

NO



Prime Minister

PRIME MINISTER

Agree, subject to

colleagues, to this  
procedure?Yes  
not

Mus 29/3

## PUBLIC EXPENDITURE SURVEY 1983

As usual at this time of year, we need to settle guidelines for the next Public expenditure Survey. Proposals are set out in the annex to this minute. They are largely procedural and have been discussed at official level. Unless colleagues see any difficulty, work on these lines should now be set in hand.

2. The 1983 Survey will take us to the year 1986-87. Relevant to it are both the work you have commissioned on public expenditure in the longer term, and the review of manpower requirements between 1984 and 1988. Paragraph 3 of the guidelines suggests how these and other exercises should be related to the 1983 Survey. About the longer term you may perhaps want to take a paper in Cabinet in June or the first half of July.

3. It is necessary to establish a baseline for the Survey, from which proposals for increases or decreases are measured. The baseline is not necessarily the same as the objective, for which I shall make a proposal later, in July, in the light of the factual material and any bids produced in the first stage of the work now to be set in hand. For 1984-85 and 1985-86 the baseline will be the cash plans in Cmnd 8789, as modified by the Budget and other agreed changes. For 1986-87 it will be the cash figures for each programme for the previous year 1985-86 plus 3% uplift (except for the local authority unallocated margin). The guidelines paper does not give a quantified assumption for inflation in 1986-87, but it states our intention that inflation should continue to decline. It should be understood that on these assumptions the cash baseline implies some reduction in the real content of programmes for 1986-87 compared with 1985-86.

4. The intended timetable is much as in previous years. The factual material brought together by officials in a Survey report would be the basis of proposals which I should bring to Cabinet in July concerning overall objectives. Detailed bilateral discussions would then follow, leading to final Cabinet decisions and announcement in an autumn statement. The precise timetable for these later stages can be established later.

5. The procedure for handling local authority expenditure will follow the lines successfully introduced in 1982. Again as last year, the results of the nationalised industries' Investment and Financing Review will be for consideration by E Committee in the first half of July.

6. I draw attention to:-

- (a) paragraph 7 of the guidelines, which suggests that departments aim to build a measure of flexibility into their physical planning so that (within the cash plans) the real content of programmes can be adjusted - either upwards or downwards as necessary - to deal with the inevitable uncertainties;
- (b) paragraph 12, which invites departments to consider the scope, within the existing plans, for switching from current to capital expenditure. The level of capital spending may be one of our preoccupations in this year's Survey.

7. Accordingly I now seek colleagues' agreement that:-

- (a) officials should produce the annual survey report in the form and to the timetable specified in the guidelines annexed to this minute;
- (b) officials should produce a report on options for reductions to produce programme savings in cash of 3 per cent from the baseline in 1984-85, 4 per cent in 1985-86 and 5 per cent in 1986-87;

- (c) representatives of the local authorities should, as last year, be consulted through the machinery of the Consultative Council on Local Government Finance;
- (d) the results of the Investment and Financing Review of the nationalised industries should be considered within the framework of the Survey as in paragraph 5 above.

8. I am sending copies of this minute to Cabinet colleagues, to Paul Channon and to Sir Robert Armstrong. It would be helpful to receive any comments not later than 6 April.

L.B.

LEON BRITTAN  
28 MARCH 1983

DRAFT

PESC(83)

PESC (WM) (83)

COPY NO

HER MAJESTY'S TREASURY  
PUBLIC EXPENDITURE SURVEY COMMITTEE

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GUIDELINES FOR THE 1983 SURVEY

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Note by HM Treasury

Introduction

1. This paper sets out guidelines for the conduct of the 1983 Public Expenditure Survey, and for the preparation of a) the 1983 PESC report and b) a separate report (not for circulation) on options for reductions. A separate PESC(WM) paper will be issued requesting running tallies.

Timetable

2. Departments are requested to undertake the work required for the production of the two reports according to the timetable at Annex A, which would require amendment if an election is called before July. A timetable for the remaining stages of the survey will be circulated later.

Longer-term and other related exercises

3. In preparing chapters for the PESC reports, departments should take into account the results of related exercises (eg policy reviews, the "forward look", Rayner scrutinies, the review of manpower prospects from 1984 to 1988 and the running costs exercise). It is intended that the 1983 survey should also be influenced by the results of the exercise on public expenditure in the longer term. Draft chapters should, therefore, show the effect - particularly in relation to 1986-87 - of the possible reductions listed in Departments' contributions to that exercise. These will be subject to collective discussion by Ministers during the summer, but it is important that the PESC reports should give, from the outset, a comprehensive account of the range of policy options available in the survey period.

4. Civil Service manpower numbers are the subject of the separate review of manpower prospects from 1984 to 1988, which is intended to provide a new series of manpower targets which will be reviewed year by year during each survey. When Cabinet decisions on manpower have been taken, survey figures may need to be amended to reflect them. (See also paragraph 14.)

#### Baseline (to 1985-86)

5. Annex B gives detailed information on the construction of the baseline to 1985-86. Certain returns are required by 29 April.

#### Construction of initial figures for 1986-87

6. Baseline figures for 1986-87 will be calculated by the Treasury by adding 3 per cent to the figures for 1985-86, adjusted as in Annex B. In the case of local authority current expenditure this will apply only to the aggregate service provision: this is explained further in Annex B. Proposals to alter the provision to meet the cost of existing policies should be put forward as in paragraph 9 below and Annex C. Any reduced requirements should be identified as in paragraph 1(vi) of Annex C.

#### Flexibility within the Cash Plans

7. In planning the physical content of their programmes and the levels of service envisaged, Departments should consider carefully the implications of their present cash plans, ie the cash figures in the baseline, for all the years covered by the survey. In recent years attention has tended to concentrate on the first forward year. In drawing up the cash plans, the later years of the survey also need to be properly reviewed. Within their cash plans, Departments should aim to ensure that the content of programmes contains some margin of flexibility and can be adjusted - either upwards or downwards as necessary - to deal with the inevitable uncertainties, eg concerning inflation, employment and changes in demand. The assumptions and forecasts in the Financial Statement published with the Budget provide some quantified indications for the GDP deflator: for 1983-84 5½ per cent, for 1984-85 5½ per cent, for 1985-86 5 per cent. For 1986-87, the Government intend that inflation should continue on a steady downward path. The figures for the GDP deflator must be used with caution. The margins of uncertainty are wide. Departments must make adequate allowance for this in their planning so that the cash plans can be held even if there is some divergence from the indications given in the FSBR.

#### Economic assumptions

8. Where they are needed, specific economic assumptions will be issued directly to the Departments concerned. The assumptions to be adopted for the uprating of pensions and social security benefits will be decided in further discussion with DHSS.

#### Form of the main PESC report

9. The chapters of the main report should be cast in the following standard form:
- a) Programme statistics, including reduced requirements.
  - b) Statement of how the Department would organise its programme at the baseline level, indicating clearly (i) the programme's main and subsidiary policy objectives; (ii) the likely level of service which could be achieved; and (iii) any significant policy changes which would be necessary.
  - c) Departmental case for any adjustment to the programme, justified, so far as possible, by quantified measures of output related to the objectives of the programme.
  - d) Treasury comment on (b) and (c) where appropriate.

Departments and Treasury divisions are, as usual, asked to ease the substantial task of editing and reproducing the reports by adhering to the standard conventions in Annex F. Compatible word processor copy should be provided if possible (see Annex).

10. More detailed information on the preparation of chapters for the main PESC report is in Annex C. Programme statistics (see para 9a), programme statements (para 9b) and adjustments to programmes (para 9c) should be presented in the form set out in the Annex.

#### Options for reductions

11. As last year, this material will be contained in a separate (uncirculated) report. Departments should set out and discuss, for each programme, policy or other changes designed to produce programme savings in cash of 3 per cent from the baseline in 1984-85, 4 per cent in 1985-86 and 5 per cent in 1986-87. In the case of Defence this requirement applies only to 1986-87. For social security benefits the reductions should be applied from the November uprating dates. Where such changes would involve reductions in civil service manpower which have already been noted as possible options under heading 3 of the Annex to the Treasury letters of January 1983 about manpower prospects, this relationship should be shown. There is no decision that such reductions will be made. The purpose of these options is to provide material for considering the scope for reductions in some programmes to offset possible increases in others, in particular for possible increases in capital expenditure (see para 12 below). More detailed instructions for the preparation of this report are in Annex D. In particular the options should be ranked in order of acceptability.

#### Capital expenditure

12. Departments are reminded of the concern which has recently been expressed, in Parliament and elsewhere, about the declining share of capital expenditure within the

Overall total of public expenditure. It seems likely that within the agreed totals, Ministers will in the 1983 Survey wish to consider the possibilities for switching expenditure in the survey period from current to productive capital investment. Departments are therefore asked to indicate what scope they see for worthwhile additional capital expenditure. It would be helpful if they could provide for consideration illustrative lists of major capital projects similar to those which will appear in the new Works Services Annexes to the Estimates.

#### Supporting analyses

13. The PESC report will include supporting material broadly on the lines of Annexes A to F of the 1982 report. To enable Ministers to see the economic effects of changes proposed and made in the survey, an analysis of all significant proposed increases, identified savings, and options cuts will be needed. A technical note will be issued explaining the analysis required in detail.

#### Civil service manpower

14. As indicated in paragraph 1(vii) and (viii) of Annex C, figures for civil service manpower should be shown separately. For the years to 1 April 1986, the baseline (para 1(vii)) will be the figures agreed by Cabinet in the 1982 survey. The baseline for 1 April 1987 should be assumed to be the same as for 1 April 1986. Proposed changes from the baseline (para 1(viii)) should be consistent with Departments' proposals under headings 1 and 2 of the Annex to the Treasury's January 1983 letter to Departments asking them to assess and report on their manpower prospects from 1984 to 1988. Where a Department wishes to seek higher manpower figures in any year, a brief explanation should be provided.

#### Pay

15. In considering the adequacy of existing plans, Departments should bear in mind any knock-on effects of settlements in the current pay round. Further consideration will have to be given at a later stage to how to treat public service pay in 1984-85 -in particular whether to have a pay factor as for 1983-84 and, if so, whether to make any corresponding adjustments to existing plans, upwards or downwards.

#### Smaller Departments

16. For the 1983 PESC report a new chapter will be introduced for the Departments of the Chancellor of the Exchequer. A separate paper will be issued giving guidance to those Departments and to the other Departments included in Chapter 29 of the 1982 survey report. (Annex E gives a list of spending Departments.)

Further Information

17. Any questions arising from this note should be addressed to the secretaries, Mr Donovan (233-4801) or Mr Davis (233-4607).



- APRIL Friday 29 April. Last date for Departments to send forms to GE Data Unit putting in Budget changes and any other agreed net additions or reductions to the White Paper figures (including classification changes, agreed switches, and revised outturn for past years).
- MAY Friday 13 May. Last date for Departments to send draft texts of PESC report and any other supporting material to Treasury Divisions.
- Friday 20 May. GE Data Unit circulate to Departments resulting tables showing White Paper figures (and 1986-87 figures), adjustments and resulting baselines.
- Mid-April to end-May. Possible manpower bilaterals.
- JUNE Friday 3 June. Last date for Treasury Divisions to send agreed texts to GE (10 June if they can provide a fair copy of the text and compatible word processor tape).
- Thursday 9 June Cabinet on Manpower after 1984
- Wednesday 15 June. Last date for Departments and divisions to send GEPl agreed special analyses.
- Thursday 28 June. Draft report circulated to PESC.
- Summer forecast available late June/early July
- JUNE/JULY Ministerial discussion leading to July announcement of main provisions for local authorities.
- JULY Tuesday 12 July. Final PESC meeting.
- Friday 15 July. Final copy to printer.
- Early July. E Discussion of nationalised industries, including provisional decisions on totals.
- 21 or 28 July. Cabinet to consider overall objectives, to be followed up in bilateral and other discussions in the autumn.

## CONSTRUCTION OF THE BASELINE (TO 1985-86)

The starting point for the 1983 survey will be the cash plans published in Cmnd 8789, adjusted for Budget and other changes, with figures for the additional year 1986-87 constructed as in paragraph 6 of the main paper and paragraph 2 below. The adjustments will be shown separately in the PESC report from the White Paper figures, as in last year's report, but included in the baseline. The presentation of information on the nationalised industries is to be changed to show more clearly the public expenditure accounted for by each industry. A separate technical note will be issued.

2. The baseline for local authority relevant current expenditure in 1986-87 will be the service figures for 1985-86, plus a reserve. This reserve will be calculated by the Treasury and will be equal to 3 per cent of the aggregate service figures in 1985-86 (not including the unallocated margin of £250 million). Decisions on the service distribution of the reserve will be made by Ministers later in the Survey. The baseline will not include an unallocated margin.
3. With Treasury agreement a Department's baseline figures may be switched between sub-programmes within the same programme in any of the years 1984-85 to 1986-87 except that switches out of local authority current expenditure will be allowed only where explicit policy changes will ensure delivery.
4. Except where otherwise agreed between the Department and the Treasury, proposals for switches of expenditure between programmes should be identified in the PESC report as matters still to be decided.
5. The Treasury will be in touch with Departments separately about sending in running tallies to enter the Budget changes. These and any other agreed changes to the baseline from 1983-84 up to 1985-86, including adjustments to expenditure related to civil service manpower, will need to be sent to the Treasury by 29 April. Classification changes (applying to all years of the survey, 1978-79 to 1986-87) and estimating changes for past years up to 1982-83 should also be sent in by 29 April.

## PREPARATION OF PESC REPORT CHAPTERS

(a) Programme statistics (para 9a).

Each PESC report chapter will include tables showing the figures at (i) - (viii) below. Those in (i-iv) will be supplied by GE data unit; in (v-viii) by Departments. The figures to be included are:-

- i. the Cmnd 8789 figures, up to 1985-86, and for 1986-87 the figures as calculated in paragraph 6 of the main paper;
- ii. the various agreed changes mentioned in paragraphs 1 to 4 of Annex B plus classification changes;
- iii. the resulting baseline;
- iv. any other agreed changes;
- v. any switches out of programmes involving local authority current expenditure which the Treasury has not agreed as part of the baseline;
- vi. proposed adjustments to programmes other than those at (ii), including reduced requirements and switches to be identified (paragraph 4 of Annex B);
- vii. the manpower numbers implied by the expenditure baseline (showing civil service manpower separately - see paragraph 14 of the main paper);
- viii. proposed additions to or reductions in manpower numbers (showing civil service manpower separately) (again see paragraph 14).

2. Items (v) - (viii) above apply to 1984-85 and later years. Increases for 1983-84 should not be proposed in the survey; any such proposals will be dealt with as they arise through the year as part of the operational control of the contingency reserve and the in-year controls on civil service manpower. Expected reductions in 1983-84 in expenditure or manpower should however be included.

(b) Programme statement (para 9b)

3. The programme statement should contain as much information as possible on the level and standard of service likely to be delivered. Departments may if they wish refer to cost terms equivalents (using the GDP deflators assumed in the Budget and FSB, ie 7 per cent

for 1982-83, 5½ per cent for 1983-84, 5½ per cent for 1984-85 and 5 per cent for 1985-86), and also discuss the implications of the cash plans taking into account their views of the prospects for pay and prices relevant to the services concerned.

c) Adjustments to programmes (para 9c)

4. Where a Department finds it necessary to propose an increase in expenditure, it should demonstrate, with quantified output data where available, the consequences for the level of service it provides, of maintaining the present cash programmes unchanged, and say why these consequences are thought unacceptable. Where the case for any increase is related to price movements, Departments should demonstrate that their own costs have moved faster than the provision made (with a consequent effect on levels of service in future years); or that they will move faster than the likely trend of prices generally (as measured by the GDP deflator). They will need to show that the price increases cannot be restrained and that the increased costs cannot be absorbed by increased efficiency.

5. The criteria set out in paragraph 4 should be applied to estimating increases as well as to any increases attributable to changes in policy; estimating reductions, provided that Treasury divisions accept them as sufficiently certain and durable, can be counted as savings. Wherever possible the text should distinguish adjustments arising from changed economic or demographic assumptions (if any) and should indicate increases which Departments and the Treasury have agreed would be necessary for the maintenance of standards provided in existing plans. The text should indicate the spending authority concerned and whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control. Departments should not take credit for proposed reductions in local authority current expenditure unless they can ensure that they will be delivered. Consequences for public service manpower should be stated.

### REPORT ON OPTIONS FOR REDUCTIONS

A consolidated list of options should be produced for each department ranked in order of acceptability. Efficiency savings (including savings in accommodation etc) and the scope for switching from current expenditure to capital, should receive particular attention. Savings on local authorities' relevant current expenditure should not be put forward as offsets to increases on other kinds of expenditure. New or increased charges may be put forward as possible savings on the same terms as in the 1982 survey.

2. To make it easier to use the separate report, the table at the head of each contribution should list any proposals for net increases (as set out in the PESC report). The texts should be kept brief, and should indicate as appropriate:

- the responsible Department and spending authority
- whether main or subordinate legislation would be required, and whether legislation in which the change could be included is already planned
- the specific areas where the reductions would fall, and their implications
- consequences for civil service or local authority manpower
- any specific effects on employment and industry.

#### Example of table required

Department	£ million cash		
	1984-85	1985-86	1986-87
1. Baseline	-	-	-
2. Net increases proposed	-	-	-
3. Options for reductions required	-(3%)	-(4%)	-(5%)
4. Items identified in order of acceptability			
(i) —	-	-	-
(ii) —	-	-	-
(iii) —	-	-	-
(iv) —	-	-	-
(v) —	-	-	-
5. Total options for reductions identified	-	-	-

Followed by notes on each option as in para 2 above.

Major spending Departments

Ministry of Defence  
FCO (Overseas Development Administration)  
FCO - other  
EEC Budget  
IBAP  
MAFF\*  
Forestry Commission  
Department of Industry  
Department of Energy  
Department of Trade  
ECGD  
Department of Employment  
Department of Transport  
DOE - housing  
DOE - PSA (remaining net programme)  
DOE - other  
Home Office  
Lord Chancellor's Department  
Department of Education and Science  
Office of Arts and Libraries  
DHSS - health and personal social services  
DHSS - social security  
HM Treasury - civil superannuation  
Scottish Office  
Welsh Office  
Northern Ireland Office and Departments  
Nationalised industries' total net borrowing  
  
Local authority current expenditure relevant for RSG

\*The presentation of the agriculture expenditure of MAFF, DAFS and WOAD should be as in the 1982 survey report.

Departments of the Chancellor of the Exchequer:

Central Office of Information  
Customs and Excise  
Friendly Societies Registry  
Government Actuary Department  
H M Stationery Office  
H M Treasury - Administration, note issue, etc  
H M Treasury - Rating of Government Property Department  
Inland Revenue  
National Investment and Loans Office  
National Savings Department  
Royal Mint

Other Departments

Cabinet Office  
Charity Commission  
Commonwealth War Graves Commission  
Crown Office  
Exchequer and Audit Department  
House of Commons  
House of Lords  
Land Registry  
Management and Personnel Office  
Northern Ireland Court Service  
Office of Fair Trading  
Office of Population, Censuses and Surveys  
Ordnance Survey  
Parliamentary Commissioner  
Paymaster General's Office  
Privy Council Office  
Public Record Office  
Public Trustee Office  
Treasury Solicitor's Department

## NOTE ON THE PREPARATION OF DEPARTMENTAL TEXTS

It is extremely helpful to have the Departmental texts etc provided in the correct format. Since the PESC report is now produced on a word processor, Departments with compatible equipment are invited to submit texts on floppy disk together with one typed copy; and the timetable makes allowance for this (see Annex A). Departments are asked to check for compatibility with Mrs P Spragg (01-233-4913) before adopting this approach. Otherwise, typescript should be submitted in the normal way. The conventions to be observed on format are the following:-

1. Texts should be attached to, not incorporated in, a covering note. Typing should be on white A4, 1½ spaced, 1½ inch margin. There should be no heading of the kind "Draft passage for PESC report". To facilitate reproduction a top and one spare copy should be sent to GEP 1 division of the Treasury.
2. Avoid the use of capital letters as far as possible.
3. Refer to:     the "survey" (small s)  
                  the "survey report" (small r)  
                  the 1983 White Paper as "Cmnd 8789"  
                  in relation to changes refer to "Cmnd 8789".
4. It will be understood that all figures in the report are in cash, unless otherwise stated.
5. Write:        "per cent" not "%"  
                  "1983-84" not "1983/84" or "1983-4"  
                  "a year" not "per annum" or "pa"  
                  "f million" not "fm".
6. Avoid abbreviations except where these are very familiar eg "NATO". Give an initial explanation of unfamiliar abbreviations, thus "Commonwealth Development Corporation (CDC)".
7. In the top right hand corner of each page type the name of the Department in block capitals eg: HOME OFFICE
8. Number the paragraphs, or, if the particular piece of text will follow another relating to the same Department, leave spaces for paragraph numbers.



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

30 March 1983

*Dear John,*

PUBLIC EXPENDITURE SURVEY 1983

The Prime Minister was grateful for the Chief Secretary's minute of 28 March about the Public Expenditure Survey 1983.

Subject to the agreement of colleagues, the Prime Minister agrees to the Chief Secretary's proposals.

I am sending copies of this letter to all members of the Cabinet, the Minister for the Arts and Sir Robert Armstrong.

*Yours sincerely,*

*Michael Scholar*

John Gieve, Esq.,  
Chief Secretary's Office,  
HM Treasury

CONFIDENTIAL

*file Bre  
cc: Nick Owen*

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Puh*

*BSP*

SEC NO

010



Prime Minister<sup>2</sup>

MUS 31/3

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in PM'S BOX

FCS/83/68

CHIEF SECRETARY TO THE TREASURY

1983 Public Expenditure Survey

1. I agree that, as proposed in your minute of 28 March to the Prime Minister, this year's Survey should be got under way and that we should aim for the timetable attached to the guidelines.

2. I have only one comment on detail: I note that Departments will once again be required to cost and set out Options for Reductions, ranging this time from 3% to 5% of their planned expenditure. If Options are considered necessary, I must put down a marker about their purpose. I shall put them forward entirely on an illustrative basis and without commitment: it should not be assumed that by so doing I agree to their application to any degree.

3. I am sending a copy of this minute to the Prime Minister.

(FRANCIS PYM)

Foreign and Commonwealth Office  
31 March 1983

ECON POT: Public Exp

31 MAR 1983

