

6.
PRIME MINISTER

You encouraged Sir Derek Rayner to press for a substantive project to be undertaken under his aegis by the Treasury.

The Chancellor had some reservations about a study of the role of the supply divisions, which you had suggested. His views are recorded in the letter at Flag A.

Sir Derek Rayner is very keen to pursue this: he regards this as an important area of work, which is relevant to his ideas on the conventions of Government (on which he will be reporting to you shortly). He would therefore like to go ahead with a scrutiny of the supply divisions, associated with other work already in hand in the Treasury on public expenditure procedures and conventions.

Agree that I should now write to the Treasury asking that these three exercises go ahead as a review of public expenditure control, on your authority - draft below?

Yes and

MAD

2 January 1980

MANAGEMENT - IN CONFIDENCE

Mr LANKESTER

c Mr Pattison

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31-80.

THE SCRUTINY PROGRAMME: HM TREASURY

1 Sir Derek Rayner has seen Mr Hall's letter to you of 21 December.

2 Subject to the Prime Minister's views, Sir Derek suggests that the reply to Mr Hall should be on the lines of the attached draft.

P.

C Priestley
31 December 1979

DRAFT OF 31 December 1979

MANAGEMENT - IN CONFIDENCE

M A Hall Esq
Treasury Chambers
Parliament Street SW1

THE SCRUTINY PROGRAMME

- 1 Thank you for your letter of 21 December, which Sir Derek Rayner has also seen.
- 2 The Prime Minister is grateful for the Chancellor of the Exchequer's acceptance that there is a case for examining the role of the supply divisions and the method of the Public Expenditure Survey.
- 3 In the light of the Chancellor's advice, the Prime Minister would be grateful if the three exercises mentioned in your letter could be treated as together forming a review of public expenditure control by the Treasury, as follows:
 - a Review of PES procedures and conventions, now in hand and to be reported to Ministers this Summer.
 - b Scrutiny of the role of the supply divisions in monitoring central Government expenditure, with particular reference to the Financial Information System, to be conducted in the new programme between February and June.
 - c Whatever the outcome of the PES review, a review of the role of the supply divisions, constituting the second scrutiny in HM Treasury and beginning early in Autumn 1980.
- 4 The Prime Minister would also be grateful if Sir Derek Rayner had an opportunity to offer comments on the report of the PES review at 3a above and was associated with both the exercises at 3b and 3c above.
- 5 I am copying this to Clive Priestley.

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Await comment
from Sir J Rayner
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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

21st December 1979

Dear Tim,

THE SCRUTINY PROGRAMME

When Clive Priestley wrote to me on 11th December about the scrutiny programme projects from the Chancellor's Departments he mentioned the Prime Minister's particular interest in the Treasury's study of the role of the supply divisions, and recorded her suggestions for widening the project. The Chancellor accepts that there is a case for looking at the full range of the work of these divisions, and at the methodology of the Public Expenditure Survey. But he is not convinced that the best course would be to broaden the terms of reference for the proposed project to look at the full range of issues simultaneously.

In fact the Treasury has already set in hand a comprehensive review of the Public Expenditure Survey procedures and conventions, which will be reported to Ministers, possibly by stages, over the coming months, so that the conclusions can be taken into account in the instructions for the 1980 Survey, and also in handling the material produced by that Survey when it goes to Cabinet. This implies completion of the work by the later summer. This review is examining, among other things, the function of the detailed estimates of expenditure in years 3-5 of the Survey period (paragraph 5b of Priestley's letter); the length of the Survey period; and the price basis in which programmes are expressed. The work is not confined to the Treasury, although it is under the leadership of a Treasury Deputy Secretary. The spending Departments, and the Civil Service Department, are fully involved in it.

It may well be that as a result of the review there will be significant changes in the way in which the public expenditure survey is handled, both in the Treasury and elsewhere. If this is the outcome, then

/certainly the

T.P. Lankester Esq.



certainly the role of the Treasury's expenditure divisions in relation to the Survey will have to be examined. But the logical order is to look first at what the Survey is required to produce for Ministers, and how it is best structured to produce it, and then at the way in which the Treasury is organised to see that the Survey produces the required result.

This review of the Survey system and the proposed scrutiny project in its original, more limited, form will inevitably impose substantial additional burdens on the Treasury expenditure divisions at a time when they are going to be more than usually heavily engaged with their immediate task of controlling public expenditure. They will have a great deal to do in briefing Treasury Ministers for the further efforts to reduce public expenditure. Because publication of the full Public Expenditure White Paper has been deferred the Treasury will have to begin mounting the 1980 Survey before the 1979 Survey, including the White Paper, is complete. The Chancellor believes that this too points to postponing a wider look at the role of the expenditure divisions until later.

Meanwhile, there would still be value in proceeding with the more limited review of the monitoring arrangements on the lines originally proposed. Here it should be possible to reach a useful result fairly quickly without diverting undue effort from the primary goal of finding further cuts in public expenditure.

For these reasons the Chancellor would prefer to conduct the scrutiny project for the Treasury within the terms of reference originally proposed, leaving the wider issues to be considered later in the light of the conclusions of the review of the Public Expenditure Survey system.

I am sending a copy of this letter to Clive Priestley.

Yours etc,

MA

M. A. HALL
Private Secretary

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21 DEC 1979