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QUEEN ANNE'S GATE LONDON SW1H 9AT

4 June 1986

*Prime Minister 2*

Dear John,

*DKS  
4/6.*

*ms*

**PUBLIC EXPENDITURE SURVEY**

In your letter of 6 February <sup>at 11:00 PT34</sup> you asked Ministers to write to you by the end of May if, having scrutinised their programmes, they wished to put forward proposals for net additional resources. I have reviewed our existing provision for Home Office programmes against forecast savings and additional requirements and concluded that, although sizeable reductions have been achieved, I must put forward proposals for significant net increases.

A main reason for the bids is sustained increased demand, arising from the prison population; CICB applicants; immigration traffic; passport applicants. I have reviewed the policy options for reducing these increases, but conclude that none offers a realistic means of avoiding the bids I am putting forward.

A second significant reason for the bids is that there are areas where the provision is simply out of line with up to date forecasts of costs. This is a factor in the non prison pay bids, and in bids for non departmental public bodies; it also explains the large bid for fire service capital expenditure. I am unable to find efficiency savings to the extent that would be needed to enable these shortfalls to be absorbed.

Third, there are some areas where I wish to fund new policy initiatives: implementation research and development; reduction of racial disadvantage; and crime prevention.

The details of the net bids are as follows:

**(i) Prisons**

**(a) Prison Building**

Bearing in mind our discussions in last year's PES I have reviewed the whole range of factors bearing on the prison population and the provision that needs to be made for it. My conclusions are set out in a separate minute I am sending to the Prime Minister. For PES purposes the important conclusion is that the prison building programme must be sustained. To facilitate this, I propose net additions to existing provision of:

1987-88	1988-89	1989-90
£0.6	-£1.3	£27.1

For this purpose provision includes both the external (PSA) and internal (DOW) building programmes and those of related.

Rt Hon John MacGregor OBE MP

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programmes, including purchase of and improvements and alterations to prison officers' quarters. The bid in the first year and the reduced requirement in the second year take account of the most recent estimates of progress in the PSA building programme: these estimates produce reduced requirements on the PSA programme of £5.1 million and £1.7 million respectively in these two years. The bid in the first year is needed to ensure that we have sufficient provision to buy the site of the proposed new prison at Milton Keynes. We postponed this purchase from 1986/87 in order to meet an expected shortfall in receipts from sales of surplus quarters. Most of the third year bid of £27.1 million is needed to ensure that the new prison building programme continues to go forward as previously agreed, but the bid also includes £1.8 million for design work on two new establishments in addition to the 18 for which there is already provision in the baselines (although your position has so far been reserved on whether work on two of those should begin.)

The third year bid is large because seven of the larger projects already agreed in principle are due to enter their construction phase at the end of the Survey period, and we are planning to build three of them to the more expensive 'new generation' prison designs, whose additional capital costs should be offset by reduced operating costs during the life of the establishments concerned. I consider it essential to add provision for the design of two more establishments: even if one takes the most optimistic projection of the prison population, two new starts are needed to prevent the gap between CNA and inmate numbers from widening in the 1990s.

(b) Prison manpower

We face extreme uncertainty over the provision for prison manpower. Given present methods of working I have no doubt that the existing provision would be inadequate, mainly because it assumes reductions in average overtime working and therefore of take home pay - of a size that I do not believe are likely to be deliverable (and which would further limit regimes). That is why I have attached such importance to the new shift and complementing systems to which the study with PA management consultants has pointed, and about which we corresponded on 9 and 12 May. I do not believe we are yet in a position to make reliable forecasts about the outcome of the attempts we shall be making to secure new working systems by April 1987. I face a choice between:

- (a) leaving the baseline as it is;
- (b) making a pessimistic assumption that new working practices will not be in place in time to affect expenditure in 1987-88 (this would result in substantial bids; and
- (c) making a fairly arbitrary assumption about expenditure in 1987-88 on the assumption that new shift and complementing systems will be in place in time to have some effect on that expenditure.

I cannot make a firm assessment of future prospects, so soon after the recent industrial action; I am unable to propose any change in the baseline. I should be happy to discuss with you the implications of this, especially for 1987-88.

(c) Other Prisons Expenditure

£25.9m                  £20.0m                  £26.0m

The most significant of these bids, of £13.0 million, £9.0 million and £10.0 million across the Survey period, is to make good a reduction in forecast of receipts from sales of surplus prison officers' quarters. We have concluded that sales are likely to yield only £33 million over the PES years against the £65 million assumed in the baseline.

For the most part the remaining bids represent the cost of maintaining current programmes at existing volumes. For example, a bid of £4.3 million, £4.7 million and £5.3 million is needed to maintain the education programme - the complicated system under which this programme has hitherto been funded disguises a serious insufficiency in the baseline; and a bid of £1.2 million and £1.9 million is needed to reflect increased costs of fuel and public utilities. There are also bids reflecting unavoidable additions to programmes of asbestos removal, deep cleaning of kitchens and replacement of the defective computer-assisted control systems at some establishments. Efforts to meet these additional commitments from the baseline would have damaging effects on the rest of the prison programme.

(ii) Victim Support(a) Criminal Injuries Compensation Board

£35.4m                  £40.8m                  £47.4m

We have discussed bilaterally and collectively the CICS and you are aware of the problems. The bid (which is net of a Scottish contribution of 20%) is to keep pace with applications and reduce arrears by about 10,000 a year until we achieve, probably some time during 1991-92, a working balance of 20,000 cases in the pipeline. If no additional provision is found the consequences are that the Board's arrears will increase from the present level of 50,000 to 60,000 by 1 April 1987, 73,000 by 1 April 1988 and 90,000 by 1 April 1989. In order to make the proposed inroads into arrears in 1987-88, a start would have to be made in the current financial year.

(b) Other victim support

£1.9m                  £2.9m                  £3.9m

I also wish to increase support for victims by more effectively controlled and directed means than through the CICB. We already provide for the central administrative costs of the National Association of Victim Support Schemes (NAVSS). The bid is to provide assistance to local victims support schemes by funding 200 rising to 400 local co-ordinators - no more than one for each scheme. The objective is to facilitate a substantial enhancement in the quality of the service provided by victims without changing the essentially voluntary nature of the movement and without creating a dependency on public funding for anything other than the payment of co-ordinators (or alternatively a small contribution towards administrative costs).

We would expect to see schemes in which a paid co-ordinator succeeded a volunteer taking on a larger number of victims, dealing with a wider range of offences, raising more voluntary funding and improving organisation, supervision and motivation of visitors. Schemes would be evaluated accordingly.

**(iii) Law and Order Services**

**(a) Police**

£1.1m                      -                      -

Additional provision is needed for a number of developments in this area, including increased police training, expanding the National Drugs Intelligence Unit, setting up the Public Order Forward Planning Unit, the Interception of Communications Tribunal and a central store for plastic baton rounds and CS gas. I have found additional provision for the generality of these developments by reducing requirements and making policy adjustments elsewhere within the police programme. There remains, however, a net bid of £1.1 million in 1987-88 which I cannot offset.

**(b) Crime Prevention Publicity**

£2.0m                      £2.5m                      £2.6m

The bid is for a large new crime prevention advertising campaign with the aim of reducing national burglary rates and stimulating interest in crime prevention activities in both public and private sectors. Burglary is singled out because of public concern, its high incidence and because many attempts can be thwarted by fairly simple preventive measures. A limited regional campaign in 1984 has had impressive results which suggest that crime prevention publicity is a very effective means of reducing burglary. The effects of a further regional campaign earlier this year are being evaluated. If no additional provision was made available the advertising campaign could not be launched.

**(c) Probation and Bail Hostels and Aftercare**

£0.6m                      £0.7m                      £0.7m

£0.1 million per year of the bid is for increased support for aftercare projects. The remainder of the bid is to cover the cost of operating probation and bail hostels at their present level. The operating costs have to be met, and I am unable to find off setting reductions.

**(iv) Other Policy Initiatives**

**(a) Research and Development**

£0.5m                      £0.5m                      £0.5m

The bid is to meet a need for experimental development to test, demonstrate and cost innovatory schemes, for example in areas such as mediation, reparation and crime prevention. The bid will enable the

Home Office Research and Planning Unit to develop and test new ideas in other areas such as community response to drugs, efficient court management and social crime prevention in schools and housing estates. All experimental development projects would have a limited timescale and measure cost effectiveness.

(b) Reduction in Racial Disadvantage

£2.7m                      £2.7m                      £2.7m

The bid is to provide grants to non-statutory organisations working to reduce racial disadvantage. £1.0 million per year of the bid is to support national organisations the objectives of which are to improve the position of minorities in this country. Examples of bodies that might be assisted would be Project Full-Employ, Community Roots and, the newly formed Black Churches Umbrella Group and a small number of similar Asian groups. Grants paid to such organisations would be developmental, time limited and subject to regular review. Measures of effectiveness would include the proportion of those trained to go on to employment and further training. The remainder of the bid is to pay grants to bodies meeting special needs of ethnic minorities at a local level. The three black business agencies are already so funded and the intention is to promote the establishment of additional agencies of this kind, especially in the eight inner city areas. If no additional provision was made available the initiatives described above would not take place.

(v) Fee earning services

(a) Passports

£3.1m                      £3.6m                      £3.6m

These bids would in fact be entirely offset by additional receipts from passport fees, but since those receipts are not classified as public expenditure I have to declare them as additional requirements as if they were net bids. The amounts reflect the forecast increase in demand for passports from 3.6 million applications (including standard passport services, British Visitors passports and visas) in 1984-85 to 4.4 million in 1987-88. £2.0 million per year of the bid is for payment to the Post Office for the issue of British Visitors passports and the remainder is increased general administrative expenditure. The manpower and accommodation consequences of the forecast increase in demand for passports are dealt with under the relevant headings below. The bids make no assumption about increased demand after 1987-88.

(b) Data Protection

£2.6m                      £3.8m                      -£1.9m

The net bids in the first two years are to pay for the running costs of the Data Protection Registrar. The Registrar is expected to be self financing but the matching of expenditure against fees can only be achieved over a period of several years because registration fees cover a three year period and also because of the need to cover the Registrar's initial costs. The irregular pattern of fee income

results in a net saving in the third year. In PES 1985 provision was to cover the Registrar's then best estimate of his requirements based on assumptions made shortly after he took up office. He has now been able to make more informed estimates of the likely volume of work and the costs of the operation. The increased costs result from three main factors: an increase in the estimate made of initial registrations from 100,000 to 300,000 leading to a need for more staff; an increase in expenditure on publicity and research; and new provision for additional work on inspection/enforcement activities. Despite the re-phasing of the expected pattern of expenditure and receipts, income from fees should still exceed expenditure by the end of the PES period.

(c) Cable Authority

£0.3m                      -                      -

The bid is to make a further loan to the Cable Authority. You recently wrote to me authorising a loan of £0.35 million in 1986-87 and recognised that a contingency bid for 1987-88 would be required pending the outcome in the autumn of the review of the Cable Authority's position.

(d) Gaming Board

£0.4m                      £0.4m                      £0.4m

From 1987-88 the way in which the Gaming Board is funded is to be brought into line with conventional arrangements for financing non-departmental public bodies. This has the consequence of increasing superannuation and VAT payments on the staff salaries by £0.2 million per year. The remainder of the bid is to correct the profile of income from fees paid to the Board and taken as appropriation-in-aid. Only 25% of the Board's costs are met in this way. Of course, all the Board's costs must be met from fees from licences and the remaining 75% of the Board's costs are met from fees paid to the courts. I am unable to offset these rather technical increases in any other way.

(vi) Administrative Support Services

(a) Accommodation

£2.4m                      £2.3m                      £1.7m

The bids are for three purposes:

- (i) to cover increased accommodation charges by PSA as a result of the change from average to individually assessed rates and rents;
- (ii) to cover the cost of major new works by PSA, for which PES responsibility has been newly transformed from PSA to departments, in our case without any baseline provision at all; and
- (iii) to provide for additional accommodation in central London to relieve overcrowding.

I have no control over (i). The sums bid for under (ii) are to cover essential work as part of the computerisation of passport department, the relocation of the PNCU, and refurbishment of Horseferry House. The bid at (iii) is for £0.1m and reflects current pressures on the available accommodation. Longer term measures to relieve those pressures are being considered but no alternative to additional accommodation in the short term can be found.

(b) Publicity

£0.7m                      £0.8m                      £0.8m

The bid is mainly for publicity about the provisions of the Representation of the People Act 1985, for example on absent voting, and to encourage electoral registration generally. If provision for such publicity was not available it is likely that the number of those registered to vote will be a lower proportion of those eligible to vote than it would otherwise.

(c) Information Technology

£4.5m                      £5.8m                      £7.7m

These bids are for computerisation in various parts of the office. A significant element is for the Prison Service's Inmates Information System where there is now a clearer picture, following a decision on the procurement strategy, of likely costs. A slippage in this project also requires provision previously made for 1986/87 to move to later years. The bids also reflect more realistic costs for the Passport Department project now that the trade has had the opportunity to assess and make proposals. Considerable savings from both these, and the IND computer projects, are expected, though generally they fall outside the PES period.

(vii) Non-prisons manpower

£10.5m                      £11.3m                      £10.5m

The bids are necessary to enable the department to cope with the increasing demands being made on it, most notably in immigration control, after taking account of reductions that are being achieved through improved methods of working, tighter complementing, contracting out etc. Specifically, the bids would cover:

- (i) An increase of over 152 posts in the Immigration and Nationality Department (112 for the Immigration Service and 40 for the after entry control) up to 1 April 1988. IND are operating in an environment where passenger traffic is increasing substantially in numbers and difficulty, most rapidly with the non EEC citizens subject to control. The bids are put forward on the basis of the maintenance of the present policies and system of control. If the bids were not made there would be an increase in delays to passenger at ports with potential loss of effectiveness in operating the controls.

- (ii) Provision for overtime and casual (not permanent) staff in Passport Department to meet the forecasts of increased demand - to which I have already referred.
- (iii) Provision for more casual (not permanent) staff in the Directorate of Telecommunications to deliver the WARC re-equipment programme on time.
- (iv) the cost of the consequential manpower ceilings proposed below, taking account of the inadequacy of present provision to pay for even the existing ceiling.
- (v) The cost of a pay award in 1987 of 5%

The manpower implications of these bids are set out below.

	1.4.87	1.4.88	1.4.89	1.4.90
Existing ceiling	9628	9578	9578	(9578)
Forecast complement (up to 1.4.88)	9846	9909	9909	9909
Proposed ceiling*	9696	9759	9759	9759
Bids on current ceiling	+68	+181	+181	+181

\* Estimated complement less 150

**(viii) Running Costs**

The running cost implications of the total bids are as follows:

+£27.1m                      +£27.1m              £29.0m

**(ix) Local authority non-relevant current expenditure**

£2.7m                              £2.8m                      £2.8m

The bid is to provide for the Imperial and National Service Grant which is a fixed percentage of Metropolitan Police expenditure in recognition of the national functions undertaken by them. The increase in the grant will be neutral in public expenditure, being a transfer from local authority relevant to non-relevant current expenditure.

**(x) Fire capital**

£24.8m                              £23.7m                      £23.2m

The bid is to make realistic provision for fire capital. The PES provision has been exceeded by over 100% in the last three years and is quite unrealistic in terms of maintaining an essential level of renewal of the capital stock without which the speed and effectiveness of fire service response will decline. Before 1986-87 fire authorities were able to spend above provision because of the



flexibilities available to multi-service authorities to switch resources between services, and to use capital receipts to boost their capital allocations. These flexibilities are not available to the single service fire and civil defence authorities and in their case has thrown much greater weight on individual allocations. Those made this year by DOE on the advice of the AMA in respect of the metropolitan areas (not London) amounted in the case of the Greater Manchester, Tyne and Wear and South Yorkshire authorities to less than known inherited contractual commitments. In all cases they fell short both of the fire provision in the metropolitan areas which could reasonably be imputed from the PES line for fire capital and of historic spending which might objectively be assessed as need, allowing for the known condition of fire brigade buildings and front line fire and rescue vehicles and equipment.

In last year's PES I made a bid for fire capital but did not press it because of other priorities and the difficulty of predicting exactly what the effect would be for the new joint boards of obtaining no additional provision. It is now clear that various of the joint board authorities have run into difficulties this year which could lead, if the present capital allocations are unsupplemented quickly, to major political embarrassment. As part of the assessment of the problem my officials and members of Her Majesty's Inspectorate of the Fire Service have conducted detailed examinations in the joint board brigade areas, taking a stringent view upon the necessity for each authority's spending. As a result my officials are in touch with yours about how to deal with the problems which have arisen this year.

In doing so, Home Office officials and the Inspectorate have also taken an entirely fresh look at the capital needs of the metropolitan areas from 1987-88 onwards. They have taken into account local circumstances, including, for example, the known lives of pumping and other major fire appliances and the sixty to eighty year life span of fire stations according to their location and use. The very detailed discussions with all seven metropolitan authorities have convinced us that they have certainly not enjoyed adequate capital investment in recent years and that there is a backlog of modernisation and repairs which needs to be retrieved if the service is not to suffer a continuing decline. Officials are attempting within the Home Office expenditure group to make a further analysis of shire county needs.

**(xi) Other policy issues: Visa policy and detention accommodation**

There are issues in immigration control for which I have not judged it right to enter bids but on which decisions might be needed during 1986-87, which would affect expenditure thereafter. I have circulated the report of the joint Home Office/FCO review setting out the arguments for and against greater use of entry clearance, and, the expenditure implications. If visas were to be introduced in the ten candidate countries identified in the review group's report, the cost would be £14.0 million a year. If new visa requirements were confined to the countries of the Indian sub-continent the cost would be £3.5 million a year. These increased costs would fall in part on the FCO and in part on the Home Office, although it would clearly be for the Home Office to take the lead in seeking adequate PES provision. If no new visa requirements are introduced, and current increases in difficult traffic are sustained,

additional provision for the detention of people refused entry will be necessary. The existing detention accommodation is inadequate and it is planned to replace it with new purpose built accommodation. If visas are not introduced we shall need to add, perhaps substantially, to what is already planned, and even with some new visa regimes additional detention accommodation might be required.

**(xii) Conclusion**

Your guidelines for the survey indicate that I should attempt to list my proposals for additional provision in broad order of priority. I find this difficult, given the wide range and varied nature of the programmes for which I am responsible. I have included only those bids which are of the highest priority. The net bids take account of reductions totalling £24 million £20 million and £24 million. The summary position is:

	..... £ MILLION.....					
	EXISTING PROVISION			ADDITIONAL REQUIREMENTS		
	1987/8	1988/9	1989/0	1987/8	1988/9	1989/0
Prisons	728.1	767.4	786.6	+26.5	+18.7	+53.1
CICB	41.1	42.2	43.3	+35.4	+40.8	+47.4
Non Prisons (Manpower)	113.3	116.1	119.0	+10.5	+11.3	+10.5
Non Prisons (Other)	249.0	242.3	248.7	+22.8	+26.0	+22.7
Local authority non-relevant current	16.7	17.1	17.5	+2.7	+2.8	+2.8
Local authority capital	164.3	168.6	172.8	+24.8	+23.7	+23.2
Fines and Fees	-164.5	-168.7	-172.9	-	-	-
<b>TOTAL</b>	<b>1148</b>	<b>1185</b>	<b>1215</b>	<b>+122.7</b>	<b>+123.3</b>	<b>+159.7</b>

I am copying this letter to the Prime Minister, Willie Whitelaw Geoffrey Howe, Malcom Rifkind and Tom King.

*Yours,*

*Douglas,*

