

PRIME MINISTER

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## PUBLIC EXPENDITURE PRIORITIES

As you know, I strongly support the Government's decision to keep total expenditure to 1986-87 within last month's White Paper figures. But I wonder whether our reviews of expenditure enable us to get all our priorities right within the total.

2. The policies for schools which, with your approval, I outlined in my speech at Sheffield early in January have been widely welcomed. They are securing a greater acceptance of the need to raise standards. We ought to exploit this change of attitude. The prize to be won is no less than improved standards of understanding, attitudes, skills and knowledge at all ability levels. These policies - with the Technical and Vocational Education Initiative (TVEI) - will, I believe, in time improve effectiveness widely and thereby the performance of the economy. But, like the TVEI, they will also require to be lubricated by some extra resources - over and above those on which we have already counted through redeployment within education.

3. These extra resources are likely to be needed in particular to allow (a) for the introduction of a performance-linked pay structure for a smaller but better school teacher force, together with improved management of that force, and (b) for more and better in-service training for school and college teachers. (Some modest extra resources would also be needed to enhance the efficiency and effectiveness of teaching and research in science and engineering in line with the policy proposals for higher education which I shall be putting to you later in the year.)

4. For these purposes, I believe that we shall need to provide - in addition to whatever resources we judge necessary to sustain our present policies for education and science, and

after allowing for the maximum redeployment - a sum rising to something like £300 million a year by 1986-87.

5. I recognise that it will not be easy to find a sum of this order. There are limits to what we can change in defence, pensions and the health service. The less we can do about these programmes, which together account for nearly half the total, the more important it is that we should look elsewhere so as to make room for new developments. Otherwise policies, like those for education and science, will suffer.

6. I suggest that there are areas of lower priority or promise to which we could look to finance an increase in provision for education and science on the scale I have mentioned above. Is it right, for example, that this Government, with its commitments to market forces, should pay subsidies to agriculture which (CAP and national combined) total £2 billion a year? Do we still need such large subsidies to industry - I realise that they were even bigger in my time - and commerce (including tourism)? Is there parity, after allowing for differing needs, in the treatment of services in England and Scotland? Can some of the public money now going to finance research and development in some programmes be put to better use in others? In my own field, should we aim over a period of years gradually to reduce the dependence of higher education students on public funds for their maintenance? (We took this some distance in the 1983 Survey, with very little fuss, by steepening the means test except for those whose parents are at the bottom of the income scale. I think we can take this process some distance further.)

7. These are only some examples of issues, calling for political decisions that go well beyond the work undertaken by officials in the annual Surveys, which I believe we ought to consider in preference to the across-the-board "options for reductions" which have been a feature of recent years.

8. I hope that some of us can have a discussion with you about all this before the 1984 Survey is launched.

9. I am sending copies of this minute to the Chancellor of the Exchequer, to whom I have already mentioned some of these ideas, and the Chief Secretary Treasury.

KJ

21 March 1984

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HER MAJESTY'S TREASURY  
PUBLIC EXPENDITURE SURVEY COMMITTEE

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GUIDELINES FOR THE 1984 SURVEY  
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Note by HM Treasury

Introduction

1. This paper sets out guidelines for the conduct of the 1984 Public Expenditure Survey, and for the preparation of (a) the 1984 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. First running tallies are required by 19 April. A more detailed timetable for the later stages of the survey will be circulated later. It is essential that the deadlines set in the survey timetable should be strictly observed. (Considerable difficulties were caused last year, in particular by the late submission of running tallies and some programme texts.) Any department which finds particular difficulty in meeting the deadline of 27 April/4 May for the submission of draft texts of the PESC report should consult the Treasury Expenditure Division concerned, to establish how best the final deadline of 17/24 May (submission of texts to GE) can best be met.

### Longer-term and other related exercises

3. In preparing chapters for the PESC reports, departments should take into account the Government's Medium Term Financial Strategy, the issues discussed in the Green Paper on public expenditure and taxation in the longer term and the results of other exercises (eg policy reviews, efficiency scrutinies and the running costs exercise). It is important that the PESC reports should give, from the outset, a full range of policy options available in the survey period.

### Construction of the baseline.

4. Annex B gives detailed information on the construction of the baseline to 1986-87. Baseline figures for the new year, 1987-88, will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1986-87, adjusted as in Annex B. In the case of defence, this will apply only to the non-Falklands element of provision; in the case of local authority current expenditure only to the aggregate service provision: this is explained further in Annex B.

### Flexibility within the Cash Plans

5. 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. Possible paths for real growth and inflation in the economy were set out in paragraph 2.19 and Table 5.5 in the Financial Statement and Budget Report, but the margins of uncertainty are wide. Departments should as usual 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

6. Where they are needed, specific economic assumptions will be issued directly to the Departments concerned; the timetable for the resulting running tallies will be issued later. 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

7. Programme chapters should not repeat the information on programmes contained in Part 2 of the last Public Expenditure White Paper (Cmnd 9143). All chapters should, however, cross-refer to the White Paper as necessary and contain a clear summary of the key figures following the format in Annex C attached. The text should be limited to identifying any proposed departures from the plans in the White Paper, distinguishing optional changes of policy clearly from estimating and other demand-led changes. Arguments in support of bids should be briefly stated; any implications for public service manpower should be indicated.

8. Bids for additional cash should be placed in broad order of priority. They should in all cases be supported by some form of output measure, indicating as precisely as possible what the additional money will buy. The chapter should state what offsetting savings might be found, and what action would be required if the department were obliged to meet the additional requirement within its existing programme. Any estimating reductions should be clearly specified.

9. Departments should indicate whether an additional bid (or a proposed saving) would, if agreed, have effects, through the territorial formula, on expenditure in Scotland, Wales or Northern Ireland (territorial expenditure). ST3 Division of the Treasury will advise in any case of doubt - Mr Pratt (233-5279) and Mr Smith (233-8045).

10. 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 E. Compatible word processor copy should be provided if possible (see Annex).

#### Local authorities

11. Because local authority relevant current expenditure will be discussed separately, in advance of other programmes, the 1984 PESC Report will not contain a separate local authority chapter. Consistently with the general approach in paragraph 7 above, programme chapters need not normally refer in detail to expenditure by local authorities unless the Department concerned wishes to propose:

- (a) a specific policy initiative in an area within the Government's control or influence, or
- (b) an adjustment to programmes (eg capital expenditure) which will not be covered by Ministers' separate decisions on local authority current expenditure.

#### Nationalised Industries

12. The external finance of the nationalised industries, and related expenditure as agreed between the Treasury and sponsor Departments (including redundancy provision), will be treated as in the 1983 Survey. Although each industry's external finance and related expenditure will be included as a memorandum item within the relevant functional programmes in the 1984 PESC Report, proposed changes to nationalised industry expenditure plans will be separately considered in the Investment and Financing Review. Arrangements for this have already been notified to sponsor Departments.

### Options for expenditure reductions

13. 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 equivalent to 3 per cent of the baseline in each year to 1987-88. Options should not be included for local authority current expenditure. Finance treated as being within the nationalised industries' ring fence is excluded as it is treated separately.

14. In the case of defence, the requirement to set out options for reductions applies only to 1986-87 and 1987-88. For social security benefits the reductions should be applied from the November uprating dates. 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. More detailed instructions for the preparation of this report are in Annex D. In particular the options should be ranked in order of acceptability. Departments should assist fully in costing any options for reductions which may be put forward by the Treasury in the course of the survey.

15. Specific options for reductions need not be produced for the territorial blocks. Other departments should, however, indicate whether the options they propose would have consequences for territorial expenditure.

### Supporting analyses

16. The PESC report will include supporting material broadly on the lines of Annexes A to F of the 1983 report. To enable Ministers to see the economic effects of changes proposed and made in the survey, an analysis of 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

17. Figures for Civil Service manpower should be shown separately. The baseline is the figures agreed in last year's Survey up to 1 April 1988, amended by any changes subsequently agreed by the Treasury (a figure for 1 April 1989 is not required). Cabinet agreed these figures on the understanding that every attempt would be made to improve on them. Consequently, departments will be expected in this Survey to aim for lower manpower figures for the years 1985 to 1988. (Where a department exceptionally proposes a higher manpower figure for a particular year, a full explanation should be provided.)

18. Increased productivity, more privatisation, dropping, curtailing, or streamlining functions and, where it would be cost-effective, more contracting out should all be examined as ways of achieving the further reduction. Particular attention will be given to seeking to contract out work more extensively than planned so far. In order to provide a basis for further discussion of this during the Survey, departments are asked to provide information - not necessarily for the PESC report - about services/functions which are:

- (a) already contracted out,
- (b) under consideration at present for contracting out, or
- (c) where contracting out is planned at some future date during the Survey period.

#### Options for civil service manpower reductions

19. Departments are asked to say what action they would need to take in order to reduce manpower by 5 per cent below the baseline figure for 1 April 1988.

#### Departmental Running Costs

20. Particular attention will also be paid in the 1984 Survey to departmental running costs. At present, running costs cannot be uniquely identified on the Treasury's Financial Information System (see Annex F) so special arrangements will be necessary this year. Departments will be asked to provide information on their running costs in 1983-84 and to set out the provision they seek for running costs for 1985-86; these figures will have to be constructed manually and no running tallies will be needed. Figures will not be required for 1986-87 and 1987-88. Provision should be sought under the following heads: pay, (excluding notional pensions liability), notional pensions liability, personnel overheads, accommodation, office services, other services, capital, receipts. A PESC(WM) paper will be issued giving further guidance on this work, including a timetable for its completion.

#### Pay

21. Further consideration will have to be given at a later stage to how to treat public service pay in 1985-86 - in particular whether to have a pay factor as for 1984-85 and, if so, whether to make any corresponding adjustments to existing plans.

#### European Community expenditure

22. Ministers have agreed that a new sub-Committee should be established within the PESC machinery to consider expenditure under programme 2.7 and related departmental expenditure. Further information on the work of this Committee will be circulated shortly to the Departments concerned in a new series of papers (PESC(EC)).

#### Smaller Departments

23. The procedures adopted for the 1983 Report will apply for the 1984 Survey. This means that the smaller departments will be covered in two chapters: 'Chancellor's Departments' and 'other Departments'. For the texts, it is necessary to cover only proposed increases and reductions (see Annex C).

#### Further Information

24. General questions arising from this note should be addressed to the secretaries, Mr Perfect (233-4801) or Mrs Spencer (233-4679). Questions on paragraph 20 on departmental running costs, should be addressed to Ms Gane (233-7188) or Ms Elliott (233-7259).

## TIMETABLE FOR PESC REPORT

## MARCH

Thursday 22 March. Survey Guidelines issued.

Friday 30 March. GEP3 Data Unit circulate to Departments and Expenditure Divisions the format of Survey Report tables.

## APRIL

Friday 13 April. Last date for Departments/Expenditure Divisions to amend the format of Survey Report tables.

Thursday 19 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, changes resulting from Estimates scrutiny and revised outturn for past years).

Friday 27 April. Last date for Departments to send draft texts of Survey report and any other supporting material to Treasury Divisions. (Friday 4 May if they can provide a fair copy of the text and compatible word-processor disc (see Annex E)). But see also paragraph 2 of main paper.

## MAY

Friday 11 May. GE Data Unit circulate to Departments resulting tables showing White Paper figures (and 1987-88 figures), adjustments and resulting baselines.

Thursday 17 May. Last date for Treasury Divisions to send agreed texts of Survey report to GE (24 May if they can provide a fair copy of the text and compatible word processor disc).

Wednesday 23 May. Last date for Departments and divisions to send GEP1 agreed Annexes to the Survey report.

Friday 25 May. Last date for Departments to send draft texts of Options report to Treasury Divisions.

## JUNE

Tuesday 5 June. Draft Survey report circulated to PESC.

Friday 8 June. Last date for Treasury Divisions to send agreed texts of Options report to GE.

Mid to end-June. Ministerial discussions leading to July announcement of main provisions for local authorities (including service distribution).

Tuesday 12 June. Final PESC meeting.

Friday 15 June. Final copy to printer.

Friday 22 June. PESC Reports available.

JULY

Early July. E Discussions of nationalised industries.

5 or 12 July. Cabinet.

Possibly some early bilaterals.

SEPTEMBER

Updating of IFR material as necessary

Expenditure bilaterals.

Provisional decisions in some areas.

OCTOBER

Further expenditure bilaterals

Ministerial discussions of local authorities (later years)

Mid to end-October, Cabinet

NOVEMBER

By mid-November, Autumn Statement.

## CONSTRUCTION OF THE BASELINE (TO 1987-88)

The starting point for the 1984 Survey will be the cash plans published in Cmnd 9143, adjusted for Budget and any other agreed changes, with figures for the additional year 1987-88 constructed as in paragraph 4 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.

2. The baseline for defence will be the 1986-87 Falklands-exclusive Budget. As before, the baseline for local authority relevant current expenditure in 1987-88 will be the service figures for 1986-87, plus a reserve. This reserve will be calculated by the Treasury and will be equal to 2½ per cent of the aggregate service figures in 1986-87 (not including the unallocated margin of £220 million). As before, the baseline will not include an unallocated margin. Decisions on the total amount to be provided in local authority relevant current expenditure, and the distribution between services and any unallocated margin, will be made by Ministers later in the Survey.

3. With Treasury agreement a Department's baseline figures may be switched between sub-programmes within the same programme in any of the years 1985-86 to 1987-88 except that switches out of local authority current expenditure will be allowed only where explicit policy changes will ensure delivery. Finance treated as being within the nationalised industries' ring fence is excluded from these arrangements as it is dealt with separately.

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 1984-85 to 1986-87, including adjustments to expenditure related to civil service manpower, will need to be sent to the Treasury by 19 April. Classification changes (applying to all years of the survey, 1979-80 to 1987-88) and estimating changes for past years up to 1983-84 should also be sent in by 19 April.

## PREPARATION OF PESC REPORT CHAPTERS

(a) Programme tables

Each PESC report chapter will include one table showing the figures at (i) - (iii) below and another showing the manpower numbers in (iv)-(v). The format of the tables will need to be agreed by Departments & Expenditure Divisions (see timetable - Annex A).

The baseline (i) will be supplied by GE data unit; the figures at (ii - v) by Departments. The figures to be included are:-

- (i) the baseline, including agreed changes and classification changes, constructed as in Annex B.
- (ii) any switches out of programmes involving local authority current expenditure which the Treasury has not agreed as part of the baseline;
- (iii) proposed additions to or reductions in programmes (other than those included in the baseline), including estimating reductions and switches to be identified (paragraph 4 of Annex B);
- (iv) the public service manpower numbers implied by the expenditure baseline (showing civil service manpower separately - see paragraph 17 of the main paper);
- (v) proposed additions to or reductions in public service manpower numbers (showing civil service manpower separately) (again see paragraph 17).

Any territorial consequences of switches (eg if money is switched from a comparable to a non-comparable programme) should be identified. ST3 Division of the Treasury will advise where necessary. Nationalised industry expenditure dealt with in the Investment and Financing Review should be excluded.

2. Items (ii) - (v) above apply to 1985-86 and later years. Increases for 1984-85 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 reserve and the in-year controls on civil service manpower. Expected reductions in 1984-85 in expenditure or manpower should however be included.

(b) Programme texts: adjustments to programmes

3. Where a Department finds it necessary to propose an increase in expenditure, it should demonstrate, in each case with quantified output data, 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 costs generally. They will need to show why the price increases cannot be restrained and why the increased costs cannot be absorbed by increased efficiency.

4. The criteria set out in paragraph 3 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, may 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.

5. Where an additional bid (or a proposed saving) would, if agreed, have effects, through the territorial formula, on expenditure in Scotland, Wales or Northern Ireland, the programme text should make this clear.

## REPORT ON OPTIONS FOR REDUCTIONS

A consolidated list of options should be produced for each department ranked in order of acceptability. Savings on local authorities' relevant current expenditure should not be put forward. 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 show the total of 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.
- any consequential effects for territorial expenditure.

Example of table required

| Department                                    | £ million cash |         |         |
|---|----------------|---------|---------|
|   | 1985-86        | 1986-87 | 1987-88 |
| 1. Baseline                                   | -              | -       | -       |
| 2. Net increases proposed                     | -              | -       | -       |
| 3. Options for reductions required            | -(3%)          | -(3%)   | -(3%)   |
| 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.

## 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 disc 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 (01-233-8947) 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 Treasury expenditure divisions should send a top and one spare copy to GEPI division.
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"
  - "£ million" not "£m".
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.

## IDENTIFICATION OF DEPARTMENTAL RUNNING COSTS IN THE SURVEY

The annual scrutiny of departmental running costs covers the Civil Service, the armed services, the Northern Ireland Civil Service but not the NHS. Most running costs items are classified as Civil Service pay, public sector pay, general administrative expenses and PSA repayment. However:

- (a) some running costs items are classified under different headings, for example other current expenditure;
- (b) not all expenditure classified as, for example, general administrative expenses is currently included in the scrutiny. Also the public sector pay heading includes the pay of staff not covered by the scrutiny, for example, National Health Service staff;
- (c) some receipts, for example payments received from other departments for services provided, are classified as general administrative expenses so that the records of the Financial Information System (FIS) show net expenditure.

2. It will be necessary to reclassify running costs expenditure in such a way that it can be uniquely identified in FIS records. But it will not be possible to complete these reclassifications in time for this Survey. They will need to be done in time for next year's Survey. Further instructions will be issued.

## OPERATION OF THE RESERVE: 1984-85

## Note by the Treasury

Background

This note summarises the arrangements for operation of the Contingency Reserve, now to be known simply as "the Reserve", from 1984-85 onwards.

2. Recent practice has been to distinguish between changes in expenditure resulting from explicit Ministerial decisions, such as increases in cash limits, and those which do not, such as estimating changes on demand-led programmes. Only the former have been charged to the Contingency Reserve. The latter have not been charged formally, but they have affected Treasury Ministers' attitude towards use of the Reserve generally.

3. But the effect on the planning total of both types of change is the same. As indicated in paragraph 26 of Part 1 of the latest Public Expenditure White Paper (Cmnd 9143), it is intended in future to operate the Reserve in a way which makes easier the treatment of the planning total as a control total. Hence from 1984-85 onwards increases in expenditure, for whatever reason they arise, will be charged to the Reserve if they cannot be accommodated within existing programme allocations.

4. As in the past the operation of the detailed Reserve arrangements will relate only to in-year controls; developments affecting later years will remain the province of the Survey.

## Demand-led Central Government Expenditure

5. Assessment of the prospect for demand led expenditure in the financial year ahead will continue to form part of the Survey process. But to ensure as up to date a view as possible before the year begins, it is envisaged there should be further discussions between the Treasury and Departments with significant blocks of demand led expenditure during the run up to the Budget. The Treasury will make detailed proposals for these arrangements. (Given the point in the annual cycle at which the new system is being introduced, this aspect will not be fully operational in respect of 1984-85).
6. It will be necessary to agree a clear basis for the projections, in terms of economic assumptions, trends in numbers of payments etc, in order to assist subsequent monitoring. The aim will be to produce updated central forecasts of outturn and identify the potential scope for error upwards and downwards.
7. These assessments will then be taken into account by the Treasury in final decisions about the size of the overall Reserve; and, within that, about how much needs to be notionally ear marked to cover the risk of estimating increases, and how much for discretionary increases of the kind hitherto charged to the Reserve.
8. The Treasury and Departments will also need to agree on the timing of revised assessments during the year of the estimated outturn on demand led expenditure. Regular monitoring will take place on the basis of the available monthly data, but more detailed assessments might be undertaken quarterly. If the monitoring process shows a prospect of an overrun on a department's non cash limited programmes, the Treasury reserves the right it has traditionally exercised in relation to discretionary calls on the Reserve to consider the scope for and feasibility of containing the prospective increase or taking action to offset it elsewhere in the Department's programmes.

9. The scope for such action may be affected by considerations of legality and propriety, and account will also need to be taken of the impact on efficiency and policy targets. Any agreed estimated balance of overspending, after all feasible and practical steps have been taken, will be charged against the Reserve. Cases of disagreement at official level between the Treasury and Departments will be settled by Ministers.

#### Local Authority Expenditure

10. Local authority expenditure is included in the new arrangements. For local authority capital expenditure, which is cash limited, no change from present procedures is necessary. But relevant current expenditure presents particular difficulties given the lack of control by central departments, the practice of setting expenditure targets below "central forecasts", the existence of an unallocated margin, and the deficiencies of monitoring information.

11. A broad view of the prospect for relevant current expenditure (and rate fund contributions to the HRA), and how it compares with the White Paper provision, will be necessary (as now) when final decisions about the size of the Reserve are taken before the start of the financial year. But decisions about the formal charging of any overspending against the Reserve will not be taken until local authority budgets become available; at that stage the excess of budgets over provision will be formally charged to the Reserve. While the Treasury reserves its general right, applying to all types of expenditure, to press for savings during the course of the year if it considers the trend of expenditure constitutes a threat to the Reserve and the planning total, no mechanistic relationship is envisaged between local authority overspend and the central government programmes of "local authority" Departments.

### Nationalised Industries

12. Procedures for nationalised industries are unchanged by the new arrangements. All bids for additional external finance are, as before, potential claims on the Reserve. Industries' external finance (other than "social" grants) will continue to be ring fenced from other departmental expenditure.

### Discretionary Changes

13. Proposals for new measures in the course of the year, including any which involve increases in cash limits, will be dealt with in the same way as before. All such proposals for access to the Reserve require the personal approval of the Chief Secretary to the Treasury, who in any event of disagreement may wish to bring them to the attention of Cabinet.

14. The Treasury will not be prepared to agree to discretionary increases which, in the Treasury's view, constitute a threat to the Reserve. The existence of potential head room within the Reserve, or underspending elsewhere on a department's programmes, is not in itself a justification for such proposals. It is not, and never has been, an object of policy to spend all the Reserve. The new arrangements will make no difference to this. As at present, access to the Reserve for discretionary increases will be restricted further if the Treasury's assessment of potential estimating increases indicate that such restriction is necessary in order to keep within the planning total.

### General

15. The new arrangements highlight the importance of satisfactory systems for monitoring and forecasting expenditure, especially in areas which have traditionally been regarded as demand led and for local authority current expenditure. Many departments are already reviewing their arrangements in this area in consultation with the Treasury. Those that are not should now consider doing so.