

PREM 19/2949

**SECRET**

Confidential Feling

Public Expenditure & Cash Limits

ECONOMIC POLICY

Part 1: May 1979

Part 44: January 1990

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>5-1-90</del>							
<del>6-2-90</del>							
<del>28-5-90</del>							
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PREM 19/2949

● PART 44 ends:-

MS/ENN to CST 28.8.90

PART 45 begins:-

SS/WALES to CST 4.9.90



Minister for Local Government  
and Inner Cities

CONFIDENTIAL

Department of the Environment  
2 Marsham Street  
London SW1P 3EB

Telephone 071-276 3000

P/PSO/33384/90

n.b. P.M.

BHP

30/8

28 AUG 1990

Dear Norman

In Chris Patten's absence from the office, I am replying to your letter of 14 August about the press reports on the Public Expenditure Survey.

I share your views about the need to keep correspondence on this in strict confidence: as you may imagine, on the detailed question, the way in which reference to HATs appeared in the newspaper was very unwelcome in this department. But of course the wider question about the Survey is the over-riding concern.

Your letter, which has been circulated to Ministers and senior officials here, will serve as a further reminder of the need for confidentiality and care in handling correspondence on this subject.

I am copying this as for your letter.

Yours ever

Michael.

MICHAEL PORTILLO

The Rt Hon Norman Lamont MP



RECYCLED PAPER

Elon Pa: Public Exp  
A-44



CONFIDENTIALccp  
26/8/90

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Christopher Patten MP  
 Secretary of State for the Environment  
 Department of the Environment  
 2 Marsham Street  
 London  
 SW1P 3EB

14 August 1990

*Dear Chris*

## 1990 PUBLIC EXPENDITURE SURVEY

I know you will have been as concerned as I was about the stories which appeared in Sunday's and yesterday's press about expenditure on Housing Action Trusts. However, I thought I should write to you, and to other colleagues, to re-emphasise the essential importance of ensuring that all papers and correspondence about the Survey are treated in the strictest confidence. These latest stories come on top of earlier reports in the press which referred specifically to my letters to John McGregor, Peter Lilley and Michael Howard about their spending bids. And yesterday's article actually quoted directly from my agenda letter to you. I am sure you will agree that such unauthorised disclosure makes the conduct of negotiations between us extremely difficult.

You and other colleagues are well aware of the very difficult economic background against which this year's Survey is being conducted, and of Cabinet's conclusion on 19 July that departmental bids should be eliminated or very sharply reduced and that any increases in discretionary spending that colleagues regard as essential should be offset by savings. In these circumstances it is all the more important that I can look to you and other colleagues to ensure that the confidentiality of our correspondence on the Survey is preserved and that papers are copied only to those with a strict need to know. I hope you will look again at your copy lists for Survey correspondence.

I am copying this letter to the Prime Minister and the Lord President, all Ministers in charge of Departments and to Sir Robin Butler.

*g r*  
*N*

NORMAN LANONT

CONFIDENTIAL



*CCP*  
n. b. P. M.  
BHP  
20/7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP  
Home Secretary  
Home Office  
50 Queen Anne's Gate  
London  
SW1H 9AT

20 July 1990

*David*

*with BP?*

**PUBLIC EXPENDITURE SURVEY 1990: HOME OFFICE**

Thank you for your letter of 24 May setting out your proposals for changes to your department's expenditure provision in the current Survey.

2. I am writing to set out my initial response to your proposals in the light of the remit given by Cabinet on 19 July and to propose an agenda for our bilateral meeting. My office will be in touch to arrange a time which I suggest should be early in September.

3. The attached table summarises your proposals and some options for reductions which I would like to discuss with you. The figures have been discussed by officials and I hope we can take them as an agreed starting point for our discussions. If any changes are needed to reflect new information, a revised table will be sent to you before we meet.

4. Our officials have been discussing your bids for local authority current grants. I hope to be able to write to you shortly suggesting a provisional settlement for 1991-92. There will be some outstanding issues to discuss in the autumn, however, relating to police manpower, police grant, Commonwealth immigrants grant and civil defence. Expenditure on police specific grant in particular has been growing rapidly in recent years. In the light of the very difficult economic circumstances this year and the pressure on police pay that arises from the Edmund-Davies formula,

## CONFIDENTIAL

I do not think I can agree to yet further increases in police officer complements. Moreover, as I said in my letter of 18 June and notwithstanding yours of 17 July, I believe we need to look again at the possibility of cash limiting police grant.

5. As you know, Cabinet took the view in April that strict control of public expenditure must be maintained, bids to increase planned levels of public spending could not be afforded, and the approach must be to offset any necessary increases in particular areas by savings elsewhere.

6. However, as I told Cabinet on 19 July, bids for additional spending this year exceed savings by an exceptionally large margin. Cabinet noted the very substantial pressures on demand-led programmes and the large cost of commitments already made, in particular the settlement on AEF, which will severely constrain the scope for any increases elsewhere. It agreed that bids should be eliminated or very sharply reduced, and any increases in discretionary spending which colleagues regard as essential should be offset by savings.

7. I am therefore asking all colleagues, in this exceptionally difficult year, to scrutinise their existing baselines and to identify options for making further substantial savings to offset those bids to which they give most priority. I would be grateful if you would report on the outcome of this exercise by the time we meet in the Autumn. I offer below some thoughts on where you might look for savings.

8. It is only by doing so that we will fulfil the remit given by Cabinet on 19 July that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend.

9. I am therefore disappointed that you have submitted substantial bids for increased spending which are not offset by savings elsewhere in your programme. As they stand, your bids for 1991-92 imply a 16 per cent increase in provision over the previous year, or almost 10 per cent in real terms. Such proposals are completely at odds with the Cabinet remit. By the time we meet therefore, I hope you will be in a position to select from the bids you have submitted only those to which you attach the very highest priority and which can be matched by reductions elsewhere.

10. Your departmental programmes have grown very substantially since we came into office, with a doubling of expenditure in many areas. With the easing of demographic and other pressures and the very difficult public expenditure position it seems to me that it is now time to consolidate and reassess priorities.

11. On prisons, for example, we have a very good story to tell. An unprecedented and sustained rise in spending. The largest prison building programme this century with 8 new prisons already opened and a further 14 in the pipeline. These will add a further 8000 new places to the 8500 already gained.



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12. The continued decline in the prison population projections is welcome. You have indicated that, subject to the August update of the projections, you might be able to drop your plans for Fazakerly and delay the start of work on Ashford, at a saving of around £82 million. I am, of course, grateful for this. But we need to look for something more.

13. All the indications suggest there will be a considerable crude surplus of prison places in the short to medium term. The current projections are obviously far too high - indeed, I find them very hard to take seriously: the figure for this April, 45,518 is way below the planning assumption of 53,600 for 1990-91 for example. Once the figures are revised in August, and allowance made for likely reductions resulting from policies for diversion from custody, I hope you will agree that we should take out of the baseline both Marchington and Ashford, along with Fazakerly.

14. Our officials are in touch on the case for relocation of the Prison Service's Headquarters. I appreciate that the decision to reorganise and move from London has already been taken. But the bid is extremely large and we will need to discuss the operational benefits and efficiency gains you expect to obtain.

15. I am grateful for your decision to withdraw the bid for contracting out prison escorting services. While the changes you propose are welcome, we will be in a better position to discuss them next year when you have had time to work up your proposals in more detail.

16. The majority of your non-prisons central government programmes have grown significantly in real terms over the last few years. Your bids this year cover almost every sector of non prisons spending with no indication of relative merits, and you are again looking for significant further increases. For example, your bids imply an increase in spending of over one third above current plans for police, by almost a third for "other crime", and by over 15 per cent for central and miscellaneous services. Quite simply, these cannot be afforded. I must ask you to look again with rigour to identify only those bids of overriding importance and to find savings to offset any increases which you consider essential.

17. On local authority capital you are bidding for grant and credit approvals amounting to 36 per cent of baseline provision in 1991-92 rising to 46 per cent in 1993-94. These very large bids need to be scaled down very substantially.

18. Turning to my options for reductions, I have suggested removing three prisons from the baseline. We can look at this in light of the revised prison population projections due in August. On the non prisons side, I seek reductions in civil defence, CICB and some more general efficiency savings.

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19. On civil defence, you are aware of my wish to see savings in the light of the recent developments in Eastern Europe and the reduced threat to our security. For the reasons set out in my letter of 18 May, I will be looking for a reduction in expenditure of 20 per cent.

20. On the CICB, your bids would imply increasing expenditure by over 50 per cent above current planned levels for 1992-93. I understand these bids merely take account of the consequential of the additional 60 staff taken on in response to the critical report by the Home Affairs Committee. Whatever the cause, the proposed increases are such that I think we need to take a hard look at the scheme and its future. I do not think we can continue to run the widest and most generous scheme in Europe. For the Survey, I would like to explore options to keep expenditure as close to this year's likely level as is possible. This could involve, among others, a substantial increase in the minimum threshold for awards or basing awards on only a proportion, say two thirds, of common law damages. I have asked my officials to discuss with yours the various options in time to inform our bilateral discussions.

21. Elsewhere, I would look to you to make continued progress in market testing and competitive tendering and to produce further savings.

22. On local authority current spending, my options include section 11 grant, civil defence and magistrates' courts fees. On section 11 grants to Commonwealth immigrants I am concerned about the size of the bids and the difficulties you face in keeping within the cash limit. We need to explore ways of keeping expenditure under control, and I suggest we should look in particular for a greater tapering and time limiting of grant and a reduction in the rate of grant. I also wish to see payments made in arrears as recommended by the review. This will produce a substantial one off saving in 1991-92. On civil defence I look for reductions on the same basis as for central government expenditure. On magistrates' courts, we need to move ahead on proposals for restructuring and updating fees as quickly as possible. I understand the fees were last changed in the 1960s.

23. I was very disappointed to see that you have reopened the firm three year settlement we carefully negotiated last year and have submitted substantial bids for 1991-92 and 1992-93. These are simply not affordable. Cabinet has agreed that expenditure on the Civil Service must continue to reduce as a proportion of the planning total, and that higher levels of cost containment must be achieved. I must therefore press you to cut back your bids drastically and to postpone non-urgent expenditure. In particular, I look to you to absorb any knock-on costs of this year's pay settlements within the figures we agreed last year, and to re-examine critically your manpower plans. We shall need to pay careful attention to your management plan, to judge the scope for increasing the level of efficiency gains to offset the cost of other priority tasks.

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24. I hope that provision for the Charity Commission can be settled between officials, preferably before our bilateral. If that does not prove possible, we will need to discuss it ourselves.

25. I am copying this letter to the Prime Minister, Malcolm Rifkind, Peter Brooke, and to Sir Robin Butler.

*Norman Lamont*  
NORMAN LAMONT

## AGENDA TABLE

Home Office	EXISTING BASELINE			£ million 1993-94	PROPOSED CHANGE IN BASELINE		
	1990-91	1991-92	1992-93		1991-92	1992-93	1993-94
<b>1: TOTAL EXPENDITURE</b>							
Total programme	4,817.5	5,013.2	5,160.5	5,289.5			
<b>A BIDS FOR ADDITIONS TO BASELINE</b>							
Central Government							
*A1 Prisons (building)		363.3	295.6	303.0	37.7	25.5	-36.8
*A2 Prisons (other)		234.3	236.8	242.8	57.4	66.0	76.7
*A3 Prisons (manpower)		685.6	753.2	772.0	25.5	46.3	116.3
*A4 Police		91.0	88.7	91.0	35.2	37.8	41.9
A5 Diversion from custody		43.4	46.9	48.0	7.4	11.7	13.2
A6 Criminal injuries C S		87.2	89.7	91.9	38.4	46.4	59.1
*A7 Immigration & nationality		98.2	108.2	101.0	17.9	28.0	28.9
*A8 Other non-prisons		265.9	266.5	283.1	55.9	56.5	59.9
Local authority							
A10 Police current grant		2,325.3	2,420.9	2,481.4	173.6	285.6	433.0
A11 Other current grants **		549.2	574.1	588.5	76.2	107.4	148.7
A12 Police capital grants/CAs		147.8	153.1	156.9	73.5	76.9	91.5
A13 Other capital grants/CAs		121.8	126.8	129.9	24.0	34.5	41.4
<b>A TOTAL BIDS</b>					<b>622.7</b>	<b>822.5</b>	<b>1,073.8</b>
<b>C REDUCTIONS PROPOSED BY CST</b>							
C1 Prisons		363.3	295.6	303.0	-45.5	-93.0	-53.2
C2 Non-prisons		585.8	600.0	615.0	-23.1	-27.2	-31.5
C3 L A current grant		334.1	346.1	354.8	-55.5	-37.2	-47.8
C4 L A capital (grant + CAs)		269.7	279.9	286.9	-30.0	0.0	0.0
<b>C TOTAL</b>					<b>-154.1</b>	<b>-157.4</b>	<b>-132.5</b>
<b>GRAND TOTAL</b>					<b>468.6</b>	<b>665.1</b>	<b>941.3</b>

\* denotes bid with running cost implications

\*\* includes estimate (£30 m each year) of expected late bid on Section 11 grant

19/7/90

## \*II: GROSS RUNNING COSTS

(percentage change on previous year in brackets)

	BASELINE				PROPOSED CHANGE		
	1990-91	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Baseline	1,112.8	1,218.7 ( 9.5 )	1,306.6 ( 7.2 )	1,339.2 ( 2.5 )			
Change proposed by Department					99.1 (18.4)	129.9 ( 9.0 )	227.4 ( 9.1 )
of which: A1		26.4	29.5	30.3	-0.1	-0.1	-0.1
A2		160.5	158.2	162.2	14.6	19.3	35.1
A3		685.6	753.2	772.0	25.5	46.3	116.3
A4		96.6	101.7	104.3	15.9	15.0	14.4
A7		92.9	102.3	104.8	11.8	12.9	21.2
A8		156.7	161.5	165.5	31.3	36.4	40.5
Change proposed by HMT							
C2		14.2	14.7	15.1	-2.8	-2.9	-3.0
CAPITAL FOR RUNNING COSTS							
Baseline (net)	495.5	583.9	308.8	316.5			
Change proposed by Department (net)					86.4	76.4	10.8
Change proposed by HMT (net)					-45.5	-93.0	-53.2

## III: CIVIL SERVICE MANPOWER

	1990-91	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Present plans	44,386	42,641	43,944	45,759			
of which within GRC control		42,641	43,944	45,759			
Department's proposal					934	1,006	2,139
HMT proposal					0	0	0

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Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq  
Private Secretary  
10 Downing Street  
London  
SW1

18 July 1990

Dear Barry

**PUBLIC EXPENDITURE CABINET: BRIEFING**

- ... I enclose some briefing for use with the press after Cabinet, as promised in my letter of 13 July.
- I am copying this letter to Bernard Ingham and to Peter Owen (Cabinet Office).
- 

Yours

Carys

MISS C EVANS  
Private Secretary

POSITIVE POINTS

- (i) Cabinet reaffirmed that defeat of inflation is top priority. Tight policies already restraining private demand. Cannot allow that to be undermined by imprudent public spending.
- (ii) Public expenditure objectives reaffirmed. Firm control essential. Aim to keep public spending as share of national income on downward trend. Ratio has fallen by nearly 8 percentage points since 1982-83.
- (iii) Ministers have accepted that decisions on finance for local authorities mean less for other programmes.

DEFENSIVE POINTS

- (i) What are existing plans?

Cash plans published in 1990 Public Expenditure White Paper, plus adjustments made at time of Budget.

- (ii) Increased inflation must put pressure on programmes?

Bound to affect cost of social security upratings. Elsewhere cash planning means departments must stick to existing plans by reordering priorities, improving efficiency and looking for offsetting savings.

No automatic additions to existing cash plans.

(iv) Cash planning breaks down when inflation accelerates?

Makes Survey discussions more difficult. But when inflation has risen all the more important to avoid accommodating it. Central part of Government's approach to defeating inflation.

(v) Spending has been kept too low too long. Time to increase substantially?

Level of spending determined by what can be afforded. Programmes such as health, transport, housing and social security have received generous increases in recent years.

(vi) What is total of bids? What is bid for (this or that programme)?

Not giving any figures. Bids at this stage always high. Cabinet has agreed they must be reduced and offsetting savings found.

(vii) Higher inflation means higher money GDP, so cash plans can be increased substantially while still having downward trend in GGE/GDP ratio?

Chancellor will give forecast of money GDP in Autumn Statement. Cabinet has agreed objective is to stick as closely as possible to existing cash plans. Plans not adjusted automatically to level implied by particular ratios.

(viii) Remit wording weaker than last year?

No.



- (ix) Exceptionally difficult Survey: Star Chamber will be needed?

Cabinet agreed, as in previous years, to set up Star Chamber. Will certainly be used if needed to complete this exceptionally difficult Survey.

- (x) Will Sir Geoffrey Howe chair Star Chamber?

Yes.

- (xi) Defence?

Individual programmes not discussed at Cabinet today, other than AEF settlement.

- (xii) PSDR figures for first three months show public expenditure spending out of control?

Special factors affecting PSDR in last few months are:

- privatisation proceeds coming through later than last year;
- teething problems with collection of Community Charge by local authorities. Likely to unwind later in year.

Cannot reach conclusions about whole year from first three months. Figures nevertheless disappointing.

(xiii) AEF settlement shows Government losing grip on public spending?

- Not at all. Expensive, but top political priority this year. And Ministers accept that it means less for other programmes - as Cabinet remit makes clear.
  
- AEF settlement adds £2.1 billion to White Paper plans, allowing local authorities to finance sensible increases in revenue spending without excessive increases in Community Charge.

Ref. AO90/1732

PRIME MINISTER

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Public Expenditure Cabinet: Running Costs

I have sent forward separately a brief for tomorrow's Cabinet discussion of public expenditure. This note adds a comment on running costs.

2. Like you, I was concerned to see from the Chief Secretary's paper that running cost bids imply an increase in spending on the Civil Service of 16 per cent next year. I thought you would wish to be aware of some of the factors underlying the increase. They include:

(a) Substantial increases in PSA charges for rent and rates, reflecting higher property values. (In the case of the Cabinet Office, for example, this more than accounts for the net additional bid we have had to make.) These charges increase gross running costs, but do not add to public expenditure because they are matched by PSA receipts. The increases do not represent a real addition to the public expenditure resources used by Departments.

(b) Higher pay increases this year than were provided for in the last Survey, and an expectation that increases next year will also be significantly higher than envisaged in the last Survey. So this has a double effect on Departments - catching up with last year's pay increases and having to provide more for next year's. Next year's general price level will also be some 5 per cent higher than expected a year ago.



(c) Investment in computerisation which can perversely count as running costs, although it is necessary to save staff in the future.

(d) An increase of 7000 in manpower plans for next year. A large element in this is the Inland Revenue bid for staff to deal with independent taxation and the new treatment of bank and building society interest.

I would not want you to feel that Civil Service costs have suddenly run out of control. In fact most Departments continue to be under very great pressure.

HERB.

ROBIN BUTLER

18 July 1990

Ref. A090/1723

PRIME MINISTER

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PUBLIC EXPENDITURE

Economic Prospects: C(90)6  
Memorandum by the Chancellor of the Exchequer

1990 Public Expenditure Survey: C(90)5  
Memorandum by the Chief Secretary, Treasury.

DECISIONS

No conclusions are needed on the Chancellor's Paper, C(90)6. But you will want the Cabinet to endorse the conclusions in paragraph 22 of the Chief Secretary's paper, C(90)5. The most important of these concern the Government's objective for the public expenditure figures. The Chief Secretary also proposes that, if necessary, a small group should be set up in October to consider outstanding issues when the bilaterals are concluded. Finally, you will want to agree what should be said to the Press after this Cabinet.

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MAIN POINTS

Economic Prospects

2. No decisions are needed on the Chancellor's paper on economic prospects which is a general review of the prospects.

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3. It does however present a worrying picture in the following respects:

i. The public sector debt repayment (PSDR) is proving to be lower in the current year than expected at the time of the Budget, and the Chancellor anticipates that it could fall rapidly over the next couple of years.

ii. Inflation as measured by the RPI may rise to over 10 per cent in the next couple of months, and is likely to be still over 9 per cent in the fourth quarter of the year.

iii. The current balance deficit is forecast at £16 billion for 1990, somewhat higher than at Budget time.

4. The Chancellor is likely in his opening remarks to give the Cabinet the GDP deflator forecasts for later years. They are as follows:

	1990-91	1991-92	1992-93	1993-94
	%	%	%	%
New forecast	<u>7 3/4</u>	6	4 3/4	3 1/2
Old forecast	6 1/2	4 3/4	3 1/2	3

The new forecasts may prompt some Ministers to press for adjustments to Departmental programmes to reflect higher inflation.

5. You may wish to draw the conclusion, as the Chancellor does, that the economic prospects, and particularly the PSDR outlook, demonstrate the need for continuing restraint in public spending.

The objectives for public expenditure

6. The Chief Secretary proposes the following objectives, which are similar to those agreed last year:

- i. hold as close as possible to the planning totals set out in the 1990 White Paper, in order to:
- ii. keep the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend.

7. The Chief Secretary's paper points out that the £3 billion increase in Aggregate External Finance for local authorities has already constrained severely the scope for adding to other

programmes. Social security expenditure will be increased by the higher level of RPI inflation, while unemployment is no longer falling. The total of bids, on the other hand, is a good deal higher than was tabled in the 1989 Survey. He does not however give a figure for this total since it would be damaging if leaked.

8. You may wish to endorse the objectives, and to emphasise the importance of achieving them if the Chancellor is not to be faced with increasing taxes next year.

9. Other points on which you may wish to draw if necessary are:

i. need for restraint. At a time when private spending by both companies and consumers is being held back in order to reduce inflation, it is even more important to ensure continued tight control of public spending.

ii. Cash planning. The Government should adhere to the presumption underlying cash planning that inflation is not automatically accommodated. The present high level of inflation admittedly makes this difficult, but nonetheless all the more important.

iii. Priorities. Ministers should take a critical look at departmental bids, discarding those which are not absolutely essential and finding offsetting savings for any that are.

#### Aggregate Exchequer Finance for local authorities

10. The Chief Secretary's paper refers to the settlement on local authority finance reached by E(LG) under your Chairmanship (paragraphs 7 and 8). This will already have been discussed under the previous item and there seems no need to repeat that discussion, except to note that the AEF settlement has already pre-empted much of any room for manoeuvre in the Survey.

#### Running costs

11. The Chief Secretary proposes that spending on the Civil Service should continue to fall as a proportion of the planning total, and that manpower numbers should be kept on a downward trend. You will wish to endorse these proposals, and ask Ministers to give their personal attention to departmental plans to contain costs and improve efficiency.

#### Nationalised Industries

12. The Chief Secretary recommends aiming at substantial reductions in the additional bids from the nationalised industries, and that all of these industries should have proper financial management and corporate planning systems. You will wish to endorse this.

#### Future discussions

13. The Chief Secretary recommends that he should now conduct bilaterals with his colleagues. They should be complete by early October. It is not yet clear whether a Star Chamber will then be needed but it would be useful to have formal agreement now that one can be set up if necessary, without the need for further discussion in October. You could say that you hoped that the Chief Secretary would be able to reach agreement with his colleagues on the basis proposed, but that if this proved impossible you would at the appropriate time establish a small group under the Chairmanship of the Lord President of the Council to consider outstanding issues and to make recommendations to the Cabinet.

#### Handling the Press

14. The Press will ask about the outcome of the Cabinet. As usual you will wish to agree a form of words which your Press Office can use in briefing them after Cabinet. The Treasury have suggested the following which you could read out to Cabinet:



"The Cabinet had its usual July discussion of public expenditure today. It agreed that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend. The Chief Secretary will be conducting bilateral discussions with colleagues in the Autumn. These will take account of the decisions on local authority finance [which are being announced later today]. In the light of these discussions, the Government will take decisions on individual spending programmes and the planning totals and these will be announced, as usual, in the Autumn Statement in November."

You might also emphasise that other members of the Cabinet should adhere to this line, that bilaterals should be carried out in confidence, and that the media should be given no ground on which to base speculative stories of Ministerial disagreements.

#### HANDLING

15. You will wish to invite the Chancellor of the Exchequer to open the discussion by describing the current economic background and prospects and the Chief Secretary, Treasury to follow with a more detailed account of his proposals on public expenditure. All members of the Cabinet may wish to contribute to the subsequent discussion.

R.B.

ROBIN BUTLER

18 July 1990



*ccp*  
*n.b.P.M.*  
*RHP*  
*n/n*

Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq  
Private Secretary  
10 Downing Street  
London  
SW1

17 July 1990

*Dear Barry*

**CASH LIMITS FOR 1989-90**

Further to my letter dated 10 July, it has now been decided that publication of the annual White Paper showing provisional outturn for 1989-90, will be on Wednesday 25 July at 2.30pm and not Thursday 19 July as previously planned.

I am sending copies of this letter to the Private Secretaries of other members of Cabinet, the Ministers for the Arts and Overseas Development, the Attorney General and the Lord Advocate, and to Sonia Phippard (Cabinet Office).

*Yours sincerely*

*Isleen Campbell*

**ISLEEN CAMPBELL**  
Assistant Private Secretary

*paperwork BP*

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COPY NO

July 1990

CABINET

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1990 PUBLIC EXPENDITURE SURVEY  
-----Memorandum by the Chief Secretary, Treasury  
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The control of public expenditure has been one of the great success stories of this Government. Before the 1979 Election we promised to reduce spending as a share of national income. Our record in doing so has enabled us to cut taxes and transform the public sector's finances. These achievements have earned us a high reputation in financial markets at home and abroad. They were hard won, and, as John Major and I have repeatedly warned, holding on to them in present circumstances will require considerable determination. It is of the first importance that we do so.

2. The difficult economic background to this year's Survey is set out in the Chancellor's paper. Bringing down inflation must be our top priority. Fiscal policy must remain tight, in support of monetary policy. At the time of the Budget, we projected a small fiscal surplus for 1991-92, with limited scope for tax cuts. The latest figures suggest a rather worse fiscal prospect. It will not be possible, as in previous years, to add to public expenditure plans in the reasonable expectation that buoyant tax revenues will offset the effect on the PSDR. If we are to avoid a damaging relaxation in fiscal policy, or an increase in taxes in the 1991 Budget, we must keep additions to the planning totals this Autumn to the absolute minimum.

3. Some increase in public expenditure is already unavoidable. As I warned in April, the limited room for drawing down the Reserves over the Survey period has already been exhausted. Higher inflation will add substantially to demand-led social security programmes. The very large increase in Aggregate External Finance for local authorities decided by E(LG) thus implies large additions to the planning totals for 1991-92 and later years.

4. The generous and unprecedented AEF settlement is a political necessity. The scope for meeting other political priorities will therefore depend critically on finding offsetting savings. In present circumstances, I recognise this is bound to be exceptionally difficult. But the alternatives are even bleaker.

#### Developments since the 1989 Autumn Statement

5. The plans we agreed last year provide the starting point for this Survey. There are intense pressures. Revised economic assumptions, notably higher inflation, will add £2½ billion to demand-led programmes next year alone. Community charge benefit will cost an extra £½ billion a year, at this year's level of charges. Policy commitments, agreed since the last Survey, total a further £1-1½ billion.

6. The expenditure projections in the Budget Red Book assumed unchanged planning totals. But total public spending was marked up sharply, for current and future years, to reflect the higher level of spending for which local authorities are now budgeting. Although tougher capping should reduce the scale of future overspending, higher local authority expenditure has already limited our room for manoeuvre in this Survey.

#### Aggregate External Finance for local authorities

7. E(LG) has now decided on the level of central government support for local authority current expenditure in England for 1991-92. The settlement, together with vigorous use of the Government's existing powers to cap charges, should make it possible to limit the average charge to significantly below £400. We need the charge to be as low as possible both for political reasons and to minimise the impact on the RPI.

8. These decisions, including measures to improve the perceived fairness of the community charge, will add some £2.2 billion to the public expenditure planning total. There will be further additions for Scotland and Wales. The increase in AEF next year, compared with this year, is £3 billion for England alone.

9. This settlement reflects the high priority which we are obliged collectively to give to local government finance in the second year in which the community charge will be levied in England and Wales. But, as E(LG) has recognised, it has unavoidable implications for what can be afforded for other programmes. If extra support for local authorities is not offset by greater restraint on central government spending, it will have to be financed from central government taxation.

#### The Bids

10. My minute of [13] July to the Prime Minister summarised the bids received from Departments. In addition, we must take account of territorial block consequences, the nationalised industries, and our net contributions to the EC.

11. The bids exceed, by a large margin, those tabled this time last year. This is very disappointing, in view of the warning of the difficult situation given to colleagues by the Chancellor and myself on April 19.

12. Running cost bids alone are double those submitted last year. Subject only to confirmation of MOD's figures, they imply an increase in spending on the Civil Service of no less than 16 per cent next year.

13. This is quite unacceptable. We must contain administrative costs as a proportion of the planning total. I shall be pressing colleagues to cut back their bids drastically, especially in 1991-92, and to find much higher offsetting efficiency savings. We must also be prepared to postpone non-urgent expenditure.

14. In particular, I shall look to colleagues to absorb the knock-on costs of past and current year pay settlements and to re-examine their manpower proposals. Running costs are our chosen mechanism for controlling manpower numbers, but the bids imply a net increase on plans of 7,000-13,000 Civil Service posts.

15. The major nationalised industries are looking for very large increases over their baselines. These bids will have to be substantially reduced. Where large projects are involved, we must take account of the longer term implications for future Surveys. It is a matter of continuing concern that financial management and corporate planning in some of these industries is inadequate.

#### Implications

16. Given these bids, we face an exceptionally difficult Survey. They imply a substantial real increase in spending, far outstripping any sustainable growth in real output. This remains so, after taking account of the worse inflation prospect described in the Chancellor's paper.

17. We clearly cannot contemplate adding to public spending on anything remotely resembling this scale. Market commentators would conclude that we had abandoned our decade-long policy of reducing spending as a share of national income. They would immediately recognise the very serious problems this would pose for fiscal policy. And they would undoubtedly question the firmness of our intention to defeat inflation. That would cause adverse market reactions. Indeed, the AEF announcement may raise some of these worries even before the Autumn Statement.

18. The best reassurance we can offer is to reaffirm the policy of sticking as close as possible to the planning totals set out in the last White Paper, with the aim of maintaining the share of public spending (excluding privatisation proceeds) to GDP, on a downward trend.

19. In present circumstances, both objectives will be extremely demanding. But anything less will be seen as a weakening in our resolve to maintain strict control of spending. I recognise that many programmes are feeling the effects of higher inflation. But cash planning is part of our armoury against inflation. That is why we introduced it in 1981. This year, above all, we must respect the logic of cash planning. We cannot afford to accommodate inflation.

20. I therefore ask all colleagues to review again their priorities, with a view to selecting from their bids only those which they regard as essential; and to look again at their programmes to find the offsetting savings which will be needed to fund any such increases. We certainly need to re-examine expenditure programmes within the baseline. I should emphasise that this applies to all programmes, not just the five largest: social security, health, education, defence and the Home Office, which account for nearly  $\frac{1}{2}$  of programme spending.

21. I must warn that I shall need to secure much larger reductions than in recent Surveys, to achieve an outcome consistent with an appropriately tight fiscal stance, and to avoid serious damage to the credibility of the Government's macro-economic strategy. We cannot afford to fail.

### Conclusions

22. Against the background of a more difficult economic prospect, we must give top priority to defeating inflation, and maintaining confidence in our policies. I therefore ask the Cabinet to agree that:

- (i) this is an exceptionally difficult year, and strict control of public spending must be maintained: we cannot afford to accommodate inflation;
- (ii) we should hold as close as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend;

- (iii) the very substantial increase in Aggregate External Finance for local authorities has severely constrained the room for adding to other programmes;
- (iv) given the intense pressures on demand-led programmes, on top of the cost of existing firm commitments, bids for other programme expenditure and running costs will need to be eliminated or very sharply reduced, and any increases which colleagues regard as essential should be offset by savings elsewhere;
- (v) spending on the Civil Service should continue to fall as a proportion of the planning total, higher levels of cost containment must be achieved, and manpower numbers kept on a downward trend;
- (vi) major reductions should be made in the bids from the nationalised industries, and all these industries must have firm and timely financial management and corporate planning;
- (vii) I should now conduct bilaterals with colleagues on their spending programmes; and if it proves impossible to reach agreement in the bilaterals, to note that it might be necessary, at the appropriate time, to establish a small group which would consider outstanding issues and make recommendations to the Cabinet.



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*[Handwritten signature]*

n.b.P.M

BHP

17/7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP  
 Secretary of State for Health  
 Department of Health  
 Richmond House  
 79 Whitehall  
 London  
 SW1A 2NS

16 July 1990

*[Handwritten signature: Ken]*

1990 SURVEY: PERSONAL SOCIAL SERVICES: SPECIFIC GRANTS

Thank you for your letter of 24 May.

2. I have considered carefully the case you have made for continuing and new specific grants for personal social services. It is obviously desirable that we should settle this in time for your forthcoming statement and the Opposition debate on community care. I have therefore tried to construct an offer which I hope you will be able to accept as the basis for agreement.

**AIDS Support Grant**

3. I am prepared to agree to the continuation of the AIDS grant into the third year of the Survey, as you propose, subject only to one point. I accept that this scheme has proved effective in stimulating local authorities facing the greatest demand to provide suitable care for people with AIDS/HIV. However, it will have been in operation for 4 years by 1993-94, and the relevant authorities should by then be fully committed to it. I propose therefore that the grant should from that year be payable at 50% of relevant expenditure, rather than 70%. This would mean increases of fm 0.4/0.8/7.8 over the Survey period.

**Mental illness specific grant**

4. We are agreed in principle that a new specific grant for services to people with mental illness should be introduced in April 1991, and I am content with the coverage and payment arrangements for the grant outlined in your letter. However, I do not believe that a convincing case has yet been made in support of your bid for continuing step increases in the level of the grant in the later years. For example, no specific evidence has been

offered about the inadequacy of the current levels of expenditure by local authorities on services for the mentally ill, of the numbers or distribution of the people who need help, or in what way the additional funds proposed would be targeted in order to bring about an improvement in the current situation.

5. Therefore, while I am prepared now to accept your proposal for a grant in 1991-92 of £21 million (covering total expenditure of £30 million), I could not agree at this stage to a target of increasing the estimated current level of expenditure by LAs of £200 million by a further £60 million by the end of the Survey period. Instead I suggest that, at this stage, we simply uprate the agreed 1991-92 provision; we can then reconsider the position for 1992-93 and beyond in the 1991 Survey, when more and better information will be available.

6. I am therefore proposing provision for this new grant of £m 21.0/22.4/23.1, covering total expenditure of £m 30/32/33.

#### Drug/alcohol misuse

7. Since your letter, we agreed an amendment to the NHS and Community Care Bill which would allow a specific grant for local authorities to make payments to voluntary organisations providing services for drug and alcohol misusers. You have now proposed that the grant should be introduced, at a rate of 70 per cent on expenditure of £2 million from next April. Although I said when agreeing the proposed amendment that I would expect you not to submit a new bid in 1991-92, I am prepared to reconsider this in the interest of early agreement to a package, and to offer the full £1.4m in each survey year.

#### Training Support Grant

8. I am content for the existing programmes for the elderly, child care and post-qualifying training to continue for the duration of the current Survey period. I am also prepared to agree to your small bids in 1991-92 and 1992-93 for training in connection with the Children Act.

9. You are proposing two further extensions to the scope of the existing training grants to cover certain other community care client groups and for further post-qualifying training in management.

10. I have some sympathy with both objectives, though not with the extent of the proposed increases in provision. For example, your bid for post-qualifying training would more than double the existing level of provision for a grant which was introduced only in April; I am not convinced that this can be justified until evidence is available which demonstrates the effectiveness of the existing provision. As for the proposed extension of the elderly training grant to cover other community care groups, the immediate need for extra provision for this purpose is clearly reduced by the decision to defer implementation of the new arrangements until 1993. As part of an overall settlement, I am however prepared to agree to half of your bids for these items, ie increases of £4 million a year. I am therefore proposing overall increases in

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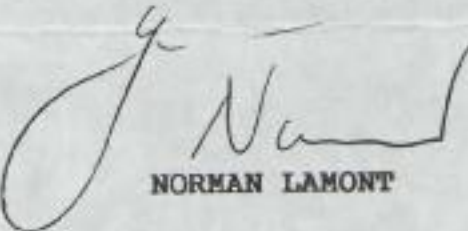
provision for the training grants of £m 23.3/25.0/24.2, which would mean a 28% increase in the 1991-92 provision compared with 1990-91.

11. Against your total bids of £m 50.1/64.0/85.6, I am therefore prepared to offer increases on baseline of £m 46.1/49.6/56.5, giving total provision of £m 57.4/59.4/56.5. I am moreover content that you should treat this as an envelope within which you can adjust the allocations between different grants without reference back to the Treasury. This is by any standards a very reasonable offer which I believe should be acceptable to you. In return, I would ask for your agreement to two further proposals.

12. First, while I am happy to give an undertaking that the AIDS, TSP, mental illness and drug/alcohol misuse grants should all continue for a further 3 year period (ie until March 1994), in order to help LA SSDs' forward planning processes, I am not at this stage prepared to give a commitment to their continuation beyond then. I will instead be looking to you to make a case in future Surveys for any further extensions of these grants beyond the agreed initial 3-year period. My strong preference would be for these pump-priming specific grants to be replaced by RSG after the initial period.

13. Second, I must ask you to relinquish your baseline provision for the PSS element of the Urban Programme which falls within AEF (£m 22.8/23.4/24.0). You will have seen my letter of 21 May to Chris Patten pressing for savings in urban spending and the Prime Minister's positive response. I understand that little, if any, reliable information is available about what this grant is spent on, and what value for money is achieved from it. Since, therefore, this expenditure clearly has a far lower priority from your point of view than your proposals for new and extended specific grants for the PSS, I must ask you in this very difficult Survey year to allow this provision to go at least some way towards meeting the cost of your bids. That would leave net increases in your baseline provision of £m 23.3/26.2/32.5.

14. I am copying this letter to the Prime Minister, members of E(LG), and to Sir Robin Butler.



NORMAN LAMONT

COVERING CONFIDENTIAL



*celv*  
*seen by BHP*

Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq  
Private Secretary  
10 Downing Street  
London  
SW1

*16<sup>th</sup>* July 1990

**1990 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS**

The Survey baselines for the Department of Health on pages 39 and 40 of the summary of bids attached to the Chief Secretary's minute to the Prime Minister dated 11 July have been amended. I am sorry for any inconvenience this has caused.

I am copying this letter to the Private Secretaries of other Cabinet members to PS/Richard Luce and PS/Sir Robin Butler.

*T Payne*  
T PAYNE

*with BP?*

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DEPARTMENT OF HEALTH

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	23429	24603	25221
<b>PROPOSED ADDITIONS</b>			
<b>(Hospital and community health services)</b>			
(i) Review Body pay awards Consequential of funding for 1990 awards.	329	340	351
(ii) Whitley Pay To provide 3% over inflation generally, and extra selective increases.	132	132	132
(iii) Main services' provision To restore growth in activity to previous levels, eg 2% per annum for acute in-patients; includes costs of changes in staff structure.	503	742	1374
(iv) Creditor levels To enable all health authorities to reduce average times for paying creditors to eight weeks maximum.	80	0	0
(v) NHS Trusts' debt interest To enable purchasers to meet Trusts' charges for interest on initial debt (PSDR neutral).	100*	200*	300*
(vi) Management skills, medical education and audit To strengthen professional skills of NHS staff and improve quality of services to patients.	63	68	76
(vii) Junior doctors' hours, training, electric wheelchairs, IT etc Training for nurses, clinical staff and ambulancemen. Extra fully qualified doctors to reduce junior doctors' hours, provision of electric wheelchairs, Family Health Service Authority administration.	72	106	140
(viii) Caring for People HCHS costs of implementing Caring for People White Paper: professional input for needs assessment, additional community health services, assessment training.	49	48	57
(ix) Building programme Compensation for higher construction prices and shortfall in land sales, and to avoid deferral of planned projects.	165	170	210
(x) VAT on construction Consequences for HCHS of paying VAT on construction (PSDR and GGE neutral)	n.k	n.k	n.k
(xi) Trusts' EFLs Provision for new NHS Trusts' borrowing requirements	n.k	n.k	n.k

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(xi) Other HCHS capital 51 45 35  
 HCHS IT, Family Health Service Authorities' accommodation and computers, minor capital.

(Family Practitioner Services)

(xiii) FPS demand 5 106 559  
 Forecast costs and volume, including 1990 Review Body pay  
 consequentials, 1.9% annual growth in doctor numbers, 1.6% dentists,  
 3.5% prescriptions.

(xiv) Dental charges 32 34 36  
 To maintain proportionate charge at 75%, subject to £200 maximum.

(xv) FPS - other 101\* 130\* 153\*  
 Practice premises improvements, more professional practice staff; local  
 projects; extend pharmacists' training and services.

(Centrally financed services and Departmental administration)

(xvi) Centrally financed services 85 99 130  
 Mainly for demand led services, health information, special hospitals,  
 grants to voluntary sector and social services training.

(xvii) Departmental administration 44 67 52  
 Mainly increased pay and staff numbers, and relocation costs for NHS  
 Management Executive.

(Personal social services)

(xviii) LA specific grants 49 63 84  
 Mainly increase in services for mentally ill, increased training for  
 social services staff caring for elderly, children.

(xix) LA capital grants and credit approvals 48 45 42  
 Mainly increased costs, IT for community care, increased services for  
 mentally ill, maintenance of care homes.

TOTAL 1908\* 2395\* 3731\*

PROPOSED REDUCTIONS

(i) Hospital and community health services - - - 500

Current cost improvement programmes, and extra capital receipts.

(ii) Other services - 19 - 31 - 66

Earlier introduction of new dental fee scale, dentists' early  
 retirement, increased maximum dental charge and prescription charges.

PROPOSED NET CHANGE IN PROVISION 1889\* 2364\* 3165\*  
 (of which running costs) [33] [51] [45]

MANPOWER

Proposed 4975 4992 4992  
 Change from present plan 125 214 214

\* Provisional

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Pamela Hirston

cc/p ②

To note - an explanation of Mr Howells bid,

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

Telephone 071-273 5802  
Telex 915564 Fax 071-273 5821

BHP

16/7

Secretary of State

The Rt Hon Norman Lamont MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

ms

16<sup>th</sup> July 1990

Dear Norman

**PUBLIC EXPENDITURE SURVEY : EMPLOYMENT**

Your letter of <sup>16<sup>th</sup></sup> 9 July expressed surprise at my bid. I must register three points in response to your comments.

??

Nearly half my overbid is for cover for European Social Fund (ESF) payments to local authorities and others. This expenditure is both unpredictable, and matched by receipts. We must ensure that sound plans for expenditure in support of our own clear objectives are not undermined by the vagaries of EC funding.

You also referred to the internal review of the Training Agency which I have set in hand. I anticipated the results of this review in my bid, and assumed savings of 1400 posts - including about 50% of current support staff. These very substantial savings could be realised quickly only through redundancies - for which extra funding would be needed.

I fully recognise the pressure we face this year, and my bid was only submitted after very careful Ministerial scrutiny. Indeed, we are already under severe pressure in our efforts to establish a successful network of Training and Enterprise Councils to deliver the Government's objectives on training. On the existing PES baseline, TEC budgets were due to decline by 7% in cash terms in 1991-92 compared with their 1990-91 level, at a time when it is essential to maintain the commitment of TECs. Even after my bid, TECs face a cut in real terms of almost 7% in their budgets for 1991-92.

I am copying this letter to the Prime Minister, Malcolm Rifkind and to David Hunt.

*For ever  
Michael*

MICHAEL HOWARD



Employment Department · Training Agency  
Health and Safety Executive · ACAS

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Econ for: Public Ent 1744







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n.o.p.m.  
BHP  
16/7

Treasury Chambers, Parliament Street, SW1P 3AG

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

16<sup>th</sup> July 1990

*Dear Malcolm*

**PUBLIC EXPENDITURE SURVEY 1990: FORESTRY COMMISSION**

Thank you for your letter of 3 July about the ad referendum PES settlement reached by our officials.

2. I confirm that I am content with the PES agreement as set out in your letter subject to the following conditions agreed by our officials:

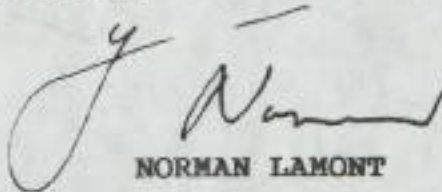
- i. the Forestry Commission will not seek to reopen the PES settlement in the 1990 PES round, whatever happens;
- ii. any additional costs arising from the Commission's review of the Woodland Grant Scheme rates this Autumn will be met from within the agreed provision;
- iii. the Environment White Paper will not include forestry proposals which imply additional provision;
- iv. there will be no automatic right to additional provision in the 1991 Survey to cover the increasing management grant costs in 1994-95;
- v. the Forestry Commission will not expect to increase management grant rates at the review of private woodland grant rates in Autumn 1992;
- vi. the Commission will be expected to absorb any costs arising from any tax assessments on travel and subsistence payments in respect of industrial staff;

UNCLASSIFIED

vii. the terms of the announcement on the broadleaves review and management grants will be cleared with the Treasury.

3. On the last point, you have confirmed that you will be agreeing the wording of the statement with me, and I await the text with interest.

4. I am copying this letter to the Prime Minister, Chris Patten, John Gummer and David Hunt.

A handwritten signature in dark ink, appearing to read 'Norman Lamont', with a large, stylized initial 'N'.

NORMAN LAMONT

Elon Pol. Public Experiments #44





Treasury Chambers, Parliament Street, SW1P 3AG  
071-270 3000

13 July 1990

Barry Potter Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
LONDON  
SW1A 2AA

*Dear Barry*

**JULY CABINET**

... I enclose a copy of the near final draft of the Chancellor's paper on economic prospects for Cabinet on Thursday, 19 July.

*Yours*

*Kate*

**MISS K GASELTINE**  
Assistant Private Secretary

T.K.

P.L.

G.H.

K.B.

DA  
 P.J.  
 J.W.  
 C.P.

CABINET

ECONOMIC PROSPECTS

Memorandum by the Chancellor of the Exchequer

The UK economic is still suffering the after-effects of the excessively fast growth in domestic demand that began in 1986 and continued through 1987 and 1988. By tightening monetary policy, and supporting this by a fiscal surplus, we have succeeded in restraining the growth of demand more recently and the current account deficit has begun to fall modestly as British producers have switched sales from domestic to foreign markets. But the adjustment has not been as rapid as we - or others - expected and inflation has continued to rise and has now reached quite unacceptable levels.

2. The large current account deficit and rising inflation have contributed to nervousness in financial markets at various times over the past year. The firming of sterling in recent weeks is welcome; provided it persists, it will help inflation over the next year, offering the prospect in due course of some reduction in interest rates. But confidence is bound to remain fragile for some time, and we must make sure we do nothing that exacerbates anxieties about either the performance of the UK economy or the determination of the Government to achieve its objectives.

3. One important reassurance for markets in the last few years has been the strength of our fiscal position and the emergence of a public sector surplus - coinciding of course with above trend economic growth. But after a number of years when the fiscal position was stronger than expected we may now face a period when it will be difficult to avoid a deterioration and a rapid return either to borrowing or to tax increases.

World economy

4. The world economy is emerging from a period of exceptionally strong activity. G7 GNP grew in 1989 at 3½ per cent, with US growth easing somewhat in response to the Fed's tight monetary stance while growth in Japan and Germany was very strong.

5. The indicators for the first half of 1990 show these trends continuing. In particular, while there has been a further easing of pressures in the US, a recession there seems unlikely. However, the prospect of relatively sluggish growth in the US should lead to a further fall of G7 GNP growth in 1990 to about 2½ per cent, close to our estimate of the growth of potential output.

6. With pressure on capacity at a very high level in some economies there is little chance of a significant reduction of inflation in the G7. Indeed there must be a risk that in Japan and Germany underlying inflation will drift up and it is possible that there could be further increases in short term interest rates.

7. The dramatic events in Eastern Europe, and in Germany in particular, will have only a limited impact in the short run perhaps boosting growth of world trade in manufactures, which is crucial for British exports, by ½ per cent in 1990. Overall world trade growth in 1990 is likely to be less than in the previous three years, though faster than in the last 1970s and early 1980s.

The UK economy

8. We have maintained a very tight policy stance for two years now with a budget surplus and real short term interest rates at over 8 per cent. This has had a marked effect on the economy in 1989. The latest figures show that after growing at 7 per cent in 1988 real domestic demand has grown slowly since the end of 1988.

Pressure upon capacity has eased and unemployment has begun to rise in recent months.

9. Nonetheless the adjustment has proceeded far more slowly than we expected and the indicators for the first half of 1990 give conflicting signals. Some indicators suggest that the necessary slowdown in growth may have halted or even gone into reverse. On the other hand, surveys of company and personal sector intentions, in particular, suggest only weak growth.

10. The indicators present a mixed picture on the outlook for consumer spending. Retail sales growth, which slowed very sharply through 1989, seems to have picked up in the first half of this year, rather against previous expectations.

11. On the other hand, personal sector new car registrations have been on a steep and uninterrupted downward trend since mid-1989, the largest and most sustained fall since 1980. Consumer credit growth has slowed down and, since early 1988, consumer confidence has slumped to historically low levels. Distributors themselves see a weak immediate outlook and their general optimism regarding future prospects has deteriorated noticeably. So, too, has the optimism of manufacturers of consumer goods, as reported by the CBI Industrial Trends Survey.

12. The prospects for companies are also uncertain. The company sector has been running a very large financial deficit in recent years. In the past this would have led to a rapid adjustment with cuts in stocks and investment. As a result of the liberalisation of capital markets and the strength of profitability, companies have been willing on this occasion to live with the deficit. While there have been signs of financial distress in certain sectors and the figures for 1989 suggested that companies were trimming the growth of investment and cutting stocks, initial information for early 1990 was unexpectedly buoyant. Taking 1990 as a whole it looks as if fixed investment will be about the same as last year, and that there will be only modest destocking. This

would imply a somewhat higher level of company spending than expected at the time of the Budget. Nonetheless we cannot rule out markedly lower company expenditure in the near future if financial distress becomes more widespread and if companies take more aggressive defensive measures to improve their finances.

13. Taking the personal and company sectors together the prospect is for a small rise in domestic demand in 1990, rather than the small fall expected at Budget time. Total GDP is still expected to grow by 1 per cent; but within the total domestic demand looks stronger and net exports weaker than expected. Once again estimates of North Sea production for this year have been significantly reduced and this accounts for some of the weakening.

14. With domestic demand stronger than expected it is not surprising that the current account deficit has been running a little ahead of the Budget expectation. Export growth has been very encouraging particularly in manufacturing, where we have increased our share of world trade, but imports have also continued to grow. Estimates of invisible earnings have recently been revised up, and the expectation is that for the year as a whole the current account deficit will, at £16 billion, be only a little above the FSBR forecast.

15. The strength of activity so far this year has coincided with a further rise in inflation. Pay settlements have risen strongly, though their effects on earnings have been offset so far by falls in overtime working and bonuses. CBI evidence shows that the greatest single influence on pay settlements is headline RPI inflation, which has risen strongly in recent months, so that we could well see a further rise in settlements later in the year.

16. The acceleration in earnings has coincided with a downturn in productivity growth, which is normal at this stage of the cycle, and as a result there has been a sharp rise in the growth of wage costs. This, together with last year's fall in the exchange rate, has led to a rise in underlying inflation. While there is no

This is  
odd. Pay  
settlements  
would fall  
on logic  
in Q3  
Q3-Q4.



unique measure of underlying inflation, the evidence is that it currently lies close to the range given by the 6 per cent growth of manufacturers' output prices and the 7 per cent growth of the RPI less mortgage interest payments and the community charge. The latter gives a reasonable estimate of what the UK's consumer price inflation would be if calculated in the ways used by most of our G7 and EC partners.

17. Headline RPI inflation has risen to 9.8 per cent, boosted in particular by mortgage interest rate rises and the very high community charge set by local authorities. Both headline and underlying inflation could rise further in the months ahead, with the former possibly breaching 10 per cent in the next month or two. Thereafter underlying inflation should stop rising and then begin to come down gradually as declining capacity utilisation exerts a sharper squeeze on companies' profit margins. Headline inflation will still be likely to be over 9 per cent during the fourth quarter of this year, despite the effects of last November's mortgage rate rise dropping out of the inflation rate. It will fall further through next year. Achieving a substantial reduction in underlying inflation will require sufficient pressure on companies to force them to curtail the rises in their prices and wage costs.

18. I forecast at Budget time a lower debt repayment for 1990-91 than had previously been projected, and also indicated an earlier return to budget balance, with smaller scope for tax cuts. The PSDR in 1990-91 has so far been lower still, in large part, though not entirely, because of higher borrowing by local authorities. To the extent that local authority borrowing is the result of low payments of the community charge caused by teething troubles with new computer systems, some at least of these shortfalls should be unwound before the end of the financial year. But public expenditure is running ahead strongly and there are other adverse developments to come, such as lower than expected North Sea oil production caused by shutdowns to install safety equipment. Our

current forecast is that the PSDR will be well below the projection we made at the time of the Budget.

19. Some of the underlying weakening in the fiscal position this year may be masked by the effects of higher than expected inflation and also somewhat more resilient domestic demand: both these factors are helping to boost revenues this year, while the main automatic impact of higher inflation on expenditure (through social security upratings) will not be felt until the next financial year. But in the next two years or so the slowdown in the economy is likely to hit payments of company and capital taxes, both of which have grown very rapidly in recent years. As a result of all these factors we could well see what remains of the budget surplus evaporating as rapidly as it appeared.

#### Conclusion

20. I'm afraid this is a very bleak background against which to assess changes to the existing public expenditure plans. It will not be possible, as in previous years, to add to public expenditure plans in the reasonable expectation that buoyant tax revenues will offset the effect on the PSDR. Indeed it could pose the hard choice between tax increases next year and a damaging relaxation of policy. It is essential, therefore, that we follow the recommendations on public expenditure in the Chief Secretary's paper.

21. Providing that we can restrain overall demand in the economy we have the prospect of stopping the rise in inflation and eventually reducing it. But commentators and markets will be looking closely to see that our resolve does not weaken. It will do immense harm if we are seen to be restraining demand in the private sector while letting it grow strongly in the public sector. In contrast if we keep public finances under strict control we should be able to establish and retain market confidence, and this should lead eventually to some reduction in interest rates.

SECRET

## MAJOR ECONOMIC INDICATORS

	FORECAST				
	1987	UK		UK	G7 excl UK
		1988	1989	1990	1990
<b>A. Demand &amp; Activity</b>					
GDP †	4½	4½	2	1	3
Domestic demand of which	5½	7½	3	½	3
- consumers' expenditure	6	7	3½	2½	3
- fixed investment	8½	13½	4½	-	5
Exports of Goods & Services	5	½	4½	7½	4½**
Imports of goods & Services	7½	12½	7	4½	5
<b>B. Inflation</b>					
RPI (Q4 on year earlier)	4	6½	7½	9½	4***
RPI excluding mortgage interest payments and community charge	3½	5	6	6½	
GDP deflator (financial years)	5½	7	6½	7½	
<b>C. Other items (levels)</b>					
Current balance (£bn)	-4½	-15	-19	-16	
Unemployment (per cent, narrow definition)	10½	8½	6½	5½	6
Average earnings (per cent change: financial years)	7½	8½	9½	9½	4½++
3 month interest rate	9½	10½	14	15*	9
Sterling index (1985=100)	90	96	93	93.5*	
Oil price (Brent, \$barrel)	18	15	18	17½*	
PSDR (£bn, financial year)	3½	14½	7½	3½	

\* close July 13  
 \*\* goods only  
 \*\*\* Of the rest of the G7 only Canada has mortgage interest payments in its consumer price index

† Average measure  
 †† manufacturing earnings

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6 (a-c)

Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq  
Private Secretary  
10 Downing Street  
London  
SW1

13 July 1990

Dear Barry

**PUBLIC EXPENDITURE CABINET: LINE TO TAKE**

The Chancellor and Chief Secretary have been considering what might be said after the Public Expenditure Cabinet. They suggest the following:

"The Cabinet had its usual July discussion of public expenditure today. It agreed that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend. The Chief Secretary will be conducting bilateral discussions with colleagues in the Autumn. These will take account of the decisions on local authority finance [which are being announced later today]. In the light of these discussions, the Government will take decisions on individual spending programmes and the planning totals and these will be announced, as usual, in the Autumn Statement in November."

2. The Chancellor and Chief Secretary would be grateful to know if the Prime Minister is content with this.

... 3. I attach a draft speaking note which the Prime Minister may wish to draw on at Cabinet.

4. I will be sending early next week some briefing for use with the press after Cabinet.

5. I am copying this letter to Bernard Ingham, and to Peter Owen (Cabinet Office).

Yours

Carry's

MISS C EVANS  
Private Secretary

## JULY CABINET : SPEAKING NOTE FOR THE PRIME MINISTER

The main aim of the discussion is to secure endorsement of the conclusions in the papers by the Chancellor and Chief Secretary. In your opening remarks you may wish to drive home the point that against the present economic background the Government cannot afford bids on anything like the scale proposed by Departments, drawing on the following:

- i. inflation. Inflation is far too high and has not yet started to come down. Getting it down is the top priority. The Chancellor must be supported in keeping policy tight.
- ii. the Government must not lose its reputation for sound public finance based on the firm control of public spending. It would be quite wrong to relax public spending when private sector demand is being held back.
- iii. there is very little room to add to spending. The Chief Secretary warned in April that the scope for drawing down the Reserves was already exhausted (eg by extra money for social security upratings). He has now agreed a very generous AEF settlement to hold down community charges next year (which will help the RPI). This leaves less for other programmes.
- iv. the bids are far too high, despite the Chancellor and Chief Secretary's warnings in April. Big additions to spending would put the Chancellor in an impossible position next Spring. [Running cost bids for instance are far too high: convinced there is still considerable scope for more efficiency savings. We must not let manpower numbers drift up again.] Bids must be withdrawn or drastically cut back and offsetting savings found.

- v. we cannot afford to accommodate inflation. Cash planning is a tough discipline when inflation is high. That is why we brought it in. The Survey will be exceptionally difficult but everyone must contribute to defeating inflation and maintaining Government's reputation. All Ministers must respond to the Chief Secretary's request to look again for savings across all their spending.

H.M Treasury

12 July 1990

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H.M Treasury  
12 July 1990



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FROM: CHIEF SECRETARY  
DATE: 11 July 1990

PRIME MINISTER

1990 PUBLIC EXPENDITURE SURVEY: ADDITIONAL BIDS

... I will be putting proposals to Cabinet shortly on our objectives in this year's Survey. As background for our discussion I attach summaries of the bids that colleagues have put to me.

2. The annexes summarise the proposals made by each Minister for his own programmes. As in previous years, they do not include proposals for nationalised industries' external finance, net contributions to the EC, and the territorial consequences of departments' bids. The Revenue Support Grant and national non-domestic rate elements of local authority current expenditure are not included although specific grants to local authorities within Aggregate External Finance are included in departmental summaries.

3. I am sending copies of this minute to other members of the Cabinet, to Richard Luce, and to Sir Robin Butler.

A handwritten signature in dark ink, appearing to be "N. Lamont".

NORMAN LAMONT

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1990 PUBLIC EXPENDITURE SURVEY

SUMMARY OF PROPOSED ADDITIONS AND REDUCTIONS

<u>Department</u>	<u>Page</u>
Ministry of Defence	1
Foreign and Commonwealth Office (Diplomatic Wing)	2
Foreign and Commonwealth Office (ODA)	4
Ministry of Agriculture, Fisheries, and Food	6
Intervention Board	9
Forestry Commission	10
Department of Trade and Industry (including OPT, OPTEL, and ECGD)	11
Department of Energy (including OFGAS and OFFER)	15
Department of Employment	17
Department of Transport	19
Department of the Environment - Housing	21
- OES	24
PSA Services	27
Home Office and Charity Commission	29
Legal Departments	31
Department of Education and Science	32
Office of Arts and Libraries	34
Department of Social Security	36
Department of Health	39
Office of Population, Censuses and Surveys	41
Scotland	42
Wales	43
Northern Ireland	44
Chancellor of the Exchequer's Departments (excluding Inland Revenue and Customs & Excise)	45
Inland Revenue	46
Customs & Excise	48
Cabinet Office and Parliament	50

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MINISTRY OF DEFENCE

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	22,360	23,433	24,019

**PROPOSED ADDITIONS**

(i) War widows	116	117	116
----------------	-----	-----	-----

Ministers agreed last December that the cost of making the special payment of £40 per week to pre-1973 war widows should not be met from the existing defence budget. For 1990-91 the Chief Secretary has agreed to meet the estimated cost of making the payment of £110 million from the Reserve.

(ii)	+200	-200	-
------	------	------	---

As part of the 1989 Survey settlement it was agreed that £200 million could be carried back from 1992-93 to 1991-92 if it could be demonstrated that this was a reprofiling and was neutral in its impact over the period

<b>PROPOSED NET CHANGE IN PROVISION</b>	<b>316</b>	<b>- 83</b>	<b>116</b>
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Further alterations to the baseline may be proposed when the "options for change" package is more advanced.

**Running Costs**

RC baseline (New Coverage)	5242	5373	5507
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The baseline for running cost coverage under the New Management Strategy is not yet established. The figures entered above are therefore not final. They incorporate a mechanical uprating of 3 per cent in 1991-92 and 2.5 per cent in the following year. A formal bid will be submitted when the baseline is agreed, in the next few weeks. It will be for a one year settlement only, because the MOD financial management system is in transition this year.

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FOREIGN AND COMMONWEALTH OFFICE - DIPLOMATIC WING

	1991-92	1992-93	£ million 1993-94
Survey baseline	944.2	966.6	990.7
<b>PROPOSED ADDITIONS</b>			
(i) Operating costs	40.2	62.4	88.6
To allow for inflation and pay settlements higher than previously forecast, whilst meeting existing objectives and targets.			
(ii) Eastern Europe/USSR	25.8	26.5	66.5
Fundamental new circumstances. Targets include increased reporting, all new key staff to be competent in local language, design and documentation for new Moscow Embassy by 1993, and to provide adequate accommodation in Berlin.			
(iii) Hong Kong	21.5	26.6	32.2
Accommodate and repatriate Vietnamese Boat People, expand educational activities in Hong Kong, and build new Consulate-General by 1995. Targets include return at least 1000 Vietnamese Boat People a month, clear all by 1994, and UK courses for 300 Hong Kong teachers of English a year.			
(iv) Visa Operations	1.2	4.1	8.8
To meet overall 12 per cent forecast growth in demand instead of 4 per cent, whilst maintaining quality and speed of service. Targets include 24 hour maximum for average processing time and average referral time after interview for visit visas.			
(v) UK Presidency of EC	0.5	3.8	0.0
To meet costs of a positive, cost-effective UK Presidency in 1992.			
(vi) Information Systems & Communications	8.1	8.7	9.6
To replace obsolescent equipment and to introduce office automation and computerised visa and passport systems. Targets include 30 pilot communications out-stations by 1995, 25 secure office automation systems a year from 1992-93, and computerised visas at 30 posts by 1994.			
(vii) Visits and hospitality	0.8	1.0	1.1
Higher costs of outward Ministerial and inward VIP visits. RAF VC10 aircraft to be used only when efficient and cost effective.			
(viii) Training etc.	2.1	2.3	2.5
Strengthen recruitment and staff training in management, some languages, and information technology. Detailed targets set.			

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(ix) Accommodation	10.8	12.7	19.3
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Increased construction costs and to build more accommodation. Targets include High Commission for new Nigerian capital from 1992, and restoration of 3 missions currently closed.

(x) Security	2.6	1.9	1.1
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Protected cars for Heads of Mission at the most vulnerable posts and to improve equipment. Average of 23 new protected cars a year.

(xi) Anti-Narcotics Programmes	3.9	4.5	4.7
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Assist other countries' fight against drug trafficking. Targets include increases in seizures of 80 per cent by 1993.

(xii) Dependent Territories	0.7	0.5	0.5
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Strengthen law enforcement and financial regulation in Dependent Territories. Targets include 80 per cent increase in financial prosecutions by 1993.

(xiii) Counter-Terrorist Assistance	0.5	0.5	0.6
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Capital equipment needed for UK training. Output measured by improved performance of forces in 6-7 high priority countries.

(xiv) UN Peacekeeping	2.3	2.5	2.6
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Assessed contributions to UN peacekeeping force in Central America. Promote security and peace.

(xv) Military Assistance Namibia	1.0	0.0	0.0
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Final, disengagement, stage of military training. To leave behind an effective organisation.

(xvi) Education and Cultural Exchange	4.4	4.7	4.9
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Policy initiative to increase further FCO and British Council scholarships and exchanges. Detailed targets include at least 300 new scholarships a year, of which 50 jointly - financed with private sector.

(xvii) AUS Budgets	0.9	0.9	1.0
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Extension of delegation scheme for rapid and flexible response to diplomatic opportunities.

(xviii) BBC World Service	22.3	26.1	32.6
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Funding of BBC World Service over next Triennium to 1994. Targets include upgrading programme quality and audibility.

*PROPOSED NET CHANGE IN PROVISION	149.6	189.7	276.6
(of which running costs)	48.5	75.8	102.4

**MANPOWER**

Proposed	8282	8315	8345
Change from present plan	+23	+48	+78

\* Subject to adjustment to take account of overseas price movements

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CO: OVERSEAS DEVELOPMENT ADMINISTRATION

	1991-92	1992-93	£million 1993-94
Survey Baseline	1806	1878	1925
of which: Overseas aid	1678	1748	1791
Eastern Europe	5	5	5
<b>PROPOSED ADDITIONS</b>			
(i) EBRD	31	30	31
To cover UK subscription to European Bank for Reconstruction and Development and costs of setting it up in London. (Agreed bid)			
(ii) European Development Fund	0	7	36
To meet shortfall in aid framework to cover EDF7 replenishment following Lome IV negotiations.			
(iii) Economic Policy Reform	30	40	50
To maintain the real value of UK's support for economic reform in sub-Saharan Africa, although not for the bilateral country programmes as a whole, in which substantial savings in the current level of activity will have to be made.			
(iv) Environment	17	26	35
To allow expansion of efforts in forestry, energy efficiency and health and population, to persuade developing countries to give priority to developmental concerns. Bid covers half of ODA's planned increases in these areas - remainder to be found from existing resources.			
(v) Commonwealth Development Corporation	20	15	15
To provide additional aid funds in lieu of commercial borrowing. Planned to allow CDC activity to remain constant in real terms.			
(vi) Aid and Trade Provision	0	0	19
To meet shortfall in baseline to allow constant level of commitments of soft loans following 1989 review and Survey settlement.			
(vii) Economic assistance to Eastern Europe	25	30	30
Bilateral assistance - to meet future commitments for the Know How Fund for Eastern Europe and an agricultural project in Poland (KHF currently at least £75m over 5 years or more, but only £5m pa in baseline, agriculture project £15m over a number of years).			
<b>TOTAL BIDS</b>	<b>123</b>	<b>148</b>	<b>216</b>

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	1991-92	1992-93	£million 1993-94
9. Running costs*	5.0	6.2	7.3
Includes: relocation costs	3.0	2.2	2.2
pay and price assumptions	2.1	4.1	5.7

Provision for pay assumptions of 8.5 to 7 per cent over 3 years.  
Current baseline contains provision of only 3.5 to 2.5 per cent.

\* To be met from ODA's overall settlement.

**PROPOSED REDUCTIONS**

(i) Overseas Superannuation	- 1.8	0	- 0.7
Due to change in economic forecasts			

<b>PROPOSED NET CHANGE IN PROVISION</b>	150.2	202	308.3
(of which running costs)	5.0	6.2	7.3

**MANPOWER**

Proposed	1708	1692	1697
Change from present plans	+ 26	+ 10	+ 15

DOMESTIC AGRICULTURE

	1991-92	1992-93	£ million 1993-94
Survey baseline	907	942	966
<b>PROPOSED ADDITIONS</b>			
(i) EC funded and other demand determined changes	8	8	-5
Provides for: replacement EC marketing and processing grant scheme; increase in Hill Livestock Compensatory Allowance for hardy breed sheep (already agreed); offset by lower take-up on the Farm Woodlands scheme; and other minor adjustments.			
(ii) Animal health	7	7	7
Mainly for increased compensation (50% to 100%) for BSE slaughter and compensation scheme (already agreed), and for a further 150 suspect cases of BSE a week (300, relative to 160 allowed for in the baseline).			
(iii) Flood defence	13	15	17
For work to repair storm damage, and for other work on updating flood defences.			
(iv) Research and development	3	3	3
To restore baseline in face of EUROPE'S reduction, and to cover new imposition of VAT on external research contracts.			
(v) Set aside/ensification /diversification	3	7	22
On set aside, to provide for take-up in 1993-94 broadly as in earlier years (55,000 hectares in UK); and for an increase in rates to farmers undertaking an extra annual cut of set-aside land. On ensification, for new pilot schemes for arable and organic farming; and for definitive schemes for these, and for sheep and beef.			
(vi) Scotland (cash limited)	8	6	7
To provide for likely cost increases and redundancies in the Scottish Agricultural Colleges and Research Institute; for a revised cost estimate in the construction of the new Macaulay Land Use Research Institute; for additional R&D work; for new independent harbour projects; and for other small items.			
(vii) Other MAFF cash limited	5	4	4
For pay realism, major maintenance and capital works at the Royal Botanic Gardens (Kew); for redundancy in 1991-92 at the National Institute for Agricultural Botany; for additional MAFF publicity on food safety, environment etc; and for other small items.			



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(viii) MAFF running costs	27	30	46
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For pay increases, particularly for 1993-94 (7.5% instead of the baseline provision of 2.5%); for additional manpower (net 238 in 1991-92, 285 in 1992-93, 356 in 1993-94) for a variety of areas (eg food safety), including a contingent element for 1992-93 and 1993-94; and for other running costs, including maintenance and accommodation.

(ix) MAFF relocation	26	3	14
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To provide for initial cost of relocating some 600 posts from the south-east to the midlands: cost of land purchase (1991-92) and building.

(x) MAFF other administrative capital	11	7	11
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For priority Part 1 building works (eg refurbishment of Weymouth fisheries laboratory), as baseline provision is allocated to Central Science Laboratory co-location; for IT; and for scientific equipment and other R&D capital.

(xi) Countryside and agriculture	19	52	56
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For Environment White paper proposals: to encourage farmers in the urban fringe to tidy up their land; to extend Environmentally Sensitive Areas; to make Hill Livestock Compensatory Allowances more environmentally specific; and to extend the Countryside Premium Scheme for set-aside land. Includes bids for extra manpower of 240 per year by 1992-93.

<b>TOTAL</b>	<b>129</b>	<b>143</b>	<b>182</b>
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**PROPOSED REDUCTIONS**

(i) Agricultural Training Board	-1	-1	-1
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Resulting from restructuring and relocation of the Board. Reduction in recurrent costs agreed following addition from Reserve in 1990-91 for initial costs.

(ii) Administration receipts	-4	-4	-11
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Additional receipts from ADAS charged advice, assuming cost recovery of 33% in 1991-92, 41% in 1992-93 and 50% in 1993-94. Also increased fees and levies for pesticides approvals, and increased fees relating to veterinary medicines.

(iii) Thames tidal defences		-1	-1
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Reduced requirement, as work nears completion.

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(iv) Scotland (cash limited) -1 -1 -3

Reduced requirements, to offset proposed increase at (vi) above, mainly on Fisheries R&D (1991-92) and the Agricultural Development Programme (1993-94).

(v) Land sales -1

PROPOSED NET CHANGE IN PROVISION 123 137 166  
(of which running costs) 30 35 51

**MANPOWER (MAFF)**

Proposed 10,813 10,960 11,031  
Change from present plan 378 525 596

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INTERVENTION BOARD

	1991-92	1992-93	£ million 1993-94
Survey baseline	1467	1545	1583

**PROPOSED ADDITIONS**

(i) CAP Market Support	- 50.0	+13.0	+ 81.0
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Forecast increased purchases into intervention of beef, dairy products, and in the later years of cereals, offset in varying degrees by increased sales out of intervention. Forecast increases in the sheep variable premium, and in ewe premium payments. Forecast increase in level of oilseed crushing subsidy; revisions in the level and extent of MCAs and export refunds. Revised estimates of the cost of future green pound devaluations. Forecast savings include reduced intervention purchases for wheat in 1991-92; also the safeguard provision for optimism which was in the baselines for 1992-93 and 1993-94 has been removed. Overall expenditure is subject to uncertainty and will be updated in August, when more reliable estimates of the 1990 harvests and beef intervention will be available.

(ii) Running Costs	2.8	3.3	5.1
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For additional manpower over PES 89 base (net 79.5 in 1991-92, 82 in 1992-93 and 76 in 1993-94) to maintain present resource needs and meet volume increases in CAP market support schemes in the livestock products sector, new schemes, and a variety of areas including anti-fraud work, computer development and handling an increasing number of accounts; for revised pay assumptions; and for other running costs.

(iii) Agents' Costs	0.5	0.2	0.1
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For changes in the scale and type of activities undertaken by DANI, especially for increased take-up of EC intervention schemes for livestock products, and the re-introduction of anti-fraud controls for cattle and pigs; for increases, in 1991-92 only, in the intervention volumes handled by MLC.

PROPOSED NET CHANGE IN PROVISION	- 46.7	+16.5	+ 86.2
(of which running costs)	2.8	3.3	5.1

**MANPOWER**

Proposed	1014	974	968
Change from present plan	80	82	76

FORESTRY COMMISSION

		£ million		
	1991-92	1992-93	1993-94	
Survey baseline	83.4	87.7	89.9	

SETTLED AT BASELINE

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DEPARTMENT OF TRADE AND INDUSTRY

£ million

	1991-92	1992-93	1993-94
Survey baseline	1037	952	977
<b>PROPOSED ADDITIONS</b>			
(i) Regional and Industrial support	58	51	5
Revised forecasts of demand and commitments. Plus revised interest rate assumptions on shipbuilding credit support. Includes capital grants to local authorities.			
(ii) Science and technology	- 4	24	- 17
Revised schedule of existing launch aid commitments and expectations under LINK and EUREKA programmes. Plus provision to prevent a decline in research stemming from the need to fund the European Transonic Windtunnel.			
(iii) International trade	4	- 2	- 5
Mainly rephasing of Expo 92 expenditure.			
(iv) Regulation of trade and consumer protection	6	7	8
Several individual items including increased provision for investors protection investigations and MMC. Plus grants for the Financial Reporting Council (mainly offset by revenue receipts of Companies House); and increased grants to CABs to cover increased fixed costs.			
(v) Executive Agencies	5	4	2
Increased levels of capital spending, plus some additional running cost expenditure in Agencies on net running cost control.			
(vi) Research Establishments: capital	5	1	1
Refurbishment work at WSL and changed assumptions following the delay to NEL privatisation.			
(vii) Departmental capital	5	5	8
Majority of bid is for refurbishment of 1-19 Victoria Street, plus a £3 million replacement of DTI main mainframe computer in final year.			
(viii) Gross running costs	22	33	47
Bid needed to maintain current policies. Major components are due to accommodation, rent and rates increases, and previous pay and price assumptions being too low.			

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(ix) Gross running costs related receipts	- 5	- 9	- 10
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Bid mainly from increased receipts from Patent Office and Insolvency Service Agencies reflecting increased demand for their services.

(x) Other services	10	3	3
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Additional grant to Invest in Britain Bureau; reinstatement of non-R&D EUROPEs reduction; and Barlow Clowes recovery action.

Total	105	117	43
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PROPOSED REDUCTIONS

(i) Regional and industrial support	- 13	- 9	- 8
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Mainly due to revised forecasts of demand and commitments.

(ii) Education and training	- 16	- 16	- 19
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Reduction takes into account a transfer to DEmp, plus reduced support for DTI activity in relation to schools.

(iii) Consultancy Initiative	- 11	- 13	- 14
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Reduced assumption of target of 12,500 consultancies a year as against 15,000 already provided for.

PROPOSED NET CHANGE IN PROVISION	64	79	1
(of which gross running costs (net of receipts))	(17)	(24)	(37)

MANPOWER

Within gross running costs: Proposed	9380	9270	9100
change from present plan	- 173	- 207	- 377

Within net running costs: Proposed	2450	2485	2536
change from present plan	+ 70	+ 86	+ 137

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OFFICE OF FAIR TRADING

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	17	17	17
<b>PROPOSED ADDITIONS</b>			
(i) Relocation: non-running costs	4	2	- 0
Capital and refurbishment costs associated with OFT's planned relocation.			
(ii) Running costs	4	3	3
The bid provides for revised pay assumptions; an increase in staff to handle volume increases; and OFT's relocation expenditure.			
<b>PROPOSED REDUCTIONS</b>			
	-	-	-
<b>PROPOSED NET CHANGE IN PROVISION</b> (of which running costs)	8 (4)	5 (3)	3 (3)
<b>MANPOWER</b>			
Proposed	461	470	488
Changes from present plans	-6	+1	+8

OFFICE OF TELECOMMUNICATIONS

Survey baseline	6	6	6
<b>PROPOSED ADDITIONS</b>			
(i) Running costs	1	-0.08	-0.08
The bid provides for additional staff; CILOR increases; and offset from a relocation to premises shared with OFT and OFGAS.			
(ii) Departmental capital	0.09	0.09	0.09
The bid is mainly for the provision of IT additions and enhancements.			
<b>PROPOSED REDUCTIONS</b>			
	-	-	-
<b>PROPOSED NET CHANGE IN PROVISION</b> (of which running costs)	1 (1)	0.009 (-0.08)	0.022 (-0.07)
<b>MANPOWER</b>			
Proposed	150	150	150
Changes from present plans	+12	+12	+12

## EXPORT CREDIT GUARANTEE DEPARTMENT

	£ million		
	1991-92	1992-93	1993-94
Survey Baseline	70	-28	-28
<b>PROPOSED ADDITIONS</b>			
(i) Interest Support	208	176	64
Reflects higher interest rate assumptions than made for last year's survey.			
(ii) Others (mainly capital)	11	1	2
Most of capital bid for 1991-92 is to finance relocation to Docklands, which will be paid for by running costs savings in later years. [Note ECGD running costs are not classified to public expenditure, but do affect PSDR].			
<b>TOTAL</b>	<b>219</b>	<b>177</b>	<b>66</b>
<b>PROPOSED REDUCTIONS</b>			
(i) Mixed Credit Matching	-	-	-1
Reflects lower forecast expenditure on an extant commitment on a scheme that has now been discontinued.			
<b>PROPOSED NET CHANGE IN PROVISION</b>	<b>219</b>	<b>177</b>	<b>65</b>
(of which running costs)	-	-	-
<b>MANPOWER</b>			
Proposed	1337.5	1307	1287
Change from present plan	-162.5	-173	-191



DEPARTMENT OF ENERGY, OFGAS AND OFFER

	1991-92	1992-93	£ million 1993-94
Survey baseline	413.4	405.1	410.2
<b>PROPOSED ADDITIONS</b>			
<b><u>(a) Energy</u></b>			
(i) DRAWMOPS	26.6	44.9	31.3
Mainly due to decisions by MOD to discontinue or defer work; advancing work to meet regulatory pressures or to reduce costs overall; and the need to cover a higher proportion of the AEA's operational and overhead costs.			
(ii) Other Nuclear Programmes	0.4	1.9	3.0
Higher costs of initial site investigations than were forecast in the latest Nirex Company Plan, shortfall in Appropriations in aid for repayment of loans to BNFL, and increased Contract of Associations receipts.			
(iii) Europes	2.0	6.3	11.6
Reinstatement of reductions in the PES baseline as a result of EC spending on Energy R&D exceeding the EUROPES baseline.			
(iv) HEES	7.6	12.1	12.6
Provision to meet target of draught proofing 250,000 homes and insulating 50,000 lofts and tanks a year under the new Home Energy Efficiency Scheme in 1992-93.			
(v) Other Programme expenditure	5.2	3.5	3.5
Increases mainly in other energy efficiency programmes, renewables R&D, international subscriptions, work on the environment, and the coal firing scheme.			
(vi) DEn Administration (net)	4.2	5.7	6.9
Mainly for additional pay costs and manpower requirements; accommodation costs; and repayment regimes for legal and recruitment services.			
<b><u>(b) OFGAS</u></b>	0.1	0.2	0.2
Higher rent requirements offset by reductions in rates and maintenance charges.			
<b><u>(c) OFFER</u></b>	1.2	1.5	2.0
Reclassification of expenditure (see below for matching reduction).			
<b>TOTAL ADDITIONS</b>	<b>47.3</b>	<b>76.1</b>	<b>71.1</b>

PROPOSED REDUCTIONS

(a) Energy

(i) Nuclear programmes	-4.2	-1.9	-3.2
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Ending of deficit funding of £3.0 million in 1991-92 with the inclusion of Winfrith Reactor in the Non-Fossil Fuel Obligations (NFFO); £2.8 million in the Nuclear Materials Management programme; £1.5 million in the Public Information programme.

(ii) Other Programme expenditure	-4.3	-4.4	-5.6
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Reductions in respect of the Offshore Supplies Office, geological mapping of the UKCS, enhanced oil recovery R&D, renewables R&D, and a variety of other small savings.

(b) OFFER

(i) Capital	-1.2	-1.5	-2.0
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Reclassification of expenditure mainly related to the treatment of future minor works and accommodation expenditure.

TOTAL REDUCTIONS	-9.7	-7.8	-10.8
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PROPOSED NET CHANGE IN PROVISION	37.6	68.3	60.3
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of which DEn running costs	4.5	6.0	7.2
OFGAS running costs	0.1	0.2	0.2
OFFER running costs	0.3	0.6	1.2

MANPOWER

DEn

Proposed	1,064	1,067	1,070
Change from present plan	+10	+23	+26

OFGAS

Proposed	28	27	27
Change from present plan	NIL	NIL	NIL

OFFER

Proposed	220	220	220
Change from present plan	NIL	NIL	NIL

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DEPARTMENT OF EMPLOYMENT

	1991-92	1992-93	£ million 1993-94
Survey baseline	3,625	3,650	3,741
of which Running Costs	1,070	1,133	1,161

**PROPOSED ADDITIONS**

(i) Youth Training	47.8	77.1	110.6
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Provision allows for higher cost per trainee than agreed last year because of training providers' increased costs and a lower level of employer contributions than planned.

(ii) Training Credits	12.6	26.9	27.6
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Bid reflects additional cost of introducing about 10 Training Credit pilots. An offsetting saving for approximately half the bid is included under "Proposed reductions".

(iii) TECS: Local Initiative Fund	66.5	42.8	43.4
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Provision for the creation of the Training and Enterprise Councils' (TECs) Local Initiative Funds covering about 80 TECs in England and Wales.

(iv) Redundancy Fund	26.7	27.1	29.2
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Provision reflects higher forecasts of number of redundancy payments.

(v) European Social Fund	211.6	136.2	135.7
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Additional provision required largely to meet increase in payments to local authorities and voluntary bodies; and also for the change in ECU exchange rate and for 4 per cent EC inflation factor.

(vi) Training and Vocational Education Initiative (TVEI)	20.0	20.0	0
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Provision needed to provide TVEI funds to 22 new Local Education Authorities in 1991-92 and 1992-93.

(vii) Running Costs	94.9	102.9	157.3
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Mainly reflects department's forecasts of higher inflation and pay costs; and also VAT costs of TEC Management fee, superannuation for TEC staff, and expanded or new activities.

(viii) Capital	22.7	10.0	26.9
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Largely reflects Employment Service office integration programme in years one and three, and costs of TEC and Training Agency Area office refurbishment.

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(ix)	Provision for disabled	15.0	26.1	22.6
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Reflects increase in unit costs, and in the number of sheltered placements, and capital expenditure on new or refurbished premises.

(x)	Other	35.6	23.7	18.9
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A number of small bids covering the Enterprise Allowance Scheme, Grants to the Tourism Boards, the National Council for Vocational Qualifications and for projects on education/industry links.

<b>TOTAL</b>		<b>553.4</b>	<b>492.8</b>	<b>572.2</b>
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**PROPOSED REDUCTIONS**

(i)	Employment Training	- 41.4	- 24.9	- 25.2
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Reflects offset to creation of Local Initiative Funds and towards Training Credits expenditure (see above).

(ii)	Training of Trainers	- 17.1	- 17.5	- 17.9
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and

(iii)	Training Access Points	- 9.1	- 9.3	- 9.5
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Transfer of provision to Local Initiative Funds.

(iv)	Publicity	- 1.5	- 1.5	- 1.6
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Reassessment of Training Agency publicity needs.

(v)	Other	- 9.3	- 11.2	- 12.0
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Covers a number of changes including transfer of small firms counselling to TECs Local Initiative Funds and higher receipts by the Nuclear Inspectorate.

<b>TOTAL</b>		<b>- 78.4</b>	<b>- 64.4</b>	<b>66.2</b>
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<b>PROPOSED NET CHANGE IN PROVISION</b>	<b>+ 475.0</b>	<b>+ 428.4</b>	<b>+ 506.0</b>
(of which running costs)	94.9	102.9	157.3

**MANPOWER**

Proposed	52,593	53,186	52,611
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Change from Present plan	- 1,400	- 1,400	- 1,400
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DEPARTMENT OF TRANSPORT

	1991-92	1992-93	£ million 1993-94
Survey baseline	3,324	3,431	3,515

**PROPOSED ADDITIONS**

(i) National roads	80	105	215
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To maintain the expanded roads programme following greater than expected traffic growth and congestion with extra resources for motorway widening, environmental and traffic management works for London, and driver information systems.

(ii) Local roads	59	151	225
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To provide for road safety schemes and to maintain a steady programme of major capital improvements to those parts of the local road network of more than local importance. Target of reducing casualties by one-third by year 2000. Bid allows for 40 new starts a year, compared with 30, 20, and 15 over the Survey period.

(iii) Local public transport	9	25	26
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Present baseline represents cut in real terms. Bid allows for one new light rail scheme to begin in the PES period, after completion of Manchester Metro.

(iv) Transport safety publicity	3	4	4
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For child safety and other campaigns.

(v) Research and development	1	4	4
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For new work on environmental, safety, and highways projects.

(vi) Pay and prices	18	22	43
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To reflect additional pay costs together with a provision in 1991 - 92 for DVLA to meet its Post Office contract, which is linked to the RPI.

(vii) Relocation and accommodation	25	11	12
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To move marine HQ and highways computing from London, giving long term savings. Extra accommodation required for expanded roads programme, DVLA and DSA.

(viii) Driver information	3	3	3
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To support initiatives on driver information and network management, the London Traffic Director and communications and IT development of the expanded roads programme.

<b>TOTAL</b>	<b>199</b>	<b>324</b>	<b>532</b>
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PROPOSED REDUCTIONS

(i) Local authority airports 0 0 -37

By reordering priorities and encouraging Manchester to look for private finance to meet some of its development cost.

PROPOSED NET CHANGE IN PROVISION 199 324 495  
(of which running costs) 37 32 53

MANPOWER

Proposed 12218 12492 12593  
Change from present plans -126 -12 -81

CONFIDENTIAL

DEPARTMENT OF THE ENVIRONMENT: HOUSING

£ million

	1991-92	1992-93	1993-94
Survey Baseline	6,765	6,932	7,106

**PROPOSED ADDITIONS**

(i) Housing Corporation	208	264	471
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To increase the supply of subsidised rented housing and to maintain the output of Low Cost Home Ownership (LCHO) units. The bid is designed to enable housing associations to provide a total of 26,000 rented units and 3,000 LCHO units in 1991-92, rising to 41,000 rented and 6,000 LCHO in 1993-94. (An increase compared with baseline of 1,000 rented units in 1991-92 and 7,000 in 1993-94.)

(ii) Rooflessness	32	35	0
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To carry out MISC 143 proposals, which aim to tackle the problem of sleeping rough in London. The bid will provide 800 move-on bedspaces per year in 1991-92 and 1992-93 at a unit cost of between £35,000 and £47,000. These will supplement the provision in 1990-91 of basic shelters.

(iii) Homelessness: Housing Corporation	9	9	0
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(iv) Homelessness: local authorities	94	148	0
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To reduce the use of bed and breakfast accommodation by providing additional housing association dwellings and by bringing vacant local authority stock back into use and through cash incentives to release subsidised housing to benefit the homeless. Year 1 bid taken together with provision agreed last year is intended to achieve target of 15,000 units by 1991-92.

(v) Credit Approvals: "Part A" bid	171	157	221
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Taking into account reduced forecast inflow and stock of receipts, to restore forecast gross local authority capital expenditure to the level assumed by DOE at the end of the 1989 Survey.

(vi) Other Credit Approvals	134	232	185
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Covers five elements:

(i) Reduces the fall in real renovation expenditure per council dwelling from 3% to 1½%.

(ii) Expands Estate Action programme to treat 150,000 run-down council estate dwellings over the Survey period, an increase of 50,000 over baseline.

(iii) Meets residual increase in expenditure on Housing Defects and Slum Clearance arising from the bid for specific grant.

(iv) Introduces an energy saving programme covering 100,000 council dwellings over the Survey period at unit cost of £1,500.

(v) Covers additional provision of £25 million per annum for the increased cost of home loss payments proposed for inclusion in the Planning Bill.

(vii) Housing Defects:			
Repurchase/Grant	3	10	4

To continue steady rate of progress towards agreed targets.

(viii) Slum Clearance Grant	10	11	12
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The bid provides for constant output at the 1990-91 forecast level of 4,000 dwellings per year. This is needed to ensure that resources are not spent on unnecessary mandatory renovation work.

(ix) Housing Subsidy	23	23	23
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(x) Rent Rebate Grant	64	65	66
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[These bids are likely to be substantially increased in the light of the latest information on interest rates and short-term leasing.] The bids to date represent a 2% real rent rise and 3.75% real management and maintenance rise. They do not include any allowance for amounts that would be met under the Interest Rate Concordat in respect of changes in interest rates and do not include any allowance for leasing.

(xi) Central Govt. Subsidies to housing associations	5	15	24
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To introduce special needs management allowance to replace hostel deficit grant. SNMA will only apply to new schemes from 1 April. HDG will still apply to existing schemes.

(xii) Housing & construction research	9	9	10
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Bid is in two parts. Technical bid (4/4/5) - a requirement on Building Research Establishment that it must charge full economic costs. Remainder represents impact of inflation on research costs; and support for research on green issues arising from MISC 145.



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(xiii) Section 73 (Rooflessness) 6 8 8

To provide housing associations with hostel deficit grant for management of 500 places in basic shelters at £2,000 per unit (1990-91) prices, and bids for counselling and advice at the basic shelters and individual support at bed-sits.

(xiv) Central Govt.: current 11 14 15

This bid covers increases to Housing Corporation's grant-in-aid, housing management, Section 73 grants for national advice services, housing mobility, home improvement agencies and Rent Assessment Panels, offset by reductions in support to the construction industry (general).

**PROPOSED REDUCTIONS**

(i) HATs 37 0 0

This reduction reflects the lack of progress in setting up HATs owing to the need to obtain tenants' consent in ballots, particularly the decision of tenants to vote against the proposed HAT in Sunderland. No savings are offered in later years.

(ii) New Town Subsidies 0 0 10

The reduction reflects plans that new town housing transfers will be completed by 1992-93.

**PROPOSED NET CHANGE IN PROVISION 740 998 1026**

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DOE - OTHER ENVIRONMENTAL SERVICES

		£ million	
	1991-92	1992-93	1993-94
Survey baseline	1,205	1,162	1,192

**PROPOSED ADDITIONS:**

(i) Environment, Countryside, Recreation and Water	78	87	98
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To allow various policy initiatives by countryside and environmental organisations and the Sports Council. To finance the reorganisation of the Nature Conservancy Council. To improve water quality monitoring and water resource management by the National Rivers Authority. Additional resources to improve implementation of statutory obligations concerned with water. To extend environmental research including EC financed projects.

(ii) Heritage	28	38	40
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To undertake essential maintenance and urgent priorities at the occupied palaces and in the Royal Parks. To provide increased support for the built heritage through Historic Buildings and Monuments Commission (HBMC), including new funding for Cathedral Repairs and the Chatham Historic Dockyard Trust. 50% of sum (balance from OAL) to restore real value of National Heritage Memorial Fund, depleted by Trustees' spending in excess of grant-in-aid, to original 1980 level and increase annual grant. Additional resources for relocation of HBMC and the Royal Commission on the Historical Monuments of England.

(iii) City Grant	15	20	20
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To ensure that good schemes are not turned away and to process three very large schemes known to be in the pipeline and likely to have a significant environmental impact.

(iv) Derelict Land	30	35	40
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To increase impact of programme and make contribution to greening cities and providing environmental improvements in countryside. Bid would increase by about 50% rate at which derelict land is reclaimed.

(v) Urban Programme	15	15	15
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To maintain emphasis on economic projects while increasing support for social and environmental initiatives which target the needs of local people.

(vi) Urban Development Corporations	50	22	0
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To allow UDCs to sustain effective regeneration of their areas despite lower receipts from land sales due to market downturn. The bid would maintain or accelerate progress on schemes in Teesside, Tyne & Wear, Bristol, Leeds and Sheffield.

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(vii) National Garden Festival                                2                                5                                8

To allow for one national garden festival in 1995 which will tackle an area of concentrated dereliction and improve the local environment.

(viii) Community Enterprise                                    2                                2                                2

To enable the setting up of community-based enterprise trusts in deprived inner city communities to help those living there take advantage of new opportunities and restore community pride and confidence. The cost would be shared with DTI.

(ix) DOE Administration                                        32                                35                                44

The addition of 257/370/421 staff to deal with increased workload from environmental initiatives. To resource current policies for housing, planning and inner cities in relation to their environmental impact. To allow following proposals to proceed: publicity on energy saving in housing; increased accommodation; Phase II of Radiation Monitoring Network; and acquisition of IT systems.

(x) Other Services block                                        259                                383                                408  
     (Credit Approvals,  
     capital and current grants)

Includes element to maintain expenditure on replacement and refurbishment of capital stock by offsetting assumed downturn in receipts-financed expenditure following slowdown in receipts. Additional spending on facilities for waste disposal, recycling and clean air; and maintenance and improvement of landfill sites. Accelerated grants expenditure on clean air, and increases to allow National Parks authorities to introduce new programmes and to spend in implementation of declared national priorities.

(xi) Office of Water Services                                   0                                1                                1

To provide more resources in the light of a review of the first nine months' operation.

(xii) Property Holdings-Major and minor new works  
       and maintenance works                                   52                                43                                41

To provide funding for works and maintenance projects on the Common User Estate (CUE) that are considered by the Department either essential on health and safety grounds or on operational grounds; and for funding the Parliamentary Works programme.

(xiii) Property Holdings-Rents                                 118                                143                                178

To provide for renegotiation of old leases, additional imposition by landlords of VAT on rents, and increase in costs of professional estate surveying services.

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(xiv) Property Holdings-Administration and repayment services	15	12	14
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To provide for additional admin. costs on transfer of functions from PSA Services; creation of new Accounts Department and certain allied services.

(xv) Property Holdings-Reduced disposal receipts	35	30	28
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To provide for transfer of responsibility to departments for disposal of properties on the Departmental Estate element of the Civil Estate; and for reduction in potential for disposals on the Common User Estate due to slowdown in the property market.

(xvi) Ordnance Survey-Running costs, accommodation and pay	1	3	4
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Higher than expected pay awards (partly offset by manpower reductions), increased rates bill and building maintenance costs.

TOTAL	732	874	941
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PROPOSED REDUCTIONS

(i) Property Holdings-Property Repayment Services (PRS), rent and service charge receipts	- 62	- 68	- 75
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This reflects increases in the PRS accommodation charge paid by departments to reflect increased rental payments to landlords [offsetting bid (xiii)]; admin. and repayment receipts [offsetting bid (xiv)]; and recoveries from clients [offsetting bid (xii)]

(ii) Ordnance Survey-increased receipts	- 1	- 3	- 4
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OS are forecasting a one third increase in receipts over the Survey period mainly due to the exploitation of new products and services, and increased sales.

TOTAL REDUCTIONS	- 63	- 71	- 79
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PROPOSED NET CHANGE IN PROVISION (of which running costs)	669 40	803 52	862 64
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MANPOWER

Proposed	10604	10729	10810
Change from recent plans	+ 672	+ 808	+ 890

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PSA SERVICES

	<u>1991-92</u>	<u>1992-93</u>	<u>£ million</u> <u>1993-94</u>
Survey baseline	- 3	- 11	- 12
 <b>PROPOSED ADDITIONS</b>			
(i) Severance payments	230	115	35
To provide for 3,500 redundancies to streamline PSA Services in advance of privatisation.			
(ii) Relocation and restructuring	47	7	0
To provide for re-location from unsuitable premises, build-up of new premises and relocation of HQ from Croydon.			
(iii) Advisers fees	10	4	0
To provide for professional advice to PSA Services in the run-up to Government Company (GOCO) status and privatisation.			
(iv) IT capital	10	5	0
To provide for additional expenditure on Information Technology projects to underpin the move to commercial operation.			
(v) Marketing	4	0	0
To provide for implementation of consultants' advice on marketing and improvements in PSA Services' image as a result of re-structuring the organisation in advance of privatisation.			
(vi) VAT	30	35	0
To provide for VAT on goods and services bought in by PSA Services. A technical bid matched by increased receipts.			
(vii) Unified Business Rate	5	5	0
To provide for additional expenditure due to introduction of UBR and its effect on PSA Services with the build-up of new offices.			
(viii) Removal of existing provision	0	0	12
Technical bid to remove expectation of continued inflow of receipts to the Consolidated Fund after PSA Services has been privatised.			
(ix) Administration	6	2	1
To provide for costs of residual Government functions (non-core business) of PSA Services in build-up to commercial operation.			
<b>TOTAL</b>	<b>342</b>	<b>172</b>	<b>36</b>

PROPOSED REDUCTIONS

(i)	VAT receipts from clients	- 30	- 35	0
	Technical bid offsetting bid (vi)			
(ii)	Improved profit targets	- 27	- 34	0

Reduction due to expectation of increased profits by PSA Services above that assumed in the baseline.

TOTAL REDUCTIONS	- 57	- 69	0
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PROPOSED NET CHANGE IN PROVISION	285	103	36
(of which net running costs)	238	96	36

MANPOWER

Proposed	11,378	10,378	
Change from present plans	- 3,200	- 2,300	-
(includes industrials and locally-engaged overseas staff)			

HOME OFFICE AND CHARITY COMMISSION

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	5,018	5,165	5,294
<b>PROPOSED ADDITIONS</b>			
(i) Prisons: building	38	26	-38
To maintain progress on delivery of planned new prison places and to maintain existing establishments. Also to provide an additional 600 places at a new training prison in the South-West.			
(ii) Prisons: other	58	67	78
Provision for relocation of Prison Service Headquarters out of London. Miscellany of other items, for example additional transfer costs and training, many of which are related to the increase in manpower over the period.			
(iii) Prisons: manpower	26	46	116
Mainly to provide manpower (120 in 1991-92 rising to 1300 in 1993-94) for the full year effect of additional prison places already due to come on stream in 1992-93. But significant bids to make up shortfall on 1990-91 pay award and for revised pay assumptions.			
(iv) Police	35	38	42
Provision to enhance the police national computer, subsidise Directorate of Telecommunications' prices, enhance police training facilities (increased throughput), set up new central units, for increased cost of explosives disposal, additional counter terrorism activities and other smaller bids.			
(v) Diversion from custody	7	12	13
Additional places in probation and bail hostels and on voluntary sector projects (320 rising to 560 by 1993-94), increased probation training and other measures to encourage non-custodial sentencing. Target to divert a further 1500 offenders from prison by 1995-96.			
(vi) Criminal injuries compensation	38	46	59
Provision to meet the costs of additional claims (about 20,000 a year) processed through more efficient working methods and by extra staff agreed this year.			
(vii) Immigration	18	28	29
Provision for a new detention facility, additional staff (230 to 330) for immigration on-entry control reflecting international traffic growth (including opening of new air terminals), and for immigration appeals, after-entry enforcement and nationality work.			

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(viii) Other (non-prisons) 56 56 60

Provision for additional manpower (about 500 in each year) and revised pay assumptions, for passports, accommodation, crime prevention measures, victim support, IT, emergency planning and fire, equal opportunities, broadcasting, Commission for Racial Equality and voluntary sector grants etc.

(ix) Charity Commission 7 7 5

Mainly for: increased staff (about 180) as workload increases following new legislation; and implementation of the new computer system; and expected increase in PSA rent and rates.

(x) Current grants: police 172 285 435

Mainly reflects increased pay resulting from the latest expenditure outturn information and revised pay assumptions in 1991 and 1992. Also bids for substantial further increases in police manpower 1100/1150/1150 (plus further increases in civilians).

(xi) Current grants: other 31 56 99

Bids for magistrates' courts, probation, civil defence and Commonwealth immigrants - mainly for pay and manpower.

(xii) Capital grants 50 57 70

(xiii) Credit approvals 48 55 62

Increases to fund existing programme and for volume growth in capital expenditure on the police, magistrates' courts, probation, civil defence and fire.

TOTAL 584 779 1031

PROPOSED REDUCTIONS

The bids above are net of reductions totalling £m 23; 12; 17.

PROPOSED NET CHANGE IN PROVISION 584 779 1031  
(of which running costs) 105 137 233

MANPOWER

Proposed 44,125 45,572 48,444  
Change from present plans +1115 +1178 +2315



LEGAL DEPARTMENTS

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	1405	1501	1538

## PROPOSED ADDITIONS

(i) Lord Chancellor's Department: running costs	68	91	125
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Substantial rises in accommodation costs arising from rent increases and the opening of new courts, together with the cost of making inroads into a backlog of essential maintenance of court buildings; also the cost of around 400 additional staff required in the County courts as a result of the Civil Justice Initiatives and the Children Act plus rising workloads on other civil business, notably Water Authority and housing possession cases and the transfer of cases down from the High Court.

(ii) Lord Chancellor's Department: legal aid	73	86	118
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A forecast 3.7% increase in the volume of cases granted legal aid in the magistrates' courts over the Survey period and a higher take-up of the 24-hours Duty Solicitor Scheme, together with a fall in the level of contributions from recipients of civil legal aid.

(iii) Lord Chancellor's Department: other	27	21	28
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Some increase in the cost of new court building, the salaries of 5 additional judges and an adjustment to reflect the relationship between judicial salaries and fees paid to judicial officers.

(iv) Crown Prosecution Service:	24	40	70
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A forecast increase of 3 per cent per annum in workload in magistrates courts, and rising accommodation costs.

(v) Other departments	25.3	28.1	40.4
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(ie Land Registry, Northern Ireland Court Service, Public Record Office, Treasury Solicitor, Serious Fraud Office and Crown Office, Scotland):

Major items include building work on the extension to the main Public Record Office building at Kew, the construction of court buildings in Northern Ireland and the costs of relocating the Treasury Solicitor's Property Division.

PROPOSED NET CHANGE IN PROVISION	233.0	282.1	406.5
(of which running costs)	106.3	140.8	202.1

## MANPOWER

- proposed	19,601	20,166	20,934
- change from present plans	671	864	1,256

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DEPARTMENT OF EDUCATION AND SCIENCE

	£ million		
	1991-92	1992-93	1993-94
Survey baseline	6,748	6,917	7,090
<b>PROPOSED ADDITIONS</b>			
(i) Universities: current	196.0	276.0	321.0
(ii) Polytechnics and Colleges: current	125.0	154.0	174.0
To fund higher than predicted growth in student numbers (29,000 up in 1991-92 and 37,000 in 1992-93) and projected increases in pay and prices. To provide an additional £11 million a year for London University; £35 million a year for maintaining university buildings; £20 million a year for research in polytechnics; and to fund improved access from under-represented groups.			
(iii) Universities: capital	75.0	91.0	58.0
To enhance teaching and research equipment and meet the requirements of the Home Office code on animal houses. To increase spending on new buildings and enhance universities' computer network.			
(iv) Polytechnics and Colleges: capital	100.0	124.0	146.0
To improve buildings and create more teaching space. To renew and expand stocks of equipment and furniture.			
(v) Other higher education	16.6	15.1	15.5
To provide for projected increases in pay and prices; for restructuring, expansion and refurbishment at Cranfield; for increased grants to postgraduates; and for more accommodation for the Royal College of Art and RADA.			
(vi) Student Loans	35.4	54.7	76.0
(vii) Access Funds	9.9	10.3	10.7
To cover higher student numbers; annual increases of loans and Access Funds in line with GDP deflator; projected higher administration costs; and to extend, across the Survey period, the increases in Access Funds agreed, in-year, for 1990-91.			
(viii) Science	78.0	101.0	119.0
To maintain current levels of spending on existing programmes and to provide extra sums for new projects. To increase grants to postgraduate and postdoctoral researchers and provide more for equipment and computers.			
(ix) Student fees	85.0	110.6	114.1
(x) Student grants	82.2	88.8	69.9
To provide for higher student numbers; the annual increase of fees and supplementary grants in line with the GDP deflator; and to align the levels of fees refundable for award holders at private colleges with those at institutions which receive grants from the UFC or the PCFC.			

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(xi) Awards regulations	7.9	13.0	14.9
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To lift the moratorium on designating new courses for mandatory awards; and to expand the boundary within which London rates of grant are paid.

(xii) Maintained Sector Capital	340.0	357.0	364.0
(xiii) Building Grants to Voluntary Schools	58.0	60.0	62.0

To enable LEA building programmes to continue, providing 37,000 additional school places in 1991-92; to enable LEAs to remove surplus places; to remedy structural defects and reduce number of schools requiring urgent attention; to begin 10 year programme introducing the National Curriculum; and to cover new building and equipment costs in further and higher education. To expand improvements programme in the voluntary sector.

(xiv) Grant Maintained Schools	5.0	5.0	5.0
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To cover costs of capital grants to GM schools

(xv) Other Schools	20.3	35.6	48.5
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To provide for: introducing National Curriculum by 1997; teacher supply measures to tackle shortages; expansion of the City Technology College programme to 17 orthodox CTCs and 20 Voluntary-Aided CTCs by 1993-94; and increased fees for Assisted Places Scheme.

(xvi) Other Bids	3.0	3.4	8.0
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To contribute to the funding of the NCVQ, and to fund new initiatives and increased costs in adult education, and commitments to inner London specialist colleges from 1993-94.

(xvii) Administration	8.8	10.4	13.3
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To meet additional staff and non-pay costs; the transitional costs of moving to Sanctuary Buildings; and extensions to DES's office systems.

TOTAL	1246.1	1509.9	1619.9
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PROPOSED REDUCTIONS

(i) Postgraduate Awards	-9.6	0.0	0.0
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A one-off saving of one third of the 1991-92 payment to postgraduates achieved by making awards termly, rather than annually.

PROPOSED NET CHANGE IN PROVISION	1236.5	1509.9	1619.9
(of which running costs	7.2	8.7	12.2)

MANPOWER (average for year)	1990-91	1991-92	1992-93	1993-94
Proposed	2,662	2,725	2,706	2,679
Change from present plans		+ 145	+ 146	+ 119

OFFICE OF ARTS AND LIBRARIES

	1991-92	1992-93	£ million 1993-94
Survey Baseline	522.0	543.9	557.5
<b>PROPOSED ADDITIONS</b>			
(i) Museums and Galleries	8.8	11.8	42.9
To contribute to essential museum building renovations, including matching funding projects and maintenance; to increase the value of purchase grants from 1985 levels; to cover the costs of contributions in lieu of rates payments; to increase the value (in 1993-94) of the running costs grant; to match (in 1993-94) Lord Wolfson's benefaction for improvement works.			
(ii) Living Arts	12.0	11.0	55.1
To contribute to the capital and transitional costs of the Royal Opera House development; to increase the value (in 1993-94) of the Arts Council grant-in-aid; to contribute to the costs of new Arts Council initiatives and of capital works at the Royal National Theatre and British Film Institute; to fund a pilot project on establishing an endowment challenge fund for the arts.			
(iii) Libraries	4.7	6.5	12.1
To increase the value of the British Library's grant-in-aid to take account of the short-term costs and longer-term benefits of the decision to relocate certain London-based activities to Yorkshire; to meet costs of the move to St Pancras and split-site working from 1993.			
(iv) British Library: St Pancras Project	10.2	8.1	-18.7
To cover revised estimates of the phasing of construction costs of Stage IA and the initial costs of the Completion Phase; to fund in part the purchase of works of art for the new building.			
(v) Heritage	9.6	5.0	5.0
To increase the value of grant-in-aid paid to the National Heritage Memorial Fund (DoE also bidding for the same additions).			
(vi) Administration	0.5	0.6	0.7
To meet OAL salaries and administrative costs.			

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PROPOSED NET CHANGE IN PROVISION	45.8	43.0	97.1
(of which running costs	0.5	0.6	0.7)
MANPOWER (average for year)			
Proposed	65	65	65
Change from present plans	+2	+2	+2

## DEPARTMENT OF SOCIAL SECURITY

£ million

	1991-92	1992-93	1993-94
Survey baseline	59,542	62,725	64,293
PROPOSED ADDITIONS			
(i) Capital limits\$	127	132	135
Covers the cost of the 1990 Budget increase to the limits on capital for entitlement to income-related benefits.			
(ii) Residential care\$	56	58	60
Funds August 1990 increase in income support limits in residential care and nursing homes, anticipating part of April 1991 uprating.			
(iii) Minor measures\$	7	7	7
Minor changes for war widows, disabled students and claimants with boarders.			
(iv) Economic assumptions†	930	1,810	1,860
Effect of higher assumptions on the indices determining levels of benefit payment (RPI, GDP deflator & rents).			
(v) Community charge benefit†	740	740	740
Increased because of higher community charges.			
(vi) Estimating changes†	-100	-500	1,670
Forecast changes in the cost of continuing with current policies.			
(vii) Independent Living Fund	30	32	34
A partly agreed bid for extra resources to enable severely disabled people to live at home.			
(viii) Poorer pensioners	170	177	181
Proposed increases in supplements in income-related benefits to pensioners.			
(ix) Residential care and nursing home limits	27	38	50
Cost of restoring the uprating increase in April 1991 in the income support limits, notwithstanding (ii).			
(x) Carers	9	13	14
Measures to improve benefits for carers.			
\$ Agreed bid † Non-discretionary changes (provisional)			

(xi) Further minor benefit changes	37	38	39
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Small bids to meet cost of changes to benefits to disabled people, and increase in programme from bulk sell-offs of council housing; latter (18/20/21) to be met by transfers from DoE. A contingent bid accounts for 8/16/16; expenditure depends on verdict of European Court of Justice.

(xii) Housing benefit administration	33	35	37
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Mainly reflects the cost of paying additional recipients of community charge benefit.

(xiii) Running costs	167	185	309
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The effects of higher assumptions for pay and prices. To meet increased demand led work; developments in the Department's IT programme; and a major relocation of staff from the South East.

(xiv) Capital & other admin.	113	80	-21
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Mainly, major relocation of staff from the South East in joint venture with DH (includes building costs for DH). Continued computerisation of benefit administration.

(xv) Community care¶	84	206	-23
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Cost of DSS proposals for assessing housing benefit element of income-related benefits paid to people in residential care homes.

**PROPOSED REDUCTIONS**

(i) Statutory Sick Pay	-43	-44	-45
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The higher rate of SSP is limited to an increase of only 2.5%.

(ii) Controls on Invalidity Benefit administration	-5	-5	-5
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Savings stem from tightening of procedures for control of claims.

(iii) Maintenance from absent fathers	-42	-44	-45
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Securing more maintenance from absent fathers to reduce reliance of lone mothers on income-related benefits. £6 million per year extra administration costs to achieve this are included in (xiii).

(iv) Anti-fraud activity	-31	-33	-33
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More effective direction of DSS's anti-fraud activity.

(v) Changes to housing benefit	-26	-27	-28
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A small change in the arrangements for uprating benefits to homeless people and savings from rent officer controls on payments to people in homes larger than needed.

¶ Provisional; figures to be agreed with other Departments. Eventual agreed figures will not add to overall PE, as any changes will be met by offsetting changes elsewhere.

PROPOSED NET CHANGE IN PROVISION	2284	2898	4935
(of which running costs)	167	185	309
MANPOWER			
Proposed	79186	76452	77017
Change from current plans	2945	1835	2400



## DEPARTMENT OF HEALTH

£ million

	1991-92	1992-93	1993-94
Survey baseline	23295	24462	25078
<b>PROPOSED ADDITIONS</b>			
<b>(Hospital and community health services)</b>			
(i) Review Body pay awards Consequential of funding for 1990 awards.	329	340	351
(ii) Whitley Pay To provide 3% over inflation generally, and extra selective increases.	132	132	132
(iii) Main services' provision To restore growth in activity to previous levels, eg 2% per annum for acute in-patients; includes costs of changes in staff structure.	503	742	1374
(iv) Creditor levels To enable all health authorities to reduce average times for paying creditors to eight weeks maximum.	80	0	0
(v) NHS Trusts' debt interest To enable purchasers to meet Trusts' charges for interest on initial debt (PSDR neutral).	100*	200*	300*
(vi) Management skills, medical education and audit To strengthen professional skills of NHS staff and improve quality of services to patients.	63	68	76
(vii) Junior doctors' hours, training, electric wheelchairs, IT etc Training for nurses, clinical staff and ambulancemen. Extra fully qualified doctors to reduce junior doctors' hours, provision of electric wheelchairs, Family Health Service Authority administration.	72	106	140
(viii) Caring for People HCHS costs of implementing Community Care White Paper: professional input for needs assessment, additional community health services, assessment training.	49	48	57
(ix) Building programme Compensation for higher construction prices and shortfall in land sales, and to avoid deferral of planned projects.	165	170	210
(x) VAT on construction Consequences for HCHS of paying VAT on construction (PSDR neutral)	n.k	n.k	n.k
(xi) Trusts' EPLs Provision for new NHS Trusts' borrowing requirements	n.k	n.k	n.k

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(xii) Other HCHS capital HCHS IT, Family Health Service Authorities' accommodation and computers, minor capital.	51	45	35
<b>(Family Practitioner Services)</b>			
(xiii) FPS demand Forecast costs and volume, including 1990 Review Body pay consequential, 1.9% annual growth in doctor numbers, 1.6% dentists, 3.5% prescriptions.	5	106	559
(xiv) Dental charges To maintain proportionate charge at 75%, subject to £200 maximum.	32	34	36
(xv) FPS - other Practice premises improvements, more professional practice staff; local projects; extend pharmacists' training and services.	101*	130*	153*
<b>(Centrally financed services and Departmental administration)</b>			
(xvi) Centrally financed services Mainly for demand led services, health information, special hospitals, grants to voluntary sector and social services training.	85	99	130
(xvii) Departmental administration Mainly increased pay and staff numbers, and relocation costs for NHS Management Executive.	44	67	52
<b>(Personal social services)</b>			
(xviii) LA specific grants Mainly increase in services for mentally ill, increased training for social services staff caring for elderly, children.	49	63	84
(xix) LA capital grants and credit approvals Mainly increased costs, IT for community care, increased services for mentally ill, maintenance of care homes.	48	45	42
<b>TOTAL</b>	<b>1908*</b>	<b>2395*</b>	<b>3731*</b>
<b>PROPOSED REDUCTIONS</b>			
(i) Hospital and community health services Current cost improvement programmes, and extra capital receipts.	-	-	- 500
(ii) Other services Earlier introduction of new dental fee scale, dentists' early retirement, increased maximum dental charge and prescription charges.	- 19	- 31	- 66
<b>PROPOSED NET CHANGE IN PROVISION</b> (of which running costs)	<b>1899*</b> [33]	<b>2364*</b> [51]	<b>3165*</b> [45]
<b>MANPOWER</b>			
Proposed	4975*	4992*	4992*
Change from present plan	125	214	214

\* Provisional

OFFICE OF POPULATION CENSUSES AND SURVEYS

	1991-92	1992-93	£ million 1993-94
Survey baseline (1)	93.1	33.1	33.9
(i) 1991 Census	2.3	0.1	-6.7
Revised estimate of costs of 1991 Census. Includes an agreed bid for field staff pay and a technical adjustment in the third year reflecting the run down in census work.			
(ii) Other	0.9	2.5	2.0
Changes in pay and prices; increased cost of implementation of IT strategy and new profile for relocation costs.			
Proposed net change in provision	3.3	2.6	-4.7
Of which, running costs	3.4	4.3	-2.4
<b>Manpower</b>			
Proposed	2347	2225	2093
Change from present plans	93	122	-10

(1) excluding provision from the European Social Fund

SCOTLAND

	1991-92	1992-93	£ million 1993-94
Survey baseline (1)	9869	10211	10467

The main changes to the Scottish programme will, as in previous Surveys, reflect the consequential for the Scottish Block of the outcome of negotiations on comparable English programmes, and the 1990 AEF settlement.

**PROPOSED ADDITIONS**

(i) Industry	59	66	75
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The main components are bids for increased provision on RSA, for launch costs of Scottish Enterprise and Highlands Enterprise, increased provision for business advisory services and for local enterprise companies, and to take account of the difference between projected receipts and those now envisaged for disposal of factories.

(ii) Water Services	25	50	80
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Further work considered necessary to bring standards of water and sewerage services in line with legal EC requirements and the ending of the dumping sewage sludge at sea.

(iii) Other bids	28	39	33
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Reflecting provision considered necessary to compensate Scottish Homes for the withdrawal of VAT exemption, for the Gaelic TV programme fund, for the effect of revised economic assumptions on housing subsidies, for the costs of administering the 1985 Bankruptcy Act in Scottish Courts, and for capital for administration. Further provision will be sought to fund the increased costs of rent rebates once decisions on public sector rents have been reached.

<b>TOTAL</b>	<b>111</b>	<b>155</b>	<b>188</b>
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<b>PROPOSED REDUCTIONS</b>	<b>-1</b>	<b>-2</b>	<b>-33</b>
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For RDG, REG and in the 3rd year adjustment to the Block for business rate harmonisation.

<b>PROPOSED NET CHANGE IN PROVISION</b>	<b>111</b>	<b>153</b>	<b>156</b>
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**MANPOWER**

Proposed	13484	13646	13475
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Change from present plans	313	284	252
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(1) Excludes agriculture (negotiated on UK basis)

WALES

	1991-92	1992-93	£ million 1993-94
Survey baseline (1)	4503	4647	4763

The main increases to the Welsh programme will, as in previous Surveys, reflect the consequential for the Welsh Block of the outcome of negotiations on comparable English programmes, and the 1990 AEF settlement.

## PROPOSED ADDITIONS

(i) Industry	24	25	30
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Increased expenditure for the Welsh Development Agency, in particular for factory building, and increased Regional Selective Assistance.

(ii) Welsh Block (2)	14	16	0
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Provision for the effect of revised economic assumptions on housing subsidies. Further provision will be sought to fund the increased costs of rent rebates once decisions on public sector rents have been reached.

PROPOSED NET CHANGE  
IN PROVISION

	38	41	30
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## MANPOWER

Proposed	2403	2390	2385
Change from present plans	84	85	85

(1) Excludes agriculture (negotiated on UK basis)

(2) The Secretary of State for Wales has also sought agreement to rolling forward the understanding reached last year for in-year access to the Reserve in respect of Home Improvement Grants, due to continuing uncertainty over the likely rate of takeup of the new scheme.

NORTHERN IRELAND

£ million

	1991-92	1992-93	1993-94
Survey baseline	6171	6395	6555

**The Northern Ireland Block**

The principal Survey change to the NI Block normally reflects the consequential of any increases in comparable GB programmes in accordance with a population-based formula, and also a consequential of that part of TSS falling outside the planning total as most local authority type services are carried out by central Government in NI. The Secretary of State has the freedom to allocate resources within his Block.

**PROPOSED ADDITIONS**

(i) Social Security	41	64	144
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To reflect estimating changes and revised economic assumptions. As expenditure is demand-led the normal formula arrangement does not apply.

(ii) Housing loan charges	4	6	-
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To reflect changes in interest rates on the subsidy to the NI Housing Executive.

(iii) Northern Ireland Electricity	-	119	122
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This is a technical adjustment which is required to eliminate NIE's negative EFL, and assumes privatisation in Spring 1992.

(iv) Water and Sewerage	11	29	55
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Provision to comply with EC Directives on drinking water.

(v) Law and Order	27	34	60
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Mainly to reflect changes in pay and inflation assumptions to maintain present levels of service by the RUC. Part of the bid is to increase the provision for compensation for criminal injury and criminal damage, and there is also a miscellany of smaller items.

PROPOSED NET CHANGE IN PROVISION*	83	252	381
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MANPOWER 1000s

Proposed	211	211	211
Change from present plan	-	-	-

\* excluding normal formula consequential

CHANCELLOR OF THE EXCHEQUER: SMALL DEPARTMENTS (EXCLUDING  
INLAND REVENUE and CUSTOMS & EXCISE)

	£ million		
	1991-92	1992-93	1993-94
Combined Survey baseline	2116	2205	2261
<b>(i) H M TREASURY</b>			
PROPOSED ADDITIONS	6.2	7.0	3.1
Mainly accommodation charge increases and IT needs, partly offset by UK Coinage revised expenditure needs.			
<b>(ii) CENTRAL STATISTICAL OFFICE</b>			
PROPOSED ADDITIONS	5.2	7.0	8.0
To provide for package of measures to improve economic statistics; and for accommodation and pay costs.			
<b>(iii) CENTRAL OFFICE OF INFORMATION</b>			
PROPOSED ADDITIONS	20.0	0.3	0.4
To discharge surplus of liabilities over assets at launch of CSO as a Trading Fund; plus minor bids for allied services to Royal Household and Parliament.			
<b>(iv) HMSO</b>			
PROPOSED ADDITIONS	1.0	1.6	3.6
To provide for continued subsidies for Parliamentary publications and supplies taking account of price and volume changes.			
<b>(v) OTHER DEPARTMENTS (GAD, NILO, PGO, DNS, RFS, and CIVIL SUPERANNUATION)</b>			
PROPOSED ADDITIONS	-9.8	13.9	45.9
To provide for increased pay and accommodation costs. To provide for increased number of pensions in payment; strengthening of prudential regime for building and friendly societies.			
<b>PROPOSED NET CHANGE IN PROVISION (i-v above)</b>	<b>22.6</b>	<b>29.8</b>	<b>61.0</b>
<b>MANPOWER (combined total)</b>			
Proposed	13034	13007	12635
Change from present plans	+159	+182	+200

CONFIDENTIALINLAND REVENUE

	£ million		
	1991-92	1992-93	1993-94
Survey Baseline	1819.4	1902.7	1950.2
<b>PROPOSED ADDITIONS</b>			
(i) Taxation of bank/building society interest	255.5	125.9	101.6
To meet the costs of dealing with an estimated 10 million claims for repayment of tax a year, following the decision in the 1990 Budget to abolish from April 1991 the composite rate tax system applying to bank and building society interest. The costs include substantial numbers of additional staff, their accommodation and supporting computer systems.			
(ii) Other 1990 Budget measures	6.5	3.2	3.0
Costs of implementing other 1990 Budget changes, for example changes to tax thresholds.			
(iii) Workloads	34.8	55.1	69.5
To meet increased workloads, including the increase in the numbers of self-employed, in provision of benefits in kind and in repayment claims following continued increase in the number of shareholders, mainly from the Abbey National flotation.			
(iv) Valuation Office	7.2	3.2	3.5
To cover the costs of introducing charging for the services of the Valuation Office and work on a property database for all Government Departments, following recommendations of the Review of Government Valuation Services.			
(v) Pay	31.0	70.0	113.0
To provide for pay costs in the light of changes since 1989 PES in expected levels of future pay settlements.			
(vi) Accommodation	9.1	20.5	45.2
To cover increases in rents notified by the PSA for 1991-92 and anticipated increases in future years, and other increases in accommodation costs.			
(vii) Nottingham relocation	15.0	-	5.0
To provide for rephasing of capital expenditure on the project, and anticipated increased costs of transferring staff.			
(viii) Increased compliance	-	-	3.9
To restore levels of investigation and compliance work, following earlier reductions.			

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	, f million		
	1991-92	1992-93	1993-94
(ix) Accommodation capital	0.5	-	10.0
For essential capital expenditure to maintain accommodation at acceptable standards and levels of safety.			
(x) Energy conservation	0.9	1.0	1.0
To produce running cost savings through capital expenditure on energy conservation.			
(xi) Data processing	0.7	4.1	12.2
To provide for security against disaster in main computer Processing Centres and otherwise bring security up to acceptable levels, and to meet rising costs of software necessary to support major computer operations.			
(xii) LAPR/MIRAS/PMI	70.0	65.0	26.0
To meet revised estimates of the costs of giving relief at source to payers of life assurance premiums, mortgage interest and private medical insurance who are not liable to UK income tax.			
<b>PROPOSED REDUCTIONS</b>			
(including efficiency gains on new bids)	11.0	6.0	21.0
<b>PROPOSED NET CHANGE IN TOTAL PROVISION</b>			
(including LAPR/MIRAS/PMI)	420.0	342.2	373.0
(of which running costs)	157.6	257.9	342.1
<b>MANPOWER</b>			
Proposed manyears	72,255	74,700	74,695
Change from present plans	+ 4995	+ 7440	+ 7435

CONFIDENTIALCUSTOMS AND EXCISE

	£ million		
	1991-92	1992-93	1993-94
Survey Baseline	699.3	766.2	785.2

PROPOSED ADDITIONS

(i) Single Market	13.1	21.7	15.2
To meet the largely transitional costs associated with completion of the Single Market and its effect on customs controls and the collection of internal taxes.			
(ii) Tobacco Tax Stamps	-	5.0	6.0
To meet the costs of printing tax stamps to control tobacco products duty. Some offsetting manpower savings.			
(iii) Channel Tunnel	-	1.3	14.7
To meet the costs of essential major works at various new control points and the full year costs of some 300 extra staff at 5 new control points and on through trains.			
(iv) Pay costs	-	-	22.3
To provide for future pay rounds.			
(v) New staff	-	-	11.5
To provide for additional 260 manyears of effort (net) for: increases in VAT register growth and enhancements to VAT control work; growth in anti-drugs requirements. An extra £170m in additional tax is planned from visiting in 1993-94 and a 5% increase in drugs seizures.			
(vi) Non-pay costs	-	-	21.2
To provide for increased requirements in accommodation costs, IT expenses, training and other personnel costs, and for increased prices generally.			
(vii) VAT II	0.9	3.2	8.1
To meet the development costs and various other costs associated with the replacement of the VAT computer system (which currently handles net VAT revenue receipts of £30 billion per year).			

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(viii) Accommodation	8.6	15.6	16.8
To meet various accommodation costs, including the effects of change in rent review dates and a court case on rate liability in certain circumstances (where the bid will be reduced by forthcoming PES transfer from 1.4.91). Also includes bids for capital works and new buildings.			
(ix) CAP fraud	0.6	1.3	1.4
To meet the costs of 50 new posts following an EC regulation on additional mandatory CAP checks; failure to comply would involve disallowance (to the expense of the UK Exchequer) of some of the £500 million in CAP payments each year.			
(x) Civil Service Commission charges	1.6	1.6	1.7
To meet repayment costs following the introduction of charging from 1 April 1991. Bid will be reduced by forthcoming PES transfer from 1.4.91.			
(xi) Information Technology	1.0	3.1	14.0
Various capital projects, including replacement of operational mainframe and provision of additional mainframe for essential development capacity.			
(xii) Miscellaneous capital	4.6	1.0	2.4
To meet the costs and replacement of cutters, vehicles and radios.			
(xiii) Miscellaneous non-running costs (current)	2.1	2.8	6.4
To meet the special costs of additional drugs investigation officers overseas, development of investigation equipment and increased legal charges.			
PROPOSED REDUCTIONS	-	1.2	13.5
PROPOSED NET CHANGE IN TOTAL PROVISION	32.2	55.0	127.9
(of which running costs)	10.8	33.4	99.4
<b>MANPOWER</b>			
PEWP BASELINE	27,900	28,400	28,400
PROPOSED	27,636	28,148	28,344
Change from present plans	- 264	- 252	- 56

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CABINET OFFICE AND PARLIAMENT

A. CABINET OFFICE

£ million

	1991-92	1992-93	1993-94
<u>(i) OMCS</u>			
Survey baseline	27.6	27.7	28.5
Proposed additions	10.2	7.0	6.4

Miscellany of items including accomodation, World Economic Summit and building works.

**MANPOWER**

Proposed	1048	1081	1112
Change from present plans	+58	+91	+122

(ii) CABINET OFFICE

Survey baseline	22.5	17.5	17.9
Proposed additions	2.2	3.5	0.8

Miscellany of items including accomodation, IT and special communications.

**MANPOWER**

Proposed	502	502	502
Change from present plans	-	-	-

(iii) PRIVY COUNCIL OFFICE

Survey baseline	1.5	1.6	1.6
Proposed additions	0.4	0.6	0.7

Increase in staff costs, pay, GAE and accommodation charges. Provision is all running costs.

**MANPOWER**

Proposed	35	35	35
Change from present plans	-	-	-

B. PARLIAMENT

(iv) PARLIAMENTARY COMMISSIONER FOR ADMINISTRATION

Survey baseline	2.9	3.0	3.1
Proposed additions	0.3	0.3	0.4

Increased pay costs; increased provision for payment of rates; introduction of text processing for investigation staff; and computerisation of support functions.

(v) HOUSE OF LORDS

Survey baseline	18.8	20.3	20.8
Proposed additions	0.0	0.0	1.2

Increase in cost of pay and pensions and projected increase in House of Lords share of Police services at the Palace of Westminster.

CONFIDENTIAL

(vi) HOUSE OF COMMONS

Survey baseline	54.9	57.4	58.9
Proposed additions	3.3	5.0	7.5

To reflect anticipated increases in MP's pay and provision for increased allowances.

(vii) HOUSE OF COMMONS COMMISSION

Survey baseline	40.1	42.1	43.2
Proposed additions	3.0	3.7	5.8

Increased staff costs; GAE (mainly travelling expenses); provision for installation of new software for telephone exchange; computer costs; and additional policing for new Parliamentary building.

COVERING RESTRICTED

010



*C.P.U.*

*n. b. P.M.  
(Arrived too  
late to show P.M.)  
BHP*

Treasury Chambers, Parliament Street, SW1P 3AG

*10/7*

Barry Potter Esq  
Private Secretary  
10 Downing Street  
London  
SW1

10 July 1990

*Dear Barry*

**CASH LIMITS FOR 1989-90**

We are now ready to publish the annual White Paper showing provisional outturn for 1989-90. The Chief Secretary proposes to publish it on Thursday 19 July at 2.30pm.

2 I attach a copy of the proof. It follows the low-key format of previous White Papers and has been agreed in draft with departments. The text is kept short, in accordance with the usual practice. The White Paper is published primarily as a matter of record.

3 I am sending copies of this letter to the Private Secretaries of other members of Cabinet, the Ministers for the Arts and Overseas Development, the Attorney General and the Lord Advocate, and to Sonia Phippard (Cabinet Office).

*Yours*

MISS C EVANS  
Private Secretary

**Cash limits 1989-90 provisional outturn (and 1988-89 final outturn)**

1. This White Paper gives provisional outturn figures for cash limited expenditure, including external financing limits (EFLs) of nationalised industries, in 1989-90 and revised figures for 1988-89. It also gives provisional outturn figures for 1989-90 departmental running costs limits and revised figures for 1988-89.

**Original cash limits**

2. The original cash limits for 1989-90 on central government voted expenditure were published in the Supply Estimates and listed in the Summary and Guide to Estimates 1989-90 (Cm 633). The original cash limits relating to expenditure not voted in Estimates were given in Table 3.4 of the Summary and Guide.

**Original running costs limits**

3. The original running costs limits for 1989-90 were published in Table 4.1 of the Summary and Guide (Cm 633).

**Provisional outturn on 1989-90 cash limits**

4. Total cash limited central government voted expenditure was £73,546 million - an underspend of £690 million ( 0.9 per cent)

compared with final cash limits. Total cash limited non-voted expenditure was £6,085 million - an underspend of £22 million (0.4 per cent) compared with final cash limits. Tables 1 and 2 give provisional outturn figures for 1989-90 compared with final cash limits. The provisional figures may be subject to some adjustment when the final accounts are available, particularly in the case of the non-voted cash limits.

#### Provisional outturn on 1989-90 running costs limits

5. Total running costs expenditure was £14,215 million - an underspend of £45 million (0.3 per cent) compared with final running costs limits. Table 3 gives provisional outturn figures for 1989-90 compared with final running costs limits. These figures may be subject to some adjustment when the final Accounts are available.

#### Changes to original cash limits

6. Table 4 shows changes to original cash limits other than token increases. Increases in cash limits due to the carry forward of underspends under the end-year flexibility scheme for capital expenditure are separately identified. It is normal for some cash limits to be increased during the year to cover certain unexpected developments of policy or other contingencies; there is an unallocated Reserve in the public expenditure plans against which increases in public expenditure are charged.

7. Original cash limits on central government voted expenditure totalled £71,419 million. They were increased by £2,817 million



(3.9 per cent) during 1989-90, £582 million of which was due to the carry forward of underspends under the end-year flexibility scheme. Provisional outturn was £73,546 million, £2,127 million (3.0 per cent) higher than original cash limits. For non-voted expenditure, original cash limits totalled £5,847 million. These were increased by £260 million (4.4 per cent), £68 million of which was due to the carry forward of underspends under the end-year flexibility scheme. Provisional outturn was £6,085 million, £237 million (4.1 per cent) higher than original cash limits.

#### Cash limit breaches

8. On the current figures there were four breaches of cash limits:

- (i) The Ministry of Defence overspent on their cash block (Class I, Votes 1-5) by £110,818,000 (0.5 per cent);
- (ii) The Department of the Environment overspent on their administration cash limit (Class X, Vote 5) by £1,590,000 (1.0 per cent);
- (iii) The Central Statistical Office overspent their cash limit (Class XIX, Vote 18) by £56,000 (0.4 per cent);
- (iv) The local authority non voted cash limit (HO/LA1) was overspent by £55.9 million (27.3 per cent).

The usual corrective procedures in the case of cash limit breaches are being implemented.

## Changes to original running costs limits

9. Table 5 shows changes to the original running costs limits. Increases in running costs limits due to the carry forward of underspends under the end-year flexibility scheme are separately identified. In 1989-90 original running costs limits of £14,151 million were increased by £109 million (0.8 per cent), £15 million of which was due to the carry forward of underspends under the end-year flexibility scheme. Total running costs expenditure was £14,215 million, £64 million (0.5 per cent) above the original limits.

## Running costs limits breaches

10. On the current figures there were eight breaches of running costs limits:

(i) The Ministry of Defence overspent by £63,119,000 (1.2 per cent);

(ii) The Intervention Board for Agricultural Produce overspent by £34,000 (0.2 per cent);

(iii) The Health and Safety Commission/Executive overspent by £100,000 (0.1 per cent).

(iv) The Department of the Environment overspent by £634,000 (0.4 per cent).

(v) The Scottish Records Office overspent by £8,000 (0.3 per cent).

(vi) The Central Statistical Office overspent by £256,000 (2.1 per cent).

(vii) The Public Records Office overspent by £69,000 (0.5 per cent).

(viii) The Property Services Agency overspent by £2,384,000 (1.5 per cent).

The usual corrective procedures in the case of running costs limit breaches are being implemented.

#### Nationalised industries

11. Table 6 shows the original external financing limits (EFLs) of nationalised industries in 1989-90, revised EFLs and provisional outturn figures for each industry.

#### Revised outturn on 1988-89 cash limits

12. Table 7 gives final outturn figures for central government cash limited expenditure in 1988-89. Table 8 shows revised figures for the same year for cash limited expenditure not voted in Estimates. These may still be subject to some revision. Provisional outturn figures for 1988-89 were published in July 1989 in the White Paper "Cash Limits 1988-89 Provisional Outturn" (Cm 746).

Revised outturn on 1988-89 running costs limits

13. Table 9 gives final outturn figures for running costs limits in 1988-89. Provisional outturn figures were first published in Cm 746.

ECON POL: Public Expenditure Pt 44

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CONFIDENTIAL



Prime Minister

CCPV. ②

To note. An attempt  
by CST to put pressure on  
one of the Ministers whose bids  
are particularly, and  
unexpectedly, high.

Treasury Chambers, Parliament Street, SW1P 3AG

BHP  
9/7

The Rt Hon Michael Howard QC MP  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
London  
SW1H 9NF

9 July 1990

mt

Dear Michael

1990 PUBLIC EXPENDITURE SURVEY: EMPLOYMENT

PET folder

Thank you for your letter of 24 May, setting out the position you will be taking in the forthcoming Survey.

2. I thought it would be only right to warn you now that I was surprised by the size of the bids you are making. They range from around £430 million to over £500 million for the Survey years. As you know, Cabinet agreed on 19 April that bids to increase planned levels of public expenditure could not be afforded and that any necessary increases in spending in particular areas should be offset by savings elsewhere. I have to say that, in view of the exceptionally severe pressures we face in this year's Survey I shall not be able to agree bids on the scale you propose, and indeed I shall have to look for significant reductions below your baseline.

3. We shall of course be discussing the bids later in the year but you may find it helpful to have this reaction now. By the time we do come to discussions I hope the area of disagreement will be less. Can I therefore ask you to consider carefully again the extent to which you could both reduce your bids and make offsetting savings, and let me have your further reaction before the holiday? You may for example want to take account of the internal review of the Training Agency which has I understand now been set in hand.

4. I am copying this letter to the Prime Minister.

Yours  
Norman

NORMAN LAMONT

2.5.P.M.  
JHP  
19/7



The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
Treasury  
Parliament Street  
LONDON  
SW1P 3AG

Richmond House  
79 Whitehall  
London SW1A 2NS  
Telephone 071 210 3000  
From the Secretary of  
State for Health

8 JUL 1990

*Norman*

1990 SURVEY : PERSONAL SOCIAL SERVICES : SPECIFIC GRANTS

Thank you for your letter of 16 July setting out your proposals for Personal Social Services specific grants in this Survey. I am broadly content with what you propose, but there are a few points I wish to make.

On the AIDS grant, I am prepared to accept the figures you propose, but I am not prepared at this stage to commit myself to a reduction in the level of grant to 50% in 1993-94. Our prime aim in having this grant is to enable those authorities facing the greatest demands - fortuitously, because of where the treatment centres are - to develop services for this group rapidly. I am prepared to accept that the pace of development is related to forecasts of the numbers of people alive with AIDS, and this was reflected in my bid. I do not accept however that the distributional problem is likely to go away. I suggest that we return to the future rate of grant in next year's Survey.

I am content with what you propose on the Mental Illness specific grant and on that for drug and alcohol misusers. I also accept that the need for increases in the Training Support Grant in response to Community Care is now less. I am however disappointed that you have not recognised the particular need for improvements in post-qualifying training. The lack of this has been criticised by a series of enquiries, and of course, if I am to signal my strong desire for an improvement in the management of social services departments, investment in management training will be critical. Virginia Bottomley made this abundantly clear in her paper to H Committee, and you will recall that colleagues were supportive of our aims.

However, in the interests of reaching a settlement, I am prepared to accept your offer on the training grant. I will need to return to the post-qualifying point in next year's Survey. Without a significant increase then the phased implementation of community care will lose credibility.

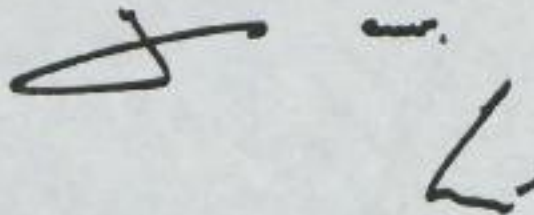
I am also disappointed that you do not recognise the need to put this programme in line with all my others by agreeing that provision should roll forward in the normal way. It seems to me faintly absurd that we should have to discuss this programme from a zero base annually rather than considering changes as we do in all other areas. I entirely accept that the purpose of the grants and their effectiveness needs to be kept under review. That is no less true on any of my other programmes where provision does roll forward. The fact that you are prepared to agree to the grants continuing through the Survey period is helpful, but while I am prepared to accept your offer as it stands, I remain convinced that the arrangements are unsatisfactory and I shall return to this point in next year's Survey.

I am pleased that you are content for me to vire between these grants as circumstances dictate. This flexibility will enable better use to be made of these resources - small in the context of overall PSS spending, but strategically significant as they are.

I am not sure that it would be right for us to settle your proposals on the Urban Programme bilaterally as you suggest. Others - and in particular Chris Patten - have a considerable interest. Since we have already settled the AEF envelope, within which both my specific grants and the Urban Programme lie, I am also unsure how surrendering my provision will in any meaningful way go towards meeting the costs of my proposals. Ending the Government consensus on urban funding by withdrawing only my Department's contribution seems an unhelpful step.

I would like to consider the views of colleagues before accepting this part of your proposal.

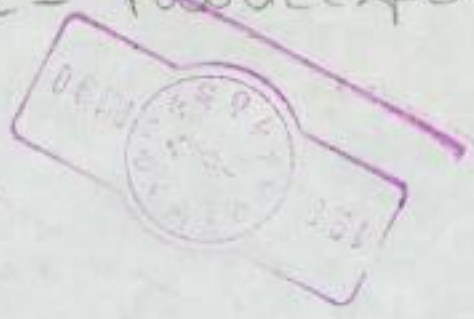
I am copying this to the Prime Minister, members of EL(G) and to Sir Robin Butler.



KENNETH CLARKE



Exam Pol - Public Expenditure p144



UNCLASSIFIED



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

n.b.p.m.  
RHP  
3/7

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

3 July 1990

*Dear Norman,*

*at last*  
PUBLIC EXPENDITURE SURVEY 1990: FORESTRY COMMISSION

In my letter of 22 June I stressed the importance of our being able to make an announcement before the Summer Recess on the outcome of the broadleaves review, including our decision to introduce management grants, and indicated that I had asked the Forestry Commission to explore urgently with your officials ways of finding the required savings within the Commission's 1990 PES.

I am pleased to learn that these discussions between officials have resulted in agreement being reached on offsetting savings which will retain the management grants package more or less as I had originally proposed, albeit with a deferment of its introduction by one year from 1 April 1991 to 1 April 1992. The agreed reductions are set out in the table below:

Offsetting Savings

	£ million			
	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>Total</u>
Management grants	0.7	3.0	1.8	5.5
MISC 145	-	3.5	5.1	8.6
FC new planting	-	-	0.7	0.7
FC land acquisitions	-	0.5	1.0	1.5
Private woodland planting grants	<u>1.0</u>	<u>1.2</u>	<u>1.4</u>	<u>3.6</u>
Total savings	1.7	8.2	10.0	19.9
Net requirement	<u>1.4</u>	<u>7.7</u>	<u>10.8</u>	<u>19.9</u>
Difference	<u>+0.3</u>	<u>+0.5</u>	<u>-0.8</u>	<u>-</u>

The effect of these savings on the Commission's PES baseline is as follows:

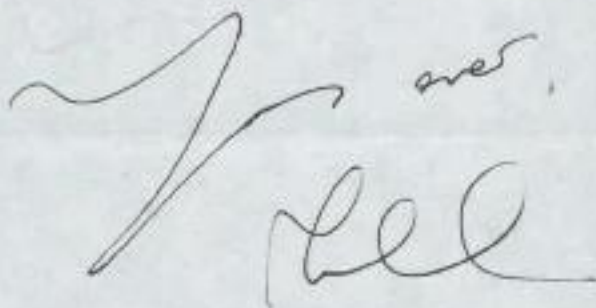
Changes to Baseline

	£ million			
	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>	<u>Total</u>
Present baseline	83.4	87.7	89.9	261.0
Effect of offsetting savings	-0.3	-0.5	+0.8	-
Revised baseline	83.1	87.2	90.7	261.0

UNCLASSIFIED

I have cleared the terms of this letter with John Gummer and David Hunt and we hope that you will be able to endorse the savings identified by officials and agree to our making an announcement on the broadleaves review later this month. I shall, of course, agree the wording of that statement with you and Chris Patten beforehand.

I am copying this letter to the Prime Minister and Chris Patten. Copies also go to John Gummer and David Hunt.

A handwritten signature in black ink, appearing to read 'Rifkind', with a large flourish above it. The word 'over' is written in small letters above the signature.

MALCOLM RIFKIND

Even Pol: Public  
Expenditure  
Fund



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP  
 Secretary of State for Foreign Affairs  
 Foreign & Commonwealth Office  
 King Charles Street  
 London  
 SW1A 2AH

29 June 1990

*Dear Douglas*

**FCO DIPLOMATIC WING: POTENTIAL RESERVE CLAIM**

I was disappointed to see from your minute of 14 June that the estimated costs of the NATO summit in London on 5 and 6 July had increased to £4.5 million since my letter of 21 May agreeing exceptionally, in principle, to a Reserve claim of up to £3 million to cover those costs.

2. I acknowledge that your earlier bid for £3 million was made in the very early stages of making the arrangements to host this summit. Also, I appreciate that the problem that most central London accommodation was booked for other purposes by the time the summit was agreed has been compounded by the consequent need to rent and equip expensive marquees when there is a high demand for such equipment. As you say, that has added greatly to costs. Nevertheless, I am sure you will agree that we need to carry out the arrangements for this summit as economically as possible and to minimise the impact on public expenditure.

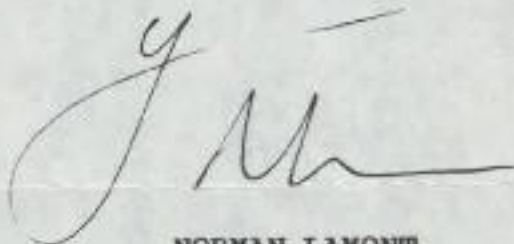
3. In the circumstances you have explained, I am prepared, reluctantly, to accept in principle an increased claim on the Reserve of up to £4.5 million to cover the costs of NATO summit. I regard this as a maximum. Should there be any costs over and above this estimate, they would have to be met from within your programmes. My agreement is therefore on condition that you keep the costs as far as possible below this figure, and that you strive to achieve economies elsewhere in order to reduce the effect on your programmes. Please will you let me have a breakdown of the final costs of the Summit when the event is concluded.

CONFIDENTIAL

CONFIDENTIAL

4. Also, you warn that savings which may arise in the course of the year are most unlikely to meet unavoidable requirements, some of which were mentioned in your previous minute of 10 May. I recognise your right to return to that issue later. However, I must emphasise the request in my letter of 21 May for you to continue to explore every possible avenue to avoid any further claims on the Reserve later in the year. That requires an active search for savings, not just revising forecasts as the year progresses.

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

A handwritten signature in dark ink, appearing to be 'N. Lamont', written in a cursive style. The signature is positioned above the printed name.

NORMAN LAMONT

CONFIDENTIAL



n.b. P.M.  
EHP 22/6  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

22 June 1990

Dear Norman,

*ALP*  
**PUBLIC EXPENDITURE SURVEY 1990: FORESTRY COMMISSION**

Thank you for your letter of 11 June.

I have to say that I regret the Treasury's inflexible line on additional bids. The management grants, which we all agree are necessary and valuable, are a new programme. We ought to take account of the savings that Inland Revenue will make when the tax relief on forestry maintenance expenditure ends in 1993/94.

However, we will be open to criticism if we do not announce soon the outcome of the broadleaves review, which began in October 1988, and from this we need to be able to confirm that management grants are to be introduced. I have therefore asked the Commission to explore urgently with your officials ways of achieving our aim of an announcement before the Summer Recess while not embarrassing your effort to restrain public expenditure.

I am copying this letter to the Prime Minister. Copies are also being sent to John Gummer and David Hunt, who concur with my views, and to Chris Patten.

*Yours over,*  
*Malcolm Rifkind*

**MALCOLM RIFKIND**

ECON POL: Public Exp prf4





h (A-E)  
pa

SUBJECT CC MASTER



10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

20 June 1990

Down John,

CHANCELLOR'S BILATERAL: THE PUBLIC EXPENDITURE SURVEY

The Chancellor discussed the outlook for the public expenditure survey with the Prime Minister and the Chief Secretary yesterday evening.

I should be grateful if circulation of this letter could be confined only to those people with a strict need to know.

The Chief Secretary said that the bids submitted by Departments were huge: taking into account estimates for bids not yet received and consequentials in the territories, they amounted to £16 billion in the first year. That was much more in cash terms than last year's bid and represented an 8% increase on the baseline. The bids for later years represented 10% and 12% cash increases.

It would not be possible to reject all of the bids. Some represented inescapable policy commitments. Others flowed from well-known political problems - notably extra AEF to keep down community charges. And others reflected movements in interest rates and inflation. But some bids - for example those from DES and the Department of Employment - were simply unreasonably high.

The figures in his minute had been prepared before the uprating of the economic assumptions: this would affect both the base price level for this year and the inflation estimate for next year. But, whereas the projected GDE:GDP ratio in the FSR for 1991-92 had been 38½%, the likely survey outcome would lead to a figure of 39¾% or 40%. In part this reflected cyclical factors and the slowdown in the economy.

The Chief Secretary then described the main bids and particular difficulties to be faced in the survey.

- a) Department of Health, Department of Social Security and DOE had all submitted bids exceeding £2 billion. DOE were seeking increases for the Housing Corporation, the Urban Programme and green issues at the same time as a massive unspecified bid for AEF. It would be important to persuade DOE that they could not have both a reasonable settlement on AEF and the additions they were seeking for the other programmes.

- b) The DES bid represented a 16% cash increase on the baseline figure: much of it was directed towards capital spending on the polytechnics, universities and schools. The bid would have to be squeezed back substantially. The bid from DEM represented an attempt to recoup the savings secured in PES discussions last year: in the Treasury's view there was considerable slack still in the DEM baseline.
- c) At first sight the Department of Transport bid had looked modest - an extra £200 million for the roads programme in the first year. However, when the additional bids still to come from LRT and BR were taken into account, the Department of Transport total bid might also be of the order of £2 billion. Despite the attractions of more money for capital projects, bids across the board on all transport programmes could not be accommodated.
- d) The introduction of the health service reforms posed particular risks for the DH budget. First, Mr. Clarke was seeking additional resources to meet the direct costs of the review. Second, he would argue that extra resources were necessary to maintain services; any closures would inevitably be attributed to the reforms. Thirdly, there was a danger of further resources being sought in-year if ward closures etc. were threatened.
- d) Finally, the defence programme seemed to offer scope for reductions. The announcement that the order for Tornado fighter aircraft had been cancelled for this year had created an expectation that there would be further cuts. It was important to build on this announcement in order to achieve cuts that would provide scope for accommodating inevitable increases in spending elsewhere.

The Prime Minister said that colleagues in spending Departments were not taking the public spending position sufficiently seriously. Despite the earlier Cabinet discussion, the bids had been much too high. The Treasury would have to be even firmer in dealing with these bids than might have been expected. It would be important to prune back the bids as vigorously as possible.

The Chancellor said that the Treasury would be making the maximum efforts to keep the addition to the baseline down to the very minimum that was politically acceptable. But it was important to recognise that there would still be a considerable addition to the planning total for next year to take account of higher inflation and inescapable policy commitments.

The following points were also made in discussion:

- i) The PSBR figure for the first two months of this year was large and rather worrying. Part of the explanation

lay in higher Government grants to local authorities; and, despite that, the local authorities themselves had borrowed more heavily. It would be important to see whether privatisation proceeds next year might be boosted. One attractive candidate was a further sale of BT shares. This would have to await the outcome of the Duopoly Review - and that argued for accelerating the Review as far as possible. It would be attractive to sell BT shares on a wider basis since this would make it more difficult to renationalise the company in the future.

- ii) Running costs bids in general were much too high. In particular the DSS bid was substantial although this was partly for historical reasons. The MOD running costs bid had yet to be received but was also likely to be large. There were attractions in a more vigorous examination of Departments' management and running costs systems, perhaps bringing in outside expertise.
- iii) It was important to appreciate how tough the decisions might have to be in order to keep down the addition to the planning total to the sort of figures indicated in the Chief Secretary's minute. The measures necessary would include a further freeze on child benefit; dropping the building of three prisons from the Home Office programme; and a sharp squeeze on local authority capital spending including that for school buildings.
- iv) In order to achieve even deeper cuts it would be necessary to contemplate freezing unemployment benefit; an outright ban on police recruitment; and cutting provision for TECs.
- v) The health service was a particularly difficult problem. The Health Secretary had shown no inclination to move away from his existing plans. A means needed to be found to assess whether the health authorities were sufficiently well prepared to take on the reforms without damaging political and financial consequences; or whether, as the outcome of the previous week's seminar had suggested, the Health Secretary should prepare plans for implementing the reforms at a slower pace and on a smaller scale.
- vi) The September RPI was critical in terms of the impact on public expenditure. Treasury officials should investigate whether it was possible to avoid administered price increases adding to the September RPI.
- vii) The future of community care was not yet resolved. It might be difficult to expect the Health Secretary to accept both that the transfer of community care to local authorities should be delayed and the introduction of the NHS reforms slowed down. The

latter seemed a more important priority.

- viii) The Government could not afford to put more money into AEF or allow the local authorities to take over community care responsibilities, unless and until measures were in place to ensure that the extra AEF did not leak into higher spending.
- ix) Clearly it was difficult to cut defence spending in the short term. Some options could however be investigated including closures of research establishments, training areas etc.; and sales of MOD land to boost capital receipts.
- x) One option for saving around £1 billion over three years was not to proceed with Sizewell B. But there were environmental and wider advantages in building the PWR reactor at Sizewell.

Summing up the discussion the Prime Minister said that the bids submitted were unacceptably large and would have to be scaled down substantially. Two main priorities were AEF and the health service reforms: any substantial addition to AEF could only go forward once the Government was satisfied that the extra grant would go to keep down community charges, not add to total public spending. Further steps should be taken to check on the preparation amongst health authorities for introduction of the NHS reforms. Unless Treasury colleagues were satisfied that the authorities could implement the reforms without serious political and financial damage, the Health Secretary should be required to prepare plans for slowing the introduction of the reforms.

While some addition to the baseline was inevitable, it was agreed that the Chief Secretary should make maximum practical efforts to minimise the size of the addition. Some difficult decisions would have to be taken. Savings should be secured from the Urban Programme; and there was a case for no addition to the resources of the Housing Corporation, which appeared to be an inefficient organisation. The size of some additions to the planning total was linked to the Rossi Index: and the September RPI figure would determine the size and cost of uprating benefits. The Treasury should investigate whether there was any scope in practice for keeping down the size of the September RPI figure. Particular attention should be paid to keeping down increases in running costs and in withstanding the huge bids from DES and DEm. The scope for cutting the DEm baseline, for example by tougher measures on the Restart programme, should be investigated. Measures to increase privatisation proceeds, for example by the sale of more shares in BT was also an attractive prospect.

The Chief Secretary should now write to colleagues as proposed. The agenda letters should be circulated after the addition to the AEF baseline had been agreed; spending Departments would be asked to identify how 5% savings could be secured on their baselines.

I am copying this letter to Carys Evans (Chief Secretary's Office).

*Yours ever,  
Barry*

BARRY H. POTTER

John Gieve, Esq.,  
HM Treasury.

PRIME MINISTERBILATERAL WITH THE CHANCELLOR: PUBLIC EXPENDITURE SURVEY

Tomorrow's bilateral will also be attended by the Chief Secretary. The only subject on the agenda is this year's Public Expenditure Survey. I attach a minute from the Chief Secretary setting out his views.

First, the facts. The bids are very large, as follows:

1991-92	1992-93	1993-94
	fb	
+ 16	+ 20	+ 24

These bids represent increases on baseline of 8 per cent, 10 per cent and 12 per cent respectively. Even assuming a modest increase in the GDP deflator for next year (and taking account of the higher than expected price level this year), the bids would amount to real increases in public expenditure of at least 5 per cent. And in cash terms, the bids are larger than last year.

Secondly, what are the implications? Accommodating these bids, or even bids approaching these levels, would:

- eliminate the scope for holding the income tax burden constant in 1991/92: the Government would face an unacceptable choice between raising taxes or reverting to borrowing;
- reverse the progress made in recent years in achieving the main public spending policy target - that GGE should represent a declining proportion of GDP; and
- therefore damage the Government macro-economic credibility, with adverse implications for financial, money and exchange markets.

Third, what sort of target for the survey outcome should the Treasury set? There is a hint in the Chief Secretary's minute that, at a minimum, they would be forced to concede an addition of £5 billion to the planning total for 1991/92. In practice, a further £3 billion will be re-allocated from the reserve for that year to programme spending. (In addition local authority self-financed expenditure, i.e. spending mainly financed by the Community Charge and the use of capital receipts, will add around another £1 billion to GGE, though it does not affect the planning total).

With about £8 billion to allocate, it might seem that the Chancellor can meet around half of the £16m bids from colleagues. (Last year the Treasury managed to reduce initial bids by around 55 per cent.) But that is to understate this year's problem.

- (a) At least (£2½ billion) is already pre-empted for the AEF settlement for local authorities. (This includes all of the addition to grant, extra transitional relief and the consequentials for Scotland and Wales.)
- (b) Some extra spending on the Health Service is also unavoidable - the inevitable costs of meeting pay review awards, certain demographic changes, etc. The Treasury acknowledge that around £1½ billion will go into health next year.
- (c) Public expenditure is automatically levered up by rises in interest rates (relative to previous assumptions) and in inflation. Many of the Social Security benefits are pegged to the Rossi index; and areas like export credits and some housing finance rise automatically with higher interest rates. This too will add around £2 billion at least to public spending.
- (d) So in practice this leaves only £2 billion or so to meet all the major bids from other Departments. That includes the £2 billion bid from DOE for housing and environmental services; anticipated bids from Transport of between £1 and

£2 billion; the bid from Education of over £1 billion for next year; and large bids from the Home Office and Department of Employment.

In short, if the Treasury were to achieve an increase of £5 billion on the planning total, that would be an extremely good outcome. Frankly, that may be a little too ambitious.

Fourth, what are the major threats on public spending? The paper identifies the main candidates. In descending order of magnitude these are as follows.

(i) AEF and the Community Charge

Additions to AEF add directly to the planning total; increases in Community Charge feed into higher GGE. Together they point to the critical importance of keeping down local authority spending. (Thus the case for enhanced Community Charge capping). There is a further discussion on the Community Charge scheduled for Thursday. As you know, we are awaiting the Solicitor General's revised view on what is possible by strengthening existing capping powers.

(ii) Health Reforms

There is no indication, following further contact with Mr. Clarke's office, that he is even beginning to contemplate options for slowing down the pace of the NHS reforms. Around £500-£600 million (baseline plus bid) is being allowed for the reforms by Department of Health. You might take this opportunity to discuss with the Chancellor and the Chief Secretary how Mr. Clarke can be led to bring forward new options. How can the pace of reform be slackened so as to avoid the political and financial risks identified and provide scope for some savings in 1991/92?

(iii) Transport

So far Mr. Parkinson has submitted only bids for his roads programme. These are £200 million in the first year, i.e. (over and above the existing road programme). In addition, Mr. Parkinson will submit bids both for British Rail and



London Underground. As you know, this will include the money to begin East-West Cross Rail: far from offering savings in the road programmes to accommodate East-West Cross Rail, he is effectively seeking additional resources for both.

Fifth, while the above are the major threats, where are the main opportunities for achieving savings either against baseline or by not accepting bids put forward?

(i) Housing and Local Environmental Services

Notwithstanding his huge bid for extra AEF, Mr. Patten has also submitted ambitious bids on council housing and local environmental services. These include further spending on inner cities - an area which the Chief Secretary had earlier identified as offering scope for savings.

(ii) Defence

I understand from Charles that consideration of new defence strategies is still under way but that they are unlikely to offer scope for savings in the short term. That said, some savings ought to be possible on the procurement side by slowing down planned projects, perhaps fitting in with reconsideration of strategic options.

(iii) Local Authority Capital

This covers an enormous area of spending (£10b p.a.) on local roads, council houses, local authority offices and leisure facilities and schools. There has been a huge surge of spending in this area, partly related to changes in the local authority finance system. There should be scope for cutting this back and improving the allocation of resources between areas, e.g., to protect the school buildings programme, while requiring deeper cuts in areas like local authority offices.

There should also be scope for cutting the bids from Department of Employment and from the Home Office. Both however are slightly more difficult areas to take on.

Finally, what should be the outcome of the meeting? First it is vital that you are seen to support Treasury Ministers in pursuing the battle with spending Ministers. You might like to probe with the Chancellor and the Chief Secretary how you can best get this message across - a minute to all colleagues or a supporting minute following a Treasury minute to you about the public expenditure position?

Secondly, there is the question of how far you should be involved on individual programmes. Traditionally, of course, the relevant Secretary of State negotiates directly with the Chief Secretary. Nonetheless, there may be opportunities in the margins of other meetings, etc., for you to have a word with colleagues who have submitted particularly ambitious bids, in order to urge the need for restraint upon them.

BHP

(BARRY H. POTTER)

18 June 1990

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SECRET AND PERSONAL

cc [unclear]  
3(A-D)FROM: CHIEF SECRETARY  
DATE: 18 June 1990

PRIME MINISTER

**1990 PUBLIC EXPENDITURE SURVEY**

I have already warned colleagues that we face an exceptionally difficult Survey. My minute of 17 April described the acute pressures on the public spending plans and, at Cabinet on 19 April, John Major underlined the absolute importance to the Government's economic strategy of ensuring firm control of public expenditure. Cabinet agreed that bids to increase the planned level of public expenditure could not be afforded, and that necessary increases in particular areas should be offset elsewhere.

2. It is therefore extremely disappointing that the bids colleagues have now submitted exceed, by a large margin, those tabled this time last year. While a number of colleagues say they have attempted to hold down their bids, few have offered worthwhile savings. And the totals are enormous, by any standards.

3. Even excluding Defence, the nationalised industries and AEF where, for different reasons, formal bids have not been put forward, total bids are £11 billion for 1991-92, with bids of £15 billion for 1992-93 and £19 billion for 1993-94. After making broad allowance for the sort of AEF settlement Chris Patten seems to have in mind (and comparable sums for Scotland and Wales) and after including the nationalised industries own bids, I estimate that the total additions sought approach £16 billion in 1991-92

SECRET AND PERSONAL

and £20 billion and £24 billion in the two later years. This represents increases on baseline of 8 per cent in 1991-92 and 10 per cent and 12 per cent. The comparable totals this time last year were £12 billion for 1991-92 and £14½ billion and £20 billion in the two later Survey years.

4. I have now been through the bidding letters very carefully.

5. Three colleagues have each submitted bids of nearly £2 billion a year or more: Tony Newton, Kenneth Clarke, and Chris Patten. (This is on top of the exceptionally large sums Chris is seeking for AEF). John MacGregor's bids for education exceed £1 billion a year; and Cecil Parkinson may find himself in the same league, taking roads and rail together, unless he succeeds in drastically scaling back the bids submitted to him by BR and LRT.

6. I am also concerned at bids approaching £0.5 billion a year from Michael Howard for training and other programmes at Employment.

7. These bids contain a hard core which will be very difficult to resist. Social security, where there are bids of £2.2 billion in 1991-92 is, of course, dominated by the effects of higher inflation on benefit expenditure, and estimating changes. But there are also a number of policy and administration bids, over and above those which have already been agreed since the last Survey.

8. The Health bid is for £1.85 billion next year, though it will come to around £2.2 billion when we include some as yet uncosted bids. Some of this is needed to meet the agreed cost of funding the last Health Review Body awards, and to maintain present standards of patient care. However, as you know, I believe that Kenneth has built in a substantial "cushion" to fund the potentially disruptive effects of meeting the present timetable for implementing the NHS Review; he has also bid for extra to cover direct Review costs.

9. John MacGregor's bid for £1.2 billion in 1991-92 partly reflects our considerable success in increasing the numbers of students in higher education; but he also has huge bids for higher capital investment in schools, polytechnics and universities.

10. Chris Patten's programme is under pressure from the effect of higher interest rates on the cost of housing subsidies, but he too has substantial capital bids, for the Housing Corporation, local authority housing, and other local environmental services, as well as bids associated with the forthcoming Environment White Paper and for inner cities. At your meeting last Wednesday, I was pleased that Chris accepted that a generous AEF settlement would have implications for his other bids. It will be important to hold him to this.

11. There are sizeable capital bids from all departments involved in local authority services - including the Home Office and Transport, as well as Environment and Education- which together total more than £1 billion a year. Colleagues argue that a large proportion of these are needed to compensate for the likely reduction in local authority capital receipts. I shall want to scrutinise these bids very closely in the light of further information about last year's extraordinary rise in local authority capital expenditure.

12. This year's running costs bids look unreasonably high. They total £1 billion, even without Defence - 70 per cent higher than last year. If conceded, they would mean a 16 per cent cash increase between this year and next.

13. Last year, at the end of a tough Survey, I was able to reduce colleagues' bids by between <sup>one</sup> two-thirds and one half. Leaving aside Defence, if we were able to halve this year's bids, we would have to add around £5 billion to the 1991-92 planning total, if we were once again to set a Reserve of £3 billion. This is bound to mean larger cash additions to GGE than last year. (You will recall that we had to increase the GGE projections at Budget time, to take account of local authority budgets for 1990-91.)

14. Even this kind of outcome would require some very difficult political decisions in a number of areas. It will be even more difficult to achieve if, as seems likely, we have to increase our inflation assumptions: each 1 per cent on the RPI/Rossi index automatically adds £½ billion to social security expenditure alone.

15. I warned in April that the fiscal projections in the Budget Red Book left very little room for manoeuvre if we are to achieve even a minimal rate of decline in the ratio of public spending to national income over the medium term. Large cash additions to the planning total will make it hard to demonstrate convincingly that we are holding the ratio on a declining trend. Our ability to restrain local authority expenditure will be crucial.

16. The fiscal surplus projected for 1991-92 is only £3 billion, which is more than accounted for by privatisation proceeds. A drastic reduction in colleagues' bids is clearly essential if we are to avoid a borrowing requirement next year, or an increase in taxes in the 1991 Budget.

17. I will be writing immediately to one or two colleagues to register my concern at the scale of their bids, and to ask them to look again at the scope for offsetting savings. But the bulk of the bilateral discussion will have to wait until after Cabinet on 19 July.

18. In the meantime, it will be important to take every opportunity to convince all colleagues that the scale of their bids far exceeds anything that can be afforded, if the Government's macroeconomic and fiscal policies are to retain their hard won credibility, in the markets and elsewhere, and if we are to succeed in bringing down inflation.



NORMAN LAMONT  
SECRET AND PERSONAL

UNCLASSIFIED



N.S. P.M.  
BHP  
11/5

Treasury Chambers, Parliament Street, SW1P 3AG

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

11 June 1990

Dear Secretary of State

PUBLIC EXPENDITURE SURVEY 1990: FORESTRY COMMISSION

Thank you for your letter of ~~21~~ <sup>11</sup> May.

2. You express the hope that it would be possible for us to reach quick decisions on the Forestry Commission programme, so that you might make an early announcement on forestry management grants.

3. However I think it right to let you know now that I see no prospect of an early settlement, given that you are proposing additions to the forestry baseline.

4. In this context, I should make clear that European Community receipts referred to in your letter cannot be scored as an offset to the Forestry Commission's bids, because they go to offset our net contribution to the EC budget. This means that your net bids are £1.4 million in 1991-92, £7.7 million in 1992-93 and £10.8 million in 1993-94, that is, some 12 per cent of the baseline in 1993-94.

5. This is very disappointing, and I am surprised that Forestry colleagues feel able to support these large additions. As I have made clear in Cabinet discussions, there is this year virtually no scope for additions to programmes, and new initiatives must be kept to the minimum and fully offset by baseline reductions.

6. You may wish to re-consider your position in the light of the above, with a view to finding further offsetting savings, and/or dropping some of your bids. The management grants scheme itself is capable of being pared down, and I believe my officials have made some suggestions to yours as to how the cost of the scheme might sensibly be reduced.

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7. Meanwhile our officials can of course begin discussing the details of the programme.

8. I am copying this letter to the Prime Minister, John Gummer, David Hunt and Chris Patten.

Yours sincerely

*CEM*

NORMAN LAMONT  
approved by the Chief Secretary  
and signed in his absence



ECON Pa. Public Gas Pkwy





NORTHERN IRELAND OFFICE  
WHITEHALL  
LONDON SW1A 2AZ

SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

Rt Hon Norman Lamont MP  
Chief Secretary  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

24 May 1990

*Dear Norman,*

1990 PUBLIC EXPENDITURE SURVEY: NORTHERN IRELAND

1. I am writing, in accordance with the Survey guidelines, to set out my PE and DRC proposals for the 1990 Survey. I will cover eight main areas:

- (a) NI Block priorities
- (b) NI Survey prospects, including Comparability
- (c) Costs of complying with EC Drinking Water and Bathing Waters Directives
- (d) Law and Order
- (e) Electricity
- (f) Social Security Benefits (including the impact of the new Community Care policy) and Housing Loan Charges
- (g) Departmental Running Costs
- (h) Contingent Liabilities

I cannot of course at this stage give details of proposed reallocations within my programme, as that cannot be addressed sensibly until the autumn when I know the likely total of resources available.

## 2. I enclose:

- (a) a table, in the prescribed format, summarising my bids;
- (b) the Executive Summary of the Management Efficiency Plans prepared by NI Departments and NIO;
- (c) the Management Efficiency Plan for the NIO.

## REVIEW OF PRIORITIES

3. As is customary, I reviewed Block public expenditure priorities during March, to establish a strategic framework for the conduct of the Survey within Northern Ireland.

## 4. The key considerations remain largely as in recent years:

- (a) There is not the slightest doubt that the PIRA have the resources to continue, and indeed intensify, their terrorist campaign. Only high intensity policing over the past year has succeeded in preventing a serious worsening in the security situation - a success reflected in the key indicators. However, the latest security assessments suggest that the threat remains at a dangerous pitch and it is essential to maintain RUC activity at a high level if we are to keep up the pressure on the terrorists.
- (b) Unemployment in the Province stood at 14.1% in March, compared to 5.4% for Great Britain and 8.6% for the North of England, the next worst-affected UK region. It is also a source of concern that these unemployment rates mask the fact that, due to a complex combination of factors, the unemployment rate among Roman Catholics is more than twice as high as among Protestants.
- (c) On housing conditions, the most recent comprehensive data relates to 1987, when NI's unfitness level was measured at 8.4%, compared to 4.8% in England and Wales in 1986. Thus much more needs to be done, particularly in rural areas where unfitness problems tend to be more intractable and expensive to deal with.
- (d) In the education sector, we are implementing the national reform package, suitably modified to take account of local conditions. Our experience has been that, as at national level, substantial resources are required in order to plan and initiate these radical

and wide-ranging measures. Allied to the proportionately large size of the Province's school age population (19.6% of the total compared to 14.6% in England), these reforms constitute a real challenge and one which I feel compelled to address vigorously within available resources.

- (e) Health Service reforms are also under way and are being applied to a NI structure which links health and the personal social services under unified management. Again the resource requirements are proving to be very substantial. These have to be accommodated within a programme whose growth has, essentially for reasons of affordability, been pitched at levels lower than in GB in recent years, though morbidity continues to be higher and waiting lists proportionately larger than in GB.

5. Having considered these factors I have concluded that dealing with the terrorist threat and with weaknesses in the NI economy should continue to be my first and second public expenditure priorities.

6. On Law and Order, this means that the programme will probably continue to consume an increasing proportion of Block resources, particularly since police pay and pay related costs can be expected to increase at a relatively fast rate. I will refer to the broader implications of this later.

7. The priority attached to Strengthening the Economy will continue to be focused on PE measures which will contribute to the cost-effective creation of viable, self-sustaining economic growth and private sector employment. It will increasingly, in line with my new economic strategy, concentrate on improvements in the competitiveness of NI industry and commerce, as we believe that to be the key to future economic growth.

8. There are, of course, important linkages between the political and security problems which the Province faces and the social and economic problems which result from low incomes and unemployment. While social and economic disadvantage is by no means the sole cause of political division and paramilitary activity, the security situation and communal conflict are undoubtedly exacerbated by these economic and social problems. I have been giving considerable thought to how we might use our social and economic expenditure more effectively in order to reinforce our efforts in countering terrorism and in promoting political development.

9. At the root of this are the persistent differentials in the economic and social status of Roman Catholics and Protestants in NI. As I have said, unemployment rates among Roman Catholics are more than twice as high as those for Protestants; Catholic

households have a lower average income; a higher percentage of Catholics leave school with no formal educational qualifications of any kind; levels of household overcrowding are greater in the Catholic community; and areas defined as suffering from multiple disadvantage (eg parts of Belfast and the least favoured rural areas) have Catholic majorities. These differentials are linked to perceptions of disadvantage which feed alienation and fuel violence. The fair and just society in NI towards which we are working demands a reduction in these differentials.

10. The causes of these differentials are deep rooted and public expenditure allocations cannot provide a complete solution to them. I am satisfied nevertheless that one aim of our PE allocations should be to reduce these differentials by seeking to target allocations more effectively on the people and areas in greatest need, with a view to reducing the differentials that exist. Hence I have adopted Targeting Social Need as a third ranked priority.

11. The presentation of this decision within Northern Ireland will require extremely careful handling, partly because unrealistic expectations could easily be created in the Catholic community, and partly because of the fears and concerns that could arise among Protestants. It may take time to work up the new priority fully, but I will be seeking to begin to shift allocations to reflect the change in this Survey, to build on action already started through the Making Belfast Work and Londonderry initiatives and other measures.

12. Whilst I have placed my three public expenditure priorities in rank order, the complexity and inter-relationship of Northern Ireland's political, security, economic, social and community relations problems require me to follow a carefully balanced approach. I must not, for example, allow the demands of the law and order priority to restrict drastically action on the priorities for strengthening the economy or targeting social need.

#### SURVEY PROSPECTS

13. I have, naturally, noted carefully the signals which you have been sending about prospects for the national Survey, and I recognise the significant difficulties which we face.

14. Within my Block, I face bids from NI Departments and NIO of some £440m rising to £720m over the Survey period, excluding Social Security Benefits, Housing Loan Charges and the technical adjustment in respect of NIE privatisation (see below) set against internal room to manoeuvre of only £90m rising to £175m (including assumed Social Security transfers for Community Care, see para 31 below).

15. I recognise, of course, that accommodating bids on this scale will simply not be possible and I will be reducing those totals radically for the purposes of the Survey within NI. Similarly I will be seeking to increase room to manoeuvre within the Block by identifying scope for reductions in lower priority areas. Nonetheless rising inflation, particularly on pay, the essential requirements of the Law and Order and Economic Strengthening programmes, the requirement to make a greater impact on community differentials, and national policy initiatives on Community Care as well as education and health reforms, all mean that my programmes will need substantial additional provision.

#### COMPARABILITY

16. Needless to say, the outcome on Comparability will be of paramount interest to me, especially insofar as the Local Authority component is concerned.

17. In 1988 a formula was agreed, during the tenure of our predecessors, providing for Northern Ireland to receive Comparability based on the Total Standard Spending aggregate for England. When writing to John Major at this time last year, Tom King referred to assurances from Treasury officials that much greater realism would be evident in the construction of Local Authority figures in the 1989 Survey than previously.

18. The Total Standard Spending figures for 1990/91, from which NI's Comparability in the 1989 Survey was derived, was £32.8 billion. This provided an increase of less than 5% between 1989/90 and 1990/91, compared to the 6.5% inflation figure acknowledged at Budget time. Some pay bills have risen or are forecast to rise at substantially higher rates. Such factors must go some way towards explaining why Local Authority budgets are now £3 billion above the TSS figure, although obviously over-spending also contributes significantly to this increase.

19. With the benefit of hindsight, adjustments on this scale do call into question the realism of the 1989 Survey figures, and thus the appropriateness of the Comparability settlement based upon them. This is most regrettable in the first year of the new agreed system's operation. While I appreciate the extent of the difficulty associated with local authority finance at national level, I would ask you to recognise the major significance for NI of this part of the Survey settlement.

20. I have not, as you know, sought to query the 1990/91 position, because local easements gave me a manageable Survey outcome although the Block is looking very tight indeed in the current year. I am, however, obliged by this experience to seek your agreement that, in this new Survey, NI's Comparability in the Local Authority sector will be determined by the agreed mechanism, reflecting figures consistent with realistic and appropriate allowance for Local Authority finance.

21. As my officials interpret the position, a substantial NI Comparability yield can reasonably be inferred from the increase in Local Authority expenditure which has already been acknowledged in the 1990 Financial Statement and Budget Report. I expect that I will need the full effect of this, and/or whatever further adjustments to Total Standard Spending are agreed in this Survey, to provide a fair settlement for services in NI in this Survey.

22. I realise from your signals on the national PE position, and on the economic context, that there will be strong reasons for downward pressure on PE plans in the Survey. Thus I will be taking further steps to restrict as far as possible the pressures which I face. If, aside from the LA sector, where the agreed system seems likely to generate a substantial entitlement, Comparability is small, I will apply, as far as practicable, the sort of restrictions which colleagues will have to introduce in GB. If, on the other hand, it does in the end prove possible for there to be some enhancement of GB comparable programmes, I will clearly need to make broadly similar provision to most of those services in the Block. But there are two areas where the circumstances are so exceptional that I must seek additional provision over Comparability.

#### WATER AND SEWERAGE: COMPLIANCE WITH EC DIRECTIVES

23. The first of these special pressures is in relation to the major expenditure required to comply in the agreed timescale with the EC Drinking Water and Bathing Waters Directives, on which Tom King wrote to John Major last year. To rehearse the key points briefly:-

- (a) expenditure on compliance, over and above what can be covered from the routine NI Water Service budget, during the Survey period is estimated at £12m, £33m and £71m. As indicated in my letter of today to Chris Patten, I hope that ways can be found to reduce the expenditure required. For the present, however I must plan on the basis of the current definition of the requirements. Naturally I will also be reviewing those figures critically to ensure that they represent the minimum consistent with our commitments to the Community;
- (b) the privatisation of the English and Welsh Water Authorities means that Northern Ireland receives nothing via the Comparability formula in respect of Water and Sewerage services;

- (c) clearly these requirements are not catered for by the Comparability mechanism (the Green Dowry arrangements were operated outside Comparability) so, there is no realistic prospect, given other pressures, of my accommodating all or even part of them within whatever Comparability yields;
- (d) because of privatisation, the costs of compliance in England and Wales can be met without detriment to other services;
- (e) I need to make provision for this programme for all three Survey years now because of the long lead time of the capital programme.

24. Consequently I am seeking your agreement that the costs of compliance be met by an addition to the Block, over and above the full Comparability entitlement under the agreed system. I will also wish to ensure that, as in England and Wales, where Water Authority charges will be kept in check following the major cash injections and the write off of NLF loans, the major additional expenditure does not impact unfairly on the consumer through unacceptably high increases in revenue raised through Water Charges and the Regional Rate. Some special arrangement on that aspect may be required alongside my PE bid, and my officials will follow this up as necessary with yours.

#### LAW AND ORDER

25. I also need to seek additional provision, over and above Comparability, for Law and Order. As Tom King mentioned last year, our efforts on the security front have obliged us to devote an ever-increasing proportion of the Block excluding Social Security Benefits to the Law and Order programme (from under 14% in 1984/85 to nearly 17% in 1990/91). The effect which this has on other programmes is a matter of continuing concern to me, and criticism arising from it recurs regularly. Earlier this year the Northern Ireland Economic Council drew this trend to my attention, as it has done with my predecessors, and criticised the restrictive effect which growth in the Law and Order sector is having on expenditure programmes which would improve employment and housing conditions in NI. Their call was that Law and Order should be removed from the Block. I am not asking for that but I do require some relief from the implications of its retention within the Block.

26. The fundamental problem is that, on the Law and Order front, Northern Ireland is not comparable to other parts of the UK, and the Comparability formula does not produce the funds that I need. In the last three PE Surveys, for every £3 that had to be allocated to Law and Order within the Block, only £1 was received from Comparability on GB Law and Order provision. The "loss"



which this and similar in year reallocations represents to other Block programmes was about £200m over the period 1988/89-1990/91 - though this was partially offset by the helpful 1988 Survey settlement. However the "loss" is so substantial and continuous that I find I need further relief for the period of this Survey. The figures to which I refer, of course, reflect only the more recent effects of the needs of this programme and of the priority which I and my predecessors have quite rightly attributed to it.

27. Given that there can be no question of any slackening in the efforts of the RUC to combat and defeat terrorism, I see it as necessary that the social and economic programmes should again be given some relief from the past and continuing demands of the Law and Order programme. This needs to be approached from two angles. First, I will keep the bids for Law and Order to the minimum consistent with the essential requirements of the programme, and work on this is continuing. Secondly, I would look to you to cover the residual which will remain after this scrutiny by an addition over Comparability, the figures likely to be in the region of £26m, £34m, and £60m. The main objectives would be to provide for Police pay and allowances at levels consistent with operational requirements; and to meet forecast entitlements for criminal damage and criminal injuries compensation. Further details of the components of this expenditure and the related objectives will be provided by my officials.

28. I should emphasise that these figures do not include any provision for a possible requirement for additional RUC manpower and/or overtime. Your officials are aware of how this issue is developing. The Chief Constable faces a steadily increasing drain on his resources through the growth in static protection work that the RUC is obliged to do. I share his concern that the RUC's operational efforts should not suffer as a result. The case for more manpower or overtime, or a combination of both, is currently being considered with great care, but that scrutiny is not yet complete and I cannot therefore be definitive about the quantum of resources that might be required (the amounts may be of the order of £6m, £14m and £20m in the three Survey years). I would be obliged, therefore, if you would note this marker that the Law and Order bid may be increased later in the Survey to take account of this additional dimension.

#### ELECTRICITY

29. As you know, work on the privatisation of Northern Ireland Electricity is progressing, with the objective of a sale in early 1992. It would be appropriate in this Survey for NIE public expenditure provision for 1992/93 and 1993/94 to be eliminated. As the figures are negative (-£119m and -£122m) this will entail technical increases in my Block and I have therefore included this in my list of bids. As you know the current figure makes no allowance for expenditure on new generation capacity.

30. Should there be unavoidable delay on privatisation (and I see no reason to expect this) I think the best way to reflect our previous understanding on the costs of new generation capacity would be to readjust my Block by the amount of a new EFL for NIE for 1992/93. This would take account of NIE's forecast debt repayments for that year and the capital expenditure which would be required for new generation capacity - as you know there are several options for the latter still under consideration.

#### SOCIAL SECURITY AND COMMUNITY CARE

31. My officials will, as usual, provide further details of my routine bid for Social Security Benefit expenditure. The main special feature which affects Benefit expenditure this year is the new policy on Community Care. I propose to retain the savings on Benefits which will result from the new policy, as a main source of funding for the new expenditure by Health and Social Services Boards. I would then not be entitled to Comparability on the amount transferred from Social Security to Personal Social Services in GB though Comparability would be relevant to any new resources allocated to DoH (or Local Authorities via TSS). If you agree this approach, our officials can sort out the details.

#### HOUSING LOAN CHARGES

32. Annex 1 also includes my routine bid arising from the effect of interest rate movements on the subsidy to NI Housing Executive.

#### DEPARTMENTAL RUNNING COSTS

33. Turning to running costs, I have reviewed the plans underlying the 1989 Block MEP and taken account of a range of developments in drawing up my 1990 Block MEP, including:

- (a) additions to workload, reflecting the continued implementation of parity-based policies such as Education and Health Service reforms; the 1991 Census; the Employment Initiative in Social Security offices, and compliance with EC Directives on Water and Sewerage;
- (b) forecast inflation, which has been revised upwards but is subject to review later in the year to take account of emerging information;
- (c) a limited number of new NI initiatives, including the setting up of a new Government Purchasing Service, and additional staff for Social Security Offices to meet a projected increase in unemployment, partly offsetting reductions being achieved elsewhere in Social Security administration.

34. I have also revised and updated efficiency savings, which are front loaded and now amount to 2.4%, 1.4% and 1.1% across the Survey period - thus cumulatively exceeding the 1.5% per annum minimum target. Despite the most careful scrutiny I am, however, unable to contain the emerging pressures within the baselines agreed last year. In my 21 September 1989 letter to John Major, on the outcome of the 1989 Survey, I referred to the modest increases which had been agreed for 1991/92 and 1992/93. I said that I saw a risk that I might have to re-open the settlement this year to take account of unforeseen changes in policy, workload and other costs. This has proved to be the case. The breadth of the coverage of the Block means that inevitably some new requirements arise from policy decisions which could not have been foreseen or quantified in the previous year. In addition the 1989 settlement has been seriously eroded by changed expectations on inflation.

35. Following DFP scrutiny of bids I have made reductions of £5.3m, £6m and £7m on the amounts sought by departments. These are significant sums and will have implications for service delivery, but I believe that it is right to make these reductions in order to constrain DRC growth and its claim on Block PE resources.

36. I am therefore seeking DRC provision of:

	1991/92	1992/93	1993/94
Block Baseline	625.7	646.5	662.7
Proposed Additions	19.9	26.7	39.1
Provision Sought	645.6	673.2	701.8

37. The Block figures do not take account of proposed additions of £0.5m, £0.6m and £0.9m (subject to revision) for agency services undertaken on behalf of DSS.

38. The DRC provision I am seeking, reflecting an 8.9% increase for 1991/92 over 1990/91, represents a taut assessment of my requirements. It takes account of Block priorities as set out in the Executive Summary, and will entail difficult choices if I am to manage the various services for which I am responsible within the proposed baselines. The fact that DRC growth has been slower in NI than in broadly analogous GB Departments, and that DRC unit costs are significantly lower in NI, is clear evidence of the economy which has been applied to administrative costs within the NI Block over recent years.

## ANNEX "A"

	£million		
	1991-92	1992-93	1993-94
BASELINE (NI BLOCK)	6,170.8	6,395.0	6,554.9
Proposed additions:			
Central government			
1. Social Security Benefits	41.2	64.1	144.0
2. Housing Loan Charges	4.2	5.7	-
3. NIE	-	118.8	121.8
4. Water and Sewerage	12.3	32.6	71.2
5. Law and Order	26.4	33.6	60.0
TOTAL (Baseline and Bids excl Comparability)	6,254.9	6,649.8	6,951.9
TOTAL NET CHANGE PROPOSED OVER AND ABOVE COMPARABILITY	+84.1	+254.8	+397.0

## Notes:

- Bids 1 and 2 are primarily for routine adjustments on foot of revised economic assumptions etc.
- Bid 1 also reflects the proposed transfer of:

	1991/92	1992/93	1993/94
	14.5	38.0	54.5

from Benefits to HPSS to fund the proposed new Community Care policy.

- Bid 3 is a technical adjustment on foot of the proposed privatisation of NIE.

## CONTINGENT LIABILITIES

39. My report on Contingent Liabilities at 31 March 1990 is being forwarded to your officials. The only new liability expected in the Survey period is in respect of various exhibitions at the Ulster Folk and Transport Museum which are estimated at £1.75m in each of the Survey years.

## SUMMARY

40. It is clear that we face substantial difficulties in the 1990 Survey if we are to achieve a satisfactory balance between the objectives of our broad economic policy and the needs which public expenditure programmes address. In view of this, I am naturally reluctant to present bids since the Comparability system should, if properly implemented, normally meet Northern Ireland's needs in broad terms. However the situation with which I am faced contains a number of special features which Comparability either has not or does not adequately address. First it is apparent with hindsight that the Comparability settlement in the 1989 Survey did not reflect full realism in relation to Local Authority expenditure and I would welcome your assurance that the agreed system will be applied in this Survey. Secondly, the substantial costs of complying with EC Directives on Water and Sewerage are demonstrably outside the scope of the Comparability arrangements; and, thirdly, NI's top priority programme, Law and Order, consumes about three times as much resources within the Block as Comparability provides from the corresponding GB programme. Thus, while I fully appreciate the difficulties which you face in the Survey, the case for Northern Ireland being given relief on these issues is so compelling that I feel obliged to make it. I will, of course, continue to pursue value for money within the Block, for example through the purchasing and market testing initiatives on which Northern Ireland's performance has, as you know, been encouraging.

41. I hope that you will recognise the force of the arguments, which I and my officials will be happy to deploy in greater detail, and that we can reach a reasonable and equitable agreement.

42. I am copying this letter (excluding the two Management Efficiency Plan papers) to the Prime Minister, Chris Patten, Malcolm Rifkind and David Hunt.

*L. Carr*

*PC*

PB



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

BP

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AND MANAGEMENT - IN CONFIDENCE**

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

23 May 1990

*John Major*

**SCOTTISH OFFICE DEPARTMENTAL MANAGEMENT PLAN AND RUNNING COSTS**

I am writing to set out my proposals for running costs for the Survey period for the Scottish Office and the other Departments for which I have responsibility and to draw attention to one capital project arising in the Survey period which I do not believe I will be able to finance from the Block.

Following discussions between our officials John Major and I agreed last autumn to roll forward the 3 year running cost settlement covering all my Departments. None of them is going to find it easy to carry out its responsibilities properly this year while containing its running costs within the settlement, because pay and other cost increases have been higher than the settlement assumed, but only the limit for Scottish Office administration is in real danger of being breached. Our officials are in touch about the difficulties which we can foresee, because of an exceptional number of unexpected new commitments, coupled with unforeseen increases in pay and accommodation costs. We have already had to find savings equivalent to 2½% of our staff and related costs, in addition to delivering the normal 1½% efficiency gains, and recruitment has been frozen since the beginning of April.

My proposals for the period 1991-92 to 1993-94 are based on my Departmental Management Plan, which my officials will be sending to yours, together with any necessary supporting detail. The picture which emerges from the Plan is one of intense activity; the Scottish Office is planning, implementing and monitoring an unprecedentedly large number of major policy initiatives, many of great complexity, while supporting the efforts which I and my colleagues are making to promote and explain these radical changes in Scotland. At the same time the Office faces

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steady or increasing demands for the wide range of services it delivers. The position is the same in the Prison Service and in my other Departments. In recent years we have consistently been obliged to absorb extra costs by making efficiency gains well in excess of the 1½% target. In particular our accommodation costs have risen sharply in real terms in recent years, through a combination of higher rents, increased maintenance charges and the imposition of VAT on rents. While the Departmental Management Plan assumes that we will continue to deliver annual 1½% efficiency gains, and shows in some detail what we have achieved and will achieve, I believe that if we plan to go on absorbing through additional efficiency gains both additional cost pressures and demands arising from new commitments we will simply store up the sort of trouble we face in the Scottish Office in the current year. It follows that we could not expect to absorb any further new commitments which might arise, for example, from significant changes in the local government finance regime or further developments in our green policy.

Against this background I propose adjustments to the Departmental running cost limits for all the Departments within my responsibility to reflect realistic assumptions about pay increases. The existing limits assume year-on-year increases in pay costs of 7% in 1991-92 and 6% in 1992-93. Except in the case of the Scottish Prison Service, this year's Plan is based on the increases of 9% and 8% in these years, and 7% in 1993-94 in place of the normal Survey uplift factor of 2½%. We have taken into account, so far as we can, the effects of performance - related pay adjustments, but I will want to look again at likely movements in pay costs before finalising limits for next year. For accommodation costs, we have made the best estimate we can in the light of the information currently available. As more information becomes available, the costs may have to be revised. For the Scottish Prison Service I have assumed increases of 9%, 8½, and 8%; this is in line with the Home Office assumptions.

In the case of Scottish Office Administration I consider that some further adjustment to the settlement is required to reflect the extra commitments which have emerged since it was reached, because I see no prospect of these particular demands abating and the Plan does not suggest that pressures in the rest of the Scottish Office are going to ease.

My proposals are set out in the following table (the existing baselines are in brackets):-

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	<u>1991-92</u>		<u>1992-93</u>		<u>1993-94</u>	
	£m		£m		£m	
Scottish Office Administration (including HRM)	152.65	(144.25)	165.26	(151.95)	172.68	(155.75)
Scottish Prison Service	101.24	( 92.74)	111.67	(103.17)	121.75	(105.75)
Scottish Courts Administration	36.363	( 31.77)	36.00	( 33.53)	38.92	( 34.37)
General Register Office	14.14	( 13.97)	10.22	( 10.05)	10.49	( 10.31)
Scottish Record Office	3.50	( 3.32)	3.71	( 3.41)	3.86	( 3.50)

I turn now to capital projects. I am aware of an understanding between our officials that it would not normally be appropriate for me to make bids at this stage in respect of capital expenditure for Departmental administration, because of the special arrangements for the Scottish Block. There is however one essential project in prospect at the moment for which I believe a bid outside the Block and formula arrangements is justified.

I referred in my letter of 25 May last year to John Major to the possibility of relocating substantial parts of the Scottish Office away from the centre of Edinburgh, in order to provide some relief from rising accommodation costs and avoid the costs of the major refurbishment of New St Andrew's House which will have to be undertaken soon. It is now over a year since the full implications of the asbestos treatment on the ceilings of this building were established and we must remove the asbestos before the problem becomes critical. I made it clear last year that I could only contemplate relocation on the understanding that the capital costs could be offset by the receipts which would arise from the disposal of our city centre premises. Since the Treasury could not agree to such an arrangement we have concluded that we shall have to refurbish and retain New St Andrew's House. While the logistics of carrying out the refurbishment are still being studied it is becoming increasingly clear that the whole building will have to be vacated while work is in progress, and that it would make sense to retain the building into which staff are decanted for the longer term, and give up other smaller offices in central Edinburgh as New St Andrew's House is reoccupied.

The costs of this major project are still being studied but while I believe we can absorb the costs in 1991-92 we are likely to require additions of £3m in 1992-93 and £6m in 1993-94. The costs beyond the PES period would not be significant. These estimates assume that any new building will be leased. If, however, this assumption were to prove invalid, considerably higher capital expenditure would be incurred. The running

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cost consequences are taken into account in the proposals I have set out above.

I am conscious in putting these proposals forward of the particularly difficult economic background against which this year's Survey will be conducted. I have considered very carefully the need for the extra requirements set out above, but I am satisfied that they are necessary if we are to carry through the Government's policies effectively in Scotland and maintain our efforts to secure value for money in the programmes for which I am responsible.

I am copying this letter to the Prime Minister.



MALCOLM RIFKIND

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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP  
 Secretary of State for Foreign Affairs  
 Foreign & Commonwealth Office  
 King Charles Street  
 London  
 SW1A 2AH

*CDP*  
*245*

21 May 1990

Dear Foreign Secretary.

## FCO DIPLOMATIC WING: POTENTIAL RESERVE CLAIMS

Thank you for your *at first* minute of 10 May about potential Reserve claims of up to £15.17 million on Diplomatic Wing expenditure.

2. I was disappointed by your minute, especially in view of your earlier undertaking to do all you can to keep expenditure within existing plans and to absorb any additional requirements. You will recall that I said at Cabinet on 19 April that the 1990-91 Reserve was virtually fully committed already, as a result of the additional costs of community charge benefit and a large number of other claims. Additional expenditure cannot therefore be afforded, so it is vital to pursue vigorously all possible measures, however unpalatable, to produce offsetting savings.

3. It is helpful to see the total extent to which you are facing pressure on Diplomatic Wing expenditure. Having considered the situation further, I am prepared to agree exceptionally, in principle, to a Reserve claim of up to £3 million to cover the costs of the Nato summit. I should be grateful if you would let me have a more precise proposal as soon as the figures become clearer, which I hope we can keep to an absolute minimum.

4. I still do not consider that a Reserve claim would be justified for the remaining items on your list. In particular, the largest element, Vietnamese Boat People, has been subject to numerous fluctuations in the pattern and extent of expenditure. Thus, I am sure that it would be quite wrong to increase the expenditure plans for 1990-91 by the £5 million that was not spend last year on improving accommodation.

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5. I accept that the other items are all matters on which expenditure was not envisaged when we settled our 1990-91 expenditure plans. Nevertheless, I must ask you to continue to explore every possible avenue to offset this expenditure and thus avoid any further claims on the Reserve later in the year. Accordingly, if you need to take provision in the Summer Supplementary Estimates for the various new services, to gain the necessary Parliamentary authority for the expenditure, I hope you will do so without further additions to your existing programmes at this stage, by making a preliminary allocation of offsetting savings elsewhere on your Votes. We can adjust the allocation as necessary at a later round when the overall position is clearer and we are better placed to assess the impact of these items of expenditure on your programme as a whole.

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

*Yours sincerely*

*Norman Lamont*

NORMAN LAMONT

*Approved by the Chief Secretary  
and signed in his absence*

CONFIDENTIAL



Govt Buildings, Richmond  
-  
T. J. H. H. 3



n. b. P.M.

BHP

21/5

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AG

21 May 1990

*Dear Norman,*

**PUBLIC EXPENDITURE SURVEY 1990 - FORESTRY COMMISSION**

I wrote <sup>will request if required</sup> to you on 9 May about the private woodland management grant proposals on which we need to make an announcement without delay. I am now writing - with the full agreement of other forestry members - about the outcome of this year's consideration of the Forestry Commission programmes (including the reallocation of existing resources to meet changing priorities) and to set out the case for some additional resources. I very much hope that this will enable us to come to quick decisions.

I attach a series of tables summarising the conclusions we have reached on the Commission's programmes.

Those at ANNEX A show the existing (Cm 1003) baseline, the underlying programmes and the reallocation of resources that we have made to accommodate changing priorities.

Those at ANNEX B outline (at page 1) the Forestry Commission's additional requirements to cover the proposed woodland management grants, Forestry Commission land acquisitions and the forestry initiatives proposed under MISC 145. These given rise to additional bids which can be met only partially from the Commission's own resources and the reimbursement of grants by the EC under the provisions of the Forestry Action Programme.

The following comments on the additional bids will help to put them in perspective:

1. Woodland Management Grants

This proposal, on which we have already been in correspondence, is the main recommendation from our broadleaves policy review. We are all agreed on the need for action and there is also a unanimity of view between foresters and environmentalists and the interested public. The additional requirement for the management grant costs is:

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	1991-92	1992-93	1993-94
£ million	<u>0.9</u>	<u>3.7</u>	<u>5.4</u>

ii. Land Acquisitions

We have stated that the Commission will continue to have a programme of new planting of 4,000-5,000 hectares per annum, as a contribution to the overall planting target. The reserve of land for planting is now only some 10,000 hectares, which is very close to the minimum necessary to sustain the programme, when allowance is made for its distribution across the country and the need for forward planning of plants, labour and machinery. Unless more land is acquired than is included in the baseline, the Commission's ability to mount an effective and economical planting programme would be seriously restricted during the Survey period. We have accordingly provided for an acquisition programme of 4,000 hectares in 1991-92, 4,5000 hectares in 1992-93, and 5,000 hectares in 1993-94 which compares with a baseline of 3,000 hectares in 1991-92 and 3,160 hectares in 1992-93. Our policy is for more planting to take place 'down the hill', and we have therefore set the provision for this additional land at a higher price per hectare than the land in the baseline.

	1991-92	1992-93	1993-94
hectares	1,000	1,340	1,840
£ per hectare	1,000	1,070	1,100
£ million	<u>1.0</u>	<u>1.4</u>	<u>2.0</u>

iii. Forestry Initiatives Under MISC 145

In your letter of 23 April you confirmed that our MISC 145 proposals would need to be included in this survey. Subject to agreement within Government on the scope and detail of these proposals, the following additional resources will be required over the survey period:

	1991-92	1992-93	1993-94
£ million	<u>-</u>	<u>3.5</u>	<u>5.1</u>

The Forestry Commission has secured the agreement of the EC to a proportionate reimbursement of its expenditure on private woodland grants. This will represent 25 per cent of the qualifying grants paid and will be of the order of:

	1991-92	1992-93	1993-94
£ million	<u>(1.5)</u>	<u>(3.0)</u>	<u>(3.3)</u>

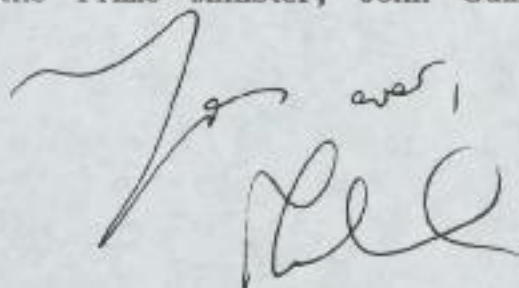
The Commission's disposals programme envisages the sale of some 100,000 hectares of forestry assets and other property by the end of the century with financial receipts totalling up to £150 million. These receipts are surrendered directly to the Consolidated Fund. The programme, which conforms with the baseline and the announcement I made in June 1989, is as follows:-

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	1991-92	1992-93	1993-94
hectares	10,800	10,500	11,400
£ million	<u>16</u>	<u>16</u>	<u>16</u>

John Gummer and David Hunt fully support the additional bids, which are essential to demonstrate that our forestry policies are delivering economic and environmental benefits. They will be *readily* appreciated by a very wide spectrum of opinion, and by the public at large, who expect us to act to safeguard valued woodland and encourage an expansion of multi-purpose forestry, aimed particularly at reducing the greenhouse effect. We hope you will agree, therefore, that these additional resources may be allocated in the way we have proposed. As you know from my letter of 9 May, we are most anxious to settle the management grant question as soon as we can and we hope that it will be possible to accelerate consideration of the Commission's programmes (other than the MISC 145 proposals) so that we can make an announcement before the Recess.

I am copying this letter to the Prime Minister, John Gummer and David Hunt.



**MALCOLM RIFKIND**

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## EXPENDITURE ON EXISTING POLICIES AND PROGRAMMES

	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
<u>BASELINE Cm 1003</u>	83.4	87.7	89.9
Proposals to reallocate baseline provision to accommodate changing priorities			
Proposed increases			
Non industrial salaries	3.0	4.1	4.7
Pensions	0.7	1.2	2.3
Capital	0.7	1.2	1.3
Materials and services	5.8	6.9	7.6
VAT	<u>0.4</u>	<u>0.9</u>	<u>1.0</u>
	10.6	14.3	16.9
Offsetting savings			
Industrial wages	(1.9)	(1.4)	(1.6)
Travel and subsistence	(0.1)	(0.1)	(0.1)
Private woodland grants	(1.1)	(1.9)	(3.4)
Harvesting and marketing receipts	(6.1)	(9.5)	(11.1)
Other receipts	<u>(1.9)</u>	<u>(2.3)</u>	<u>(2.4)</u>
	<u>(11.1)</u>	<u>(15.2)</u>	<u>(18.6)</u>
Net offsetting savings from within baseline	(0.5)	(0.9)	(1.7)



MAIN PROGRAMMES EXCLUDING ADDITIONAL BIDS

The following programmes are covered by the existing baseline:-

		<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
Land acquisition	hectares	3000	3160	3160
Harvesting and marketing	Cubic metres (000)	3674	3688	3725

		<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
New planting	Forestry Enterprise	4000	4000	5000
	Private sector	<u>29500</u>	<u>31200</u>	<u>33100</u>
	Total	<u>33500</u>	<u>35200</u>	<u>38100</u>
Restocking	Forestry Enterprise	8500	8500	8500
	Private sector	<u>8600</u>	<u>9150</u>	<u>7200</u>
	Total	<u>17100</u>	<u>17650</u>	<u>15700</u>

Programmes for new planting (target 33000 hectares) for traditional forestry are as follows:-

		<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
Forestry Enterprise		4000	4000	5000
Private sector		<u>24000</u>	<u>26000</u>	<u>28000</u>
	Total	<u>28000</u>	<u>30000</u>	<u>33000</u>

Programmes set for new planting under Set Aside and the Farm Woodland Scheme are as follows:-

		<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
Set Aside		100	100	100
Farm Woodland Scheme		<u>5400</u>	<u>5100</u>	<u>5000</u>
	Total	<u>5500</u>	<u>5200</u>	<u>5100</u>

## ADDITIONAL BIDS

	£ million		
	<u>1991-92</u>	<u>1992-93</u>	<u>1993-94</u>
BASELINE Cm 1003	83.4	87.7	89.9
<u>Proposed additions</u>			
Central Government			
i. Woodland management grants	0.9	3.7	5.4
ii. Land acquisitions	1.0	1.4	2.0
iii. Forestry initiatives under MISC 145	-	3.5	5.1
TOTAL ADDITIONS	1.9	8.6	12.5
<u>Proposed reductions</u>			
Central Government			
Offsetting savings from baseline	(0.5)	(0.9)	(1.7)
Recovery of private woodland grants from the EC	(1.5)	(3.0)	(3.3)
TOTAL REDUCTIONS	(2.0)	(3.9)	(5.0)
TOTAL NET CHANGE PROPOSED	(0.1)	4.7	7.5

ADDITIONAL BIDS  
OUTPUT MEASURES AND PERFORMANCE INDICATORS

	1991-92	1992-93	1993-94
i. Management grants			
- hectares Conifers	-	50000	85000
Broadleaves	-	25000	35000
Mixed	-	40000	70000
- Unit costs			
Conifers	-	£10	£10
Broadleaves	-	£25	£25
Mixed	-	£35	£35
ii. Land acquisitions			
- hectares	1000	1340	1840
- average price per hectare	£1000	£1070	£1100
iii. Forestry initiatives under MISC 145			
Additional new planting grants			
- hectares	-	1000	2000
- Unit cost	-	£631	£631
Better land grant supplement			
- hectares	-	4000	4000
- Unit cost	-	£400	£400
Urban and community woodlands grant supplements			
- hectares	-	1000	1500
- Unit cost	-	£500	£500
New Midlands forest			
- hectares	-	-	100
- Unit cost (land purchase)	-	-	£3400
- Unit cost (establishment and recreation)	-	-	£1200
Central Scotland Woodland Initiative			
- hectares	-	100	200
- Unit cost (land purchase)	-	£1000	£1000
- Unit cost (establishment and recreation)	-	£1400	£1450

TPM

PRIME MINISTER

PUBLIC EXPENDITURE - THE EDUCATION PROGRAMME

The Chief Secretary's Office have told me that informal contacts with other Private Offices, suggest the general message to keep down bids in this year's Survey may indeed be being heeded. Bidding letters are due to be received by 25 May.

The Chief Secretary is concerned however about the education programme. For technical reasons, it is necessary for Mr MacGregor to submit some bids before the deadline. These cover the specific grants paid by central government towards local authority education expenditure.

Mr MacGregor has bid for these to increase by one-third next year.

The Treasury are anxious, less this portend a general DES attitude to the Survey. Last year's experience was that having put in very large bids (inherited from Mr Baker) Mr MacGregor fought tenaciously for them.

In order to smooth the Survey process, the Treasury see some advantage in the message about the need for modest bids being reinforced to DES.

You did of course intend to have a word with Mr MacGregor about his bids in the margins of the meeting on the national curriculum last week; but pressure of time did not give the opportunity.

Do you want to find another opportunity, ideally in the margins of some other meeting, to have a word with Mr MacGregor?

BHP

Yes not

Barry H Potter

18 May 1990

a: public (MJ)

file

PRIME MINISTER

PUBLIC EXPENDITURE - THE EDUCATION PROGRAMME

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BHP

Barry H Potter

18 May 1990

a: public (MJ)

MONTHLY NOTE ON THE PSBRSummary

- The PSBR in April is provisionally borrowing of £2.1 billion. Excluding privatisation proceeds this is £1.3 billion higher than in April 1989 and £1.1 billion higher than anticipated last month.
- Higher than expected borrowing by local authorities more than accounted for the £1.1 billion forecast error in April. Borrowing by public corporations was also higher than expected, while central government borrowing was lower than expected.
- High borrowing by local authorities in April followed lower than expected borrowing in March. This may partly reflect capital expenditure incurred in March but not recorded in local authority accounts until April. Delays in the payment of community charge may also be partly responsible.
- Recent trends in the PSBR indicate a close correlation between public finances and economic activity.
- The forecast PSBR in the period May to July is expected to be £0.1 billion, the same as in the Budget profile. This would bring the total for the first four months of 1990-91 to £2.2 billion. Excluding privatisation proceeds, this is £0.6 billion higher borrowing than in the same period in 1989.

Monthly note on the PSBR: circulation:

Chancellor	Mr O'Donnell - (IDT)
Chief Secretary	Mr Grice - (MG2)
Financial Secretary	Mr McIntyre - (MG1)
Paymaster General	Mr Richardson - (GEP2)
Economic Secretary	Mr Ilett - (LG1)
Sir P Middleton	Ms Turk - (PSF)
Sir T Burns	Miss Summerfield (GEP)
Sir J Anson	Mrs Todd - (Accounts)
Mr Scholar	Mrs Wright - (PSF)
Mr Odling-Smee	Mrs Williams - (MG1)
Mr Sedgwick - (EA)	Mr Barrie - (MP1)
Mr Peretz - (MG)	Mr Brooks - (MG2)
Mr Riley - (MP)	Mr Fry - (PSF)
Mr Robson - (PE)	Mrs Chaplin
Mr Culpin - (FP)	Mr Tyrie
Mrs Lomax - (GEP)	Mr Lightfoot
Mr Mowl - (PSF)	Mr Potter - (No. 10)
Mr Watts - (Accounts)	Mr Calder - (IR)
Mr Bent - (PE)	Mr Parker - (C & E)
Mr Taylor - (GEP3)	Mr Vernon - (C & E)

PSBR in April

1. The PSBR in April is provisionally borrowing of £2.1 billion, the bulk of which was accounted for by local authorities. April's PSBR was £1.1 billion higher than forecast in last month's Budget profile; higher than expected borrowing by local authorities in particular and by public corporations were only partly offset by lower than expected borrowing by central government. Excluding privatisation proceeds, the PSBR in April is £1.3 billion higher than a year ago.

Table 1: Borrowing in April

£billion

	PSBR	Comprising		
		CGBR(O)	LABR	PCBR
1990 outturn	2.1	0.3	1.6	0.2
Difference from:				
1990 Budget profile	+1.1	-0.7	+1.5	+0.3
1989 outturn excluding privat- -isation proceeds	+1.3	-0.3	+1.0	+0.6

2. The lower than expected borrowing by central government reflects mainly higher Customs and Excise receipts (by £0.2 billion) and lower than expected departmental outlays (by £0.3 billion). The former may be the result of greater than assumed Budget forestalling in March which, because of payments lags, increases receipts in April. There is no information yet on the breakdown of the lower central government spending.

3. The LABR in April is the highest ever monthly figure both in cash and real terms, and the forecast error of £1.5 billion more than accounted for the whole of the error on the PSBR. There are two main factors which may be contributing to the lower than expected April outturn:

- some local authority borrowing may have slipped from March to April. It was assumed that borrowing in March would be high in view of the incentive to forestall the new capital finance regime. Part of this borrowing may have spilled over into April if cheques issued in March did not clear until April. This would be more likely if a high proportion of March spending took place



right at the end of the month; if local authorities wished to bring forward capital purchases from 1990-91 there would have been every advantage to leaving the purchases as late as possible in 1989-90.

- receipts of community charge and NNDR may have been less than expected as a result of late billing and late payment. Charge capping may have contributed to both. Some allowance was made for this factor in the Budget profile, but it was assumed that the change in the timing of rate support grant, which is now more concentrated in the early months, would more than offset it.

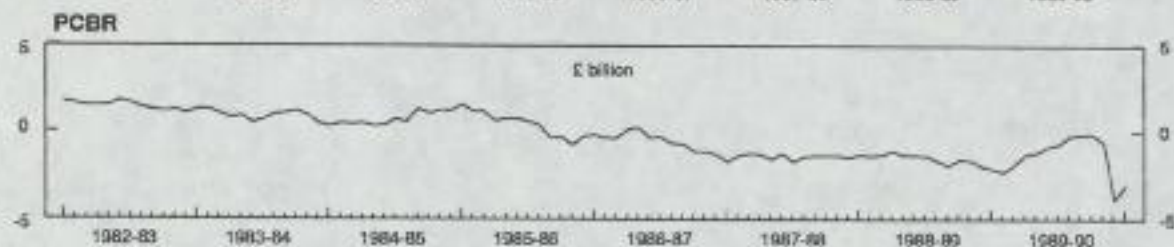
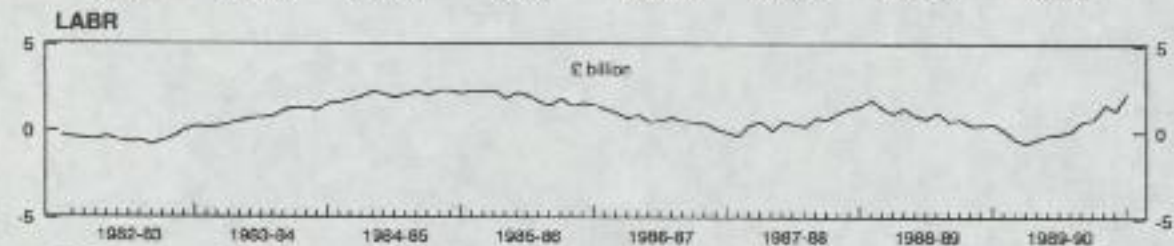
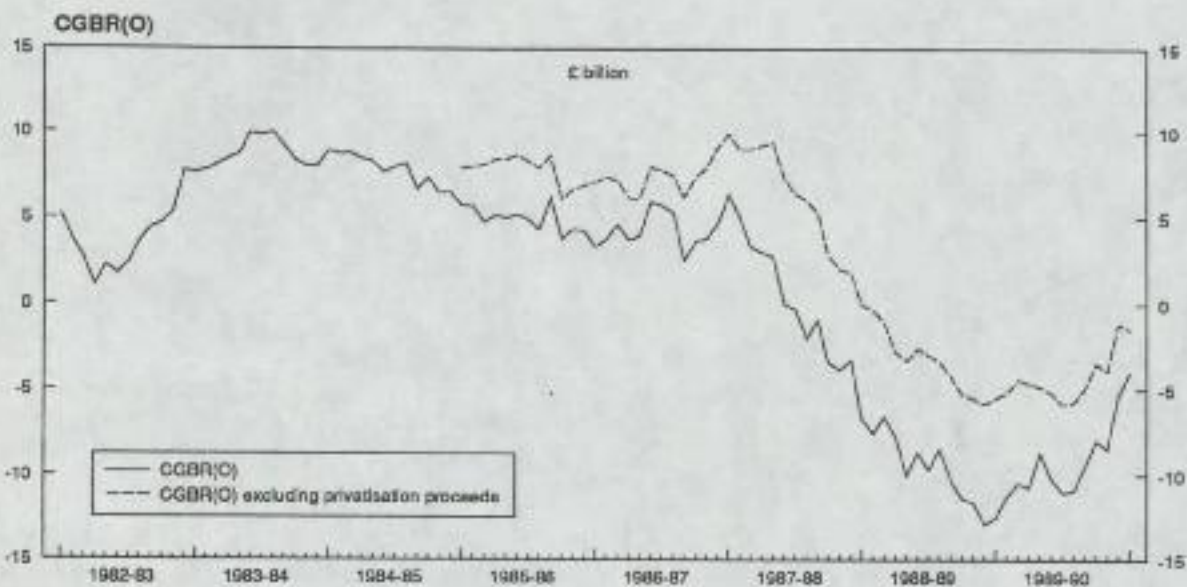
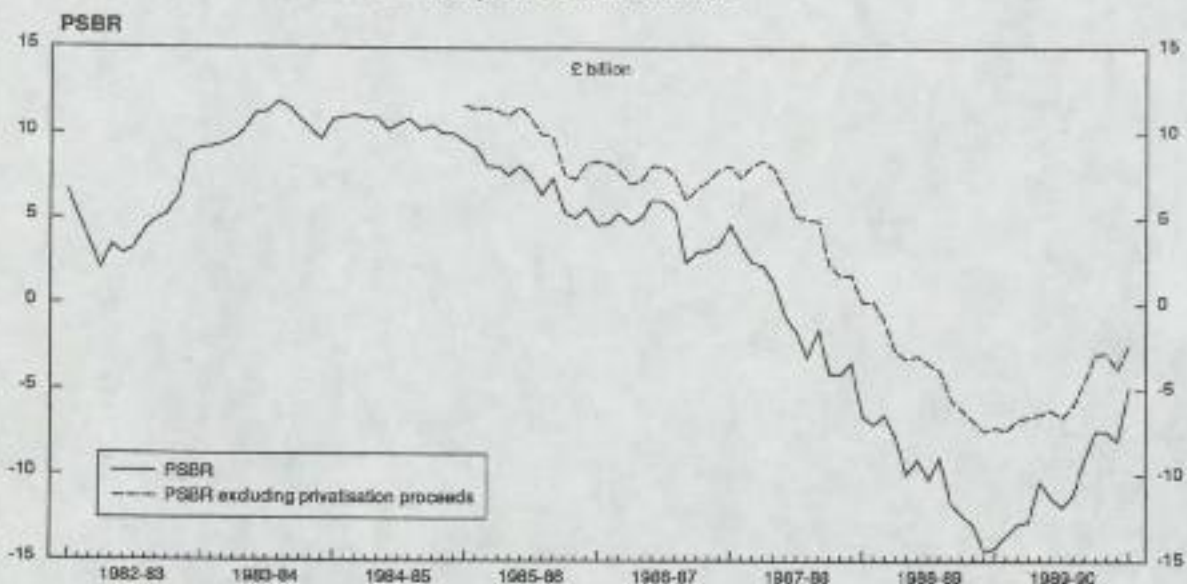
4. There is little information so far on why public corporations borrowed £0.3 billion more than expected in April. All that is known is that the Post Office borrowed £0.1 billion more than forecast.

#### Recent trends in the PSBR

5. Chart 1 shows total borrowing over the previous twelve months for the PSBR and its components since the beginning of 1982-83. The observations for March in each year therefore coincide with the financial year totals and the figures for the other months are on a comparable (ie twelve-monthly) basis.

6. The charts show that between 1983-84 and 1988-89 there was a clear downward trend in the PSBR which became much more marked at the beginning of 1986-87. The trend was sharply reversed at the end of 1988-89 reflecting primarily the behaviour of the CGBR(O) with smaller contributions from the LABR and PCBR. The timing of these changes in trend has coincided with turning points in economic activity; the acceleration in growth in 1987 and 1988 was reflected in a much faster improvement in public finances, while the more recent downturn in economic activity has been associated with a reduction in the budget surplus.

Chart 1 Trends in the PSBR: total over previous twelve months



Forecast for May to July

7. The PSBR is forecast to be borrowing of £0.5 billion over the next three months, bringing the PSBR in April to July to a total of £2.6 billion.

8. The forecast monthly path of the CGER(O) in May to July is as detailed below:

- In May the CGER(O) is forecast to be £0.9 billion. Debt interest payments are expected to be seasonally high and Inland Revenue receipts low. Partly offsetting these factors will be the usual high receipts of VAT.
- In June, the CGER(O) is forecast to be £1.9 billion. Both Inland Revenue and Customs and Excise receipts are normally low in June, but are expected to be offset by seasonally low interest payments. A PSBR neutral grant to British Coal of £0.6 billion is also expected in June.
- In July, the CGER(O) is forecast to be a net repayment of £1.6 billion. Receipts of schedule D income tax and advance corporation tax are, as usual, expected to be high in July and will be only partly offset by high interest payments.

9. The CGER(O) for May to July assumes that there will be some unwinding of April's discrepancy from the Budget profile for Customs and Excise and net departmental outlays. In addition, Inland Revenue receipts are now expected to be somewhat less than the Budget profile in May. On the other hand, receipts of national insurance contributions are expected to continue to be rather above profile. The net effect is an expected reduction in April's discrepancy from the Budget profile; the CGER(O) in the first four months is expected to be £1.4 billion, £0.3 billion less than in the Budget profile.

Chart 2 Comparisons with 1989-90

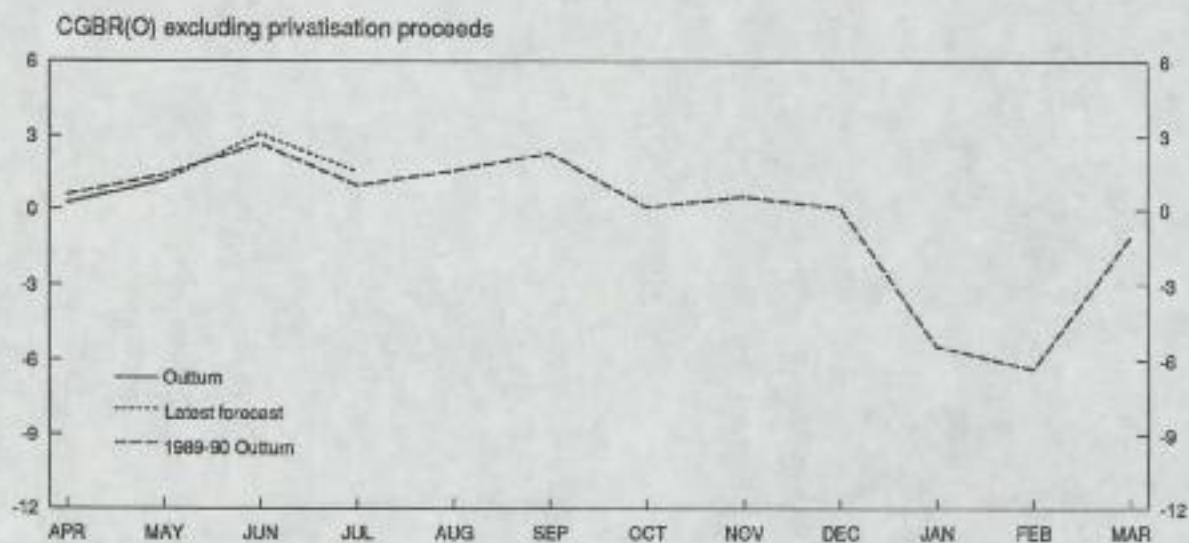
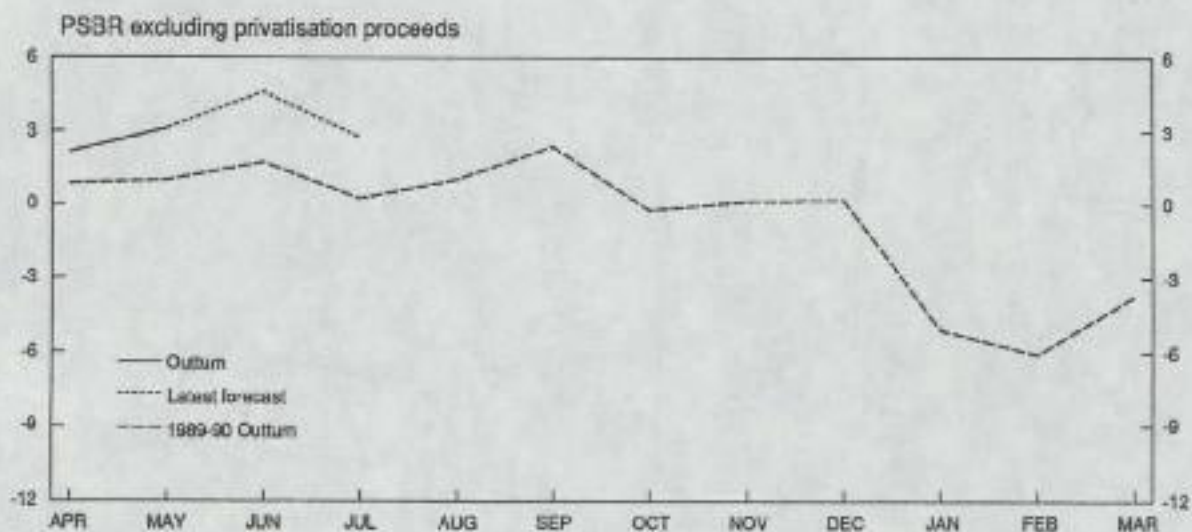
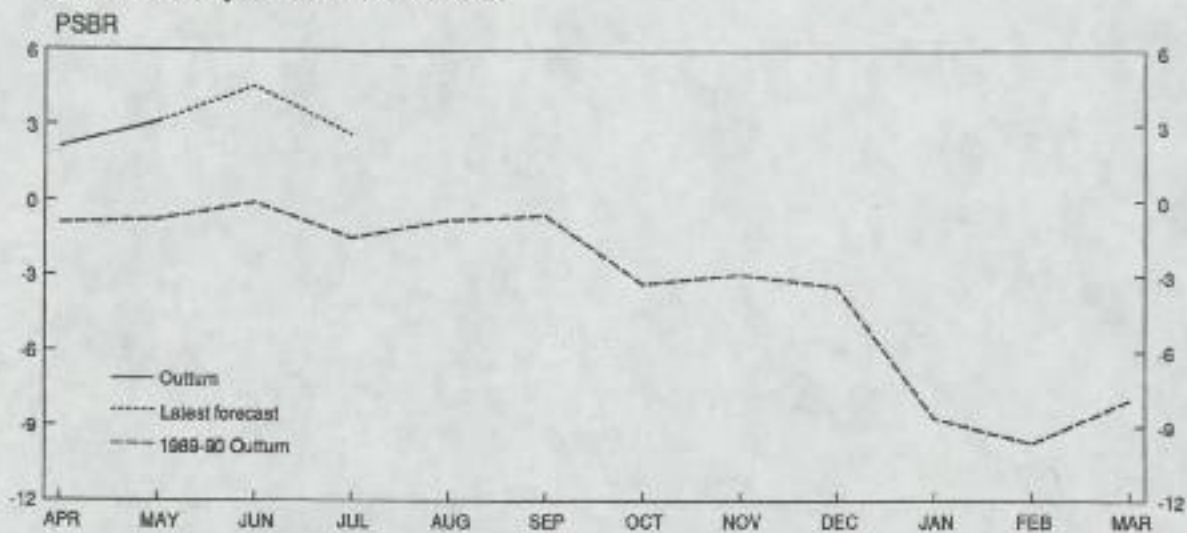
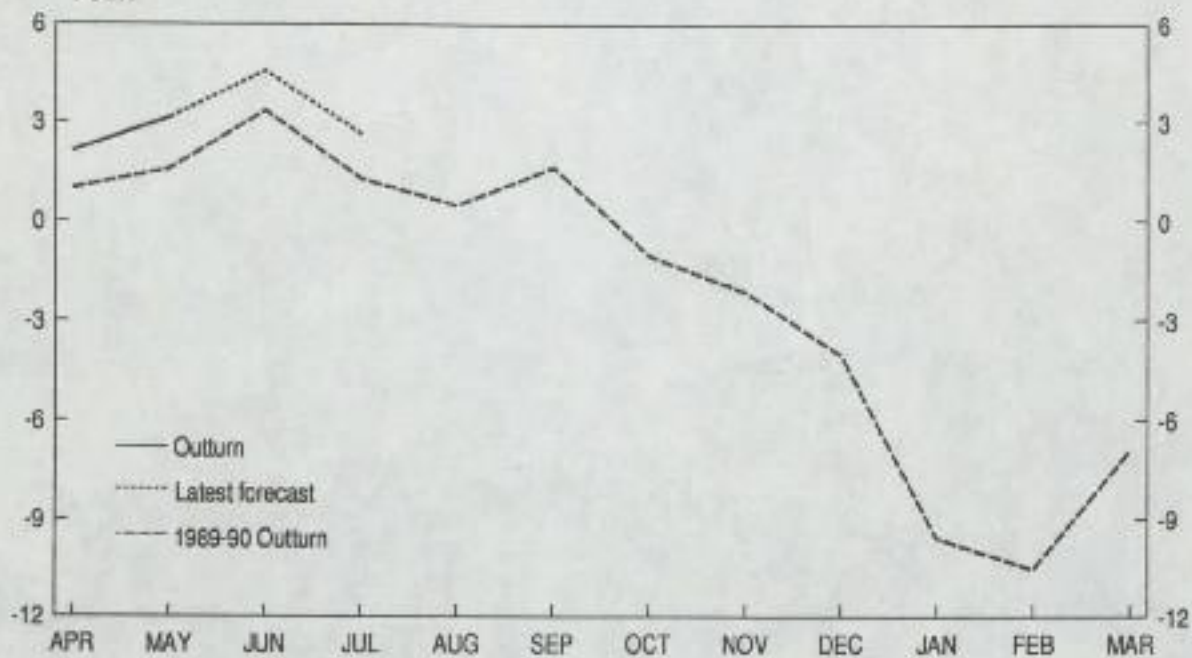
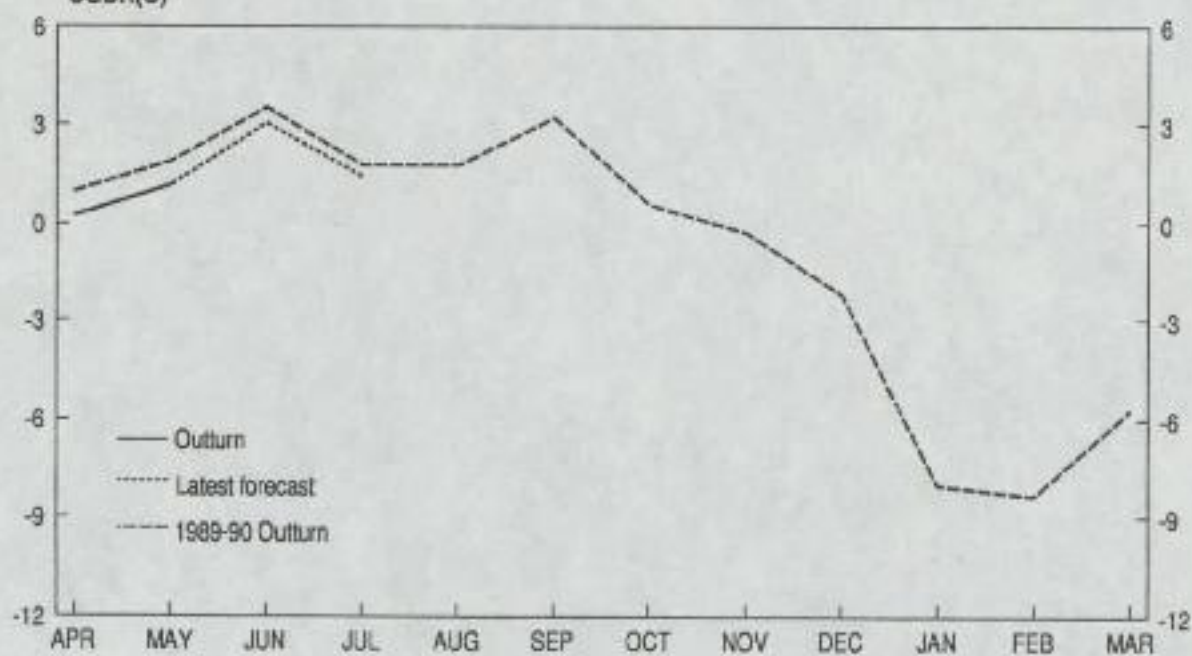


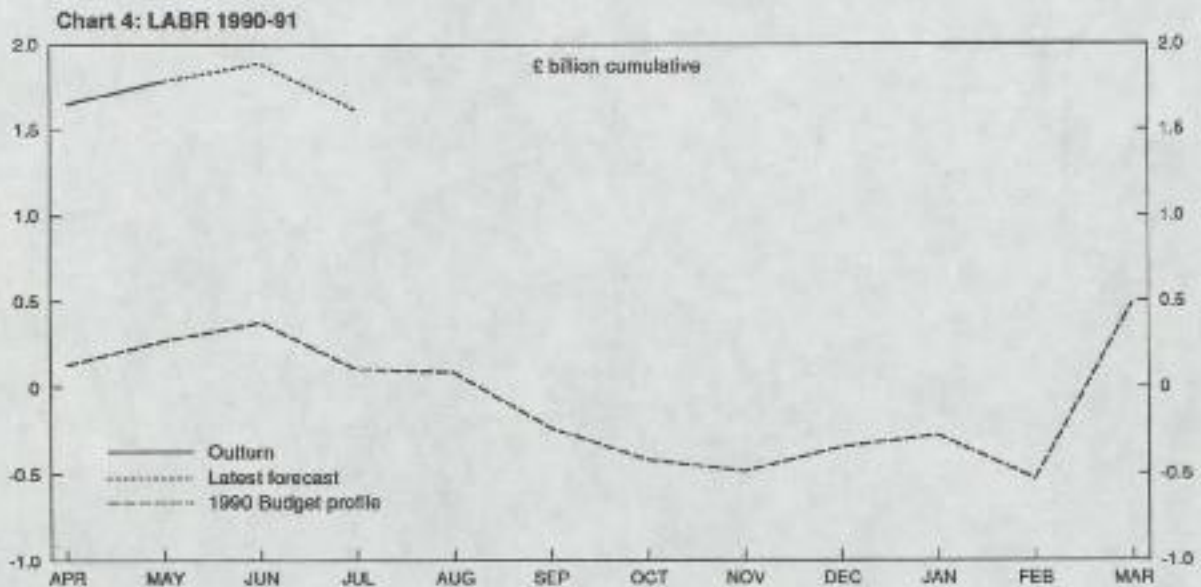
Chart 3 Comparisons with 1990 Budget profile  
PSBR



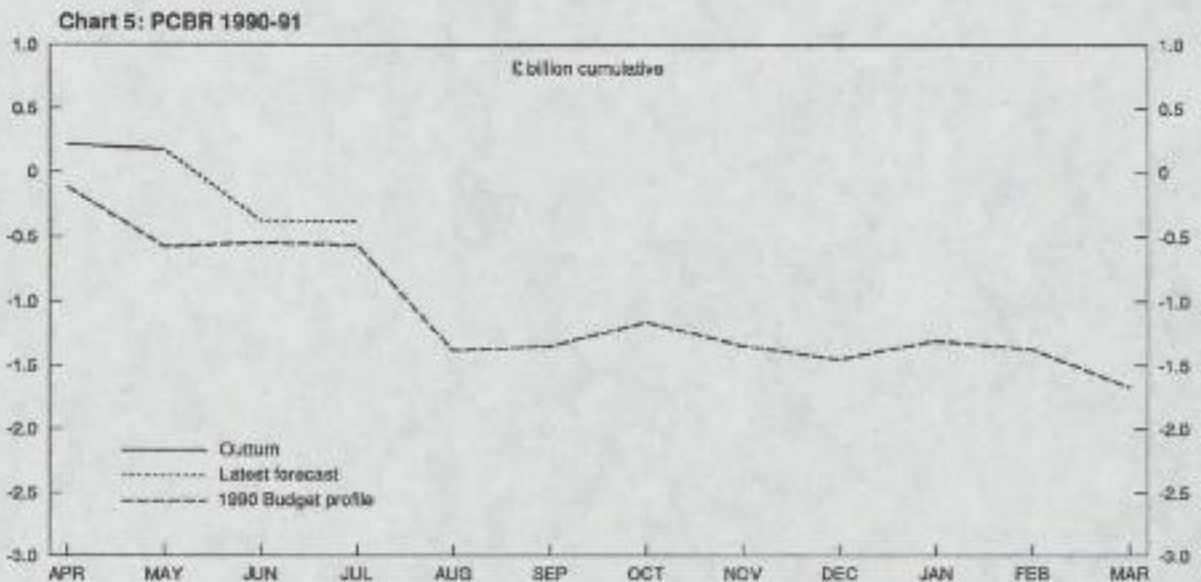
CGBR(O)



10. Local authorities are expected to make a net repayment of £0.1 billion over the next three months, bringing the LABR for the first four months to £1.6 billion. This is rather higher borrowing than in the same period in recent years as a result of the assumption that community charge receipts will be spread more evenly through the year than were domestic rates. In previous years, a high proportion of rate income was received in May and June as a result of a high proportion of payments being made in two instalments due in April and October. Later receipts of community charge are, however, expected to be partly offset by earlier payment of rate support grant.



11. Public corporations are expected to make a net repayment of £0.6 billion in May to July, which would more than offset borrowing in April of £0.2 billion. Excluding the expected £0.6 billion grant from central government to British Coal in June, which is PSBR neutral, the PCBR in the first four months would be £0.2 billion, the same as in April to July last year.



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Table 2:

1990-91 Outturn and latest forecasts  
(1989-90 Outturn in italics for comparison)

£ billion

	PSBR		CGBR(O)		LABR		PCBR	
Apr	2.1	-0.9	0.3	-1.1	1.6	0.7	0.2	-0.4
May	1.0	0.1	0.9	0.9	0.1	-0.4	0.0	-0.3
Jun	1.4	0.7	1.9	1.2	0.1	-1.0	-0.6	0.4
Jul	-1.9	-1.4	-1.6	-1.7	-0.3	-0.3	0.0	0.5
Aug		0.7		0.6		0.3		-0.2
Sep		0.2		-0.4		0.1		0.5
Oct		-2.8		-2.4		-0.5		0.1
Nov		0.4		0.4		-0.1		0.1
Dec		-0.5		-1.0		0.7		-0.2
Jan		-5.3		-5.5		0.1		0.1
Feb		-1.0		-0.9		0.7		-0.8
Mar		1.7		4.5		0.9		-3.7
<b>Cumulative</b>								
Apr	2.1	-0.9	0.3	-1.1	1.6	0.7	0.2	-0.4
May	3.1	-0.8	1.2	-0.3	1.8	0.3	0.2	-0.7
Jun	4.6	0.0	3.1	0.9	1.9	-0.7	-0.4	-0.3
Jul	2.7	-1.5	1.4	-0.8	1.6	-1.0	-0.4	0.3
Aug		-0.7		-0.2		-0.7		0.1
Sep		-0.5		-0.6		-0.5		0.6
Oct		-3.3		-2.9		-1.0		0.7
Nov		-2.9		-2.5		-1.1		0.7
Dec		-3.4		-3.5		-0.5		0.6
Jan		-8.7		-9.0		-0.4		0.7
Feb		-9.7		-9.9		0.4		-0.1
Mar		-7.9		-5.3		1.2		-3.8

Excluding privatisation proceeds      Privatisation proceeds

	PSBR		CGBR(O)			
Apr	2.1	0.8	0.2	0.6	0.0	1.7
May	1.0	0.2	0.9	0.8	0.0	0.0
Jun	1.5	0.7	1.9	1.2	0.0	0.0
Jul	-1.8	-1.4	-1.5	-1.7	0.1	0.0
Aug		0.7		0.6		0.0
Sep		1.4		0.7		1.2
Oct		-2.6		-2.2		0.1
Nov		0.4		0.4		0.0
Dec		0.1		-0.4		0.5
Jan		-5.3		-5.5		0.0
Feb		-1.0		-0.9		0.0
Mar		2.4		5.2		0.6
<b>Cumulative</b>						
Apr	2.1	0.8	0.2	0.6	0.0	1.7
May	3.1	1.0	1.2	1.4	0.0	1.8
Jun	4.6	1.7	3.1	2.7	0.0	1.8
Jul	2.8	0.3	1.5	1.0	0.1	1.8
Aug		1.0		1.6		1.8
Sep		2.4		2.3		2.9
Oct		-0.2		0.1		3.1
Nov		0.1		0.5		3.1
Dec		0.2		0.1		3.6
Jan		-5.1		-5.4		3.6
Feb		-6.1		-6.4		3.6
Mar		-3.7		-1.1		4.2

Note: Figures for May, June and July in 1990-91 are forecasts

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Table 3: 1990-91 Outturn and latest forecasts  
(1990 Budget profiles in italics for comparisons) £ billion

	PSBR		CGBR(O)		LABR		PCBR	
Apr	2.1	1.0	0.3	1.0	1.6	0.1	0.2	-0.1
May	1.0	0.6	0.9	0.9	0.1	0.1	0.0	-0.5
Jun	1.4	1.8	1.9	1.6	0.1	0.1	-0.6	0.0
Jul	-1.9	-2.0	-1.6	-1.8	-0.3	-0.3	0.0	0.0
Aug		-0.8		0.0		0.0		-0.8
Sep		1.2		1.4		-0.3		0.0
Oct		-2.6		-2.6		-0.2		0.2
Nov		-1.1		-0.9		-0.1		-0.2
Dec		-1.9		-1.9		0.1		-0.1
Jan		-5.6		-5.8		0.1		0.2
Feb		-1.0		-0.3		-0.3		-0.4
Mar		3.7		2.6		1.0		0.0
<b>Cumulative</b>								
Apr	2.1	1.0	0.3	1.0	1.6	0.1	0.2	-0.1
May	3.1	1.6	1.2	1.9	1.8	0.3	0.2	-0.6
Jun	4.6	3.3	3.1	3.5	1.9	0.4	-0.4	-0.5
Jul	2.7	1.3	1.4	1.8	1.6	0.1	-0.4	-0.6
Aug		0.5		1.8		0.1		-1.4
Sep		1.6		3.2		-0.2		-1.4
Oct		-1.0		0.6		-0.4		-1.2
Nov		-2.1		-0.3		-0.5		-1.3
Dec		-4.0		-2.2		-0.3		-1.5
Jan		-9.6		-8.0		-0.3		-1.3
Feb		-10.6		-8.4		-0.5		-1.7
Mar		-6.9		-5.7		0.5		-1.7

Excluding privatisation proceeds      Privatisation proceeds

	PSBR		CGBR(O)			
Apr	2.1	1.0	0.2	1.0	0.0	0.0
May	1.0	0.6	0.9	0.9	0.0	0.0
Jun	1.5	1.8	1.9	1.6	0.0	0.0
Jul	-1.8	-2.0	-1.5	-1.7	0.1	0.1
Aug		0.6		1.5		1.4
Sep		1.1		1.4		0.0
Oct		-2.7		-2.7		-0.1
Nov		-1.2		-0.9		0.0
Dec		0.6		0.5		2.5
Jan		-5.6		-5.9		-0.1
Feb		-1.0		-0.4		0.0
Mar		4.9		3.9		1.3
<b>Cumulative</b>						
Apr	2.1	1.0	0.2	1.0	0.0	0.0
May	3.1	1.6	1.2	1.9	0.0	0.0
Jun	4.6	3.3	3.1	3.5	0.0	0.0
Jul	2.8	1.4	1.5	1.8	0.1	0.1
Aug		2.0		3.3		1.5
Sep		3.1		4.7		1.5
Oct		0.4		2.0		1.4
Nov		-0.8		1.1		1.4
Dec		-0.2		1.6		3.8
Jan		-5.8		-4.2		3.8
Feb		-6.8		-4.6		3.7
Mar		-1.9		-0.7		5.0

Note: Figures for May, June and July in 1990-91 are forecasts



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FROM: C TURK  
DATE: 18 MAY 1990  
Ext : 5029

RECIPIENTS OF PSBR NOTE

MONTHLY NOTE ON THE PSBR

There are some errors in the figures in the last indent of the summary page and in paragraph 7 of the monthly note on the PSBR, circulated earlier today. The last indent of the summary should read as follows:

" - The PSBR in the period May to July is forecast to be £0.5 billion, similar to the Budget profile. This would bring the total for the first four months of 1990-91 to £2.7 billion. Excluding privatisation proceeds, this is £2.5 billion more borrowing than in the same period in 1989."

In paragraph 7, the figure for the forecast PSBR in April to July should be £2.7 billion.

*Caroline Turk*

CAROLINE TURK

Not for P.M.

C.F.



Barry,

I believe Carys has spoken to you about the need to persuade Mr McGregor not to put in a high bidding letter. She suggested you might find it useful to see the correspondence we have already had with Mr McGregor on the subject of Education Specific grants.

Isleen Campbell

UNCLASSIFIED



Treasury Chambers, Parliament

cc:  
 Chancellor  
 Sir Peter Middleton  
 Mr Monck  
 Mr Edwards  
 Mrs Case  
 Mrs Lomax  
 Mr Farthing  
 Mr Ilett  
 Mr D A Loweth  
 Mr Hudson  
 Mrs Chaplin

The Rt Hon John MacGregor OBE MP  
 Secretary of State for Education and Science  
 Department of Education and Science  
 Elizabeth House  
 York Road  
 London  
 SE1 7PH

16 May 1990

*Dear Secretary of State*

**ESG AND LEATGS PROGRAMME 1991-92**

Thank you for your letter of 19 April setting out your proposals for Education Support Group (ESG) and the LEA Training Grant Scheme (LEATGS) for 1991-92.

2. I understand your wish to settle these grants now, so that you can consult the local authority associations, but I am not willing to agree to the additions you propose. At Cabinet on 19 April colleagues agreed that strict control of public expenditure must be maintained; that bids to increase planned levels of public expenditure could not be afforded; and that the approach must be to offset any necessary increases in particular areas by savings elsewhere. I was therefore surprised that you then - on the same day - wrote to me proposing to increase by nearly 29 per cent the level of ESG/LEATGS in 1991-92 over that for 1990-91.

3. Although you point out that the increases you propose would lift the total expenditure supported by ESG/LEATGS in 1991-92 to no more than 3 per cent of this year's education standard spending (compared to the current 2.4 per cent); I cannot agree to any increase in the proportion, as to do so would inevitably reduce the amount available to local authorities' to spend on their own priorities. Any proposal - such as yours - which could push up local authority spending and, with it, community charge levels, is doubly undesirable. Specific grants should be used only for a small number of clearly defined, special initiatives. While, therefore, the reduction in the number of activities to be supported is welcome, the proposed increase in expenditure is not. Affordability is a key factor here and, as Cabinet has agreed, in this year - of all years - there is a need to demonstrate restraint.

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4. I see that you cite the Efficiency Scrutiny report to support your case for a significant increase in the level of grant, but, in fact, the report's authors found no reasons why the level of grants should be dramatically reduced or increased. On that basis, I was very surprised that you should be proposing a 22 per cent addition to the baseline.

5. You argue that an increase is needed to ensure that LEAs direct provision to areas of national priority. But as you know, local authorities have increased their spending by some 14½ per cent in 1990-91. Among the main reasons which they give for this very high growth is their spending on local Management of Schools and the National Curriculum: two of the areas you are targeting with your grants. From this I infer that much of the spending you are aiming to encourage may well already be going on, at the chargepayer's expense. Channelling even more resources into higher funding for specific grants will merely encourage yet more marginal expenditure. Individuals would be paying again as taxpayers for services which they have already paid for as chargepayers.

6. It is particularly disappointing that you have offered no offsetting savings to finance your bid. You mention the phasing out of LPAs and a number of smaller ESG/LEATGS activities, and accept the case for a reduction in the grant rate for most LEATGS activities from 65 per cent to 60 per cent, but none of this appears to have much impact on the size of grant you propose. I must ask you to look at this again: to determine exactly what your priorities are and how they can be accommodated within the baseline provision. I am not prepared to accept any additions to the present level of grant or to consider further proposals which would increase total spending on these schemes by nearly 30 per cent. Indeed, I had hoped that you would be able to come forward with some reductions, especially as you plan to reduce the grant rate for most LEATGS activities. If you do, nonetheless, wish to support new activities, then the only scope for doing so lies in reallocating resources and adjusting the grant rates downwards. If you think it helpful, my officials would be happy to discuss this possibility with yours. But I must make it clear once again - as I did at Cabinet - that there is no scope for providing additional resources without offsetting savings elsewhere in your programme.

7. I am copying this letter to Chris Patten, Michael Howard and David Hunt.

Yours sincerely

*Norman Lamont*

NORMAN LAMONT

Approved by the Chief Secretary  
and signed in his absence.

076

FROM: C J SPILLER  
DATE: 15 May 1990  
TEL: GTN 1211 2403  
FILE: 14/7A

PS/FINANCIAL SECRETARY (Circulation list attached)

**CAPITAL EXPENDITURE: PROVISIONAL ESTIMATES FOR Q1 1990**

1. A Press Notice giving the provisional estimates for capital expenditure in the first quarter of 1990 is attached for information.
2. The Notice is restricted to expenditure in the manufacturing industries. This is because figures for other sectors previously published are not at present of sufficient quality. Further information is given in **Notes to editors**.
3. This Notice will be published at 11.30 am on Thursday 17 May. The contents should be treated as confidential until then.



C J SPILLER  
CSO Branch B2  
Room 1.207, CSO Newport

## Notes to editors

1. Estimates of total fixed capital formation, and industrial analyses of that total, have traditionally been compiled using data collected from various quarterly surveys of business expenditure. For 1988 and 1989, studies of the apparent shortfall of the quarterly inquiry based estimates, when compared with estimates of the supply of capital goods based on production and trade data, have thrown doubt on some of the results from the quarterly expenditure inquiries. No comprehensive industrial analysis of these supply figures is available. It has been decided therefore to limit the range of industrial estimates published at the moment. In particular, it has been decided that the provisional quarterly estimates of capital expenditure should be restricted to manufacturing industries, where the coverage of the quarterly returns is judged to provide estimates of acceptable quality. Quarterly estimates of total capital expenditure in industries outside manufacturing up to the first quarter of 1990, together with revised estimates for manufacturing industries, will be included in the GDP press notice on 22 June.

2. **Effect of leasing on manufacturing investment.** Assets have traditionally been classified to the industries of their ownership. Since capital goods acquired for leasing out are mainly bought by the service industries, leasing to manufacturers produces an apparent switch in investment to the service industries from the manufacturing industries. In 1989 assets leased from owners in the financial industries represented an addition of almost 14 per cent of manufacturers' capital expenditure. Assets leased from owners in other industries outside manufacturing are not included in these figures. An analysis of leased assets by user industry within manufacturing is not available.

3. **Asset coverage of the estimates.** The capital expenditure figures cover acquisitions less disposals of vehicles and of plant and machinery and expenditure on new building work. Spending on land and existing buildings is excluded.

4. The information in this press notice, with additional current price data, will be published in a **Business Bulletin** on 1 June.

### Issued by:

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LONDON SW1P 3AQ

### Telephone:

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## CAPITAL EXPENDITURE

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11/5

CHIEF SECRETARY

FCO Diplomatic Wing: Potential Reserve Claims

1. Your letter of 23 April noted my readiness to try to cope this year without further calls on the Reserve, but did not give me the assurance I need; namely, that if known and future calls on Diplomatic Wing resources cannot be met from savings on programmes which may emerge during the year, any excess on inescapable items will be met centrally. This is the arrangement we came to last year. It is essential, for the good conduct of business, that I have such an assurance this year too.
2. Traditionally, as you know, the Diplomatic Wing has worked to a lean budget, incorporating a small unallocated provision (representing in this financial year about 0.1% of running costs and 1.8% of programme funds) to cope with minor unexpected requirements, on the understanding that the costs of any significant new foreign policy commitments are met from the Reserve. This arrangement recognises that in foreign affairs we are often at the mercy of external events which cannot be foreseen or budgeted for. The alternative, a large contingency provision which might or might not be spent, would represent a bad way to control public expenditure. FCO calls on the Reserve have historically been small in terms of public expenditure. But a clear understanding between us is essential if the system is to work.

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3. For 1990-91, I can certainly meet from my unallocated provision the extra costs of conferences that I mentioned in my minute of 9 April, though it leaves me very short at the beginning of the year. But I see no prospect of finding more than a small part of the additional expenditure on military aid to Namibia, our contribution to ONUCA, and the £5 million for the Tai a Chau project in Hong Kong for which we had provision in 1989/90 but which we were unable to spend because of the Hong Kong Government's delay in placing the contract.

4. Since my minute, two new requirements have arisen. The unexpected NATO Summit in London in July could cost up to £3 million. If the expense is to fall on the FCO rather than on the Cabinet Office, I shall need new money: certainly, I have no provision for it. Secondly, the UN Secretary General has appealed for voluntary contributions for the International Support and Verification Commission in Central America (CIAV), a body set up to facilitate the disbanding of insurgent groups in Central America - in the first instance, the Contras. The success of the operation will be crucial to the fate of Mrs Chamorro's government in Nicaragua, to whom the Prime Minister has expressed strong support in public and in private. We cannot credibly refuse to pay part of the costs. We expect the Americans and other leading States all to contribute. Our share on the normal scale would be of the order of £2 million. With these two items, my identifiable extra commitments to date (listed at annex) could be as much as £15 million in this financial year.

5. I have looked hard at the scope for cuts in existing Diplomatic Wing activities. This is extremely difficult at a time when world events are placing an increasing

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burden on my Department. We are already squeezing running costs activities and the capital programme in order to cope with inflation. Most of my programme expenditure is politically sensitive. We have no choice but to pay our subscription to international organisations. We cannot cut the grants to the British Council and the World Service. My small programmes for military aid and scholarships are committed in advance and have little potential for savings, though the potential for damaging our relations with recipient countries is large.

6. I am prepared, as we agreed originally, to do my best to find the funds for the programme of military aid for Namibia, on the understanding that to the extent I can demonstrate I am unable to do so, you will accept a claim on the Reserve. But it is quite unrealistic to expect me to be able to find enough savings to meet the cost of our contribution to ONUCA, the first instalment on the Tai a Chau project, the cost of the NATO Summit and our contribution to the CIAV. There is a small windfall saving on our provision for UNAVEM which can be offset against these extra costs; but in effect I am asking you to agree a claim on the Reserve of up to £15.17 million, on the understanding that I will do my best to identify savings to meet the cost of military assistance to Namibia (£2.94 million).

7. In your letter you mentioned that officials had been in touch about rephrasing the expenditure on Vietnamese boat people. As my officials have explained, although some rephrasing is possible, the total commitment for the financial year remains at £15.7 million.

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

A handwritten signature in dark ink, appearing to be 'DH', written in a cursive style.

(DOUGLAS HURD)

Foreign and Commonwealth Office  
10 May 1990

CONFIDENTIAL

## ANNEX

	£m
Firm extra commitments	
Vietnamese Boat People, slippage of expenditure from 1989/90	5.0
ONUCA, UK contribution for 1990/91 - minimum	3.0
Namibia, military assistance	<u>2.94</u>
	10.94
 New commitments:	
NATO summit	approximately 3.0
Contribution to CIAV	approximately <u>2.0</u>
	15.94
Against which can be offset windfall saving on UNAVEM contribution	<u>0.77</u>
	<u>£15.17</u> =====

G16ACN

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP  
Secretary of State for Foreign Affairs  
Foreign & Commonwealth Office  
King Charles Street  
London  
SW1A 2AH

*CID/4/ke*

*23<sup>rd</sup>*  
April 1990

*Dear Sir*

FCO, DIPLOMATIC WING: POTENTIAL RESERVE CLAIMS

Thank you for your minute of ~~9~~ <sup>WILL REQUEST IF REQUIRED</sup> April.

2 As you know from our Cabinet discussion, the 1990-91 public expenditure Reserve is already substantially accounted for, so we must all take as many steps as possible to live within existing expenditure provision. The costs of military training in Namibia, and the net costs of other unexpected requirements, together totalling some £7.5 million, represent after all less than 1 per cent of your total Diplomatic Wing programme. Quite apart from expenditure on Eastern Europe, I have already agreed to Reserve claims totalling £15.4 million for Colombia, the Caribbean Dependent Territories and Vietnamese Boat People expenditure. On the latter, my officials have asked yours to examine the possibility of re-phasing expenditure to keep the £5 million you mention within the existing planned total for Vietnamese Boat People expenditure in 1990-91.

3 I am grateful therefore for your undertaking to do all you can to keep expenditure within the existing plans for the year and to absorb any additional requirements.

4 I am copying this letter to the Prime Minister, David Waddington, Tom King, and Sir Robin Butler.

NORMAN LAMONT

PRIME MINISTER

MEETINGS WITH MINISTERS ON PUBLIC EXPENDITURE

You will recall that at your discussions with the Chancellor and Chief Secretary on public spending a few days ago, you agreed to have a word individually with Messrs. Parkinson, Clarke and MacGregor. At last week's bilateral with the Chancellor, you also agreed to add Mr. King to that list.

You have, of course, now spoken to both Mr. Parkinson and Mr. Clarke separately about the severity of the public expenditure position in recent meetings. Do you want me to arrange slots in your diary for discussions:

(a) with Mr. MacGregor?

(b) with Mr. King?

- 1 I think we can  
do this with the  
of other business with  
them.

not

BHP

BARRY H. POTTER  
20 April 1990



CE

CHIEF SECRETARY	
REC.	20 APR 1990
ACTION	Mr Farthing
COPIES TO	Mr. J. P. McNeill Mr. Anderson, Mr. Edwards Mr. Deane, Mr. Lomas Mrs. Case, Mr. Lawth, Mrs. Chaplin

The Rt Hon Norman Lamont MP  
Chief Secretary to the Treasury  
HM Treasury  
Parliament Street  
London SW1P 3AG

19 APR 1990

*Dec Norman,*

#### ESG AND LEATGS PROGRAMME 1991-92

I am writing to you about my Education Support Grant (ESG) and Local Education Authority Training Grants (LEATGS) programmes for 1991-92. As you are aware, these cannot be left to the Survey, because I need to announce allocations on the basis of local authority bids before the end of the year.

The combined total of the ESG and LEATGS programmes for 1990-91 stands at £355.7m of expenditure supported by £209.4m of grant (excluding the elements for grant-maintained schools, which account for another £2.5m of grant). That expenditure figure represents about 2.4% of total standard spending on education for 1990-91.

In considering the 1991-92 programme, I have the benefit of an efficiency scrutiny report conducted between September 1989 and January 1990. That recommends that the programmes should be retained, brought together into a unitary grant, and focussed more sharply on our principal priorities. I wish to move to implement the thrust of the scrutiny report for 1991-92. These programmes are the principal means of support for the introduction of the ERA reforms. I wish to focus sharply on these in the 1991-92 programme. If we as a Government are to carry conviction in pushing forward with our reforms, and if we are to be able to control and monitor progress with their implementation, I believe it is essential that there should be a marked increase in the total of expenditure supported through specific grants.

For 1991-92 I would wish to support some £461m of expenditure through £274m of grant (including the element for GM schools). Annex A shows the pattern of activities I want to support within the programme. Annex B describes the main areas in which new or

extended grant support is needed, and what would be achieved with the money.

Kenneth Baker did not bid last year for any increase in grant for either ESGs or the LEATGS. So our starting position this year is the baseline provision in 1991-92 of £86.2m for ESGs and £136.6m for the LEATGS (again including elements for GM schools). This was designed to support grant in respect of 1991-92 of £85.1m for ESGs and £128.8m for the LEATGS, making a total of £213.9m, together with some expenditure in respect of earlier years.

The expenditure which these grants will support depends on the grant rate. For the 1990-91 programme the rate for most ESG activities was reduced from 70% to 60%, and the rate for National Priority Areas (NPAs) within the LEATGS from 70% to 65%. The Efficiency Scrutiny recommended that, in a unified programme, the rate for all nationally specified activities should be 60%. In general, I am prepared to accept that, although I shall have to make exceptions for a few existing activities. Those are the handful of activities where a further reduction of the grant rate in 1991-92 would risk inhibiting the effective implementation of Government priorities, and call our commitment into question.

Within the LEATGS there is also a Local Priority Area (LPA) which LEAs can use at their discretion to support training to meet local needs. In the 1990-91 programme, this accounts for over 40% of the total expenditure supported. The Scrutiny recommended that the LPA should be transmuted to form a "flexibility margin" covering both the ESG and LEATGS elements, and accounting for around 20% of the total programme. That seems to me too high. Given that the 1990-91 LEATGS programme is intended mainly to reflect national priorities, and LEAs have a good deal of local discretion and flexibility anyway, I do not see the justification in principle for such a concept. I would like to phase it out altogether. However, my discussions with the Local Authority Associations show that there would be strong opposition if we discarded it straightaway. So I intend to set the flexibility margin at about £50m of supported expenditure, payable at a rate of 50%.

On this basis the existing programme grant for 1991-92 could support total expenditure of £361m - £50m for the flexibility margin and £311m for nationally specified activities.

Of this £311m, £259m is already accounted for by the rolling forward of commitments arising from ongoing training needs and ESG projects begun in previous years. I see no scope for reducing these for 1991-92. Over time, I shall phase out the smaller ESG activities and training NPAs begun in previous years. But that takes time, because most projects require the appointment of additional staff, so they have to be allowed to run for the full period originally notified to LEAs. On the LEATGS side, the training needs covered by most existing National Priority Areas continue to apply, and in all cases there is an expectation that support will not simply be cut off without warning.



These commitments leave only £52m for new and extended activities. That is nowhere near enough to meet the needs. As set out in the Annexes, I calculate that a further £100m of supported expenditure is needed, requiring an additional £60m of grant, with similar increases in the following Survey years. That would give a total, combined programme for 1991-92 of £461m, supported by £274m of grant.

Thus far I have focussed on the required size of the programme and grant for 1991-92. The implications for the expenditure provision depend on the assumptions made about the phasing of grant payments. For ESGs, we expect to pay within the 1990-91 financial year 70% of the grant liabilities attributable to the 1990-91 programme. The rest of the 1990-91 provision will go to meet liabilities outstanding from previous years' programmes. For the LEATGS the rate of payment within year is expected to rise to about 55% in 1990-91, since there is a higher proportion of outstanding claims from previous rounds.

The introduction of a unified programme gives us an opportunity to harmonise the proportion of in-year grant payments for both grants, and to increase the overall proportion. For 1991-92 I would like to continue to pay 70% of the ESG grant programme in year but to increase the proportion of the LEATGS grant paid in year to 65%, with a further increase to 70% in 1992-93. That would require a modest increase in the size of the relevant votes over and above the increase required for an expansion of the 1991-92 programme.

The calculations of the increase in grant programmes and votes required, taking account of the phasing of payments across financial years, are summarised in Annex C. You will see that the required increase in my combined ESG and LEATGS provision is:

	£m
1991-92:	50.0
1992-93:	60.1
1993-94:	57.2

ESGs and the LEATGS give us an essential lever for getting resources deployed to where they are most needed. They enable us to ensure that the Government's education initiatives, and above all the ERA reforms, are implemented in the way we want. And they give a highly visible demonstration of the Government's commitment to providing proper financial backing for our policies.

I attach great importance to these grants. The Efficiency Scrutiny, as well as HMI evidence, shows that they are working well, and achieving an impact out of all proportion to their size. I believe there is a strong case for a significant increase in the programme, to be closely targeted on implementing a few key priorities. Even with the increases I am proposing, total ESG/LEATGS supported expenditure in 1991-92 would still represent only 3% of this year's standard spending for education.

I should be grateful for an early response. The Efficiency Scrutiny recommended that I should publish in May a combined

circular setting out the 1991-92 programme. I should like to try to achieve that. But there is a lot of detailed work to be done, once we have agreed the overall figures, before the circular can issue. I should, of course, be happy to have a meeting if you wish.

I am copying this letter to Chris Patten, Michael Howard and Peter Walker.

Yours etc,

JH

## PROPOSED ESG/LEATGS PROGRAMME 1991-92

All the figures are for supported expenditure, not grant.

ERA-RELATED ACTIVITIES

	<u>New/Additional Allocation</u>	<u>Total Allocation including committed expenditure</u>
fm		
1. Management and Local Management:		
1A. Local Management of Schools	40.0	77.4
1B. Projects to improve transfer of information about teachers between LEAs and DES	0.5	1.0
1C. Management training for school staff	-	11.5
1D. School Teacher Appraisal	5.0	14.6
1E. Management Training for FE college staff	1.3	4.7
1F. Computerised Management Information Systems for FE colleges	-	7.5
1G. Local Management of Colleges	-	1.4
TOTAL	46.8	118.1
2. National Curriculum:		
2A. NC Assessment	20.0	35.0
2B. Equipment, training and advisory support for IT, including extension for micros for primary schools	22.0	35.4
2C. NC books	34.5	37.5
2D. Foreign language diversification	5.5	5.5
2E. Strengthening of LEA inspection and advisory services	1.2	4.3
2F. Basic Curriculum (advisory support and materials)	-	13.5

2G. Basic Curriculum (teacher training)	-	56.9
2H. Projects to improve the teaching of science in primary schools, and of English and maths in primary and secondary schools	-	10.3
TOTAL	83.2	198.4
3. Governor Training		
3A. Training for school governors	4.0	9.4
3B. Training for college governors	-	2.0
TOTAL	4.0	11.4
<u>Total ERA-related</u>	134.0	327.9

NON-ERA-RELATED

4. Teacher Recruitment		
4A. Projects to improve recruitment of former teachers and mature entrants to teaching	8.0	10.1
4B. Projects to train Licensed Teachers and Articled Teachers	-	13.4
TOTAL	8.0	23.5
5. Improving provision for Under 5s, including training for teachers of children in primary classes who are younger than "rising five".	3.0	4.6
6. Careers education and guidance, especially for credits	5.0	5.0
7. Health education (including drugs misuse)	-	7.3
8. Projects to follow up the Elton report on school discipline, including projects on school attendance and teacher training,		

	and projects to promote social responsibility	-	8.2
9.	Education for Ethnic Diversity	-	1.5
10.	Training for teachers of children with Special Educational Needs, including educational psychologists and Portage (help for children under 5 with special needs)	-	9.4
11.	Training for FE college staff, including training related to PICKUP courses, IT, SEN, ethnic diversity, and extension of support for training in National Vocational Qualifications	2.0	9.1
12.	Adult education activities, including open learning, adult literacy, adult educational guidance, and support for the Workers' Educational Association	-	6.3
13.	Youth and Community activities, including training for youth and community workers and training for youth leaders in the inner cities.	-	5.5

	<u>Total non-ERA-related</u>	18.0	80.4
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Summary

	TOTAL ERA-RELATED	134.0	327.9
	TOTAL NON-ERA-RELATED	18.0	80.4
	TOTAL NATIONALLY SPECIFIED ACTIVITIES	152.0	408.3
	FLEXIBILITY MARGIN	-	50.0
	OVERALL TOTAL FOR LEA PROGRAMMES		458.3
	BASELINE ELEMENT FOR GM SCHOOLS		2.6
	GROSS TOTAL		460.9

PRIORITIES FOR NEW AND EXTENDED ACTIVITIES

1. The main priorities for new and extended activities within the combined ESG/LEATGS programme for 1991-92, as set out in Annex A, are as follows:

a. Books for the National Curriculum: There is increasing concern about the sufficiency and state of school books, particularly in secondary schools. The NC does not require wholesale re-stocking. But we cannot pretend that it does not require any new books at all, particularly when HMI are finding significant shortcomings in existing book stocks. The state of school books is a key indicator for parents of whether their children's schools are properly resourced, and the National Curriculum (NC) will lack credibility if the necessary books are not there. The cost of purchasing just one new NC-related book for each pupil in key stages 1-3 for each of 7 NC subjects (excluding music, art and PE) at £5.50 per book would be some £190m.

b. National Curriculum Assessment: The new assessment procedures for the NC, which start in primary schools next Summer, will require teachers to adopt new methods and LEAs to undertake new tasks in coordinating the work done by schools and moderating the results to ensure consistency. This needs to be backed up by specific grant. This will enable the Department to require LEAs to submit, as a condition of grant, formal NC Assessment Implementation Plans setting out how they propose to put the new arrangements into place. The activity would support training to prepare teachers for the new procedures, and LEA administration costs.

c. Computers for Primary Schools: We have had for several years ESG and LEATGS activities promoting IT in schools. These have been successful in providing the hardware, software, advice and training that schools need. But the focus so far has been on the secondary sector. On average, there are still only 3 computers in each primary school - about 1 for every 67 pupils. That is not enough to meet the requirements of the NC, which are to be introduced into primary and secondary schools this September, or the wider demands for a computer-literate education service. The programme needs to be extended to support additional hardware and software for primary schools. It would cost some £50m to bring all primary schools up to one micro per classroom.

d. Foreign Language Diversification: The NC will ensure that all pupils study a foreign language up to the age of 16. But within that we also want to promote a wider range of language teaching. At present, French is overwhelmingly the most common foreign language taught. We need to help

schools offer other languages such as German and Spanish as part of the NC, drawing on the expertise which many teachers already have but do not currently use. For that, schools will need financial backing for materials, advisory staff, refresher courses and other support. This policy has received powerful support from the Working Group on Modern Languages in the NC.

e. Local Management of Schools: Here too we already have an ESG programme to help the introduction of LMS. It is supporting the installation of computerised management information systems and staff training in their use, as well as central LEA support teams. But the funds available so far cover the costs of information systems for only about 50% of schools, and provide no support for additional administrative staffing in schools. The success of LMS depends critically on strengthening schools' management capability. A significant expansion of the grant programme is needed to allow for this, supporting additional IT systems, administrative support for schools, training for administrative staff, and the provision of central support to schools by LEAs. Once LMS is properly in place, we shall want to make sure that any overall increase in school support staff is fully offset by reductions in central LEA bureaucracy. But for the transitional period we must ensure that schools have the support they need from the LEA as well as their own administrative capacity.

f. Teacher Recruitment: There are severe difficulties with teacher recruitment in some areas. The Government's education policies will fail if schools cannot recruit teachers of the right quality in the right numbers. This is primarily a question of getting pay and conditions right. But we already have a small ESG programme to help LEAs increase the recruitment of former teachers and mature entrants, covering things like taster courses, advertising and childcare provision. That support needs to be expanded, particularly to widen the provision of childcare facilities to help former teachers return to teaching.

g. Under 5s: The Minister of State is currently chairing an enquiry into provision for the Under 5s. That is expected to report in June/July. Given the sustained pressure for improvements in education for Under 5s, the Government will need to take some positive follow-up action. The proposed ESG activity would push LEAs to improve the organisation of their under-5s provision, and its coordination with the voluntary sector.

h. Careers Education and Guidance, particularly for Credits: The FE credits initiative was launched on 27 March. Its success depends on whether young people are given effective careers education and guidance on how to make best use of their credits. Careers education and guidance need to be strengthened more generally if the economy is to derive the maximum benefit from young people's skills. A specific grant activity to boost careers education and guidance would allow us to push LEAs in the

right direction, while also underlining the important role of the education service in the credits initiative.

2. These are the main new elements to be supported in the 1991-92 programme. In addition, as shown in Annex A, the programme would allow some expansion of key existing activities, including:

- the strengthening of LEA inspection and advisory services to cover the full range of the NC and monitor standards in schools;
- training for school governors, particularly to equip them for LMS;
- training for college managers, to equip them for Local Management of Colleges;
- training in appraisal for school teachers;
- training to prepare college lecturers for the new National Vocational Qualifications.



## ANNEX C

£m	1991-92	1992-93	1993-94
A: Total <u>ESG</u> grant liabilities from all programme years to be paid in year	85.0	86.6	88.4
B: Total <u>LEATGS</u> grant liabilities from all programme years to be paid in year	145.8	140.3	138.8
C: A+B combined	230.8	226.9	227.2
D: Increase in programme grant required	60.0	62.1	64.0
E: Total grant liabilities to be paid in year taking account of <u>both the increase in programme grant at D and the phasing of the payment of that increase between FYs</u>	272.8	288.4	291.2
F: Current agreed Vote provision	222.8	228.3	234.0
G: Increase in vote required to meet total grant liabilities (F-E)	50.0	60.1	57.2

Prime Minister '2(a-d)'<sup>a</sup>

8.12 in 1 and  
in April - Grant Urg  
- Household  
- Food Prices



Treasury Chambers, Parliament Street, SW1P 3AG

01-270 3000

Are you content with  
the Chancellor's proposed  
speaking note? (I  
wouldn't mind it might  
be better not to

Unpredictable  
X down Rate -11%

be specific on the  
RPI - exclude 'x')

BHP  
18/4

PRIME MINISTER

2bn - overruns  
Grant levels

**PUBLIC EXPENDITURE AND THE ECONOMY: SPEAKING NOTE FOR CABINET**

We agreed yesterday that I should give colleagues a very frank assessment of the difficulties we will face if we relax our efforts to control public expenditure. The attached note by officials sets out the gist of what I will wish to say though I will work on it overnight and will no doubt wish to express it differently.

2. Given the pressures we face I am convinced that I will need to take a very tough line indeed. On past form some of this is likely to leak. I therefore also attach a draft line which, if you agree, Bernard Ingham and the Treasury press office could take in that eventuality.

L.A 10% p.c.

inc. in limits - on  
basic rate

[J.M.]  
18 April 1990

|| Borrowing requirements ||  
|| cut expenditure ||

Overseas. LA's Pl. Total. £-3bn  
 Review - none left

£7bn  
 £5bn  
 £5bn

Notes for use in Cabinet public expenditure discussion

I made no secret, either in the Autumn Statement or the Budget, of the difficulties which lay ahead of us in 1990. Developments since the Budget have underlined the seriousness of these difficulties. The assessment - as we look ahead to the next Survey - is, I am afraid, gloomy.

2. Against this background, I am alarmed by the growing pressures on public expenditure, which could - if we do not recognise the need for quite exceptional restraint - call into question our whole economic strategy. At all costs, we must avoid being forced into raising taxes, unnecessarily raising interest rates, or seeing a sharp fall in the value of sterling. Yet if we concede increases in spending, one or more of these will be the result.

3. Demand is, without doubt, slowing down, as it needed to do, and has been slowing down for many months. But the whole process - and, crucially, any let-up in the rise in the underlying rate of inflation - is taking a good deal longer than we earlier might reasonably have expected and hoped that it would do. Colleagues will know that the RPI rose in March to 8.1 per cent. The April figure will rise sharply again [with the Community Charge adding 1.2 per cent to that figure and the non-revalorisation of excise duties in the 1989 Budget adding a further 0.55 per cent.]

4. More seriously, the underlying rate of inflation continues to rise, as it has done since the beginning of 1987. Although monetary policy was tightened in 1988 and 1989, our budget surplus was lower last year than the year before. Although the outturn is marginally better than in the Budget, it still looks set to be lower this year, and still lower next. By then, we will be back to a public sector borrowing requirement if asset sales are deducted. And the ratio of public spending to national income looks set to rise for the first time for many years.

5. The foreign exchange markets have so far just about given us the benefit of the doubt - although sterling is now 11 per cent lower than it was 12 months ago. The markets did not like the overspend of more than £2 billion on the planning total in 1989-90, and they regarded the PSDR as being towards the bottom of the acceptable range and they do not like to see headline inflation where it is and underlying inflation creeping up quarter after quarter.

6. I am acutely aware of the spending pressures we face, on many fronts. The greatest spending pressure comes from the community charge. I can illustrate the point very simply: if the aim were to keep the community charge unchanged in cash terms next year, and if it were assumed that we had the means of achieving that, and that local authority expenditure grows by 10 per cent next year, additional grant of £3½ billion would be needed - which is equivalent to 2½p on income tax.

7. So I must tell colleagues that our room for manoeuvre has disappeared. The markets will be watching closely for any sign of a new relaxation of policy, and I fear that if they once believe that we are embarking on further spending increases they will conclude that an offsetting tightening in monetary policy is inescapable, and very probably in the pipeline. We would then see higher market interest rates or a lower pound or more likely both.

8. That would bring with it a new crop of difficulties for us. To avoid that - or to avoid the other possibility, that I am driven by these market pressures to announcing that I will raise taxes in the next Budget in order to finance the extra spending - we will need to stick to our public spending plans, ruthlessly cutting out extra bids, and finding cuts below baseline where we judge an addition to be inescapable.

9. The Chief Secretary has, I know, some further points to make....

PRESS OFFICE LINE ON CABINET

Q. Is it true that there was some discussion of public expenditure at Cabinet this morning, and that the Chancellor had some stern words for colleagues?

A. Cabinet had a brief discussion of the prospects for the forthcoming Public Expenditure Survey, ~~as spending Ministers are beginning to get down to their Departmental budgets for next year.~~ Chancellor made it clear ~~that in the present economic situation~~ the room for manoeuvre in this year's expenditure Survey was much more limited than in any recent year. The Cabinet ~~recognised this and~~ reaffirmed the importance of tight control of public expenditure, agreeing that its success over the years in keeping a firm grip on spending had been of central importance in maintaining sound economic management. It resolved to take whatever tough decisions are necessary to stick to this course.

Delivery of the Chancellor's <sup>objectives</sup> ~~statements~~.  
- determined to reach the targets.

{  
DFI  
Treasury  
Sc.  
Welsh  
}

700,000 - phone out early  
eg us  
3 man. plus phone ?

722 16th mod<sup>2</sup> line

SECRET

|(a-c).<sup>a</sup>

000837

FROM: CHIEF SECRETARY  
DATE: 17 April 1990

PRIME MINISTER

## PROSPECTS FOR THE 1990 SURVEY

*Attached*  
At Cabinet on 15 March, John Major warned that a number of developments would put acute pressure on present spending plans and reminded colleagues of the absolute importance to the Government's economic strategy of ensuring firm control of public expenditure. Colleagues may find it helpful to see how this looks before we get into the annual Survey round.

2. As John Major has repeatedly indicated, we cannot afford to take risks with inflation. A tight fiscal policy, in support of monetary policy, will be essential if we are to get inflation down and keep it down. Within that tight fiscal policy, we need to make progress, as soon as it is prudent to do so, towards encouraging enterprise by reducing the disincentive effects of taxation. However the present fiscal surplus is more than accounted for by privatisation proceeds and local authority asset sales; without those, the Government would already have been in deficit. And, although the year has hardly begun, the public expenditure Reserve for 1990-91 is already substantially accounted for, while the Reserves for 1991-92 and 1992-93 are under enormous pressure. There is very little room for manoeuvre.

3. Public expenditure restraint has been a central element in our economic strategy for the past decade. Our stated objective has been to bring down the ratio of public spending to national income. In the 6 years to 1988-89, the ratio fell by 8 percentage points. The extent of this fall reflected the exceptional strength of the economy, and a temporary pause, or even a small rise, is to be expected as the economy

SECRET

slows. The overspend in 1989-90 led to a small rise in the ratio from the low level reached in 1988-89, and has caused some commentators to question our resolve to maintain firm control over spending. But that makes it all the more important that we should continue to plan for a resumed if gradual decline in the ratio over the medium-term.

4. What are the prospects? First, the planning total in the financial year just over, 1989-90, has been overshot by nearly £2½ billion, the largest such overspend for 5 years. It is more than £1 billion higher than expected when the public expenditure White Paper was published in January. Local authority overspending, particularly on capital account, has played a big part in this.

5. The planning total for 1990-91, which excludes local authority self-financed expenditure, includes a Reserve of £3 billion. Already £700 million of this is pre-empted by extra community charge benefit, due to local authorities setting community charges far above the Government's standard spending guideline level. This is on top of other agreed commitments, such as the health review body awards and the Jubilee Line. We started therefore with big claims on the Reserve even before the year began. If we are to retain confidence in the control process, after last year's unsatisfactory performance, we must keep within the Reserve we have published.

6. Looking beyond that to the Survey years, the fiscal projections in the Budget Red Book show the limited room for manoeuvre if we are to achieve even a minimal rate of decline in the ratio over the medium term. Total local authority spending was marked up sharply by £2½ billion in 1990-91 in the light of authorities' budgets for that year, and by £3 billion in each of the two following years. But even so, the figures allow for barely any real growth in local spending over the Survey period. And the lower PSDR means that we can take less credit than we previously expected from falling debt interest.

7. The fiscal projections also start from the assumption that we keep within the overall planning totals agreed last Autumn. To achieve that, only a very limited amount can be released from the Reserves in each successive Survey. Colleagues should be aware, however, that the claims already conceded for 1990-91 together with the effect of the latest inflation forecasts on indexed benefits, have already pre-empted the scope for drawing down the Reserve over the Survey period.

8. I must ask colleagues to have this exceptionally difficult background in mind when considering whether they need to submit bids in the 1990 Survey, and also when we come to consider the level of grants to local authorities. The baseline for the Survey already contains a real increase in programmes of 6 per cent between 1989-90 and 1991-92, well in excess of the likely economic growth over the same period. The scope for any increases in present programme plans will be extremely restricted for the reasons I have outlined, unless comparable savings can be found elsewhere.

9. As you said at Cabinet, the continued successful control of public expenditure is central to the Government's reputation for sound economic management, and we must ensure that this reputation is maintained.

10. I am copying this minute to Cabinet colleagues, Richard Luce, Lynda Chalker, Patrick Mayhew and Peter Fraser, the Chairmen of the Revenue departments and to Sir Robin Butler.

CEvans

NORMAN LAMONT

approved by the Chief Secretary  
and signed in his absence



PESC(D)(90)1

11 April 1990

HER MAJESTY'S TREASURY

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PUBLIC EXPENDITURE SURVEY COMMITTEE  
DEVELOPMENT SUB-COMMITTEE

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OUTPUT AND PERFORMANCE MEASUREMENT:  
TECHNICAL GUIDE

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NOTE BY THE SECRETARY

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This note reports progress on the draft technical guide on output and performance measurement issued by the Treasury in August 1988 (PESC)(D)(88)3).

2. We are very grateful for all the useful comments we received from departments on the guide: over 60 people took the trouble to fill in a questionnaire, many in great detail. The replies will be invaluable in shaping the final product.

3. We had intended to issue a final version of the guide much sooner, but a number of technical questions relating to output and performance measures arose in the context of Executive Agencies. The completed guide will benefit from current thinking in this area. A final draft is now in preparation and should be completed by the summer: a synopsis is attached.

4. It is not intended to reissue the original Management Guide (June 1988): most questionnaire respondents felt it was of limited use as a free-standing document.

5. Many commentators remarked on the lack of examples in the previous version of the technical guide. Hopefully, this can now

be remedied. Examples which help clarify any of the concepts in the guide would be most welcome; the following particularly so:

- the use of OPMS (in resource allocation; and for managing "arms-length" bodies);
- target-setting methodology;
- the use of key indicators for top management;
- the construction of aggregate indicators;
- OPMS for policy work;
- the use of policy evaluation to help determine policy changes.

If your department has tackled any of these issues successfully, I should be most grateful to hear from you. It would also be helpful to know if you feel any topics have been omitted from the list overleaf.

Please contact:

Sue Lewis  
H M Treasury  
Rm 13/5 Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

Tel: 270-5410

**OUTPUT AND PERFORMANCE MEASUREMENT IN CENTRAL GOVERNMENT: A GUIDE FOR MANAGERS AND SPECIALISTS**

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6 APRIL 1990

HER MAJESTY'S TREASURY  
PUBLIC EXPENDITURE SURVEY COMMITTEE

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ACCOMMODATION ISSUES FOR THE 1990 SURVEY

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Note by the Treasury

The paper giving guidance to Departments on arrangements for dealing with the planned changes in accommodation responsibilities in the 1990 Public Expenditure Survey, together with advice on changes in the accommodation charge rules being implemented from 1 April 1991, will be circulated shortly.

In particular, the paper will deal with the changes Departments will need to make in order to reflect their choices for maintenance options on the Common User Estate; arrangements for those on the Departmental Estate to pay passing rents, and to pay opportunity cost rents on vacant properties; and the introduction of building specific maintenance charges. In these exceptional circumstances, running tallies, provisionally requested by 10 April, will not now be required until June.

Any questions on this paper should be addressed to Larry Woodman (GTN 270 4756).

A J SHARPLES

N G FRAY

SECRET

MEETING RECORD  
SUBJECT CC MASTER



file PM

(A-1 Economic)  
Public)

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

5 April 1990

Dear Cawys,

PROSPECTS FOR THE 1990 SURVEY

The Prime Minister discussed the Chief Secretary's paper on prospects for the 1990 Survey with the Chancellor and the Chief Secretary yesterday.

The Chief Secretary said that it would be an extremely difficult Survey. There was little room for manoeuvre. Taking on board expected bids for additional community charge benefit and uprating social security benefits, the Reserves for 1991-92 and 1992-93 would already be well depleted - before accounting for any extra AEF or any successful bids in this Survey. Also on existing revenue projections, the scope for fiscal adjustment in each of those years would only be around £1 billion.

Particularly large bids were expected from the Health, Education and Transport Departments. Bids of between £2½ and £3½ billion to meet the full year cost implications of higher pay following the review bodies reports, enhanced hospital capital programmes and implementation of the health service review could be expected. Over £1 billion in each year might have to be conceded. On education, large bids for schools capital projects and, to a lesser extent, extra capital spending on polytechnics, would be submitted. The Transport Secretary in addition to seeking more for the roads programme, would be bidding for major new rail projects. It might also be politically difficult to freeze child benefit for a further year.

There should be scope for savings on the Defence programme though measures such as reducing the British Army on the Rhine, reviewing the procurement programme and deferring purchases. But even if substantial savings on defence could be achieved, the overall public expenditure position would remain very difficult.

It would be important to make clear to both Cabinet colleagues and Backbenchers just how difficult the public spending position was. The Reserve for 1990-91 was already virtually fully exhausted at the very beginning of the financial year. The PSDR figures for 1990-91 could also give a misleading impression: excluding privatisation proceedings and local authority asset sales, there was already a small borrowing requirement. And next year local authority asset sales were expected to fall back.

SECRET

DB

The Chancellor said that it was not just a question of missing the Government's target for the ratio of GGE to GDP. Unless a very firm stance was taken on public expenditure, there was a clear danger of the Government having to face an unenviable policy choice between higher taxes and a return to borrowing.

Summing up the discussion, the Prime Minister said it was vital to persuade colleagues both in Cabinet and on the Backbenches that the public spending position was very difficult and that there was no public sector surplus to be raided for politically attractive projects. The Prime Minister said it would be necessary to establish priorities for the forthcoming survey. Uncomfortable policy choices would have to be faced, in such areas as AEF, the freezing of child benefit and implementation of major new transport infrastructure projects.

The Chief Secretary should circulate a minute to Cabinet colleagues on Easter Tuesday, along the lines of the draft attached to your minute of 2 April. The paper would be discussed at Cabinet on Thursday 19 April. The opening section of the paper should be revised to bring out:

- (a) that nearly the whole of the Reserve had been accounted for this year; and that the Reserve for years 1990-91 and 1992-93 were under enormous pressure;
- (b) that the present public sector debt repayment was more than accounted for by privatisation proceedings and local authority asset sales: without those, the Government would already have been in deficit.

It would be appropriate for the Chancellor and the Chief Secretary to speak to the Whips' Office about getting the message across to Backbench colleagues. It would be particularly important to impress upon those Cabinet colleagues likely to submit large bids just how difficult the position was. Accordingly, the Prime Minister would speak to the Transport, Education and Health Secretaries over the next few weeks and urge them to take account of the very difficult public spending position in framing their bids for the forthcoming Survey.

I am copying this letter to John Gieve (H.M. Treasury).

*Your ever,*

*Barry*

BARRY H. POTTER

Miss Carys Evans,  
Chief Secretary's Office.

n. b. p. m.  
BTP  
5/4



QUEEN ANNE'S GATE  
LONDON SW1H 9AT

5 April 1990

*Norman*

GUIDELINES FOR THE 1990  
PUBLIC EXPENDITURE SURVEY

You copied to me your minute of 25 March to the Prime Minister enclosing the proposed guidelines for the 1990 Survey. I am generally content with them. As last year, the amounts of grant we agree in our bilateral for police, magistrates' courts, probation and civil defence will need to be reflected in the split of TSS between services. This may have implications for the timing of our decisions on TSS distribution.

Copies of this letter go to the recipients of your minute.

*James*

The Rt Hon Norman Lamont, MP.  
Chief Secretary  
Treasury Chambers  
Parliament, S.W.1.



*John*



*- Inclusion -*

*Gray*

Treasury Chambers, Parliament Street SW1P 3AG

Paul Gray Esq  
Private Secretary  
10 Downing Street  
London  
SW1

*mf*

2 April 1990

Dear Paul

PROSPECTS FOR 1990 SURVEY

... I attach for the Prime Minister's meeting with the Chancellor and the Chief Secretary on Wednesday:

- a first assessment of prospects for the 1990 Survey;
- a draft minute from the Chief Secretary to the Prime Minister warning Cabinet colleagues of the pressures in prospect.

*1.9*  
*1.5.*

*Yours*  
*Carys Evans*

MISS C EVANS  
Private Secretary

*A.K.F.*

Ed? -

91-92      92-3      73-4

PROSPECTS FOR 1990 SURVEY

This note provides a first assessment of the prospects for the 1990 Survey, in the light of the revised economic and expenditure projections shown in the Budget Red Book. The outlook is highly uncertain at this stage, particularly for individual programmes, but it is already clear that the 1990 Survey will be exceptionally difficult.

1990 Red Book projections

2. The Budget Red Book contained a fresh estimate of the 1989-90 outturn and revised expenditure projections for the period 1990-91 to 1993-94. For 1989-90, we now expect a £2.3 billion overspend on the planning total, reflecting massive overspending by local authorities (the planning total for this year was set and monitored on the old definition). The ratio of GGE (excluding privatisation proceeds) to GDP may be 39 per cent,  $\frac{1}{4}$  per cent above the estimate in the 1989 Autumn Statement.

3. As usual, projections for later years of expenditure within the planning totals were the figures decided in the 1989 Survey and published in the Autumn Statement. Other items outside the planning total but within general government expenditure (GGE), such as debt interest, were revised to take account of new information. This year, for the first time, we were able to take account of local authority budgets for the year ahead (since local authority self-financed expenditure has now been taken outside the planning total).

4. As a result, the projected level of general government expenditure was increased as follows (compared with the Autumn Statement):

£ billion	1991-92	1992-93
Planning total	-	-
Local authority self-financed	2	2½
Debt interest & other adjustments	1	1½
GGE (ex priv proc)	3	4

5. Projected inflation was also significantly increased:

% change	1990-91	1991-92	1992-93
GDP deflator			
1990 PEWP	5	3½	3
1990 FSBR	6½	4½	3½

The (unpublished) forecast of the RPI in September 1990 is 8½ per cent, compared with 6½ per cent in the Autumn Statement.

6. As a result of higher projected money GDP, the additions to expenditure were consistent with the same ratios as published in the Autumn Statement:-

General Government Expenditure (excl. priv. proceeds) as % of GDP

1989-90	1990-91	1991-92	1992-93	1993-94
39	39	38¼	38½	38¼

Note : ratios are adjusted for the distortion to GDP caused by the abolition of domestic rates.

7. Existing plans therefore imply no change in the GGE ratio in 1990-91, and a very modest decline thereafter. But this apparently satisfactory position disguises the fact that the GDP figures have been adjusted for higher inflation, while those for the planning total have not.

8. This is the starting point for the next Survey.

Pressures on the Reserves in 1991-92 and 1992-93

9. The planning totals for the first two years of the new Survey include Reserves of £6/9 billion. But the scope for drawing them down (say £3 billion in each year) is already more than fully committed. The estimates for community charge benefit in the Autumn Statement were based on the community charge for standard

spending. Actual community charges are some £70 higher. The cost of meeting this excess will be a major claim on the Reserves for future years. On top of that, our present view is that a further £2-3 billion a year will be needed to finance policy decisions that have already been announced, and the consequences for demanded (mostly social security) programmes of revised economic assumptions.

	1991-92	1992-93
Commitments (eg 1989 Health Review bodies; Jubilee Line; war widows; Budget measures)	(1)	1½
Community charge benefit	(½)	½
Revised economic assumptions	(1½) <i>Uman Savings</i>	2½
	3½	4½

6bn

This means that any further additions to plans will increase the planning totals, unless we can find substantial offsetting savings. They will also add to GGE, though not necessarily by the same amount. And any additions to GGE will jeopardise our chances of keeping the ratios on a downward trend.

Main threats

10. Any assessment of the possible outcome of Survey negotiations must be extremely uncertain at this stage. But there are three main areas where substantial increases look almost inevitable: local authorities, health and transport/nationalised industries. In addition, we will come under great pressure to concede more for housing, the environment and education. The main areas where we might look for significant savings are Defence and Employment (again). Achieving another child benefit freeze will be difficult.

11. Our present assessment of the main threats is as follows:

(i) Local authorities. Given the uncertainties, there is little

that can usefully be said at this stage. The baseline shows an increase in Aggregate Exchequer Finance (AEF) of around £1½ billion (GB) between 1990-91 and 1991-92. As an illustrative figure, if it were desired to hold average community charges constant in cash terms, this might mean additions to baseline of around £3 billion (GB). There would be no offsetting savings in community charge benefit: the figures shown above assume an average charge of £350 (GB) throughout the Survey period. The extra AEF would add directly to the planning total: the effect on GGE would depend on how local authorities responded, and what measures could be taken to restrain their spending.

(ii) Health. The Department will argue that large sums of money will be needed just to stand still. The staged 1989 Health Review body awards represent a prior commitment of around £½ billion a year. A further £½ billion a year will be needed just to cover NHS Trust interest charges and VAT on hospital construction. And it will be argued that a generous settlement is needed to float the NHS Reforms. Additions of £1/1½ billion, on top of Review body costs, would represent a rather tougher outcome than last year's settlement.

(iii) Transport and nationalised industries. The main hazards are deteriorating performance (due to economic conditions), which may affect British Coal as well as the transport industries; extra spending on rail safety; the cost of the expanded roads programme; and ambitious new rail projects. The sums at stake are highly uncertain, but even a tough outcome might involve additions of at least £½/1 billion (including Coal).

12. These three areas alone could therefore imply additions to the planning total of around £5 billion a year. A fuller assessment, taking account of other possible additions (and some savings) suggests total additions of about £6/7½ billion. This could imply a rise in the GGE ratio to 39½ per cent in 1991-92, with no decline thereafter. These additions have to be seen against the fiscal adjustment shown in the Red Book of only £1 billion in 1991-92.

Conclusion

13. The broad message of this note is as follows:

- The GGE ratios in the FSBR show only the most modest decline over the Survey period, but this is on the assumption that we hold to the planning totals set out in the PEWP.
- The scope for drawing down Reserves over the Survey period has already been more than exhausted by the effects of higher inflation and community charges on demand-led programmes and commitments already entered into.
- Any further additions to plans will therefore add to planning totals, and to GGE (though not necessarily to the same extent, depending what measures can be taken to restrain local authority spending).

14. The policy implications are uncomfortable: the larger the AEF settlement, the less the room for other priority programmes, within an outcome which can be credibly presented as consistent with the Government's objectives for public spending and fiscal policy. And there are great pressures elsewhere, not least as a result of higher inflation.

HM Treasury  
2 April 1990

DRAFT

FROM: CHIEF SECRETARY  
DATE:

PRIME MINISTER

At Cabinet on 15 March, John Major warned that a number of developments would put acute pressure on present spending plans and reminded colleagues of the absolute importance to the Government's economic strategy of ensuring firm control of public expenditure. Colleagues may find it helpful to see how this looks before we get into the annual Survey round.

2. As John Major has repeatedly indicated, we cannot afford to take risks with inflation. A tight fiscal policy, in support of monetary policy, will be essential if we are to get inflation down and keep it down. Within that tight fiscal policy, we need to make progress, as soon as it is prudent to do so, towards encouraging enterprise by reducing the disincentive effects of taxation.

3. Public expenditure restraint has thus been a central element in our economic strategy for the past decade. We have brought down the ratio of public spending to national income, by 7 percentage points in 5 years. The extent of this fall reflected the exceptional strength of the economy, and a temporary pause, or even a small rise, is to be expected as the economy slows. This year's overspend led to a small rise in the ratio from the low level reached in 1988-89, and has caused some commentators to question our resolve to maintain

firm control over spending. But that makes it all the more important that we should continue to plan for a resumed if gradual decline over the medium-term.

4. What are the prospects? First, the planning total in the financial year just ending, 1989-90, has been overshoot by nearly £2½ billion, the largest such overspend for 5 years. It is more than £1 billion higher than expected than when the Public Expenditure White Paper was published in January. Local authority overspending, particularly on capital account, has played a big part in this.

5. The coming year's planning total, which excludes local authority self-financed expenditure, includes a Reserve of £3 billion. Already £700 million of this is pre-empted by extra community charge benefit, due to local authorities setting community charges far above the Government's standard spending guideline level. This is on top of other agreed commitments, such as the health review body awards and the Jubilee Line. We start therefore with big claims on the Reserve before the year begins. If we are to retain confidence in the control process, after last year's unsatisfactory performance, we must keep within the Reserve we have published.

6. Looking beyond that to the Survey years, we can already foresee some serious pressures. The fiscal projections in the Budget Red Book show the limited room for manoeuvre if we are to achieve even a minimal rate of decline in the ratio over



the medium term. Total local authority spending has been marked up sharply in 1990-91, by about £2½ billion and £3 billion in each of the two following years but even so, the resulting projections allow for barely any real growth in this spending over the Survey period. And the lower PSDR means that we can take less credit than we previously expected from falling debt interest.

7. The fiscal projections also start from the assumption that we keep within the overall planning totals agreed last Autumn. To achieve that, only a very limited amount can be released from the Reserves in each successive Survey. Colleagues should be aware, however, that the claims already conceded for 1990-91 together with the effect of the latest inflation forecasts on indexed benefits, have already pre-empted the scope for drawing down the Reserve over the Survey period.

8. I must ask colleagues to have this exceptionally difficult background in mind when considering whether they need to submit bids in the 1990 Survey, and also when we come to consider the level of grants to local authorities. The baseline for the Survey already contains a real increase in programmes of 6 per cent between 1989-90 and 1991-92, well in excess of the likely economic growth over the same period. The scope for any increases in present programme plans will be extremely restricted for the reasons I have outlined, unless comparable savings can be found elsewhere.

9. As you said at Cabinet, the continued successful control of public expenditure is central to the Government's reputation for sound economic management, and we must ensure that this reputation is maintained.

10. I am copying this minute to Cabinet colleagues Richard Luce, Lynda Chalker, Patrick Mayhew and Peter Fraser, and to Sir Robin Butler.

RESTRICTED



File 115

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

29 March 1990

Dear Carys,

GUIDELINES FOR THE 1990 PUBLIC EXPENDITURE  
SURVEY

The Prime Minister was grateful for the Chief Secretary's minute of 26 March. She is content that the guidelines for the 1990 Public Expenditure Survey attached to the Chief Secretary's minute should be formally circulated in the first week of April.

I am copying this letter to the Private Secretaries to other members of Cabinet, Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Juliet Wheldon (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and Sonia Phippard (Cabinet Office).

Yours,  
Paul

Paul Gray

Miss Carys Evans  
Chief Secretary's Office

RESTRICTED

X6

PRIME MINISTER

GUIDELINES FOR THE 1990 PUBLIC EXPENDITURE SURVEY

The Chief Secretary has minuted you (below) seeking agreement to the guidelines for the early part of the 1990 Public Expenditure Survey.

This is very much a routine document and the latest draft follows closely the practice of earlier years. The main purpose is to ensure that all the figures are pulled together on the right basis and the Treasury has the necessary authority to ensure that all options for savings are explored.

I have arranged separately for you to talk to the Chancellor and the Chief Secretary next week about the public expenditure prospects this year, and they will be letting you have a separate minute about that in the next few days. With that talk coming up you may think it would be better to delay approving the attached guidelines. But I doubt if that is necessary; as I say the guidelines are very much a routine bit of the mechanics of the exercise.

Content to agree the Survey guidelines?

Yes not

AGG.

PAUL GRAY

28 March 1990

c:\economic\pes (kk)

RESTRICTED



FROM: CHIEF SECRETARY  
DATE: 26 March 1990

PRIME MINISTER

## GUIDELINES FOR THE 1990 PUBLIC EXPENDITURE SURVEY

We need to agree the arrangements for the early part of this year's Survey. Accordingly, I attach the draft Guidelines for the 1990 Survey. As you know, the Guidelines contain the ground rules for the preparation of the baselines and Survey bids, and set out the timetable for the preliminary stages of the Survey.

2. The Guidelines follow closely those circulated at this time last year. I should, however, draw your attention to the following points.

## Baselines

3. The baselines for 1991-92 and 1992-93 will be the plans agreed in last year's Survey. I propose that the departmental tables for 1993-94, the new third year of the Survey, should be calculated on the basis of an uplift factor of  $2\frac{1}{2}$  per cent.

## Bids and options

4. In keeping with past practice, I propose that Ministers should review priorities within their programmes personally before writing to me with any proposals for changes in May. Departments are asked to co-operate with the Treasury by producing or costing options for reductions in expenditure when requested.


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**Value for Money**

5. I attach great importance to this aspect of the Survey. The Guidelines ask departments to produce information on the outputs and performance expected from planned or proposed expenditure. This information is required to ensure that our Survey negotiations are informed by as full an understanding as possible of the efficiency and effectiveness of programmes.

6. I should be grateful for any comments you or other colleagues may have by 29 March. Subject to these I propose that the Guidelines should be formally circulated in the first week of April.

7. I am sending copies of this minute to other Cabinet colleagues, Richard Luce, Lynda Chalker, Patrick Mayhew, Peter Fraser and Sir Robin Butler.



NORMAN LAMONT

PESC (90)  
PESC (WM) (90)  
March 1990

Her Majesty's Treasury

Public Expenditure Survey Committee

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**Guidelines for the 1990 Survey**

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Note by the Treasury

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Introduction

This paper sets out the Guidelines for the 1990 Survey. This will be the second Survey conducted on the basis of the new planning total, and the main difference from 1989 will be that baselines will now exist for the local authority elements of departmental programmes. The only major change to Survey procedures for 1990 affects the handling of departmental running costs (see paragraphs 7-10 and 25-33).

2. The paper is divided into the following sections:

- I Timetable
- II Baselines
- III Demonstrating Value for money
- IV Ministerial proposals for changes to baselines
- V Nationalised industries
- VI European community expenditure and receipts
- VII Contingent liabilities
- VIII Further information

Annex A: 1990 Public Expenditure Survey: key dates March-May.

Annex B: Construction of the Baseline.

Annex C: Table to accompany Ministerial letters.

Annex D: Official letters.

Annex E: Information on the economic composition of proposed changes to the baseline.

Annex F: Contingent liabilities.

Annex G: Handling of local authority components of the 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 3 April. Information on value for money relating to baseline plans should be sent to the Treasury by 27 April. The baselines will be set and agreed by 9 May and circulated on 18 May. Ministerial and official letters proposing changes to departmental baseline expenditure plans should reach the Treasury by 24 May. Information on contingent liabilities should also be sent to the Treasury by 24 May.

## II Baselines

4. The baselines for 1991-92 and 1992-93 will be the figures agreed in the 1989 Survey and published in the 1990 public expenditure White Paper, subject to classification changes and EUROPES adjustments (see paragraph 6 below). For 1993-94, the baseline will be constructed by the Treasury by adding 2½ per cent to the cash figures for 1992-93. Annex B explains the arrangements for constructing the baselines in more detail.



5. Transfers of PES provision to reflect transfers of functions between departments (where already agreed) should be made in setting up the baseline. The relevant amounts should be agreed between the departments concerned and the Treasury. The presumption is that sufficient PES and running cost provision should be transferred to cover the appropriate share of departmental central services as well as the direct costs of the function concerned. These principles also apply to any transfers made during the Survey.

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)(90)5 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 running costs controlled gross will be constructed in the same way as for other central government spending; for 1991-92 and 1992-93 the PEWP figures will be used, and for 1993-94 the baseline will be created by applying the uplift factor of 2½ per cent to the 1992-93 figures.

8. PESC(WM)(90)(2) commissioned completion of DRC1 forms and explained that baselines reflecting both gross provision and receipts need to be established this year for running costs expenditure controlled net (ie previously granted specific exemption from gross control). It also drew attention to the fact that the costs of locally-engaged civilians employed abroad will be classified as other current expenditure and fall outside running cost coverage from 1991-92. This will be reflected in the Survey baselines. (Applications by departments for transfer to net control to be considered in this Survey should be registered by 24 May, and supporting data made available to the Treasury in time for a decision in principle to be taken before the end of July).

9. Departments have been asked to provide a breakdown of their running cost baseline (or baselines if part is under net control) on form DRC2 (see PESC(WM)(90)2).

10. An agreed starting point for capital expenditure for departmental administration is also required for this Survey, as described in PESC(WM)(90)(4).

11. The baseline figures will be circulated to departments on 18 May. Departments will be sent their own baseline figures only, together with the set of summary tables. Should departments require other departments' baseline figures, then these will be available on request from the secretaries.

### III Demonstrating Value for Money

12. 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 20 and Annex D.

13. For the baseline 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.

14. In compiling figures as in paragraph 13 above, the aim should be that, as far as reasonably practicable, key indicators should be provided for all the major activities of a department, so that past

and intended performance across the board can be assessed from year to year on a stable basis. Unit costs, calculated on a full cost basis, should be quoted where possible. Departments should also indicate what plans they have to extend the range of such measures. Departments are reminded that value for money information must also cover specific grants to local authorities (see PESC(LA)(88)8).

15. Expenditure Divisions will need this information by 27 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.

16. 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 1990-91, 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.

17. Where Next Steps agencies are created or proposed, after discussion with OMCS and the Treasury, the department's running costs management plan (paragraph 25 below) 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 18 below) why its needs cannot be met from improved performance.

#### IV Ministerial proposals for changes to the baseline

18. Ministers are asked to write to the Chief Secretary by 24 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. A table in the format shown at Annex C should be attached to every Ministerial letter. 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 (and 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.
- (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 objectives for each bid (what is to be achieved, by when, at what cost);
- (vi) a summary of proposed changes in running costs provision and civil service manpower (see paragraphs 25-32 below) identifying separately changes relating to Next Steps agencies. Any applications for moves to net control must be identified in this letter and

the area concerned clearly distinguished in the department's management plan, which it should enclose.

- (vii) a summary of any proposed new or increased contingent liabilities (see paragraphs 41 and 42 below).

19. Increases or reductions for 1990-91 should not be proposed as part of the Survey: any such proposals will be dealt with separately as they arise through the year.

20. Supporting official letters including more detailed information will also be needed: guidance is at Annex D. They should explain, for each proposed increase, how effectiveness and efficiency will be evaluated, including the main performance measures and indicators.

#### Options for reductions

21. 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 (see Annex G)

22. Proposals for variations from baseline for specific grants (including NNDR collection costs and the City offset), together with estimates of the cost of residual payments of Rate Support Grant and Rate Rebate grants left over from previous years, should be included in Ministers' letters on the basis set out in paragraph 18 above. Ministers' letters in May should not cover proposals for aggregate external finance (AEF), the distributable amount of the National Non-Domestic Rate (NNDR) and the Non-Domestic Rate income in

Scotland, or Revenue Support Grant (RSG), which will be discussed collectively, as last year.

23. Further aspects of the handling of the Survey with regard to Scotland and Wales are being considered separately (Alun White's letter of 15 February to John Craig (Welsh Office)).

Local Authority Capital (see Annex G)

24. Ministers' letters should include any proposals for changes from baseline for credit approvals and capital grants, again on the basis set out in paragraph 18 above.

Gross Running costs and associated manpower

25. During the 1989 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 reopened, 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 1989 Survey and are rolled forward, showing how the extra efficiency gains will be delivered in 1993-94; the minimum target of 1½ per cent will remain, but higher figures will be expected from many departments - especially those with large executive operations. The plans must also make clear how the efficiency gains previously agreed for 1989-90 were actually achieved.

26. In accordance with Mr Luce's letter to PFOs of 20 July 1988, bids for a marginal increase in running costs provision (controlled gross) in order to deliver extra receipts which more than cover the cost of the increase can be considered from departments with three-year running cost settlements, without formally reopening those settlements. Bids in support of relocation proposals identified and put forward since the 1989 Survey may similarly be considered without formally reopening 3 year running cost settlements.

27. The principal purpose of running cost management plans is not to support the bidding process, but to guide management action over the PES period. They are submitted to the Treasury in draft in sufficient (but not excessive) detail to inform Survey negotiations. As soon as the Survey outcome is known, however, they should be finalised as fully operational documents and issued internally to serve as an effective management tool.

28. Departments whose Management Plans did not provide a basis for three year running cost settlements in the 1989 Survey are asked to offer improved plans in the 1990 Survey. 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.

29. 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.

30. If any Minister feels it is necessary to reopen 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 reordering 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.

31. 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 D), which should also attach one DRC3 form for changes to the baseline involving areas controlled gross and another for each area controlled net. It is important that the full manpower implications of any proposed change to cash provision are identified when the proposal is offered for consideration. Any bids involving extra manpower will need to be

justified against actual staff in post, not just against previously published plans.

32. Where satisfactory output and performance data have already been supplied, as at paragraphs 12 and 13 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.

33. In evidence to the Treasury and Civil Service Committee (published as Appendix 1 to their first report of the 1989-90 Session) the Treasury said they aimed to increase progressively the amount of information published at the time of the Autumn Statement. One of the examples quoted of further information which it might be practicable to provide was provisional aggregate information on running costs. To make it possible to publish such information in the 1990 Autumn Statement, it will be important that the running cost aspects of late Survey decisions are finalised at the same time as the final PES figures.

#### Economic composition of proposed changes to baseline

34. The Treasury needs to collect information about the economic composition of any proposed individual changes to the baseline which exceed £10 million in one year. This information should be forwarded, on copies of the forms attached to Annex E, 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' cooperation in submitting these forms promptly will be appreciated.

#### Territorial implications of proposed changes to baseline

35. Information on territorial implications of proposed changes to baseline should always be included in official letters. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1990 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 Jim Toller (270-5064) on Scotland and Wales.

#### Science and technology

36. The Treasury will again be monitoring 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

37. Departments will also be asked to supply information on their holdings of surplus land and buildings, and their past achievements and future plans for disposing of such property. A PESC paper will be circulated in April.

#### Economic assumptions

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

#### V Nationalised Industries

39. 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 41 and 42 below. Departments are reminded of the arrangements for reviewing Nationalised Industries and certain other trading bodies under section 11 of the Competition Act 1980, as set out in PESC(89)31.

40. PESC(EC) will consider spending allocated to programme 2.7. Departments have been asked to provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1989-90 and their estimates for 1990-91 by 4 April. This information should be consistent with the provisions contained in the 1990-91 main Estimates, but set out on the basis of receipts against the relevant EC budget line. 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

41. 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, the 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 F. 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 24 May 1990. 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.

42. 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 1990 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

43. The papers listed below are relevant:

PESC(87)23	Management plans
PESC(88)3	Resourcing Policy Change Across Departments
PESC(89)8	The 1989 Survey: Departmental Relocation Reviews
PESC(89)9	Payments by Government Departments in Lieu of Community Charges.
PESC(89)31	Reviews under section 11 of the 1980 Competition Act, Nationalised Industries.
PESC(LA)(88)8	The Development of Output and Performance Measures for Specific Grants to Local Authorities.
PESC(90)2	Funding of PSA Services from 1 April 1990.
PESC(90)3/ PESC(WM)(90)1	Definition and control of Departmental Running Costs from 1991-92.
PESC(90)[ ]	Departments' expenditure on accommodation: arrangements for the 1990 Survey (to be circulated).
PESC(WM)(90)2	Baseline Data on Running Costs and Manpower (DRC1) forms.
PESC(WM)(90)3	Enhancements to data classification.
PESC(WM)(90)4	Capital expenditure for departmental administration.
PESC(WM)(90)5	1990 Survey Baseline: Submission of Running Tallies.

44. General questions arising from this paper should be addressed to the secretaries, Adam Sharples (270-5522) or Nigel Pray (270-5523). Questions on specific issues should be addressed to the following people:

Departmental running costs      Richard Knight (270-4996) or  
Tony Davis (270-4997);

Manpower , Ron Carpenter (270-4865);

Contingent liabilities Dick Meadows (270-5363);

Local authorities (current) Andrew Hudson (270-4945);

Local authorities (capital) Julian Laite (270-4753);

Nationalised industries Stephen Bowden (270-4908); and

EC expenditure Mike Long (270-4425).

**MR A J SHARPLES**

**MR N G FRAY**

1990 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

- MARCH**      Thursday 15 March Last date for departments to comment on formats of main departmental baseline tables.
- Thursday 15 March PESC(WM) paper seeking running tallies to amend PES database issued.
- Wednesday 28 March Last date for DRC1 forms for 1988-89 to 1990-91, to provide breakdowns of running costs and manpower baselines.
- APRIL**      Tuesday 3 April Last date for departments to submit running tallies to amend PES database for years up to 1992-93.
- Thursday 12 April Last date for departments to submit DRC2 forms (1991-92 to 1993-94) where departments are unlikely to submit running tallies to amend the PES database for 1993-94.
- Thursday 12 April Last date for return of EUROPES running tallies.
- Friday 27 April Last date for departments to submit information on value for money relating to baseline plans.
- Monday 30 April 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.
- Monday 30 April Draft texts explaining changes since White Paper figures circulated.
- MAY**        Wednesday 2 May Last date for departments to submit running tally forms to amend PES database for 1993-94 including EUROPES adjustments.
- Wednesday 2 May Last date for departments, where appropriate, to grant DRC2 forms for 1991-92 to 1993-94 to provide breakdowns of running cost baselines and manpower plans.
- Wednesday 9 May Last date for final comments on departmental tables.
- Wednesday 9 May Last date for comments on textual explanations of changes since White Paper figures.
- Friday 18 May Baseline tables circulated to PESC and Ministers.

Thursday 24 May Last date for Ministerial and official letters and management plans to be sent to the Chief Secretary and expenditure divisions.

Thursday 24 May Last date for DRC3 forms to support proposed changes to running cost limits and associated manpower.

Thursday 24 May Last date for information on contingent liabilities to be sent to expenditure divisions.

## CONSTRUCTION OF THE BASELINE

This annex explains the arrangements for constructing the departmental Survey baseline tables for the 1990 Survey.

### Figures for 1991-92 and 1992-93

2. The figures for these years will be the plans published in the 1990 public expenditure White Paper (PEWP) (Cm 1001-1021) adjusted for classification changes, agreed transfers of function between departments and between spending sectors, and other technical changes. The only significant classification changes concern areas to be under net running cost control; the Treasury has been liaising with those departments affected by this and by the small number of minor classification changes which are being made. Manpower plans for 1991-92 and 1992-93 are as published in the 1990 PEWP except where subsequently amended by agreement with the Treasury.

### Figures for 1993-94

3. Figures for the new third Survey year (1993-94) for programme expenditure, finance for local authorities and gross running costs (together with related receipts, where control is applied net) will be calculated by the Treasury by adding 2½ per cent to the cash baseline figures for 1992-93. Baseline manpower plans for 1993-94 should be consistent with the baseline figures for gross running costs calculated as above.

### Adjustments to the PES database

4. 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 sub-programmes, economic categories, territorial areas, spending sectors or accounting authorities;

b. Any minor and non-contentious amendments to figures for central government's own expenditure, central government grants to local authorities or public corporations beyond 1990-91 as a result of the Estimates scrutiny for 1990-91. PESC(WM)(90)5 asked departments to align PES and Estimates for 1990-91. In some, but not all, cases changes in 1990-91 may have implications for later years involving switches between sub-programmes, economic categories or spending sectors and this will need to be reflected on the database. Net increases in expenditure (or switches from programme expenditure into 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.

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

5. Running tallies for any agreed changes to the baseline covering any of the years 1985-86 to 1992-93 should be sent to the Treasury by 3 April. Running tallies for agreed changes to the baseline for 1993-94 should be sent in, after the baseline for that year has been created, by 2 May.

6. Adjustments will also need to be made to some figures as a result of the EUROPE 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

7. PFOs will be sent tables showing the baseline for their departments together with a series of additional analyses tables. These tables give summaries of the planning total by spending sector and department and analyses of public sector asset creation, expenditure on science and technology, running costs and manpower.

## TABLE FOR MINISTERIAL LETTERS

(Proposals for change to the baseline in each spending sector should be listed as shown. Any spending sectors for which there are no proposals for change can be omitted. Bids/reductions should be shown as additions to or deductions from the baseline).

	£ million		
	1991-92	1992-93	1993-94
<b><u>BASELINE</u></b>			
<b><u>Proposed additions</u></b>			
Central government			
1.			
2. etc			
Current grants to local authorities			
1.			
2. etc			
Capital grants to local authorities			
1.			
2. etc			
Credit approvals			
<b>TOTAL</b>			
(continued on next page)			

1991-92

1992-93

1993-94

Proposed reductions

Central government

- 1.
2. etc

Current grants to local  
authorities

- 1.
2. etc

Capital grants to local  
authorities

- 1.
2. etc

Credit approvals

TOTAL

TOTAL ADDITIONS (from previous page)

TOTAL NET CHANGE PROPOSED

## OFFICIAL LETTERS

1. Official letters should list proposed bids and reductions in order of priority as in the Ministerial letter. They should also include a full detailed explanation including any information which the Treasury may request.
2. Where additional provision is proposed the letters should explain more fully how the need for it arises. The letters should provide additional details of the improvements in output and performance which would be achieved, and how effectiveness and efficiency will be evaluated, including specific performance measures and indicators.
3. 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.
4. Where changes involve PES transfers between departments, the amounts involved and the arrangements for handling in the Survey should be agreed between the departments concerned and the Treasury before the start of the Survey, and this should be reflected in the official letters.
5. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an analysis of outturn for the relevant programme for at least the past two years, and an estimate of outturn for the current year (1990-91).
6. These letters should clearly indicate which elements of the total proposed changes to baselines relate to running cost proposals or involve manpower changes. If they relate to an activity subject to net running costs control, this should be clearly stated and the activity area identified. The letters should similarly identify running cost proposals which do not involve changes to expenditure baselines.

7. Capital expenditure proposals should indicate whether they are in support of departmental administration or programme provision, and all such proposals, together with proposals for major items of current expenditure on maintenance of a similar nature (ie with benefits running into future years), should be supported by a summary of the information justifying them. This will normally include details in each case of: a clear statement of objectives; the expected return (eg NPV, and/or other measures of net benefit); alternatives considered; the material factors in the proposed decision, including risks; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

8. The official letters should indicate whether any change requires amendment to proposed or existing legislation or regulations.

9. 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.

10. Official letters should also give information on the 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.

11. Annex E gives details of supplementary information on proposed changes from the baseline needed by the Treasury. Copies of the forms attached to Annex E should be returned to the Treasury with the official letters.

12. All letters and supporting information (eg DRC3 forms for running costs and related manpower) should be sent to the Treasury by 24 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.

## INFORMATION ON ECONOMIC COMPOSITION

The Treasury needs to collect information about any proposed individual changes to the baseline by economic categories in excess of £10 million in one year. This information is used by the Treasury forecasters in preparing for the forecasts for the July Cabinet and the Autumn Statement. Departments are therefore asked to split their bids and reduced requirements which are for £10 million or more 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 24 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 asset creation as a result of Survey decisions, using a definition consistent with Table 21.2.14 of the 1990 PEWP. To help compile this figure, it would be helpful if departments would complete the second form attached to this annex, listing all the bids and reduced requirements (identifying expenditure on new construction, as shown) for central government expenditure falling within ECs E20, E30, E40, G10, and G20 regardless of size, and return it at the same time.

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

DO NOT INCLUDE BIDS/REDUCTIONS OF LESS THAN £10 MILLION

PUBLIC EXPENDITURE SURVEY 1989  
LIST OF BIDS AND REDUCED REQUIREMENTS

DEPARTMENT:

YEAR:

Name of originator:

Tel No:

£ million

Economic categories

Proposed changes from base line <sup>(1)</sup>	Total cost	Pay	Other current goods & services (net)	Subsidies (exc to public corporations)	Current grants to the private sector <sup>(3)</sup>	Current grants overseas	Expenditure on capital assets (net) excluding stockbuilding	Stock-building	Capital grants to the private sector	Net lending to the private sector	Net lending overseas	Current grants to local authorities HNDR, RSG	Capital grants to local authorities	Local authority credit approvals	Finance for other public corporations
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(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. Please indicate in this column whether the expenditure is comparable in Scotland, Wales or Northern Ireland.

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

Please identify with an asterisk (\*) any bids for new construction (economic categories E20 and E30)

Please list central government bids only, REGARDLESS OF SIZE

Department:

£ million

	1991-92	1992-93	1993-94
<u>Description of bid</u>			

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 41 and 42 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

2. The review should consider all contingent liabilities (whether of a statutory or non-statutory nature) and should seek to identify any liabilities of an hitherto unrecognised nature (including those which arise as a result of a department's staff acting in an ex-officio capacity). 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 chapter 26 of the 1989 edition of Government Accounting, on the assumption and control of all contingent liabilities, and 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:-

- a. Those which arise in the normal course of business (see paragraph 4 below).

- b. Those which may arise because the Government does not insure.
- c. Those which may arise as a result of department's sponsorship of the nationalised industries; these are monitored in the context of EPL 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.

#### Format of reports

6. 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);
- b. 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 to

Parliament, where either of these exists. Departments should consider whether existing reports to Parliament remain sufficiently 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.

c. Column 3 should show the Class and Vote number of the Estimate in which the value of outstanding non-statutory contingent liabilities are reported.

d. Column 4 should be completed to compare this year's figure with last year's: if this year's figure is not fully available by 24 May an estimated figure should be inserted.

e. Column 5 should include a brief description of the action departments are taking to minimise the risks.

#### Submission of reports

7. The reports should be approved by the department's Minister and sent to the Treasury by 24 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

8. 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.

#### Other reports

9. Departments are reminded that they should send a separate return to the Accountant, HM Treasury, by the end of June each year (see Government Accounting paragraph 26.3.4), setting out details of all contingent and nominal liabilities resulting from statutory guarantees (including those under £100,000). This is

required for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts. Any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000 under the arrangements set out in paragraphs 2 to 7 above. Departments are also reminded of the need to report liabilities on outstanding non-statutory contingent liabilities in the introduction to the relevant supply Estimate (see Government Accounting paragraph 26.3.10).

1990 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 24 MAY 1990

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)	Vote on which expense on non-statutory liabilities reported	Amount at Risk at 31.3.90 fm	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	5

Liabilities in existence at 31.3.89  
(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  
1.4.89 and 31.3.90

1990 SURVEY: HANDLING OF LOCAL AUTHORITY COMPONENTS

The 1990 Survey will determine the local authority components of the new planning total. This paper describes in more detail how the individual components will be handled. The attached appendix summarises the timetable for local authority current expenditure.

LOCAL AUTHORITY CURRENT

2. For local authority current in GB, the new planning total includes the following components:

- a. Revenue Support Grant (RSG);
- b. National non-domestic rate (NNDR) payments in England and Wales (non-domestic rate income (NDRI) in Scotland);
- c. Specific current grants including :
  - Community Charge Benefit Grant
  - Transitional Relief Grant
  - Area Protection Grant
  - Inner London Education Grant
  - 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.

England

3. Decisions on local authority current for 1991-92 will be taken in two stages. In July Ministers will decide in E(LG) on an aggregate amount of Exchequer support (Aggregate External Finance (AEF)) and total standard spending (TSS). In September/October Ministers will take final decisions on the distribution of total standard spending between services and the split of AEF between RSG, NNDR payments and specific grants.

The July decisions

4. Ministers have decided that the procedures for decisions and announcements should broadly follow last year's pattern, but ensuring that full account is taken of information relevant to the settlement which emerges later in the year. The July announcement will therefore cover, for 1991-92:

- (a) an envelope of "Aggregate External Finance" (AEF), including the NNDR payments, RSG and certain specific grants;
- (b) total standard spending;
- (c) the community charge for standard spending.

The Government's proposals for AEF, once announced, will remain fixed for the rest of the Survey.

5. It is intended that the coverage of specific grants to be included within AEF for 1990/91 will be unchanged from those included in last year's Survey for all three territories. A list of these will be circulated as a forthcoming PESC(LA) paper.

The Autumn decisions

6. In September/October Ministers will take final decisions on the distribution amongst services of the figure for total standard spending agreed in July; initial discussion of this issue is likely to take place in July. In addition Ministers 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.

7. Specific grants will in general be considered in the bilaterals. Decisions on these grants will be taken as part of the normal bilateral discussions on Departmental programmes.

8. Decisions will also be needed on the AEF envelope for 1992-93 and 1993-94 though no announcement will be made in July about the later years.

9. The Autumn Statement will give figures for RSG, NNDR payments, and aggregate specific grants for each of the three forward years. For 1992/93 and 1993/94, the figure for RSG and NNDR will be aggregated.

Scotland

10. Following the decisions in July on AEF for English local authorities for 1991-92, there will be bilateral discussions between the Chief Secretary and the Secretary of State for Scotland on AEF for Scotland. AEF for 1991-92 will be announced in July. In the autumn the Secretary of State for Scotland will announce provision for RSG, projected non-domestic rate income and specific grants for the year ahead. Figures for all three years will be included in the Autumn Statement.

11. 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.

Wales

12. Following the decisions in July on Aggregate Exchequer Finance for English local authorities there will be bilateral discussions between the Chief Secretary and the Secretary of State for Wales, to settle AEF, total standard spending and the community charge for standard spending for Wales for 1990-91 in the light of the English settlement. These figures will be announced in July. The breakdown of AEF between NNDR, RSG and specific grants will be determined and announced in the autumn.

13. The treatment of specific grants outside AEF in Wales is the same as in Scotland (see paragraph 11 above).



14. Further aspects of the handling of the Survey with regard to Scotland and Wales are being considered separately (Alun White's letter of 15 February to John Craig (Welsh Office)).

Northern Ireland

15. The new planning total includes only DOE(NI)'s general and specific grants to district councils. These items are included in the NI block. All other expenditure is Central Government expenditure. Provision in the NI block will be adjusted to reflect the formula consequentials of changes to comparable GB figures.

LOCAL AUTHORITY CAPITAL

16. For local authority capital the Survey arrangements will be broadly the same as last year. For each Department concerned, bilateral agreement will need to be reached with the Treasury on:

(a) domestic (non-EC) capital grants;

(a) Credit approvals

17. The main steps will be as follows:

(i) setting baselines: provision for credit approvals and capital grants was set in the 1990 PEWP for 1991-92 and 1992-93; subject to technical amendments and creation of third year figure, these will form baselines for the Survey to be circulated by Treasury in the spring;

(ii) determining the Receipts Taken into Account (RTIA): PESC(LA)CAPITAL will consider a provisional figure in the spring and set RTIA by Department (where relevant) by mid-July; once fixed in July, Ministers will be able to negotiate credit approvals for 1991-92 in the bilaterals knowing the implications for Annual Capital Guidelines (ACG = RTIA + Basic Credit Approvals);

(iii) variations to baselines for capital grants and credit approvals: proposals from Departments by 24 May;

(iv) information on likely spending from LA capital receipts in 1991-92; this assessment, required to inform bilateral negotiations, will be circulated by DOE as soon as possible;

- , (v) bilateral negotiations on capital grants and credit approvals: September/October.

18. The above arrangements will apply to seven main services within the English Local Authority Block (ELAB), Home Office and urban blocks (excluding step (ii) for the latter two where it is not relevant). For Scotland, Wales and Northern Ireland there will be separate arrangements, consistent with the normal block rules. Further information can be found in the letter of 19 January from B H Potter (HMT) to J S Parker (DoE).

TREATMENT OF LA CURRENT EXPENDITURE IN THE 1990 SURVEY: OUTLINE  
TIMETABLE

- May
- Baseline tables finalised, including 1993-94.
  - Ministerial letters, and supporting official letters, with proposals for variations from the baseline for individual specific grants.
- July
- (a) E(LG): settles, for 1991-92, an envelope of Aggregate External Finance, Total Standard Spending and the Community Charge for Standard Spending.
  - (b) Announcement of Government decision on above.
  - (c) Bilateral discussions and announcements of (a) for Scotland and Wales.
- September/  
October
- Bilateral discussion of specific grants, as part of discussion of departmental programmes.
- October/  
November
- Final decisions on:
    - (a) breakdown of AEF for 1991-92 into RSG, NNDR payments, and specific grants;
    - (b) distribution of aggregate need to spend between services for 1991-92.
  - Announcement of split of AEF for 1991-92 and distribution of TSS by service.

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File  
to

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Private Secretary*

6 February 1990

PUBLIC EXPENDITURE 1989-90

The Prime Minister was grateful for the Chief Secretary's minute of 5 February. She has noted the position with some concern, and agrees with the Chief Secretary that it underlines the need to exercise continuing stringency in other public expenditure decisions.

Paul Gray

Miss Carys Evans,  
Chief Secretary's Office,  
HM Treasury.

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W

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*Pric Mark 2*

*As forecasted at last week's seminar with the Treasury.*

*Note  
P.M. should be  
concern about the  
position he is in  
Chief Secretary cable  
today. PRG  
6/2*

FROM: CHIEF SECRETARY  
DATE: 5 February 1990

*PRG 6  
1/2*

PRIME MINISTER

PUBLIC EXPENDITURE 1989-90

You will wish to be aware that the outturn on public expenditure in 1989-90 is likely to be significantly higher than the figure published in the public expenditure White Paper last week.

2. The planning total for 1989-90 was set at £167.1 billion. The estimated outturn given in the public expenditure White Paper, based on December forecasts, is £168.4 billion. Our latest assessment, however, is that the outturn may be around £169.4 billion - an overspend of £2.3 billion on the original plans, and £1 billion higher than in the PEWP. The main reasons for the increase since last month are higher spending by local authorities in advance of the new capital finance regime, and the Ministry of Defence's view that their expenditure will be closer to approved limits than they previously forecast.

3. The next estimate of the 1989-90 outturn that we publish will be in the FSBR. At that time of course there will be other news. As far as the public sector finances are concerned, I should expect any impact on the markets to come from the PSDR, rather than from public expenditure alone.

4. We have overshot the planning total before, but not recently; and the last two years have seen large underspends. The estimated outturn for 1989-90 would be the first significant excess since 1985-86 - and the second largest, in cash terms, since we took office.

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5. We shall have to be careful therefore not to create any impression that control over public expenditure has been loosened. In part we shall be able to point to the reforms we have introduced in the finances of local authorities, whose expenditure is more than £3 billion over the planned level, and who are hence the main cause of this year's overspend. But the latest figures also underline the need to exercise - and to be seen to exercise - continuing stringency in other public expenditure decisions.

*Clvans*

pp NORMAN LAMONT

CONFIDENTIAL

PS/SIR ROBIN BUTLER

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cc Mr Wilson  
Mr Appleyard  
Mr Hadley  
Mr Mawer  
Mr Turnbull ✓  
Mr Lee  
Mr Davie

PUBLIC EXPENDITURE WHITE PAPER

I attach the final revision of paragraphs 2-6 of the Cabinet Office entry, as settled at this morning's meeting.

*A D Whetnall*

A D WHETNALL

5 January 1990.



[Replace paras. 2-6 inclusive of proof]

#### Cabinet Office

1. The Cabinet Office serves Ministers collectively in the conduct of Cabinet business and operates as an instrument in the co-ordination of policy at the highest level. It also includes the Office of the Minister for the Civil Service (OMCS) which has its own Vote. On 31 July 1989 it relinquished responsibility for the Central Statistical Office, which became a separate Chancellor of the Exchequer's Department. At the same time the Cabinet Office assumed responsibility for the Office of the Chancellor of the Duchy of Lancaster.

#### The Secretariats

2. The Cabinet Office Secretariat serves the Cabinet and its Committees and co-ordinates departmental contributions to their work. In addition to the Cabinet itself, there are four standing Committees of the Cabinet - a Defence and Overseas Policy Committee; an Economic Strategy Committee; a Home and Social Affairs Committee; and a Legislation Committee. Sub-Committees and other Working Groups, at both Ministerial and official level, are established as appropriate. The Cabinet Office Secretariat reflects this structure, with a Defence and Overseas Affairs Secretariat, an Economic Secretariat, and a Home

Affairs Secretariat which supports both the Home and Social Affairs Committee and the Legislation Committee. In addition, a European Secretariat co-ordinates the work of Departments on European Community issues under the Ministerial oversight of the Defence and Overseas Policy Committee, and a Science and Technology Secretariat supports the Chief Scientific Adviser in contributing to scientific aspects of the work of the Cabinet and its Committees, and provides the Secretariat of the Advisory Council on Science and Technology.

Establishment  
Officer's  
Group

3. The Establishment Officer's Group provides services for the whole of the Cabinet Office including, on repayment, the OMCS. The Establishment Officer's Group has continued to monitor the implementation, throughout the Department, of value for money targets, arrangements for monitoring performance and response to management information and to ensure that these are utilised to sharpen control of the Department's resources. Established performance indicators continue to be refined and new data identified. Particular effort is being directed towards qualitative as distinct from quantitative measures. Special performance and value for money targets set for the Department's consulting,

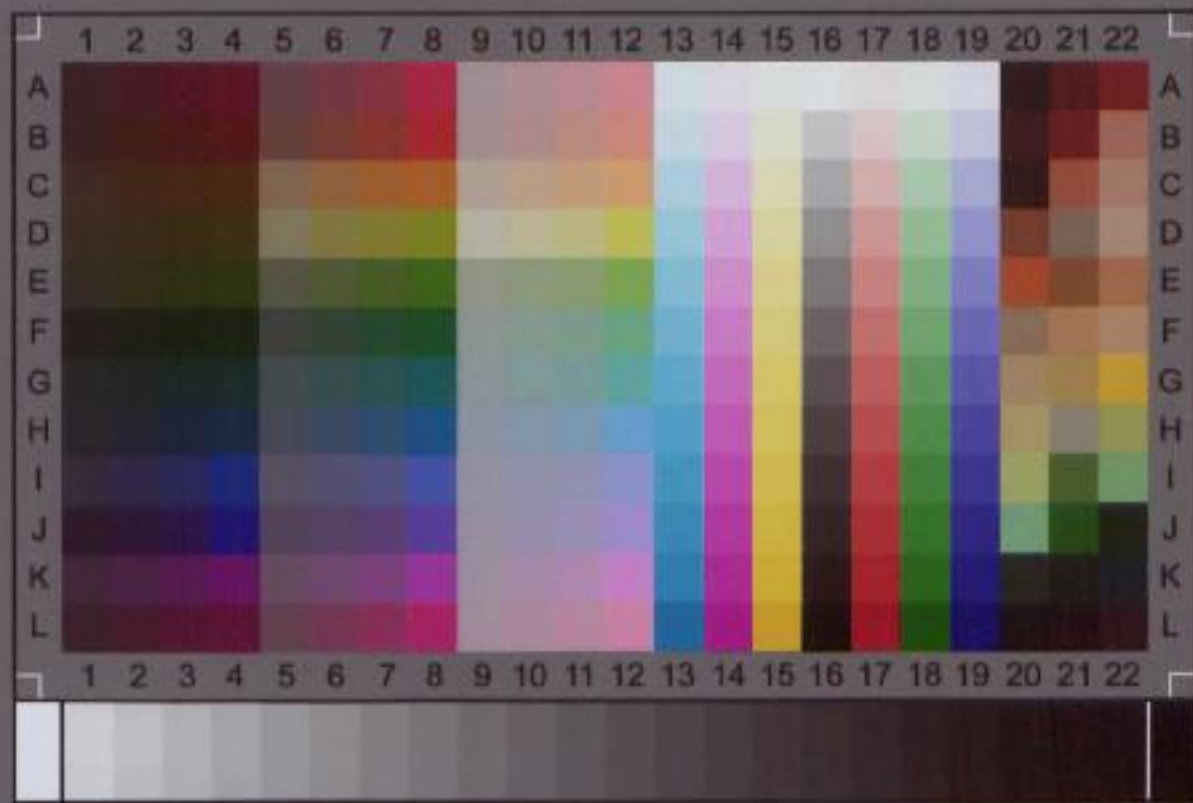
inspection and review areas have been met. Work continues to upgrade these performance and value for money targets. It is intended to implement a revised Management accounting system from April 1990 in line with that operating within OMCS.

PART 43 ends:-

PG to HMT 21/12/39

PART 44 begins:-

Cab Office Minute 5-1-40



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