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FROM: CHIEF SECRETARY

DATE: 5<sup>th</sup> February 1987

PRIME MINISTER

**HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY**

As usual at this time of the year, I am letting you know my proposals for the conduct of the 1987 Survey, having reviewed what happened last year. When I know that you are content, I shall circulate my proposals to the Cabinet generally.

**The outcome of the 1986 Survey**

2 Reviewing the additions that we made in last year's Survey has brought out starkly the extent to which they were in areas where genuine control by Central Government is limited - Local Authorities, Nationalised Industries, and demand-led programmes, notably social security. Genuine discretionary additions to expenditure formed a very small part of the story.

3 As a result of the last Survey we now have a more realistic provision for local authority spending and social security than we had this time last year. However, the continuing pressures in those areas are already apparent. It will be essential in the next Survey that we maintain our commitment to ensuring that public expenditure represents a steadily reducing proportion of national income.

**Survey procedure**

4 In general the machinery last year seemed to work well. My round of bilaterals was hectic as usual but led to settlements on a number of programmes and defined a manageable core of major issues for the Star Chamber to handle. I was immensely grateful for the help of the Lord President and other colleagues who served

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on his Group. Their task was the more onerous last year because there were only five members. If we have recourse to such a group again I feel that we should aim for the customary six members. This will ensure that even with some absences there is always a good quorum.

5 I do not propose any major changes to procedure for the current Survey. As last year, I propose that if Ministers feel they must put in any additional bids they should do so personally after reviewing priorities within their programmes and should be asked to back them up with a clear statement of what the extra money is expected to achieve and how it is proposed to measure and evaluate this. Again, I do not propose to require departments to submit options for reductions on a standard basis. Instead I propose that the Treasury should have the right to ask for particular options to be produced or costed in areas where we think that this is worthwhile or necessary, for example particularly where significant additional bids are being made.

6 The only major change from the established pattern is that I propose that the formal Survey report - the "red book" on Department's programmes circulated to Ministers at the start of each year's Survey - should not be produced this year. It plays no part in Ministerial discussions and is little used elsewhere. Its discontinuance will give the Treasury and Departments time for a more thorough examination of the value for money provided by existing programmes and the scope for economies in them.

Running Costs and Manpower

7 We introduced the new regime of running costs control two years ago and, although I am not entirely satisfied with the way in which the regime has worked so far, I am sure that we should continue with it. I propose that it should now be fully integrated with the Survey and that Ministers should put forward additional bids only if they are convinced that they cannot keep within the

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provision for 1988-89 and 1989-90 agreed in the last Survey. If the aggregate of the bids is too large, I envisage bringing forward proposals on the overall provision for running costs in July at the same time as I make proposals on expenditure generally; I would then pursue the matter in bilaterals in the normal way.

8 We also need to announce soon whether we intend to set another overall target for civil service numbers beyond April 1988. When we introduced the running costs system in 1985 you endorsed the Chancellor's proposal that running costs targets should gradually be introduced in substitution for manpower targets (your Private Secretary's letter of 28 March to the Chancellor's Private Secretary). This approach allows managers on the ground to make the best use of all their resources and is in line with the pressure for improved management which we have been applying through the Financial Management Initiative and the work on Budgeting.

9 I therefore propose that we should not set new aggregate targets for manpower after April 1988. But by operating the running costs system firmly we need to keep a grip on manpower to ensure that numbers do not start to drift upwards. This is underlined by the fact that as a result of the increases for David Young's employment measures and the need to increase staffing in social security offices (on which Norman Fowler and I will be reporting to you next week) the manpower plans to be published in the Estimates next month will show an excess over our 1988 target. While I would hope for a decrease over the next year from the current level of just under 600,000 the Estimates to be published on Budget Day will show the aggregate of Departments' plans as being higher than our target of 590,000 on 1 April 1988.

10 So, in scrutinising Departments' running costs, it is essential that the Treasury should continue to examine their manpower plans (which are already published in the Public Expenditure White Paper each year). Any proposal by a Department to go beyond its published manpower plans should have to be agreed with the Treasury before

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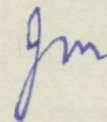
any commitment is undertaken. In considering any such proposals, the primary consideration for the Treasury will be whether the revised plans are consistent with the running costs limits. This combination of manpower plans and the control of running costs should impose sufficient pressure on Departments to maintain the impetus for efficiency savings and ensure that the overall trend of manpower numbers continues downwards.

11 Subject to your and colleagues' consent, I propose to announce this approach in the debate on the Public Expenditure White Paper later this month.

Contingent Liabilities

12 In accordance with your minute of 23 May, Departments carried out a full review of their contingent liabilities last year. This revealed contingent liabilities amounting to £55 billion. Of this, export credit accounted for £38 billion, but the rest was widely distributed among Departments. The Treasury are revising the guidance to Departments in the light of last year's exercise, but there are no general points which I need to draw to colleagues' attention at this stage. Moreover, we must not reveal the list of liabilities publicly lest an acknowledgement of some of them could cause pressure for triggering them. But in order to keep a watch on all contingent liabilities and ensure that action is taken promptly to minimise the risk of actual expenditure arising, the exercise should be repeated annually, as your minute proposed. I will ask Departments to do this in the Survey Guidelines and to report the results to the Treasury.

13 I am sending copies of this minute to the Willie Whitelaw, Nigel Lawson and to Sir Robert Armstrong.



JOHN MacGREGOR