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From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

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13 February 1980

WELSH OFFICE PES AND VOTE STRUCTURE

At present Welsh Office public expenditure is spread among eight main functional programmes in the Public Expenditure Survey, along with the expenditure in England and Scotland. The usual rules have hitherto applied, whereby funds may be switched between programmes only with the consent of the Treasury. When it comes to a current year the position has been a little easier up to now. Starting in 1978-79 the Welsh Office has operated a block central government cash limit covering Health and personal social services, roads, education, libraries, arts and other environmental services. However, this block has to be broken up into its constituent parts for 1980-81 to honour the commitment to the assimilation of cash limits and Votes.

In the Election Manifesto for Wales we committed ourselves to ensuring that the Secretary of State had more discretion over the allocation of the funds available to him. I am also keen to be seen by the new Welsh Select Committee as financial master in my own house, within the overall limits of monies Voted or expenditure planned for Wales.

/Some time ago

The Rt Hon John Biffen MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3HE

Some time ago I therefore instructed my officials to pursue with the Treasury the possibility of increasing the flexibility of the system by re-grouping Welsh expenditure into a new main programme for public expenditure planning purposes and matching Class in Estimates. The matter was subsequently discussed in PESC and agreement reached between officials on the lines indicated in the attached paper.

...

I am now writing to seek your agreement and that of my colleagues to whom copies of this letter go, to the adoption of the proposals. Because of the possibility of embarrassment at the publication of the Estimates for 1980-81 in disaggregated form I should like to be in a position to make an announcement about the time of publication, which I understand is likely to be 19 March. I suggest that the best way of making the announcement would be by an arranged Written PQ and Answer. If you agree, our officials can discuss the wording.

I would be grateful if colleagues could help us meet the above target date for an announcement by letting us have their views on the proposals as soon as possible and not later than 22 February.

/ A copy of this letter and the associated paper go to the Secretaries of State for Industry, Employment, Environment, Scotland, Social Services, Trade and Education and Science, the Minister of Agriculture, the Minister of Transport and the Minister of State, Civil Service Department.

A SINGLE PESC PROGRAMME FOR WALES AND REVISED VOTE AND CASH LIMIT STRUCTURE

Note by Officials

1 The Secretary of State for Wales has instructed his officials to pursue with the Treasury the re-grouping of Welsh expenditure into a new main programme for public expenditure planning purposes and matching Class in Estimates. Discussions between the two Departments have taken place accordingly, and this joint note sets out the possibilities and issues which have been identified.

BACKGROUND

2 It may be helpful to begin by explaining the purposes of the proposed changes. The Secretary of State for Wales is responsible for the exercise in Wales of numerous powers which in England are exercised by various other Ministers. Functions which have been transferred in whole or in part over the years include Health and Personal Social Services; Education, Arts and Libraries; Roads and Transport; Trade, Industry and Employment; Housing; Other Environmental Services; and Agriculture. Some 37 per cent of the public expenditure incurred in respect of these transferred functions is in fact local authority expenditure, and it has recently been decided that the operation of block grant (the successor to Rate Support Grant) in Wales should be the responsibility of the Secretary of State for Wales. Similarly the operation of the proposed new system of capital expenditure controls in Wales will be his responsibility. The main central government functions outside the Secretary of State's field are social security, defence and overseas services, Home Office services, and those aspects of industrial policy and regional policy within the responsibility of the Secretary of State for Industry.

3 It is no part of the present proposals that there should be a transfer of any further functions to the Secretary of State for Wales. They would not of themselves cause any change in the exercise of transferred powers. The Secretary of State is subject to the rules of collective Cabinet responsibility the same as any other Minister. In exercising his powers the Secretary of State will naturally continue to take account of the interaction of his decisions with the policies of his colleagues. The proposals which the Welsh Office are now putting forward are concerned with the financial mechanisms of planning and control. The Secretary of State is convinced that for political reasons in Wales the expenditure planned for Wales and the monies Voted for Wales must be more clearly and separately identifiable

than they are now. He also feels that the whole purpose of having a separate Secretary of State for Wales is vitiated if he has no discretion to make adjustments between programmes of planned expenditure within his Departmental ceiling, or flexibility of financial management within a current year. Taking into account the likely restrictions on Government expenditure in the present Survey period and the competing claims, any switches between programmes are likely to be marginal. But their political importance in the Welsh context will be very great, and the Secretary of State must be seen to have the discretion to make them. This is why the Conservative Election Manifesto for Wales contained the following passage:

The Secretary of State for Wales should have greater flexibility in the use of the funds available to him, to take account of the special needs of Wales. We will therefore ensure that he has more discretion over the allocation of funds provided by Parliament for Wales. The actual performance of government in the use of funds will be subject to examination by the new Select Committee.

This Select Committee has now been established and will expect the Secretary of State to have control over his own expenditure.

4 Before going on to the detail of the proposals, it is appropriate to recapitulate the present position.

5 At present the Public Expenditure Survey lumps Welsh expenditure in with English expenditure in functional Programmes. It is not always clearly identified, and recognition of this opaqueness has led to the inclusion in Public Expenditure White Papers of special abstracts of Welsh figures. (There is no such abstract in the 1980-81 White Paper but there will be in the full Survey White Paper which is to appear early next year.) However, the Welsh expenditure remains tied to the relevant functional Programmes and no adjustments between them can be made to meet special Welsh needs without a full case being made to the Treasury and specific consent being obtained. In some cases (e.g. regional selective assistance) common GB criteria are applied and different criteria in Wales are not permitted. The PES projections cannot therefore be adjusted to meet special Welsh needs.

6 The Vote treatment of Welsh expenditure is similar, in that separate Votes have to be raised within each functional Class. The result is inflexibility with a relatively large number of Welsh Votes, some of them comparatively small. Because of this inflexibility agreement was reached that Welsh Office programmes should be combined to produce two omnibus cash

limits, one covering Health and Personal Social Services, roads, education, libraries, arts, other environmental services and agriculture (W02) and the other (W03) covering regional and industrial development. A separate cash limit applies to Manpower Services Commission expenditure (W04) and another (W01) to Pay and general administrative expenses. It is not proposed to change the arrangements whereby CSD exercise control over civil service staff and staff-related expenditure in PES, Votes and Cash Limits.

7 Due to the commitment to assimilate Votes and Cash Limits, these omnibus cash limits will have to be broken up for 1980-81. This is bound to cause difficulties, and the Welsh Office has only agreed on the understanding that rapid progress would be made in considering the present proposals.

THE PROPOSAL

8 The main Welsh Office proposal is that a new PES programme should be established for Welsh Office public expenditure and agreement reached that it should be managed as a "block". Supporting that would be a new Class in Estimates and Vote and cash limit structure. The proposals would allow the Secretary of State for Wales more flexibility and control in managing his financial resources. "Block" treatment would allow flexibility in making dispositions over future years of the Survey period; the revised Vote and cash limit structure should allow some additional room in managing resources during the current year. The reverse of the coin is that the Secretary of State would be expected to meet from within his block any unforeseen expenditure which occurs in connection with the programmes it covers, and not make any claim on the contingency reserve save in the most exceptional circumstances. Treasury and Welsh Office officials agree that another integral part of "block" treatment is that reductions or additions to the block should be determined by the application of a formula, which would be applied both in the annual survey and to any changes agreed ^{between survey discussions.} In the Treasury's view, the established population formula as already applied to Scotland and Northern Ireland should also be applied to Wales. This is discussed more fully in paragraphs 17 and 18. The paper now deals with these three aspects:-

- a PES programme - content and extent of "block" treatment;
- b Votes and cash limits - new Class of Estimates, number of Votes and cash limits and management of switches;
- c management of changes - selection and application of formula.

A Single PESC Programme

9 In Public Expenditure White Papers the current programmes within the Secretary of State for Wales' responsibilities are extracted to a summary (table 4.3 in Cmnd. 7439). The essence of the Welsh Office proposal is that this should in future constitute a single PES Programme for Wales on the Northern Ireland model which would remove from the relevant functional programmes expenditures which are at present grouped with comparable English and Scottish programmes, without the constituent parts being repeated in other Departments' programmes. For presentational purposes in both the Public Expenditure Survey Report and Public Expenditure White Paper the Programme would be disaggregated into its component parts (sub programmes).

10 The Treasury agrees that some move in this direction would be acceptable; it would give permanent effect to the arrangements for switching to which the Chief Secretary agreed in respect of the later years of the current Survey period and which already apply in Scotland. But the Treasury sees difficulty in the proposition that all Welsh Office expenditure should be included in a single Welsh PES Programme with complete discretion for the Secretary of State to switch within it. It would not be practicable to apply the formula for managing reductions or additions (mentioned in paragraph 8) to the Agriculture and the Trade, Industry and Employment (TIE) sub-programmes: in the case of Agriculture, there is far greater expenditure in England than in Wales (so that, if the formula were to be applied it might wipe out the Welsh PES provision); and in the case of TIE there is ad hoc project provision (Section 7 industrial support) which cannot be adjusted by formula and also Welsh expenditure (on the Welsh Development Agency and the Development Board for Rural Wales) which has no precise English equivalent. Increases or decreases in these sub-programmes would therefore have to be negotiated ad hoc, which in turn means that they could not be given "block" treatment with the rest of Welsh Office expenditure.

11 The solution which has been reached following discussion in PESC is that ^{these} sub-programmes should be presented in the same table as the block sub-programme with a footnote making it clear that there should be no switches into or out of them without specific

Treasury consent. The lay-out of a table prepared on this basis is illustrated in Annex A.

Vote and Cash Limit Treatment of Central Government Expenditure by the Welsh Office

12 It would not be appropriate to envisage a single Vote/Cash Limit for all Welsh Office expenditure. Some of the expenditure is not subject to cash limits. Some Welsh expenditure is not Vote expenditure - e.g. local authority, Welsh Water Authority and Land Authority for Wales expenditure (capital and current).

13 Initially, the Welsh Office proposed a structure comprising two cash limited and two non cash limited Votes. However, following discussions with the Treasury, they recognise that the ambits were likely to prove unacceptably wide and thus are prepared to accept the compromise of four cash limited and four non cash limited Votes.

14 The Treasury would treat proposals for transfers during the year between Welsh Office Votes in the same way as similar proposals from other Departments.

Cash Limit Treatment of Capital and Current Expenditure by Welsh Local Authorities and Other Bodies

15 The Government is proceeding with its proposals to change the present system of Rate Support Grant (by replacing the Resources element and Needs element with a new block element) and to introduce a new system of capital expenditure control. In both cases the new systems will be operated in Wales by the Secretary of State for Wales, and are due to come into effect in 1981-82 (the target date for the proposed restructuring which is the subject of this note). Financial control over local authority expenditure in Wales under the new regime could be controlled through two separate cash limits, viz:-

- 1 a cash limit related to capital expenditure of local authorities on programmes within the Secretary of State's responsibility; and
- 2 a cash limit on the amount of Rate Support Grant paid to local authorities (this cash limit would be a central government

expenditure cash block).

In addition, depending on whether Transport Supplementary Grant (TSG) remains separate, there may also be a need for a Welsh TSG Central Government Cash Limit. These three cash limits, if necessary, would be separate from the four referred to in paragraph 13 above.

16 The cash limit treatment of expenditure by the Land Authority for Wales (which is to continue in existence despite the repeal of the Community Land Act and whose expenditure is at present controlled in a separate block, WO/CL1) is under discussion between the Treasury and the Welsh Office. It is not proposed to change the arrangement whereby the external financing requirement of the Welsh Water Authority is controlled within cash limit RWAL which covers all ten Regional Water Authorities in England and Wales. Capital expenditure by the Housing Corporation and Cwmbran New Town would continue to be included in the local authority housing cash block.

OTHER MATTERS

Changes in Expenditure Plans

17 A change in expenditure plans arising from a specific policy decision by the Government (e.g. abolition of Selective Financial Assistance) presents no difficulty in carrying it through to a Wales programme. But, frequently changes affect all or most Departments and are expressed as aggregate reductions or increases (usually after discussions in bilaterals and by Cabinet). Where a "block" agreement exists at present, officials carry commensurate changes through to territorial expenditure by means of a formula based on relative populations. This involves an element of rough justice (unless need varies directly with population) and of a broad brush approach - where a territorial programme includes an item which, while relatively minor in terms of expenditure, is not directly comparable with expenditure in England (e.g. Welsh bilingual education). But nonetheless, the Treasury wish to continue using a single formula for the "block" as a whole in order to carry through changes at the margin. The alternative of repeating the individual discussions on all functional elements of each territorial Department's expenditure would involve a very great deal of Treasury and territorial Ministers' time.

18 The Welsh Office also agree that a single formula should be used, but at present are not entirely convinced that the existing "population" formula is sufficiently fair. Further consideration can be given to this after a decision in principle has been taken on the proposal to establish a Wales

programme, though both Departments agree that if the new arrangements are to take effect for the next PES round they will have to use the existing formula pending collective agreement on any change.

Summary

19 Following discussion in PESC officials have now agreed to endorse the following proposals:

- i all expenditure within the responsibility of the Secretary of State for Wales should continue to be presented in a single table in the Public Expenditure White Paper, with block treatment for tourism, roads and transport, housing, other environmental services, education and science, arts and libraries, health and personal social services and other public services (a mock-up of the table is at Annex A);
- ii changes in public expenditure plans for comparable expenditure at the margin will be carried through to the Welsh Office block by the use of a formula. The existing relative population formula will be used for this purpose until such time as an alternative formula may be agreed;
- iii Welsh Office central government expenditure Votes should be restructured to form four cash limited and four non cash limited Votes to correspond with PES treatment of Welsh expenditure: the new Votes would form a new Welsh Office Class;
- iv separate cash limits will be created as necessary consequent upon the changes in rate support grant and capital expenditure control.

Welsh Office

12 February 1980

2.17 WALES (1)

TABLE 2.17

£ million at 1979 Survey prices

	1974-75.... 1979-80	1980-81.... 1983-84
Agriculture, fisheries and forestry		
Industry, energy, trade and employment (excluding tourism)		
Other services (2)		
Industry, etc. (tourism only)		
Roads and transport		
Housing		
Other environmental services		
Education and science, arts and libraries		
Health and personal social services		
Other public services		
Total other services		
Total expenditure within the Secretary of State's responsibility		

Footnotes:

- (1) This programme includes only that expenditure in Wales which is within the responsibility of the Secretary of State. There is expenditure in Wales in other programmes.
- (2) The allocation of expenditure among these services for future years may be altered at the discretion of the Secretary of State. Expenditure on agriculture, fisheries and forestry and on industry, energy, trade and employment (excluding tourism) is not similarly transferable because these services are influenced to a greater extent than others by national and EEC policies.

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