

CONFIDENTIAL



cc P.J.
 CHIEF SECRETARY
 FROM: PRIME MINISTER
 DATE: 15 March 1989

PRIME MINISTER

GUIDELINES FOR THE 1989 PUBLIC EXPENDITURE SURVEY

We need to agree the arrangements for the early part of this year's Survey.

The New Planning Total

2. This year for the first time, we will be using the new planning total, and agreeing totals relevant to the new system of local government finance. This will affect the arrangements for reaching decisions in the Survey as well as the results we publish in the Autumn Statement. I attach a draft of the Survey Guidelines which incorporates the procedures I have agreed with colleagues for settling the local authority elements which are included in the planning total for the first time in Annex F. This Annex contains one or two passages in square brackets, reflecting issues still to be agreed. I hope that these can be settled by the time the final version is circulated at the end of the month.

3. Apart from this, the Guidelines are largely unchanged from last year's version. I should draw attention to the following points.

Baselines

4. The methods of creating baselines for the new elements of the planning total have been agreed with colleagues. Otherwise the baselines for 1990-91 and 1991-92 will be the plans agreed in last year's Survey. For the final year, I propose that, as in previous years, the baseline should be created by applying a factor of 2½ per cent to the plans for the second year (1991-92).

Bids and options

5. I propose that Ministers should once again review priorities within their programmes personally before writing to me with any proposals for changes in May. Departments are asked to cooperate with the Treasury by producing or costing options for reductions in expenditure when requested.

Value for money

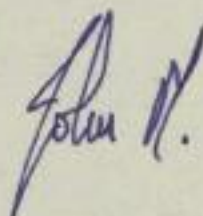
6. Value for money from all public expenditure is essential. The Guidelines ask departments to produce information on the outputs and performance expected from planned or proposed expenditure, and I expect to discuss this information with colleagues during the Survey. We should also aim to establish more performance targets wherever possible. The Guidelines also include a reference to the improved efficiency and effectiveness to be expected from Next Steps agencies.

Science and Technology

7. In my letter to you of 14 October I said that I would continue to pursue the E(ST) objective and find savings in science and technology expenditure to offset the increases we agreed in the DES science budget. I will continue to look for such savings in the 1989 Survey, and I hope that colleagues will help to identify them. I envisage reporting the results to E(ST) in October.

8. I would be grateful for any comment you or other colleagues may have by 23 March. Subject to these I propose that the Guidelines should be formally circulated by the end of the month.

9. I am copying this minute to other Cabinet colleagues, Richard Luce, Chris Patten, Patrick Mayhew, Peter Fraser and Sir Robin Butler.



JOHN MAJOR

Downgrade to Restricted after 5 years

PESC (89)

1. C (WM) 89

Her Majesty's Treasury

Public Expenditure Survey Committee

Guidelines for the 1989 Survey

Note by the Treasury

Introduction

This paper sets out the Guidelines for the 1989 Survey. This will be the first Survey conducted on the basis of the new Planning Total, and several significant changes to Survey procedures will be necessary to take account of this, affecting all departments which are responsible for grants to local authorities or have an interest in local authority capital spending.

2. The remainder of this paper is divided into the following sections:

- I Timetable
- II Baselines
- III Demonstrating Value for money
- IV Ministerial proposals for changes to the baseline
- V Nationalised industries
- VI European community expenditure and receipts
- VII Contingent liabilities
- VIII Further information

Annex A: 1989 Public Expenditure Survey: key dates
March-May.

Annex B: Construction of the Baseline.

Annex C: Official letters.

Annex D: Information on the economic composition of proposed
changes to the baseline.

Annex E: Contingent liabilities.

Annex F: Handling of local authority components of the New
Planning Total.

I Timetable

3. The key dates are shown in Annex A. Departments are asked to submit running tallies to set up the baseline by 13 April. Information on value for money relating to baseline plans should be sent to the Treasury by 28 April. The baselines will be set and agreed by 17 May and circulated on 25 May. Ministerial and official letters proposing changes to departmental baseline expenditure plans should reach the Treasury by 25 May. Information on contingent liabilities should also be sent to the Treasury by 25 May.

II Baselines

4. The process of creating the baseline for the 1989 Survey is complicated by the introduction of new elements for local authorities as part of the new planning total. The method of setting baselines for these new elements has been discussed in PESC(LA) and PESC (NPT), and are recorded in the Chief Secretary's letters of 31 January (current expenditure) and 10 February (capital expenditure). The details of these agreements are set out in Annex B.

5. For the elements of the baseline not affected by the change the New Planning Total (central government's own expenditure, nationalised industries and other public corporations) the baselines for 1990-91 and 1991-92 will be the figures agreed in the 1988 Survey and published in the 1989 public expenditure White Paper subject to classification changes and EUROPEES adjustments (see paragraph 6 below). For 1992-93, the baseline for these elements will be constructed by the Treasury by adding 2½ per cent to the cash figures for 1991-92.

6. Under the EUROPEES system, some departments' baselines will be reduced to reflect excess spending by the European Communities on lines of the EC budget which they sponsor. PESC(WM)[] sets out the reductions required and the timetable for running tallies. The reductions should be made in cash limited central government programmes.

7. The baseline for gross running costs will be constructed in the same way as the baselines for other central government spending: for 1990-91 and 1991-92 the PEWP figures will be used, and for 1992-93 the baseline will be created by applying the uplift factor of 2½ per cent to the 1991-92 figures. Departments have been asked to provide a breakdown of their running costs baseline, and consistent manpower figures, on form DRC2 (see PESC (WM) []).

8. The baseline figures will be circulated to departments on 25 May, in a similar form to 1987 and 1988.

III Demonstrating Value for Money

9. As in previous years the Treasury will need to be satisfied that baselines and any additional bids can be justified by output and performance information and that the expenditure is achieving the greatest possible value for money. All additional bids must be accompanied by value for money information in accordance with paragraph 15 and Annex C.

10. For the baseline the general requirement is that departments should submit for each main element:

- (i) a current statement of objectives;
- (ii) an assessment of what outputs the plans for future years will buy and relevant historical information for earlier years;
- (iii) the most recent outturn information relating to existing agreed value for money targets (whether or not these have been published).
- (iv) information on value for money targets for future years including measures of effectiveness and efficiency.

11. In 10(iv) above particular emphasis should be placed on high level aggregate indicators and unit costs covering full input costs and outputs. Departments should also indicate what plans they have for extending the range of such measures. Value for money information will also need to cover specific grants to local authorities (see PESC(LA)(88)8).

12. Expenditure Divisions will need this information by 28 April so that they can discuss the baseline with departments. For some programmes Expenditure divisions may already have the most up to date information; for others they may not need the full range listed above because they may wish to concentrate on areas of particular concern. Departments should therefore contact their Expenditure Division as soon as possible to discuss the precise requirements, thus avoiding the risk that information will be produced which is not going to be used.

13. Departments will also need to supply information derived from policy evaluations, scrutinies and reviews completed in the last year where this is not already available; and should set out their plans for further evaluations etc for 1989-90, taking account of cases where the Treasury has given notice of its wish to discuss the performance of a particular programme and of its intention to request evaluation information.

Where Next Steps agencies are created or proposed, after discussion with OMCS and the Treasury, the department's value-for-money material or their running costs management plan (paragraph 21 below) as appropriate should identify the higher efficiency and effectiveness targets expected in consequence and their effects on expenditure. Where, exceptionally, a Minister seeks additional resources for an agency or proposed agency he should explain in his letter to the Chief Secretary (paragraph 15 below) why its needs cannot be met from improved performance.

IV Ministerial proposals for changes to the baseline

15. Ministers are asked to write to the Chief Secretary by 25 May, copying to the Prime Minister and other Ministers with an interest, to report the outcome of their personal scrutiny of priorities within their programmes. These letters should contain:

- (i) any reduced requirements on their programmes.
- (ii) any proposals to reallocate baseline provision to accommodate changing priorities, listing proposed increases and offsetting savings (specifying whether they result from policy or estimating changes);
- (iii) if, exceptionally, the Minister proposes to seek increases for which offsetting savings are not offered, a list of his bids in order of priority, and the reasons why the proposals are thought to be essential and cannot be offset elsewhere by reducing outputs, if necessary, or by improved efficiency. In the case of new local authority elements of the baseline, a full justification of proposed changes will still be required.

It is very helpful for the Treasury if all bids and proposed reductions are also set out in tabular form, showing the amounts involved for each of the Survey years as additions to or reductions from the baseline.

- (iv) an outline of the cost implications of bids for other departments, where relevant, which should have been discussed with the departments concerned, and of the understandings reached on responsibility for funding the costs involved (see PESC(88)3, which also makes clear that subsequent modifications of such proposals, whether arising in the course of the Survey or otherwise, should be cleared with the other departments involved);
- (v) a summary of the objectives for each bid (what is to be achieved, by when, at what cost);
- (vi) a summary of proposed changes in running costs provision and civil service manpower where appropriate (see paragraphs 21-28 below) identifying separately changes relating to Next Steps agencies. The Ministerial letter should enclose the department's management plan, incorporating clear commitments to efficiency gains.
- (vii) a summary of any proposed new or increased contingent liabilities (see paragraphs 37 and 38 below).

16. Increases or reductions for 1989-90 should not be proposed as part of the Survey: any such proposals will be dealt with separately as they arise through the year.

17. Supporting official letters including more detailed information will also be needed: guidance is at Annex C. They should explain, for each proposed increase, how effectiveness and efficiency will be evaluated, including the main performance measures and indicators.

Options for reductions

18. In areas where the Treasury believes that there are or ought to be options which could be used to offset requests for additional

resources or to produce savings and these have not been identified departments, departments may be asked for costings of these options. In some cases it may be more appropriate for departments to set out how they could achieve a given level of savings in an area of spending. In either case departments should, as in previous years, provide the Treasury with the necessary information.

Local authority current grants

19. The new planning total includes central government grants to local authorities. These grants have been identified and baselines for them will be constructed (see paragraph 4). Ministers' letters in May should not cover proposals for RSG or NNDR, which will be determined separately. Proposals for variations from baseline for specific grants should be included in Ministers' letters on the basis set out in paragraph 15 above. (See Annex F).

Local Authority Capital

20. Baselines for credit approvals and capital grants to local authorities will also be constructed (see paragraph 4). Ministers' letters should include any proposals for changes from these baselines, again on the basis set out in paragraph 15 above. There will be no baselines for gross or net LA capital expenditure or for annual capital guidelines (as agreed in response to the Chief Secretary's letters of 13 January and 10 February). (See Annex F).

Gross Running costs and associated manpower

21. During the 1988 Survey the majority of departments negotiated firm 3 year running cost settlements with commitments to deliver agreed efficiency gains. As stressed in PESC(89)3, the presumption is that these agreements will not be re-opened, although the Treasury will need to be satisfied that the efficiency gains will be achieved. All such departments will be expected to submit in the coming Survey new running cost Management Plans that reflect, or improve upon, targets agreed in the 1988 Survey and are rolled forward, showing how the extra efficiency gains will be delivered in 1992-93.

22. In accordance with Mr Luce's letter to PFOs of 20 July 1988, bids to increase gross running costs provision on the promise of additional receipts can be considered from departments with 3-year running cost settlements without formally re-opening those settlements. Bids in support of relocation proposals identified and put forward since the 1988 Survey may similarly be considered without formally reopening 3 year running cost settlements.

23. Departments that did not reach 3 year running cost settlements on the basis of their Management Plans in the 1988 Survey will be expected to offer acceptable plans in the 1989 Survey.

24. Where appropriate to assist the negotiation of a 3 year settlement, the Treasury Expenditure Division may ask to see a department's planning material in draft before it is formally submitted by the Minister. All departments' Management Plans should be discussed in detail between officials in advance of Ministerial bilaterals. These discussions will also take account of the stages reached in departments' relocation reviews and market testing programmes.

25. If any Minister feels it is necessary to re-open an existing agreement because of a significant change in the declared assumptions underlying the agreed Management Plan, he will need to write explaining why the resource needs cannot be met by a re-ordering of existing priorities as set out in paragraph 3 of PBSC(87)23. In such circumstances, other figures in the earlier settlement may be challenged anew by the Treasury.

26. Details of the measures of output and performance relating to each bid, and of any offsetting savings or reduced requirements elsewhere within gross running costs, should be provided in the parallel official letters (see Annex C), which should also attach a separate DRC3 form for each proposed change to the baseline. It is important that the manpower implications of any proposed change to cash provision are identified when the proposal is offered for consideration.

Where satisfactory output and performance data have already been supplied, as at paragraphs 9 and 10 above, and do not require updating at the time the management plan is submitted, it is adequate for that plan simply to identify the earlier material; it does not need to be resubmitted.

28. The implications for accommodation costs of the changes in responsibilities for paying for maintenance and the division of the civil estate and the accompanying charging arrangements have been set out in PESC(89)[].

Civil Service Manpower outside gross running costs

29. Proposed changes to manpower plans for areas not covered by gross running costs control must be identified clearly in the material supplied with official letters, and if significant should be referred to in Ministerial letters.

Economic composition of proposed changes to baseline

30. Annex D gives details of the information the Treasury needs to collect about the composition of proposed changes to the baseline. This information should be forwarded, on copies of the forms attached to Annex D, with the official letter sent to the Treasury. Information on economic category analysis of bids is an important contribution to the Treasury's economic forecasts, and departments' co-operation in submitting these forms promptly will be appreciated.

Territorial implications of proposed changes to baseline

31. Some changes to the operation of the territorial formulae have been agreed to take account of the new planning total (see Annex F). Information on territorial implications of proposed changes to baseline should be included in official letters. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1989 Survey by copying relevant Ministerial and official correspondence to the respective Secretaries of State. ST3 division in the Treasury will advise in any case of doubt - Teresa Burnhams (270-5057) on Northern Ireland or Libby Wiseman (270-5064) on Scotland and Wales.

Science and technology

32. The Treasury will again be monitoring the changes to science and technology spending through the Survey, and the Chief Secretary will report the outcome to the Prime Minister. A table showing the baseline provision for science and technology spending will be included in the baseline working document. Any proposed changes from these baselines should be set out in official letters.

Surplus Land and Buildings

33. Departments will also be asked to supply information on their plans for disposal of surplus land and buildings. Expenditure divisions will be writing separately to departments about this.

Economic assumptions

34. Where they are needed, revisions to specific economic assumptions will be issued to the Departments concerned.

V Nationalised Industries

35. The external finance of the nationalised industries, and related expenditure as agreed by the Treasury and sponsor Departments (including redundancy provision), will be separately considered in the Investment and Financing Review. Arrangements for this are being notified to sponsor departments. The arrangements for reporting on contingent liabilities in respect of nationalised industries are covered in paragraphs 37 and 38 below.

VI European Community Expenditure

36. PESC(EC) will consider spending allocated to programme 2.7. Departments should provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1988-89 and their estimates for 1989-90 by 3 April. This information should be consistent with the provisions contained in the 1989-90 main Estimates, but set out on the basis of receipts by sub-programme within programme 2.7. EC division will write separately to departments to confirm the outturn for earlier years and to seek their views on UK percentage shares and level of EC receipts for future years.

Contingent Liabilities

37. Departments are reminded of the Prime Minister's requirement that they review all contingent liabilities at least annually. These reviews should also cover the contingent liabilities of bodies they sponsor. As in previous years, a further review should be carried out concurrently with the initial stages of the Survey. Further advice on the coverage and conduct of the review is given in Annex E. The review should check that all contingent liabilities have been identified; that all available steps are being taken to minimise the risk of payments being required and their amounts; and that the guidelines set out in Government Accounting, including those on the notification to Parliament of new and outstanding liabilities, are being scrupulously observed. Departments should report the results of the reviews, which should be approved by Ministers, to their Treasury Expenditure Division by 25 May 1989. Departments should also confirm that their Accounting Officer is satisfied that all the Department's contingent liabilities have been reviewed and that all those over £100,000 reported.

38. If a department expects that they or any of their sponsored bodies will take on any new contingent liability, or expects any increase in the size of an existing contingent liability during the period covered by the 1989 Survey, the departmental Minister should mention this in his letter to the Chief Secretary, and details should be included in the official letter, so that the matter can be considered in the context of the Survey.

VIII Further Information

39. The PESC(WM) papers listed below are also relevant:

PESC(WM)(89)[] - 1989 Survey Baseline: submission of running tallies;

PESC(WM)(89)3 - the 1989 Survey: Departmental Running Costs Management Plans;

[PESC(WM)(89)[] - 1989 Survey: running costs information-DRC forms];

PESC(WM)(89)[] - 1989 Survey baseline: submission of local authority running tallies;

To follow:


PESC(WM)(89)[] - EUROPES adjustments to baseline.

General questions arising from this paper should be addressed to the secretaries, Sarah Walker (270-5522) or Justin Wray (270-5523). questions on departmental running costs should be addressed to Graham Binns (270-4996) or Tony Davis (270-4997), on manpower to Ron Carpenter (270-4865), on contingent liabilities to Dick Meadows (270-5363), and on EC expenditure to John Addison (270-4425).

MISS S P B WALKER
MR J G WRAY

1989 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

- MARCH** Friday 17 March Last date for departments to comment on formats of main departmental baseline tables.
- Thursday 23 March PESC(WM) paper seeking running tallies to amend PES database issued.
- APRIL** Monday 3 April Last date for forecasts of outturn for 1988-89 and 1989-90 EC receipts to be sent to EC division.
- Thursday 13 April Last date for departments to submit running tallies to amend PES database for years up to 1991-92, and for DRC2 forms (1990-91 to 1992-93) where departments are unlikely to submit running tallies to amend the PES database for 1992-93.
- Thursday 20 April EUROPES running tallies issued.
- Friday 28 April Last date for departments to submit value for money information on baseline plans
- MAY** Wednesday 10 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year (with separately identified running cost baselines and manpower plans), and more detailed PES standard reports to expenditure divisions and departments. Draft texts explaining changes since White Paper figures circulated.
- Friday 12 May Last date for departments to submit running tally forms to amend PES database for 1992-93 including EUROPES adjustments, and where appropriate DRC2 forms for 1990-91 to 1992-93 to provide breakdowns of running cost baselines and manpower plans.
- Wednesday 17 May Last date for final comments on departmental tables. Last date for comments on textual explanations of changes since White Paper figures.
- Thursday 25 May Working document circulated to PESC and Ministers.
- Thursday 25 May Last date for Ministerial and official letters and management plans to be sent to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for gross running costs and associated manpower. Last date for information on contingent liabilities to be sent to expenditure divisions.


CONSTRUCTION OF THE BASELINE

The arrangements for constructing the departmental Survey baseline tables for the 1989 Survey will need to reflect the introduction of the new definition of the planning total. The purpose of this annex is to explain how the figures in the baseline tables will be constructed.

Figures for 1990-91 and 1991-92

2. The starting point for those elements of the new planning total which were also included in the planning total used in the 1988 Survey - central government's own expenditure and most public corporations - will be the same as in previous Surveys, ie the cash plans published in the 1989 public expenditure White Paper (Cm 601-621) adjusted for classification changes. This year several substantial classification changes are being made to coincide with the introduction of the new planning total - the departments affected are already aware of this and have been involved in providing baseline figures. Manpower plans for 1990-91 and 1991-92 are as published in Cm 601-621 except where subsequently amended by agreement with the Treasury.

3. The arrangements for dealing with the elements which were not previously included in the planning total which have been agreed in Ministerial correspondence (Chief Secretary's letters of 31 January (current) and 10 February (capital)) are:

a. Current grants to local authorities. Data for these grants for the years up to 1989-90 have been extracted from the Treasury's Estimates database and checked with departments. Figures for 1990-91 and 1991-92 have been produced by applying the uplift factor of 2½ per cent used for both the two previous Surveys to the previous years' figures for grants expected to exist in those years.

b. Capital grants to local authorities (other than EC). A similar approach has been adopted to that for current grants. The baselines for those few capital grants referred to in the third sentence of paragraph 27 of Annex F will be as set out in Barry Potter's letter of March to John Adams. (Note that European Community capital grants (other than for Northern Ireland) are excluded from the new planning total - they will be treated as financing grants not conveying additional spending power to local authorities. EC capital grants to Northern Ireland district councils are included in the planning total.)

c. National non-domestic rates. Proxy figures for NNDR payments and figures for non-domestic rates in Scotland for the years from 1984-85 to 1989-90 have been calculated from data on the yields and incomes of existing non-domestic rates in Great Britain. As with grants to local authorities the figures for 1990-91 and 1991-92 have been calculated by applying the uplift factor of 2½ per cent used for both of the two previous Surveys.

d. Credit approvals. Proxy figures for CAs for the years from 1984-85 to 1989-90 have been calculated based on capital allocations for those years. For 1990-91, for England and Wales, the baseline for CAs has been calculated from gross provision taking into account the various sources of spending available to LAs. For 1991-92 the figures for CAs have been derived by applying the uplift factor of 2½ per cent to the 1990-91 figures. For Scotland, whose capital control regime remains unchanged, baseline figures for the equivalent of credit approvals have been derived from existing provision.

Figures for 1992-93

4. Figures for the new third Survey year (1992-93) for programme expenditure, finance for local authorities and gross running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figures for 1991-92. Baseline manpower plans for 1992-93 should be consistent with the baseline figures for gross running costs calculated as above.

Adjustments to the PES database

5. Apart from the classification changes mentioned in paragraph 2, on which the Treasury will be taking the lead, there are a few areas where other changes to the database may be made in advance of the production of the Survey baseline tables. They are as follows:

a. Coding errors that need correcting. For example, departments may have identified data that are wrongly coded and needed to be corrected by switching money between sub-programmes, economic categories, territorial areas, spending sectors or accounting authorities;

b. Any minor and non-contentious amendments to figures for central government spending beyond 1989-90 as a result of the Estimates scrutiny for 1989-90. PESC(WM)(89) asked departments to align PES and Estimates for 1989-90. In some, but not all, cases changes in 1989-90 might have implications for later years involving switches between sub-programmes, economic categories or spending authorities and these may be reflected in the database. Increases in expenditure (or switches from programme expenditure into gross running costs) should not be included, even where policy agreements have already been reached as these will be dealt with as part of the Survey itself and recorded on the database after the Survey.

c. Adjustments to figures for grants to local authorities for the years 1989-90 to 1991-92 arising from differences between the figures for 1989-90 on the Treasury's database at the end of January and the final main Estimates figures for 1989-90.

In all cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions. Any changes resulting from re-assessment of priorities should be part of the Survey and not reflected in the baseline. In particular, switches

into gross running costs from other expenditure should not be made (except where already made in Estimates or by prior agreement with the Treasury). This will apply to the three Survey years 1990-91 to 1992-93.

6. Running tallies for any agreed changes to the baseline covering all years of the Survey (ie 1984-85 to 1991-92), or just the first two forward years as appropriate, should be sent to the Treasury by 13 April. Running tallies for agreed changes to the baseline for 1992-93 should be sent in, after the baseline for that year has been created, by 12 May.

7. Adjustments will also need to be made to some cells as a result of the EUROPES arrangements (see paragraph 6 of the main paper). A PESC(WM) paper requesting departments to submit tallies for these adjustments is due to be issued in early April.

Supplementary analyses

8. In addition to the departmental tables a series of additional analyses tables will be circulated to PFOs. These tables give summaries of the planning total by spending authority and department and analyses of public sector capital spending, expenditure on science and technology, running costs and manpower.

OFFICIAL LETTERS

1. Official letters should list proposed bids and reductions in order of priority as in the Ministerial letter. They should also include any further detailed explanation which Departments wish to put forward or which the Treasury may request. For example, if additional provision is proposed the letters should explain more fully how the need for it arises. They should also give full details of reduced requirements for provision already in the baseline indicating whether they result from an estimating change, revised economic or demographic assumptions, or proposed policy changes. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an analysis of outturn for the relevant programme for at least the past two years, and an estimate of outturn for the current year (1989-90).

2. The letters should provide any additional details that may be necessary of the improvements in output and performance which would be achieved by any bids put forward, and how effectiveness and efficiency will be evaluated, including specific performance measures and indicators.

3. These letters should clearly indicate which elements of the total proposed changes to baselines relate to running cost proposals or involve manpower changes. In addition they should separately identify running cost proposals which do not involve changes to expenditure baselines. Capital expenditure proposals and major items of maintenance expenditure of a similar nature, ie with benefits running into future years, should be supported by a full summary of the information justifying them. This will normally include details in each case of: a clear statement of objectives; the expected return (eg NPV, and/or other measures of net benefit: details of a new Treasury discount rate are likely to be announced shortly after Easter); alternatives considered; the material factors in the proposed decision, including risks; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

4. The official letters should indicate whether the change requires amendment to proposed or existing legislation or regulations.

5. For any proposed change affecting other departments, the letters should set out the details of agreements reached with those departments on the responsibility for funding the costs involved.

6. Official letters should also give information on the territorial consequences of proposed changes to the baseline, and of proposed changes in science and technology spending, and details of proposed new or increased contingent liabilities.

7. Annex D gives details of supplementary information on proposed changes to the baseline needed by the Treasury. Copies of the forms attached to Annex D should be returned to the Treasury with the official letters.

8. All letters and supporting information (eg DRC3 forms for gross running costs and related manpower) should be sent to the Treasury by 25 May. Official letters should be sent by the Principal Finance Officer to the appropriate Head of Treasury Expenditure Group (or division in the case of small departments), with copies to other departments affected.

INFORMATION ON ECONOMIC COMPOSITION

The Treasury needs to collect information about proposed changes to the baseline by economic categories. This information is used by the Treasury forecasters in preparing the forecasts for the July Cabinet and the Autumn Statement. Departments are therefore asked to split their bids and reduced requirements by the economic categories shown in the attached table. The first ten columns refer to central government expenditure, the next three to finance for local authorities, and the final column covers all planning total items in the spending sector: "other public corporations" (ie excluding nationalised industries).

The definitions of economic categories are given in Section 2J of the FIS Handbook. In case of difficulty please consult David Deaton (270 5337).

Departments should provide the basic information needed by completing copies of the form attached to this Annex (one, or more if necessary, for each year of the Survey) and forwarding them to expenditure divisions with their official letter by 25 May. Divisions will check the information, and will forward it to the Secretaries.

Capital Spending

The Autumn Statement generally includes a statement, in broad terms, of the change in public sector capital spending as a result of Survey decisions, using a definition consistent with Table 2.1.11 of the 1989 PEWP. To help compile this figure, it would be helpful if departments would complete the second form attached to this annex, listing the bids and reduced requirements for central government expenditure falling within ECs E20, E30, E40, G10, and G20, and return it at the same time.

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

PUBLIC EXPENDITURE SURVEY 1989
LIST OF BIDS AND REDUCED REQUIREMENTS

DEPARTMENT:

YEAR:

Name of originator:

Tel No:

£ million

Economic categories

Proposed changes from base-line ⁽¹⁾	Total cost	Pay	Other current goods & services (net)	Subsidies (exc to public corporations)	Current grants to the private sector ⁽³⁾	Current grants overseas	Expenditure on capital assets (net) excluding stockbuilding	Stock-building	Capital grants to the private sector	Net lending to the private sector	Net lending overseas	Current grants to local authorities NNR, RSG	Capital grants to local authorities	Local authority credit approvals	Finance for other public corporations
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(1) Please give very brief descriptions so that the editors can cross refer to the Official letters for more information. Downward changes in the estimate of the cost of existing policies should be shown as reduced requirements. Please list bids and reduced requirements in the order in which they are covered in the letters.

gepl.ip/sw/cap spend

Capital spending (ECs E20, E30, E40, G10, G20: payments only, not receipts)

Please list central government bids only

Department:

£ million

1990-91 1991-92 1992-93

Description of bid

Name of originator:

Telephone number:

CONTINGENT LIABILITIES

Introduction

The purpose of this annex is to give advice on the coverage and conduct of the reviews of contingent liabilities referred to in paragraphs 33 and 34 of the covering PESC paper and to set out details of the action to be taken by departments in reporting the results of the reviews to the Treasury.

Coverage of the review

2. The review should consider all contingent liabilities and should seek to identify any liabilities of an hitherto unrecognised nature (including those which arise as a result of a department's staff acting in an ex-officio capacity, advice on which was circulated to Departments last year). Departments should satisfy themselves that the contingent liabilities they have are necessary and that every effort has been made to minimise the risks of payments being required. Departments should also ensure that they have scrupulously followed the requirements of Government Accounting, Section 0 paragraphs 26-57, on the assumption and control of all contingent liabilities, and particularly, in appropriate cases, the requirements for reporting to Parliament new and changed liabilities and the regular reporting of outstanding exposure on continuing liabilities.

Types of liability to be reported

3. Departments are again asked to report all their outstanding contingent liabilities and those of the bodies which they sponsor where the potential risk to their programmes exceeds £100,000 except those which fall into the following categories:-

- a. Those which arise in the normal course of business (see paragraph 4 below).

b. Those which may arise as a result of the Government's general practice of non-insurance.

c. Those which may arise as a result of department's sponsorship of the nationalised industries; these are monitored in the context of RFL reviews.

4. In deciding whether a contingent liability has arisen or will arise in the normal course of business, departments should consider whether:-

a. the activity which gives rise to the liability is an unavoidable feature of their essential responsibilities or statutory duties; and

b. Parliament could reasonably be assumed to have envisaged the activity when it passed the statute or, for the activities resting on the sole authority of the Appropriation Act, voted the supply expenditure.

5. Indemnities given for the loan of articles for exhibition should be reported. Although exhibitions are part of the every day business of museums and galleries, the borrowing of exhibits is discretionary and the associated indemnities are reported to Parliament at the PAC's request.

6. Departments will still need to send a separate return to the Accountant, HM Treasury, by the end of June each year, setting out details of contingent liabilities resulting from statutory guarantees; this is required for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts but any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000. Departments are also reminded of the need to report liabilities on outstanding non-statutory contingent liabilities in the introduction to the relevant supply Estimate.

Format of reports

7. It would be helpful if, in reporting contingent liabilities to the Treasury, departments could follow the format attached. In completing this the following should be noted:-

a. Column 1 should clearly indicate whether the liability arises from the department's activities or from those of a sponsored body (giving the name of the body);

b. Column 2 should set out details of the statutory authority or, in the case of non-statutory contingent liabilities, the reference of the departmental minute, where either of these exists. Departments should consider whether existing reports to Parliament remain sufficiently up-to-date, taking account of any significant change in the nature or increase in the size of the contingent liability, or change in material circumstances since it was accepted or last reaffirmed. Departments should confirm here that they have followed the relevant requirements for reporting outstanding liabilities to Parliament.

c. Column 3 should be completed to compare this year's figure with last year's: if this year's figure is not fully available by 25 May an estimated figure should be inserted.

d. Column 4 should include a brief description of the action departments are taking to minimise the risks.

Submission of reports

8. The reports should be approved by the department's Minister and sent to the Treasury by 25 May. The reports should confirm that the department's Accounting Officer was satisfied that all the department's contingent liabilities have been reviewed and that all those over £100,000 were reported.

Planned new contingent liabilities

9. Proposals for new or increased contingent liabilities to be taken on during the Survey period should be summarised in the Ministerial letters and details given in official letters.

1988 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 25 MAY 1989

DEPARTMENT _____

(Separate return using the same format for planned new or increased liabilities)

Nature of Contingent Liability	Statutory Authority or Departmental Minute Reference (If either exist)	Amount at Risk at 31.3.89 £m	Department's Comments To cover action to minimise the risk of payment, reasons for any significant changes in amount at risk
1	2	3	4

2
Liabilities in existence at 31.3.88
(To include any not previously reported)

(Show in brackets immediately below this year's figure the amount reported last year)

Liabilities arising or entered into between
1.4.88 and 31.3.89

HANDLING OF LOCAL AUTHORITY COMPONENTS OF NEW PLANNING TOTAL

The operation of the public expenditure Survey will reflect the reform of local government finance and the introduction of the new planning total.

2. For local authority current in GB, the new planning total will include the following components:

- (a) Revenue Support Grant (RSG);
- (b) National non-domestic rate (NNDR) payments (and the equivalent in Scotland);
- (c) Specific current grants (including grants covering community charge benefits, and European Community current grants to local authorities).

Items (a) and (b) will be included in DOE, Scottish Office and Welsh Office departmental programmes; item (c) will be included in the appropriate departmental programmes.

3. For local authority capital in GB, the new planning total will include:

- (a) Domestic (non-EC) capital grants;
- (b) Credit approvals (or their equivalent in Scotland) issued by central government authorising local authorities to borrow or raise other forms of credit for capital expenditure.

4. The coverage of the new planning total in N Ireland reflects the different arrangements there.

5. The capital and current expenditure which local authorities in effect determine and finance for themselves, from the community charge, the use of capital receipts, or from other income, will be outside the new planning total.

6. The Survey will determine local authority components of the new planning total identified above; the Autumn Statement will also include within GGE projections for the self financed expenditure of local authorities throughout the UK. This Annex describes in more detail how the individual components will be handled in the 1989 Survey. The attached appendices summarise the timetable.

LOCAL AUTHORITY CURRENT

England

7. Ministers have agreed to the proposals in the Chief Secretary's letter of 31 January and 2 March for the conduct of the Survey. The baselines for the relevant components of local authority current will be constructed by applying to the corresponding 1989-90 figures uplift factors of 2½ per cent to create figures for 1990-91 and 1991-92. Figures for 1992-93 will be created by applying the same uplift factor of 2½ per cent as used elsewhere in the Survey.

8. Ministerial letters, and supporting official letters, due by 25 May will need to cover any proposals for changes from the baseline for individual specific grants. Departments will be expected to provide supporting information as in Annex C. As with other proposed increases departments should say what priority they attach to these bids and set out the reductions which are proposed to offset these increases.

9. Decisions on local authority current for 1990-91 will be taken in two stages. In July Ministers will decide in E(LF) on an aggregate amount of Exchequer support and the aggregate need to spend. In September/October Ministers will take final decisions on the distribution of the aggregate need to spend amongst departments and the split between RSG, NNDR payments and specific grants (to the extent that the latter are not decided in July).

The July decisions

10. Ministers have agreed that, in July, there should be an announcement covering, for 1990-91:

- (a) an envelope of "Aggregate Exchequer Finance" (AEF), including the NNDR payments, RSG and certain specific grants;
- (b) the aggregate need to spend;
- (c) the community charge for spending at need.

Once decided, the AEF figures would remain fixed for the rest of the Survey.

11. It has already been broadly agreed which specific grants should be included within AEF (see attachment to Chief Secretary's letter of 31 January). Final details will be agreed as soon as possible.

12. In order that proper decisions on AEF can be taken by E(LF) in July bilateral discussions on specific grants within AEF will take place before the E(LF) meetings. E(LF) will then be in a position to agree figures for most if not all of the specific grants within AEF.

13. In addition Ministers will consider how figures should be set for 1991-92 and 1992-93 on the AEF envelope, though no announcement will be made about the later years in July.

The Autumn decisions

14. In September/October Ministers will take final decisions on the distribution amongst services of the aggregate need to spend agreed in July. In addition they will agree the RSG and NNDR payments figures within the AEF total in the light of the final forecast of the yield from the NNDR.

15. Specific grants outside AEF will be considered in the bilaterals. Decisions on these grants will be taken as part of the normal bilateral discussions on Departmental programmes.

16. Ministers will announce in the Autumn Statement, or around the same time, provision for RSG, NNDR payments, and specific grants for each of the three forward years and the assessment of service needs for the year ahead.

Scotland

17. In Scotland, the local authority current expenditure regime will be different in certain respects from that in England and Wales. Baselines for Revenue Support Grant, estimated non-domestic rate income and specific grants will be set in a broadly similar way to the provision in England. Following the decisions in July on AEF for English local authorities for 1990-91, there will be bilateral discussions between the Chief Secretary and the Scottish Secretary on the corresponding aggregate for Scotland and hence for Revenue Support Grant and those specific grants which make up AEG for Scotland. AEG for 1990-91 will be announced in July. Provision for the aggregate corresponding to AEF in 1991-92 and 1992-93 will be considered in July. In October the Secretary of State for Scotland will announce provision for RSG, projected non-domestic rate income and specific grants for at least the year ahead. Figures for all 3 years will be included in the Autumn Statement.

18. The provision for these components of local authority current will not be covered by the Scottish block formula. Specific grants outside AEG in support of local authority current expenditure will be handled either as part of the appropriate programme bilateral, or, where included in the block, will be altered in line with the formula consequential of the comparable English programmes. [These arrangements are set out in Barry Potter's letter of March.]

Wales

19. Baselines for Revenue Support Grant, NNDR payments and specific grants will be set in a broadly similar way to that in England. Following the decisions in July on Aggregate Exchequer Finance for English local authorities there will be bilateral discussions between the Chief Secretary and the Welsh Secretary, to settle AEF, assessed need to spend and the community charge for spending at need for Wales for 1990-91 in the light of the English settlement. These figures will be announced in July. Provision for those specific grants within AEF which are the responsibility of the Secretary of State for Wales will also be settled in July. Provision for AEF for 1991-92 and 1992-93 will also be considered in July. In October/November the split between NNDR and RSG will be determined and announced at least for the year ahead.

20. The provision for these components of local authority current will not be covered by the Welsh block formula. Specific grants outside AEF in support of local authority current expenditure will be handled either as part of the appropriate programme bilateral, or, where included in the block, will be altered in line with the formula consequentials of the comparable English programmes.

Northern Ireland

21. For district council current, the new planning total will include only current grants - DOE(NI)'s general grant and specific grants. These items will be included in the NI block. Baselines for current grants will be set in the light of the corresponding figures for England. Provision in the NI block will be adjusted to reflect the formula consequentials of changes to comparable English figures, as described in Max Sharratt's letter of 20 December to Andrew McCormick.

22. Further information on all local authority current items covering all four territories can be found in [PESC(LA)(89)].

LOCAL AUTHORITY CAPITAL

23. There are 6 main blocks of local authority capital expenditure within the new planning total.

(i) English Local Authority Block (ELAB)

24. The method for setting baselines for credit approvals and capital grants within ELAB was set out in the Chief Secretary's letter of 10 February. (See also Annex B). Figures already on the database for capital grants will be adjusted to reflect changes made in 1989-90 Main Estimates. The baselines for credit approvals will be finalised by early April, in the light of further information only about the volume of accumulated and in-year receipts. Baselines for 1992-93 will be created by the Treasury by adding 2½ per cent to the cash figures for 1991-92.

25. The baselines are set by department. For this purpose, the credit approvals for "other services block" within ELAB will be allocated between departments.

26. Departments are asked to cover any proposals for changes from these baselines in the Ministerial and official letters due to be sent to the Treasury by 25 May. These letters should set out comparable information to that requested in paragraphs 15-17 of the main Guidelines, and should be accompanied by official letters setting out information as requested in Annex C.

27. Provision for credit approvals and capital grants for each department will be discussed in the Ministerial bilaterals in the Autumn.

28. The Survey will determine, for each department, credit approvals (and the Annual Capital Guidelines issued by departments to the relevant local authorities) for 1990-91, as well as credit approvals for the 2 later years. To form the ACGs, the credit approvals for 1990-91 will be added to figures for receipts taken into account. The receipts taken into account for 1990-91 will be fixed in mid-July; once fixed, the figures will not be changed during the Survey, so that any additions or subtractions to baseline credit approvals agreed in the bilaterals for 1990-91 will add or subtract £ for £ to Annual Capital Guidelines.

29. All domestic (non-EC) capital grants to local authorities that represent a source of finance directly available for spending are included in the new planning total, and will be determined in the Survey. These grants are listed in PESC(WM)(89)[]. They include a small number of DOE capital grants, previously paid as specific grants towards loan charges incurred on borrowing to finance capital projects, but in future to be paid as lump sum contributions to project capital costs. (Payments to local authorities capitalising sums that would otherwise have been paid in support of loan charges on projects already started will not be included within the new planning total. Any residual specific grants on loan charges which have not been capitalised will also not score in the new planning total.)

30. Provision for EC capital grants to local authorities will not be settled in the bilaterals. These grants will be financing grants, and will substitute for the use of credit approvals. They will therefore not score in the new planning total.

31. Further information can be found in PESC(NPT)(89)[].

(ii) Urban Block (DOE/UA1)

32. The urban block (DOE/UA1) at present includes expenditure of central government, local authorities, and public corporations. It is included within the other environmental services programme of DOE. The central government and public corporations elements will continue to be handled in the Survey as normal. All the local authority elements covered at present will be included within the new planning total, as there is deemed to be no local authority expenditure on this block financed from receipts or revenue contributions. The total baseline provision for the local authority elements for the 1989 Survey will therefore be as in the 1989 PEWP. Any changes to this provision which the department wishes to propose should be included in the Ministerial and official letters submitted to the Treasury by 25 May and accompanied by supporting information as requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision will be discussed in the bilateral meeting with the Secretary of State for the Environment as has been the case in the past. The new total will be divided between credit approvals and capital grants at the end of the Survey. These arrangements are as set out in Mark Betenson's letter of [] March to John Adams.

(iii) Home Office (HO/LA1)

33. Arrangements for Home Office services (police, magistrates' courts, probation and civil defence) will be similar to those for the English local authority block, subject to certain additional controls. (See Mr Hurd's letter of 15 February, and the Chief Secretary's reply of 6 March). The new planning total will include provision for credit approvals and capital grants from central government. Baselines for credit approvals and capital grants for Home Office services [have been] agreed between the Chief Secretary and the Home Secretary. Any proposals for changes from these baselines should be covered in the letters due to be sent to the Treasury by 25 May and supported by the information requested in paragraphs 15-17 of the Main Guidelines and in Annex C. Provision for credit approvals and capital grants will then be discussed in bilaterals between the Chief Secretary and the Home Secretary. Credit approvals will be distributed by the Home Office as Supplementary Credit Approvals on the basis of the project approvals issued by the Home Office.

(iv) Welsh Office Local Authorities Block (WOLAB)

34. Welsh local authority capital items within the new planning total are covered by the Welsh Office Local Authority Block (WOLAB). This includes credit approvals and capital grants. Baselines for these items have been set, (see Barry Potter's letter of [] March 1989 to Colin Jones). The provision for WOLAB is included within the Welsh block. Total provision within the Welsh block will be altered in line with the formula consequentials of any changes to the credit approvals and capital grants included within ELAB.

(v) Scottish Office Local Authorities (SO/LA1 and SO/LA2)

35. Scottish local authority capital items within the new planning total are covered by the Scottish Office Local Authority Blocks 1 and 2. These will cover capital allocations (the broad equivalent in Scotland of credit approvals and capital grants). Baselines will be established following the method set out in

Barry Potter's letter of 1 February 1989 to Tony Cameron. The timetable for setting the baselines will be similar to that proposed for ELAB. Provision for SO/LA1 and SO/LA2 is included within the Scottish block. Total provision within the Scottish block will be altered in line with the formula consequential of any changes to the capital grants and credit approvals within ELAB.

(vi) N Ireland

36. The new planning total will include central government and EC capital grants to Northern Ireland district councils. Baselines for these will be set in early April on the basis of the figures in the 1989 PEWP. Provision for these items, which fall within the N Ireland block, will be altered in line with the formula consequential of the changes agreed to the comparable programmes in GB.

TREATMENT OF LA CURRENT EXPENDITURE IN THE 1989 SURVEY: **G**U**I**D**E**LINE
TIMETABLE

- May - Baseline tables finalised, including 1992-93.
- Ministerial letters, and supporting official letters, with proposals for variations from the baseline for individual specific grants.
- June-July - Bilateral Ministerial consideration of individual specific grants within AEF.
- July - E(LF):
- (a) settles for 1990-91, an envelope of "Aggregate Exchequer finance", the aggregate need to spend, the community charge for spending at need, and most if not all specific grants within AEF.
- (b) considers AEF for 1991-92 and 1992-93.
- July - Announcement of Government decision on (a) above.
- Bilateral discussions and announcements of (a) above where relevant for Scotland and Wales.
- September/October - Discussion of any specific grants within AEF not finalised in July.
- Bilateral discussion of specific grants outside AEF, as part of discussion of departmental programmes.

RESTRICTED

- Final decisions on:

(a) split of AEF for 1990-91 into RSG, NNDR payments, and specific grants;

(b) distribution of aggregate need to spend between services for 1990-91.

October/November

- Announcement of split of AEF for 1990-91 and distribution of total needs by service.

TIMETABLE FOR LA CAPITAL

BASELINES

- February (i) set baselines for domestic capital grants and credit approvals for 1990-91 and 1991-92 on provisional assumption about receipts;
- (ii) set provisional assumptions about RTIA for 1990-91;
- April (iii) finalise baselines in the light of latest data on receipts;
- (iv) create baseline for 1992-93;

VARIATIONS FROM THE BASELINE

- End-May (v) deadlines for any Departmental bids for CAs and capital grants;
- July (vii) RTIA by department for 1990-91 fixed;

BILATERALS

- September/
October (viii) bilateral negotiations on CAs and capital grants for all three years;
- (ix) ACGs for 1990-91 formed by adding CAs to RTIA for each service block.

Reference.....

To:

cc Mr Liesner
Mr Ward

PS/PRIME MINISTER
PS/SECRETARY OF STATE
PS/MINISTERS OF STATE
PS/PARLIAMENTARY UNDER SECRETARIES OF STATE
PS/PERMANENT SECRETARY

From:

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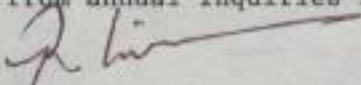
14 March 1989

CAPITAL EXPENDITURE PRESS NOTICE

A press notice giving revised figures for the fourth quarter of 1988 is attached for information. The notice will be published at 11.30 am on Thursday 16 March. As usual, the contents should be treated as confidential until then.

The revised figures for the fourth quarter are, overall, almost 5 per cent higher than at the provisional stage, with the figures for manufacturing revised marginally upwards and those for construction, distribution and financial industries revised upwards by nearly 8 per cent.

The figures for 1986-8 are not fully consistent with the figures of total fixed investment in the Financial Statement and Budget Report 1989-90. The latter figures incorporate upward revisions to take account of additional information, for which no industrial detail is yet available. Any necessary revisions to the quarterly series will be made later this year when final results are available from annual inquiries for 1987.



R WILLIAMS