programme which will encourage long term unemployed inner city residents to establish a bigger stake in their local economy. Therefore I am bidding £12 million, £22 million and £22 million for the programme to be implemented in full.

Many disabled people need help to keep and find work. Technological developments now offer cost-effective ways of helping a wider range of people with disabilities to find work. At the same time there are more people with health problems and disabilities in the community. We have the opportunity offered by the tightening labour market to get more of these people into jobs. I anticipate additional gross expenditure of £21 million, £28 million and £37 million to provide equipment and adaptation for the disabled in mainstream employment, sheltered placements and to restructure Remploy.

Turning to my second theme, encouraging employer funded training, only one of my initiatives requires new money. The others will be met from ET and YTS and EAS. These and other bids also to be met from existing resources are at annex 2. However, Business Growth Training is an important development. At this early stage I am not seeking a general increase to what is a fairly modest baseline, but I have identified the need for special support to enable TECs to establish Local Training Advisory Centres which would have an important role to play alongside the BGT initiative. TECs would contract with agents to set up and run the centres, which would provide professional advice and assistance, particularly to smaller firms, about new training developments, practical demonstrations of new training technology and information about training provision. I anticipate I will need an extra £8 million, £12 million and £13 million.

I have been very encouraged by the results being achieved in the first Compacts I established. Evidence from the first 30 Compacts shows the value of pump priming to fund development work and initial operations. I am bidding for additional funds of £6 million in each PES year to establish partnership activities in all TEC areas by the end of the PES period. This will provide greater business involvement in schools and better coherence between education, training and work.

I have several proposals involving capital expenditure. In particular, rationalisation of the ES local office network and Information Technology for both the ES and TA. Business cases are well advanced for these projects. My bid for additional non running cost expenditure in total, mainly capital, is £40 million, £49 million and £28 million. The full analysis is at annex 3.



Last year we negotiated a three year agreement on running costs. Even though its assumptions on pay and prices have proved overly optimistic given, particularly, the nature of the long-term pay agreements made by the Treasury and the large increase in rents and other charges coming through from PSA, I intend to stand by that agreement. However, it will prove particularly difficult to maintain those of my programmes for the unemployed run directly by the Employment Service, because these costs are included in the running cost limit.

There are three items outside the agreement. First, the extra up-front running costs associated with relocation, on which there has been a separate submission at official level. Delay in starting the relocation programme engendered by the delay in getting approval for the additional running costs and for improvements in the package of relocation terms, also under discussion with Treasury at official level, now leads me to rephase those running cost requirements slightly. I also take the opportunity to add in some additional, relatively small running cost requirements recently identified and quantified, the most notable of which is a bid in respect of HSE, who have now come forward with a proposal to relocate some more staff to Bootle. My bid for additional running costs for relocation as a whole is £8 million, £5 million and £3 million. Second, we have asked that the TEC management fee should be treated as programme expenditure, in the same way as we have been doing for fees to Managing Agents of our training programmes - and indeed as we do generally for payments to grant aided bodies which cover, inter alia, their administrative expenses. I have written separately on this as an early decision is needed so we can plan expenditure across the Group for next year. Third, I would like the administration by HSE of the Food and Environment Protection Act to move on to net running cost control from 1 April 1990. This would require a technical adjustment to the gross provision. Also from 1 April 1990 the Nuclear Installations Inspectorate net running cost ring fence should be extended to cover Nuclear Safety Research work transferred from the Department of Energy. I would be grateful for confirmation that you are content for discussions to proceed on this basis.

I now turn to the running cost bid I am making for 1992-93. My decision not to reopen the running cost agreement for the first two new PES years will mean not only that the ED Group will have to achieve efficiency gains of more than the 1.5 per cent a year stipulated in the Management Plans but also that some work will be stopped or deferred. Projects requiring expenditure now to save money later must be postponed, in particular work on the Employment Service's Information Technology strategy. I propose to spend £26 million in 1992-93 to go some way to redressing earlier delays. Also by 1992-93 known large increases in accommodation costs will have fully worked through. First, the



addition of about £10 million VAT to rents, which has been imposed on us. Second, the steep rise in commercial rents as leases come up for renewal. Third, some routine maintenance due over the first two PES years may have to be postponed. I anticipate accommodation costs in 1992-93 in total will be £31 million above baseline. Similarly, we may have to delay training and other human resource development work throughout the Group, with consequent additional commitment in later years.

The HSE require £4 million in 1992-93, largely for new work generated by the harmonisation of European Health and Safety regulations and in response to increased public concern about workplace hazards. As mentioned above, I have not included a bid in relation to pesticides work (FEPA) - which would otherwise have required an additional £0.7 million in that year - which I am assuming will have moved on to a net running cost basis by the beginning of the PES period.

Finally I need some cover for the recent pay settlements entered into by Treasury. I intend to absorb the 1989-90 settlement but larger increases are already in the pipeline and there is a limit as to how long I can go on absorbing them without endangering the core activity of the Group. I have assumed pay increases of the order of 5.5 per cent in 1992-93, and I will need at least an extra £58 million for pay in that year. The several items discussed above produce an additional requirement in 1992-93 totalling £119 million. There will of course be any number of additional small requirements for new activities but I would propose to absorb them by a continuation of increased efficiencies beyond those identified in Management Plans and reduced activities elsewhere. One major saving I can, however, now identify and offer up as an offsetting saving. The privatisation of the Skills Training Agency should release £24 million running cost provision My retention of the likely running costs savings that year. from the STA baseline provision in Years 1 and 2, as I am entitled to do under the fixed three year settlement, provides at least a partial offset in those years for the increased costs, thus making my task in standing by the agreement that much more manageable. In total, therefore, my requirement for gross running costs in 1992-93 is £95 million above the baseline, as revalued by 2.5 per cent. The details are at annex 4.

In addition to the above items I am seeking extra cover of £4 million, £4 million, and £6 million for the Redundancy Fund. This need arises because in PES 88 we overestimated the reduction in requirement as the economy improved.

Finally, I attach at annex 5 details of output and performance indicators to support my baseline and bids for programme expenditure. My Management Plans are being reassessed, to take account of my decision to stand by the three year running cost agreement. Your officials are aware of the position and the new deadlines agreed.



I am copying this letter to the Prime Minister and also the Secretary of State for Wales and the Secretary of State for Scotland with whom I intend to meet shortly on this.

NORMAN FOWLER



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CONFIDENTIAL

FCS/89/104

CHIEF SECRETARY

prom person

Overseas Development Administration: PES Bid Overseas Aid Vote

- 1. This financial year we shall, for the first time since 1979, have some real growth in our aid programme. As a result we have at last checked the decline in the proportion of our GNP spend on aid which in 1979 was 0.52%. The average for the last two years is 0.30% and that is what we can expect for 1989. Halting the decline in our aid performance is a welcome sign of our economic strength.
- 2. We have worked hard and successfully, as I think you will agree, to ensure that our aid is used effectively. But there are still important areas where we should be making a greater contribution and where it would be in our economic, political and environmental interests to do so. I need additional aid resources if we are to be able to meet our three closely inter-related and fundamental objectives:
- a) to further the Government's objectives internationally of limiting global environmental damage;

/b)



- to maintain our present key policies, of supporting economic reform, regional peace processes, and contributing substantially towards a positive measures policy in Southern Africa;
- c) further to promote the role of the private sector overseas and more effective alleviation of poverty.
- 3. Our economic success at home has restored our respect abroad. There has been a renewed willingness to listen to us. But with it has come also a renewed pressure for Britain to accept its share of the aid burden. We see this within the European Community and the OECD, at Commonwealth and UN meetings, and at Economic Summits. There is also growing pressure in multilateral aid negotiations for us to accept more generous replenishments and to increase our shares now that our economy is strong again. Our record has become increasingly difficult to explain to our friends or defend against our critics.
- 4. Furthermore, in the context of global environmental concerns where we are already playing a leading role internationally, we shall be expected to meet our share of the costs of helping developing countries participate in international initiatives. If we want developing countries to give the priority to limiting global environmental damage which we believe they should we must be willing to provide them with additional resources. We cannot expect the poorer countries to help solve the problems we largely created by our own industrialisation at the expense of their own development.

/Programme Expenditure



Programme Expenditure

5. My first bid is to enable the aid programme to help further the Government's objectives internationally of limiting global environmental damage. I have already explained why we must be prepared to provide additional resources to achieve this rather than diverting existing aid. My bid at this stage covers primarily an expansion of our forestry work overseas which the Prime Minister has recognised would make a valuable contribution to efforts internationally to prevent de-afforestation, and some provision for initiatives, bilaterally and multilaterally, to increase energy efficiency and encourage the adoption of ozone friendly technology. I have no doubt that in due course we shall find that we shall need to do more than this. Nicholas Ridley's letter of 15 May to the Prime Minister notes the pressure we shall come under, after the London and Helsinki meetings, to agree to a Climate Fund.

1990/91	1991/92	1992/93
£15m	£40m	£90m

6. My second bid is for the minimum additional resources we envisage at this stage will be necessary to meet further new commitments for multilateral aid. Without this the real value of our bilateral aid overall would need to decline still further. After a decade in which the value of bilateral country programmes overall has fallen by over one third, and many individual programmes by one half, this trend must now be reversed. The PAC noted recently the practical limitations of a policy of

/seeking



seeking to constrain multilateral aid in order to protect our bilateral programmes. I should also otherwise have to take an even tougher line in the IDA 9 negotiations. As it is our resource constraints will require us to adopt a restrictive position. My bid covers both EDF 7 which is currently being negotiated, and where we shall find it very difficult to hold a replenishment of 9.5 billion ecu, which I am assuming here, and the Treasury's forecast growth in EC budgetised aid expenditure which is attributed to the aid programme and over which we have no control. For 1990/91 I am also seeking to offset the agreed reduction in respect of the overspend on EC attributed expenditure last year, currently estimated to have been £15 million.

1990/91	1991/92	1992/93
£37m	£27m	£40m

7. My third bid is to enable us to continue to play our part bilaterally in support of economic policy reform, particularly in sub-Saharan Africa and to help the front line states reduce their dependence upon South Africa as part of our positive measures policy. We have already shifted the balance of existing resources as far as we can. Any more would require further damaging reductions elsewhere, prevent us from contributing to regional peace processes, and cause us to miss out on new opportunities such as in China. I include in my bid sums for Nigeria on the basis we have already agreed (some £50 million annually at current exchange rates). To the extent that we could get away with less in the later years it would

/allow



allow us to respond more effectively elsewhere: otherwise my bid does not provide for Sudan and Zambia should they accept the necessity of economic reform:

1990/91	1991/92	1992/93
£60m	£70m	£80m

8. My fourth bid is to allow me to fund an expansion of CDC activity through the aid programme now that it is clear that, despite having taken legislation to allow overseas borrowing outside the PSBR, we have no assured system for doing so which is acceptable to the Treasury. The CDC is our main vehicle for investing directly in the private sector overseas and should be seen as part of our overall policy of promoting the private sector. We shall be encouraging it to do more in this area, including equity investment, and also forestry.

1990/91	1991/92	1992/93
£25m	£35m	£45m

9. My fifth bid is for a further expansion of our support for the work of the voluntary agencies overseas. They are effective at grassroots level in helping to alleviate poverty and to protect the local environment. It also brings us considerable political credit domestically.

1990/91	1991/92	1992/93
	£8m	£15m



10. My sixth bid acknowledges that having held the mixed credit part of the ATP budget constant at £66 million for some years we shall need to augment it in the later years of the Survey if we are to maintain our support for industry in key markets, particularly the Far East.

11. I leave aside the issue of a possible extension of the ATP soft loan scheme which we shall need to discuss separately once officials have reported.

> 1990/91 1991/92 1992/93 - flom fl5m

12. Our aid performance as a percentage of GNP has bottomed out at a level which leaves us comparing badly with other countries. Against the internationally agreed target for aid spending of 0.7% of GNP to which we remain committed the latest figures show us ranked fourteenth amongst OECD donors, above only Australia, New Zealand, Ireland and the United States (which has never accepted the target and whose aid in absolute terms is five times ours). Because of this and because we contribute substantially to EC aid programmes, our overall bilateral aid, the real value of which has declined substantially over the last decade, is now small compared to the US, Japan, Germany and France, and falling well behind that of Canada and Italy.

13. The existing PES provision even on present Treasury forecasts of inflation shows a decline in real terms over the provision for the current year. The effect of my bids would be for the aid programme to continue to grow



in real terms. More significantly, politically, it would also have the effect of the aid programme being seen to increase again, albeit modestly, as a percentage of GNP. That would transform our position internationally and domestically in presenting our aid policies.

Running Costs

14. Finally I need to bid for additional running costs for ODA and ODNRI. It is only with considerable reluctance that I seek to reopen the three year settlements we agreed last year. But my letter of 25 May 1988 did say that we were able to forgo any addition to ODA resources for 1989/90 and 1990/91 only on the understanding that pay settlements in those years did not exceed the assumed level of 5%. My bid therefore includes provision for the additional cost of the 1989 pay settlements, to avoid arbitrary and inefficient cuts which would damage the effectiveness of programme expenditure. In order to try to avoid a recurrence of this problem, the bid also reflects revised pay assumptions for the years 1990/91 to 1992/93 as detailed in the ODA Efficiency Management Plan which will accompany the PFO's letter. Nor is it realistic to assume that, in addition to the plans for efficiency savings which have already been agreed the ODA can absorb the newly imposed cost of VAT on the rent of its official premises.

15. I am also seeking additional resources for staff to enable the ODA to undertake three new activities. First, additional money is needed in the first two years to begin implementing ODA's agreed Information Technology

/Strategy



Strategy, developed in conjunction with CCTA and aimed at improving staff effectiveness and the quality of aid delivery. From 1992/93 onwards we expect to find the running cost resources for this from the efficiency savings planned for that year.

16. Secondly, I am also concerned that present running costs provision allows us no scope to respond to growing concerns about the environment. I have therefore included a new running costs bid in support of the bid for additional programme resources in this area. Thirdly, in parallel with my bids for the Diplomatic Wing, I am also seeking additional resources to fund the cost of improvements in health care arrangements for staff overseas.

17. For ODNRI some additional running costs will be necessary now that the actual costs of running the new Chatham site can be more reliably assessed, to provide for slightly enhanced external contracts programme, and to reflect some further rephasing of relocation costs.

18. In total my running cost bid is:

1990/91	1991/92	1992/93
£3 7m	64 6m	67.1m

19. Further details of all my bids and the improvements in performance and output that they will achieve, are included in the ODA's PFO letter, together with the draft Management Plans for the ODA and ODNRI which are at present the subject of discussion between our officials.

/20. Finally,



20. Finally, over the PES period, we expect to take on further contingent liabilities for the callable element of capital subscriptions to regional development banks and for providing guarantees under the forthcoming Lomé Convention. These will add only marginally to the total reported ODA liabilities and will not put public expenditure at risk. Details will be included in the separate report on Contingent Liabilities.

21. I am copying this minute to the Prime Minister.

3/

(GEOFFREY HOWE)

Foreign and Commonwealth Office 25 May 1989





PCS/89/099

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CHIEF SECRETARY

Public Expenditure Survey: FCO (Diplomatic Wing)

- Last year we halted a steady decline in the Diplomatic Wing's resources. The arrangement we reached is already paying dividends in allowing us to pursue more assertive commercial, political and cultural policies abroad. As a result, we are now exploiting the rise in Britain's international stature for practical advantage. The successful overseas visits by the Prime Minister and her colleagues, together with the increasing flow of influential visitors to this country, reflect the sound investment we are making in promoting British interests so as to serve the security and economic well-being of the country.
- This year I want to build on that progress. In particular I have focussed on meeting specific new pressures or opportunities. Even after taking account of our efficiency efforts, I shall require modest additional resources. Leaving aside any adjustment for movement in overseas prices and some contingency requirements identified at the end of this letter, my bids for the 1989 Survey comprise:

£m (running cost in brackets) 1992/93

1991/92 1990/91

48.00 (20.93)

58.59 (19.54) 55.23 (21.77)



 My first set of bids is for meeting existing operational commitments.

They amount to:

							£m
		19	90/91	199	1/92	199	92/93
		24.00	(17.93)	29.56	(19.02)	33.06	(21.24)
of wh	ich						
I	Pay/						
	Allowances	7.12	(7.12)	6.35	(6.35)	6.81	(6.81)
II	Visas	10.14	(9.36)	11.21	(11.00)	12.85	(12.63)
III	Security	4.04	(0.79)	1.78	(0.82)	1.50	(0.90)
IV	Relocation	1.90	(-)	9. 35	(-)	11.00	(-)
V	Healthcare/						
	Training	0.80	(0.66)	0.87	(0.85)	0.90	(0.90)

The bids are primarily intended to deal with:

- higher than forecast increases in pay and allowances negotiated by the Treasury;
- growing pressure on our existing visa regimes and the cost of introducing new ones for Turkey and the Maghreb;
- important additional security works;
- initiation of a cost effective relocation from central London;
- the need to maintain adequate health and training programmes.

The British Council are facing some similar pressures on their own costs: a bid for resources to address their problems is contained in paragraph 13.



- 4. My first bid, for pay and allowances, reflects the higher than forecast level of settlements negotiated by the Treasury with the unions.
- Last year we assumed a pay factor of 6.0% for 1989/90: the reality is that the full year increase in our pay bill will be at least 8.9%.
- The Treasury's own proposal for an increase in pay for security guards will, if implemented, cost us some £0.8m p.a.
- COLA revisions will cost some £0.6m p.a.
- 5. These represent major new hazards over which the Diplomatic Service has no control. They could not be absorbed within our existing running costs, which are already hard-pressed. Since we established last year that the Diplomatic Service should be adequately funded to carry out its agreed tasks, I must ask for extra provision to meet these unexpected extra costs. We have already set in place a system to ensure that unforeseen changes in foreign exchange rates do not force unplanned alterations to our activities (last year it saved the Exchequer over £22 million). Similarly, we need to ensure that unforeseeable changes in centrally negotiated pay and allowance levels do not disrupt the carefully prepared plans we discussed last year.
- 6. My second bid reflects the cost of increasing demand on our existing visa regimes and the need to introduce new ones for Turkey and the Maghreb. We are in touch separately about the extra provision needed for the latter, and I hope that we will be able to convert this bid into an agreed one by the time of our Survey bilateral in the Autumn.



- 7. My third bid, for additional security work, reflects the continuing growth in the threats of terrorism and espionage. In particular I draw your attention to:
- the proposed development costs of our new Embassy in Moscow, where the American experience shows the true cost of making false economies;
- the need to strengthen still further our people and buildings against terrorism, including a new threat posed by the drugs barons in Latin America;
- the Foreign Office share of Caldbeck, the Whitehall intelligence communications network;
- improved standards for security locks on buildings and containers imposed by Cabinet Office and the Security Service.
- 8. My fourth bid, for a major redevelopment and relocation at Hanslope Park outside London, is fully documented elsewhere. The programme, which has been subjected to full investment appraisals, will generate major gains in terms of staff recruitment and efficiency. Subject to adequate funding, we intend to transfer from Central London some 245 jobs, many of which will in due course be filled by Home Civil Servants. This will result in greater long-term stability and expertise, and significantly lower wage costs. I hope that we will be able to agree on this sensible contribution to the Government's overall strategy on relocation.
- 9. My fifth bid, for health and training, reflects our commitment to provide staff world-wide with adequate health facilities against a background of remorselessly deteriorating health care in the unpleasant and unhealthy environments where many currently serve. The radical reorganisation of our

/health



health facilities already under way is part of our obligation to provide proper health care for our staff and especially their families. Health obviously costs money, but this is an area where I am not prepared to stitch and make do. We currently spend a modest £1.6m. p.a. on health care, and frankly we need more. On the training front, the supporting material shows the need to strengthen our commercial, IT, visa and language training. I attach special importance to this, since the activities covered are at the sharp end of the services that the Diplomatic Service provides.

10. Having secured our operating base with the bids set out above, my next objective is to maintain and develop our programmes. So my second set of bids is focussed on well-directed efforts at projecting ourselves and our interests overseas.

Maintaining and expanding programmes:

1990/91	1991/92	1992/93
24.00 (3.00)	29.03 (0.5	2) 22.17 (0.53)

of which

AII	UN peacekeeping Education and related prog- grammes (incl.	4.17	(-)	3.72	(-)	3.55	(-)
VIII	AUS programme budgets) British Council operating and	14.41	(3.00)	12.27	(0.52)	12.57	(0.53)
IX	relocation costs Military/	3.00	(-)	10.39	(-)	3.17	(-)
	Police Training	2.42	(-)	2.65	(-)	2.88	(-)



- 11. My sixth bid, for UN peacekeeping, is straightforward. We have already agreed on funding for UNIIMOG and UNAVEM, and the bid simply reflects the figures carried forward. The UK contributions to these forces, and to UNTAG (with which I deal later), have brought disproportionate advantages. They have:
- secured the high reputation of our armed forces (it was of course to us that the UN and the various parties turned for immediate help during the crisis over UN deployment in Namibia);
- confirmed the strength of our arguments that Southern Africa's problems need to be addressed by sensible, practical measures rather than by posturing. The pressure on us over sanctions has undoubtedly eased as a result.
- 12. My seventh bid is for additional educational, information and other programmes. The arguments I set out last year for strengthening these investments remain valid: indeed they have been confirmed by the effectiveness with which we and the British Council have deployed our resources in the last year. We can do a lot more with a little extra money.
- The British Council's Corporate Plan, a copy of which your officials have, has become a model of well-directed planning. The Council's objectives are now fully integrated with our own.
- We have engaged on a private consultancy basis a retired member of the Service with the specific task of raising private sector finance to match our own contributions to scholarship programmes.

/- Our



- Our AUS programme budgets are invaluable in providing the flexibility to address immediate needs in a cost effective manner. Attached to the Principal Finance Officer's letter is a note illustrating the precise benefits obtained by just one Under Secretary. The story is repeated for the others.
- As the Prime Minister has already observed, we must make the British exhibition in Kiev next year a really effective event around which she can accompany Gorbachev. The opportunities are likely to be at least as great at Kiev as those at the Seville Exposition for which you agreed to provide substantial additional funding last year. And yet the costs of participation there will be a fraction of those at Seville.
- 13. My eighth bid is in respect of the British Council's operating and relocation costs. The Council is facing the same squeeze on pay and rents as the Diplomatic Wing and unless adequate provision is made, its existing activities will have to be curtailed. Its requirements are fully quantified in the supporting material. Like us, the Council has elaborated a sensible, cost-effective relocation plan which will produce long-term savings.
- 14. My last bid is for additional military aid and police training.
- Our military aid programmes continue to be widely welcomed and respected. The value of this was amply confirmed during the Prime Minister's recent visit to Africa and by her offer of increased military assistance to Mozambique. The relatively small sum we currently devote (some £18 m. p.a.) is a remarkably economical way of fostering long-term relationships with military authorities throughout the world which



can generate handsome returns in terms of political influence and military sales. A small (13%) cash increase, precisely targetted, is sound business.

- You will also see that we have devised a modest plan to close some gaps in police training which, for reasons of policy, the ODA have been unable to fill themselves.
- 15. In addition to the formal bids, I have a number of contingency requirements which do not constitute formal proposals at the moment. Even though the figures are mostly very speculative, we agreed in our bilateral last September that it would be useful to identify these as far in advance as possible.

 They are:

CONTINGENT REQUIREMENTS:

				£	Em.
		1990/91	1991/92	1992/93	
		15.72 (-)	7.60 (-)	- (-)	
of wh	ich				
х	UN Peace-				
	keeping (UNTAG,				
	W. Sahara)	15.22 (-)	7.60 (-)	- (-)	
XI	Commonwealth				
	Secretariat	0.50 (-)	- (-)	- (-)	

16. Full details are set out in the Principal Finance Officer's letter. I do not propose to dwell at length on them other than to note in addition the continuing problem of Vietnamese boat-people in Hong Kong about which I have written to you separately. We are, of course, doing everything we can to control an increasingly serious situation, but I cannot rule out the possibility that further money will be needed to cope with the influx.

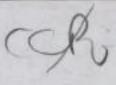


- 17. Finally I should mention manpower. It is our intention to:
- increase our information staff by some 18 officers and transfer about 65 posts from COI. This will be funded from a reduction in the amounts we currently pay for COI services. Consequently, there will be no increase in running costs. Indeed we expect significant efficiency gains which will enable us to improve the quality and quantity of our information effort;
- we will need to increase our manpower by some 38 UK based staff when extra visa regimes for Turkey and the Maghreb are introduced. In addition, we will have to employ from 15 to 30 more staff to handle increased demand on our existing visa regimes.
- 19. The separate letter from my Principal Finance Officer gives a full account of the bids. They are essential if we are to maintain our existing activities and seize new opportunities. Once again, they are tiny in comparison with general Government expenditure or, I dare say, the bids of other Departments. But they are important if we are to continue working towards an adequately staffed, efficient Diplomatic Service with the means to advance our British interests abroad.
- 20. I am copying this minute to the Prime Minister.

M.

(GEOFFREY HOWE)

Foreign and Commonwealth Office 25 May 1989





SECRETARY OF STATE FOR NORTHERN IRELAND

Rt Hon John Major MP Chief Secretary HM Treasury Treasury Chambers Parliament Street London SWIP 3AG NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SWIA 2AZ

MAR ARCG 26/5 26/5 25 May 1989

1989 PUBLIC EXPENDITURE SURVEY: NORTHERN IRELAND

Purpose

- The purpose of this letter is to set out my proposals, covering both PES and DRC, for the 1989 Public Expenditure Survey. The letter covers five main areas:
 - (a) my review of PES priorities in the Northern Ireland Block;
 - (b) details of a bid for electricity generation which you agreed to consider sympathetically in your letter of 16 September 1988;
 - (c) other PES issues which we may need to consider in the Survey;

- (d) some observations on the operation of Comparability in the 1989 Survey; and
- (e) DRC requirements within the NI Block.
- Consistent with agreed practice, this letter does not detail proposed PES reallocations within the Block since I cannot sensibly consider them until the picture on resource availability, largely determined by Comparability clarifies in September/October.

Review of Priorities

3. The procedures for handling the Survey in Northern Ireland are familiar to you from previous correspondence. Thus what follows reflects my consideration of public expenditure strategy and priorities at the outset of the NI Survey. The determination of this strategic approach creates the framework for continuing scrutiny of NI programmes by DFP, and for the decisions on specific allocations which I will be making at the conclusion of the Survey.

Law and Order

4. I have, as you would expect, retained law and order as the highest public expenditure priority within the Block. The continuance of terrorist violence means that the police need substantial resources and there seems little prospect of radically reducing activity levels during the Survey period. However law and order expenditure has taken up an increasing proportion of the NI Block excluding Social Security Benefits (rising from under 14% in 1984/85 to over 16% in 1989/90), and the squeeze which this has put on other Northern Ireland programmes remains a concern to me and a focus of criticism within the Province. Recently the Northern Ireland Economic

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Council commented adversely on this trend, and I will have to maintain a difficult balance between the pressures from the law and order sector and the very real needs of other programmes.

Strengthening the Economy

- Since 1987 the objective of strengthening the economy (ie giving priority to programmes which contribute to economic growth) has been my second strategic target. This objective remains critical since per capita GDP in Northern Ireland is only 77% of the national average and unemployment remains substantially higher, at over 15%, than even the worst affected region of Great Britain (North of England, 11%). Given the comparative weakness of the region's economy, and the relatively low level of private sector employment, the need for expenditure to promote self-sustaining economic growth continues to be of great importance in Northern Ireland. In this context both the IDB and LEDU have recently scored significant successes, but even with nearly 11,000 job promotions in 1988/89, the combination of economic and demographic factors mean that major programmes to strengthen the economy must be maintained and developed if we are to stimulate productive employment and hold NI unemployment even to current levels, which are so far above the UK average.
- 6. The return of Harland and Wolff and Shorts to private sector ownership is consistent with this strategic priority and should reduce the dependence of the industrial sector in Northern Ireland on public funds, although in the short term the employment implications may well be adverse. I am most grateful for the help and co-operation you have given on these difficult issues over recent months.

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Other Considerations

- 7. Aside from these two main priorities, there remain disproportionately high levels of unmet need in other sectors in Northern Ireland, and I have to consider how to address these problems within the resources available. As well has high unemployment, Northern Ireland still has substantially poorer housing conditions (8.4% unfitness in 1987) than elsewhere (though both public and private sector efforts have made a considerable impact on this in recent years).
- Nor has the upturn in the Northern Ireland economy been as 8. strong as in the other parts of the UK. I may, therefore, need to continue to fund for example the Action for Community Employment and Job Training Programme measures at or above current levels, whereas the declining requirements in some other regions will produce savings. YTP requirements are affected by the difference in demographic trends in Northern Ireland as distinct from Great Britain. The overall pattern is that, whereas there are now shortages of young people entering employment in Great Britain (and a number of measures have been already introduced to begin to counteract this), the relevant age groups in Northern Ireland are not contracting to the same degree as in Great Britain and this has major implications for my labour market programmes in particular.
- 9. Another important factor which impacts on NI priorities, and certainly on PE requirements within the Block, is policy development at the national level. Major new policies, such as Education and NHS Reforms, require a response here if Government's approach to these sectors is to be consistent. While clearly there is some scope for local variation of detail and of timetables, such initiatives do create significant and largely inescapable claims on Block resources. I have to finance these developments against a

position where there is a relatively larger school population in Northern Ireland and higher levels of morbidity.

- 10. On a smaller scale I will be seeking to build on the measures I initiated last year to reduce community division. The intention will be to shape policies and public expenditure allocations in ways which improve community relations and thus contribute to tackling one of the fundamental problems facing the Province.
- Overall I hope to accommodate the various needs and pressures 11. within the resources made available through the Comparability system, subject to its operation not being affected by distortions such as that which necessitated the special supplement in the 1988 Survey. However the various requirements outlined above do create substantial pressures and necessitate difficult decisions. Constraints on the health and housing programmes in the last two Surveys, and the relative under-provision in labour market services, provide clear recent examples of this. In the current Survey, the present indications are that bids from Departments (excluding Kilroot II and Shorts) exceed likely available resources by some £145m rising to £215m over the Survey period. Consequently it is not possible for the Block to finance certain major structural problems in whole or in part without quite unacceptable consequences for mainstream public services. It is for this reason that I am compelled to raise certain issues which I am confident you will agree should be outside the scope of the Comparability system. These are described below.

Electricity Generation

12. In your letter of 16 September 1988, following E(A) consideration of future electricity generation in NI, you agreed to consider sympathetically a bid for the construction

of Kilroot II as a dual capacity oil/coal fuelled plant. I now wish to lodge that bid. It is not necessary to restate here the full case for this proposal, since it was fully explored last year. There has been, however, one important development in this context. When we corresponded on electricity generation last year, I referred to the possible need for a Flue Gas Desulphurisation facility to be incorporated in the Kilroot II project. We have examined this in some considerable depth, not least because of the substantial PE implications. You will readily appreciate that, although FGD at Kilroot II is a Northern Ireland expenditure proposal, the need for it arises from broader consideration of UK environmental policy rather than a particular NI requirement. At the end of the day, therefore, the decisive factor in our consideration was Government's increasingly clear and public commitment to environmental protection, and the difficulty of reconciling that commitment with proceeding with what will in effect be a major new power station not incorporating this technology. I have, therefore, concluded that I must add FGD to my bid for Kilroot II.

Some other complex and important decisions in the electricity sector will need to be made, for instance on future tariff policy, and on the timetable and arrangements for electricity privatisation. Notwithstanding this, I believe that it is essential to settle the PE aspects of Kilroot II in the current Survey because, to achieve the commissioning of Kilroot II by October 1996 (as envisaged last year), we need to start work in 1990/91. Any implications for PE provision of these matters can be taken into account as appropriate when the relevant policy and other considerations become clearer, hopefully during this Survey.

14. The amount of my 1989 Survey bid for Kilroot II itself is:

1990/91	1991/92	1992/93
£7.3m	£13.2m	£57.2m

These figures reflect the repricing of the profile of expenditure discussed last year, consistent with commissioning in October 1996, and some other changes which are explained in detail in my officials' letter. The profile of expenditure beyond the 1989 Survey period is currently estimated at:

1993/94	1994/95	1995/96
£75.1m	£65.3m	£27.2m

15. The addition of FGD increases costs as indicated below:

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96
KII	7.3	13.2	57.2	75.1	65.3	27.2
FGD	2.0	23.0	31.0	26.0	10.0	-
Total	9.3	36.2	88.2	101.1	75.3	27.2

£m

I should emphasise that because of the complexity of integrating the Kilroot II and FGD projects, the above phasing may be subject to considerable change, and indeed the total PE requirement might need to be revised somewhat. My officials will keep in touch with yours as the costings firm up.

Shorts

As you know from the progress of negotiations on the disposal 16. of Shorts (and in particular my letter of 22 May), it is now to be expected that some of the cost to Government will fall in 1990/91 and later. The quantum and phasing remain uncertain, but the costs during the Survey period are likely to be significant. I will, as you requested in your 23 May letter, quantify these as soon as possible. I would hope that, as in 1988/89 and 1989/90, you will be able to agree that this pressure is exceptional and unmanageable and should not be a call on NI Block resources. I wish, therefore, to lodge a bid, over Comparability, for the full costs of the Shorts disposal in the Survey, including the sales financing arrangements. It has always been our first preference to seek to achieve a clean break by a satisfactory disposal of the sales financing subsidiaries, and the costs of such a disposal would clearly be an unmanageable pressure on the Block. If disposal does not prove possible, I would find it difficult to accept that the related contingent liabilities should be a call on the Block in the first instance. But we can look at this in more detail, as you suggest, when the available options have been identified and the financial implications assessed.

Harland and Wolff

17. When we considered the resource implications of the Harland and Wolff disposal in March, I drew attention to a likely pressure of some £1lm on my Block in 1990/91, but undertook to use my best endeavours to cover it. This, of course, remains my intention but I will wish to assess, once the resource position is clearer, probably in September, whether I can in fact do so. Should the pressures seem unmanageable at that point I may have to come to you before the Survey ends to discuss a possible Block increase, over

Comparability, to cover this pressure. I shall avoid doing so if at all possible. In March you also indicated that you would consider sympathetically any Survey bid necessitated by an overrun on the BP SWOPS contract. I will only need to bid in respect of overrun costs arising after the point of sales and in accordance with the formula set out in the sale agreement.

Local Authority Expenditure and Comparability

18. Consequent on the introduction of the New Planning Total, this Survey will be the first in which the new arrangements in respect of Comparability on the local authority sector will apply. While I am satisfied in principle with the GRE-based Comparability system which has been agreed for the 1989 Survey, I must reiterate that we are expecting that it will provide a more realistic and fairer basis for LA-related Comparability than has been the case in the past. I am reassured that your officials have indicated to mine that much greater realism will be evident in the construction of LA figures in this Survey. I have asked my officials to keep this very closely under review, since it could have a critical impact on the yield from Comparability and on my ability to resource the pressures which I face.

EC Water and Sewerage Directives

19. Finally on the PES front, I would draw your attention to an issue with some unusual features. A major pressure for me in the 1989 Survey is the need to bring standards of water supply and sewerage services into line with the EC directives. I have received bids for some £33m and £34m in 1991/92 and 1992/93 respectively and I understand that similar annual investment will be required for a number of years beyond the Survey period. Additional revenue would be raised in NI on account of this, through the regional rate,

but under the normal rules that cannot be used to offset the additional public expenditure. In England and Wales the cost of complying with the EC directives will be reflected in the privatised water authorities' charges to the consumer but, by contrast, will not impact on PE plans. With the very different structure of Government in NI, the Water Service is embedded in the Department of the Environment for NI, and with our best endeavours, it will inevitably take some considerable time to bring it to a state where privatisation could take place. I suggest that our officials should consider the most equitable way forward on this, in light of developing circumstances.

Departmental Running Costs

20. Turning to running costs, I attach an Executive Summary of the Management Efficiency Plans prepared by departments within the NI Block. I am seeking DRC provision of:

	1990/91	1991/92	1992/93	£m
Provision sought	584.2	612.8	634.9	
Block Baseline	577.6	605.5	620.6	
Bids over baseline	6.6	7.3	14.3	

- 21. These bids reflect my review of the plans underlying the 1988 Block MEP in the light of:
 - (a) major new, mainly parity, additions to workload, including the NHS White Paper, the 1991 Census, General Revaluation and Salmonella Monitoring; and
 - (b) forecast inflation which has been revised upwards (the implications for my requirements to be reviewed in the light of emerging information);

- (c) a limited number of new NI initiatives, including increased staffing for the ARU and additional staff to detect Social Security fraud as recommended in a recent Efficiency Unit Scrutiny Report.
- I have been able to find efficiency savings, in excess of the required minimum 1.5% per annum, which in total now represent some 2.2%, 1.7% and 1.3% of the provision sought. I am, however, unable to contain all of the new pressures within the baselines agreed last year. This partly reflects the fact that some of the new requirements simply could not have been foreseen or quantified in 1988, since the policy decisions which give rise to the requirements had not been made. Despite the newly emerging requirements, my DRC Block bid is pitched at just above forecast inflation (as it affects DRC) in 1990/91 and below forecast inflation in the later years (reflecting, for instance, anticipated savings from Opstrat).
- 23. The NI Block figures above do not take account of proposed DRC transfers from DSS of £6.1m, £8.8m and £8.8m (subject to confirmation), to cover the costs of certain Social Security work which DHSS(NI) is to undertake as agent of DSS. This is, of course, merely a transfer and should result in a net saving insofar as NI has been chosen because of costs, recruitment and retention factors.
- 24. The DRC provision I am seeking represents a taut assessment of my requirements. My NIO Ministerial colleagues were asked to scrutinise carefully the bids made by their Departments to ensure that they were tightly drawn. Following scrutiny of bids by DFP I have made further reductions of £1.5m, £1.6m and £1.7m. I have done this despite the implications for service delivery, in order to constrain DRC growth and its claim on Block PES resources. The submitted bids take account of a framework of priorities described in the Block Executive Summary. They have been framed against the

background of a slightly slower rate of DRC growth in NI compared to GB Departments (excluding MOD) and significantly lower unit costs in NI. Taken together these broad indicators confirm that relatively strong downward pressure has been exercised on administrative costs over recent years. My DRC bids are, therefore, the minimum which I realistically require and will entail difficult choices and decisions if I am to manage the various services for which I am responsible within the proposed baselines.

The Block Executive Summary gives details of how these bids 25. have been derived. Also attached is the Management Efficiency Plan specific to the Northern Ireland Office. Your officials are aware that the requirements for the NI Prison Service, the provision for which was ring-fenced in the 1988 Survey settlement, pending further consideration, take no account of the "Way Forward" proposals (to replace "Fresh Start"), as these have yet to be agreed with the POA(NI). I have some grounds for optimism that "The Way Forward", if accepted, will result in additional savings which would have the effect of further reducing my DRC bids in the survey period. It may, therefore, be necessary to revise the Prison figurework and my officials will keep in touch with yours on this. For the time being, therefore, the Block Summary continues to show Prisons as a separate component of the Block figures.

Conclusion

26. I hope you will recognise that I am continuing to make the best use of the PES resources available in the NI Block in the face of very real and substantial pressures, and am constraining DRC increases where this is consistent with workload pressures. I am determined to keep up the pressure to achieve value for money in all NI programmes. I have referred above, by way of illustration, to significant

constraints on housing, health and labour market provision and to the requirements of law and order, the economy, health and education. Against that background I will only be able to contend with these pressures if the costs of electricity generation and Shorts are covered in full by way of additional resources over and above whatever Comparability makes available for other purposes. I am confident that, following your officials' comprehensive and in-depth scrutiny of my Block in the 1988 Survey, you will be reasured that I cannot absorb such substantial pressures. I look forward to a constructive dialogue on the various issues set out above.

27. I am copying this to the Prime Minister and Sir Robin Butler.

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VHITEHALL LONDON SWIA 2ER Tel. 01-270-3000 (Switchboard) 11-270 Direct Line:

Torit The Secretary of State for water

Cook with Yngrifennydd Gwleddi Cymru

Tel. 01-270 3000 (Switsfwrdd)

J1-270

Y SWYDDFA GYMREIG GWYDYR HOUSE WHITEHALL LONDON SWIA 2ER

The Rt Hon Peter Walker MBE MP

CT/6954/89

(Linell Union)

25 May 1989

PUBLIC EXPENDITURE SURVEY 1989: WELSH OFFICE

Following consideration of the programmes within my responsibility I am writing to you in accordance with the PES guidelines.

I have examined the existing provision available to me for my Industry programmes very carefully. I have done so against the background of the progress that we have been able to make particularly in the last two years; of the problems that we continue to face; and of the huge opportunities that are opening up especially as we approach 1992.

The Single European Market offers the prospect of enormous investment opportunities in the United Kingdom. I want to ensure that Wales is able to take every possible advantage of this. It will continue the essential diversification of the narrow industrial base; create jobs and reduce unemployment (with savings in unemployment benefit to the Exchequer); benefit our trade deficit; help to improve the performance of our own manufacturing sector with beneficial effects for inflation; improve the perception of the attractiveness of Wales and increase confidence in Wales.

There is still a long way to go before home based production will be able to respond in a more effective way to the demand generated by domestic consumers.

The Rt Hon John Major MP Chief Secretary HM Treasury Parliament Street LONDON SWIP 3AG



The benefits of attracting an even greater share of inward investment are obvious. If you just take five of the larger inward investments that we have obtained from Japan, Germany and America I believe that when they are in full production the balance of trade will be improved by about £1 billion a year. Moreover, by attracting this investment to areas of relatively high unemployment, growth can be achieved without fuelling inflation unlike investment in areas where the tightness of the labour market prohibits growth without creating wage inflation.

On economic, political and cultural grounds the UK is of course well placed to take advantage of increasing investment. But competition will be increasingly fierce and strong regional incentives will still be needed if we are to maintain and increase our share.

Regional assistance must be administered more flexibly. None of our competitor countries within the Community attaches the same prominence to demonstrating the "need" for regional support; and nor do other countries apply the formal cost per job ceilings. I entirely agree with what Tony Newton says about this in his letter to you of 15 May.

It is also essential that the basic infrastructure should be available for potential investors as the momentum of investment decisions accelerates rapidly over the next few years.

I therefore wish to pursue a strategy in which I will further reduce unemployment in Wales, for it still exceeds 100,000 and there are areas where male unemployment is well over 15%. This strategy will be effective if over the next three years I pursue a programme in which those firms looking for a location in Europe can quickly make decisions to locate in Wales. The total cost of that programme is minute compared with both the savings in public expenditure arising from the reduction in unemployment and social security costs and with the receipts that the Revenue will enjoy thereafter from Corporation Tax and taxation of those concerned.

Welsh Development Agency

My bid for the WDA is £28.3m - £19.5m - £14.9m. Essentially this is to enable the Agency to acquire and develop sites, provide additional factory building, clear more derelict land and undertake environmental and urban improvements.



All of this, together with increasing the resources available to the Agency's marketing arm (now Welsh Development International), is aimed at taking advantage of the opportunity provided by the potential to increase the flow of inward investment into Wales. In particular this strategy will focus on those parts of Wales which still contain unemployment blackspots and where private sector participation continues to need encouragement.

Within the bid I must have £10m pa to allow the Agency to continue with its current baseline factory building workload of 150,000 sq metres a year because of increased construction costs - a cost increase driven principally by overheating in the South of England. Price rises on this scale cannot be absorbed by the Agency whose costs have been independently assessed as already being 11% below those of other developers in the Principality. Without this we will lose an estimated £120m of private investment and 2750 job opportunities.

I need £8m pa to enable the WDA to acquire and service strategic sites in key positions which will help the areas where unemployment is highest. I have in mind here particularly the development opportunities along the Heads of the Valleys road and capitalising on the opportunities arising from our investment in improving the A55 in North Wales. The resources would open up 150 acres of land a year for inward investment projects. The related injection of private capital is likely to exceed £500 million.

£7.5m in 1990/91 and £4.5m in 1991/92 is required to meet the immediate need for factory provision and projected demand, while allowing for increasing private sector activity in the more prosperous areas of Gwent, South Glamorgan and Clwyd. The additional budget would enable the WDA to commission 25,000 sq metres in 1990/91 and 15k sq metres in 1991/92.

Associated private investment is projected at £50m and the job potential at 1300. By 1992/93 the policy of pushing the Agency's new rentals to commercial levels (the Agency exceeded its £21 per sq metre target in 1988/89 by £4 per sq metre) should be yielding major dividends in increasing private development still further.

As you know we have recently accelerated pit closures in Wales and two major closures have been announced since we last discussed public expenditure. This has inevitably added considerably to the stock of land needing to be reclaimed.



My officials will let yours have further details of these bids and the other smaller elements designed to enable the Agency to tackle the problem of dereliction on private land located next to major industrial estates and main strategic routes, particularly in the South Wales Valleys; accelerate the process of urban renewal in the Valleys; strengthen its international marketing arm; and allow it to withdraw from the provision of utility services on its estates which require a once for all capital cost to bring the infrastructure up to an acceptable standard before it can be handed over to the appropriate authorities. The resources released by this latter change allow me to contain my bids to the levels I have indicated.

The WDA's receipts are already running at a very high level but, as you will recall, I have been able to identify additional receipts of £3m in 1990/91 and £5m in 1991/92, rising to £6m in 1992/93. In order to continue to encourage the Agency to generate as high a level of receipts as they can secure I very much want to allow them to retain these receipts and I have assumed in formulating my net public expenditure bids that they will do so. Without this the Agency's land reclamation programme would have to be reduced by some 500 hectares over the next 3 years, totally undermining our strategy of clearing the bulk of the dereliction by the mid 1990s. I have asked my officials to let yours have the details.

Regional Selective Assistance

My bid is for £12m - £16m - £27m. This reflects the anticipated level of growth in Wales and the changes in the operation of RSA to which Tony Newton referred in his letter to you of 15 May. We cannot go into the fight to secure more inward investment with self imposed restraints which our competitors will increasingly use to their advantage. I therefore believe very strongly that the changes that we are proposing should be made; as I say, my PES bid reflects this.

Regional Enterprise Grants

I have a bid for £1.5m in 1991/92 and £2.5m in 1992/93 against the background of the consideration being given to extending the Recharbon areas.



Development Board for Rural Wales

My bid is £1.7m - £1.8m - £1.9m. These figures assume the retention of certain additional receipts. The bid is to fund a 3 year Enterprise and Action initiative in rural areas. The objective is to stimulate enterprise in the deeper rural areas of the Board's territory where the problems of rural deprivation are most acute and where the difficulties of agricultural adjustment are greatest. The programme would include the provision of village workshops and enterprise centres, business advice and expansion schemes, school-industry liaison and enhanced social development support.

Regional Development Grant

I naturally expect to be able to identify savings in 1992/93 as the RDG schemes draw to an end. I have asked my officials to undertake further analysis of the claims that have been submitted and the likely pattern of expenditure and I will write to you again about this with our best forecasts as soon as I can.

Flexibility

I referred earlier to the need for more flexibility in the operation of RSA and in the application of regional assistance support measures generally. I will want to discuss with you in the Survey how this might be achieved so that we can deploy the resources available in a way that is best suited to developing and changing circumstances. A summary of all my industry bids is set out in the attached table.

Departmental Management Plan

I shall be writing to you in the next few days about running costs and the Departmental Management Plan.

I now turn to other programmes.

Home Improvement Grants

As I explained in my letter of 13 March the combination of low incomes and bad housing is such that the new mandatory housing grant system will be much more expensive to implement in Wales than in England. Under these circumstances, and contrary to what you imply in your letter of 28 March, it will be quite impossible for me to meet the additional demands that this system will impose from either my existing baseline or any formula consequentials that may be forthcoming.



I therefore have no alternative but to register a specific bid. I have already let you have my initial assessment of what the costs of the new system are likely to be in Wales. I understand that these figures are still subject to change, however, in the light of discussions currently taking place between officials.

Housing Revenue Account Subsidy

My letter of 20 March explained why I could not accept that future adjustments to the Housing Revenue Account Subsidy baseline should be derived by means of the Block formula, and indicated that changes to provision - including those arising from the application of a different rents policy - should be agreed by means of a separate negotiation. In the absence of any indication to the contrary since then I assume that you are content with this proposal.

As with Home Improvement Grants I am not yet in a position to submit a fully quantified assessment of the necessary changes to the HRAS baseline. I obviously want to ensure that the technical assumptions underlying this are consistent with those being adopted by Nick Ridley. Our officials are in touch about this. As soon as the position has clarified and I have had the opportunity to consider the implications for rent guidelines I shall write to you again.

Local Authority Receipts

You recognised during last year's Survey the perverse effect of the disproportionate level of local authority capital receipts in England on my Block resources. Due in part to the introduction of the New Planning Total, it is too early to judge whether my Block is likely to be further adversely affected. I certainly hope not. But clearly if it is I shall need to take this up with you in the course of this year's Survey.

Other Matters

There is one other matter to which I should refer at this stage. You will know from the previous two Surveys how concerned I am about the pressures which I face in the social programmes which fall within the Block, and this is likely to be the more so this year with the need in particular to ensure that resources are available to implement the NHS review.

Last year I raised with you the particular difficulty that arises because I always have to divert additional resources, over and above the formula consequentials, into NHS pay as a result of the older age structure in the NHS in Wales.



There may be other issues which will arise from the proposals that will be put to you by colleagues and their implications for the formula arrangements, but you will appreciate that I cannot even get a sighting shot on these until I have seen the bids from colleagues. I may need to return to this later in the Survey.

You have asked me to report any new or increased contingent liabilities that are likely to arise during the Survey period. The only such liability so far identified arises from the possible effect upon the water table in South Cardiff of the Cardiff Bay Barrage. Consultants employed by the Development Corporation estimate that some £6 million may be required to cover the costs of possible remedial works. Your officials are already aware of this. Whilst it is not certain that this liability will materialise during this survey period I thought you would nonetheless wish me formally to advise you of it at this stage. The £6 million is, of course, already included in the estimated total Barrage costs of £113 million.

I am copying this letter to the Prime Minister.

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PUBLIC EXPENDITURE SURVEY 1989 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

£0000's

	Baseline	1990/91 Bid/ Saving	Revised Baseline	Baseline	1991/92 Bld/ Saving	Revised Baseline	Baseline	1992/93 Bid/ Saving	Revised Baseline
Industry									
WDA (Net)	73.734	+28,271	102,005	75.319	+19.471	94.790	77.202	+14.907	92.109
DBRW (Net)	10.269	+ 1.670	11.939	10.527	+ 1.770	12.297	10.790	+ 1.945	12.735
DBRW - Housing Subsidy	2.463	-		2.530	-		2.593		
Regional Selective Assistance	61.171	+11.800	72.971	62.700	+16.200	78.900	64.268	+27.000	91.268
Regional Dev Grant 1 " " 2 RDGs to LAs	.614) 42.985) -021)	To follow		.629 33.659 .0 21	} } } To	follow	.645) 34.500) .022 }	To follo	w
Regional Enterprise Grant				0.00			,		
1 Investment	5.600	-		5.740)		100000	5.884)		
2 Innovation	1.800			1.845)	+ 1.500	9.085	1.891) *	2.500	9.275
Misc Support	.389	-		.402	-		.412	-	
Employment LA Careers Service									
Credit Approvals	-372	-		.381	-		.391		
Specific Grants to LAs (current)	1.823	-		1.868			1.915	-	
	201.211			195.621			200.513		



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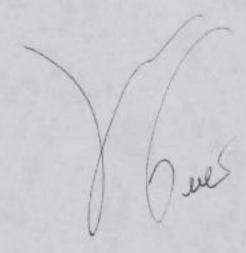
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PUBLIC EXPENDITURE SURVEY 1989 INDUSTRY, ENERGY, TRADE AND EMPLOYMENT

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fisc Support	.389	-		.402	2		.412	-	
Employment	1 - 1			1					
LA Careers Service									
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o mys (cartage)	1.823			1.868			1.915		
	201.241			195.621			200.513		

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SCOTTISH OFFICE WRITEHALL LONDON SWIA JAU

The Rt Hon John Major MP Chief Secretary to the Treasury HM Treasury Parliament Street LONDON SWIP 3AG Morn pace

25 May 1989

PUBLIC EXPENDITURE SURVEY 1989 - FORESTRY COMMISSION

In accordance with Part IV of the guidelines for the conduct of the 1989 Survey, I am writing to report the outcome of this year's consideration of the Forestry Commission programmes (including reallocation of existing resources to meet changing priorities) and to set out the case for the additional resources needed to maintain existing policies.

ANNEX A shows the existing (Cm 604) baseline, the underlying programmes and the reallocation of resources that we have made to accommodate changing priorities. After a thorough and searching scrutiny only those elements that could be funded from additional receipts have been approved. Other additional requirements that could not be met from within the existing baseline were eliminated.

ANNEX B (page 1) outlines the additional resources needed to support certain of our existing policies and programmes. The additional bids cover pension commitments; forest recreation; increased private woodland grants which arise in 1991-92 and 1992-93, and land acquisitions. These requirements cannot be met from the Commission's own resources.

The following brief comments on components of the additional bids will, I trust, put them in perspective:

i. Pensions

The Forestry Commission is virtually unique among departments in being made responsible by the provisions of the Forestry Act 1967 to pay the superannuation benefits of Commission staff out of the Forestry Fund.

Actuarial retirements and redundancies over 1988-89 have been and in 1989-90 will be, higher than anticipated and this has a cumulative knock on effect in future years. Provision has also been made for former staff with preserved pension rights to transfer these to new private pension schemes. A further increase is necessary to cover the difference between the Treasury updating factor and the actual pension awards together with higher levels of pensionable pay. The bid takes into account the award due from 1 April 1989 which has already been announced at 5.9%, and provision has

also been made for awards in future years, based on the Treasury's latest economic assumptions, of 6.25% - 1990-91; 4% - 1991-92; and 2.5% - 1992-93. However, should the July update of these assumptions result in any significant changes then no doubt the effect of these could be picked up before the '89 PES round is finalised.

The average number of Forestry Commission pensioners in 1990-91 is now expected to be some 100 higher than the existing baseline, rising to 300 more by 1992-93. At 31 March 1989 the average number of pensioners was 5821 and is expected to increase to an average of 6475 by 31 March 1993. The additional bid is as follows:-

		£ million
1990-91	1991-92	1992-93
2.3	2.8	3.5

ii. Forest Recreation

The Forestry Commission has powers to provide recreational facilities in its forests and there is a high and increasing public demand for forest recreation.

In the mid 70s a survey indicated that there were some 25 million visits a year to Forestry Commission woodlands, whereas present estimates of visitor numbers are in excess of 50 million visits a year. A recent survey (Willis and Benson, 1989) indicated that the consumer surplus arising from forest recreation averaged £2 per visit a benefit of some £100 million per annum.

The main expansion of recreational facilities occurred during the early 1970s. In recent years many of these facilities have suffered from a lack of funds for maintenance and now fail to meet acceptable standards. Additional funding is necessary to cover the replacement and renovation of forest walks, picnic places, car parks, toilets and visitor centres.

The programme for the survey period is directed towards the maintenance and refurbishment of existing facilities in order to sustain the existing benefit to visitors. It concentrates on facilities in forests subject to high environmental and recreational pressure which are accessible to large numbers of people, and in particular on the Commission's forest parks. The additional bid is as follows:-

1990-91	1991-92	£ million 1992-93
1.9	2.0	2.1

iii. Planting grants

a. Traditional Forestry. For new planting under the old schemes it is now anticipated that planting options will be exercised sooner rather than later in the transitional period to 1993. Interest in the new Woodland Grant Scheme (WGS) shows signs of building up and the current level of applications is encouraging. At this stage the forecast reflects the most optimistic programme that can be anticipated and allows for some reductions in both 1990-91 and 1991-92 and a build up with an additional requirement in 1992-93.

b. Set Aside. Although the scheme is popular, farmers are in the main choosing the option by which land is left fallow for 5 years and applications for planting are low. The requirements have accordingly been reduced to nominal levels in the three years of this survey.

c. Farm Woodlands. During the first 6 months of the scheme 800 applications had been received to plant 5800 hectares. Applications received indicate a broadleave/conifer ratio of 80/20 which compares with a baseline provision of 50/50. The initial three year target to 30 September 1991 remains in force, although the programmes have been rolled forward to maintain that target at 33,000 hectares. Thereafter provision is made for the scheme to continue at an annual rate of 11,000 hectares. This has an effect on the underlying baseline programmes over the first two years of the survey period. The financial provision has also been revised to take account of the extra cost arising from the greater proportion of broadleaves to be planted.

The additional cost of FC planting grants for farm voodlands in 1990-91 are offset by reduced requirements for traditional forestry and set aside. However, in 1991-92 and 1992-93 the increased requirement for farm woodlands is not fully covered by net savings from traditional forestry and set aside, resulting in additional bids for those years as follows:-

		£ million
1990-91	1991-92	f million 1992-93
-	2.7	1.8

iv. Land Acquisitions

Proposals for new planting by the Commission are 4000 hectares per annum, some 1000 hectares below the level to which it is publicly committed. Baseline funds only provide for the purchase of some 2600 hectares per annum at some £512 to £538 per hectare. To sustain the planting programmes for future years at 4000 hectares per annum the additional requirements proposed are 500 hectares - 1990-91; 1000 hectares - 1991-92; 1400 hectares - 1992-93. The additional bid is as follows:-

1990-91	1991-92	£ millio 1992-93		
0.3	0.5	0.8		

Turning finally to the Commission's sales under its disposals programme. We have made a separate submission concerning the future programme of disposals. The relevant sums from the new programme will be inserted in the survey when they have been agreed between us.

John MacGregor and Peter Walker, to whom I am copying this letter, agree with me that the additional bids set out in ANNEX B, and discussed above, are justified. We hope you will agree, therefore, that these additional resources may be allocated in the way we have proposed.

A copy of this letter is also being sent to the Prime Minister.

MALCOLM RIFKIND

EXPENDITURE ON EXISTING POLICIES AND PROGRAMMES

	1989-90	1990-91	1991-92	1992-93
Baseline figures Cm 604	72.5	77.0	80.2	82.2
Increased/reduced requirements				
Non industrial salaries		1.1	1.2	1.2
Industrial Vages		0.7	0.7	0.2
Travelling and subsistence		0.2	0.2	0.2
Capital - Buildings, Plant and Office Equipment		(1.1)	(0.5)	(0.8)
Materials and Services		2.4	2.4	2.5
Value Added Tax Payments		0.9	1.0	0.8
		4.2	5.0	4.1
Offset by Additional Receipts		4.2	5.0	4.1
				-

ANNEX A Page 2

Main programmes excluding additional bids

The following programmes are covered by the existing baseline:-

		1990-91	1991-92	1992-93
Land acquisition	hectares	2600	2600	2600
Harvesting and marketing	Cubic metres (000)	3590	3650	3710
New Planting and restocking	- Forestry Enterprise hectares	13317	12920	13030
	- Private sector hectares	45770	45850	48400

Implications of the above programmes in terms of the targets set for new planting for Traditional Forestry and Farm Woodlands are as follows:-

		1990-91	19	991-92		Hectares 1992-93
Traditional Forestry (1)						
Forestry Enterprise	4093		4000		4000	
Private sector	23920	28013	26650	30650	29000	33000
Set Aside		500		500		500
Farm Woodland Scheme (2)		13000		11000		11000
Total new planting		41513		42150		44500

- (1) For Traditional Forestry the overall target is 33,000 hectares per annum.
- (2) For the Farm Woodland Scheme the overall target is 33,000 hectares in the 3 years to September 1991 (this excludes planting in Northern Ireland of 3,000 hectares). The original target has been rephased resulting in an increase of 2,000 hectares in 1990-91 which is financed within the existing baseline. For 1991-92 there is a programme of 11,000 hectares within the existing baseline but the rephasing of the original target results in an additional bid in respect of a balance of 3,350 hectares. It is assumed that the scheme will continue at an annual level of 11,000 hectares from October 1991.

ANNNEX B Page 1

ADDITIONAL BIDS FOR EXISTING POLICIES/PROGRAMMES

		1990-91	1991-92	f million 1992-93
Addition	al Bids			
i.	Pensions	2.3	2.8	3.5
ii.	Forest Recreation	1.9	2,0	2.1
iii.	Planting grants			
	a. Traditional Porestry	(2.7)	(1.1)	0.4
	b. Set Aside	(1.1)	(1.1)	(1.1)
	c. Farm Woodlands	3.8	4.9	2.5
			2.7	1.8
iv.	Land Acquisitions	0.3	0.5	0.8
	TOTAL BIDS	4.5	8.0	8.2

ADDITIONAL BIDS FOR EXISTING POLICIES/PROGRAMMES

		1990-91	1991-92	1992-93
Output m	easures and performance indicators			
i.	Pensions			
	Average number of pensioners			
	Existing baseline Revised Increase	6045 6145 100	6175 6310 135	6175 6475 300

ii. Porest Recreation

The scale of facilities which generate in excess of 50 million visits per year are set out below.

	Number
Picnic places	646
Forest walks and trails	709
Car parks	725
Visitor centres	19
Arboreta	21
Toilet facilities	122
Forest bridle tracks	85
Forest Drives	10

ADDITIONAL BIDS FOR EXISTING POLICIES/PROGRAMMES

		1990-91	1991-92	1992-9
output measures	and performance indicator	s (Contd)		
ii. Planting Gr	ants			
a. Traditi	ional Forestry			
- hectares	Existing baseline Revised Reduction	31600 29270 2330	35100 32350 2750	35100 34900 200
planting (excludes	average overall rate of grant per hectare management grants, ilments, etc)			
	Existing baseline Revised Increase (decrease)	£416 £383 £(33)	£481 £487 £6	£493 £568 £75
b. Set-Asi	de			
New Plantin	ng Traditional Forestry			
- hectares	Existing baseline Revised Reductions	2000 500 1500	2000 500 1500	2000 500 1500
- average i	ate of grant per hectare			
	Existing baseline Revised Increase	£700 £700 N/C	£700 £700 N/C	£718 £735 £17
c. Farm Wo	oodlands			
- hectares	Existing baseline Revised Increase	11000 13000 2000	11000 14350 3350	11000 11000
- weighted per hecta	average rate of grant are			
	Existing baseline Revised Increase	£600 £800 £200	£600 £800 £200	£615 £840 £225
	e programme changes shown seline as shown in Annex F		e vithin th	e existi

iv. Land Acquisition

- hectares	500	1000	1400
- average price per hectare	£512	£525	£538

5-70L

20

CONFIDENTIAL



ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH 01-934 9000

The Rt Hon John Major MP Chief Secretary HM Treasury Parliament Street London SW1P 3AG Mars pare

25 May 1989

PUBLIC EXPENDITURE SURVEY 1989

- 1. Our education reforms are winning public support. The reforms, together with that support, will be at risk if we do not provide the necessary resources for each sector of education. I have reviewed my programme with care, and my additional bids all of which carry high priority - are listed below. I appreciate that the bids are substantial. They include three major elements which I believe we have to meet:
 - a) there are the agreed bids, our commitments including student loans, and estimating changes for mandatory student awards as more students enter higher education. These requirements alone mean that I need nearly £300m in 1990-91.
 - b) increased costs have eaten into the programmes which we have agreed in successive Public Expenditure Surveys. The financial viability of institutions in higher education remains on a knife edge. While there is support for less reliance on public funds, there is concern that the pace of change is damaging our universities and polytechnics. In higher education and science, I need nearly £200m in 1990-91 just to maintain the targets we have set ourselves.
 - c) as economic growth has allowed personal standards of living to improve, parents, students and pupils are unwilling to accept that we cannot afford to do something about shabby, poorly maintained buildings and equipment which are present in all sectors of education. I must reverse the deterioration over the last decade in our capital stock. I need to be able to improve and expand facilities in schools for science and technology in the National Curriculum. Across all sectors, and allowing for forecast costs, I assess that I need some £600m for capital in 1990-91.

	1990-91	£ million 1991-92	1992-93	
Agreed bid				
University pay	35	38	39	
Sanctuary Buildings	8	-	-	
Commitments				
BAS ship	17	1	-	
VAT on fuel and power	13	17	18	
Student loans1	229	294	320	
EC initiatives	8	8	8	
Additional bids				
Specific grants:				
Inner London Boroughs	5		-	
Travellers	5	8	8	
Schools and FE:				
Teacher supply measures	3	3	3	
Grant-maintained schools	25	49	69	
City Technology Colleges	42	13	7	
Assisted Places Scheme	2	4	6	
Maintained sector capital:				
a) LEA schools and FE	406	575	705	
b) Voluntary aided sector	39	61	77	
Continuing education	12	14	14	
Higher education:			322	
Universities	127	141	175	
PCFC sector	136	139	141	
Student awards2	90	117	115	
			202	
Science:	109	140	142	
Other:				
Publicity	16	14	13	
	7	16	18	
Running costs		0.5	2	
Administration capital	0.5	0.5	-	

¹ see paragraph 6

in addition to the technical increase in the baseline agreed before the Survey, which restores the level agreed last year

^{2.} As I emphasised last year, I have very limited room for manoeuvre within my programme. Higher education, including awards, and science takes up some three-quarters of my programme. Much of the rest is committed. I need some flexibility for smaller bids of less than about flm which I have left out. There is no way in which I can accommodate even the smaller bids in the list above.

Commitments

BRITISH ANTARCTIC SURVEY SHIP

	1990-91	£ million 1991-92	1992-93
Purchase of "James Clark Ross"	17.2	1.4	-

3. You will recall that the cost of this ship proved higher than we had anticipated because of market conditions. I had to give this priority within the science budget because of the wider implications of the presence of the ship in the South Atlantic. I agree with the view of the scientific community that our main programme of research should not suffer as a result. Before we consider the size of the science budget for future years, I have to ask first of all that you restore to my baseline the extra cost of this ship.

VALUE ADDED TAX ON FUEL AND POWER

		£ million	
	1990-91	1991-92	1992-93
Non-exempt funded bodies	13.5	17	17.5

4. We agreed in last year's Survey that this bid, to cover the costs of the imposition of VAT on fuel and power for non-LEA educational institutions and other directly funded bodies, should be deferred until the effects of the European Court of Justice's decision were clear; and that you would consider sympathetically a claim on the Reserve for any such costs which might fall in 1989-90. It is now the case that VAT will be levied on fuel and power from July 1 1990. I trust that, given your undertaking, you will be able to meet this bid in full.

STUDENT LOANS

	1990-91	£ million 1991-92	1992-93
Outgoings (net of repayments) Agreed bid Estimating changes Uprating of loan entitlement Total	102.6 5.8 5.5 113.9	166.0 9.8 8.3 184.1	188.2 9.8 8.1 206.1
Administration	20.0	15.0	16.0
Access Funds	24.0	19.3	19.7
Loans for part-timers (net of repayments)	71.0	76.0	78.0
Total	228.9	294.4	319.8

- 5. Our proposals in "Top-up Loans for Students" (Cm 520) will lead to substantial savings in due course. You have agreed in principle to meet the additional short-term costs, including provision for sustaining access to higher education. My bid takes account of a PES transfer from DSS of £10m per full year towards the cost of the Access Funds, which are an integral component of the top-up loans system. The total costs will be further offset by the very substantial DSS savings in benefit expenditure. There will also of course be significant savings after 1990-91 when the maintenance grant will be frozen in cash terms.
- The bid is based on the agreed figures set out in Cm 520, adjusted for financial years, with some modest additions. First, the bid takes account of the latest forecast of student numbers. Second, it is based on a maximum loan for most students in the academic year 1990-91 of £440, rather than the illustrative figure of £420 used in the White Paper. That change is essential to preserve the spending power of the loan given the actual and predicted movements in the GDP deflator. Third, we must fund the administration costs of the loan scheme: those figures will have been refined by the time we meet, in the light of the decisions we shall have reached by then on the way in which the scheme will be run. Lastly, I am convinced that we need to increase the level of support for the Access Funds beyond the £15m agreed between us for the first full academic year. The responses to the White Paper have brought home to us the degree of hardship which will be caused to many students by the withdrawal of Housing Benefit. We shall face enormous pressure on this issue in taking our Student Support Bill through Parliament, and I judge that we shall need to be able to point to enhanced Access Funds if we are to persuade Parliament and the country that our policy is right.
- 7. I am also seeking provision to allow the introduction of a modest loan for part-time higher education students. They are a key group: strongly motivated and generally already playing an important part in the economy; potentially disadvantaged by the move to higher publicly funded fees, since we cannot be sure that all institutions will protect their position; and crucial to the development of better access to higher education from non-traditional groups. I have in mind a loan facility of £300 to help with tuition fees and essential course costs such as books and travel. Some small expenditure here will reap big dividends later as the economy faces increasingly severe skill shortages.

EUROPEAN COMMUNITY INITIATIVES

	1990-91	£ million 1991-92	on 1992-93	
EC initiatives	8.1	8.1	8.1	

8. Most of this bid reflects the cost of ERASMUS. As you may remember, I was not willing to give this programme priority over my domestic programmes but, in the light of pressure from the European Council, I ultimately had no option but to go along with the views of others. I would not want to quarrel with our arrangements for

handling expenditure on EC programmes but, in this case, we have had to make provision by reducing the baseline in higher education, mainly the universities. The ERASMUS programme of joint courses with universities in other EC countries represents an additional claim on the resources of our HE institutions. Unless I can restore my baseline, the impact of this EC programme will be to undermine still further the financial viability of the universities. At the time I was forced to accept ERASMUS, you agreed a special arrangement under which the costs for the first three years would be considered separately in our Survey discussions. I hope that you will stand by that agreement, and restore my baseline. I am not of course bidding at this stage for LINGUA, since the costs for this programme will fall later.

SPECIFIC GRANTS

	1990-91	f million 1991-92	1992-93
Inner London Boroughs	5	-	-
Travellers	5	8	8

- 9. We have already agreed provision for my main specific grants Education Support Grants and LEA Training Grants in 1990-91. These programmes have proved to be crucial in redirecting resources in support of my education reforms. The baseline for later years declines in real terms. This will cause me real difficulty, but I am prepared to see whether I can target the money even more effectively to enable the Government's priorities to be met within the baseline. I cannot be sure that I shall have enough but I am not entering a bid at this stage. During the Survey, we shall need to settle a PES transfer in connection with the transfer of responsibility for Section 11 grant: I am in touch separately with Douglas Hurd about this.
- 10. That leaves two small requirements. First, there will be some grant payments outstanding in 1990-91 to cover the costs of the Inner London Boroughs in preparing to take on their responsibilities for education. The expenditure scored in my plans for 1989-90 but, under the "new planning total" arrangements, I have to make grant provision in 1990-91. I need £5m for that.
- 11. Second, I need money for the new specific grant for the education of traveller children and refugees. You agreed that I should take powers in the Education Reform Act to make these grants available. These grants will effectively replace current pooling arrangements which cannot continue alongside the new financial regime for local authorities. Our latest estimate is that we need to support expenditure of nearly £10m annually. This would be sufficient to allow for the admission of extra Vietnamese refugees from Hong Kong over the next two or three years. You will recall that I raised the cost implications for the education service at the time the decision about these refugees was being taken. There is a reluctance on the part of local authorities to make appropriate provision for travellers and refugees. The new financial regime may accentuate that reluctance. I am convinced

that we need to offer a grant rate of 75%. My bid for grant above is based on that rate.

12. In order to ensure the effective use of the grant, I need to be able to approach the local authorities about the programme without delay. For that reason, my officials have already been in touch with yours with the necessary supporting information. I hope therefore that you will be able to agree this bid and the bid for Inner London Boroughs as an immediate response to this letter. That would then settle my specific grant programme.

TEACHER SHORTAGES

IBROIGH BROWNING	1990-91	£ million 1991-92	1992-93	
Action programme	2.8	3	3	

- 13. Our education reforms for schools will fail if we lack suitable teachers. Demands will increase with rising pupil numbers from 1991. The introduction of the National Curriculum will lead to still greater demands for teachers of maths, science, technology and modern languages where there are already serious shortages.
- 14. My action programme is based on a wide range of initiatives so that we can take advantage of all possible sources of recruitment, including mature entrants, former teachers and teachers from overseas. The programme is already achieving some improvement in recruitment but I shall need to expand it to meet the further demands. That is the purpose of my bid. I also plan to mount a major publicity campaign aimed at raising the status of education and highlighting the need for teachers and the opportunities available within teaching. I return to this in my bid for publicity at the end of this letter (paragraph 67).

GRANT-MAINTAINED SCHOOLS

	1990-91	£ million 1991-92	1992-93
Recurrent Capital	12 13 25	20 29 49	24 45 69

- 15. The financial effects of allowing schools to become grantmaintained are broadly neutral because the annual maintenance grant
 to each school is recovered from the former maintaining LEA. But
 if the policy is to be successful and my present proposals are
 based on 50 schools by next April rising rapidly to 300 schools by
 1992-93 there are some costs which must be met directly by the
 Exchequer:
- a) the costs of making the transition to grant-maintained status;
- b) costs which fall outside the annual maintenance grant, but which must be met if grant-maintained schools are not to be worse off than LEA-maintained ones.

In line with a), my bid therefore contains modest provision for the funding of ballots of parents, for certain setting-up costs for schools whose proposals are approved and for a small fund to assist with dismissals, premature retirements and voluntary severances initiated during the school's first year after incorporation. My bid also includes, in respect of b), a sum to cover the equivalent of Education Support Grants and LEA Training Grants, the costs of VAT to the extent that these are not covered within annual maintenance grant, and a small reserve to allow me to assist schools with emergency needs arising from circumstances beyond their control. Most of these are not additional costs: my provision for ESGs and LEATGs would otherwise need to be increased, and the VAT costs will return to the Exchequer.

- 16. My estimates also include provision for further grant to the Grant-Maintained Schools Trust. The Trust is playing a valuable promotional role which is being financed privately. Our grant is needed for the essential additional role of assisting schools approved for grant-maintained status to make efficient use of public funds and to cope with their new legal and financial responsibilities. I expect that much of the Trust's work will eventually be funded through charges to schools, but pump-priming in the early years is essential if schools are to get off to a good start in their new status.
- 17. I expect to come under heavy pressure to provide capital grants for grant-maintained schools. Those schools may come into the sector with a history of inadequately-met capital requirements: some have been under threat of reorganisation and have been starved of capital investment for some years. I am determined that they should have a sum per annum comparable to expected expenditure on local authority and voluntary aided schools, including expenditure financed from capital receipts. My bid seeks to ensure this.

CITY TECHNOLOGY COLLEGES

1990-91	f million 1991-92	1992-93
42	13	7

- 18. This initiative has now taken off. I have confirmed sponsorship offers to date of nearly £40m. We shall have 3 colleges open by September and are planning for a further 7 in September 1990. The sponsorship money will cover at least 9 further projects so we are within sight of our target of 20 CTCs by September 1991. All the sponsors are pressing to get their schools open by our target date of September 1991 if at all possible.
- 19. This very success has brought with it the problem of bunching for capital spending. I have been able to keep within my programme so far and should just be able to do so for the current year as well. But as my bid shows, I need much more money in 1990-91 because we shall be making some capital contribution in that year for all 20 projects. Thereafter, spending will fall back and will be mainly on the recurrent costs of maintaining the new Colleges. In the longer term, these recurrent costs will be offset by reductions in local

authorities who will not need to provide for some 20,000 secondary school places across the country.

20. All the sponsors are prepared to find at least 20% of the capital costs of each project - in most cases much more - and to continue to raise endowment funds after the schools open. Unless I have extra money, I shall have to ask sponsors to delay their investment. But I clearly do not want to have to dampen in this way their enthusiasm for this important Government initiative.

ASSISTED PLACES SCHEME

1990-91	£ million 1991-92	1992-93
1.7	4.4	6.3

21. I have already set aside money to meet our Manifesto commitment, namely a target of 35,000 places in this scheme. But the money is not enough because fee increases in the participating schools are running beyond our forecasts. The baseline assumes an average fee increase of 7% this September. The indications now available are that this average increase will be at least 11%. Given the increasing demand for independent school places, I do not think that we can reasonably assume that fee increases will fall substantially in the following years. Neither do I think that it would be reasonable for me to attempt to limit fee increases for assisted pupils. Hence I need extra money to meet estimating changes in the cost of the scheme.

NATIONAL CURRICULUM

22. Effective implementation of the National Curriculum is, of course, fundamental to all our policy objectives for education. Last year we agreed baseline provision for central National Curriculum costs of £35m in 1990-91, rising to £37m in 1992-93. now seems unlikely that this baseline will contain the substantial costs which will arise as the National Curriculum assessment arrangements come into operation from 1991-92. I am not, however, at this stage, registering an additional bid for 1991-92 and beyond. There are two major elements of uncertainty. First, I await advice from the Schools Examination and Assessment Council on the operation of the assessment arrangements: key issues bearing on running costs can only be resolved in the light of that advice, which I am unlikely to have in final form before the end of the calendar year. Second, we need to resolve whether the running costs of the assessment system should be met from the Department's Vote or from local authority expenditure. A number of issues arise here, which we cannot resolve quickly. For these reasons, I am not bidding in this round for additional resources for implementation of the National Curriculum, but you will wish to note that there will be major issues to address in next year's expenditure survey.

MAINTAINED SECTOR CAPITAL EXPENDITURE (excluding grant-maintained schools)

Additional resources:	1990-91	£ million 1991-92	1992-93
Voluntary aided schools Local authority: schools Local authority: FE Other educational services	39 265 126 <u>15</u>	61 445 130 —	77 571 134 —
a) Schools	445	636	782
Schools (VA: grant) Schools (LEA: credit approvals)	39 265	61 445	77 571
Total	304	506	648

- 23. Investment in school buildings has been inadequate for many years. The age profile of the school building stock creates particular problems which do not apply to other services. A high proportion of school buildings was constructed rapidly and to tight cost restrictions in the 50s and 60s to accommodate the enormous rise in the school population at that time. Little or nothing has been spent on those buildings since and major components, such as roofs, windows and heating systems, are all reaching the end of their working lives at the same time. In 1987 the School Buildings Survey revealed a backlog of well over £2 billion of urgent improvement work. Between 1986-87 and 1987-88 there was actually a cash reduction in capital expenditure on education. In 1988-89 I launched a modest improvement programme to start to remedy some of the worst of the accumulated defects; but nearly all the benefits were wiped out by a 16% increase in building costs. The remaining increase of 3% in real terms was largely used to meet basic need for additional school places in areas of population growth. pupil numbers rise again, basic need is digging ever deeper into the programme: Cambridgeshire, which needs to build the equivalent of 20 new primary schools over the next decade to accommodate anticipated growth, is only one example. Inflation is also biting sharply; the real value of education allocations fell by at least 5.5% in 1989-90.
- 24. Because there has been no increase in the purchasing power of expenditure available for school improvements there is a mounting backlog of essential work, with the result that recurrent expenditure on emergency repairs is beginning to outstrip increased provision for planned maintenance. The NAO will be reporting on this later in the year. Some LEAs without access to substantial receipts are in danger of defaulting on statutory obligations. I am unable to cover LEA plans to remove surplus places except where those plans are associated with approved statutory proposals; and I am now having to defer the implementation of statutory proposals

because I do not have sufficient allocations in reserve to meet the costs in the current financial year. This will increase my obligations in 1990-91.

- 25. I am also being forced to reject other reorganisation schemes offering an excellent rate of return because they require capital allocations which I do not have. We are encouraging local authorities to be more efficient, but are not giving them the means to achieve this. A stream of deputations many of our supporters have pointed out the contradiction in our policies. I have been unable to produce a convincing answer.
- 26. The introduction of the new capital control system is likely to make matters even worse. Many of the improvements which have been carried out in recent years have been financed by capital receipts. For many authorities this additional spending power will now be reduced. It is therefore essential that Annual Capital Guidelines are sufficient:
 - to cover the contractual commitments which flow from earlier allocations;
 - to meet statutory obligations incurred but not implemented in 1989-90; and
 - to cover new statutory obligations in 1990-91.
- 27. I also see the need to provide for a significant increase in spending on structural defects; and to enable LEAs to make significant progress in adapting school buildings to meet the statutory requirements of the National Curriculum.
- 28. Since all pupils will have to study science from 5-16, more laboratories are needed in secondary schools; and adaptations are required in primary schools because science cannot be taught in rooms without taps and in many primary schools classrooms lack this basic amenity. Adaptations will also be required in both primary and secondary schools to enable all pupils to study technology. We cannot put our education reforms at risk for lack of the necessary capital investment.

b) Further and higher education

f million 1990-91 1991-92 1992-93

Additional credit approvals: 126 130 134

29. A consensus is emerging among employers and in Government that all 16-19 year olds need to receive some form of systematic education and training leading to a worthwhile qualification. As the demographic decline begins to affect the supply of young people, the retraining of the adult workforce is also emerging as a priority. This is why my February speech to the Association of Colleges of Further and Higher Education (ACFHE) called for increases in participation and attainment levels in post-16 education. These themes will be driven home publicly by the CBI in

the Autumn when its Task Force on vocational education and training reports.

- 30. FE colleges have the potential to turn these aspirations into reality. The Education Reform Act will set them up with new employer-dominated governing bodies and a greater degree of freedom from the LEA so that they can compete for new business. If they succeed, they will generate significant new income for themselves. But the FE sector will be gravely disadvantaged without sufficient capital investment a point being made frequently by the colleges. Employers will not want to use the colleges if the courses on offer make use of obsolete equipment or are housed in unsuitable buildings. Without properly equipped colleges, our chances of tackling the nation's skill shortages are seriously hampered.
- 31. The colleges remaining in the LEA sector have had very little capital investment for many years. Over the past 3 years, apart from projects involving statutory school reorganisations and a handful of other projects, I have been unable to make any allocations for new building starts in LEA colleges. And last year I could not make any allocations for new equipment, apart from those associated with Education Support Grants.
- 32. Last year capital allocations for FE amounted to only £30 million. Over the past 5 years total allocations have amounted to only 25% of assessed need to spend. And while actual expenditure by local authorities has exceeded capital allocations, it still only represents 5% of overall local authority expenditure on further education. The result reported by HMI is a decline in the fabric and equipment of some colleges, particularly in specialist areas. Some colleges have marked deficiencies in the supply of upto-date equipment. Some of their buildings are totally unsuited to present-day needs.
- 33. My objective is not just to halt the deterioration in building and equipment stocks, but to achieve a marked improvement in both over the three-year PES period. With the increases proposed, colleges will be able to increase their responsiveness, generate more income, and increase their efficiency in the use of buildings and equipment, thus reducing running costs.

c) Other educational services: Inner London boroughs

£ million 1990-91 1991-92 1992-93

Other educational services

15

34. The third element of this bid for local authority capital is to assist the inner London Boroughs in establishing education departments to take on responsibility from the ILEA in April 1990. If the new LEAs are to achieve the management improvements we want, their education departments - including the inspectorate and careers service - must be properly housed. I am taking stringent action to ensure that inherited ILEA property is used effectively, but this source meets only part of the boroughs' needs. We made a modest advance to them from GLC receipts during 1989-90, but most

of them will need to spend more next year to avoid unsatisfactory make-shift provision. I shall therefore have to issue additional ACGs from my youth and other educational services block. We are currently updating estimates made at the turn of the year of the costs involved. It is however already clear that the sum I am requesting is the bare minimum. It will still leave several boroughs having to raid capital receipts earmarked for other services.

35. I have considered whether my proposals would risk short-term overheating in the building industry. My advice from expert bodies suggests not, given the general downturn following the decline in the rate of house price increases.

CONTINUING EDUCATION

£ million 1990-91 1991-92 1992-93 12 14 14

Developing new courses

36. Building on the successful experiences of the PICKUP programme, my target is for 1 in 10 of the working population to undertake full-cost vocational continuing education by 1992. My bid would enable higher and further education institutions to promote and develop the courses necessary to meet this target - in association with industry and commerce.

HIGHER EDUCATION

- 37. With polytechnics out of local government, we can now look at higher education funding across the board. Institutions are now exposed to greater market forces through the new approaches to funding, the shift from grant to fees, the encouragement of private earnings, and top-up loans. We are beginning to break the dependency culture.
- 38. Even so, universities and polytechnics as in all other countries will continue to rely on public funds for a substantial proportion of their income. The output in terms of qualified graduates continues to grow. We have said that we want that to be maintained. There have been important efficiency gains which help to make it possible. But our higher education policies and financial viability in both sectors are at risk mainly because increased costs have accentuated the decline in public funding in real terms. I therefore have to bid for substantial sums.
- 39. The following bids for the Funding Councils are based on current tuition fee levels. The effect of the planned increase in fees will be neutral in terms of public expenditure. It will however require adjustments within my baseline programme and in the allocation of additional sums agreed during the Survey.

UNIVERSITIES

1. Universities Recurrent

a) Universities Funding Council

a) oniversities runding count	1990-91	£ million 1991-92	1992-93
Securing viability Management education ¹ Computerisation Continuing restructuring Deferred maintenance UFC Running costs (including relocation)	67 5 5 - 45 1	79 5 15 - 45 1	80 5 30 20 45
Total	123	145	180
Reduced rates requirement	-48.5	-49.7	-50.9
Net recurrent bid	74.5	95.3	129.1

See paragraph 54 below

- 40. The restructuring programme which we agreed in 1987 is well on course. Plans for the loss of 2,000 academic staff posts and the appointment of some 500 new staff are being implemented on target. There have been 35 subject reviews, a new appointment scheme, and a series of management reforms to improve efficiency. Chart 12.13 in the recent Expenditure White Paper Cm 612 showed that income from sources other than public funds has increased steadily and now accounts for one quarter of total expenditure. But our target of achieving financial balance for the universities by the end of 1990-91 has been knocked off course by increased costs and a higher than expected output.
- 41. Both the last two academic pay settlements (in 1987 and again this year) have required an injection of additional funds to enable the employers to make a sustainable offer. We cannot go on like this. It encourages both parties in the pay negotiations to look first to the Government for more. It undermines our key policy which is to encourage universities towards greater financial independence. So my bid to achieve financial viability allows for the likely outcome of the forthcoming pay round, given the way in which market factors are moving against the employers. I shall again insist that a significant element of any pay increase in 1990-91 is applied selectively to pay professors and lecturers according to merit and to deal with recruitment problems in particular disciplines.
- 42. Even with the extra money for pay, the universities are finding that increased costs, including those arising from buoyant student numbers, cannot be met in full through the improvements in efficiency, restructuring and increased income from other sources. The UGC/UFC is being forced to make special one-off payments to institutions in difficulty thus making things even more difficult

for the rest. London is the latest in the queue for special treatment. We are seeing what we have already seen in the maintained sector, namely a deferment of the replacement of equipment and the maintenance of buildings: the UFC professional staff advise that nearly £250m is needed to bring university buildings up to a satisfactory and safe condition.

- 43. Without additional funds, the only solution is more restructuring. But that requires even more funds in the short term to cover redundancy costs, and the UFC will say that more staff costs will damage academic quality. No one will understand why we should want to see a further reduction in the total number of academic posts, when our policy is to widen access. So I am clear that we should make it possible to stick to the targets of our agreed restructuring programme. The main elements of my bid are based on this.
- 44. There are two smaller but important measures which would offer some limited encouragement to the universities, in initiatives that will yield efficiency gains over time. I want to encourage universities to improve the age structure of their staff. 70% of all dons are aged over 40: a major problem of renewal and replacement is building up. The 1960s bulge will need to be smoothed out, and this may best be done by an extension to the New Academic Appointments Scheme. Another important point which I am keen to promote is extending information technology. Computer networks much like that working so successfully in this Department would underpin efficient administration and good teaching in the universities.
- 45. Finally I can offer a reduced requirement of some £50m a year as a result of the extra concession on universities' rates from April 1990 onwards. This can be seen as a reduced cost for universities to offset recent increases in their rates bill and other cost increases. If we take away the benefit of reductions in cost and leave universities to face increases, we shall be accused of unfairness. So I am showing the reduced requirement as an offset to my bid.

46. The Open University is continuing to expand its undergraduate population, with an increasing emphasis on the more expensive area of mathematics, science and technology. There will be over 73,500 undergraduates by 1991, an increase of 5,500 since 1987. Some of the further expansion will be in the priority areas of computing and foreign languages: using the Open University would be a cost effective way of increasing student numbers in these areas. The University has taken effective action to improve its financial management. As with the other universities, it is having to face increased costs. The baseline for 1991 allows for only a very small increase over 1990. I need the extra money to ensure that

the University can balance its books as student numbers and costs continue to increase.

2. Universities Capital

	1990-91	£ million 1991-92	1992-93
Universities Funding Council	35	35	35
Open University	11.5	1.5	1.5

47. The Advisory Board for the Research Councils has brought forward some disturbing evidence about the age of teaching and research equipment in the universities. Much equipment is old or obsolete. The reduction of 15% in real terms in the UFC equipment grant between 1986-87 and 1989-90 led to an unsatisfactory replacement cycle. Industry expects new graduates to be familiar with the latest equipment, but in many cases universities cannot afford to provide it. There is now a need to undertake a proper programme of replacement of equipment for teaching and research. I acknowledge that equipment is provided both through general funds and the Science Budget: this bid therefore should be viewed alongside that of the Research Councils, which it complements. I am also bidding for funds to purchase the freehold of the Walton Hall site of the Open University.

POLYTECHNICS AND COLLEGES OF HIGHER EDUCATION

1. PCFC Recurrent

	1990-91	£ million 1991-92	1992-93
Securing viability	49	50	51
Restructuring	5	7	8
PCFC Running costs (including relocation)	1	1	1
Management education ¹	11	11	11
Total	66	69	71
Adjustments between PCFC and LEA sector: Additional debt/pensions liabilities New accessions Reduced rates requirement	4 4 - 8	4 4 -8.2	4 4 -8.4
Net recurrent bid	66	68.8	70.6

See paragraph 54 below

48. With the help of the transitional funds which we agreed in the last two Surveys, the new PCFC sector has been launched successfully. Nevertheless with their local government inheritance

- in particular under-investment in plant their overall tighter level of funding than the universities, and the lack of any financial reserves, the polytechnics and colleges are in a fragile financial position. They need additional support if they are to play their key part in meeting demand for higher education. Unless we can provide that additional support we shall lose the political gain of freeing the institutions from local authority control.
- There are two points of special concern on recurrent funding. First, as in the universities, student demand remains buoyant despite the demographic downturn. The latest projections for the sector and the forecast GDP deflator imply a further squeeze on unit costs of 5% in real terms. The polytechnics and colleges have over the past decade achieved efficiency gains of some 15%. further squeeze of 5% is not sustainable without lowering of standards as institutions will be forced to cut expenditure on nonpay items such as books and materials and PCFC will be forced to divert funds to shore up institutions in trouble. Second, we must allow for employers in the PCFC sector to engage in meaningful negotiations about pay during 1990-91. The employers may not be able to reach a settlement with their academic staff which can be contained within planned funding in the current and future years. For 1990-91, I want to encourage the employers to pursue their ideas about more flexible pay structures so as to reward performance and to review conditions of service offered to their staff. The purpose of the main element of my bid is thus to improve efficiency and keep the PCFC sector on a sound financial basis in 1990-91, bearing in mind that institutions have no reserves and initially little scope for earning income outside their public funding.
- 50. My bid for restructuring is intended to help secure the efficiency gains that will still be required. In last year's Survey we agreed to limited provision for restructuring simply to enable those institutions most directly affected by the withdrawal of topping-up to balance their books. I am bidding for a modest extension of the existing programme. This will enable institutions to plan the necessary further reductions in their staff and to maintain a healthy age profile.
- 51. Finally there are two items which will not add to public spending the accession of two further LEA maintained colleges to the sector to which I will shortly be considering and an increased level of local authority liabilities for debt and pensions which fall to be met by the PCFC compared to that assumed when we made the initial transfer from AEG to the PCFC baseline last year. I can conveniently meet these additional costs to the PCFC through the reduced requirement in the rates bill for institutions in the PCFC sector from April 1990 onwards.

2. PCFC Capital

		1990-91	£ million 1991-92	1992-93
Capital		70	70	70

- 52. Despite the welcome increase in equipment provision we agreed last year, concern about under-investment is being impressed forcibly on me by the PCFC and the businessmen who now play an active majority role as institutional governors. There is no real answer I can make when they say that no successful commercial enterprise would have so low a level of capital investment. It is vital that we equip the new sector with the tools to do a good job and to attract employer support and private funding.
- 53. The PCFC this year can only meet about 1% of the bids for new building projects. Many polytechnics have never benefited from the capital investment they needed and there is now clear evidence from HMI that poor accommodation is threatening the quality of courses, particularly in science and technology. It is unacceptable that they should be the poor relation in terms of accommodation. A PCFC building survey is likely to reveal a need for substantial extra investment. My bid would enable the worst problems to be tackled selectively, and would enable the institutions to move more quickly in dealing with the backlog of cut-of-date equipment.

Management education

STUDENT AWARDS

Mixed-mode courses

Total

54. We should begin to prepare for a more market-led approach to management education. Management quality will determine our competitiveness in world trade, not least in post-1992 Europe. We need to improve the quantity and quality of management education and the bulk of the cost of this increased provision must be borne by the customers, mainly employers. My bids under the university and polytechnics headings above are aimed at making this possible by increasing the stock of high-quality management teachers and contributing the restoration of standards of accommodation and teaching facilities (including information technology).

	1990-91		1991-92	1992-93
Estimating changes	74.6	185	101.8	106.1
Freeze on main grant rates and parental contributions	0		-7.1	-15.7
Uprating for higher GDP deflator	2.5		3.6	3.6
Oxford and Cambridge fees	3		3.2	3.3
London boundary	0.8		1.2	1.2
Lifting moratorium	8.0		10.9	12.6
	12112			4 0

1.6

90.5

3.0

116.6

4.0

115.1

55. It is important that I have sufficient money to cover the cost of our statutory commitment on maintenance grants and fees in 1990-91 - the last year in which the main rates of maintenance grant will be uprated. As explained in paragraph 39, adjustments will be made to my baseline during the Survey to cover the proposed

increase in tuition fee. My bid covers the latest estimate of projections of the number of award holders, the latest estimate based on most recent returns from local authorities of the average level of award, and an increase in the main rates in line with the latest forecast GDP deflator of 4%. As in the last two years, I shall want to revise this bid in due course to allow for the forecast GDP deflator at the time of the Autumn Settlement.

- 56. There will be savings, as the Table shows, through freezing the main rates of grant from 1991-92. I am clear however that we shall need to continue to uprate by the GDP deflator certain allowances additional to the main rates. This is important if we are not to prejudice our objective of broadening the base of entry to higher education particularly to include more older students and the cost is small.
- 57. My bid for Oxford and Cambridge college fees allows for increases in line with those which I am seeking in funding for the universities.
- 58. I am proposing three other changes in the awards regulations which have relatively small cost consequences but are of considerable importance to the reception of the new awards regime next year:
 - To end the moratorium on the designation of degreecomparable courses.
 - To make mandatory awards available for the full-time components of mixed-mode courses.
 - iii. To rationalise the boundary within which grant is payable at the London rate of grant.
- 59. The case for the first of these changes was argued last year and I will not take space here to elaborate it. The second is of great importance to my policy of extending participation. It requires legislation, but the Student Support Bill provides the opportunity. The third will enable us, at small cost, to remove an anomaly in the treatment of students at London University.

SCIENCE

	1990-91	£ million 1991-92	1992-93
Avoiding loss of science Manpower training and support Equipment Restructuring Councils' Institute New priority research	26 8 23 es 15 31	37 14 22 14 44	53 15 20 10 37
Sub-total	103	131	135
National scientific commitments	6	9	7
<u>Total</u>	109	140	142

- 60. Everyone has welcomed the settlement for science which we agreed last year. We now need to consolidate this. There have been two main worries. First, what we agreed will now buy less. The Research Councils are, for the most part, unable to influence the level of pay settlements for the research staff which their grants finance, and other costs have increased well beyond what we had in mind when we set the figures last year. Second, the settlement allowed for a reduction in real terms in those years which fall within the new Survey. The first element of my bid is designed to offset these worries.
- 61. The second element in my bid is designed to safeguard the supply of very highly qualified manpower through an increase in postgraduate maintenance awards. That is a priority need for the years ahead. There has been a tendency for the take-up of awards to fall in the past two years, and the number of awards has fallen. This trend needs to be reversed if we are to meet the problems which the demographic plunge will bring in the 1990s.
- 62. There is now firm evidence pointing to serious equipment deficiencies which have accumulated in research laboratories over the years. This cannot be corrected all at once, but I should like to make a start on a programme this year.
- 63. Last year, I gave you a list of desirable restructuring proposals for Research Council institutes. You acknowledged that the settlement would cover only part of the programme which I envisaged. As you know, we are currently examining a number of options relating to MRC's proposal for a major restructuring to create a centre of excellence for clinical research. I shall keep you in touch with this. There remain a number of other costeffective restructuring proposals which I would like to see pursued. The fourth element in my bid provides for this.
- 64. My fifth element is for new areas of priority research. I need particularly to be able to respond to proposals for new environmental programmes of national and international importance and to play my part in strengthening the UK's effort in global climate research. I have already indicated my willingness to make a modest contribution to the ERS-2 satellite and I propose to devote £6m to this, spread equally over the three PES years. But if I am to be able to play my part in our efforts in this key area I shall need extra money.
- 65. Finally, there are the national scientific commitments which I have to press every year. This year they are modest. Apart from the James Clark Ross ship there is no bid for the British Antarctic Survey. I do however need resources for the British Geological Survey to meet needs which I believe should be considered outside the normal priorities for science.
- 66. I very much hope that you will be able to agree my new bids so that we can build upon the settlement agreed last year and expand further the level of research in areas where we have an outstanding contribution to make. We have every reason to believe that extra money will buy the results.

PUBLICITY	1990-91	£ million 1991-92	1992-93
Campaigns on: teacher recruitment, National Curriculum and parental involvement	15.5	14	12.5

67. We must ensure that our education reforms are understood by those outside the education service. Unless we do this, conflicting and misleading reports will circulate and our objectives will be the more difficult to realise. Projecting a strong positive image of education, especially the reforms which flow from the National Curriculum and associated testing of achievement, will help towards our policy to involve parents more directly in schools. In order for our reforms to succeed we need an adequate supply of teachers. I propose a campaign to encourage more young people and adults to enter or return to the teaching profession. I would want to subject the campaign to rigorous monitoring against specific objectives: but I am convinced that it would be a cost-effective way of meeting our policy aims.

RUNNING COSTS	1990-91	£ million 1991-92	1992-93
Inflation and pay Increased staff Accommodation Other non-pay	3.6 1.8 0.3 0.8	4.6 1.5 8.8 1.2	6.0 1.4 9.1 1.5
Total	6.5	16.1	18.0

- 68. When I agreed the three-year settlement last year, you accepted that this might be reopened if significant changes in the Department's staffing needs could be demonstrated; if forecasts of inflation changed significantly; or if it became clear that the outcome of the Treasury's negotiations with the Civil Service unions during the Survey period was significantly different from the earnings assumptions underlying the settlement. In the event, all of these conditions have been realised, and I have to ask for a new three-year settlement.
- 69. On inflation and pay, the three-year settlement assumed an increase in the pay bill in 1990-91 of some 4.5%. But a first charge on this will have to be the follow-through effect of some 2% of the staged pay settlements agreed by the Treasury for 1989-90. I clearly need more money to reflect the likely outcome of the Treasury's negotiations with the Civil Service unions for the 1990-91 financial year and beyond. My bid allows for this.
- 70. On staffing, it is now clear that some of the work needed on the abolition of ILEA, schemes for local management of schools, and the

National Curriculum working groups will not fall away as soon as we had expected. It is clear also that we shall need additional staff to deal in particular with the increasing number of applications for grant-maintained status, the introduction and auditing of financial management arrangements for GM schools and City Technology Colleges, the introduction of student top-up loans, and tackling teacher shortages. In addition to this, our reforms have generated much greater public interest in the work being undertaken by the Department, and the level of MP and other correspondence has increased dramatically. I have seen figures to show that Ministers in this Department received at least 10 times more MP letters per member of staff than in some other major Departments. We have over 500 letters at present still awaiting a Ministerial reply 4 weeks or more after they were received.

71. Many of the Department's staff continue to work exceptionally long hours, as they have done since work on the Act began. I cannot reasonably expect them to do more. A great deal has already been accomplished. I am clear that more staff will be needed in 1990-91 with some small reductions thereafter as shown in the table:-

TOTAL	2617.5	2693.8	2670.9	2653
Central Cost Centre HMI HMI Support Staff Pensions Branch	1585.5 479 239 314	1655.3 485 244.5 309	1639.4 485 247.5 299	1629.5 485 249.5 289
	1989-90	1990-91	1991-92	1992-93

These figures do not allow for the transfer from the Home Office of responsibility for grants under Section 11 of the Local Government Act 1961, which will need to be covered by a PES transfer.

- 72. On accommodation, the Department's headquarters will move to Sanctuary Buildings next autumn where the cost of the lease will rise substantially over our existing accommodation. I am therefore bidding for funds to meet this inescapable commitment, as well as for the costs of temmporary accommodation in London for overflow staff (the new building is 25,000 square feet smaller). I hope that our plans for permanent accommodation further afield can be sufficiently advanced to make this unnecessary. In that case our officials will negotiate separately the inevitable extra short-term costs of permanent relocation.
- 73. I have to say that, unless this bid is met, the Department will not be capable of implementing the reforms of the education system which we have launched.

ADMINISTRATION CAPITAL

	1990-91	f million 1991-91	1992-93
Agreed bid Sanctuary Buildings	8.5		-
Additional bid Information technology	0.5	2	2

- 74. In addition to the cost of the staff themselves there will be some increased capital costs to support the proposed level of activity. I mention here two particular concerns information technology and accommodation.
- 75. First, the staffing bid has been formulated on the assumption that we shall increase our investment in IT. Our new office system is proving highly successful. As the Department's running costs Management Plan (forwarded separately) demonstrates, we are already securing valuable efficiency gains, and can get more by extending the system.
- 76. Second, on accommodation, I am glad that our officials have reached agreement on the capital cost of Sanctuary Buildings. About one third of the expenditure will have been incurred by the end of this financial year. Our relocation studies are being taken forward with a view to relocating outside London staff who cannot be accommodated in Sanctuary Buildings. As noted above, my running costs bid includes an element for temporary relocation in London, but given the tightness of the time scale I think it would be prudent to bid for a £150,000 capital reserve to allow for minor alterations to accommodation to be used on a temporary basis.
- 77. I am sending copies of this letter to the Prime Minister and to the Secretaries of State for Scotland, Wales, Northern Ireland and the Environment.

Kemit

COP() SCOTTISH OFFICE WHITEHALL LONDON SWIA 2AU

CONFIDENTIAL

The Rt Hon John Major MP Chief Secretary Treasury Chambers Parliament Street LONDON SWIP 3AG

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25 May 1989

PES 1989

This letter sets out, as requested in the Survey guidelines, my proposals for the resources required for my programmes outside the arrangements for the operation of the Scottish block.

My bids, which are all of equal and high priority, are summarised below and more detail for the Industry and the Agriculture and Fisheries programmes is given in the Annex. As is customary, John MacGregor will deal separately with a number of AFF issues in which I have an interest although I have not yet seen the detail of John's proposals. The table in this letter shows a number of particular Scottish bids within the AFF programme, the purpose of which is described in the relevant part of the Annex.

			£m
	1990-91	1991-92	1992-93
Agriculture and Fisheries Industry Housing subsidies (revised economic assumptions)	5.8 28.5 - 2.617	13.2 33.0 - 5.044	15.5 28.0
Water services (capital)	30.0	60.0	100.0

I should comment in particular on the bid for water services capital. Both north and south of the Border we face major demand for capital expenditure on water and sewerage services in order to bring them up to scratch, in the light especially of EC requirements. It is not yet clear how this problem will be tackled in England and Wales - although provision will have to be made one way or another - but I have no option but to address this issue in the PES round. As indicated in my letter of 16 May 1989 to Nigel Lawson on the EC drinking water directive, following privatisation of the water services in England and Wales, there CONFIDENTIAL

is no programme south of the border with which capital expenditure on water services in Scotland is comparable. My officials have been in touch with yours about how bids for this service should be handled outside the present block and formula arrangements and they are currently assessing the requirements in Scotland both in the short term and the longer term; I will wish to return to the longer-term situation in next year's Survey. The bids I have entered in this Survey will allow a reasonable start to be made on the outstanding problems.

We are making good progress on privatisation of both the two Scottish Electricity Boards and the bus companies in the Scottish Transport Group. But we have not yet set the final timetable. Until we do we cannot be certain when the receipts will be available, although in both cases I hope that these will start to come in in 1990-91. Even if they do not, I will still be faced with expenditure on expenses in 1990-91. In the case of the Transport Group, these will be modest, about £0.4m, but those for the Electricity Boards will include flotation expenses. We cannot be precise about these; we still have to decide on factors, such as customer and staff inducements, which will affect them, but we are working on the basis of £77m, in addition to the existing provision of £5m, in 1990-91. These expenses, and the receipts, are not part of my programmes although they are met from my Departments' Votes, and the prospect that receipts in 1990-91 will more than meet the additional expenditure remains good. In the meantime, provision for the additional expenses will require to be made.

I also expect, as last year, to make a bid for any PES transfers to DHSS for housing benefit. I am not yet in a position to quantity my assessment of these issues and will write again with the information as soon as possible.

This year the Survey guidelines request the notification of contingent liabilities likely to arise or to increase during the Survey period. My officials will be supplying yours with details of a number of such contingent liabilities relating to block programmes.

Finally, as usual, departmental running costs are the subject of a separate letter.

Copies of this letter go to the Prime Minister, John MacGregor, David Young, John Moore, Norman Fowler, Nicholas Ridley, Paul Channon, Cecil Parkinson, Peter Walker and Tom King and to Sir Robin Butler.

MALCOLM RIFKIND

ANNEX

AGRICULTURE AND FISHERIES

Rural Enterprise Programme (REP)

Against the background of the reform of the EC structural funds my officials have discussed with yours our proposals for action in the Highlands and Islands in terms of Objective (b) of the new framework Regulation. While I am determined that the introduction of the new EC arrangements should not give rise to unrealistic expectations in the Highlands and Islands, I am convinced that the circumstances of those farming in extremely marginal conditions very much at the periphery of the Community are such as to justify the introduction of a limited and targeted programme.

The Rural Enterprise Programme bid envisages the introduction of measures to be targeted on specific localities within the Highlands and Islands where objective indicators show that the agricultural sector is especially fragile and least able to adjust to the effects of CAP reform. The REP would promote special measures to assist with diversification and measures to improve the quality and marketing of produce. The aim would be to stimulate viable self-supporting alternatives to traditional agricultural production and broaden the income base of those involved in agriculture. We propose a gradual build up of expenditure to ensure that there is adequate assessment of the emphasis of measures in specific localities before funding assistance.

Much work remains to be done in firming up the details of our proposals. However, if the Commission keeps to its current timetable, I shall be under a great deal of pressure domestically later this year to announce the extent of the Government's proposed actions under Objective (b). I think it essential that we keep the initiative and that we should be ready to set out our proposals. What I have in mind is a 5-year REP averaging £5m a year from 1991-92. Before then I would wish to see the establishment (in 1990-91) of a project team whose main task would be to assess and test the feasibility of the range of measures which might be put in place in the selected areas. The cost of the project team in 1990-91 is likely to be about £0.5m and I propose to meet this cost from savings that year on fisheries protection (current) expenditure. The first grant expenditure in targeted areas would occur in 1991-92 with full costs in 1992-93. Accordingly I make the following bid:

		£m
1990-91	1991-92	1992-93
	3.0	5.0

Scottish Agricultural Colleges (SAC) and Scottish Agricultural Research Institutes (SARI) Capital

A significant aspect of the process of rationalisation following reductions in funding of R & D expenditure was our decision, in 1986, to reduce the

number of SARIs grant-aided by DAFS by merging the Hill Farming Research Organisation (HFRO), based at Edinburgh and the Macaulay Research Institute, based at Aberdeen. A new body the Macaulay Land Use Research Institute (MLURI) was created and the decision taken to transfer to the new institute at Aberdeen former HFRO staff from Edinburgh.

We had hoped to carry out the capital works at MLURI necessary to accommodate the staff of the joint body and to schedule the transfer of staff to Aberdeen in such a way as to accommodate the costs within the existing baseline provision for SARI capital. However, the former HFRO facilities at Edinburgh were destroyed by fire at the end of March and, while we have made temporary arrangements for the staff at Edinburgh, I believe we must speed up the necessary development at MLURI and the transfer of staff from Edinburgh if we are to avoid nugatory expenditure following the fire. My officials recently sought Treasury approval in principle for the development option we have chosen. The total cost of the project is £8.6m but, because of the need to proceed quickly I am not able to contain all of this cost within existing provision.

The second element of the bid relates to the additional capital expenditure which will be necessary to improve the physical security of the SAC/SARI buildings throughout Scotland. We are now reviewing security arrangements following the loss of MLURI facilities at Edinburgh due to arson. We must take all reasonable steps to deter or prevent similar attacks on other buildings and I propose a 3-year programme of capital works to cope with the more sensitive areas. My SAC/SARI capital bid is therefore:-

			£m
	1990-91	1991-92	1992-93
SAC/SARI security MLURI	0.5 2.7	0.5 1.8	0.5
Total	3.2	2.3	0.5

I should say that the preferred option for the MLURI development, when completed, will release land outside the PES period for disposal currently estimated at £2.7m in value.

Scottish Agricultural Colleges (SAC)/SARI Redundancies

The reduction in funding of near-market R&D agreed in 1988 PES and the squeeze on the advisory services are posing very real problems for the Scottish Agricultural Research Institutes and Colleges. Despite the provision of additional funding for strategic research from 1991-92 and an encouraging increase in revenue from non-DAFS sources, there will still be a significant and increasing net reduction in total funding over the PES period. These organisations are manpower intensive, and staffing reductions will be necessary in order to help expenditure within cash limits. This year we expect to lose about 30 posts through voluntary/compulsory redundancies, and the costs of which we shall accommodate within present cash limits. This will not be possible over

the remaining years of the PES period. My additional bid to meet staff early severance costs is therefore:

		£m
1990-91	1991-92	1992-93
2.5	4.6	5.9

Fisheries Protection

In the last two PES rounds I have entered a bid for the costs of replacing the DAFS inshore fisheries surveillance aircraft (a Cessna Titan). On both occasions the bid was withdrawn after bilateral discussions. The aircraft is now virtually at the end of its useful life and I make the following bid:

		£m
1990-91	1991-92	1992-93
	2.0	-

Harbours

My bid in respect of harbours concerns DAFS grants for Local Authority and Independent Trusts projects and ERDF receipts for projects carried out by independent harbour bodies. The bids are:

	1990-91	1991-92	£m 1992-93
DAFS Grant (LAs) LA Net Capital Allocation	-0.129 -0.558	0.472 0.016	0.423 -0.156
Net LA Harbours	-0.687	0.488	0.267
DAFS Grant (Independents) ERDF (Independents)	0.849	0.849	3.000 0.849

The bid in years 2 and 3 in respect of DAFS grant (LAs) arises essentially from significantly increased costs on a project for which we now have a revised investment appraisal. We are still to consider the appraisal and only if it proves wholly satisfactory will I press the bid. The bid for the Independent Trusts relates to proposed developments at Eyemouth and Scrabster.

Accordingly, my total bid (including harbours) is:

	1990-91	1991-92	1992-93
Independent Harbours LA Harbours	5.7 0.8 - 0.7	11.9 0.8 0.5	11.4 3.8 0.3
	5.8	13.2	15.5

In addition I have a number of small bids for SAC/SARI superannuation, Marine Laboratory equipment, Farm Woodlands Scheme and animal health. I propose to meet these (together with the first year costs of the REP) from savings on fisheries protection and capital grants.

INDUSTRY

The objectives to my proposals are to take full advantage of the opportunities presented by the Single European Market; to maintain and increase the momentum of encouraging private sector investment in inner cities and peripheral estates; and to give a credible response to the potentially politically very difficult situation in Caithness. At the same time, the continuing run down in payments of regional development grant means reduced requirements. My initiative for an evaluation of the options for disposal of the SDA's properties and investments is making good progress but it is still too early to estimate the proceeds or their timing.

Scottish Enterprise

My proposals take no account of needs specific to Scottish Enterprise. That will be discussed in detail in the next Survey. Necessary funds, for example, for the setting up of pathfinder agencies, will be found from the relevant existing programmes (in my case, from the SDA) as appropriate.

Regional Selective Assistance

With the ending of regional development grant, regional selective assistance is our major vehicle for securing new investment in assisted areas. It is particularly important in attracting inward investment, where we are experiencing tough competition from our European partners. In the run-up to the creation of the Single European Market in 1992 there will be an opportunity to attract to the UK in general and the assisted areas in particular investment which will be locating in the Community.

If we are to do so, we must ensure that we can compete. Recently we have lost a number of desirable projects because we are unable to approach the levels of assistance offered by our competitors. We are, of course already seeking through the Commission to curb excessive assistance levels offered by our partners. But that will not be enough despite Britain's attractions for business. We have to be more flexible, particularly on cost per job rules. Cost per job is an incomplete indicator of the value for money offered by an individual project; we have also to take into account the type of jobs, the technology transfer

aspects, fresh management liteus, the expanded market for indigenous suppliers and other factors. A sensible amendment of the guidelines, backed by the additional resources I have proposed, will allow us to capture projects that would otherwise be lost.

Bid

			£m
	1990-91	1991-92	1992-93
Regional Selective Assistance	4.0	7.0	15.0

Scottish Development Agency (SDA)

There are two elements to my proposals for additional resources for the SDA. First, I want the Agency specifically to address itself to the implications of the creation of the Single European Market. We know from experience that the ability to offer custom-built factories quickly can be an important feature of the package that will attract inwards investment. From our point of view these are good investments, which I want to continue as a key priority within the SDA's continuing role in premises provision following the disposal of the bulk of its existing property portfolio.

Secondly, there is an increasing need to deal with accumulated problems of urban dereliction, to maintain the momentum of our peripheral estates initiatives, and to keep up the effort to improve the environment more generally in order to complement the efforts going into the attraction of inwards investment and ensure that Scotland continues to be seen as an attractive location for companies to establish and develop. I am therefore proposing an increase in the resources available for these activities for use by the Agency with leverage from the private sector.

Bid

			£m
	1990-91	1991-92	1992-93
Scottish Development Agency	20.0	20.0	20.0

Highlands and Islands Development Board (HIDB)

Despite the improvement our policies have brought to the economy generally, the position in the Highlands and Islands is worrying. Unemployment there is higher than in Scotland as a whole; and the differential is rising. Within that, there are areas, especially in the rural parts and on the periphery, where unemployment is at particularly high levels. The area as a whole has generally suffered disproportionately from the downturn on oil-related construction.

We must aim towards the sustained and lasting improvement in employment in the Highlands and Islands; and this, of course, means real jobs stemming from private sector enterprise. We can help in creating the

conditions in which enterprise can flourish in an area suffering from distance and communication difficulties. This cannot be done, of course, through blanket subsidies; but sensible selective intervention through limited financial assistance and factory provision does provide results. The potential is there and I believe we can obtain additional private sector investments, and the jobs and other economic improvements they bring, far in excess of the increased expenditure I am proposing.

Bid

<u>1910</u>			£m
	1990-91	1991-92	1992-93
Highlands and Islands Development Board	3.5	3.0	3.0

HIDB Caithness initiative

We have a particular problem in Caithness, where the rundown of the Dounreay establishment, the only major employer in the area, will be traumatic. I believe it is important politically that we act, and are seen to be acting, in response. Of course, HIDB will have to reorganise their priorities on account of Dounreay; and they will do just that. But there is a limit to what they can do with existing resources. The rundown at Dounreay heralds a major change in the economic and social circumstances of the far north of mainland Britain. I believe that the further resources I propose are required. They will allow us to announce a £30m initiative, comprising the new resources and diversion of existing HIDB resources, over five years. I do not believe that anything less will be acceptable.

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			£m
	1990-91	1991-92	1992-93
HIDB Caithness initiative	1.0	3.0	5.0

Regional Development Grant

The above bids are offset by the following savings:-

Savings

			£m
	1990-91	1991-92	1992-93
Regional Development Grant			15.0

A The National Archives

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY Richmond House, 79 Whitehall, London SWIA 2NS

Telephone 01-210 3000

From the Secretary of State for Social Security

CONFIDENTIAL

The Rt Hon John Major MP Chief Secretary to the Treasury HM Treasury Parliament Street London SW1 Notes 1416 1417

25 May 1989

Que Jon

PES 1989: SOCIAL SECURITY BENEFITS AND ADMINISTRATION

I am writing to give you my proposals for expenditure on social security benefits and administration for the 1989 Survey. The principal figures are set out in the attached scorecard. My officials are writing to yours with further details.

SOCIAL SECURITY BENEFIT EXPENDITURE

Opening position. My opening position incorporates the changes that have been agreed and announced since the last Survey. These are summarised at section 2 of the scorecard. The two largest are extra help for poorer pensioners and the abolition of the pensioners' earnings rule. The abolition of the earnings rule was, as you know, announced by the Chancellor in his Budget statement. A substantial part of the cost of this measure will be offset by additional income tax revenue. As to the two more minor measures, we have agreed upon savings to offset the cost of extra help for 16-17 year olds who are forced to live independently and I can confirm that I shall be bringing forward proposals later in the Survey to meet the cost of the widows changes.

Forecasting changes. These are set out in section 4 of the scorecard. I am pleased to say that I can propose a net reduction of some £50 million in the first Survey year and a further reduction in the following year. This net reduction involves a substantial downward revision, for the first time in many years, in the Government Actuary's and my statisticians' estimates of future expenditure. This includes a decrease in forecast spending on benefits for the disabled and on housing benefit. Fresh forecasts will be available in August. The overall forecasting reduction would be still greater but for the need to reflect revised economic assumptions, notably on prices, a factor which may lead to further adjustments later in the Survey.

Section 5 of the scorecard summarises my Policy bids. proposals for policy changes. They include a number of potential savings as well as bids. I would simply say at this stage that they amount to a very small net addition to my programme - one half of one per cent; that they are carefully targeted on the poorest groups; and that even including them, and assuming no increase in other departments' spending above baseline, social security is projected to remain static as a proportion of public expenditure. We now have figures, and will sooner or later be forced to go public on them, which show that benefit rates are lower now in real terms than when we took office. In particular, our economists have estimated that in 1989 the average real value of basic pension will be 5% lower than in 1986. I am convinced that, with inflation nudging upwards, the highly-focussed bids I am putting forward are the very minimum we will need to assure an effective defence of our social security strategy.

Poorer families and pensioner premiums. My first two bids exemplify my approach. The first would give extra help to the poorest families, with proportionately more being directed to poorer families in work. Families receiving family credit would receive an extra £2 a week; families receiving other income-related benefits an extra £1 a week. The second bid builds on the approach adopted in this October's poorer pensioners package by providing for an extra £1 a week to all pensioners receiving income-related benefits. It would have the further advantage of halving the number of pensioners who would, because of transitional protection, get no increase in overall benefit at the 1990 uprating.

Disability benefits. We are due to meet on 6 June. I would stress here that the package I have proposed offers substantial net public expenditure savings in the long term but that, to achieve these savings, Nick Scott and I believe that politically it is essential to make some short-term improvements, leading to additional costs over the Survey period.

Independent Living Fund (item 5.4). This fund was set up to facilitate the introduction of the 1988 reforms by providing extra help to very severely disabled people on low incomes who were not on supplementary benefit when it was replaced by income support and who were therefore ineligible for transitional protection. Now that the scale of legitimate demand for help from the fund is apparent, it is clear that despite tightened management controls - the provision in last year's Survey was inadequate. In the medium term I hope that the fund's activities can be transferred from my programme as part of the wider reforms currently under discussion on community care. But in any event I believe that an increase in provision for the fund is inescapable.

Lone parents (item 5.5). You will be aware that my Department and others have been reviewing welfare provision generally for lone parents and I shall shortly be minuting the Prime Minister. My officials have given yours details of what we propose as regards social security benefits. This is a self-contained package which involves overall net savings. Within that, there are a number of relatively modest increases in provision - in particular in relation to earnings disregards - which are carefully designed to ensure that lone parents reduce their overall dependence on the State. The costs of these increases would be more than offset by my proposals to increase payment of maintenance by liable relatives. There would also be additional administrative costs of just over £1 million a year from the extra liable relative work, but again these costs would be outweighed by the savings involved. In my judgement, the expenditure would represent excellent value for money.

Other bids. The contingency bids (item 5.6) relate to expenditure which will be inescapable if legal proceedings on two cases involving the EC Equal Treatment Directive are not resolved in our favour. The other bids (item 5.7) are relatively minor in cost terms but represent worthwhile improvements responding to pressure for change in various areas. They include, for example, a rise in the social fund capital limit for elderly people, enabling them to benefit from the fund without jeopardising savings set aside for funerals; and an increase in the rates of income support and housing benefit payable after six weeks in hospital, to avoid problems of community charge and water rates arrears on discharge from hospital.

Other benefit issues.

Water and community charges. You will have seen my letter of 12 May to Nicholas Ridley commenting on his suggestion that income-related benefits should be increased to take account of prospective rises in water charges. As I indicated in that letter, there are a number of other housing costs, as well as water charges, which have to be met from people's income support but which are currently excluded from the relevant uprating formula - repairs, insurance, maintenance charges and the 20% contribution to rates/community charge. Later in the Survey, when we have more information on the expected rises in water charges, we shall need to review whether or not benefit rates need to be adjusted to take account of these various costs. I would expect however that any increase in social security expenditure arising from the policies of territorial Departments should be paid for by them rather than counting against my programme bids.

Social Fund. My policy bids include (item 5.7 in the scorecard) two specific bids on the social fund relating to maternity payments and the capital limit. I am not making any bid at this stage for a general increase in the social fund budget. But I should put up a marker that social fund applications and expenditure have picked up on the budget in the course of the year I may need to seek an increase, at least to keep it in line with its real value in the fund's first year of operation, as well as seeking any necessary administrative resources to cope with the increased demands on the fund.

Housing benefit. You wrote to me on 11 May about possible restrictions on benefit and subsidy on dwellings at the top end of the market. My officals will keep in touch with yours, during the Survey, on progress in assembling the necessary information on the newly deregulated market, identifying the best way to move forward, and implementing a system of controls, but this will clearly take time. It is too soon to commit ourselves to the introduction of controls from April next year. Meanwhile, our new guidelines to local authorities on the effective operation of local rent limits should provide an important new weapon in the control of benefit expenditure on over-expensive accommodation.

ADMINISTRATION.

Resulting from PES 88, we have an agreement on running costs which covers 1990/91 and 1991/92. Thus in this Survey the focus should be on requirements for running costs for 1992/93 and for capital and other expenditure for the three Survey years. In a Department of this size and structure, the major component of running costs is manpower. I am pleased to say that the downward trend in staff numbers begun last year is being continued. Indeed even after taking account of new work I am planning to reduce staff numbers well below the baseline assumed in PES. Overall, staffing at the start of the period will be about 84,000, a fall of 10,000 since it peaked at 94,000 in October 1987. Numbers will be reduced to about 74,000 by April 1993 and will then be lower than any time in the past decade and for some time before. Such reductions represent a major management achievement and a continuing challenge.

This is very much the direction in which we ought to be moving, and over the PES period we will be taking forward a number of initiatives which will improve the management of the Department's operations - notably the move towards agency status in all key areas. Our management plan demonstrates that we have already begun to secure striking efficiency improvements of 4.2%, 9.4% and 11.3% over the survey period, better than the targets set last year.

In spite of these significant advances, I believe we must look again at the settlement for 1990/91 and 1991/92. I am looking at whether we can increase our staff savings still further, but if this is possible at all it may only be at a cost in the short term, which I would need to discuss with you.

Salaries The major problem is average salaries. They are increasing significantly for two main reasons: the consequences of our rapid run-down (which mean staff in the lower - and cheaper - grades have left faster than others); and the effects of pay settlements. Because of the staffing structure of this Department, we have been particularly hard-hit by the effects of the 1988/89 pay awards, notably the award for NUCPS/CPSA grades. The settlement included changes to pay policy (notably the extension of performance pay) on top of the basic increases. Of the total £98m salaries bid in the first year of the survey, the knock on effects of the 88/89 pay award account for about £38m; a more realistic pay assumption would cost another £37m; with the effects of the rapid run-down described above contributing the remaining £23m. This follows through to later years. In the third year the costs of performance pay hit us particularly hard (some £32m).

I suggest that our officials should discuss the detailed calculations which underlie the bid, which covers the 3 years from 1990-91. But I should emphasise that I consider it essential to adopt realistic assumptions about likely pay levels for future years.

Baseline non-manpower provision over the two Non-manpower remaining years of the settlement is also significantly below what is needed. The main issue here is that the assumptions do not reflect the trends in prices. I demand efficiency in all my operations: I have cut identified requirements significantly during our own internal discussions. This has been far from easy. But there are factors over which we do not have direct control. For example, a major element of our running costs provision goes to meet the costs of our arrangements with the Post Office. There is no way in which we can reduce in the short term the number of transactions. We negotiate for the best deal we can get: but realistically there are limits to what can be achieved. The same applies elsewhere - British Rail prices rising on average by 9%; water, gas and electricity charges expected to rise significantly. I appreciate the need to ensure that public services which do not operate in a true market context are subject to pressures for efficiency but we must take care that we do not simply transfer the burden from one public service to another. Paper costs, rent and rates are other areas where costs are rising well ahead of inflation, and the problem is compounded by the EC imposition of VAT on rents.

Because of all these factors I see no alternative but to base my bid on a revised price assumption.

ER.

Capital This bid covers the three Survey years: in the first year, we are looking largely for resources for our computer operations. By bringing forward some of the work on the operational strategy, we will be able to secure significant savings on capital in 1992/93.

Consequences of programme bids Some of the programme bids set out above have operational costs, which will need to be worked out in detail if the principle is agreed. Again, I am entering a 'marker' that the operational consequences of any programme bids accepted will need to be met.

Relocation of London HQ staff Work is continuing with the Department of Health on the possibility of moving a substantial area of HQ work away from London. A business case is being prepared. There could be significant advantages to such a move, but there may be transitional costs. I am simply entering a 'marker' at this stage that I may need to bid for such costs once we have the full picture.

I am copying this letter to the Prime Minister and Sir Robin Butler.

JOHN MOORE

1989 SURVEY: DEPARTMENT OF SOCIAL SECURITY: SCORECARD

			f million cash	
		1990/91	1991/92	1992/93
A. Oper	ing Position			
1. DS	S Baseline	54,935	58,103	59,556
	reed bids			
2.1	Poorer pensioners	193	200	205
2.2	Widows	5	6	6
2.3	Savings to offset costs of 2.2	-5	-6	-6
	16-17 year olds	4	4	4
	Savings to offset costs of 2.4	-4	-4	-4
	Pensioners' earnings rule	375	390	400
2.7	Total	568	590	605
3. To	otal: Opening Position	55,677	59,052	60,528
B. New	Bids			
4. Fc	recasting changes			
	Economic	196	210	238
4.2	Estimating	-252	-235	1,211
4.3		-56	-25	1,449
5. Pc	licy Bids			
5.1	Poorer families	105	109	112
5.2	Pensioner premiums	141	147	151
5.3	Disability package (net of savings) (1989/90 prices)	10	45	535
5.4	Independent Living Fund	18	29	30
5.5		-23	-17	
	Lone Parents (net of savings) Contingency bids		11 11 11 11 11 11	-19
	Minor bids	5	6	6
5.8	Total	262	325	821
3.0	Total	202	323	621
	ministration bids			-0140
6.1	Salaries	98	91	162
6.2	Non-manpower running costs	36	44	83
6.3	Capital	41	20	-60
6.4	Other costs	5	6	2
6.5	Total	181	161	186
	tal new net bids			
7.1	Benefits	206	300	2,270
7.2	Administration	181	161	186
7.3	Total	387	461	2,456

Notes 1. Table includes bids made by DSS on behalf of DoE/Welsh Office under the new financial regime.

Row 3 includes agreed adjustments of £175/358/367 million to take account of the effect of the New Planning Total on housing benefit subsidy.

TRANSPORT ONDON SWIP JEB



CONFIDENTIAL MARSHAM STREET LONDON SWIP 3EB 01 276 3000

My ref Your ref

Rt Hon John Major MP Chief Secretary to the Treasury HM Treasury Treasury Chambers

Parliament Street

LONDON SWIP 3AG

2 4 MAY 1989

NAPA of him step.

PES 1989

- 1. When I wrote to you last year with my bids for the PES round I said that the demand for the services and facilities provided by my Department had been rising and were likely to continue to rise at a rapid rate. This has not changed in the intervening twelve months. Indeed it is now abundantly clear that the growth in demand for all forms of transport is far outstripping the capacity of the supporting infrastructure and that we face major and growing problems of congestion.
- 2. The increased provision agreed last year was helpful. But it scarcely begins to make inroads into the problems. Although we expect to continue to make efficiency gains and savings they too cannot make any material impact on the gulf between my present PES baseline and what we need to spend on transport infrastructure and allied services if we are to respond to the needs of business in a growing economy and meet the legitimate expectations of the public. As a result, I must table unavoidable and substantial bids for additional provision in a number of areas. I start with the national roads programme, the largest of the bids.

National roads

- 3. I do not need to rehearse at length the very serious problems with the motorway and trunk road network. Our officials jointly undertook sometime ago now an extensive review of the position and it has been considered at length with colleagues in E(A). It has been agreed that we must substantially increase the scale of the road construction programme and quickly. The White Paper "Roads for Prosperity" issued earlier this month commits us to a greatly expanded programme. We must now translate words into deeds and to do so means substantial additions to the present PES baselines.
- 4. I have considered most carefully how we can meet the undertaking in the White Paper. The joint review concentrated

on the need to expand the total programme. But to complement this, and to be consistent with our overall aim, we must also accelerate the schemes in the programme which we set out in the White Paper two years ago. Many of these schemes will reach the construction stage in the next three years. It is essential we press on and build them. Construction of the new schemes announced in the recent White Paper "Roads for Prosperity" will not start until the end of the period. If they are to be seen as an adequate response to the problems of congestion then it cannot be at the expense of not building schemes on which an earlier start can be made. In the past slippage in starting new construction has been a worry. Whilst we can never avoid it entirely, I have set my Department challenging targets which effectively halve the time taken to get schemes to public consultation and from there to announcement of the preferred route. The results so far are encouraging.

- 5. But I cannot solve the problem that my present baseline is inadequate to begin construction of cost effective schemes which are, or soon will be, ready for construction. Nothing would be achieved by merely reallocating resources within an inadequate baseline.
- 6. The largest element of my bid for an accelerated programme is therefore concerned with schemes on which most preparatory work has already been done. The amounts required are £325m in 1990-91, £560m in 1991-92 and £665m in 1992-93. The biggest step change is in 1990-91 and is a reflection of the number of schemes which are about ready to go but which are held back for lack of provision. The bid assumes a declining rate of price increases after the recent peak.
- 7. In order to accelerate the road building programme, we need also to expand its size in line with the latest White Paper commitment. You have already agreed to release £25m from the Reserve so that we can make a start in 1989-90. To build on this, the amounts required for expansion are £100m in 1990-91, £150m in 1991-92 and £400m in 1992-93.
- 8. As we recognised last year, not only do we need to build more roads we must also maintain them adequately. It is in the end a false economy to postpone maintenance work since delay results in higher costs and poor value for money.
- 9. On road maintenance I need to bid for £50m in 1990-91, £50m in 1991-92 and £25m in 1992-93. This is to keep us on course towards our commitment to eliminate the maintenance backlog by the end of 1992-93 and to bring skidding resistance on the network up to standard.
- 10. The requirement for bridge maintenance is for an additional £40m in 1990-91, £60m in 1991-92 and £80m in 1992-93. Some work has been delayed, there is an increasing requirement for steady state maintenance, and we must begin the remedial work on

concrete bridges which the Maunsell report has identified as necessary. We cannot skimp any of this work if we are to meet the ending of the EC derogation.

- 11. Finally on current maintenance the addition required over baseline is £25m in 1990-91, £30m in 1991-92 and £35m in 1992-93. This is principally because of the reclassification of survey work in line with your officials advice. Without it the capital maintenance bid would be some £18-20m higher. There is also an extra requirement for additional inspections and routine maintenance of concrete bridges and for extra litter clearance.
- 12. Taking together the acceleration of the road building programme and maintenance requirements, the total amounts required for the road programme are £540m in 1990-91, £850m in 1991-92 and £1,205m in 1992-93.
- 13. I recognise that a bid on this scale is very substantial. In the longer term, if our expectations are realised, the private sector might be able to take up some of the burden of providing the roads which the economy needs. But it can have no significant impact in the PES period. Unless the public sector is prepared to invest now on the scale I propose we shall have no hope of keeping up with the growth of traffic on our motorway and trunk road network or enabling business to respond to the challenge of 1992. Colleagues in E(A) recognised that other spending programmes might have to make room for a greatly expanded roads programme. I fear the size of the bid I am making will not make your task any easier in that respect; but that in no way diminishes the need for the bid.

Local Transport

- 14. I am faced with two problems on local transport. First I must put right the damage done to local transport programmes by the maldistribution of spending power under the present capital control system: the three year legacy of underspend has to be made good. Second the success of the economy means growing problems of congestion across the whole of local transport. Although not as pronounced as on national roads it is nevertheless increasing significantly.
- 15. We have to consider the needs of local roads, public transport and airports separately although roads and public transport are obviously closely related. In their case the elimination of the squeeze on capital allocations means that I need to alter the balance between grants on the one hand and credit approvals derived from the Annual Capital Guidelines on the other. As a result I need your agreement to a transfer from credit approvals to TSG as well as seeking increases in the baselines.

Local Roads

- 16. Local authority roads have suffered badly under the present system of controls on local capital spending. The joint review which our officials conducted confirmed the conclusions of an earlier study that we needed to maintain the real rate of investment in local roads of more than local importance at the level achieved in 1985/86. In practice there have been increasing underspends in recent years on what we planned. Minor roads have fared even worse. We now have an opportunity under the new capital finance regime to get back on target. The public and business will expect no less at a time when we are proposing to spend substantially greater sums on national roads. Local roads are vitally important as feeders to the national network, particularly for the movement of goods. We must ensure an adequate local road network too if we are to get best value for money from spending extra money to ease congestion on inter urban routes.
- 17. I acknowledge that the new capital finance regime goes a considerable way towards eliminating the mismatch of needs and capital spending power that exists under the present system. But it still falls short of the review target and local authorities face the same prospects of higher prices as on national roads. I recognise that local authorities will not be sufficiently geared up in 1990-91 on their preparation work to do more than achieve investment equivalent to the sum of the Annual Capital Guidelines implied by the baseline credit approvals for transport and the TSG and IDA baselines. What I need to ensure, however, is that this is targeted towards important schemes on roads of more than local importance to ensure consistency with the national roads programme and to get maximum value for money. To achieve this I must seek a transfer of £51m from credit approvals to TSG for 1990-91 carried through into the later years.
- 18. In addition the baselines for credit approvals and grant are insufficient to allow for anticipated price increases and they certainly do not leave sufficient room to get investment levels up to those recommended by the joint review. Furthermore, I need an additional £15m in both 1991-92 and 1992-93 if I am to implement an efficiency review recommendation that we should accept preparatory work on major schemes for TSG support two years before construction is due to start. Even without allowing for further growth in investment to meet the joint review target, I need additions to the credit approval baseline of £21m in 1991-92 and £34m in 1992-93 plus increases in TSG of £25m in 1991-92 and £35m in 1992-93.

Local public transport

19. Public transport has an equally important role to play both in relieving road congestion in a number of urban centres and in regenerating the inner cities. I am looking to involve the private sector in this on the basis of proper risk transfer and

on the principle that users should pay through the fare box for the benefits they receive. But a public sector contribution too is unavoidable, not least because road congestion and regeneration benefits cannot be captured in fares. This means that there will normally still have to be a public sector contribution at local level, which requires credit approvals, and from my Department by way of s.56 grant.

The existing baseline for credit approvals only makes 20. limited provision for the Manchester Metrolink project and there are a number of light rapid transit schemes in preparation including a privately promoted venture in Bristol. If they all prove viable the local public transport programme would have to be more than doubled to accommodate them. I am not proposing But I do need adequate provision for the two projects which are at a sufficiently advanced stage to be reasonably sure These are the first stages of both the of their merits. Manchester Metrolink and the Sheffield Supertram scheme. accommodate both of them I need increases in the credit approvals baseline of £14m in 1990-91, £23m in 1991-92 and £11m in 1992-93 and increases for s.56 grant of £7m in 1990-91, £20m in 1991-92 and £21m in 1992-93. The bids for the second and third Survey years include a small element to begin investment in other light rapid transit schemes which are likely to come forward by then.

Local airports

21. Last year we made some provision for the Manchester second terminal, but not enough. It is vital that it opens in 1993 if there are not to be severe problems of congestion at what is now one of Europe's largest international airports. The advice I shall soon be receiving from the Civil Aviation Authority on airport capacity will underscore the need to press on with developing terminal facilities at the other major regional centres, not least at Birmingham and Luton. Traffic growth in the regions generally means that there is no scope for savings at other airports. We are already experiencing severe problems at many airports in the summer peak, and in view of the forecasts for future traffic growth, we must ensure adequate provision for further development of these regional airports. I therefore need additions to the baseline credit approvals of £24m, £54m and £36m.

Total bids for local transport

22. In total my bids for local transport are therefore:

	1990-91	£ million 1991-92	1992-93
Credit approvals TSG Section 56 grant	38 - 7	98 25 20	81 35 21
Total bid	45	143	137

In addition to which I need a transfer of £51m from credit approvals to TSG in all three years.

Ports

23. You have already agreed to accept a claim on the Reserve for extra severance pay in 1989-90 under the National Dock Labour Board scheme. We clearly need to make similarly adequate provision in the PES period for extra severances as the scheme is wound up. To cover this I need additions to the baseline of £7m in 1990-91 and £3m in 1991-92.

London Transportation Survey

24. We shall need in 1991 to undertake this decennial study. It provides the only comprehensive source of data on travel in London and we draw upon it extensively to model future trends. The new survey will be a major underpinning to our thinking in the 1990's about London's transport needs. In order to meet the costs I need additions to the baseline of flm in 1990-91 and f6m in 1991-92.

Running Costs

- 25. As you will see from the enclosed running costs management plans, I plan to make continuing efficiency gains which across the PES period will significantly exceed the minimum 1½ annual target. It is only thanks to these savings that I expect to be able to manage within the baseline carried forward from last year's settlement for pay and prices and the generality of running costs. This is on the assumption that pay and price increases are not too far adrift from the assumptions agreed in previous PES rounds for 1990-91 and 1991-92.
- 26. My Department underspent its running costs provision last year but I do not expect this state of affairs to continue. To overcome recruitment difficulties in key areas, for example with civil engineers needed for the roads programme, we have been making increasing use of the new pay flexibilities, with some success. I expect we shall continue to have to do this as the labour market tightens in the 1990s. My Department is also having to find cover out of the baseline provision for centrally negotiated awards that have been significantly higher than the assumptions we made about pay increases in recent settlements. As a result of these factors I expect the past underspend to be eaten up in the Survey years.
- 27. Indeed I have to say that if my Department's pay bill continues to increase at the rate of the last year or two then I can forsee real problems in keeping within my baseline. To take just one example, centrally negotiated and local pay awards in the last pay round have increased DTp(C)'s pay bill by nearly 10% in 1989-90. This compares with an assumed increase of only 5½% underlying the settlement for that year. If there continues to be such a wide gap between the real increase in the paybill

and the assumed pay increases underlying running cost settlements then there must come a point when I shall have to reopen a three year settlement for pay. But thanks to the savings we plan, and those we have already made in recent years, we have not quite reached that point yet.

- 28. What I am unable to do is also absorb within the baseline the demands imposed by new work, volume growth and certain specific cost pressures which were not addressed in last year's settlement. It will help to understand the position if I explain my needs in terms of Highways, the rest of the DTp(C) and DVLD.
- 29. There are two elements to my bid for extra resources in Highways. First, although I am already making progress in cutting the time it takes to get roads built, I need to accelerate further the delivery of schemes set out in the White Paper two years ago. To do so, I need more resources in the regions to handle them and for engineering and information technology support. In addition, I not only need front line resources in the regions to expand the size of the programme in line with the latest White Paper but extra staff are required to cope with the major demands it will create in other areas. These are needed to maintain the expanding network, to take forward the private finance initiative and to improve the M25.
- 30. I shall need 92 extra man-years rising to 127 by the end of the period to accelerate schemes near to the construction stage. This is a fairly modest requirement bearing in mind the volume of the extra construction and preparation activity which my programme bid will support. As a result the extra staff will generate a considerable efficiency gain.
- 31. I also need additional staff to expand the total programme itself. Most staff effort on road schemes is needed before construction begins and, because of the front end loading, I shall need 243 extra man-years rising to 373 by the end of the period to handle the expanded programme. We agreed last year that the running cost consequences of the expanded programme follow automatically from whatever expansion is decided. Our officials are currently considering what extra running costs are needed in 1989-90, within the ceiling of £2m which you have agreed, to support the £25m you have released from the Reserve to make a start on the expanded programme.
- 32. This means that in total Highways needs an extra 335 manyears in 1990-91, 443 in 1991-92 and 500 in 1992-93. To support the increase I need additions to my baseline of £10m in 1990-91, £13m in 1991-92 and £15m in 1992-93. Part of this is to carry forward into the Survey years the increase in running costs needed this year to make a start on the expanded programme.
- 33. For DTp(C) I must bid for two specific items not covered in last year's settlement. These are the VAT surcharge to be imposed by PSA on PRS rents and the potential costs of relocating

staff out of London and the South East. These bids cover Highways, whose accommodation costs are brigaded within the DTp(C) totals. I realise that, when the arrangements were announced last year for the VAT surcharge, the Treasury ruled that Departments should absorb it just like any other cost increase. Frankly, at a time when I am striving to absorb real cost increases, not least much higher pay rates than we had bargained for, I cannot accept that we should also be expected to absorb a self inflicted increase like the VAT surcharge which is after all merely an accounting change and will not affect the PSBR. The bid for relocation is provisional as plans are at an early stage. But I must make some provision in order to enable my Department to realise the potential cost savings wherever possible. I would be content for this element of the bid to be ring fenced, to be adjusted to meet actual costs as they occur.

- The management plan shows that the expected efficiency savings in DTp(C) are needed to meet cost pressures in the PES period. They are insufficient to fund the manpower I shall also need to deal with safety issues and to carry forward crucial policy work in areas like privatisation, competition and the development of new transport infrastructure. Staff are required, for example, for the newly created Aviation Security Inspectorate, in the Railways Inspectorate and for Channel Tunnel traffic enforcement. Besides safety, I need staff for the privatisation of British Rail and deregulation of London Buses and for the Channel Tunnel rail link, amongst other issues. Total staff numbers in DTp(C) should decline in the Survey period producing a net saving of 162 man years. Nevertheless, I still require additional resources to cover the costs of this new work which accounts for 133 posts, many of them requiring more highly qualified and more expensive staff than we are releasing. Taking the specific items and the staff costs together, the addition to the baseline to met the requirements in the rest of DTp(C) is £8m in 1990-91, £10m in 1991-92 and £11m in 1992-93.
- 35. The picture for DVLD is similar. DVLD is faced with the prospect of continuing substantial growth in its existing workload and also with new tasks. Workload in 1988/89 was 9.3% above the level of the previous year. This carries forward into 1989-90, when a further increase of 4.9% is forecast, to be followed by additional growth of 18.6% over the Survey period. As a result, DVLD will need an extra 197 man years in 1990-91, rising to 279 by the end of the period. This is on the assumption that DVLD will be able to offset some of the impact of workload growth through substantial further efficiency gains, amounting to 6.5%, 4.1% and 2.9% in the three Survey years. The increasing volume of activity also calls for additional provision for postage and stationery.
- 36. Extra staff are also needed to cope with new tasks. Some 157 additional man years, rising to 201 by the end of the period, are needed principally to enable DVLD to take over work currently done by the Crown Prosecution Service in order to improve the

effectiveness of VED enforcement. This will generate over £3m a year in receipts to the Exchequer. My Department has proposed to the Efficiency Unit that an Efficiency Scrutiny of the work on VED enforcement should be carried out to see what further improvement in the arrangements might be possible. I hope that the results of this will be available by the autumn. An extra 57 man years, rising to 108 by the end of the period, will be needed for the new "Sale of Marks" initiative. I indicated last year that additional resources would be needed for this and I would like to make use of the marginal receipts concession to cover staff and other running costs to be incurred in the Sale of Marks. For an outlay of some £3-4m a year in running costs, we expect eventually to generate annual receipts of some £21m. I must also bid to cover the costs of the VAT surcharge in DVLD's case and of the Post Office agency contract. The agency costs were set aside in last year's settlement and we agreed they could be bid this year without re-opening the settlement.

37. In total DVLD needs 411 extra man years in 1990-91, 426 in 1991-92 and 588 in 1992-93. As a result, and to cover the other costs which I have mentioned, the addition to baseline is £13m in 1990-91, £17m in 1991-92 and £27m in 1992-93.

38. Although I am seeking to absorb within baseline general pay and price increases in all three areas in 1990-91 and 1991-92 I must allow for realistic increases in 1992-93 particularly bearing in mind the cumulative effects of higher than budgeted pay settlements in the earlier years of the Survey. The by now traditional 2½ uprating of the running costs baseline is clearly inadequate and I must bid on the more realistic basis that pay in 1992-93 will increase by 6% and other costs by 5%. By recent standards these are modest assumptions. Allowing for the carry through into the third year of bids I have made to cover extra manpower and other costs the requirement for pay and prices in 1992-93 is £3m for Highways, £7m for the rest of DTp(C) and £3m for DVLD.

39. My total bid for running costs is therefore:

	£ million	1
1990-91	1991-92	1992-93
5	5	6
5	8	9
-	-	3
2	3	3
2	3	3
4	4	5
-	-	7
	1990-91 5 5 - 2 2 4	

DVLD			
Stationery/postage	1	2	2
VAT surcharge		1	1
PO Agency	5	8	12
Sale of marks	3	3	3
New work	2	2	2
Workload growth	2	2	3
Pay and prices	-	-	3
Total	31	40	62

- 40. I ought to say a word about accommodation costs. These are subject to great uncertainty, not least on the maintenance side, because of the changing relationship with PSA. I need not bid until July for maintenance, and my officials are in the process of assessing the forward requirements. Because of the uncertainties I have decided not to bid this year for rent and rates or for other costs arising out of the PSA changes. But I must reserve the right to bid these items next year when the extra costs are known. We shall in any case need to agree the conditions which will allow this year's settlement to be reopened.
- 41. Finally, I am not expecting major changes in manpower numbers in areas outside gross running costs. The Vehicle Inspectorate expects broadly to maintain manpower numbers across the Survey period and the Driver Testing and Training Organisation expects to reduce manpower by 85 man years by the end of the period.

Minor items

- 42. I have not dealt in this letter with a number of minor items and savings. As in past years, I shall try to meet any small additional requirements by transfers within my existing provision, subject to obtaining a satisfactory overall settlement. But there are two points I should mention.
- 43. I must enter a contingent bid for Civil Aviation Services. Eurocontrol plans to invest heavily to improve air traffic management systems in Western Europe. This would be highly desirable. The UK is pressing for Eurocontrol to finance the investment by borrowings. If it is nevertheless decided to finance it on the more traditional basis of capital payments by member states then I would need additional net provision above baseline of £2m in 1990-91, £6m in 1991-92 and £6m in 1992-93.
- 44. The other point concerns EUROPES. Formally I need to bid for the £0.2m difference between the Treasury's PES 1988 and PES 1989 calculated offsets so that the difference can be reinstated in my baseline for 1990-91 and 1991-92.

Summary

45. My total bids are therefore:

	£million 1990-91	1991-92	1992-93
National roads			
new construction-accelerated	325	560	665
programme			1000
-expanded programme	100	150	400
capital road maintenance	50	50	25
capital bridge maintenance	40	60	80
current maintenance	25	30	35
Local transport*	45	143	137
NDLB severance pay	7	3	-
London transportation survey	1	6	750
Running costs	31	40	62
Total bids	624	1,042	1,404

*plus a transfer of £51m from credit approvals to grant in all three years

Contingent liabilities

46. I have, as requested, examined all my Department's outstanding contingent liabilities and those of the bodies which I sponsor. The only new or increased liabilities since we reported the position last year are new potential liabilities of up to £50m which we might incur as a result of arbitration on the dispute with the United States government over user charges at Heathrow and of up to perhaps £250,000 in the event of an unusually large compensation payment for industrial injury suffered by a trainee on the Merchant Navy Training scheme. I should say that we are vigorously defending our position in the Heathrow user charges dispute. A liability on the scale I have suggested would arise only if the US government's claim were accepted in full by the arbitration tribunal, other countries also successfully pursued claims and the UK government, rather than BAA, had to meet them.

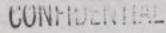
47. I am sending copies of this letter to the Prime Minister, the Lord President, the Secretaries of State for the Environment, Scotland and Wales and to Sir Robin Butler.

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PAUL CHANNON

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Econ Pol- PES Pr41.







DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SWIA 2NS Telephone 01-210 3000

From the Minister Co. Hould

From the Minister for Health

The Rt Hon John Major MP Chief Secretary to the Treasury HM Treasury Parliament Street London SW1 3AG NBAM PRICE TILS

22 May 1989

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PERSONAL SOCIAL SERVICES: SPECIFIC GRANTS: PES 1989

1. This letter constitutes my bid for specific revenue grants for local authorities personal social services. At this stage I am not putting forward any bids for specific grants in support of Community Care [but may need to do so depending on the outcome of our discussions on Sir Roy Griffith's report.] Nor am I yet able to put forward my proposals for post qualifying training in order to complete a medium to long term strategy for social services training. I hope to do that in the Autumn. But I do see the need to make a start on correcting the management deficiencies in social services departments and am therefore seeking a small addition to the training programme for this purpose.

Summary

2. I propose to continue the Support Grant for Social Services for People with AIDS and HIV Related Expenditure for a further three years at increased levels of funding to meet the additional costs associated with the greater number of people in the community living with AIDS. I also propose to extend for a further three years the two existing Training Support Grants relating to Elderly People and Child Care and to run them as one programme. I wish to extend the training grant to cover three new areas training in preparation for implementation of the Children Bill, Post Qualifying Studies and Practice Placements.

The cost of such specific grants will be as follows;

	1990/91 £m	1991/92 £m	1992/93 £m
Continuation of existing programmes	21.3	21.3	21.3
Inflation increase on existing programmes	0.6	1.3	2.0
Volume increase in AIDS	2.8	6.3	10.5
New training programmes	11.5	10.9	9.8
TOTAL	36.2	39.8	43.6

AIDS Support Grant

- 4. The specific grant to provide support for expenditure incurred by local authorities' social services departments in caring for people with AIDS and for expenditure related to HIV has been well received by the local authorities. The programme came into effect from 1 April 1989. The specific grant has enabled the department to target resources where they are most needed. Thus, out of a total of £6.5 million already allocated some £2.2 million has been divided among the five inner London authorities who carry the heaviest load. £3.4 million has been distributed between a further 22 authorities in London and the metropolitan areas where there is either a heavy concentration of cases or where there is a regional treatment centre. A further seventy seven authorities will receive a maximum of £14,000 each to fund the establishment of an AIDS coordinator in their area and to begin planning the appropriate response for that authority.
- 5. Before qualifying for a grant authorities have been required to submit detailed costed plans identifying their response in care and prevention and in developing strategic plans. The total value of approved expenditure for which bids were submitted exceeded the available grant by fl.5 million. The standard of these submissions has been generally high.
- 6. Information is not yet available on the total expenditure likely to be incurred on HIV related services in 1989/90 or 1990/91. The Cox report issued in November 1988, which has been accepted by Government as the best available basis for planning, provides estimates of the number of people alive with AIDS at the



end of each calendar year. The report suggests that the number of people living with AIDS will rise by 40% between the end of 1989 and the end of 1990. and by a further 50% by the end of 1991. The bid scales up the £7 million grant provision in 1989/90 in line with these forecasts.

7. As a result the bid in respect of the AIDS Support grant is;

1990/91 1991/92 1992/93

£9.8 million £13.3 million £17.5 million

8. The continued aim will be to concentrate resources upon those authorities with the highest incidence of cases whilst enabling other authorities to prepare for service need.

Training Support Grant

- 9. Over the last two years the department have reviewed the arrangements for training PSS staff and established a medium to long term plan for a cost effective improvements package. This has included improving the existing qualifying training and arrangements for acquiring the practical skills required by students; supporting the Government inspired National Vocational Qualification (NVQ) framework to be in place by 1991, as the best way to identify and achieve the competencies needed by the majority of social services staff who do not require professional qualifications; pursuing the grant aided programme for staff working with the elderly and with children to put right the worst deficiencies in both trained and untrained staff; and tackling the problems and deficiencies of the existing qualified workforce by encouraging post qualifying training. This composite plan may take 5 to 10 years to complete.
- 10. The strategy was announced in my speech at the Newcastle conference in September 1988 following clearence with colleagues. I am not yet able to come forward with detailed plans for post qualifying training as discussions with interested bodies are still underway. But I am including a small bid in this area for management training which I see as an urgent priority.
- 11. The TSG (Elderly People) has been a great success in its first year. All 109 PSS authorities have received grant in proportion to the number of staff they have in the relevant employment groups. All the indications are that it has provided valuable preliminary and specialist training to the staff working with the elderly and provided the stimulus for local authorities to improve the quantity and quality of training. We are undertaking a thorough review of progress in the first year of the scheme but detailed results will not become available until a few months after the year end. Monitoring the effects on service



delivery will necessarily have to take place over a longer time scale. Whilst we expect considerable improvement in the preparation of staff working with elderly people only some part of the deficit will have been tackled and reports such as Lady Wagner's on residential care show how much progress still needs to be made.

- 12. The TSG (Child Care) started operation in April 1989. This programme aims to improve the quality of social services provided for children and their families by increasing training provision for staff who work in this field. The staff in the child protection service who come under the scheme include untrained care staff as well as professionals. There is a training need across the board. It aims to cure deficits in basic childcare training and then provide training in child protection work, including sexual abuse.
- 13. Special arrangements have been made in relation to that part of the programme for training staff who come in contact with those who have been, or may have been, sexually abused. This has been firmly led from the department so that the lessons of the Butler-Sloss Report on Cleveland are followed. A specialist group has been established to develop guidance for those organising in-service training courses on child sexual abuse. This has established general criteria to be met by all courses and provided advice on suitable materials which are available. They have organised a series of workshops for local authority training officers. A condition of the award of any grant in respect of training in child sexual abuse has been that the LA representative has attended a workshop and that the locally based training courses they run will follow the guidelines set. The working party intend to identify suitable advanced training courses for key workers to attend.

Proposals

14. The two training programmes had to be run separately for 1989/90 but this is administratively inefficient both for the Department and for authorities. In future we wish to run them as one programme and to rationalise those features of both programmes which aim to strengthen the infrastructure of training and to build up the expertise of staff in management as well as targetted specialist areas . In addition:-

i) Practice Placements

Tony Newton and I have both identified the urgent need to tackle the problem of the quality and quantity of practice placements. It was a key element in our refusal to fund the extension to 3 year training for social workers that this problem should be tackled in order to maximise the



effectiveness of the existing mainly two year arrangements. This proposal would enable us, through CCETSW, to maintain existing practice placements (where there is currently a turnover of 50% in practice teachers) and to increase them over time to ensure that every social work student is provided with an acceptable level of practical experience. My intention in the first year is to target f7 million in a programme of f10.8 million provision. This takes account of the 84% increase in student numbers since a practice placement element was included in RSG in the early 1970s, and securing improvements in placement quality.

ii) Post Qualifying Studies

As mentioned earlier I will be bringing forward proposals for a coherent policy in post qualifying training once current discussions are complete. In the meantime there is an urgent need to improve the management of social services. The efficiency and effectiveness of the whole range of PSS activities is very much dependant upon the quality of its management and I am convinced that there is much scope for improvement. I therefore propose to start by targetting £2 million grant (£2.9 million provision) in 1990/91 on training for the 4200 senior and middle managers. Figures for 1991/92 onwards are markers only pending the outcome of discussions.

Implementation of the Children Bill

15. Additionally I need to bid for a one-off training grant as part of the implementation of the Children Bill. We are planning to implement it in full in. There will be a significant training task involved in preparing staff who work with children for the new legislation and for the consequent new and changed procedures. It is essential that this is completed speedily and efficiently so that the benefits of the new provisions in the Bill can be gained. The initiative would last for about twelve months spread over 1990/91 and 1991/92. I propose to top slice about £0.5 million of this grant to fund the central preparation of suitable training material and courses to be used by the local authorities.

Value of specific grants for Training Support Programme

16. It is proposed that the elderly and child care initiatives and the first two of these new programmes should be reimbursed at a rate of 70% of approved expenditure but that the Practice



Placements should qualify for 65% grant. This produces the following bid:

	1990/91 fm	1991/92 £m	1992/93 £m
Elderly People	7.6	8.0	8.3
Child Care	7.3	7.6	8.0
Children Bill	2.5	1.5	
Post Qualifying	2.0	2.1	2.2
Practice Placements	7.0	7.3	7.6
	_	_	_
Total TSG	26.4	26.5	26.1

Monitoring and Value for Money

17. We will be closely monitoring the existing specific grants during the coming year. We have asked authorities for detailed training plans in respect of the grant for elderly people and for children. These will be checked for relevance and completeness. We have asked authorities for a progress report on the first full year of the Elderly TSP and should know later in the Summer how far the targets they set have been achieved. Inevitably there have been teething problems for the local authorities with the new grants, both of which had to be established very quickly and in the uncertainty of their continuation. We hope that we can now move to a period of planning the programme with some certainty over the next three years so that proper plans can be devised and pursued and the necessary infrastructure put in place for the quantum leap in the quantity and quality of social services training which is necessary to tackle outstanding deficiencies and to prepare the service for the future. We will seek integrated training plans to take account of the development proposed here and will expect authorities to set and achieve targets for the new elements of the programme and to account for the way in which they have used the resources provided. The impact of training on service delivery will be systematically explored through research proposals now being pursued and through future inspection work by my Social Services Inspectorate.

Submission

18. I am accordingly seeking your approval and colleagues support for the extension of the existing AIDS grant; to the extension of the existing training grants for elderly people and child care;



and to the merging of these into an integrated Training Support Grant extended to cover training for the Children Bill, Post Qualifying Studies and Practice Placements. These proposals taken together would increase specific grants to £36 million in 1990/91. This is still less than 1% of the total PSS expenditure. They are closely targetted on priority areas, will be closely monitored and will provide good value for money.

Circulation

19. I am copying this letter to the Prime Minister, Members of E(LA) and to Sir Robin Butler.

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DAVID MELLOR

QUEEN ANNE'S GATE LONDON SWIH 9AT 22 May 1989 PUBLIC EXPENDITURE SURVEY 1989 This letter sets out my proposals for central government expenditure during the years covered by PES 1989. I am writing

separately about local authority expenditure.

I have reassessed the planned provision for Home Office programmes against the Government's policy objectives for the Survey period. This has been done as part of an integrated resource and policy planning process based on devolved budgets within the Department. I have identified savings and efficiency improvements. Nevertheless, I must seek the following net increases in financial provision during the Survey period, if the Department is to meet its objectives.

	Existing Provision (f millions)			Addition (f mill	nal Regu	irement
	90-91	91-92	92-93	90-91	91-92	92-93
Prisons Non-prisons Total	1291.2 556.6 1847.8	1291.7 567.2 1858.9	1324.0 581.4 1905.4	165.1 81.5 246.6	240.3 98.5 338.8	227.0 92.6 319.6

These bids are net of large offsetting reductions as follows: f millions 24.6 77.8 Total offsetting savings

Prisons savings include a large reduction in expenditure on the existing PSA building programme in the third year. also large offsetting savings for the Directorate of Telecommunications (set against the costs of restructuring proposed below) and significant savings spread around the remainder of the Department.

/The Annex to

The Rt Hon John Major, MP Chief Secretary to the Treasury The Annex to this letter explains the detailed expenditure proposals and the reasons for making them.

DIVERSION FROM CUSTODY

We must continue and strengthen our efforts to deal with prison overcrowding and to improve conditions. Recent events at One vital element Risley have highlighted the need for action. is reducing demand for prison accommodation, by decreasing the use of custodial sentences and cutting the remand population. must act now to obtain significant benefits in the future. encouraging that the sentencing statistics for 1988 show a fall in the use of immediate custodial sentences for indictable offences to 17%, as compared to 18.2% in the previous year, but we need to keep up the impetus. We agreed in PES 1988 to a diversion package for additional bail accommodation and supervision in the community. I propose an expansion of that programme. On the remand side, I propose provision for 352 hostel places. supervision, I propose the addition of twenty-five further voluntary sector projects to encourage non-custodial sentencing. My separate letter on local authority expenditure includes proposals for additional day centres, together with probation manpower to service these developments. I estimated that the diversion package agreed last year could lead to a saving of 1,000 prison places by the end of 1991-92 and this is reflected in the projections set out in the Annex to this letter. The expansion of the diversion package now proposed could save around a further 950 prison places by the end of 1992-93. I have considered this potential saving in framing the bids for prisons expenditure set out below. But given the margin of error in the projections for both the proposed savings and the prison population I have not, at this stage, thought it prudent to adjust our planning assumptions.

PRISONS

In the course of last year's PES discussions I made clear my serious concern about the existing and likely future pressure of overcrowding and poor conditions in the prisons. I was very grateful for your recognition of these difficulties and your agreement to allow us to plan for the provision of a substantial number of extra prison places in order to provide some much needed relief for the prison system in the short term, and to move some way towards our goal of eliminating overcrowding. Since then a lot of work has gone into planning for the delivery of this substantially enhanced building programme. Though, as you will know, we are encountering some difficulties - for example the proposals to use the private sector to design, develop and construct three remand centres have not gone smoothly - I am, nonetheless, generally satisfied that we are making good progress.

The Annex to this letter sets out the latest population projections and the projections for CNA which together form the backdrop for our discussions. The population projections reflect the movement of the population over the last year when, as you know, the population has been lower than expected. Nevertheless we still face a very tight position in this year and in 1990-91, though with the prospect of some relief thereafter until 1994-95 when the projected shortfall starts to rise again. This would still be the case if the diversion package I have proposed is accepted, and it produces the forecast benefits. Indeed there may well be peaks in the population which worsen the shortfall very substantially.

With the amount of building work planned it would clearly not be practicable to try to add yet more accommodation to the prison estate within the current Survey period. But once we are outside the immediate PES period we face, as I have said, a rising shortfall of accommodation. I am certain that we must maintain the momentum, so helpfully established in PES last year and in 1987, towards the elimination of overcrowding. My proposals therefore include a bid for four new prisons, to come on stream between 1994 and 1996. These prisons, each providing 600 places, should enable us to reach our goal of eliminating the shortfall by about 1996 if the trend in the prison population does not deteriorate. It is, of course, difficult to gauge these matters with precision so far in advance. Any surplus of accommodation in 1996 or thereafter, however, would of course enable us to consider rationalising the prison estate, perhaps leading to eventual disposal of one or two sites, the advantages of which we both recognise.

Important though they are, the purpose of the new prisons will be to enable us to cope and to improve our position in the medium As regards the immediate future, as I have said I do not think that there is anything which we can sensibly do by way of further place provision over and above the existing plans. We must, however, maintain our progress on delivery of planned prison places, both at new prisons or by additional places at existing establishments, and we must also ensure that the fabric of our establishments is maintained so as to avoid any reduction in capacity. The major part of my building bid is aimed at achieving these objectives. There is, in the second of the PES years, a bid of £52.5 million to help us to keep on course PSA expenditure for the existing prison building programme. is, however, offset by savings in the first and third PES years). A small bid for land purchase is also necessary partly to reflect a more accurate assessment of costs, particularly in the South East, and partly to enable sites to be purchased a little earlier so as to avoid delays to the programme caused by planning difficulties.

A considerable amount of time and effort has therefore been devoted to scrutinising and ordering the DOW programme during the last twelve months. Each project has been examined individually and about 80 have been weeded out. allowing for this pruning of the programme, however, the work which has been done reveals that DOW is substantially underfunded to carry out the work which I am satisfied is essential. includes place producing projects (e.g. houseblocks) the importance of which, particularly during the next couple of years, is self evident; integral sanitation projects; urgent security work; work involved in commissioning new prisons; work which is needed on health and safety grounds; essential maintenance; and major refurbishment and redevelopment projects, such as that at Risley, which are of crucial importance for the long term future if we are to provide acceptable conditions, both for inmates and staff, and to minimise the risk of losing places, whether as a result of riot or simply because of the deterioration in the fabric of the estate.

I have considered this element of the bid very carefully. I recognise that we are asking for a substantial increase in resources for a part of the organisation which has not, in the past, had a good record of delivery. But I am satisfied that its past record was very much a consequence of a different management approach: its very much improved performance over the last two years (expenditure of some £71 million in 1988-89 compared to some £43 million in 1987-88 and £28 million in 1986-87) certainly supports this view and I am confident that the organisational and managerial changes which have been and are being made will enable it to deliver the programme which I consider essential and which is implicit in the bid.

Turning now to prison manpower, the new prison places for which I am bidding will not have manpower consequences during the

You will notice that I am not bidding for any money to cover the costs of housing prisoners in police cells or other emergency accommodation. We have made much progress so far this year in reducing the use of police cells and a good deal of effort is being devoted at all levels of management to ensuring that this performance is maintained and improved upon. The Prisons Board has set as a key priority for the Service for 1989-90 the achievement of a rate of 98% of occupational capacity and I hope that this continued emphasis on making full use of the existing estate, coupled with progress on the building front will mean that by 1990-91 we can reduce to an absolute minimum the use of police cells, thus removing the need for any additional provision for this purpose. Risley has of course, reminded us that we may have to have recourse to them in emergencies, but I do not think we can or should plan for that in financial terms on a contingency basis.

IMMIGRATION AND NATIONALITY DEPARTMENT

The significant increases in resources for Immigration and Nationality Department which you agreed in PES 88 have contributed to real improvements in the service provided by the Department, for example through the creation of the Liverpool Nationality Office (LNO). The LNO has already cleared more than 30,000 citizenship applications and is on course for clearing all applications made before the end of 1987 by 31 March 1990. Nevertheless, further increases are necessary in 1990-91 if the level of service achieved in IND is to be at least maintained, and at best improved. We need to increase the resources available to

deal with the growing number of appeals. The bids mirror those being made by the Lord Chancellor's Department. We are looking for long term relief by procedural and other measures, but backlogs are already unacceptable, leading to considerable public criticism. The intake of cases by the appellate authorities has increased by 50% and the backlog had almost doubled to 13,000 by The number of cases awaiting the despatch of the end of 1988. statements in IND has increased to 3,500, and the production of statements in non urgent cases now takes 23 weeks against the target of 13 achieved last year. The proposals for additional manpower to manage IT developments are also very important. offering savings for Immigration and Nationality Department in the last Survey year. There are plans for increased staff in the Immigration Service, mainly to staff the new international terminals at Stansted, Birmingham, Manchester and Sheffield, which There is a smaller bid for will open during the Survey period. traffic growth at other sites. The bids have been reduced by f0.9 million to take account of efficiency savings through the streamlining of procedures. The proposed increases are lower than the forecast rate of traffic growth over the Survey as a They are necessary to give effect to our policy of maintaining effective immigration controls. Given the rising traffic forecasts, failure to make such provision would lead to intolerable delays for travellers, damage to the economy, and justifiable criticism of our forward planning. I am not bidding in this Survey for the resources necessary to staff the Channel Tunnel, planned to open in 1993, because the requirements are not I will return to this in PES 1990. sufficiently clear.

PASSPORT DEPARTMENT

I attach considerable importance to providing a decent standard of service in issuing passports. Performance has improved, but there are still many constituency complaints and the Home Affairs Committee take a considerable interest. At present (near the peak of the passport season) a straightforward postal application is taking 20 days in London and 59 days in Liverpool. Demand for passports has increased with economic prosperity, with a rise of 14% in 1988-89 and a forecast of 14% this year, and 9% Computerisation is underway, but it has not, as yet, brought the hoped for benefits in full. I am convinced that the baselines do not include adequate provision to meet the current and future levels of demand. I must seek a substantial increase The bid will allow us to cut the target processing in manpower. time for passport applications to 5 days by the end of the Survey The size of the bid has been reduced by assuming period. cumulative efficiency savings (of 5% in 1990-91 and 2% in 1991-92 I appreciate that passport fees are not counted as and 1992-93). negative public expenditure. Nevertheless, the effect of increasing the output of the Passport Department will be to boost

receipts to the Consolidated Fund, offsetting the increase in expenditure. If adequate resources are not provided delays in obtaining passports will mount out of control, and Passport Department will have to spend more and more time on complaints and urgent cases, and be unable to provide a proper service to the general public.

FORENSIC SCIENCE SERVICE

I am increasingly concerned at the deteriorating level of service which the Forensic Science Service (FSS) is able to provide to the police and fire service. Forensic science plays a vital role in police effectiveness in tackling crime, particularly serious crime. As a result of resource restrictions, the number of cases dealt with has been decreasing and delays have been In 1983, the Service dealt with 35,954 cases, with increasing. an average turnround of 24 days. In spite of a 15% efficiency improvement between 1983 and 1987, in the latter year the FSS dealt with only 27,797 cases, with a 30 day turnround. Together with the new management team we have established a strategy for the FSS, and set a standard for the level of service needed to support the police and fire service. The target is to increase the total number of cases dealt with, both in absolute terms, and in relation to the number of serious crimes committed. The manpower bid represents the additional resources required to provide this service, taking account of significant efficiency savings.

DIRECTORATE OF TELECOMMUNICATIONS

Effective communications are vital to the operational efficiency of the Police and Fire Services in England and Wales. The future of the Directorate of Telecommunications was discussed in the course of PES 1988. From 1 April this year the Directorate has been charging police and fire authorities for the installation and maintenance of telecommunication equipment. Authorities are free to go to the private sector for these The settlement reached in PES 1988 services if they wish. assumed that the Directorate as a whole would produce a large cash surplus in each year in public expenditure terms, and that the trading account for the field services operation would show a balance between charges and costs. As a result of the introduction of direct charging and competition from the private sector, significant overcapacity within the Directorate has been identified by management, and it is clear that charges set at a level to recover costs would make the Directorate uncompetitive. We have a radical plan to reduce costs. But the scale of overcapacity is such that the restructuring necessary to achieve a competitive cost basis would, if imposed on too short a timescale, I cannot risk the threaten the viability of the organisation.

The Directorate has a detailed strategy to reach competitive cost levels by April 1992. It has already announced a cut in its complement of 247 by 1 April 1990. The strategy will involve significant redundancy and reorganisation costs. Taking account of these extraordinary costs, the Directorate as a whole will produce a reduced cash surplus in public expenditure terms during restructuring, and this gives rise to PES bids. If the extraordinary costs are excluded the trading account will show a deficit in the first two years, but break even in the third year. My officials have already begun to discuss these issues with yours.

CRIMINAL INJURIES COMPENSATION

I will be writing to you soon to report the outcome of the reconsideration of the scheme I agreed to in the course of last I have reviewed the current year's bilateral discussions. performance of the Board, and the realistic targets for output during the Survey period. I am prepared to plan on the basis that the Board will not make compensation awards in excess of the provision already available in the baseline for 1990-91. has greatly reduced the size of the total non-prisons bids for the As your officials know, we are pursuing various Home Office. efficiency initiatives with the Chairman of the Board, which should have the effect of improving the Board's output in later This adds a further uncertainty to the forecasting process for 1991-92 and 1992-93, and I propose that we should not change the baselines for these years in this Survey. then return in PES 1990 to the level of expenditure in 1991-92 onwards.

PUBLICITY

Crime prevention publicity and encouraging community involvement in support of the police are vital to our strategy to tackle crime. This has led me to propose two significant initiatives for publicity campaigns in this Survey period. Our current crime prevention campaign focuses on property crime and aims to influence opinion formers and potential activists. The change in attitudes built and sustained by our campaign has contributed to improved home security and the growth in Neighbourhood Watch. This trend is consistent with the recent reverse in the long term increase in property crime. Continued effort will be needed if the trend is to be maintained. At the

same time the strong public and media concern over the continuing rise in violent crime is deepening, and it is crucial that we develop our prevention campaign to embrace the main focus of If we are to have an impact on violent crime, public attention. and continue to maintain the momentum on property crime, we must address the campaign to individual members of the public as well as opinion formers, and this will require wider media exposure and higher expenditure. Secondly, I see a need to harness in a positive way the enthusiasm of the public to assist the police in tackling crime. The best approach is to strengthen the Special Constabulary. I am proposing a national publicity campaign to increase public awareness of the value of the Special Constabulary, and to encourage recruitment. This would be additional to, and not a replacement for, local recruitment campaigns. The target would be to increase the numbers of specials to 25,000 (20% of the regular force), as compared to 15,800 (or 13%) at the end of 1988.

MANPOWER

I have already mentioned the main components of the manpower charges I am proposing in this Survey. The complete picture is set out in the Annex to this letter. In PES 88 we reached a three year running cost agreement underpinned by a management plan for efficiency savings, and I know that you, in general, do not expect Departments to reopen such settlements. Nevertheless, I am convinced that the nature of the developments and new demands to be placed on the Home Office during the Survey period are such that they cannot be met from within the provision agreed in PES There are large offsetting savings in manpower for the Directorate of Telecommunications, and other savings elsewhere. I have also looked at the full cost to the Home Office of the pay awards agreed by the Treasury for Civil Service grades as compared to the provision for pay increases included in the three year running cost settlement. The settlement provided for a 7% increase in 1989-90 followed by increases of 6.5% and 6%. full year cost of the recent pay awards for non-prison manpower in the Home Office will be 12.1%. In 1989-90 I will have to constrain expenditure, if at all possible, within provision set It is already clear that this is out in Budget Estimates. putting a great strain on the Department, even though the full year cost of the awards will not have to be found in 1989-90. But I must bid for additional provision in the Survey years to reflect the additional 5.1% increase in salary costs over and above that provided for in the baselines. For prisons manpower bids are needed for the same reasons, though there are two complications. For non-industrial staff in regional offices and prisons the cost of the pay award varies according to location, and for prison service grades the pay award was different. total shortfall between provision and the actual costs of the pay

awards for all Home Office manpower in a full year is over £14 million. Failure to secure this sum would involve significant cuts in Home Office programmes. I have also bid for a 6% increase in pay costs in 1992-93 (3.5% above the general uprating) (with some differences for prison manpower) and to bring the increase for prison service grades into line with those for civil service grades.

RUNNING COSTS AND MANAGEMENT PLAN

My officials will be providing yours with details of the running cost implications of my bid together with the updated version of the Home Office Management Plan. The Management Plan will be the subject of discussions between our officials. This year I would hope to see the Management Plan extended to cover more of the non-prisons programmes within the Department.

OTHER MATTERS

There may be a need for me to make further bids later in the Survey, for example to adjust the planned expenditure on the Fire Service College to take account of detailed work on our decision to transfer the costs to local authorities. I have bid for a small sum for the establishment of the Independent Television Commission on a shadow basis after the Second Reading of the Broadcasting Bill, probably early in 1990. I see considerable difficulty with the proposal from your officials that the ITC should be classified as a central government non-trading body. Will write to you on this. If the ITC were so treated there would be a need for large bids.

PRIORITIES

I have considered whether it would be possible to set my proposals in any order of priority. Those relating to crime and criminal justice are part of the overall strategy to which I attach the highest priority, but in the other non crime areas I have also been careful to put forward only those bids which I consider to be of high priority.

I am sending a copy of this letter to the Prime Minister, the Lord Chancellor and the Attorney General.

7. -, 2.,

SUMMARY OF PES PROPOSAL

(All expenditure figures are in f million and columns relate to the three years of the Survey period).

1. PRISONS

1.1 Expenditure proposals for the Prison Service are based on the following projections of population and certified normal accommodation (CNA):

	89-90	90-91	91-92	92-93	93-94	94-95	95-96
Average CNA	46,030	47,900	51,530	55,540	57,880	59,575	60,915
Popula- tion	51,140	54,200	56,100	58,100	60,000	61,800	63,800
Shortfall	5,110	6,300	4,570	2,560	2,120	2,225	2,885

1.2 Building

The following are the components of the bid for prisons construction, refurbishment, maintenance and repair:

Total		159.3	210.6	142.6
(e)	Four new prisons for 1994-96	19.6	51.6	106.9
(d)	Land purchase	7.8	-1.0	-1.0
(c)	Major building and repair	3,1	6.6	9.0
(b)	To maintain the existing PSA building programme	-6.2	52.5	-61.5
(a)	DOW programme consolidation	135.0	100.9	89.2

1.3 Manpower

The following are the bids for manpower:

1.5	10.8	69.4
-3.9	3.8	62.6
0.5	0.5	0.7
4.9	6.5	6.1
	0.5	0.5 0.5

These bids include provision to make up the shortfall on the 1989-90 pay award amounting to:

Bid 6.4 7.1 7.7

(The full year cost of the pay settlement for 1989-90 exceeds by 5.1% the provision for headquarters staff, by 3% the provision

for non-industrial staff in regions and establishments, and by 1.5% that for prison service grades (0.75% for prison service grades subject to the Framework Agreement)).

Also included is the prison service bid for pay increases in the last Survey year (f13.9 million, based on a 6% pay assumption for all staff except those subject to the Framework Agreement, for who the assumption is 3%).

The total manpower bids also include a revised pay assumption, for prison service grades, an increase of 1% (0.5% for Framework Agreement staff) in the first two years of the Survey, to be consistent with the projected increases being applied to other staff.

1.4 Other Prisons expenditure

The bids total 4.3, 18.9, 15.0. They are composed as follows:

(a) Prison Service Industries and Farms. 0.5 0.6 0.7

The bids are consistent with the PSIF Annual Planning Document and include provision to replace obsolete and unsatisfactory weaving machinery.

(b) Supply and Transport Branch. 1.7 1.5 1.1

The bids are to make up for shortfall in PSIF production of inmate supplies and to meet extra demand

resulting from the planned increase in establishments partly offset by savings on store operating costs.

(c) Seconded probation officers. 0.1 0.1 0.8

The main element of the bid is to cover the cost of providing a probation presence in the new prisons due to come into service and additional staff where existing establishments have been expanded.

(d) Information technology. 2.2 2.6 0.8

Principal elements are capital expenditure on delayed switchboard and computer equipment purchases and bids for the additional use being made of computer consultancy services, for example to maintain equipment and upgrade software.

(e) Other Headquarters expenditure. 7.1 15.6 10.1

This covers a large number of varied expenditure items some of which are to meet extra demand resulting from the projected increase in prison places and staff numbers.

(f) Regions (Other). -7.3 -1.5 1.5

Savings in the first two Survey years resulting from the lower than expected projections of the prison population are offset in particular by increased accommodation coming into use, increase in staff and increased prices.

2. POLICE

2.1 Forensic Science Service

Manpower bid Non-manpower bid	0.7	1.7	3.0
NON-Manpower Did			
Total bid	2.7	4.4	5.0

The manpower bid would allow the FSS to provide a target level of service based on the projected increase in the level of serious crime; trends in the rate of referral of such crimes; and changes in turnround time. The target is consistent with the level of service provided in 1983, taking into account developments such as DNA testing. The bid would allow the recruitment of an additional +17, +57 and +68 scientific staff during the Survey period. There is also a bid for +15, +30 and +30 non-scientific staff to improve administrative support and civilianise existing police liaison officer posts (with offsetting savings on seconded salaries). Provision for local pay additions is also included. There has been a 15% efficiency improvement in terms of exhibits examined between 1983 and 1987. The bid assumes a further improvement of 2% in 1991-92 and 2% in 1992-93. The non-manpower bid includes additional staff

overheads and accommodation costs associated with the increased manpower, and the cost of relocating the Central Research and Support Establishment.

2.2 Police National Computer Organisation

Bid 0.1 4.9 -0.9

This bid represents provision for consultancy services to support PNC 2 and other developments; estimates of telecom service requirements; a replacement for the Metropolitan Police's Videofile system for storing fingerprint records, which is coming to the end of its useful life; and early studies on a number of other new systems. There are large offsetting savings for vehicle, plant and machinery and through increased receipts.

2.3 Directorate of Telecommunications

Manpower bid	-1.9	-3.4	-4.3
Non-manpower bids (changes in expenditure, other than manpower, and in receipts)	4.6	5.0	7.0
Extraordinary costs of redundancy and restructuring costs outside the D/Tels budget	5.0	-1.7	0.9
Total PES bid for restructuring proposals	7.7	-0.1	3.6

The negative manpower bid for D/Tels is based on forecast reductions of 177, 276 and 310 staff as compared to the staff numbers implied by the PES 88 settlement. This is part of a

general restructuring of the Directorate. D/Tels is moving out of the rental market for police and fire service radio equipment and concentrating on the installation and maintenance business, in competition with the private sector. The PES 88 settlement assumed that the Directorate as a whole would produce a large cash surplus in public expenditure terms, and that the trading account for the field services operation would break even, with charges covering costs (including return on capital and superannuation). The settlement also assumed a 100% market share for D/Tels in order to ensure that adequate resources were available, given the uncertainties of the impact of charging. Since the settlement the Directorate has lost 9% of its business, and we are assuming a further loss of 10% in 1990-91. It is also clear that to continue to set charges at a level to cover current costs would result in a major loss of business. overcome this, costs must be reduced by removing over capacity and improving efficiency. But the scale of the reductions needed is huge and would threaten the viability of the organisation if they were achieved in a single year. We have therefore produced a strategy for D/Tels to reach competitive cost levels by 1992-93. There are large extraordinary costs for redundancy and restructuring, with offsetting income from Outside the current PES period there will extraordinary sales. be further redundancy costs of around f12.2 million. During the Survey period the Directorate will produce a smaller cash surplus in public expenditure terms. This gives rise to PES bids. The trading account for the field service operation would, if the extraordinary costs and receipts are excluded, show a deficit of £4.4 million in 1990-91 and £1.4 million in 1991-92, but break

even in 1992-93. The strategy makes no assumptions about new business which, if achieved, would yield a significant contribution.

2.4 Police Training

Bid 5.3 5.3 2.6

This includes a bid for the Police Staff College to improve the condition of the building and student accommodation, and Police Training Centre bids for replacement accommodation and the refurbishment of existing accommodation. It also includes provision for the relocation of the Crime Prevention Centre.

2.5 Central Units

Bid 0.7 0.8 0.8

This bid is mainly for the creation of a National Football Intelligence Unit and an Animal Rights National Index.

2.6 Explosives and Counter Terrorism

Bid 4.5 1.8 0.7

The bids are for helicopter support, a specialised response force and a counter-terrorist liaison officer. There are offsetting savings in the final year on explosives expenditure.

2.7 Other Police non-manpower

Bid 5.5 4.4 2.7

The bid includes a collection of important items. The largest is for revised estimates of building costs for new buildings for the Scientific Research and Development Branch. Others include Safer Cities and the Police Complaints Authority.

3. CRIME

3.1 Criminal Injuries Compensation

Bid - 0.3 0.6

There is no bid for additional compensation payments in 1990-91. This is based on a forecast of 43,000 resolutions in that year, with a 9% increase in the level of award between 1988-89 and 1989-90, and the same rate of increase between 1989-90 and 1990-91. The level of provision in 1991-92 and 1992-93 will need to be considered in PES 1990. The above bid relates to administrative expenditure. We are not bidding for additional staff for the Board, but there is a bid for extra provision to cover increased costs, such as pay awards, not fully reflected in earlier PES rounds. There are offsetting savings in the earlier years as a result of the relocation of some staff to Glasgow, but accommodation costs are forecast to increase in the final year.

3.2 Diversion from Custody

Alternatives to remand bid	5.7	8.4	9.6
Supervision bid	1.0	2.3	2.6
		PATRICE SE	
Total bid	6.7	10.7	12.2

The objective is to expand significantly the diversion package agreed in PES 88 in order to reduce the pressure on prison places by providing alternatives to remanding defendants in custody, and by encouraging non-custodial sentences. The bid combines two sets of proposals:

- (a) A remand package: this will provide 186 new bail hostel places over the PES years, plus the replacement of 44 existing probation hostel places, 22 new probation hostel places for an intensive probation scheme and the refurbishment of current and planned new stock.
- (b) A supervision package: a central government supervision package would provide twenty-five new voluntary sector projects (and the extension of two existing projects for a further twelve months), and cash bids.

There are also local authority bids covered in the separate

letter. The complete expansion of the diversion package (including the local authority elements) could save around 950 further prison places by 1992-93.

3.3 Victim Support

Bid 1.3 1.7 2.2

The bid is to allow the creation of an additional 150 new Home Office funded posts (including county coordinators), in victim support organisations by the end of the PES period, together with a court demonstration project and additional headquarters work in administering local grants. The object is to provide additional paid coordinators to secure the creation of schemes in areas not currently served, and to improve the quality of schemes so that they are able to secure and deal with referrals for serious crime.

3.4 Drugs

Bid 1.0 1.0 1.0

The bid is intended to improve the effectiveness of efforts to cut the illicit drug supplies entering the UK by increased international assistance.

3.5 Other Crime

Bid 3.6 3.4 3.7

This bid covers a number of smaller elements including magistrates' courts and probation training, electronic monitoring, increased aftercare grants, increased grants to RELATE for marriage guidance work and research.

4. NON-CRIME

4.1 Immigration and Nationality Department

Manpower bid	1.3	3.9	6.5
Non-manpower bid	2.8	16.7	12.0
Total	4.1	20.6	18.5

The manpower bid includes changes in staff for B Divisions of +38.5, -6.5 and -6.5. The main bids in the first year are for appeals, IT and recruitment. There are Immigration Service bids for an additional +47, +135 and +247 staff, most of which are to man new terminals at Stansted, Birmingham, Manchester and Sheffield (+21.5, +83.5 and +152.5) with a bid for traffic growth elsewhere of +20.5, +46.5 and +89.5. Over the Survey period as a whole the proposed increases in Immigration Service manpower are lower than the projected rate of increase in traffic. The largest element in the non-manpower bid relates to detention facilities, for the higher than expected cost of the new detention facility at Hayes, and additional interim detention accommodation pending the completion of Hayes. PSA estimates of

the cost of the Hayes facility have recently risen from flo million to £20 million. Although the costs are high, failure to provide adequate detention facilities leads to higher costs in the form of prison or police cells, costing £34 per night and £200 per night respectively. There are also bids for increases in personnel overheads to reflect the large manpower bids, and for IT. The larger elements in the IT bids are for the computerisation of the Suspects Index and a file tracking system both of which will lead to improvements in efficiency.

4.2 Passport Department

Total	7.8	7.9	8.0
Non-manpower bid	3.2	3.3	3.3
Manpower bid	4.6	4.6	4.7

There are bids for significant increases for provision for Passport Department manpower. The provision in intended to pay for a mix of additional permanent staff, overtime and casuals. The permanent staff equivalent is +450, +422 and +395, but less than half of this increase in manpower is planned to be in the form of additional permanent staff. The bid is to allow the Passport Department to cope with increasing demand for passports. It assumes a need to increase output by 14% in 1989-90 and a further 9% in 1990-91 to meet increased demands, and takes into account improvements in staffing efficiency (5% in 1990-91 and 2% in the second and third Survey years). The target is to reduce

the average time for processing straightforward passport applications to five days by 1992-93.

The two principal elements in the non-manpower bid are increased provision for stationery to reflect higher demand for passports and the introduction of computerisation, and a bid for the abolition of re-entry visas. Re-entry visas are available to most people subject to a visa requirement who have already entered the country but who wish to leave temporarily and intend Their issue is automatic to those who meet the to return. criteria and it is virtually impossible to refuse readmission to someone who has one. If they were abolished, the Immigration Rules would be amended so that absence of a fresh visa would not be an impediment to re-entry in certain circumstances but immigration officers would determine at the ports in each case whether the passenger was to be readmitted. Although unlikely, the refusal of a returning passenger would become easier. effectiveness of the immigration control would thereby be increased, and the work entailed in issuing re-entry visas dispensed with. However, abolition has a net cost because receipts from re-entry visas exceed the costs of issuing them so that the savings in costs from abolition will not cover the loss of receipts. Nonetheless, abolition will reduce gross running costs and the continuation of re-entry visas has no justification in value for money terms.

4.3 Commission for Racial Equality and Equal Opportunities Commission

CRE bid	3.0	3.0	3.2
EOC bid	0.6	0.8	1.1
Total	3.6	3.8	4.3

There are two elements to these bids. First, resources available to the CRE and EOC have been squeezed in real terms over recent years by the gap between pay and price factors applied to the grant and actual increases (which in the case of pay follows civil Service rates). The gap for the CRE is £0.8 million and for the EOC £0.4 million. A bid is therefore necessary to restore the level of resources available to allow the Commissions to perform their current functions. Secondly the remainder of the bids relate to new strategies put forward by the Commission. The strategies represent valuable attempts to prioritise and plan the use of resources, and include detailed costings. The bids represent reductions on the amounts sought by the Commissions (£4.2 million for the CRE and £1 million for the EOC).

4.4 Publicity

Bid 6.0 6.1 6.3

There are four elements to the publicity bid.

- (a) A crime prevention initiative. A bid for £3.1, £3.2 and £3.4 million per year to develop the existing crime prevention campaign to include violent crime and to influence a wider audience.
- (b) Police special constabulary recruitment. f1.5 million per year. The aim of the campaign would be to promote the image and value of the special constabulary as a means of increasing recruitment. The target would be to raise the number of specials to 25,000, 20% of the regular force (as compared to 15,788, or 13% of the regular force at the end of 1988).
- (c) Other publicity. f0.7 million each year. The largest element is a bid for publicity for overseas voting rights.
- (d) <u>Cash bid</u>. f0.7 million each year to reflect inflation of 10% in advertising costs as opposed to the 2.5% allowed in PES 88.

4.5 Domestic Budget

Bid 2.8 4.6 4.6

The two main areas of the bid are for information technology and other support services. The IT bids for 1990-91 and 1991-92 in PES 88 were limited to the mainframe computer at Bootle and the

computerisation of passport issue. The current bid includes a number of identified systems (such as changes to the CICB and magistrates' courts computerisation plans) together with a rising profile of expenditure on small systems. Expenditure on maintenance is forecast to continue to grow as the amount of IT in the Department rises. The other main element in the bid is for staff relocations and higher telephone charges.

4.6 Civil Defence and Fire

Bid 3.8 4.9 3.3

These bids relate primarily to civil defence, and the largest element in the civil defence bid is for capital expenditure on the replacement of two zone HQs in Scotland.

4.7 Equal Opportunities, Broadcasting and Other Work

Bid 3.2 1.8 -3.7

These bids (which exclude the CRE and EOC bids referred to above) relate to grants for the reduction of racial disadvantage, refugee grants, the Gaming Board, payments to the FCO for their work on our behalf on overseas voting and the creation of the Independent Television Commission, on a shadow basis, following Second Reading of the Broadcasting Bill. There are significant savings in the final year as a result of a projected increase in receipts for the Data Protection Registrar.

Bid 3.0 1.8 2.3

The manpower bids for the Forensic Science Service, the Directorate of Telecommunications, the Immigration and Nationality Department and the Passport Department have been dealt with above because of their size and significance. The residual manpower bid above represents bids for 162.6, 98.8 and 116.8 staff in the remaining parts of the Office.

In relation to crime, these proposals include additional staff for increased international work; the diversion of mentally disordered offenders from the criminal justice system; improved evaluation of the effectiveness of police manpower; and improved management information systems. On the police side there are bids for additional staff to undertake increasing work in relation to international issues, the Metropolitan Police, the new local authority capital controls and the security services. There are also bids for improved administrative support for H.M. Inspectorate of Constabulary. There are increases for Police Training Centres to reflect developments in training, and for the Police Staff College to take account of the increasing number of courses.

There are bids for the Fire Service College to deal with the backlog in training demand, and for the transfer of maintenance staff from PSA to the Home Office. There is also a bid for additional staff to administer grants under section 11 of the

Local Government Act 1966, and for the Voluntary Services Unit.

6. PAY

A detailed survey of the increased salary costs in each part of the Home Office arising from the recent Civil Service pay awards has shown that total increase in the full year for non-prison staff amounts to 12.1%, 5.1% above the 7% factor provided in 1989-90. The bid for non-prisons manpower, to avoid what would otherwise be a volume cut in programmes is:

Bid 8.1 8.4 8.9

In addition there is a bid of £5.9 million in the last Survey year to bring the provision for pay increases to 6%, as compared to the general uprating of 2.5%. Prison service manpower pay is dealt with in section 1.3 above.

OFFSETTING SAVINGS

The total offsetting savings referred to in the covering letter have been made within the following programmes:

Prisons	18.4	12.0	58.5
IND	0.5		-
CICB	0.1	-	-
Crime	0.1	-	-
Police	2.4	1.3	2.2
D/Tels	8.9	8.6	9.4

	32.0	24.6	77.8
Domestic Budget	0.5	0.6	0.6
Broadcasting, etc	0.1	0.8	5.9
Fire and emergency planning	1.0	1.3	1.2

QUEEN ANNE'S GATE LONDON SWIH 9AT 22 May 1989 Man price PES 1989: BIDS FOR LOCAL AUTHORITY SERVICES In accordance with the requirements of the new system for dealing with local authority expenditure I am writing to give you my provisional bids for specific grant and credit approvals for the local authority services for which I have responsibility and to let you know the estimated 'need to spend' (and credit approval requirements) for the fire service and minor services which are not supported by specific grant. Firmer figures will be available early in June once I have had the opportunity to see what local authorities have said about their estimate of likely needs. In seeking increases across the board in respect of each of my local authority services, I must underline that the size of the specific and capital grant bids is artifically heightened by the way in which the baselines have been calculated. This has had the effect of artificially depressing even the focus year baselines. In contrast to the position in central PES the existing baselines certainly cannot be said to represent a realistic or previously agreed estimate of what we are likely to spend, even without in-year pay and price increases. It is essential to bear this in mind when considering our bids. I have of course sought wherever possible to identify savings and improved efficiency from all my services particularly the major ones. The Department is doing a good deal to promote the development of output and performance measures and the need for value for money in all the services, but this inevitably takes time and you will be well aware of the limitations of our controls over the spending authorities. We must also face the fact that, particularly in services such as the police and probation, government policy continues to generate pressure for growth because of the drive against crime and the need to reduce the number of people given custodial sentences. /The table The Rt Hon John Major, MP Chief Secretary to the Treasury

current financial year. This can only lead to greater expenditure later. In respect of VPM I need to ensure that I have adequate provision at the outset to meet projected demands now that this expenditure will be cash limited.

MAGISTRATES COURTS' SERVICE

You are well aware of the problems facing me over the recruitment and retention of magistrates' courts clerks where vacancies are now running at 23%. This is having an adverse effect on the throughput and overall efficiency of the courts, as sittings are cancelled for lack of staff. It is essential to ensure competitive salaries in the service in order to attract good quality staff prepared to make a career in the service. My bid for extra current grant reflects the corresponding need to provide for realistic pay settlements in the PES round as well as to take account of the effects of the delayed 1988 pay agreement

My bids this year for current grant reflect the need to make provision for continuing growth in manpower (which I have no power to control) of 1.4% per year to match increases in projected caseloads under existing policies, as well as further growth to meet the demands of our new initiatives on diversion and supervision in the community. I am not making bids at this stage for provision to implement Part III of the Green Paper on Punishment, Custody and the Community or any proposal that may arise as a result of our consideration of the Carlisle Report on

Parole.

The capital bids include a cash bid to take account of the rise in the cost of purchasing properties (which is the principal source of expenditure on buildings). They also include volume bids to fund two new day centres in 1991/92 and three in 1992/93. These day centres form part of the programme for diversion of young offenders from custody which we are pursuing under Part II of the Green Paper "Punishment, Custody and the Community". They will be mainly for Inner London, where provision is poor compared with other urban areas and where the numbers of young offenders committed to custody are high.

CIVIL DEFENCE

The main feature of my bids for civil defence is the size of the increase in provision for capital expenditure. This has two causes: a large percentage increase in building costs and a bid of £1 million for volume growth in 1990/91 (carried through to subsequent years) to allow an increased rate of growth in the construction equipping and maintenance of local wartime emergency centres. This is in line with my wish to encourage an improvement in the slow rate of progress to date on that front.

COMMONWEALTH IMMIGRANTS (SECTION 11) GRANT

This is the first year in which expenditure on section 11 grant has appeared above the line in the PES process. There is still outstanding action to implement the efficiency scrutiny which was completed last December, including the possibility that we may decide to transfer to DES responsibility for the education component of section 11. At this stage it therefore seems sensible for me to submit bids, which are necessarily provisional, in respect of the entire programme. The bids assume the same level of growth as in recent years in the number of section 11 posts that will come on stream in 1990/91 (300 additional posts). The provisional bids for years 2 and 3 therefore cover only salary inflation. We shall have to consider in future PES years as new arrangements are implemented whether bids for real growth will be needed.

OTHER SERVICES

The rest of my letter outlines my estimates of the need to spend on the non-specific grant services. Except in respect of capital expenditure for the fire service, no estimates have been made for years 2 and 3 of the survey. As I understand it, these are not required at this stage.

FIRE SERVICE

I estimate a "need to spend" on the fire service for England and Wales for 1990/91 of £983 million. Our starting point in arriving at this figure is the preliminary information that we are now receiving about local authorities' budgets for the current year. The estimate assumes a 9% pay factor for firefighters this year, a manpower standstill and some savings on staff costs through changed working practices. It also includes provision of £5.5M to take account of the part-year effect of the proposed switch of the Fire Service College from central to local authority funding (as we agreed in last year's PES round).

The bid for credit approvals reflects the results of a detailed assessment of fire and civil defence authority capital needs over the survey period as well as a fire inspectorate survey of the requirements in the shires. This brings the expenditure plans more in line with expected actual capital spending, which in previous years has exceeded provision.

MINOR SERVICES

The assessment for the minor services for which I am responsible takes account of pay and price inflation.

My officials will be writing shortly with a more detailed analysis of my bids for individual specific grant services and supporting output measures and performance indicators.

I am copying this letter to the Prime Minister, Nicholas Ridley and Peter Walker.

CIMMARY O	F PES RIDS FO	R LOCAL AUTHORITY	SERVICES
£M	1990/91	1991/92	1992/93
POLICE			
Current grant Baseline	2000.10	2050.10	2101.35
Bid	[+213.76]	[+311.31]	[414.93]
Capital grant Baseline	80.93	82.95	85.03
Bid	+19.96	+26.99	+31.87
Capital Credit approvals			
Baseline	27.59	28.28	28.99
Bid	+19.05	+25.75	+30.42
Special grants (token bid)	0.1	0.103	0.106
MAGISTRATES COURTS SERVICE	3		
Current grant Baseline	168.37	172.59	176.90
Bid	+17.20	+28.58	+36.71
Capital grant Baseline	34.60	35.47	36.35
Bid	+14.38	+17.99	+21.27
Capital			
Credit approvals Baseline	7.90	8.10	8.30

+3.54

Bid

+4.45

+5.26

PROBATION SERVICE	1990/91	1991/92	1992/93
Current grant Baseline	186.52	188.92	193.64
Bid	15.20	+30.82	+42.14
Capital grant Baseline	7.31	7.49	7.68
Bid	+1.51	+1.16	+1.46
Capital			
Credit approvals Baseline	1.50	1.54	1.58
Bid	+0.41	+0.32	+0.39
CIVIL DEFENCE			
Current grant Baseline	19.33	19.81	20.30
Bid	+0.63	+0.55	+1.03
Capital grant Baseline	2.57	2.63	2.70
Bid	+1.27	+1.59	+1.94
Capital Credit approvals			
Baseline	0.80	0.82	0.84
Bid	+0.48	+0.59	0.71
COMMONWEALTH IMMIGRANTS (SECTION 11)			
Current grant	118.01	120.96	123.98
Bid	+2.48	+6.29	+10.17

Current expenditure	983.0	N/A	N/A
(£M)			
Capital Credit approvals Baseline	36.1	37.0	38.0
Bid	+12.5	+11.7	+15.5
MINOR SERVICES (Current)	1990/91	1991/92	1992/93
School Crossing patrols	28.8	N/A	N/A
Registration of electors	34.9	N/A	N/A
Other Courts	24.6	N/A	N/A

The bids for specific grant and credit approvals for specific grant aided services are being made against estimated levels of total expenditure on the services as follows:

£M	1990/91	1991/92	1992/93
POLICE	4567.97	4868.53	5183.40
MAGISTRATES COURTS	295.61	320.24	340.48
PROBATION SERVICE	271.92	292.93	313.52
CIVIL DEFENCE	24.76	26.23	27.77
COMMONWEALTH IMMIGRANTS (SECTION 11)	161.78	170,55	179.79

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10 DOWNING STREET LONDON SWIA ZAA

From the Private Secretary

19 May 1989

Oce Coms

PUBLIC EXPENDITURE

It has been pointed out to me that my letter to you dated 17 May contained a nonsensical sentence. The fifth line of the third paragraph should have read:
"General Government spending excluding privatisation proceeds had risen by..."
I should be grateful if you and copy recipients could amend your copies of my original letter accordingly.

I am copying this letter to Duncan Sparkes (HM Treasury), Trevor Woolley and Richard Wilson (Cabinet Office).

(PAUL GRAY)

Miss Carys Evans, Chief Secretary's Office. CONFIDENTIAL SECRET AND PERSONAL



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10 DOWNING STREET

LONDON SWIA 2AA

From the Private Secretary

17 May 1989

De Con

PUBLIC EXPENDITURE

The Prime Minister had a discussion this afternoon with the Chancellor and the Chief Secretary about the prospects for the 1989 Public Expenditure Survey. Sir Robin Butler and Richard Wilson (Cabinet Office) were also present.

I should be grateful if you and copy recipients would ensure that no further copies of this letter are taken.

The Chancellor said that the public expenditure negotiations this year were likely to be more difficult than ever. To some extent the Treasury would be the victim of the success in controlling public spending in the recent past; general government spending excluding expenditure had risen by only 1 per cent in real terms in total over the last five years.

The Chief Secretary agreed with this assessment. thought that there would be a number of difficulties this year that had not been experienced, at any rate not to the same extent, in the past. First, after ten years of the present government, politically feasibile policy savings were very hard to find. The main possibilities he had identified were employment measures, additional land sales and a continuing freeze on child benefit; but these would not yield major savings. Second, the estimating savings that had materialised in 1988, for example on unemployment benefit, would not recur this year; neither would increased estimates of housing receipts. Third, there were already substantial unavoidable commitments to additional expenditure before the Survey had begun. Absolutely firm commitments were Elb., and there were further unavoidable measures of £21b. Taken together this meant that the funds traditionally available for relocation from the Reserve of some £31b. were already spoken for; this was before any consideration was given to the strong pressures for extra spending that would arise in other programmes, notably health.

Continuing, the Chief Secretary said that there would be major pressures for additional Revenue Support Grant in the

5

negotiations on the local authority settlement. These would be particularly strong given that 1990-91 would be the first year for the community charge in England and Wales. On the basis of the Scottish experience this year, however, high levels of grant would not necessarily serve to reduce the levels of community charge adopted by local authorities. It would be particularly important to structure the discussions in E(LF) on the right basis, and to avoid focussing only on spending Ministers' assessment of "need". It would be essential to look in parallel at the consequences for levels of grant. The Chancellor added that, as in the past, all the service Ministers represented on E(LF) were likely to speak with one voice in pressing for higher grant; it would be important to try to reach an agreed approach with the Secretary of State for the Environment, and the attitude to be taken towards his bids on his central government programmes could be a relevant consideration in this context. The Chief Secretary said that a further aspect of in this year's B(LF) discussions would be the changed rules of the game; not only the introduction of the community charge but also the new planning total. The new regime did, however, provide an opportunity to get away from some of the old concepts, for example in relation to grant percentage.

The Prime Minister said that she recognised the difficulties likely to be encountered in the public spending round, and the importance of maintaining tight control over public spending. In order to constrain the discussions on the local authority settlement she saw attraction in using last year's GREs as the starting point for the assessment of need. As the public spending round proceeded it would be necessary to consider which programmes provided the greatest vulnerability for the Government; she thought that health was likely to be the most sensitive area. She also felt that, in the round up to the next election, there would be increased pressure to raise the basic retirement pension; this meant it was particularly important to emphasise the benefits pensioners would receive from the ending of the earnings rule, together with the carefully targeted packages already agreed for assistance to older pensioners on income support.

I am copying this letter to Duncan Sparkes (HM Treasury) and to Trevor Woolley and Richard Wilson (Cabinet Office).

Paul Gray

Miss Carys Evans HM Treasury. the department for Enterprise

ONFIDENTIAL

The Rt. Hon. Lord Young of Graffham Secretary of State for Trade and Industry

.The Rt Hon John Major MP Chief Secretary H M Treasury Parliament Street LONDON SWIP 3AG

NBPM fris

Department of Trade and Industry

1-19 Victoria Street London SW1H 0ET

Switchboard 01-215 7877

Telex 8811074/5 DTHQ G Fax 01-222 2629

Direct line 215 5422 Our ref LQ1AHV

Your ref Date /7 May 1989

Dear Chaf Sacatany,

1989 PUBLIC EXPENDITURE SURVEY

I have reviewed with the Chancellor of the Duchy my Department's expenditure programmes for the 1989 Survey. This letter sets out our proposals for the Department's programme expenditure and running costs. As required, I enclose with it the Department's running cost management plan for 1990-91 to 1992-93.

Overview

- As the table at Annex A shows, my bids total +£18.2m, +£51.0m and -£27.1m. My net bids therefore total just over £40m, and lead to a baseline declining to under £1140m by 1992-93. My bids for cash-limited programmes are below baseline in each PES year. The Department's expenditure has of course decreased very significantly in recent years : it now spends less than any other Department identified separately in the Public Expenditure White Paper except Energy and the Office of Arts and Libraries.
- I have sought to keep as close to baseline as possible, and I have in particular examined my bids closely in the light of underspends in 1988-89. I have however concluded that I need the resources for which I am bidding to consolidate the Department's active role in the stimulation of enterprise and competition. My bids show some shift from programme expenditure to running costs. This reflects increases in pay and accommodation bids which are outside my control, and which



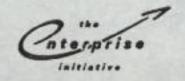


offset accommodation savings arising from relocation: it is also in line with the new objectives I have set for the Department which reflect my determination to promote enterprise and competition without throwing money at problems.

4 I should add that I am still reviewing the case for additional bids for the Research Establishments and standards. However, I shall only be making an additional bid for the Research Establishments if I am convinced that this would allow the rationalisation of the National Physical Laboratory site and lead to savings which could be shown in investment appraisals to outweigh initial costs. Any extra bid on standards would be 1992-related and would be relatively small.

Non cash limited programme expenditure

- 5 I am making a significant bid for Regional Selective Assistance which reflects the scope I see for marketing the UK aggressively to inward investors seeking to set up operations in the EC in the run-up to 1992. I attach considerable importance to making the most of the window of opportunity which will undoubtedly arise in this connection. Following consultation with Malcolm Fifkind and Peter Walker, Tony Newton wrote to you about this on 15 May and he will be discussing our proposals with you in detail before long. The bid also continues to reflect the likelihood of a knock-on increase in demand for RSA as a result of the closure of the RDG scheme. Since the reductions in RDG and Regional Enterprise Grants (see paragraph 15 below) more than outweigh the RSA bids, the figures for regional expenditure as a whole show a marked decrease. However I should make clear tht there are a number of issues under review that could affect them: besides the initiative we are taking on REgional Selective Assistance, an evaluation of the REG scheme will be completed in June; decisions also need to be taken on the fiture strategy for English Industrial Estates Corporation. I do not exclude the possibility that some upward revision of the figures may be necessary as a result of all this.
- I need deal only briefly with my other non cash-limited programmes. The <u>aerospace</u> changes principally reflect a revised profile of launch aid payments in respect of the A330/340: over the three PES years, the bids for aerospace are still nearly £20m below baseline. The <u>shipbuilding</u> bids result from revised forecasts for interest relief under the Home Credit Shipbuilding Guarantee Scheme, and from the need to provide intervention fund (IF) support from the private sector IF budget for the Appledore yard following its privatisation: this money would otherwise have had to come



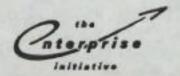


from provision for British Shipbuilders. The bids also cover estimated likely IF requirements for the Ferguson yard, about the future of which Tony Newton is writing separately to you. The steel bid results from revised forecasts of payments to redundant steelworkers under the statutory Iron and Steel Employees Readaption Benefits Scheme (ISERBS). There are reductions in the requirements for Regional Development Grants and National Selective Assistance.

I should note that I have not made any allowance in my regional expenditure bids for offsetting savings to match ERDF receipts for English Local Authority measures to assist small and medium sized firms: these are estimated at some £5m a year, although the figures are still highly uncertain. These ERDF receipts are of course merely channelled through the Department to local authorities and others, and mostly relate to projects which are far closer to the objectives of the Environment and Employment Departments than to those of my Department. There is no case for this Department having to find offsetting savings in respect of these projects: I shall be writing separately to Nicholas Ridley and Norman Fowler about this.

Cash limited programme expenditure

- 8 I am sure you will note with pleasure and approval that, as I have already pointed out, my bids for cash-limited programmes are below baseline in each of the three PES years and, taken together, are more than £6m below baseline. I regard this as highly satisfactory.
- The innovation baselines have again been reduced significantly as a result of the operation of the Europes system : over the three PES years, the baseline reductions this year total some £46m, on top of the £30m reductions made in last year's Survey. The total Europes reductions in innovation baselines this year and last therefore total some £76m. I am prepared to accept a further considerable baseline reduction this year, particularly given the underspend on this budget in 1988-89 (about which I warned you during last year's bilaterals). However, I expect expenditure under my new innovation programmes to build up, and I cannot accept the whole of this year's enormous additional Europes reductions, which are based on the wholly erroneous assumption that all EC R&D spending is of benefit to my Department's objectives. I am therefore bidding to reinstate part of these reductions : even with these bids, the innovation baselines would be over £30m below their 1989 pre-Europes levels, and



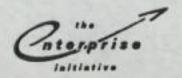


that is without taking account of the Europes reductions made in last year's Survey.

As you know, I have concluded that a case could be made for UK participation in the proposed second European Remote Sensing Satellite (ERS-II), and offered to fund 50% of the costs. There is no scope for finding these costs from within the existing baseline for space : I am therefore bidding for these costs, which I propose to offset against reductions in other cash-limited programmes, in line with my undertaking to you in correspondence on ERSII. I look to customer Departments to provide PES transfers to fund the other 50% of the costs. ERS-II notwithstanding, our prime objective in space remains the commercial exploitation of earth observation services. To achieve this I am convinced on the evidence of negotiations in ESA to date that we need to step up our level of participation in the relevant ESA programmes so as to achieve leadership and drive these programmes in the direction needed to secure our objectives. I am therefore also bidding for the costs of increasing our participation in the Columbus Polar Platform and its instruments. Actual payment of an increased subscription would be conditional on ESA choosing a satellite configuration and payload clearly offering greater scope for development directed towards commercial operations.

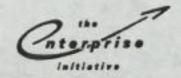
Il My bid for exports arises principally from a small increase in expenditure in 1990-91 before the costs of new export services are offset by other reductions, together with extra funding for EXPO 92. In line with the Prime Minister's direction that the costs of EXPO 92 should be met without any additional funding, I also propose to offset these costs against reductions in other cash-limited programmes. The bid makes no allowance for receipts from any new cost-based charging regime, and may therefore need to be reviewed in the light of any decisions on this subject.

The Departmental administration bid relates to computers and major works. I am determined to ensure up to date computer systems to improve the delivery of the Department's service and to increase internal efficiency. My assessment is that a significant increase in provision is necessary to fund key projects within the Department's overall strategy and to improve efficiency: in the long run this will produce savings, although it means a short-term increase in running costs. All such projects would of course first be established as worthwhile in line with Treasury guidance. There is a major works bid in 1990-91 only: this is needed for relocation and for essential accommodation works, and is partially offset by increased receipts.





- . 13 I am also making bids over baselines on other programmes. On standards, almost all the overbid results from likely expenditure in support of Sir Basil Feldman's Quality Mark Campaign, to be offset by savings on other cash-limited programmes : the rest reflects the increasing importance of standards in the run-up to 1992. The overbid on miscellaneous support services is for inward investment promotional expenditure and similarly reflects anticipated higher demand from overseas investors in the run up to 1992. The overbid for the protection of innovation results from increases in international subscriptions and from expenditure on computers and relocation, which will lead to longer term running cost savings. The regulation and consumer protection programme covers support for a number of bodies, and my overbids reflect increased workloads and staff costs for the MMC and for investor protection prosecutions, together with increased staff and accommodation costs for the Citizens Advice Bureaux. The overbid from the Companies House Executive Agency relates to capital expenditure : it is consistent with the Companies House 1988 Corporate Plan, which has of course been agreed with the Treasury.
- If am content to hold to baseline funding for the Inner Cities Initiative, and for education and training, aircraft and aeroengine R&D and other services. I am also entering a provisional bid at baseline for the English Industrial Estates Corporation pending decisions on a number of issues affecting its future strategy.
- I am prepared to offer major reductions against baseline for the <u>Business Development</u> programme, which covers the Consultancy Initiatives and Regional Enterprise Grants. The underspend on the <u>Consultancy Initiatives</u> in 1988-89 was principally a transitional problem caused by a slower than expected build-up in the rate at which consultancies were taken up, but the rate of initial applications and of consultancies is much higher than a year ago: I am therefore bidding to baseline for this part of the Business Development programme. Take-up in 1988-89 of the Regional Enterprise Grant scheme was very low. Subject to the evaluation of the scheme I anticipate that there will continue to be major savings against baseline. This enables me to offer offsetting savings which greatly exceed the overbids on those programmes where I am committed to covering particular increases by compensating cash-limited reductions elsewhere (ERSII in the space programme, EXPO 92 in the exports programme, and the Quality Mark in the standards programme).





I am also prepared to offer reductions against baselines on two other programmes. The reductions for trade co-operation reflect revised assumptions about the future costs of our subscription to GATT. The reductions for Research Establishments capital follow major baseline cuts last year, and would mean far lower baselines than in previous years: however, the Touche Ross costings for the National Technology Centre option for NEL, which as you know is the option I propose to pursue, allow me to offer yet further savings this year. I should however stress that the detailed NEL figures are still under discussion: I may therefore need to review these reductions at a later date.

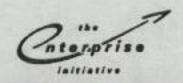
If should add that the main elements of paid publicity in my bids continue to be Consultancy Initiatives advertising and the Single Market Campaign. Proposed expenditure on paid publicity for the Consultancy Initiatives amounts to about £12m in each PES year: for the Single Market Campaign, it declines from £6m in 1990-91 to £4.9m in 1992-93. The proposed paid publicity element of all other programmes is minor, and remains in line with past expenditure.

Running costs and Management Plan

My running costs bid is based on the current structure of the Department and will need to be adjusted before the bilateral to take account of machinery of Government changes following the Pickford report. The bid also covers the DTI's current and prospective executive agencies except for Companies House which is subject to a net running cost control system and whose PES bids are set out in its corporate plan, and for the National Measurement Advisory Service, which is excluded for the same reason. Before the end of the Survey technical adjustments will need to be made to take account of our agreement in principle to move Warren Spring Laboratory to net running cost controls, which will involve converting running cost provision into programme expenditure. I also hope that we will be able to agree on net running cost controls being applied from 1 April 1990 to Radiocommunications Division, the Laboratory of the Government Chemist, and possibly also the National Physical Laboratory. These too will require technical adjustments to the bid.

Management Plan

19 I attach a revised DT1 management plan for 1989 which, you will see, reflects a further shift in the emphasis of the Department's work. Tony Newton and I have continued the process I began last year of transferring staff resources from



activities linked to programme expenditure into work on the delivery of services. We have given more resources to the Regions and Inner Cities, and have also strengthened our work on investigations under the Companies Acts by the creation of a new Investigations Division.

- 20 At the same time we have kept up the pressure on DTI line managers to deliver efficiency savings. The management plan chapters dealing with individual Deputy Secretaries' areas of responsibility show that progress is being made on a broad front, and they provide good anecdotal evidence of improvements in efficiency in the face of substantial increases in demand. The wide variety of the Department's activities means that any single percentage figure for the Department as a whole has to be treated with caution. We have, however, made an attempt at this and believe that the overall improvement in 1989/90 will be around 3.3% comfortably above your own target figure of 1.5%.
- Against this background I would have hoped to avoid making a running costs bid in this PES round. I find, however, that for a combination of reasons a bid is inescapable. It flows from factors outside my control such as pay and accommodation. However, in order to minimise the bid and despite the shift in emphasis in the Department's work away from straightforward subsidies towards more labour-intensive work, I am able to offer some further reduction in manpower below baseline.

Running cost bid

22 My bid is as follows:

(£m)	1990/91	1991/92	1992/93
Running cost bid	347.4	349.1	360.1
Excess over baseline comprising:	+ 21.3	+ 14.8	+ 17.4
Pay	+ 7.4	+ 11.5	+ 16.0
Accommodation	+ 6.1	+ 1.8	0.3
NEL	+ 6.7	0.2	0.6
Other	+ 1.2	+ 1.7	+ 2.3
Manpower (excluding C	ompanies		
House and NAMAS)	11508	11408	11318
Reduction on manpower baseline	- 50	- 50	- 140
manponer buscrine		30	140





· Pay

23 The situation on pay is particularly difficult. I have done what I can to reduce manpower, but with inflation and pay settlements now running at levels considerably in excess of levels forecast last year, a bid is inevitable. My assumptions on pay this year by comparison with last are set out below. While the restructuring of Civil Service pay to encourage performance and reflect market pressures is a move which I welcome, the consequences could well be more expensive than I now anticipate, especially if inflation does not fall in line with the forecasts in this year's Financial Statement and Budget Report and does not continue to fall further through the PES period.

		88/89	89/90	90/91	91/92 92/93 (% increases)			
1988	PES	8.5	6.5	4.5	3.0			
1989	PES		8.9	7.0	5.7	5.7		

Accommodation

Last year I made a number of decisions aimed at achieving major savings in accommodation costs towards the end of the PES period. The Patent Office is relocating in Newport and part of the Insolvency Service is to move to Birmingham. These decisions will produce savings of over £10 million a year by the end of the PES period. But it may not be possible to implement special measures to enable Radiocommunications Division to relocate outside London and, in case this is so, I have bid for £3.3 million a year to cover its continuing accommodation in London.

I also understand that Government buildings are likely to be subject to vAT. Although no clear guidance has been issued on the subject it seems likely to be levied at an average rate of about 10% and against this possibility I am therefore making a technical bid (since the sums involved would automatically revert to the Treasury) of £3.3 million a year over the PES period. In the last few days there has been an indication that changes may also be made to the application of rates to Government buildings. We have yet to establish the facts and work out their implications for the DTI but I may need to adjust the accommodation bid later to take account of such changes. In addition, I may need to increase the bid if,





as I understand, PSA are unable to pass on to the Department sufficient baseline provision for the maintenance work which they think we will need over the Survey period.

National Engineering Laboratory

The National Engineering Laboratory will contribute to the manpower savings I am looking for over the PES period. But I need extra running costs provision to finance the up-front costs, primarily for redundancies, envisaged in the report by Touche Ross on the future of the laboratory.

Other costs

27 As I have said, as part of my drive to focus the DTI on delivery of services I wish to invest more in office computing and associated training in the use of modern office techniques. This investment should pay off in the long term in reduced costs and manpower savings in the mid 1990s as the benefits of the investment begin to show through, as well as in quality of service, but it necessitates a modest additional bid in this PES round.

Contingent Liabilities

28 I propose only one new contingent liability during the PES period, and that is a minor one arising from my decision to introduce an export service card. Details will be provided by my officials.

Conclusion

29 I attach high priority to all the bids which I have put forward, and I have set out briefly in this letter why I regard them as essential. My officials can of course let yours have further details on any points upon request, including further details of objectives where relevant.

30 I am copying this letter to the Prime Minister. Copies of the passages dealing with regional expenditure also go to Malcolm Rifkind and peter Walker.

Your secondy

N. R. Th

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Conserption

	PES		DTI BAS 990-91	ELINES	AND BI	DS 1991-92	Arm	nex A	992-93	
Prog.	NON CASH LIMITED I	Base.		+/- 1	Base.	Bid .	+/- 1	Base.	Bid	+/-
4.1.1	RD6	107.1	10 T/00	-21.31	53.4		-10.41	54.7	10.3	-44.4
4.1.3	RSA I	148.3	VOTED PARTIES		159.0	181.7	+22.71	162.9	205.5	+42.6
2000	National	1000	75155	1			- 1			
4.1.9	Selective Assistance	15.0	7.0	-8.01	7.5	2.2	-5.31	7.7	7.3	-0.4
4.3.1/2/3		73.2	70.9	-2.31	-24.1	-1.7	+22.41	-24.7	-64,2	-39.5
4.3.5/6	Shipbuilding	37.8	48.9	+11.11	35.2	41.6	+6-41	36.1	35.0	-1.1
	Assistance for	127.00		1			- 1			
4.3.7	Redundant Steelworkers	6.1	18.3	+10.21	8.3	11.1	+2.81	8.5	8.5	0
	TOTAL (non-cash limited)	389.5	388.5	-1.0	239, 3	277.9	+38.61	245.2	202.4	-42.8
	CASH LIMITED -			1			1			
4.1.4	Business Development			- 1	· ·		1			
	i)Consultancy Initiative		106.9		109.3		DEC 2007/0	112.0		0
	ii) REG	49.2		-33.21			-30,01		22.2	
4.1.15	Inner Cities	31.1	31.1	01		31.8	01			0
4.2.1	Research Estab. (Capital)	5.7	5.4	-0.31	5.1	4.0	-1.11	5.2	2.1	-3.1
4.2.2	Industrial R&D	1000		1			1			
	i) Innovation (post				login-u		-			
	Europesi		146.0	01	100000	149.5		148.5	H000000	
	ii) Education & Training		0.00	01	007.5		01	1000000	37.9	0
	iii)Other (net)	8.4	2.4	-6.01		1000	-7.21			
4.2.3	Standards	8.2	10.7	+2.5			+1.3			
4.2.4	Protection of Innovation		-33.6	+1.9		-35.0	+1.41		-31.9	
4.2.5	Aircraft & Aeroengine R&D			0			01	CONTRACTOR OF THE PARTY OF THE		
4.2.6	Misc. Support Services	4.7	5.7	+1.0			+1.01			
4.2.9	Space	71.4	85.0	+13.6			+19.01			+18.5
4.5.1	Experts	40.4	42.7	+2.3			+3.8			
4.5.2	Trade Co-speration	1.9	1.8	-0.1	2.1	1.8	-0.3	2.1	1+3	-0.2
4.6.2	Regulation of Trade and									
	Industry and Consumer	1		193025	- 4	2010				
	Protection	1 4.3	1.8	+1.5	8.1	10.0	+1.9	8.3	10/8	+2.5
4.6.2	Companies House Exec.					* 0	10.6			+0.2
202	Agency	4.7		0			+0.6			
4.6.1	Dept. Administration		39.4			19.1				+2.3
4.8.3	Other Services	8.3					0			
4.14.5	EIEC	7.07.15	17.4			17.9		1 18.4		
-	EUROPES non R&D	1 -2.0	0	+3.0	(0	0	-		-
	TOTAL (cash-limited prog.)	563.2	561.1	-2.1	560.6	556.4	-2.4	575.4	573.7	-1.7
	TOTAL (all programme)	952.7	949.6	-3.1	800, 1	836.3	+36.2	820.6	776.1	-44.5
	Running Costs	326.1	347.4	+21.3	334.	349.1	+14.8	342.7	360.	+17.4
	TOTAL DTI Cash limited (programme and RC)	1 889.3	908.5	+19.2	895.	907.5	+12.4	918.	933.	1 +15.7
	TOTAL DTI BIDS (Programme and RC)	11278.0	1297.	+18.2	11134.	1185.4	+51.0	11163.	3 1136	2 -27.1

NB. Innovation (programme 4.2.2) includes Europes reductions to baseline of (US.3 Pr in each PES year.

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PROM: CHIEF SECRETARY CC SERB DATE: 12 May 1989

PRIME MINISTER

1989 SURVEY

We are to discuss next week the prospects for the 1989 public expenditure Survey.

- Public expenditure restraint has been a key instrument of our economic strategy over the past ten years. We have held the growth of public spending below that of money GDP, in order to borrowing requirement and to make room eliminate the reductions in the tax burden. Since 1982-83, the ratio of government spending to GDP has fallen by 7 percentage points, bringing it, for the first time in 20 years, to under 40 per cent.
- But our success in controlling expenditure has been used 3. primarily to tighten the fiscal stance. The tax burden has fallen only slightly since the 1981-82 peak, and is still well above the 1978-79 level. If we are to get below that level we continue to keep a firm grip on expenditure.
- We have been helped in the last year or two by very strong economic growth. That pushed up money GDP; it also meant savings on expenditure from lower unemployment, more housing sales, better performance by the nationalised industries, and lower debt interest. We took credit in the expenditure plans announced after the 1988 Survey for the progress thus made. We were able to increase provision for key programmes, and find sufficient savings to maintain a modest decline in the ratio of government spending to GDP.
- The outlook for the 1989 Survey must at this stage remain uncertain - as regards both the extent of spending pressures and the path of the economy. But we have no reason at present to expect anything other than the slowdown in the growth of money GDP projected in the Budget; and some of the developments which worked in our favour in the last Survey will not do so this time.

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- 6. As for spending, I have reviewed the prospects for each department carefully. It is clear that after 10 years of searching scrutiny it will be far more difficult to find offsetting policy savings than in the past. It is therefore essential to achieve any savings that are available, and to restrict increases in all but the highest priority areas.
- 7. There will be strong upward pressure on many spending programmes. The bids will reflect the commitments we have already made (adding about £1 billion to expenditure in 1990-91) and other proposals are already in view which are unavoidable and amount to another £2½ billion or so.
- 8. Any increase in investment in housing, rail, or prisons, and any extra for education and science or an expansion of the health service would have to come on top of that. Departments will also be very conscious of the prospects for inflation, particularly those whose programmes have been squeezed because inflation has turned out higher than when last year's plans were set.
- 9. There will also be great pressure this year for higher grant to local authorities so as to keep down the levels of the community charge in the year of its introduction. However, there is a real danger here that any extra grant would simply pass through into higher spending and not be used to hold down community charges. Some councils will undoubtedly set a high community charge in order to embarrass the Government. There is clear evidence of that in Scotland, where councils have increased the community charge further than was required, even to finance the excessive levels of spending they budgeted for.
- 10. It will be important for colleagues to understand that the budget surplus is not a cornucopia. The prospect is that a good deal of it will automatically disappear as economic growth moderates. Spending it incautiously would risk fuelling inflation, and as I indicated in paragraph 3 above, it needs to be dedicated to reducing the tax burden if we are ever to bring it back to the level we inherited ten years ago which we regarded as too high at the time.

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11. Since savings this year will not be available on the scale of last year, neither can we afford increases on last year's scale without damage to our general policy. The first decision - and politically one of the most difficult - will be the settlement for local authorities in E(LF). The outcome of that will inevitably have a major impact on the rest of the Survey. I conclude that, as ever, difficult choices will be inescapable.

JOHN MAJOR

PRIME MINISTER

MBPN-P-

PROSPECTS FOR THE 1989 PUBLIC EXPENDITURE SURVEY
Meeting with the Chancellor and Chief Secretary,
17 May 1989

Minute from the Chief Secretary of 12 May

DECISIONS

The purpose of this meeting is to review the prospects for this year's Survey. The main issues you may wish to discuss are:

- i. <u>objectives</u>. Have the Treasury Ministers yet given any thought to the objectives for this year's Survey?
- ii. room for manoeuvre. How much room for manoeuvre is there within the likely objectives?
- iii. <u>pressures</u>. Where do Treasury Ministers think the main pressures will come?

ISSUES

Objectives

- 2. Last year Cabinet agreed the following main objectives for the 1988 Survey:
 - that public expenditure should be held as close as possible to the existing planning totals; and
 - ii. that the ratio of total public expenditure to GDP should continue to decline steadily over the three Survey years.
- 3. You may wish to ask the Treasury Ministers if they have given any thought to the objectives for this year's Survey. Of the two above, the more important is (ii). It reflects long standing

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policy and was repeated as recently as the Budget. It will almost certainly have to be reaffirmed.

Room for manoeuvre

- 4. Spending Departments usually try to find out how much room for manoeuvre there is to raise public expenditure within the objectives set. You will probably not want to encourage any discussion about this in Cabinet, but you may wish for your own information to find out how much room for manoeuvre there will be within the likely objectives. You could begin by asking that general question.
- 5. The important objective is to keep public expenditure falling as a percentage of GDP. For this purpose, public expenditure is taken to be General Government Expenditure, (GGE) excluding privatisation proceeds. The Budget Red Book showed the following figures for this percentage:

1989-90	1990-91	1991-92	1992-93	
394	39	38 3/4	38	

- 6. You could ask what changes in programme expenditure would be consistent with achieving or improving on this decline. The reasons for thinking some increases will be possible are:
 - i. <u>Debt interest</u>. This is included within GGE. Faster repayment of debt means that it will probably be lower than foreseen at the time of the last Survey. Last year's Autumn Statement forecast debt interest at £16bn in 1990-91 and £15½bn in 1991-92. This year's Budget Red Book gave the figures as £15½bn and £14½ bn.
 - ii. Reserve. This also is included within GGE. In every Survey, it is fixed, for the second and later years, at a rising level substantially greater than will be needed. In the following Survey, all the years move forward one and the figures are correspondingly reduced. Thus the Reserve for

1990-91 was fixed in last year's Survey at £7bn. If in this Survey it was reduced to the level fixed for the current year - £3.5bn - an extra £3.5bn could be spent on Departmental programmes within the objective.

- iii. Level of GDP. Faster growth in money GDP allows for higher expenditure while maintaining the target ratioor for a fall in the ratio if expenditure remains unchanged.
 Last year this had a big effect. It is not clear that it will this year, but you could ask about this.
- 7. The Planning Total is reduced by the amount of privatisation proceeds: if they are increased, it falls. The assumption for 1990-91 is that the proceeds will total £5bn, compared with £7bn in 1988-89. You may wish to ask if the Chief Secretary will again propose the objective of keeping as close as possible to the Planning Total; if this will be the Total after deducting privatisation proceeds; and if the latest prospects for privatisation suggest any room for manoeuvre in achieving this objective in 1990-91.
- 8. Last year the Chief Secretary also proposed an objective for running costs: that their share in planned public expenditure should remain constant. Mainly because of pay pressures, it proved difficult to achieve this, and the outcome was only that this share remained "roughly" constant. Pay pressures are now stronger. You might ask the Chief Secretary what target he has in mind for running costs this year.

Pressures

- 9. The Chief Secretary's minute refers to upward pressures but is not very explicit. You may wish to get a better idea of where the pressures will come. In particular:
 - i. paragraph 7 refers to commitments already made of flbn in 1990-91 and "unavoidable" proposals which would add about another f24bn. You might ask for a breakdown of

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these figures.

ii. The Chief Secretary also refers to higher spending by Local Authorities. It could amount to f1-2bn.

Is an allowance for local authorities included within the figures in paragraph 7? If not, what does the Chief Secretary think it should be?

iii. Inflation is higher than foreseen at the time of the last Survey. The Autumn Statement assumed a GDP deflator of 64% in 1988-89, 5% in 1989-90, and 34% in 1990-91. The Budget Red Book assured figures of 74%, 54% and 4%. Will this higher inflation lead to substantial bids from Departments?

MW.

R T J WILSON



10 DOWNING STREET

Pring Minister

the neckerd, It may wish to have author quick look tomight before tomorrow's neeting.

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PRIME MINISTER

PUBLIC EXPENDITURE

I have arranged two meetings over the next fortnight for you to consider the background to this year's public expenditure negotiations.

Next Wednesday, following your normal bilateral with the Chancellor, he will be joined by the Chief Secretary, Robin Butler and Richard Wilson for a half-hour talk about the general Public Expenditure Survey prospects. Then in the following week there will be a meeting, with the same cast plus Nicholas Ridley and Cecil Parkinson, to consider the more specific issue of prospects for the local authority settlement; this will be in preparation for the meetings of E(LF) on this subject which you will be chairing in June and early July.

A note from John Major for next Wednesday's general discussion is at flag A. I also attach at flag B a note you saw last week from Robin Butler concerning the chairmanship of the Star Chamber (though this is probably not an issue you will want to raise at this stage with the Chancellor and the Chief Secretary).

It is par for the course at this time of the year for the Treasury to say that the public expenditure round will be even tougher than in the past. That is broadly the drift of John Major's minute, though it is cast in commendably restrained terms.

Following experience in the last two years, there is a temptation to think that the Treasury is crying wolf. In both 1987 and 1988 they have been able, towards the end of the negotiations, to pull rabbits out of the hat to balance the books - notably in 1988 when, despite earlier forecasts of a likely £2 billion increase in the year one planning total, they managed to hold it constant.

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In fact, I think this will be a very tough Survey. The general prospects remind me very much of the 1985 Survey when, at the end of the day, we were obliged to add nearly £5 billion to the first year planning total. The favourable developments in 1987 and 1988 were virtually all due - either directly or indirectly - to the rapid growth of the economy. This year, if we are to get on top of inflation, we have got to ensure that economic growth is contained. And it is difficult to see any of the developments that came to the Treasury's aid last year on public spending - lower unemployment, extra housing receipts, lower agricultural support spending and improved nationalised industry performance - recurring this year.

So, if anything, I suspect the Chief Secretary is <u>under</u>stating the difficulties. There is a very serious risk of the downward trend in the general Government expenditure/GDP ratio being reversed, and going back <u>above</u> 40%.

The key to containing the problem does not lie in identifying major new policy savings; after 10 years the politically acceptable ones have been exhausted. The approach will have to be of resisting to the maximum extent the very large additional bids that spending Ministers are sure to put forward.

PRIG.

PAUL GRAY 12 May 1989

PM3AOS

10 DOWNING STREET LONDON SWIA 2AA From the Private Secretary SIR ROBIN BUTLER A THE SECOND SECTION AS CHAIRMANSHIP OF STAR CHAMBER S. Photograph was it was a TE LEGISLA SENDING SERVICE The Prime Minister was grateful for the She has noted that she will be having SOUTH THE SECOND

thoughts in your minute of 5 May to Andrew Turnbull. the first discussion with the Chancellor and the Chief Secretary about the public expenditure prospects next week.

PAUL GRAY

8 May 1989

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MR TURNBULL

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Chairmanship of Star Chamber

The public expenditure survey will shortly be with us again, and the question will arise of the chairmanship of the Star Chamber (if it has to operate). In the past, the chairmanship of the Star Chamber has been announced at the time of the July Public Expenditure Cabinet.

- The Prime Minister will remember that, following Lord Whitelaw's departure, Mr Cecil Parkinson was chairman of the Star Chamber last year, but the Star Chamber never had to meet in If the Prime Minister were to appoint anyone else, that would stimulate speculation either that Mr Parkinson had fallen from grace or about his destination in any reshuffle.
- If therefore the Prime Minister were to appoint anyone as chairman of the Star Chamber before the Recess, there would be a strong case for appointing Mr Parkinson again, whatever might subsequently happen with a reshuffle. But, given that the Star Chamber has not had to operate for the last two years, I wonder whether there is any need for the Prime Minister to take this decision before the Recess. It seems to me that it will be possible for the Prime Minister to say at the Public Expenditure Cabinet in July that, in view of the fact that in the last two years no Star Chamber has been needed, she hopes that it will be possible to do without one again this year but that she will be ready to set one up if it proves necessary. A similar line could be taken with any enquiries from the press with the addition

that, unless or until such a committee had to be established, the question of the chairmanship does not arise.

in the week | legining | 15 May. PACC.

4. There is no need for the Prime Minister to reach a decision about how to handle this yet. But, since the first discussions with the Chancellor of the Exchequer and the Chief Secretary about the prospects will soon be taking place, I thought that it might be useful to let the Prime Minister have this note now.

RER.B.

ROBIN BUTLER

5 May 1989

gep1.ip/survey/guidelines

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Downgrade to Restricted after 5 years

PESC (89) 10 PESC (WM) (89) 14 31 March 1989

Her Majesty's Treasury

Public Expenditure Survey Committee

Guidelines for the 1989 Survey

Note by the Treasury

Introduction

This paper sets out the Guidelines for the 1989 Survey. This will be the first Survey conducted on the basis of the new Planning Total, and several significant changes to Survey procedures will be necessary to take account of this, affecting all departments which are responsible for grants to local authorities or have an interest in local authority capital spending.

- 2. The remainder of this paper is divided into the following sections:
 - I Timetable
 - II Baselines
 - III Demonstrating Value for money
 - IV Ministerial proposals for changes to the baseline
 - V Nationalised industries
 - VI European community expenditure and receipts
 - VII Contingent liabilities
 - VIII Further information

- Annex A: 1989 Public Expenditure Survey: key dates March-May.
- Annex B: Construction of the Baseline.
- Annex C: Official letters.
- Annex D: Information on the economic composition of proposed changes to the baseline.
- Annex E: Contingent liabilities.
- Annex F: Handling of local authority components of the New Planning Total.

I Timetable

3. The key dates are shown in Annex A. Departments are asked to submit running tallies to set up the baseline by 13 April. Information on value for money relating to baseline plans should be sent to the Treasury by 28 April. The baselines will be set and agreed by 17 May and circulated on 25 May. Ministerial and official letters proposing changes to departmental baseline expenditure plans should reach the Treasury by 25 May. Information on contingent liabilities should also be sent to the Treasury by 25 May.

II <u>Baselines</u>

- 4. The process of creating the baseline for the 1989 Survey is complicated by the introduction of new elements for local authorities as part of the new planning total. The method of setting baselines for these new elements has been discussed in PESC(LA) and PESC (NPT), and are recorded in the Chief Secretary's letters of 31 January (current expenditure) and 10 February (capital expenditure). The details of these agreements are set out in Annex B.
- For the elements of the baseline not affected by the change to the New Planning Total (central government's own expenditure,

nationalised industries and other public corporations) the baselines for 1990-91 and 1991-92 will be the figures agreed in the 1988 Survey and published in the 1989 public expenditure White Paper subject to classification changes and EUROPES adjustments (see paragraph 6 below). For 1992-93, the baseline for these elements will be constructed by the Treasury by adding 2½ per cent to the cash figures for 1991-92.

- 6. Under the EUROPES system, some departments' baselines will be reduced to reflect excess spending by the European Communities on lines of the EC budget which they sponsor. PESC(WM)(89)15 sets out the reductions required and the timetable for running tallies. The reductions should be made in cash limited central government programmes.
- 7. The baseline for gross running costs will be constructed in the same way as the baselines for other central government spending: for 1990-91 and 1991-92 the PEWP figures will be used, and for 1992-93 the baseline will be created by applying the uplift factor of 2½ per cent to the 1991-92 figures. Departments have been asked to provide a breakdown of their running costs baseline, and consistent manpower figures, on form DRC2 (see PESC (WM)(89)11).
- The baseline figures will be circulated to departments on
 May, in a similar form to 1987 and 1988.

III Demonstrating Value for Money

- 9. As in previous years the Treasury will need to be satisfied that baselines and any additional bids can be justified by output and performance information and that the expenditure is achieving the greatest possible value for money. All additional bids must be accompanied by value for money information in accordance with paragraph 15 and Annex C.
- 10. For the <u>baseline</u> the general requirement is that departments should submit for each main element:
 - (i) a current statement of objectives;

(ii) an assessment of what outputs the plans for future years will buy and relevant historical information for earlier years; the most recent outturn information relating to (iii) existing agreed value for money targets (whether or not these have been published). (iv) information on value for money targets for future years including measures of effectiveness and efficiency. 11. In 10(iv) above particular emphasis should be placed on high level aggregate indicators and unit costs covering full input costs and outputs. Departments should also indicate what plans they have for extending the range of such measures. Value for money information will also need to cover specific grants to local authorities (see PESC(LA)(88)8). Expenditure Divisions will need this information by 28 April 12. so that they can discuss the baseline with departments. For some programmes Expenditure divisions may already have the most up to date information; for others they may not need the full range listed above because they may wish to concentrate on areas of particular concern. Departments should therefore contact their Expenditure Division as soon as possible to discuss the precise requirements, thus avoiding the risk that information will be produced which is not going to be used. Departments will also need to supply information derived from policy evaluations, scrutinies and reviews completed in the last year where this is not already available; and should set out their plans for further evaluations etc for 1989-90, taking account of cases where the Treasury has given notice of its wish to discuss the performance of a particular programme and of its intention request evaluation information. Where Next Steps agencies are created or proposed, after OMCS and the Treasury, the department's discussion with 4

value-for-money material or their running costs management plan (paragraph 21 below) as appropriate should identify the higher efficiency and effectiveness targets expected in consequence and their effects on expenditure. Where, exceptionally, a Minister seeks additional resources for an agency or proposed agency he should explain in his letter to the Chief Secretary (paragraph 15 below) why its needs cannot be met from improved performance.

IV Ministerial proposals for changes to the baseline

- 15. Ministers are asked to write to the Chief Secretary by 25 May, copying to the Prime Minister and other Ministers with an interest, to report the outcome of their personal scrutiny of priorities within their programmes. These letters should contain:
 - (i) any reduced requirements on their programmes.
 - (ii) any proposals to reallocate baseline provision to accommodate changing priorities, listing proposed increases and offsetting savings (specifying whether they result from policy or estimating changes);
 - if, exceptionally, the Minister proposes to seek increases for which offsetting savings are not offered, a list of his bids in order of priority, and the reasons why the proposals are thought to be essential and cannot be offset elsewhere by reducing outputs, if necessary, or by improved efficiency. In the case of new local authority elements of the baseline, a full justification of proposed changes will still be required.

It is very helpful for the Treasury if all bids and proposed reductions are also set out in tabular form, showing the amounts involved for each of the Survey years as additions to or reductions from the baseline.

(iv) an outline of the cost implications of bids for other departments, where relevant, which should have been discussed with the departments concerned, and of the understandings reached on responsibility for funding the costs involved (see PESC(88)3, which also makes clear that subsequent modifications of such proposals, whether arising in the course of the Survey or otherwise, should be cleared with the other departments involved); a summary of the objectives for each bid (what is to be (V) achieved, by when, at what cost); (vi) a summary of proposed changes in running costs provision civil service manpower where appropriate (see paragraphs 21-28 below) identifying separately changes relating to Next Steps agencies. The Ministerial letter should enclose the department's management plan, incorporating clear commitments to efficiency gains. summary of any proposed new or increased (vii) contingent liabilities (see paragraphs 37 and 38 below). Increases or reductions for 1989-90 should not be proposed as part of the Survey: any such proposals will be dealt with separately as they arise through the year. Supporting official letters including detailed more 17. information will also be needed: guidance is at Annex C. should explain, for each proposed increase, how effectiveness and efficiency will be evaluated, including the main performance measures and indicators. Options for reductions In areas where the Treasury believes that there are or ought to be options which could be used to offset requests for additional resources or to produce savings and these have not been identified by departments, departments may be asked for costings of these

options. In some cases it may be more appropriate for departments to set out how they could achieve a given level of savings in an area of spending. In either case departments should, as in previous years, provide the Treasury with the necessary information.

Local authority current grants

19. The new planning total includes central government grants to local authorities. These grants have been identified and baselines for them will be constructed (see paragraph 4). Ministers' letters in May should not cover proposals for RSG or NNDR, which will be determined separately. Proposals for variations from baseline for specific grants should be included in Ministers' letters on the basis set out in paragraph 15 above. (See Annex F).

Local Authority Capital

20. Baselines for credit approvals and capital grants to local authorities will also be constructed (see paragraph 4). Ministers' letters should include any proposals for changes from these baselines, again on the basis set out in paragraph 15 above. There will be no baselines for gross or net LA capital expenditure or for annual capital guidelines (as agreed in response to the Chief Secretary's letters of 13 January and 10 February). (See Annex F).

Gross Running costs and associated manpower

21. During the 1988 Survey the majority of departments negotiated firm 3 year running cost settlements with commitments to deliver agreed efficiency gains. As stressed in PESC(89)3, the presumption is that these agreements will not be re-opened, although the Treasury will need to be satisfied that the efficiency gains will be achieved. All such departments will be expected to submit in the coming Survey new running cost Management Plans that reflect, or improve upon, targets agreed in the 1988 Survey and are rolled forward, showing how the extra efficiency gains will be delivered in 1992-93.

- 22. In accordance with Mr Luce's letter to PFOs of 20 July 1988, bids to increase gross running costs provision on the promise of additional receipts can be considered from departments with 3-year running cost settlements without formally re-opening those settlements. Bids in support of relocation proposals identified and put forward since the 1988 Survey may similarly be considered without formally reopening 3 year running cost settlements.
- 23. Departments that did not reach 3 year running cost settlements on the basis of their Management Plans in the 1988 Survey will be expected to offer acceptable plans in the 1989 Survey.
- 24. Where appropriate to assist the negotiation of a 3 year settlement, the Treasury Expenditure Division may ask to see a department's planning material in draft before it is formally submitted by the Minister. All departments' Management Plans should be discussed in detail between officials in advance of Ministerial bilaterals. These discussions will also take account of the stages reached in departments' relocation reviews and market testing programmes.
- 25. If any Minister feels it is necessary to re-open an existing agreement because of a significant change in the declared assumptions underlying the agreed Management Plan, he will need to write explaining why the resource needs cannot be met by a re-ordering of existing priorities as set out in paragraph 3 of PESC(87)23. In such circumstances, other figures in the earlier settlement may be challenged anew by the Treasury.
- 26. Details of the measures of output and performance relating to each bid, and of any offsetting savings or reduced requirements elsewhere within gross running costs, should be provided in the parallel official letters (see Annex C), which should also attach a separate DRC3 form for each proposed change to the baseline. It is important that the manpower implications of any proposed change to cash provision are identified when the proposal is offered for consideration.

- 27. Where satisfactory output and performance data have already been supplied, as at paragraphs 9 and 10 above, and do not require updating at the time the management plan is submitted, it is adequate for that plan simply to identify the earlier material; it does not need to be resubmitted.
- 28. The implications for accommodation costs of the changes in responsibilities for paying for maintenance and the division of the civil estate and the accompanying charging arrangements are set out in PESC(89)11.

Civil Service Manpower outside gross running costs

29. Proposed changes to manpower plans for areas not covered by gross running costs control must be identified clearly in the material supplied with official letters, and if significant should be referred to in Ministerial letters.

Economic composition of proposed changes to baseline

30. Annex D gives details of the information the Treasury needs to collect about the composition of proposed changes to the baseline. This information should be forwarded, on copies of the forms attached to Annex D, with the official letter sent to the Treasury. Information on economic category analysis of bids is an important contribution to the Treasury's economic forecasts, and departments' co-operation in submitting these forms promptly will be appreciated.

Territorial implications of proposed changes to baseline

31. Some changes to the operation of the territorial formulae have been agreed to take account of the new planning total (see Annex F). Information on territorial implications of proposed changes to baseline should be included in official letters. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1989 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 - Teresa Burnhams (270-5057) on Northern Ireland or Libby Wiseman (270-5064) on Scotland and Wales.

Science and technology

32. The Treasury will again be monitoring the changes to science and technology spending through the Survey, and the Chief Secretary will report the outcome to the Prime Minister. A table showing the baseline provision for science and technology spending will be included in the baseline working document. Any proposed changes from these baselines should be set out in official letters.

Surplus Land and Buildings

33. Departments will also be asked to supply information on their plans for disposal of surplus land and buildings. Expenditure divisions will be writing separately to departments about this.

Economic assumptions

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

V Nationalised Industries

35. 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 are being notified to sponsor departments. The arrangements for reporting on contingent liabilities in respect of nationalised industries are covered in paragraphs 37 and 38 below.

VI European Community Expenditure

36. PESC(EC) will consider spending allocated to programme 2.7. Departments should provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1988-89 and

their estimates for 1989-90 by 3 April. This information should be consistent with the provisions contained in the 1989-90 main Estimates, but set out on the basis of receipts by sub-programme within programme 2.7. EC division will write separately to departments to confirm the outturn for earlier years and to seek their views on UK percentage shares and level of EC receipts for future years.

VII Contingent Liabilities

- Departments are reminded of the Prime Minister's requirement that they review all contingent liabilities at least annually. These reviews should also cover the contingent liabilities of bodies they sponsor. As in previous years, a further review should be carried out concurrently with the initial stages of the Survey. Further advice on the coverage and conduct of the review is given in Annex E. The review should check that all contingent liabilities have been identified; that all available steps are being taken to minimise the risk of payments being required and their amounts; and that the guidelines set out in Government Accounting, including those on the notification to Parliament of new and outstanding liabilities, are being scrupulously observed. Departments should report the results of the reviews, which should be approved by Ministers, to their Treasury Expenditure Division by 25 May 1989. Departments should also confirm that their Accounting Officer is satisfied that all the Department's contingent liabilities have been reviewed and that all those over £100,000 reported.
- 38. If a department expects that they or any of their sponsored bodies will take on any new contingent liability, or expects any increase in the size of an existing contingent liability during the period covered by the 1989 Survey, the departmental Minister should mention this in his letter to the Chief Secretary, and details should be included in the official letter, so that the matter can be considered in the context of the Survey.

VIII Further Information

39. The papers listed below are relevant:

PESC(88)3	Resoucing Policy Change Across Departments
PESC(89)3	The 1989 Survey: Departmental Running Costs
	Management Plans
PESC(89)8	The 1989 Survey: Departmental Relocation Reviews
PESC(89)9	Payments by Government Departments in Lieu of
	Community Charges.
PESC(89)11	Departments' expenditure on accommodation - arrangements for PES 1989 (to follow).
PESC(WM)(89)3	The 1989 Survey: Departmental Running Costs Management plans
PESC(WM)(89)6	Central Government Grants to Local Authorities
PESC(WM)(89)11	The 1989 Survey: Running Costs
	Information - DRC forms
PESC(WM)(89)13	1989 Survey Baseline: Submission of running tallies
PESC(WM)(89)15	1989 Survey Baseline: Submission of EUROPES running tallies (to follow)
PESC(LA)(88)8	The Development of Output and Performance
	Measures for Specific Grants to Local Authorities
PESC(LA)(89)7	Treatment of local authority current
	expenditure in the 1989 Survey
PESC(WM)(LA)(89)5	1989 Survey Baseline: Submission of Running Tallies
PESC(NPT)(89)1	Treatment of local authority capital
	expenditure in the 1989 Survey (to follow)

General questions arising from this paper should be addressed to the secretaries, Sarah Walker (270-5522) or Justin Wray (270-5523). questions on departmental running costs should be addressed to Graham Binns (270-4996) or Tony Davis (270-4997), on manpower to Ron Carpenter (270-4865), on contingent liabilities to Dick Meadows (270-5363), and on EC expenditure to John Addison (270-4425).

1989 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

MARCH Friday 17 March Last date for departments to comment on formats of main departmental baseline tables.

Thursday 23 March PESC(WM) paper seeking running tallies to amend PES database issued.

APRIL Monday 3 April Last date for forecasts of outturn for 1988-89 and 1989-90 EC receipts to be sent to EC division.

Thursday 13 April Last date for departments to submit running tallies to amend PES database for years up to 1991-92, and for DRC2 forms (1990-91 to 1992-93) where departments are unlikely to submit running tallies to amend the PES database for 1992-93.

Thursday 20 April deadline for return of EUROPES running tallies.

Friday 28 April Last date for departments to submit value for money information on baseline plans

MAY Wednesday 10 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year (with separately identified running cost baselines and manpower plans), and more detailed PES standard reports to expenditure divisions and departments. Draft texts explaining changes since White Paper figures circulated.

Friday 12 May Last date for departments to submit running tally forms to amend PES database for 1992-93 including EUROPES adjustments, and where appropriate DRC2 forms for 1990-91 to 1992-93 to provide breakdowns of running cost baselines and manpower plans.

Wednesday 17 May Last date for final comments on departmental tables. Last date for comments on textual explanations of changes since White Paper figures.

Thursday 25 May Working document circulated to PESC and Ministers.

Thursday 25 May Last date for Ministerial and official letters and management plans to be sent to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for gross running costs and associated manpower. Last date for information on contingent liabilities to be sent to expenditure divisions.

ANNEX B

CONSTRUCTION OF THE BASELINE

The arrangements for constructing the departmental Survey baseline tables for the 1989 Survey will need to reflect the introduction of the new definition of the planning total. The purpose of this annex is to explain how the figures in the baseline tables will be constructed.

Figures for 1990-91 and 1991-92

- 2. The starting point for those elements of the new planning total which were also included in the planning total used in the 1988 Survey central government's own expenditure and most public corporations will be the same as in previous Surveys, ie the cash plans published in the 1989 public expenditure White Paper (Cm 601-621) adjusted for classification changes. This year several substantial classification changes are being made to coincide with the introduction of the new planning total the departments affected are already aware of this and have been involved in providing baseline figures. Manpower plans for 1990-91 and 1991-92 are as published in Cm 601-621 except where subsequently amended by agreement with the Treasury.
- 3. The arrangements for dealing with the elements which were not previously included in the planning total which have been agreed in Ministerial correspondence (Chief Secretary's letters of 31 January (current) and 10 February (capital)) are:
 - a. <u>Current grants to local authorities</u>. Data for these grants for the years up to 1989-90 have been extracted from the Treasury's Estimates database and checked with departments. Figures for 1990-91 and 1991-92 have been produced by applying the uplift factor of 2½ per cent used for both the two previous Surveys to the previous years' figures for grants expected to exist in those years.

- b. Capital grants to local authorities (other than EC). A similar approach has been adopted to that for current grants. The baselines for those few capital grants referred to in the third sentence of paragraph 27 of Annex F will be as set out in John Adams' (DOE) letter of 7 March to John Kidman (HMT), and John Kidman's reply of 4 April. (Note that European Community capital grants (other than for Northern Ireland) are excluded from the new planning total they will be treated as financing grants not conveying additional spending power to local authorities. EC capital grants to Northern Ireland district councils are included in the planning total.)
- c. National non-domestic rates. Proxy figures for NNDR payments and figures for non-domestic rates in Scotland for the years from 1984-85 to 1989-90 have been calculated from data on the yields and incomes of existing non-domestic rates in Great Britain. As with grants to local authorities the figures for 1990-91 and 1991-92 have been calculated by applying the uplift factor of 2½ per cent used for both of the two previous Surveys.
- d. <u>Credit approvals</u>. Proxy figures for CAs for the years from 1984-85 to 1989-90 have been calculated based on capital allocations for those years. For 1990-91, for England and Wales, the baseline for CAs has been calculated from gross provision taking into account the various sources of spending available to LAs. For 1991-92 the figures for CAs have been derived by applying the uplift factor of 2½ per cent to the 1990-91 figures. For Scotland, whose capital control regime remains unchanged, baseline figures for the equivalent of credit approvals have been derived from existing provision.

Figures for 1992-93

4. Figures for the new third Survey year (1992-93) for programme expenditure, finance for local authorities and gross running costs will be calculated by the Treasury by adding 2% per cent to the cash baseline figures for 1991-92. Baseline manpower plans for 1992-93 should be consistent with the baseline figures for gross running costs calculated as above.

Adjustments to the PES database Apart from the classification changes mentioned in paragraph 5. 2, on which the Treasury will be taking the lead, there are a few areas where other changes to the database may be made in advance of the production of the Survey baseline tables. They are as follows: Coding errors that need correcting. For example, departments may have identified data that are wrongly coded and needed to be corrected by switching money between subprogrammes, economic categories, territorial areas, spending sectors or accounting authorities; Any minor and non-contentious amendments to figures for central government spending beyond 1989-90 as a result of the 1989-90. PESC(WM)(89)13 asked Estimates scrutiny for departments to align PES and Estimates for 1989-90. In some, but not all, cases changes in 1989-90 might have implications for later years involving switches between sub-programmes, economic categories or spending authorities and these may be reflected in the database. Increases in expenditure (or switches from programme expenditure into gross running costs) should not be included, even where policy agreements have already been reached as these will be dealt with as part of the Survey itself and recorded on the database after the Survey.

- c. Adjustments to figures for grants to local authorities for the years 1989-90 to 1991-92 arising from differences between the figures for 1989-90 on the Treasury's database at the end of January and the final main Estimates figures for 1989-90.
- In <u>all</u> cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions. <u>Any changes resulting from re-assessment of priorities should be part of the Survey and not reflected in the baseline. In particular, switches</u>

into gross 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 1990-91 to 1992-93.

- 6. Running tallies for any agreed changes to the baseline covering all years of the Survey (ie 1984-85 to 1991-92), or just the first two forward years as appropriate, should be sent to the Treasury by 13 April. Running tallies for agreed changes to the baseline for 1992-93 should be sent in, after the baseline for that year has been created, by 12 May.
- 7. Adjustments will also need to be made to some cells as a result of the EUROPES arrangements (see paragraph 6 of the main paper). PESC(WM)(89)15, requesting departments to submit tallies for these adjustments, will be issued in early April.

Supplementary analyses

8. In addition to the departmental tables a series of additional analyses tables will be circulated to PFOs. These tables give summaries of the planning total by spending authority and department and analyses of public sector capital spending, expenditure on science and technology, running costs and manpower.

OFFICIAL LETTERS

- Official letters should <u>list proposed bids and reductions in order of priority</u> as in the Ministerial letter. They should also include any further <u>detailed explanation</u> which Departments wish to put forward or which the Treasury may request. For example, if additional provision is proposed the letters should explain more fully how the need for it arises. They should also give full details of reduced requirements for provision already in the baseline indicating whether they result from an estimating change, revised economic or demographic assumptions, or proposed policy changes. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an <u>analysis of outturn</u> for the relevant programme for at least the past two years, and an estimate of outturn for the current year (1989-90).
- 2. The letters should provide any additional details that may be necessary of the improvements in output and performance which would be achieved by any bids put forward, and how effectiveness and efficiency will be evaluated, including specific performance measures and indicators.
- These letters should clearly indicate which elements of the 3. total proposed changes to baselines relate to running cost proposals or involve manpower changes. In addition they should separately identify running cost proposals which do not involve changes to expenditure baselines. Capital expenditure proposals and major items of maintenance expenditure of a similar nature, ie with benefits running into future years, should be supported by a full 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: details of a new Treasury discount rate are likely to be announced shortly after Easter); alternatives considered; the material factors in the proposed decision, including risks; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

The official letters should indicate whether the change requires amendment to proposed or existing legislation regulations. 5. For any proposed change affecting other departments, the letters should set out the details of agreements reached with those departments on the responsibility for funding the costs involved. Official letters should also give information the 6. territorial consequences of proposed changes to the baseline, and of proposed changes in science and technology spending, and details of proposed new or increased contingent liabilities. 7. Annex D gives details of supplementary information on proposed changes to the baseline needed by the Treasury. Copies of the forms attached to Annex D should be returned to the Treasury with the official letters. 8. All letters and supporting information (eg DRC3 forms for gross running costs and related manpower) should be sent to the Treasury by 25 May. 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. 19

INFORMATION ON ECONOMIC COMPOSITION

The Treasury needs to collect information about proposed changes to the baseline by economic categories. This information is used by the Treasury forecasters in preparing the forecasts for the July Cabinet and the Autumn Statement. Departments are therefore asked to split their bids and reduced requirements by the economic categories shown in the attached table. The first ten columns refer to central government expenditure, the next three to finance for local authorities, and the final column covers all planning total items in the spending sector: "other public corporations" (ie excluding nationalised industries).

The definitions of economic categories are given in Section 2J of the FIS Handbook. In case of difficulty please consult David Deaton (270 5337).

Departments should 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 25 May. Divisions will check the information, and will forward it to the Secretaries.

Capital Spending

The Autumn Statement generally includes a statement, in broad terms, of the change in public sector capital spending as a result of Survey decisions, using a definition consistent with Table 2.1.11 of the 1989 PEWP. To help compile this figure, it would be helpful if departments would complete the second form attached to this annex, listing the bids and reduced requirements for central government expenditure falling within ECs E20, E30, E40, G10, and G20, and return it at the same time.

PLEASE USE A SERVACIE SHEET FOR HACH YEAR

PUBLIC EXPRODIUME SURVEY 1969 LIST OF BUILD AND REQUIREMENTS

DEPARTMENT:

YEAR: Name of originator:

TEL NO:

£ million

Romanic categories

Proposed charges from base(1) line(1)	Total cost	Rety	cument. goods &	Substidies (exc to public corporat- ions)	grants overseas	Expenditure on capital assets (net) excluding stockhuilding	Stock- building	to the	lending to the private	Net lending oversees	Ownerst grants to local authorities NNR, REG	Capital grants to local author- ities	Iccal authority credit approvals	Finance for othe public corpor- ations

⁽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. Please list hids and reduced requirements in the order in which they are covered in the letters.

7

gepl.ip/sw/cap spend

Capital spending (ECs E20, E30, E40, G10, G20: payments only not receipts)

Please list

central government bids only

Department:

£ million

	1990-91	1991-92	1992-93
Description of bid			
Descripcion of Did			

Name of originator:

Telephone number:

CONTINGENT LIABILITIES

Introduction

The purpose of this annex is to give advice on the coverage and conduct of the reviews of contingent liabilities referred to in paragraphs 37 and 38 of the covering PESC paper and to set out details of the action to be taken by departments in reporting the results of the reviews to the Treasury.

Coverage of the review

The review should consider all contingent liabilities and identify any liabilities of an hitherto seek to unrecognised nature (including those which arise as a result of a department's staff acting in an ex-officio capacity, advice on which was circulated to Departments last year). should satisfy themselves that the contingent liabilities they have are necessary and that every effort has been made to minimise the risks of payments being required. Departments should also ensure that they have scrupulously followed the requirements of Section O paragraphs 26-57, on the Government Accounting, assumption and control of all contingent liabilities, particularly, in appropriate cases, the requirements for reporting to Parliament new and changed liabilities and the reporting of outstanding exposure on continuing liabilities.

Types of liability to be reported

- 3. Departments are again asked to report all their outstanding contingent liabilities and those of the bodies which they sponsor where the potential risk to their programmes exceeds £100,000 except those which fall into the following categories:
 - a. Those which arise in the normal course of business (see paragraph 4 below).

Those which may arise as a result of the Government's general practice of non-insurance. Those which may arise as a result of department's sponsorship of the nationalised industries; these monitored in the context of EFL reviews. In deciding whether a contingent liability has arisen or 4. will arise in the normal course of business, departments should consider whether:the activity which gives rise to the liability is an unavoidable feature of their essential responsibilities or statutory duties; and Parliament could reasonably be assumed b. envisaged the activity when it passed the statute or, for the activities resting on the sole authority of Appropriation Act, voted the supply expenditure. Indemnities given for the loan of articles for exhibition should be reported. Although exhibitions are part of the every day business of museums and galleries, the borrowing of exhibits is discretionary and the associated indemnities are reported to Parliament at the PAC's request. Departments will still need to send a separate return to the Accountant, HM Treasury, by the end of June each year, setting out of contingent liabilities resulting from statutory quarantees; this is required for inclusion in Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts but any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000. Departments are also of the need to report liabilities on outstanding reminded non-statutory contingent liabilities in the introduction to the relevant supply Estimate. 24

Format of reports It would be helpful if, in reporting contingent liabilities to the Treasury, departments could follow the format attached. completing this the following should be noted:-Column 1 should clearly indicate whether the liability arises from the department's activities or from those of a sponsored body (giving the name of the body); Column 2 should set out details of the statutory authority or, in the case of non-statutory contingent liabilities, the reference of the departmental minute, where either of these exists. Departments should consider whether Parliament remain existing reports to up-to-date, taking account of any significant change in nature or increase in the size of the contingent liability, or change in material circumstances since it was accepted or last reaffirmed. Departments should confirm here that they have followed the relevant requirements for reporting outstanding liabilities to Parliament. Column 3 should be completed to compare this year's figure with last year's: if this year's figure is not fully available by 25 May and estimated figure should be inserted. Column 4 should include a brief description of the action departments are taking to minimise the risks. Submission of reports The reports should be approved by the department's Minister and sent to the Treasury by 25 May. The reports should confirm that the department's Accounting Officer was satisfied that all the department's contingent liabilities have been reviewed and that all those over £100,000 were reported. Planned new contingent liabilities Proposals for new or increased contingent liabilities to be taken on during the Survey period should be summarised in the Ministerial letters and details given in official letters. 25

1988 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 25 MAY 1989

DEPARTMENT

(Separate return using the same format for planned new or increased liabilities)

Nature of Contingent Liability Statutory Authority or Departmental Minute Reference (If either exist) Amount at Risk at 31.3.89

Department's Comments To cover action to minimise the risk of payment, reasons for any significant changes in amount at risk

1

2

3

4

Liabilities in existence at 31.3.88 (To include any not previously reported)

(Show in brackets immediately below this year's figure the amount reported last year)

Liabilities arising or entered into between 1.4.88 and 31.3.89

HANDLING OF LOCAL AUTHORITY COMPONENTS OF NEW PLANNING TOTAL

The operation of the public expenditure Survey will reflect the reform of local government finance and the introduction of the new planning total.

- 2. For local authority current in GB, the new planning total will include the following components:
 - (a) Revenue Support Grant (RSG);
 - (b) National non-domestic rate (NNDR) payments (and the equivalent in Scotland);
 - (c) Specific current grants (including grants covering community charge benefits, and European Community current grants to local authorities).

Items (a) and (b) will be included in DOE, Scottish Office and Welsh Office departmental programmes; item (c) will be included in the appropriate departmental programmes.

- 3. For local authority capital in GB, the new planning total will include:
 - (a) Domestic (non-EC) capital grants;
 - (b) Credit approvals (or their equivalent in Scotland) issued by central government authorising local authorities to borrow or raise other forms of credit for capital expenditure.
- 4. The coverage of the new planning total in N Ireland reflects the different arrangements there.
- 5. The capital and current expenditure which local authorities in effect determine and finance for themselves, from the community charge, the use of capital receipts, or from other income, will be outside the new planning total.

6. The Survey will determine local authority components of the new planning total identified above; the Autumn Statement will also include within the figures for GGE, projections for the self financed expenditure of local authorities throughout the UK. This Annex describes in more detail how the individual components will be handled in the 1989 Survey. The attached appendices summarise the timetable.

LOCAL AUTHORITY CURRENT

England

- 7. Ministers have agreed to the proposals in the Chief Secretary's letters of 31 January and 2 March for the conduct of the Survey. The baselines for the relevant components of local authority current will be constructed by applying to the corresponding 1989-90 figures uplift factors of 2½ per cent to create figures for 1990-91 and 1991-92. Figures for 1992-93 will be created by applying the same uplift factor of 2½ per cent as used elsewhere in the Survey.
- 8. Ministerial letters, and supporting official letters, due by 25 May will need to cover any proposals for changes from the baseline for individual specific grants. Departments will be expected to provide supporting information as in Annex C. As with other proposed increases departments should say what priority they attach to these bids and set out the reductions which are proposed to offset these increases.
- 9. Decisions on local authority current for 1990-91 will be taken in two stages. In July Ministers will decide in E(LF) on an aggregate amount of Exchequer support and the aggregate need to spend. In September/October Ministers will take final decisions on the distribution of the aggregate need to spend amongst departments and the split between RSG, NNDR payments and specific grants (to the extent that the latter are not decided in July).

The July decisions

10. Ministers have agreed that, in July, there should be an announcement covering, for 1990-91:

(a) an envelope of "Aggregate Exchequer Finance" (AEF), including the NNDR payments, RSG and certain specific grants;

(b) the aggregate need to spend;

(c) the community charge for spending at need.

Once decided, the AEF figures would remain fixed for the rest of the Survey.

- 11. It has already been broadly agreed which specific grants should be included within AEF (see attachment to Chief Secretary's letter of 31 January). Final details will be agreed as soon as possible, and circulated in a PESC(LA) paper.
- 12. In order that proper decisions on AEF can be taken by E(LF) in July bilateral discussions on specific grants within AEF will take place before the E(LF) meetings. E(LF) will then be in a position to agree figures for most if not all of the specific grants within AEF.
- 13. In addition Ministers will consider the AEF envelope for 1991-92 and 1992-93 though no announcement will be made in July about the later years.

The Autumn decisions

14. In September/October Ministers will take final decisions on the distribution amongst services of the aggregate need to spend agreed in July. In addition they will agree the RSG and NNDR payments figures within the AEF total in the light of the final forecast of the yield from the NNDR.

- 15. Specific grants outside AEF will be considered in the bilaterals. Decisions on these grants will be taken as part of the normal bilateral discussions on Departmental programmes.
- 16. Ministers will announce in the Autumn Statement, or around the same time, provision for RSG, NNDR payments, and specific grants for each of the three forward years and the assessment of service needs for the year ahead.

Scotland

- 17. In Scotland, the local authority current expenditure regime will be different in certain respects from that in England and Revenue Support Grant, Baselines for non-domestic rate income and specific grants will be set in a broadly similar way to the provision in England. Following the decisions in July on AEF for English local authorities for 1990-91, there will be bilateral discussions between the Chief the corresponding Secretary and the Scottish Secretary on aggregate for Scotland and hence on Revenue Support Grant and those specific grants which make up AEG for Scotland. AEG for 1990-91 will be announced in July. Provision for the aggregate corresponding to AEF in 1991-92 and 1992-93 will be considered in In October the Secretary of State for Scotland will announce provision for RSG, projected non-domestic rate income and specific grants for at least the year ahead. Figures for all 3 years will be included in the Autumn Statement.
- 18. The provision for these components of local authority current will not be covered by the Scottish block formula. Specific grants outside AEG which are the responsibilities of other Secretaries of State will be handled as part of the appropriate programme bilaterals. Those which are included in the block will be determined by the Secretary of State within the overall change agreed for the block as a whole. These arrangements are set out in Barry Potter's letter to Godfrey Robson of 15 March.

Wales

- 19. Baselines for Revenue Support Grant, NNDR payments and specific grants will be set in a broadly similar way to that in England. Following the decisions in July on Aggregate Exchequer Finance for English local authorities there will be bilateral discussions between the Chief Secretary and the Welsh Secretary, to settle AEF, assessed need to spend and the community charge for spending at need for Wales for 1990-91 in the light of the English settlement. These figures will be announced in July. Provision for those specific grants within AEF which are the responsibility of the Secretary of State for Wales will also be settled in July. Provision for AEF for 1991-92 and 1992-93 will also be considered in July. In October/November the split between NNDR and RSG will be determined and announced at least for the year ahead.
- 20. The provision for these components of local authority current will not be covered by the Welsh block formula. Specific grants outside AEF which are the responsibilities of other Secretaries of State will be handled as part of the appropriate programme bilaterals. Those which are included in the block will be determined by the Secretary of State within the overall change agreed for the block as a whole. These arrangements are described in Barry Potter's letter of 21 March to Colin Jones.

Northern Ireland

- 21. For district council current, the new planning total will include only current grants DOE(NI)'s general grant and specific grants. These items will be included in the NI block. Baselines for current grants will be set in the light of the corresponding figures for England. Provision in the NI block will be adjusted to reflect the formula consequentials of changes to comparable English figures, as described in Max Sharratt's letter of 20 December to Andrew McCormick.
- 22. Further information on all local authority current items covering all four territories can be found in PESC(LA)(89)7.

LOCAL AUTHORITY CAPITAL

23. There are 6 main blocks of local authority capital expenditure within the new planning total.

(i) English Local Authority Block (ELAB)

- 24. The method for setting baselines for credit approvals and capital grants within ELAB was set out in the Chief Secretary's letter of 10 February. (See also Annex B). Figures already on the database for capital grants will be adjusted to reflect changes made in 1989-90 Main Estimates. The baselines for credit approvals will be finalised by early April, in the light of further information only about the volume of accumulated and in-year receipts. Baselines for 1992-93 will be created by the Treasury by adding 2½ per cent to the cash figures for 1991-92.
- 25. The baselines are set by department. For this purpose, the credit approvals for "other services block" within ELAB will be allocated between departments.
- 26. Departments are asked to cover any proposals for changes from these baselines in the Ministerial and official letters due to be sent to the Treasury by 25 May. These letters should set out comparable information to that requested in paragraphs 15-17 of the main Guidelines, and should be accompanied by official letters setting out information as requested in Annex C.
- 27. Provision for credit approvals and capital grants for each department will be discussed in the Ministerial bilaterals in the Autumn.
- 28. The Survey will determine, for each department, credit approvals (and the Annual Capital Guidelines issued by departments to the relevant local authorities) for 1990-91, as well as credit approvals for the 2 later years. To form the ACGs, the credit approvals for 1990-91 will be added to figures for receipts taken

into account. The receipts taken into account for 1990-91 will be fixed in mid-July; once fixed, the figures will not be changed during the Survey, so that any additions or subtractions to baseline credit approvals agreed in the bilaterals for 1990-91 will add or subtract £ for £ to Annual Capital Guidelines.

- 29. All domestic (non-EC) capital grants to local authorities that represent a source of finance directly available for spending are included in the new planning total, and will be determined in the Survey. A list of these grants is attached to PESC(NPT)(89)1. They include a small number of DOE capital grants, previously paid as specific grants towards loan charges incurred on borrowing to finance capital projects, but in future to be paid as lump sum contributions to project capital costs. (Payments to local authorities capitalising sums that would otherwise have been paid in support of loan charges on projects already started will not be included within the new planning total. Any residual specific grants on loan charges which have not been capitalised will also not score in the new planning total.)
- 30. Provision for EC capital grants to local authorities will not be settled in the bilaterals. These grants will be financing grants. They will substitute for the use of credit approvals, and local authority expenditure financed by them will be covered by the total of credit approvals agreed in the Survey. They will therefore not score in the new planning total.
- 31. Further information can be found in PESC(NPT)(89)1.

(ii) Urban Block (DOE/UA1)

32. The urban block (DOE/UA1) at present includes expenditure of central government, local authorities, and public corporations. It is included within the other environmental services programme of DOE. The central government and public corporations elements will continue to be handled in the Survey as normal. All the local authority elements covered at present will be included within the new planning total, as there is deemed to be no local authority expenditure on this block financed from receipts or

revenue contributions. The total baseline provision for the local authority elements for the 1989 Survey will therefore be as in the 1989 PEWP. Any changes to this provision which the department wishes to propose should be included in the Ministerial and official letters submitted to the Treasury by 25 May and accompanied by supporting information as requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision will be discussed in the bilateral meeting with the Secretary of State for the Environment as has been the case in the past. These arrangements are as set out in Mark Betenson's letter of 1 March to John Adams and John Kidman's letter to Nigel Ledgerwood 31 March.

(iii) Home Office (HO/LA1)

Arrangements for Home Office services (police, magistrates' courts, probation and civil defence) will be similar to those for the English local authority block, subject to certain additional controls. (See Mr Hurd's letter of 15 February, and the Chief Secretary's reply of 6 March). The new planning total will include provision for credit approvals and capital grants from Any proposals for changes from these government. central baselines should be covered in the letters due to be sent to the Treasury by 25 May and supported by the information requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision for credit approvals and capital grants will then be discussed in bilaterals between the Chief Secretary and the Home Secretary. Credit approvals will be distributed by the Home Office as Supplementary Credit Approvals on the basis of the project approvals issued by the Home Office.

(iv) Welsh Office Local Authorities Block (WOLAB)

34. Welsh local authority capital items within the new planning total are covered by the Welsh Office Local Authority Block (WOLAB). This includes credit approvals and capital grants. Baselines for these items have been set, (see Barry Potter's letter of 15 March 1989 to Colin Jones). The provision for WOLAB is included within the Welsh block. Total provision within the Welsh block will be altered in line with the formula consequentials of any changes to the credit approvals and capital grants included within ELAB.

(v) Scottish Office Local Authorities (SO/LA1 and SO/LA2)

35. Scottish local authority capital items within the new planning total are covered by the Scottish Office Local Authority Blocks 1 and 2. These will cover capital allocations (the broad equivalent in Scotland of credit approvals and capital grants). Baselines will be established following the method set out in Barry Potter's letter of 1 February 1989 to Tony Cameron. The timetable for setting the baselines will be similar to that proposed for ELAB. Provision for SO/LA1 and SO/LA2 is included within the Scottish block. Total provision within the Scottish block will be altered in line with the formula consequentials of any changes to the capital grants and credit approvals within ELAB.

(vi) N Ireland

36. The new planning total will include central government and EC capital grants to Northern Ireland district councils. Baselines for these will be set in early April on the basis of the figures underlying the 1989 PEWP. Provision for these items, which fall within the N Ireland block, will be altered at the discretion of the Secretary of State for Northern Ireland, within the block total which will be altered by, inter alia, the formula consequentials of the changes agreed to the comparable programmes in GB.

RESTRICTED

TREATMENT OF LA CURRENT EXPENDITURE IN THE 1989 SURVEY: OUTLINE TIMETABLE

May

- Baseline tables finalised, including 1992-93.
- Ministerial letters, and supporting official letters, with proposals for variations from the baseline for individual specific grants.

June-July

- Bilateral Ministerial consideration of individual specific grants within AEF.

July

- E(LF):
 - (a) settles for 1990-91, an envelope of "Aggregate Exchequer Finance", the aggregate need to spend, the community charge for spending at need, and most if not all specific grants within AEF.
 - (b) considers AEF for 1991-92 and 1992-93.

July

- Announcement of Government decision on (a) above.
- Bilateral discussions and announcements of (a) above where relevant for Scotland and Wales.

September/October

- Discussion of any specific grants within AEF not finalised in July.
- Bilateral discussion of specific grants outside AEF, as part of discussion of departmental programmes.

RESTRICTED

- Final decisions on:

- (a) split of AEF for 1990-91 into RSG,NNDR payments, and specific grants;
- (b) distribution of aggregate need to spend between services for 1990-91.

October/November

- Announcement of split of AEF for 1990-91 and distribution of total needs by service.

TIMETABLE FOR LA CAPITAL

BASELINES

- February (i) set baselines for domestic capital grants and credit approvals for 1990-91 and 1991-92 on provisional assumptions about receipts;
 - (ii) set provisional assumptions about RTIA for 1990-91;
- April (iii) finalise baselines in the light of latest data on receipts;
 - (iv) create baseline for 1992-93;

VARIATIONS FROM THE BASELINE

- End-May (v) deadlines for any Departmental bids for CAs and capital grants;
- July (vi) RTIA by department for 1990-91 fixed;

BILATERALS

- September/ (vii) bilateral negotiations on CAs and capital October grants for all three years;
 - (viii) ACGs for 1990-91 formed by adding CAs to RTIA for each service block.

CONFIDENTIAL

PRIME MINISTER

GUIDELINES FOR THE 1989 PUBLIC EXPENDITURE SURVEY

The Chief Secretary's minute of 15 March attached seeks agreement to the guidelines for the handling of the early stages of this year's Public Expenditure Survey. This does not cover the handling of the main Ministerial negotiations in the autumn, which will be settled later.

Most of the material in the guidelines follows well-established arrangements from previous years. The main differences stem from the change this year to the way that local government finance is measured in the new planning total. All the relevant details have, however, been sorted out between departments over the last couple of months.

Content to agree the proposed arrangements?

PAUL GRAY

17 March 1989

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CONFIDENTIAL



PROM: PRIME MINISTER DATE: |5 March 1989

CHIEF SE POTAL

PRIME MINISTER

GUIDELINES FOR THE 1989 PUBLIC EXPENDITURE SURVEY

We need to agree the arrangements for the early part of this year's Survey.

The New Planning Total

- 2. This year for the first time, we will be using the new planning total, and agreeing totals relevant to the new system of local government finance. This will affect the arrangements for reaching decisions in the Survey as well as the results we publish in the Autumn Statement. I attach a draft of the Survey Guidelines which incorporates the procedures I have agreed with colleagues for settling the local authority elements which are included in the planning total for the first time in Annex F. This Annex contains one or two passages in square brackets, reflecting issues still to be agreed. I hope that these can be settled by the time the final version is circulated at the end of the month.
- Apart from this, the Guidelines are largely unchanged from last year's version. I should draw attention to the following points.

Baselines

4. The methods of creating baselines for the new elements of the planning total have been agreed with colleagues. Otherwise the baselines for 1990-91 and 1991-92 will be the plans agreed in last year's Survey. For the final year, I propose that, as in previous years, the baseline should be created by applying a factor of 2½ per cent to the plans for the second year (1991-92).

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dids and options

5. I propose that Ministers should once again review priorities within their programmes personally before writing to me with any proposals for changes in May. Departments are asked to cooperate with the Treasury by producing or costing options for reductions in expenditure when requested.

Value for money

6. Value for money from all public expenditure is essential. The Guidelines ask departments to produce information on the outputs and performance expected from planned or proposed expenditure, and I expect to discuss this information with colleagues during the Survey. We should also aim to establish more performance targets wherever possible. The Guidelines also include a reference to the improved efficiency and effectiveness to be expected from Next Steps agencies.

Science and Technology

- 7. In my letter to you of 14 October I said that I would continue to pursue the E(ST) objective and find savings in science and technology expenditure to offset the increases we agreed in the DES science budget. I will continue to look for such savings in the 1989 Survey, and I hope that colleagues will help to identify them. I envisage reporting the results to E(ST) in October.
- 8. I would be grateful for any comment you or other colleagues may have by 23 March. Subject to these I propose that the Guidelines should be formally circulated by the end of the month.
- 9. I am copying this minute to other Cabinet colleagues, Richard Luce, Chris Patten, Patrick Mayhew, Peter Fraser and Sir Robin Butler.

JOHN MAJOR

CONFIDENTIAL

PESC (89)

Downgrade to Restricted after 5 years

Her Majesty's Treasury

Public Expenditure Survey Committee

Guidelines for the 1989 Survey

Note by the Treasury

Introduction

This paper sets out the Guidelines for the 1989 Survey. This will be the first Survey conducted on the basis of the new Planning Total, and several significant changes to Survey procedures will be necessary to take account of this, affecting all departments which are responsible for grants to local authorities or have an interest in local authority capital spending.

- 2. The remainder of this paper is divided into the following sections:
 - I Timetable
 - II Baselines
 - III Demonstrating Value for money
 - IV Ministerial proposals for changes to the baseline
 - V Nationalised industries
 - VI European community expenditure and receipts
 - VII Contingent liabilities
 - VIII Further information

- Annex A: 1989 Public Expenditure Survey: key dates March-May.
- Annex B: Construction of the Baseline.
- Annex C: Official letters.
- Annex D: Information on the economic composition of proposed changes to the baseline.
- Annex E: Contingent liabilities.
- Annex F: Handling of local authority components of the New Planning Total.

I Timetable

3. The key dates are shown in Annex A. Departments are asked to submit running tallies to set up the baseline by 13 April. Information on value for money relating to baseline plans should be sent to the Treasury by 28 April. The baselines will be set and agreed by 17 May and circulated on 25 May. Ministerial and official letters proposing changes to departmental baseline expenditure plans should reach the Treasury by 25 May. Information on contingent liabilities should also be sent to the Treasury by 25 May.

II Baselines

4. The process of creating the baseline for the 1989 Survey is complicated by the introduction of new elements for local authorities as part of the new planning total. The method of setting baselines for these new elements has been discussed in PESC(LA) and PESC (NPT), and are recorded in the Chief Secretary's letters of 31 January (current expenditure) and 10 February (capital expenditure). The details of these agreements are set out in Annex B.

- The New Planning Total (central government's own expenditure, nationalised industries and other public corporations) the baselines for 1990-91 and 1991-92 will be the figures agreed in the 1988 Survey and published in the 1989 public expenditure White Paper subject to classification changes and EUROPES adjustments (see paragraph 6 below). For 1992-93, the baseline for these elements will be constructed by the Treasury by adding 2½ per cent to the cash figures for 1991-92.
- 6. Under the EUROPES system, some departments' baselines will be reduced to reflect excess spending by the European Communities on lines of the EC budget which they sponsor. PESC(WM)[] sets out the reductions required and the timetable for running tallies. The reductions should be made in cash limited central government programmes.
- 7. The baseline for gross running costs will be constructed in the same way as the baselines for other central government spending: for 1990-91 and 1991-92 the PEWP figures will be used, and for 1992-93 the baseline will be created by applying the uplift factor of 2½ per cent to the 1991-92 figures. Departments have been asked to provide a breakdown of their running costs baseline, and consistent manpower figures, on form DRC2 (see PESC (WM) []).
- The baseline figures will be circulated to departments on
 May, in a similar form to 1987 and 1988.

III Demonstrating Value for Money

- 9. As in previous years the Treasury will need to be satisfied that baselines and any additional bids can be justified by output and performance information and that the expenditure is achieving the greatest possible value for money. All additional bids must be accompanied by value for money information in accordance with paragraph 15 and Annex C.
- 10. For the <u>baseline</u> the general requirement is that departments should submit for each main element:

- (i) a current statement of objectives;
- (ii) an assessment of what outputs the plans for future years will buy and relevant historical information for earlier years;
- (iii) the most recent outturn information relating to existing agreed value for money targets (whether or not these have been published).
- (iv) information on value for money targets for future years including measures of effectiveness and efficiency.
- 11. In 10(iv) above particular emphasis should be placed on high level aggregate indicators and unit costs covering full input costs and outputs. Departments should also indicate what plans they have for extending the range of such measures. Value for money information will also need to cover specific grants to local authorities (see PESC(LA)(88)8).
- 12. Expenditure Divisions will need this information by 28 April so that they can discuss the baseline with departments. For some programmes Expenditure divisions may already have the most up to date information; for others they may not need the full range listed above because they may wish to concentrate on areas of particular concern. Departments should therefore contact their Expenditure Division as soon as possible to discuss the precise requirements, thus avoiding the risk that information will be produced which is not going to be used.
- 13. Departments will also need to supply information derived from policy evaluations, scrutinies and reviews completed in the last year where this is not already available; and should set out their plans for further evaluations etc for 1989-90, taking account of cases where the Treasury has given notice of its wish to discuss the performance of a particular programme and of its intention to request evaluation information.

Where Next Steps agencies are created or proposed, after discussion with OMCS and the Treasury, the department's value-for-money material or their running costs management plan (paragraph 21 below) as appropriate should identify the higher efficiency and effectiveness targets expected in consequence and their effects on expenditure. Where, exceptionally, a Minister seeks additional resources for an agency or proposed agency he should explain in his letter to the Chief Secretary (paragraph 15 below) why its needs cannot be met from improved performance.

IV Ministerial proposals for changes to the baseline

- 15. Ministers are asked to write to the Chief Secretary by 25 May, copying to the Prime Minister and other Ministers with an interest, to report the outcome of their personal scrutiny of priorities within their programmes. These letters should contain:
 - (i) any reduced requirements on their programmes.
 - (ii) any proposals to reallocate baseline provision to accommodate changing priorities, listing proposed increases and offsetting savings (specifying whether they result from policy or estimating changes);
 - (iii) if, exceptionally, the Minister proposes to seek increases for which offsetting savings are not offered, a list of his bids in order of priority, and the reasons why the proposals are thought to be essential and cannot be offset elsewhere by reducing outputs, if necessary, or by improved efficiency. In the case of new local authority elements of the baseline, a full justification of proposed changes will still be required.

It is very helpful for the Treasury if all bids and proposed reductions are also set out in tabular form, showing the amounts involved for each of the Survey years as additions to or reductions from the baseline.

- (iv) an outline of the cost implications of bids for other departments, where relevant, which should have been discussed with the departments concerned, and of the understandings reached on responsibility for funding the costs involved (see PESC(88)3, which also makes clear that subsequent modifications of such proposals, whether arising in the course of the Survey or otherwise, should be cleared with the other departments involved);
- (v) a summary of the <u>objectives</u> for each bid (what is to be achieved, by when, at what cost);
- (vi) a summary of proposed changes in <u>running costs</u> provision and civil service manpower where appropriate (see paragraphs 21-28 below) identifying separately changes relating to Next Steps agencies. The Ministerial letter should enclose the department's <u>management plan</u>, incorporating clear commitments to efficiency gains.
- (vii) a summary of any proposed new or increased <u>contingent</u> <u>liabilities</u> (see paragraphs 37 and 38 below).
- 16. Increases or reductions for 1989-90 should not be proposed as part of the Survey: any such proposals will be dealt with separately as they arise through the year.
- 17. Supporting official letters including more detailed information will also be needed: guidance is at Annex C. They should explain, for each proposed increase, how effectiveness and efficiency will be evaluated, including the main performance measures and indicators.

Options for reductions

18. In areas where the Treasury believes that there are or ought to be options which could be used to offset requests for additional departments, departments may be asked for costings of these options. In some cases it may be more appropriate for departments to set out how they could achieve a given level of savings in an area of spending. In either case departments should, as in previous years, provide the Treasury with the necessary information.

Local authority current grants

19. The new planning total includes central government grants to local authorities. These grants have been identified and baselines for them will be constructed (see paragraph 4). Ministers' letters in May should not cover proposals for RSG or NNDR, which will be determined separately. Proposals for variations from baseline for specific grants should be included in Ministers' letters on the basis set out in paragraph 15 above. (See Annex F).

Local Authority Capital

20. Baselines for credit approvals and capital grants to local authorities will also be constructed (see paragraph 4). Ministers' letters should include any proposals for changes from these baselines, again on the basis set out in paragraph 15 above. There will be no baselines for gross or net LA capital expenditure or for annual capital guidelines (as agreed in response to the Chief Secretary's letters of 13 January and 10 February). (See Annex F).

Gross Running costs and associated manpower

21. During the 1988 Survey the majority of departments negotiated firm 3 year running cost settlements with commitments to deliver agreed efficiency gains. As stressed in PESC(89)3, the presumption is that these agreements will not be re-opened, although the Treasury will need to be satisfied that the efficiency gains will be achieved. All such departments will be expected to submit in the coming Survey new running cost Management Plans that reflect, or improve upon, targets agreed in the 1988 Survey and are rolled forward, showing how the extra efficiency gains will be delivered in 1992-93.

- 22. In accordance with Mr Luce's letter to PFOs of 20 July 1988, bids to increase gross running costs provision on the promise of additional receipts can be considered from departments with 3-year running cost settlements without formally re-opening those settlements. Bids in support of relocation proposals identified and put forward since the 1988 Survey may similarly be considered without formally reopening 3 year running cost settlements.
- 23. Departments that did not reach 3 year running cost settlements on the basis of their Management Plans in the 1988 Survey will be expected to offer acceptable plans in the 1989 Survey.
- 24. Where appropriate to assist the negotiation of a 3 year settlement, the Treasury Expenditure Division may ask to see a department's planning material in draft before it is formally submitted by the Minister. All departments' Management Plans should be discussed in detail between officials in advance of Ministerial bilaterals. These discussions will also take account of the stages reached in departments' relocation reviews and market testing programmes.
- 25. If any Minister feels it is necessary to re-open an existing agreement because of a significant change in the declared assumptions underlying the agreed Management Plan, he will need to write explaining why the resource needs cannot be met by a re-ordering of existing priorities as set out in paragraph 3 of PESC(87)23. In such circumstances, other figures in the earlier settlement may be challenged anew by the Treasury.
- 26. Details of the measures of output and performance relating to each bid, and of any offsetting savings or reduced requirements elsewhere within gross running costs, should be provided in the parallel official letters (see Annex C), which should also attach a separate DRC3 form for each proposed change to the baseline. It is important that the manpower implications of any proposed change to cash provision are identified when the proposal is offered for consideration.

- Where satisfactory output and performance data have already been supplied, as at paragraphs 9 and 10 above, and do not require updating at the time the management plan is submitted, it is adequate for that plan simply to identify the earlier material; it does not need to be resubmitted.
- 28. The implications for accommodation costs of the changes in responsibilities for paying for maintenance and the division of the civil estate and the accompanying charging arrangements have been set out in PESC(89)[].

Civil Service Manpower outside gross running costs

29. Proposed changes to manpower plans for areas not covered by gross running costs control must be identified clearly in the material supplied with official letters, and if significant should be referred to in Ministerial letters.

Economic composition of proposed changes to baseline

30. Annex D gives details of the information the Treasury needs to collect about the composition of proposed changes to the baseline. This information should be forwarded, on copies of the forms attached to Annex D, with the official letter sent to the Treasury. Information on economic category analysis of bids is an important contribution to the Treasury's economic forecasts, and departments' co-operation in submitting these forms promptly will be appreciated.

Territorial implications of proposed changes to baseline

31. Some changes to the operation of the territorial formulae have been agreed to take account of the new planning total (see Annex F). Information on territorial implications of proposed changes to baseline should be included in official letters. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1989 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 - Teresa Burnhams (270-5057) on Northern Ireland or Libby Wiseman (270-5064) on Scotland and Wales.

Science and technology

32. The Treasury will again be monitoring the changes to science and technology spending through the Survey, and the Chief Secretary will report the outcome to the Prime Minister. A table showing the baseline provision for science and technology spending will be included in the baseline working document. Any proposed changes from these baselines should be set out in official letters.

Surplus Land and Buildings

33. Departments will also be asked to supply information on their plans for disposal of surplus land and buildings. Expenditure divisions will be writing separately to departments about this.

Economic assumptions

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

V Nationalised Industries

35. 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 are being notified to sponsor departments. The arrangements for reporting on contingent liabilities in respect of nationalised industries are covered in paragraphs 37 and 38 below.

VI European Community Expenditure

36. PESC(EC) will consider spending allocated to programme 2.7. Departments should provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1988-89 and their estimates for 1989-90 by 3 April. This information should be consistent with the provisions contained in the 1989-90 main Estimates, but set out on the basis of receipts by sub-programme within programme 2.7. EC division will write separately to departments to confirm the outturn for earlier years and to seek their views on UK percentage shares and level of EC receipts for future years.

Contingent Liabilities

- 37. Departments are reminded of the Prime Minister's requirement that they review all contingent liabilities at least annually. These reviews should also cover the contingent liabilities of bodies they sponsor. As in previous years, a further review should be carried out concurrently with the initial stages of the Survey. Further advice on the coverage and conduct of the review is given in Annex E. The review should check that all contingent liabilities have been identified; that all available steps are being taken to minimise the risk of payments being required and their amounts; and that the guidelines set out in Government Accounting, including those on the notification to Parliament of new and outstanding liabilities, are being scrupulously observed. Departments should report the results of the reviews, which should be approved by Ministers, to their Treasury Expenditure Division by 25 May 1989. Departments should also confirm that their Accounting Officer is satisfied that all the Department's contingent liabilities have been reviewed and that all those over £100,000 reported.
- 38. If a department expects that they or any of their sponsored bodies will take on any new contingent liability, or expects any increase in the size of an existing contingent liability during the period covered by the 1989 Survey, the departmental Minister should mention this in his letter to the Chief Secretary, and details should be included in the official letter, so that the matter can be considered in the context of the Survey.

VIII Further Information

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

PESC(WM)(89)[] - 1989 Survey Baseline: submission of running tallies;

PESC(WM)(89)3 - the 1989 Survey: Departmental Renning Costs Management Plans;

[PESC(WM)(89)[] - 1989 Survey: running costs information-DRC forms];

PESC(WM)(89)[] - 1989 Survey baseline: submission of local authority running tallies;

To follow:

PESC(WM)(89)[] - EUROPES adjustments to baseline.

General questions arising from this paper should be addressed to the secretaries, Sarah Walker (270-5522) or Justin Wray (270-5523). questions on departmental running costs should be addressed to Graham Binns (270-4996) or Tony Davis (270-4997), on manpower to Ron Carpenter (270-4865), on contingent liabilities to Dick Meadows (270-5363), and on EC expenditure to John Addison (270-4425).

MISS S P B WALKER MR J G WRAY

1989 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

Friday 17 March Last date for departments to comment on MARCH formats of main departmental baseline tables.

> Thursday 23 March PESC(WM) paper seeking running tallies to amend PES database issued.

APRIL Monday 3 April Last date for forecasts of outturn for 1988-89 and 1989-90 EC receipts to be sent to EC division.

> Thursday 13 April Last date for departments to submit running tallies to amend PES database for years up to 1991-92, and for DRC2 forms (1990-91 to 1992-93) where departments are unlikely to submit running tallies to amend the PES database for 1992-93.

Thursday 20 April EUROPES running tallies issued.

Friday 28 April Last date for departments to submit value for money information on baseline plans

Wednesday 10 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year (with separately identified running cost baselines and manpower plans), and more detailed PES standard reports to expenditure divisions and departments. Draft texts explaining changes since White Paper figures circulated.

> Friday 12 May Last date for departments to submit running tally forms to amend PES database for 1992-93 including EUROPES adjustments, and where appropriate DRC2 forms for 1990-91 to 1992-93 to provide breakdowns of running cost baselines and manpower plans.

> Wednesday 17 May Last date for final comments on departmental tables. Last date for comments on textual explanations of changes since White Paper figures.

> Thursday 25 May Working document circulated to PESC and Ministers.

> Thursday 25 May Last date for Ministerial and official letters and management plans to be sent to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for gross running costs and associated manpower. Last date for information on contingent liabilities to be sent to expenditure divisions.

MAY



CONSTRUCTION OF THE BASELINE

The arrangements for constructing the departmental Survey baseline tables for the 1989 Survey will need to reflect the introduction of the new definition of the planning total. The purpose of this annex is to explain how the figures in the baseline tables will be constructed.

Figures for 1990-91 and 1991-92

- 2. The starting point for those elements of the new planning total which were also included in the planning total used in the 1988 Survey central government's own expenditure and most public corporations will be the same as in previous Surveys, ie the cash plans published in the 1989 public expenditure White Paper (Cm 601-621) adjusted for classification changes. This year several substantial classification changes are being made to coincide with the introduction of the new planning total the departments affected are already aware of this and have been involved in providing baseline figures. Manpower plans for 1990-91 and 1991-92 are as published in Cm 601-621 except where subsequently amended by agreement with the Treasury.
- 3. The arrangements for dealing with the elements which were not previously included in the planning total which have been agreed in Ministerial correspondence (Chief Secretary's letters of 31 January (current) and 10 February (capital)) are:
 - a. Current grants to local authorities. Data for these grants for the years up to 1989-90 have been extracted from the Treasury's Estimates database and checked with departments. Figures for 1990-91 and 1991-92 have been produced by applying the uplift factor of 2½ per cent used for both the two previous Surveys to the previous years' figures for grants expected to exist in those years.

- b. Capital grants to local authorities (other than EC). A similar approach has been adopted to that for current grants. The baselines for those few capital grants referred to in the third sentence of paragraph 27 of Annex F will be as set out in Barry Potter's letter of March to John Adams. (Note that European Community capital grants (other than for Northern Ireland) are excluded from the new planning total they will be treated as financing grants not conveying additional spending power to local authorities. EC capital grants to Northern Ireland district councils are included in the planning total.)
- c. <u>National non-domestic rates</u>. Proxy figures for NNDR payments and figures for non-domestic rates in Scotland for the years from 1984-85 to 1989-90 have been calculated from data on the yields and incomes of existing non-domestic rates in Great Britain. As with grants to local authorities the figures for 1990-91 and 1991-92 have been calculated by applying the uplift factor of 2½ per cent used for both of the two previous Surveys.
- d. <u>Credit approvals</u>. Proxy figures for CAs for the years from 1984-85 to 1989-90 have been calculated based on capital allocations for those years. For 1990-91, for England and Wales, the baseline for CAs has been calculated from gross provision taking into account the various sources of spending available to LAs. For 1991-92 the figures for CAs have been derived by applying the uplift factor of 2½ per cent to the 1990-91 figures. For Scotland, whose capital control regime remains unchanged, baseline figures for the equivalent of credit approvals have been derived from existing provision.

Figures for 1992-93

4. Figures for the new third Survey year (1992-93) for programme expenditure, finance for local authorities and gross running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figures for 1991-92. Baseline manpower plans for 1992-93 should be consistent with the baseline figures for gross running costs calculated as above.

Adjustments to the PES database

- 5. Apart from the classification changes mentioned in paragraph 2, on which the Treasury will be taking the lead, there are a few areas where other changes to the database may be made in advance of the production of the Survey baseline tables. They are as follows:
 - a. Coding errors that need correcting. For example, departments may have identified data that are wrongly coded and needed to be corrected by switching money between subprogrammes, economic categories, territorial areas, spending sectors or accounting authorities;
 - Any minor and non-contentious amendments to figures for central government spending beyond 1989-90 as a result of the Estimates scrutiny for 1989-90. PESC(WM)(89) departments to align PES and Estimates for 1989-90. In some, but not all, cases changes in 1989-90 might have implications for later years involving switches between sub-programmes, economic categories or spending authorities and these may be Increases in expenditure (or reflected in the database. switches from programme expenditure into gross running costs) should not be included, even where policy agreements have already been reached as these will be dealt with as part of the Survey itself and recorded on the database after the Survey.
 - c. Adjustments to figures for grants to local authorities for the years 1989-90 to 1991-92 arising from differences between the figures for 1989-90 on the Treasury's database at the end of January and the final main Estimates figures for 1989-90.

In <u>all</u> cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions. <u>Any changes</u> resulting from re-assessment of priorities should be part of the Survey and not reflected in the baseline. In particular, switches

- into gross 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 1990-91 to 1992-93.
 - 6. Running tallies for any agreed changes to the baseline covering all years of the Survey (ie 1984-85 to 1991-92), or just the first two forward years as appropriate, should be sent to the Treasury by 13 April. Running tallies for agreed changes to the baseline for 1992-93 should be sent in, after the baseline for that year has been created, by 12 May.
 - 7. Adjustments will also need to be made to some cells as a result of the EUROPES arrangements (see paragraph 6 of the main paper). A PESC(WM) paper requesting departments to submit tallies for these adjustments is due to be issued in early April.

Supplementary analyses

8. In addition to the departmental tables a series of additional analyses tables will be circulated to PFOs. These tables give summaries of the planning total by spending authority and department and analyses of public sector capital spending, expenditure on science and technology, running costs and manpower.

OFFICIAL LETTERS

- 1. Official letters should <u>list proposed bids and reductions in order of priority</u> as in the Ministerial letter. They should also include any further <u>detailed explanation</u> which Departments wish to put forward or which the Treasury may request. For example, if additional provision is proposed the letters should explain more fully how the need for it arises. They should also give full details of reduced requirements for provision already in the baseline indicating whether they result from an estimating change, revised economic or demographic assumptions, or proposed policy changes. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an <u>analysis of outturn</u> for the relevant programme for at least the past two years, and an estimate of outturn for the current year (1989-90).
- 2. The letters should provide any additional details that may be necessary of the improvements in output and performance which would be achieved by any bids put forward, and how effectiveness and efficiency will be evaluated, including specific performance measures and indicators.
- 3. These letters should clearly indicate which elements of the total proposed changes to baselines relate to <u>running cost</u> proposals or involve <u>manpower</u> changes. In addition they should separately identify running cost proposals which do not involve changes to expenditure baselines. <u>Capital expenditure</u> proposals and major items of maintenance expenditure of a similar nature, ie with benefits running into future years, should be supported by a full 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: details of a new Treasury discount rate are likely to be announced shortly after Easter); alternatives considered; the material factors in the proposed decision, including risks; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

- The official letters should indicate whether the change requires amendment to proposed or existing legislation or regulations.
 - 5. For any proposed change affecting other departments, the letters should set out the details of <u>agreements</u> reached with those departments on the responsibility for funding the costs involved.
 - 6. Official letters should also give information on the territorial consequences of proposed changes to the baseline, and of proposed changes in <u>science and technology</u> spending, and details of proposed new or increased contingent liabilities.
 - 7. Annex D gives details of <u>supplementary information</u> on proposed changes to the baseline needed by the Treasury. Copies of the forms attached to Annex D should be returned to the Treasury with the official letters.
 - 8. All letters and supporting information (eg DRC3 forms for gross running costs and related manpower) should be sent to the Treasury by 25 May. 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.

MNEX D

INFORMATION ON ECONOMIC COMPOSITION

The Treasury needs to collect information about proposed changes to the baseline by economic categories. This information is used by the Treasury forecasters in preparing the forecasts for the July Cabinet and the Autumn Statement. Departments are therefore asked to split their bids and reduced requirements by the economic categories shown in the attached table. The first ten columns refer to central government expenditure, the next three to finance for local authorities, and the final column covers all planning total items in the spending sector: "other public corporations" (ie excluding nationalised industries).

The definitions of economic categories are given in Section 2J of the FIS Handbook. In case of difficulty please consult David Deaton (270 5337).

Departments should 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 25 May. Divisions will check the information, and will forward it to the Secretaries.

Capital Spending

The Autumn Statement generally includes a statement, in broad terms, of the change in public sector capital spending as a result of Survey decisions, using a definition consistent with Table 2.1.11 of the 1989 PEWP. To help compile this figure, it would be helpful if departments would complete the second form attached to this annex, listing the bids and reduced requirements for central government expenditure falling within ECs E20, E30, E40, G10, and G20, and return it at the same time.

gepl.ip/dbcs/PSIBb

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

RHUC EXPRODURE SURMY 1989 LIST OF BIDS AND REQUED REQUIREMENTS

DESTRUMENT:

YEAR: Name of originator:

Tel Not

£ million

Economic categories

Proposed Other Straidies Total Pay Current Current Expenditure Capital Net Stock-Net Current Capital Iccal Finance changes on capital. building grants lending cost ament (exc to grants grants lending authority grants quants for other fixm goods & public assets (net) to the oversess to the to the to local OVERSEES. to local credit. public private (3) line(1) services comoratexcluding authorities authorprivate private approvals corporions) stockbuilding (net) sector sector NNR, ities ations REG

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

gepl.ip/sw/cap spend

Capital spending (ECs E20, E30, E40, G10, G20: payments on receipts)

Please list central government bids only

Department:

£ million

1990-91 1991-92 1992-93

Description of bid

Name of originator:

Telephone number:

CONTINGENT LIABILITIES

Introduction

The purpose of this annex is to give advice on the coverage and conduct of the reviews of contingent liabilities referred to in paragraphs 33 and 34 of the covering PESC paper and to set out details of the action to be taken by departments in reporting the results of the reviews to the Treasury.

Coverage of the review

The review should consider all contingent liabilities and identify any liabilities of an hitherto should seek to unrecognised nature (including those which arise as a result of a department's staff acting in an ex-officio capacity, advice on which was circulated to Departments last year). Departments should satisfy themselves that the contingent liabilities they have are necessary and that every effort has been made to minimise the risks of payments being required. Departments should also ensure that they have scrupulously followed the requirements of Section O paragraphs 26-57, on the Government Accounting, assumption and control of all contingent liabilities, particularly, in appropriate cases, the requirements for reporting to Parliament new and changed liabilities and the regular reporting of outstanding exposure on continuing liabilities.

Types of liability to be reported

- 3. Departments are again asked to report all their outstanding contingent liabilities and those of the bodies which they sponsor where the potential risk to their programmes exceeds £100,000 except those which fall into the following categories:-
 - Those which arise in the normal course of business (see paragraph 4 below).

- b. Those which may arise as a result of the Government's general practice of non-insurance.
- c. Those which may arise as a result of department's sponsorship of the nationalised industries; these are monitored in the context of RFL reviews.
- 4. In deciding whether a contingent liability has arisen or will arise in the normal course of business, departments should consider whether:
 - a. the activity which gives rise to the liability is an unavoidable feature of their essential responsibilities or statutory duties; and
 - b. Parliament could reasonably be assumed to have envisaged the activity when it passed the statute or, for the activities resting on the sole authority of the Appropriation Act, voted the supply expenditure.
- 5. Indemnities given for the loan of articles for exhibition should be reported. Although exhibitions are part of the every day business of museums and galleries, the borrowing of exhibits is discretionary and the associated indemnities are reported to Parliament at the PAC's request.
- 6. Departments will still need to send a separate return to the Accountant, HM Treasury, by the end of June each year, setting out details of contingent liabilities resulting from statutory guarantees; this is required for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts but any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000. Departments are also reminded of the need to report liabilities on outstanding non-statutory contingent liabilities in the introduction to the relevant supply Estimate.

Format of reports

- 7. It would be helpful if, in reporting contingent liabilities to the Treasury, departments could follow the format attached. In completing this the following should be noted:
 - a. Column 1 should clearly indicate whether the liability arises from the department's activities or from those of a sponsored body (giving the name of the body);
 - Column 2 should set out details of the statutory b. authority or, in the case of non-statutory contingent liabilities, the reference of the departmental minute, where either of these exists. Departments should consider whether reports existing Parliament remain to up-to-date, taking account of any significant change in the nature or increase in the size of the contingent liability, or change in material circumstances since it was accepted or last reaffirmed. Departments should confirm here that they have followed the relevant requirements for reporting outstanding liabilities to Parliament.
 - c. Column 3 should be completed to compare this year's figure with last year's: if this year's figure is not fully available by 25 May an estimated figure should be inserted.
 - d. Column 4 should include a brief description of the action departments are taking to minimise the risks.

Submission of reports

8. The reports should be approved by the department's Minister and sent to the Treasury by 25 May. The reports should confirm that the department's Accounting Officer was satisfied that all the department's contingent liabilities have been reviewed and that all those over £100,000 were reported.

Planned new contingent liabilities

9. Proposals for new or increased contingent liabilities to be taken on during the Survey period should be summarised in the Ministerial lettersm and details given in official letters.

1988 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 25 MAY 1989

			(Separate return using the same format for planned new or increased liabilities)
Nature of Contingent Liability	Statutory Authority or Departmental Minute Reference (If either exist)	Amount at Risk at 31.3.89	Department's Comments To cover action to minimise the risk of payment, reasons for any significant changes in amount at risk
1	2	3	4

(To include any not previously reported)

(Show in brackets immediately below this year's figure the amount reported last year)

Liabilities arising or entered into between 1.4.88 and 31.3.89

HANDLING OF LOCAL AUTHORITY COMPONENTS OF NEW PLANNING TOTAL

The operation of the public expenditure Survey will reflect the reform of local government finance and the introduction of the new planning total.

- 2. For local authority current in GB, the new planning total will include the following components:
 - (a) Revenue Support Grant (RSG);
 - (b) National non-domestic rate (NNDR) payments (and the equivalent in Scotland);
 - (c) Specific current grants (including grants covering community charge benefits, and European Community current grants to local authorities).

Items (a) and (b) will be included in DOE, Scottish Office and Welsh Office departmental programmes; item (c) will be included in the appropriate departmental programmes.

- For local authority capital in GB, the new planning total will include:
 - (a) Domestic (non-EC) capital grants;
 - (b) Credit approvals (or their equivalent in Scotland) issued by central government authorising local authorities to borrow or raise other forms of credit for capital expenditure.
- 4. The coverage of the new planning total in N Ireland reflects the different arrangements there.
- 5. The capital and current expenditure which local authorities in effect determine and finance for themselves, from the community charge, the use of capital receipts, or from other income, will be outside the new planning total.

6. The Survey will determine local authority components of the new planning total identified above; the Autumn Statement will also include within GGE projections for the self financed expenditure of local authorities throughout the UK. This Annex describes in more detail how the individual components will be handled in the 1989 Survey. The attached appendices summarise the timetable.

LOCAL AUTHORITY CURRENT

England

- 7. Ministers have agreed to the proposals in the Chief Secretary's letter of 31 January and 2 March for the conduct of the Survey. The baselines for the relevant components of local authority current will be constructed by applying to the corresponding 1989-90 figures uplift factors of 2½ per cent to create figures for 1990-91 and 1991-92. Figures for 1992-93 will be created by applying the same uplift factor of 2½ per cent as used elsewhere in the Survey.
- 8. Ministerial letters, and supporting official letters, due by 25 May will need to cover any proposals for changes from the baseline for individual specific grants. Departments will be expected to provide supporting information as in Annex C. As with other proposed increases departments should say what priority they attach to these bids and set out the reductions which are proposed to offset these increases.
- 9. Decisions on local authority current for 1990-91 will be taken in two stages. In July Ministers will decide in E(LF) on an aggregate amount of Exchequer support and the aggregate need to spend. In September/October Ministers will take final decisions on the distribution of the aggregate need to spend amongst departments and the split between RSG, NNDR payments and specific grants (to the extent that the latter are not decided in July).

The July decisions

- 10. Ministers have agreed that, in July, there should be an announcement covering, for 1990-91:
 - (a) an envelope of "Aggregate Exchequer Finance" (AEF), including the NNDR payments, RSG and certain specific grants;
 - (b) the aggregate need to spend;
 - (c) the community charge for spending at need.

Once decided, the AEF figures would remain fixed for the rest of the Survey.

- 11. It has already been broadly agreed which specific grants should be included within AEF (see attachment to Chief Secretary's letter of 31 January). Final details will be agreed as soon as possible.
- 12. In order that proper decisions on AEF can be taken by E(LF) in July bilateral discussions on specific grants within AEF will take place before the E(LF) meetings. E(LF) will then be in a position to agree figures for most if not all of the specific grants within AEF.
- 13. In addition Ministers will consider how figures should be set for 1991-92 and 1992-93 on the AEF envelope, though no announcement will be made about the later years in July.

The Autumn decisions

14. In September/October Ministers will take final decisions on the distribution amongst services of the aggregate need to spend agreed in July. In addition they will agree the RSG and NNDR payments figures within the AEF total in the light of the final forecast of the yield from the NNDR.

- 15. Specific grants outside AEF will be considered to the bilaterals. Decisions on these grants will be taken as part of the normal bilateral discussions on Departmental programmes.
- 16. Ministers will announce in the Autumn Statement, or around the same time, provision for RSG, NNDR payments, and specific grants for each of the three forward years and the assessment of service needs for the year ahead.

Scotland

- 17. In Scotland, the local authority current expenditure regime will be different in certain respects from that in England and Baselines Revenue for Support Grant, non-domestic rate income and specific grants will be set in a broadly similar way to the provision in England. Following the decisions in July on AEF for English local authorities for 1990-91, there will be bilateral discussions between the Chief Secretary and the Scottish Secretary on the corresponding aggregate for Scotland and hence for Revenue Support Grant and those specific grants which make up AEG for Scotland. AEG for 1990-91 will be announced in July. Provision for the aggregate corresponding to AEF in 1991-92 and 1992-93 will be considered in July. In October the Secretary of State for Scotland will announce provision for RSG, projected non-domestic rate income and specific grants for at least the year ahead. Figures for all 3 years will be included in the Autumn Statement.
- 18. The provision for these components of local authority current will not be covered by the Scottish block formula. Specific grants outside AEG in support of local authority current expenditure will be handled either as part of the appropriate programme bilateral, or, where included in the block, will be altered in line with the formula consequentials of the comparable English programmes. [These arrangements are set out in Barry Potter's letter of March.]

- 19. Baselines for Revenue Support Grant, NNDR payments and specific grants will be set in a broadly similar way to that in England. Following the decisions in July on Aggregate Exchequer Finance for English local authorities there will be bilateral discussions between the Chief Secretary and the Welsh Secretary, to settle AEF, assessed need to spend and the community charge for spending at need for Wales for 1990-91 in the light of the English settlement. These figures will be announced in July. Provision for those specific grants within AEF which are the responsibility of the Secretary of State for Wales will also be settled in July. Provision for AEF for 1991-92 and 1992-93 will also be considered in July. In October/November the split between NNDR and RSG will be determined and announced at least for the year ahead.
- 20. The provision for these components of local authority current will not be covered by the Welsh block formula. Specific grants outside AEF in support of local authority current expenditure will be handled either as part of the appropriate programme bilateral, or, where included in the block, will be altered in line with the formula consequentials of the comparable English programmes.

Northern Ireland

- 21. For district council current, the new planning total will include only current grants DOE(NI)'s general grant and specific grants. These items will be included in the NI block. Baselines for current grants will be set in the light of the corresponding figures for England. Provision in the NI block will be adjusted to reflect the formula consequentials of changes to comparable English figures, as described in Max Sharratt's letter of 20 December to Andrew McCormick.
- 22. Further information on all local authority current items covering all four territories can be found in [PESC(LA)(89)].

LOCAL AUTHORITY CAPITAL

23. There are 6 main blocks of local authority capital expenditure within the new planning total.

(:) English Local Authority Block (ELAB)

- 24. The method for setting baselines for credit approvals and capital grants within ELAB was set out in the Chief Secretary's letter of 10 February. (See also Annex B). Figures already on the database for capital grants will be adjusted to reflect changes made in 1989-90 Main Estimates. The baselines for credit approvals will be finalised by early April, in the light of further information only about the volume of accumulated and in-year receipts. Baselines for 1992-93 will be created by the Treasury by adding 2½ per cent to the cash figures for 1991-92.
- 25. The baselines are set by department. For this purpose, the credit approvals for "other services block" within ELAB will be allocated between departments.
- 26. Departments are asked to cover any proposals for changes from these baselines in the Ministerial and official letters due to be sent to the Treasury by 25 May. These letters should set out comparable information to that requested in paragraphs 15-17 of the main Guidelines, and should be accompanied by official letters setting out information as requested in Annex C.
- 27. Provision for credit approvals and capital grants for each department will be discussed in the Ministerial bilaterals in the Autumn.
- 28. The Survey will determine, for each department, credit approvals (and the Annual Capital Guidelines issued by departments to the relevant local authorities) for 1990-91, as well as credit approvals for the 2 later years. To form the ACGs, the credit approvals for 1990-91 will be added to figures for receipts taken into account. The receipts taken into account for 1990-91 will be fixed in mid-July; once fixed, the figures will not be changed during the Survey, so that any additions or subtractions to baseline credit approvals agreed in the bilaterals for 1990-91 will add or subtract £ for £ to Annual Capital Guidelines.

- 29. All domestic (non-EC) capital grants to local authorities that represent a source of finance directly available for spending are included in the new planning total, and will be determined in the Survey. These grants are listed in PESC(WM)(89)[]. They include a small number of DOE capital grants, previously paid as specific grants towards loan charges incurred on borrowing to finance capital projects, but in future to be paid as lump sum contributions to project capital costs. (Payments to local authorities capitalising sums that would otherwise have been paid in support of loan charges on projects already started will not be included within the new planning total. Any residual specific grants on loan charges which have not been capitalised will also not score in the new planning total.)
 - 30. Provision for EC capital grants to local authorities will not be settled in the bilaterals. These grants will be financing grants, and will substitute for the use of credit approvals. They will therefore not score in the new planning total.
 - 31. Further information can be found in PESC(NPT)(89)[].

(ii) Urban Block (DOE/UA1)

32. The urban block (DOE/UA1) at present includes expenditure of central government, local authorities, and public corporations. It is included within the other environmental services programme of DOE. The central government and public corporations elements will continue to be handled in the Survey as normal. All the local authority elements covered at present will be included within the new planning total, as there is deemed to be no local authority expenditure on this block financed from receipts or revenue contributions. The total baseline provision for the local authority elements for the 1989 Survey will therefore be as in the 1989 PEWP. Any changes to this provision which the department wishes to propose should be included in the Ministerial letters submitted to the Treasury by 25 May accompanied by supporting information as requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision will be discussed in the bilateral meeting with the Secretary of State for the Environment as has been the case in the past. The new total will be divided between credit approvals and capital grants at the of the Survey. These arrangements are as Mark Betenson's letter of [] March to John Adams.

33. Arrangements for Home Office services (police, magistrates' courts, probation and civil defence) will be similar to those for the English local authority block, subject to certain additional controls. (See Mr Hurd's letter of 15 February, and the Chief Secretary's reply of 6 March). The new planning total will include provision for credit approvals and capital grants from central government. Baselines for credit approvals and capital grants for Home Office services [have been] agreed between the Chief Secretary and the Home Secretary. Any proposals for changes from these baselines should be covered in the letters due to be sent to the Treasury by 25 May and supported by the information requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision for credit approvals and capital grants will then be discussed in bilaterals between the Chief Secretary and the Home Secretary. Credit approvals will be distributed by the Home Office as Supplementary Credit Approvals on the basis of the project approvals issued by the Home Office.

(iv) Welsh Office Local Authorities Block (WOLAB)

34. Welsh local authority capital items within the new planning total are covered by the Welsh Office Local Authority Block (WOLAB). This includes credit approvals and capital grants. Baselines for these items have been set, (see Barry Potter's letter of [] March 1989 to Colin Jones). The provision for WOLAB is included within the Welsh block. Total provision within the Welsh block will be altered in line with the formula consequentials of any changes to the credit approvals and capital grants included within ELAB.

(v) Scottish Office Local Authorities (SO/LA1 and SO/LA2)

35. Scottish local authority capital items within the new planning total are covered by the Scottish Office Local Authority Blocks 1 and 2. These will cover capital allocations (the broad equivalent in Scotland of credit approvals and capital grants). Baselines will be established following the method set out in

Barry Potter's letter of 1 February 1989 to Tony Cameron. The timetable for setting the baselines will be similar to that proposed for ELAB. Provision for SO/LA1 and SO/LA2 is included within the Scottish block. Total provision within the Scottish block will be altered in line with the formula consequentials of any changes to the capital grants and credit approvals within ELAB.

(vi) N Ireland

36. The new planning total will include central government and EC capital grants to Northern Ireland district councils. Baselines for these will be set in early April on the basis of the figures in the 1989 PEWP. Provision for these items, which fall within the N Ireland block, will be altered in line with the formula consequentials of the changes agreed to the comparable programmes in GB.

TREATMENT OF LA CURRENT EXPENDITURE IN THE 1989 SURVEY: TIMETABLE



May

- Baseline tables finalised, including 1992-93.
- Ministerial letters, and supporting official letters, with proposals for variations from the baseline for individual specific grants.

June-July

- Bilateral Ministerial consideration of individual specific grants within AEF.

July

- E(LF):

- (a) settles for 1990-91, an envelope of "Aggregate Exchequer finance", the aggregate need to spend, the community charge for spending at need, and most if not all specific grants within AEF.
- (b) considers AEF for 1991-92 and 1992-93.

July

- Announcement of Government decision on (a) above.
- Bilateral discussions and announcements of (a) above where relevant for Scotland and Wales.

September/October

- Discussion of any specific grants within AEF not finalised in July.
- Bilateral discussion of specific grants outside AEF, as part of discussion of departmental programmes.

RESTRICTED

- Final decisions on:
 - (a) split of AEF for 1990-91 into RSG, NNDR payments, and specific grants;
 - (b) distribution of aggregate need to spend between services for 1990-91.

October/November - Announcement of split of AEF for 1990-91 and distribution of total needs by service.

TIMETABLE FOR LA CAPITAL

BASELINES

- February (i) set baselines for domestic capital grants and credit approvals for 1990-9; and 1991-92 on provisional assumption about receipts;
 - (ii) set provisional assumptions about RTIA for 1990-91;
- April (iii) finalise baselines in the light of latest data on receipts;
 - (iv) create baseline for 1992-93;

VARIATIONS FROM THE BASELINE

- July (vii) RTIA by department for 1990-91 fixed;

BILATERALS

- September/ (viii) bilateral negotiations on CAs and capital October grants for all three years;
 - (ix) ACGs for 1990-91 formed by adding CAs to RTIA for each service block.

Reference

To:

cc Mr Liesner

PS/PRIME MINISTER
PS/SECRETARY OF STATE
PS/MINISTERS OF STATE
PS/PARLIAMENTARY UNDER SECRETARIES OF STATE
PS/PERMANENT SECRETARY

From:

R WILLIAMS Head Branch 2 BSO Newport GTN 1211 2252

14 March 1989

CAPITAL EXPENDITURE PRESS NOTICE

A press notice giving revised figures for the fourth quarter of 1988 is attached for information. The notice will be published at 11.30 am on Thursday 16 March. As usual, the contents should be treated as confidential until then.

The revised figures for the fourth quarter are, overall, almost 5 per cent higher than at the provisional stage, with the figures for manufacturing revised marginally upwards and those for construction, distribution and financial industries revised upwards by nearly 8 per cent.

The figures for 1986-8 are not fully consistent with the figures of total fixed investment in the Financial Statement and Budget Report 1989-90. The latter figures incorporate upward revisions to take account of additional information, for which no industrial detail is yet available. Any necessary revisions to the quarterly series will be made later this year when final results are available from annual inquiries for 1987.

R WILLIAMS

10 DOWNING STREET LONDON SWIA 2AA From the Private Secretary 18 January 1989 Dea Cay. PUBLICATION OF THE 1989 PUBLIC EXPENDITURE WHITE PAPER Thank you for your letter of 16 January. The Prime Minister is content for the publication date of Monday 30 January to be announced by Written Answer. I am copying this letter to the Private Secretaries to Ministers in charge of Departments, Murdo Maclean (Chief Whip's Office), Trevor Woolley (Cabinet Office) and Bernard Ingham. Paul Gray Miss Carys Evans, Chief Secretary's Office, H.M. Treasury.

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Treasury Chambers, Parliament Street, SWIP 3AG Re They

Green Pepers)

Paul Gray Esq Private Secretary 10 Downing Street London SW1 Yes me PRC6

16 January 1989

Dear Paul

PUBLICATION OF THE 1989 PUBLIC EXPENDITURE WHITE PAPER

The new arrangements for financial reporting to Parliament agreed with the TCSC mean that the expanded Autumn Statement is now the main announcement of the Government's public expenditure plans. This implies a lower-key launch for the public expenditure White Paper than in previous years, without a press conference.

This year the Chief Secretary proposes that the White Paper should be published on Monday 30 January. Embargoed confidential final revise copies would be made available to the press at 11.00am, with full publication at 3.30pm.

If, as in the past, other departments wish to issue their own press notices to coincide with publication, commenting on the plans in their own chapters of the White Paper, these should be cleared in draft with the relevant Treasury expenditure divisions.

If the Prime Minister is content, we will arrange for the date to be announced by Written Answer.

I am copying this letter to the Private Secretaries to Ministers in charge of departments, the Chief Whip and Sir Robin Butler and to Bernard Ingham.

carys

MISS C EVANS Private Secretary

RA

CHANCELLOR'S SPEECH FOR AUTUMN STATEMENT DEBATE, 12 JANUARY 1989

I beg to move the motion on the Order Paper in the name of my RHF the Prime Minister.

The whole House owes a debt of gratitude, once again, to my RHF the member for Worthing, whose Committee has produced a report on the Autumn Statement.

One matter which greatly exercised my RHF and his colleagues was the manifest shortcomings of a number of the published economic statistics.

As he knows, the Government shares this concern, and set up a Scrutiny of Government Economic Statistics.

That first stage is now complete, and the Government is now considering its findings.

A comprehensive report will be published in due course.

In recent years, it has become customary for me to use the occasion of this debate, on the Autumn Statement, to announce the date of the Budget.

I am happy to follow that precedent, and inform the House that the Budget this year will be on 14 March - that is, in a little under 9 weeks' time. RH and hon Members opposite will no doubt wish to make a note of this in their official Labour Party filofaxes, which I see were among the prizes to be won in the 1988

Labour Party Christmas Lottery along with a Black Sea cruise for the Ron Todd wing of the Party.

As usual, the Budget will be the occasion to announce the rates of taxation for the coming year and the projected size of the Public Sector Borrowing Requirement - or, to be accurate, in the new era which our prudent fiscal policy has ushered in, the size of the Public Sector Debt Repayment, or Budget surplus.

What it is not is an occasion for

announcing changes in public expenditure.

Our public spending plans for the coming year were announced in the Autumn Statement, which we are debating today.

The House will be aware that public spending in the current year is likely to be the lowest it has been, as a share of total national income, for over 20 years, with a further decline in this ratio likely in the year ahead.

This has been achieved by sticking firmly to the planning total published in last year's Public Expenditure White Paper, while ensuring, within that total, significant extra money for priority programmes, from the Health Service to roads.

And overall public spending has been further contained by the reduction in the burden of debt interest that flows directly from the transformation of the massive Budget deficit which we inherited from the

Party opposite - equivalent to some £25 billion in today's terms - into a substantial Budget surplus.

I will leave other aspects of public spending to my RHF the Chief Secretary, who will be winding up this debate if he is fortunate enough to catch your eye, Mr Speaker, and who so skilfully conducted last year's public spending round.

I would only add that firm but common-sense control of public expenditure remains, as it always has been, central to our economic strategy and a major contributor to the economic success we are now enjoying.

It is a success widely acknowledged by British business and industry, who have seen productivity and profitability improve beyond recognition, and now have the confidence to invest on an unprecedented scale. It is a success widely recognised abroad, where Britain's standing has never been higher.

One sign of this is that last year, despite a substantial current account deficit on the balance of payments, the pound stayed strong and our foreign exchange reserves ended the year at an all-time high.

And of course it is a success widely enjoyed by the British people, who see steadily rising living standards, more people in work than

ever before, and inflation far lower than it was under Labour.

Indeed only Labour have failed to recognise the transformation that has occurred to the British economy. As even <u>Pravda</u> was obliged to point out, in an article on Britain last month,

"the Left have been in retreat for ten years, unable to respond to the Thatcher challenge, unable to adapt to life in the 1980s".

One of the key reasons why we have been able to achieve this long term success is that we have never shirked from taking the measures necessary to deal with short-term problems, even if those measures were unpopular.

Getting the economy right does not mean that there will never be problems.

That idealised state of affairs is not for this world.

What it means is getting the fundamentals right, and tackling short-term problems effectively and decisively as and when they emerge.

In particular it means acting firmly to deal with the sort of inflationary pressures that emerged in the second half of last year, when it became clear that total spending in the economy was growing at a wholly unsustainable rate.

And that is why interest rates have had to rise.

As every school boy should know by now, there is no way inflation can be controlled other than by a sufficiently tight monetary policy, and that means having the courage to raise interest rates as and when it is necessary to do so.

There is nothing new in this.

It is what all other successful countries do.

It is what we - unlike the disastrous inflationary Labour Government which preceded us - have always been prepared to do, and consistently made clear we would continue to do, throughout the ten years since we first took office.

As a result, the underlying rate of inflation, as measured by the RPI excluding the distorting effect of mortgage interest payments, which reached 5 per cent in July, is likely to edge up a little over the

next few months, perhaps to the $5^1/_2$ per cent or so it reached during the last inflation blip in 1985.

But then, just as it did in 1985, it will start coming down again.

Let there be no doubt about that.
Monetary policy works.

And the passage in the official Opposition amendment before us today, urging us to "combat

inflation [and] move interest rates downwards betrays that irredeemable economic illiteracy that is their hallmark in every economic debate we have ever had.

So far as the recorded RPI is concerned, the position is complicated by the fact that, of all twelve nations of the European Community, we are one of the only two - the other is Ireland - that is daft enough to include mortgage

interest payments in its retail price index.

So, for example, next week's RPI figure for December would show a further rise of almost half a percent simply because a mortgage rate fall made the December 1987 index artificially low, even if there was no change in underlying inflation at all.

But to assert that monetary policy works is not to say that we are

relying on monetary policy alone.

It is a matter of not being afraid to use monetary policy where monetary policy is called for.

But it is of course buttressed by the firmest fiscal stance of any Government since the war: for the first time for at least half a century we have a Government in this country that is engaged in repaying the national debt, and will continue to do so next year too.



And it is this immensely strong fiscal position that guarantees that the historic tax reforms and tax reductions in last year's Budget - for which I make no apology whatever - will remain fully in place, to the immense benefit of the British economy in the years to come.

I understand full well that the Opposition don't like it.

What they want - what they always want - is to see income tax put up.

That is why they voted against each and every reduction in income tax - each and every one of them.

I recognise, of course, that the rise in interest rates will mean that people with mortgages will have to curb their spending on other things, in a minority of cases considerably, in order to meet the higher mortgage payments.

Indeed, the policy would not be working if this were not so.

And there are growing signs that it is working.

But the Opposition's charges that the Government has been deliberately stoking up borrowing, apparently by keeping interest rates persistently too high, once again betray their irredeemable economic illiteracy.

What we have done is to give people the freedom to choose how much to borrow, in the light of what they think they can afford.

And that judgement has to take account of the fact that mortgage rates do go up and down.

Responsible people know this - even though the HM for Islington South evidently doesn't, judging from his recent pronouncement on behalf of the Opposition front bench about "home buyers who budgeted sensibly in taking out their mortgages, who mortgaged themselves up to the hilt".

That's not sensible budgeting: it's Labour budgeting.

In a society which treats people like adults, it must be for individuals to decide for themselves how much it is sensible for them to borrow.

That is the only way to a free and responsible society.

And that in turn is the only way to a successful economy.

As far as the impact of interest rates on companies is concerned, the plain fact is that companies are now in a far stronger financial position than they have been for a very long time.

Whereas in 1980, company borrowing amounted to 45 per cent of their equity, it was down to around 28 per cent by the end of 1987.

Profitability has been transformed: the rate of return on capital employed has trebled from 4 per cent in 1980 to 12 per cent now.

Moreover, although short term interest rates have risen

considerably, long term rates have barely moved at all.

With the Government now actually redeeming some of its outstanding debt rather than making continuing demands on the markets, there are excellent opportunities for borrowers who wish to take advantage of this market.

Last year, for example, there were over £10 billion of fixed rate long term sterling bond issues, and there is likely to be even greater scope this year.

Much concern has been expressed recently about the sharp fall in the personal savings ratio - the proportion of personal disposal income that is saved.

It has certainly been dramatic.

And equally certainly, high interest rates - which make savings more attractive and borrowing less attractive - are likely to reverse this trend.

Not least because the sharp fall in the personal savings ratio has been overwhelmingly caused by the sharp rise in personal borrowing, since savings are measured net of borrowing.

But it is important to set this in its proper perspective.

The UK's overall national savings ratio has remained virtually unchanged throughout the 1980s, with the sharp fall in personal savings offset by a sharp rise in company savings as profitability has been transformed, coupled with the

improvement in the public finances from deficit to surplus.

Even so, the strength of the recent investment boom has meant that total domestic investment exceeds total domestic savings, and the gap has therefore had to be financed from overseas.

As a result, we have moved into sizeable current account deficit, with a surge in imports of capital goods and other materials for

industry, superimposed on a slightly less rapid growth in consumer goods imports.

But as savings rise in response to higher interest rates, particularly with the collapse of the housing boom, and as the growth of spending slows down from last year's peak, the current account deficit will narrow, though this process is bound to take time.

Mr Speaker, two things are vital to the long-term success of an economy. One is a foundation of sound finance - and that is why, as I have explained, we are determined to take whatever action is necessary to deal with inflation.

But what is equally important for economic growth, and hence for the prospects for jobs and living standards, is the supply side of the economy - productivity, investment, and profits.

And the transformation in the supply side of the British economy has been dramatic.

Manufacturing productivity has grown far faster than in any other major nation in the 1980s, after growing slowest of all in the 1960s and 1970s.

The industrial relations scene is unrecognisable from the depths plumbed in the Labour Government's winter of discontent ten years ago. Profitability is at its highest levels for 20 years.

And partly as a result, Britain's investment performance has improved dramatically.

One of the reasons why we grew more slowly than any other major European country in the 1960s and 1970s was because we fell behind in investment.

Comparing the rates of growth of investment in the twelve European Community countries, in the 1960s, we were ninth out of twelve.

In the 1970s, we slipped to tenth.

But in the 1980s we have shot right
to the top - an achievement that
bodes well for the future.

Within the economy, there has been a marked shift in the balance of growth, between investment and consumption.

In the five years between 1968 and 1973, consumption grew by about 3 per cent a year and investment by about 2 per cent a year.

Between 1973 and 1978, and again between 1978 and 1983, consumption grew slowly, but investment actually fell.

But since 1983, investment has grown at getting on for twice the rate of consumption so that private sector investment now stands at 16 per cent of GDP - the highest figure ever.

So much for what the Opposition like to call a short-lived consumer boom. What we have seen is a long-lived investment boom - and one which is

set to continue, as the surveys from the CBI, the IOD, and the DTI all confirm.

The transformation of the supply side of the British economy has been the foundation for what is already the longest period of strong and steady growth, and the longest sustained fall in unemployment, since the War.

And Britain's economic renaissance is set to go on, though growth this year will be slower than in the past two years, particularly so far as domestic demand is concerned.

Perhaps the best evidence of the transformation of the supply side is the way the economy has forged ahead through the coal strike, the oil price collapse, and the stock market crash.

There will be further evidence in the way we shall come through the present problems. In the past, each and every one of these incidents would have created a major crisis.

Now, they are little more than changes of pace in the sustained upward march of the British economy.

Our economic prospects will inevitably depend to some extent on the wider world economy.

The closer international co-operation that has been in place for well over three years now has, I am sure, been of great benefit in

creating the right climate for healthy growth, and particularly for investment.

As the House will be aware, I was in Washington on Tuesday for an informal discussion with US Treasury Secretary Brady, and I am sure that the new US administration will continue to play its full part in that process of international co-operation.

In this context, a low-profile meeting of the G7 - the Finance Ministers and Central Bank Governors

of the seven major industrial nations - and the first involving the new US administration, may well take place within the next few weeks.

Mr Speaker, I have set out in the Autumn Statement the prospects for 1989, and I have explained the policies I intend to pursue to ensure that our economic success continues.

When he comes to reply, I hope the HM for Dunfermline East will have the honesty and courage to set out his own Party's policies as well.

For in spite of all his speeches, letters, and TV appearances, the House is little clearer than it has ever been on what Labour's policy on the economy actually is.

We are still waiting to hear what they decided at their retreat into seclusion in a convalescent home at Rottingdean a few weeks ago.

We are still waiting to hear the outcome from their much vaunted

policy review, which seems to have disappeared from sight.

But I must be entirely fair.

That great economist, the RHM for Sparkbrook has published his proposal to solve all Labour's problems.

He recognises that they have already lost the next election.

So on the principle that if he can't win, he isn't playing, he proposes that we split the country up into ever smaller units, until we

eventually find one where Labour might hope to get a majority.

Well, now we know what one section of Labour offers - the Yugoslav solution: total devolution and total ungovernability.

Small wonder that the entire Yugoslav government resigned because it couldn't find a way out of its economic difficulties on the very day that the RHM went into print, commending this model to the British people.

But let me come back to the hon Member for Dunfermline, and ask him a straight question.

First, can he bring the House up to date on what Labour's tax policy actually is this week, and in particular what Labour's basic rate of tax would be?

I realise he may find this a tiresome question but it is of some interest to the House.

Labour voted against the cut in the basic rate from 29 per cent to 27 per cent in 1987, and also against the cut from 27 per cent to 25 per cent in 1988.

But when he was pressed on the subject by Mr Brian Walden, a few days ago, the Leader of the Opposition said that, for the 95 per cent of taxpayers who pay at the basic rate, "the possibility of increasing their income tax is very, very remote".

Though I have to say that when Mr Walden kindly offered to change the subject, the RHM exclaimed "Thank God!"

Perhaps the HM for Dunfermline East will now confirm to the House that Labour now admit they were wrong to vote against the cuts in the basic rate of income tax in 1987 and 1988.

And, since we are debating the Autumn Statement and the Government's public expenditure plans, perhaps the HM for

Dunfermline East, who has, after all, been shadow Chief Secretary for over a year now, will tell us by how much Labour would increase public expenditure, in the unlikely event of their returning to office.

I look forward to his reply.

Because the only policies we have heard from Labour, throughout the 1980s, have been a repeat of the disastrous policies which laid the country low in the 1970s, and would

do so again, as the British people so clearly recognise.

By contrast, the Autumn Statement offers the prospect of a further year of healthy growth and strong investment, with inflation resuming its downward trend.

I commend it to the House.

And above all, an economy that has been fundamentally transformed for the better. My her auto fine trule gud ALUST Not, aprel = Voil E) A rel 6 1 - le Me de.



FROM: A P HUDSON DATE: 10 January 1989

MR DYER

cc PS/Chief Secretary Mr Gieve Mr Pickford Mr A C S Allan Miss Wallace Mrs Chaplin

Told Teamy I was caled. Mr Gray - No. 10 fee 6 101,

AUTUMN STATEMENT DEBATE: GOVERNMENT MOTION

wilt Phil Following my minute of yesterday, the Chancellor has decided that the Government motion should be as follows:

That this House approves the Autumn Statement presented by Mr Chancellor of the Exchequer on 1 November 1988; endorses the action taken by Her Majesty's Government to ensure that inflation resumes its downward trend; welcomes the prospect of continued growth and strong investment 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.

- This needs to be cleared with No.10. Please could Mr Gray let me have any comments as soon as possible.
- Subject to that, please could you ask the Whips to put this down in the normal way.

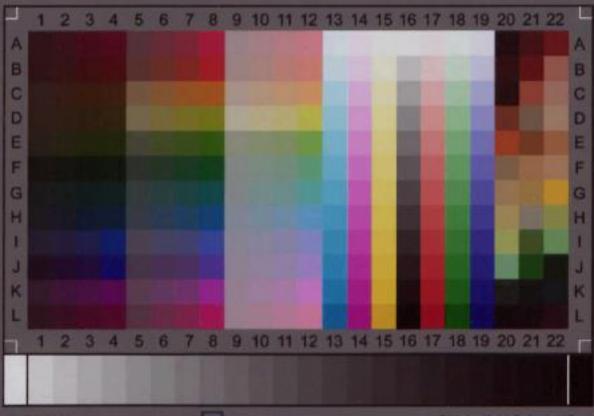
A P HUDSON

PART 40 ends:-

Harrow Gotack 13/12/88.

PART_____begins:-

Al Hudson to M. Oyer 10/1/19



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