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File 115

10 DOWNING STREET

LONDON SW1A 2AA

*From the Private Secretary*

29 March 1990

Dear Carys,

GUIDELINES FOR THE 1990 PUBLIC EXPENDITURE  
SURVEY

The Prime Minister was grateful for the Chief Secretary's minute of 26 March. She is content that the guidelines for the 1990 Public Expenditure Survey attached to the Chief Secretary's minute should be formally circulated in the first week of April.

I am copying this letter to the Private Secretaries to other members of Cabinet, Martin Le Jeune (Office of the Minister for the Arts), Myles Wickstead (Overseas Development Administration), Juliet Wheldon (Law Officers' Department), Alan Maxwell (Lord Advocate's Department) and Sonia Phippard (Cabinet Office).

Yours,  
Paul

Paul Gray

Miss Carys Evans  
Chief Secretary's Office

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FROM: CHIEF SECRETARY  
DATE: 26 March 1990

PRIME MINISTER

## GUIDELINES FOR THE 1990 PUBLIC EXPENDITURE SURVEY

We need to agree the arrangements for the early part of this year's Survey. Accordingly, I attach the draft Guidelines for the 1990 Survey. As you know, the Guidelines contain the ground rules for the preparation of the baselines and Survey bids, and set out the timetable for the preliminary stages of the Survey.

2. The Guidelines follow closely those circulated at this time last year. I should, however, draw your attention to the following points.

## Baselines

3. The baselines for 1991-92 and 1992-93 will be the plans agreed in last year's Survey. I propose that the departmental tables for 1993-94, the new third year of the Survey, should be calculated on the basis of an uplift factor of  $2\frac{1}{2}$  per cent.

## Bids and options

4. In keeping with past practice, I propose that Ministers should review priorities within their programmes personally before writing to me with any proposals for changes in May. Departments are asked to co-operate with the Treasury by producing or costing options for reductions in expenditure when requested.


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**Value for Money**

5. I attach great importance to this aspect of the Survey. The Guidelines ask departments to produce information on the outputs and performance expected from planned or proposed expenditure. This information is required to ensure that our Survey negotiations are informed by as full an understanding as possible of the efficiency and effectiveness of programmes.

6. I should be grateful for any comments you or other colleagues may have by 29 March. Subject to these I propose that the Guidelines should be formally circulated in the first week of April.

7. I am sending copies of this minute to other Cabinet colleagues, Richard Luce, Lynda Chalker, Patrick Mayhew, Peter Fraser and Sir Robin Butler.



NORMAN LAMONT

PESC (90)  
PESC (WM) (90)  
March 1990

Her Majesty's Treasury

Public Expenditure Survey Committee

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**Guidelines for the 1990 Survey**

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Note by the Treasury

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Introduction

This paper sets out the Guidelines for the 1990 Survey. This will be the second Survey conducted on the basis of the new planning total, and the main difference from 1989 will be that baselines will now exist for the local authority elements of departmental programmes. The only major change to Survey procedures for 1990 affects the handling of departmental running costs (see paragraphs 7-10 and 25-33).

2. The paper is divided into the following sections:

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

Annex A: 1990 Public Expenditure Survey: key dates March-May.

Annex B: Construction of the Baseline.

Annex C: Table to accompany Ministerial letters.

Annex D: Official letters.

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

Annex F: Contingent liabilities.

Annex G: Handling of local authority components of the 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 3 April. Information on value for money relating to baseline plans should be sent to the Treasury by 27 April. The baselines will be set and agreed by 9 May and circulated on 18 May. Ministerial and official letters proposing changes to departmental baseline expenditure plans should reach the Treasury by 24 May. Information on contingent liabilities should also be sent to the Treasury by 24 May.

## II Baselines

4. The baselines for 1991-92 and 1992-93 will be the figures agreed in the 1989 Survey and published in the 1990 public expenditure White Paper, subject to classification changes and EUROPES adjustments (see paragraph 6 below). For 1993-94, the baseline will be constructed by the Treasury by adding 2½ per cent to the cash figures for 1992-93. Annex B explains the arrangements for constructing the baselines in more detail.

5. Transfers of PES provision to reflect transfers of functions between departments (where already agreed) should be made in setting up the baseline. The relevant amounts should be agreed between the departments concerned and the Treasury. The presumption is that sufficient PES and running cost provision should be transferred to cover the appropriate share of departmental central services as well as the direct costs of the function concerned. These principles also apply to any transfers made during the Survey.

6. Under the EUROPES 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)(90)5 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 running costs controlled gross will be constructed in the same way as for other central government spending; for 1991-92 and 1992-93 the PEWP figures will be used, and for 1993-94 the baseline will be created by applying the uplift factor of 2½ per cent to the 1992-93 figures.

8. PESC(WM)(90)(2) commissioned completion of DRC1 forms and explained that baselines reflecting both gross provision and receipts need to be established this year for running costs expenditure controlled net (ie previously granted specific exemption from gross control). It also drew attention to the fact that the costs of locally-engaged civilians employed abroad will be classified as other current expenditure and fall outside running cost coverage from 1991-92. This will be reflected in the Survey baselines. (Applications by departments for transfer to net control to be considered in this Survey should be registered by 24 May, and supporting data made available to the Treasury in time for a decision in principle to be taken before the end of July).

9. Departments have been asked to provide a breakdown of their running cost baseline (or baselines if part is under net control) on form DRC2 (see PESC(WM)(90)2).

10. An agreed starting point for capital expenditure for departmental administration is also required for this Survey, as described in PESC(WM)(90)(4).

11. The baseline figures will be circulated to departments on 18 May. Departments will be sent their own baseline figures only, together with the set of summary tables. Should departments require other departments' baseline figures, then these will be available on request from the secretaries.

### III Demonstrating Value for Money

12. 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 20 and Annex D.

13. 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.

14. In compiling figures as in paragraph 13 above, the aim should be that, as far as reasonably practicable, key indicators should be provided for all the major activities of a department, so that past

and intended performance across the board can be assessed from year to year on a stable basis. Unit costs, calculated on a full cost basis, should be quoted where possible. Departments should also indicate what plans they have to extend the range of such measures. Departments are reminded that value for money information must also cover specific grants to local authorities (see PESC(LA)(88)8).

15. Expenditure Divisions will need this information by 27 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.

16. 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 1990-91, 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.

17. Where Next Steps agencies are created or proposed, after discussion with OMCS and the Treasury, the department's running costs management plan (paragraph 25 below) 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 18 below) why its needs cannot be met from improved performance.

#### IV Ministerial proposals for changes to the baseline

18. Ministers are asked to write to the Chief Secretary by 24 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. A table in the format shown at Annex C should be attached to every Ministerial letter. 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 (and 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.
- (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 (see paragraphs 25-32 below) identifying separately changes relating to Next Steps agencies. Any applications for moves to net control must be identified in this letter and

the area concerned clearly distinguished in the department's management plan, which it should enclose.

- (vii) a summary of any proposed new or increased contingent liabilities (see paragraphs 41 and 42 below).

19. Increases or reductions for 1990-91 should not be proposed as part of the Survey: any such proposals will be dealt with separately as they arise through the year.

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

#### Options for reductions

21. 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 by 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 (see Annex G)

22. Proposals for variations from baseline for specific grants (including NNDR collection costs and the City offset), together with estimates of the cost of residual payments of Rate Support Grant and Rate Rebate grants left over from previous years, should be included in Ministers' letters on the basis set out in paragraph 18 above. Ministers' letters in May should not cover proposals for aggregate external finance (AEF), the distributable amount of the National Non-Domestic Rate (NNDR) and the Non-Domestic Rate income in

Scotland, or Revenue Support Grant (RSG), which will be discussed collectively, as last year.

23. Further aspects of the handling of the Survey with regard to Scotland and Wales are being considered separately (Alun White's letter of 15 February to John Craig (Welsh Office)).

Local Authority Capital (see Annex G)

24. Ministers' letters should include any proposals for changes from baseline for credit approvals and capital grants, again on the basis set out in paragraph 18 above.

Gross Running costs and associated manpower

25. During the 1989 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 reopened, 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 1989 Survey and are rolled forward, showing how the extra efficiency gains will be delivered in 1993-94; the minimum target of 1½ per cent will remain, but higher figures will be expected from many departments - especially those with large executive operations. The plans must also make clear how the efficiency gains previously agreed for 1989-90 were actually achieved.

26. In accordance with Mr Luce's letter to PFOs of 20 July 1988, bids for a marginal increase in running costs provision (controlled gross) in order to deliver extra receipts which more than cover the cost of the increase can be considered from departments with three-year running cost settlements, without formally reopening those settlements. Bids in support of relocation proposals identified and put forward since the 1989 Survey may similarly be considered without formally reopening 3 year running cost settlements.

27. The principal purpose of running cost management plans is not to support the bidding process, but to guide management action over the PES period. They are submitted to the Treasury in draft in sufficient (but not excessive) detail to inform Survey negotiations. As soon as the Survey outcome is known, however, they should be finalised as fully operational documents and issued internally to serve as an effective management tool.

28. Departments whose Management Plans did not provide a basis for three year running cost settlements in the 1989 Survey are asked to offer improved plans in the 1990 Survey. 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.

29. 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.

30. If any Minister feels it is necessary to reopen 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 reordering of existing priorities as set out in paragraph 3 of PESC(87)23. In such circumstances, other figures in the earlier settlement may be challenged anew by the Treasury.

31. 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 D), which should also attach one DRC3 form for changes to the baseline involving areas controlled gross and another for each area controlled net. It is important that the full manpower implications of any proposed change to cash provision are identified when the proposal is offered for consideration. Any bids involving extra manpower will need to be

justified against actual staff in post, not just against previously published plans.

32. Where satisfactory output and performance data have already been supplied, as at paragraphs 12 and 13 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.

33. In evidence to the Treasury and Civil Service Committee (published as Appendix 1 to their first report of the 1989-90 Session) the Treasury said they aimed to increase progressively the amount of information published at the time of the Autumn Statement. One of the examples quoted of further information which it might be practicable to provide was provisional aggregate information on running costs. To make it possible to publish such information in the 1990 Autumn Statement, it will be important that the running cost aspects of late Survey decisions are finalised at the same time as the final PES figures.

#### Economic composition of proposed changes to baseline

34. The Treasury needs to collect information about the economic composition of any proposed individual changes to the baseline which exceed £10 million in one year. This information should be forwarded, on copies of the forms attached to Annex E, 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' cooperation in submitting these forms promptly will be appreciated.

#### Territorial implications of proposed changes to baseline

35. Information on territorial implications of proposed changes to baseline should always be included in official letters. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1990 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 Jim Toller (270-5064) on Scotland and Wales.

#### Science and technology

36. The Treasury will again be monitoring 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

37. Departments will also be asked to supply information on their holdings of surplus land and buildings, and their past achievements and future plans for disposing of such property. A PESC paper will be circulated in April.

#### Economic assumptions

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

#### V Nationalised Industries

39. 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 41 and 42 below. Departments are reminded of the arrangements for reviewing Nationalised Industries and certain other trading bodies under section 11 of the Competition Act 1980, as set out in PESC(89)31.

40. PESC(EC) will consider spending allocated to programme 2.7. Departments have been asked to provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1989-90 and their estimates for 1990-91 by 4 April. This information should be consistent with the provisions contained in the 1990-91 main Estimates, but set out on the basis of receipts against the relevant EC budget line. 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.

#### VII Contingent Liabilities

41. 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, the 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 F. 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 24 May 1990. 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.

42. 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 1990 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

43. The papers listed below are relevant:

PESC(87)23	Management plans
PESC(88)3	Resourcing Policy Change Across Departments
PESC(89)8	The 1989 Survey: Departmental Relocation Reviews
PESC(89)9	Payments by Government Departments in Lieu of Community Charges.
PESC(89)31	Reviews under section 11 of the 1980 Competition Act, Nationalised Industries.
PESC(LA)(88)8	The Development of Output and Performance Measures for Specific Grants to Local Authorities.
PESC(90)2	Funding of PSA Services from 1 April 1990.
PESC(90)3/ PESC(WM)(90)1	Definition and control of Departmental Running Costs from 1991-92.
PESC(90)[ ]	Departments' expenditure on accommodation: arrangements for the 1990 Survey (to be circulated).
PESC(WM)(90)2	Baseline Data on Running Costs and Manpower (DRC1) forms.
PESC(WM)(90)3	Enhancements to data classification.
PESC(WM)(90)4	Capital expenditure for departmental administration.
PESC(WM)(90)5	1990 Survey Baseline: Submission of Running Tallies.

44. General questions arising from this paper should be addressed to the secretaries, Adam Sharples (270-5522) or Nigel Pray (270-5523). Questions on specific issues should be addressed to the following people:

Departmental running costs      Richard Knight (270-4996) or  
Tony Davis (270-4997);



Manpower , Ron Carpenter (270-4865);

Contingent liabilities Dick Meadows (270-5363);

Local authorities (current) Andrew Hudson (270-4945);

Local authorities (capital) Julian Laite (270-4753);

Nationalised industries Stephen Bowden (270-4908); and

EC expenditure Mike Long (270-4425).

**MR A J SHARPLES**

**MR N G FRAY**

1990 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

- MARCH**      Thursday 15 March Last date for departments to comment on formats of main departmental baseline tables.
- Thursday 15 March PESC(WM) paper seeking running tallies to amend PES database issued.
- Wednesday 28 March Last date for DRC1 forms for 1988-89 to 1990-91, to provide breakdowns of running costs and manpower baselines.
- APRIL**      Tuesday 3 April Last date for departments to submit running tallies to amend PES database for years up to 1992-93.
- Thursday 12 April Last date for departments to submit DRC2 forms (1991-92 to 1993-94) where departments are unlikely to submit running tallies to amend the PES database for 1993-94.
- Thursday 12 April Last date for return of EUROPES running tallies.
- Friday 27 April Last date for departments to submit information on value for money relating to baseline plans.
- Monday 30 April 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.
- Monday 30 April Draft texts explaining changes since White Paper figures circulated.
- MAY**        Wednesday 2 May Last date for departments to submit running tally forms to amend PES database for 1993-94 including EUROPES adjustments.
- Wednesday 2 May Last date for departments, where appropriate, to grant DRC2 forms for 1991-92 to 1993-94 to provide breakdowns of running cost baselines and manpower plans.
- Wednesday 9 May Last date for final comments on departmental tables.
- Wednesday 9 May Last date for comments on textual explanations of changes since White Paper figures.
- Friday 18 May Baseline tables circulated to PESC and Ministers.

Thursday 24 May Last date for Ministerial and official letters and management plans to be sent to the Chief Secretary and expenditure divisions.

Thursday 24 May Last date for DRC3 forms to support proposed changes to running cost limits and associated manpower.

Thursday 24 May Last date for information on contingent liabilities to be sent to expenditure divisions.

## CONSTRUCTION OF THE BASELINE

This annex explains the arrangements for constructing the departmental Survey baseline tables for the 1990 Survey.

### Figures for 1991-92 and 1992-93

2. The figures for these years will be the plans published in the 1990 public expenditure White Paper (PEWP) (Cm 1001-1021) adjusted for classification changes, agreed transfers of function between departments and between spending sectors, and other technical changes. The only significant classification changes concern areas to be under net running cost control; the Treasury has been liaising with those departments affected by this and by the small number of minor classification changes which are being made. Manpower plans for 1991-92 and 1992-93 are as published in the 1990 PEWP except where subsequently amended by agreement with the Treasury.

### Figures for 1993-94

3. Figures for the new third Survey year (1993-94) for programme expenditure, finance for local authorities and gross running costs (together with related receipts, where control is applied net) will be calculated by the Treasury by adding 2½ per cent to the cash baseline figures for 1992-93. Baseline manpower plans for 1993-94 should be consistent with the baseline figures for gross running costs calculated as above.

### Adjustments to the PES database

4. 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's own expenditure, central government grants to local authorities or public corporations beyond 1990-91 as a result of the Estimates scrutiny for 1990-91. PESC(WM)(90)5 asked departments to align PES and Estimates for 1990-91. In some, but not all, cases changes in 1990-91 may have implications for later years involving switches between sub-programmes, economic categories or spending sectors and this will need to be reflected on the database. Net increases in expenditure (or switches from programme expenditure into 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.

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.

5. Running tallies for any agreed changes to the baseline covering any of the years 1985-86 to 1992-93 should be sent to the Treasury by 3 April. Running tallies for agreed changes to the baseline for 1993-94 should be sent in, after the baseline for that year has been created, by 2 May.

6. Adjustments will also need to be made to some figures as a result of the EUROPE 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

7. PFOs will be sent tables showing the baseline for their departments together with a series of additional analyses tables. These tables give summaries of the planning total by spending sector and department and analyses of public sector asset creation, expenditure on science and technology, running costs and manpower.

## TABLE FOR MINISTERIAL LETTERS

(Proposals for change to the baseline in each spending sector should be listed as shown. Any spending sectors for which there are no proposals for change can be omitted. Bids/reductions should be shown as additions to or deductions from the baseline).

	£ million		
	1991-92	1992-93	1993-94
<b><u>BASELINE</u></b>			
<b><u>Proposed additions</u></b>			
Central government			
1.			
2. etc			
Current grants to local authorities			
1.			
2. etc			
Capital grants to local authorities			
1.			
2. etc			
Credit approvals			
<b>TOTAL</b>			
(continued on next page)			

1991-92

1992-93

1993-94

Proposed reductions

Central government

- 1.
2. etc

Current grants to local  
authorities

- 1.
2. etc

Capital grants to local  
authorities

- 1.
2. etc

Credit approvals

TOTAL

TOTAL ADDITIONS (from previous page)

TOTAL NET CHANGE PROPOSED



## OFFICIAL LETTERS

1. Official letters should list proposed bids and reductions in order of priority as in the Ministerial letter. They should also include a full detailed explanation including any information which the Treasury may request.
2. Where additional provision is proposed the letters should explain more fully how the need for it arises. The letters should provide additional details of the improvements in output and performance which would be achieved, and how effectiveness and efficiency will be evaluated, including specific performance measures and indicators.
3. 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.
4. Where changes involve PES transfers between departments, the amounts involved and the arrangements for handling in the Survey should be agreed between the departments concerned and the Treasury before the start of the Survey, and this should be reflected in the official letters.
5. 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 (1990-91).
6. These letters should clearly indicate which elements of the total proposed changes to baselines relate to running cost proposals or involve manpower changes. If they relate to an activity subject to net running costs control, this should be clearly stated and the activity area identified. The letters should similarly identify running cost proposals which do not involve changes to expenditure baselines.

7. Capital expenditure proposals should indicate whether they are in support of departmental administration or programme provision, and all such proposals, together with proposals for major items of current expenditure on maintenance of a similar nature (ie with benefits running into future years), should be supported by a 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); 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.

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

9. 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.

10. 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.

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

12. All letters and supporting information (eg DRC3 forms for running costs and related manpower) should be sent to the Treasury by 24 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 any proposed individual changes to the baseline by economic categories in excess of £10 million in one year. This information is used by the Treasury forecasters in preparing for the forecasts for the July Cabinet and the Autumn Statement. Departments are therefore asked to split their bids and reduced requirements which are for £10 million or more 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 24 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 asset creation as a result of Survey decisions, using a definition consistent with Table 21.2.14 of the 1990 PEWP. To help compile this figure, it would be helpful if departments would complete the second form attached to this annex, listing all the bids and reduced requirements (identifying expenditure on new construction, as shown) for central government expenditure falling within ECs E20, E30, E40, G10, and G20 regardless of size, and return it at the same time.

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

DO NOT INCLUDE BIDS/REDUCTIONS OF LESS THAN £10 MILLION

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 <sup>(1)</sup>	Total cost	Pay	Other current goods & services (net)	Subsidies (exc to public corporations)	Current grants to the private sector <sup>(3)</sup>	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 HNDR, 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. Please indicate in this column whether the expenditure is comparable in Scotland, Wales or Northern Ireland.

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

Please identify with an asterisk (\*) any bids for new construction (economic categories E20 and E30)

Please list central government bids only, REGARDLESS OF SIZE

Department:

£ million

	1991-92	1992-93	1993-94
<u>Description of bid</u>			

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 41 and 42 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 (whether of a statutory or non-statutory nature) 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). 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 chapter 26 of the 1989 edition of Government Accounting, 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 because the Government does not insure.
- c. Those which may arise as a result of department's sponsorship of the nationalised industries; these are monitored in the context of EPL 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.

#### Format of reports

6. 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 to

Parliament, 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.

c. Column 3 should show the Class and Vote number of the Estimate in which the value of outstanding non-statutory contingent liabilities are reported.

d. Column 4 should be completed to compare this year's figure with last year's: if this year's figure is not fully available by 24 May an estimated figure should be inserted.

e. Column 5 should include a brief description of the action departments are taking to minimise the risks.

#### Submission of reports

7. The reports should be approved by the department's Minister and sent to the Treasury by 24 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

8. 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.

#### Other reports

9. Departments are reminded that they should send a separate return to the Accountant, HM Treasury, by the end of June each year (see Government Accounting paragraph 26.3.4), setting out details of all contingent and nominal liabilities resulting from statutory guarantees (including those under £100,000). This is



required for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts. Any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000 under the arrangements set out in paragraphs 2 to 7 above. Departments are also reminded of the need to report liabilities on outstanding non-statutory contingent liabilities in the introduction to the relevant supply Estimate (see Government Accounting paragraph 26.3.10).

1990 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 24 MAY 1990

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)	Vote on which expense on non-statutory liabilities reported	Amount at Risk at 31.3.90 fm	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	5

Liabilities in existence at 31.3.89  
(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  
1.4.89 and 31.3.90

1990 SURVEY: HANDLING OF LOCAL AUTHORITY COMPONENTS

The 1990 Survey will determine the local authority components of the new planning total. This paper describes in more detail how the individual components will be handled. The attached appendix summarises the timetable for local authority current expenditure.

LOCAL AUTHORITY CURRENT

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

- a. Revenue Support Grant (RSG);
- b. National non-domestic rate (NNDR) payments in England and Wales (non-domestic rate income (NDRI) in Scotland);
- c. Specific current grants including :
  - Community Charge Benefit Grant
  - Transitional Relief Grant
  - Area Protection Grant
  - Inner London Education Grant
  - 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.

England

3. Decisions on local authority current for 1991-92 will be taken in two stages. In July Ministers will decide in E(LG) on an aggregate amount of Exchequer support (Aggregate External Finance (AEF)) and total standard spending (TSS). In September/October Ministers will take final decisions on the distribution of total standard spending between services and the split of AEF between RSG, NNDR payments and specific grants.

The July decisions

4. Ministers have decided that the procedures for decisions and announcements should broadly follow last year's pattern, but ensuring that full account is taken of information relevant to the settlement which emerges later in the year. The July announcement will therefore cover, for 1991-92:

- (a) an envelope of "Aggregate External Finance" (AEF), including the NNDR payments, RSG and certain specific grants;
- (b) total standard spending;
- (c) the community charge for standard spending.

The Government's proposals for AEF, once announced, will remain fixed for the rest of the Survey.

5. It is intended that the coverage of specific grants to be included within AEF for 1990/91 will be unchanged from those included in last year's Survey for all three territories. A list of these will be circulated as a forthcoming PESC(LA) paper.

The Autumn decisions

6. In September/October Ministers will take final decisions on the distribution amongst services of the figure for total standard spending agreed in July; initial discussion of this issue is likely to take place in July. In addition Ministers 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.

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

8. Decisions will also be needed on the AEF envelope for 1992-93 and 1993-94 though no announcement will be made in July about the later years.

9. The Autumn Statement will give figures for RSG, NNDR payments, and aggregate specific grants for each of the three forward years. For 1992/93 and 1993/94, the figure for RSG and NNDR will be aggregated.

Scotland

10. Following the decisions in July on AEF for English local authorities for 1991-92, there will be bilateral discussions between the Chief Secretary and the Secretary of State for Scotland on AEF for Scotland. AEF for 1991-92 will be announced in July. In the autumn the Secretary of State for Scotland will announce provision for RSG, projected non-domestic rate income and specific grants for the year ahead. Figures for all three years will be included in the Autumn Statement.

11. Specific grants outside AEF which are the responsibilities of other Secretaries of State will be handled as part of the appropriate programme bilaterals. Those which are included in the block will be determined by the Secretary of State within the overall change agreed for the block as a whole.

Wales

12. Following the decisions in July on Aggregate Exchequer Finance for English local authorities there will be bilateral discussions between the Chief Secretary and the Secretary of State for Wales, to settle AEF, total standard spending and the community charge for standard spending for Wales for 1990-91 in the light of the English settlement. These figures will be announced in July. The breakdown of AEF between NNDR, RSG and specific grants will be determined and announced in the autumn.

13. The treatment of specific grants outside AEF in Wales is the same as in Scotland (see paragraph 11 above).

14. Further aspects of the handling of the Survey with regard to Scotland and Wales are being considered separately (Alun White's letter of 15 February to John Craig (Welsh Office)).

Northern Ireland

15. The new planning total includes only DOE(NI)'s general and specific grants to district councils. These items are included in the NI block. All other expenditure is Central Government expenditure. Provision in the NI block will be adjusted to reflect the formula consequentials of changes to comparable GB figures.

LOCAL AUTHORITY CAPITAL

16. For local authority capital the Survey arrangements will be broadly the same as last year. For each Department concerned, bilateral agreement will need to be reached with the Treasury on:

(a) domestic (non-EC) capital grants;

(a) Credit approvals

17. The main steps will be as follows:

(i) setting baselines: provision for credit approvals and capital grants was set in the 1990 PEWP for 1991-92 and 1992-93; subject to technical amendments and creation of third year figure, these will form baselines for the Survey to be circulated by Treasury in the spring;

(ii) determining the Receipts Taken into Account (RTIA): PESC(LA)CAPITAL will consider a provisional figure in the spring and set RTIA by Department (where relevant) by mid-July; once fixed in July, Ministers will be able to negotiate credit approvals for 1991-92 in the bilaterals knowing the implications for Annual Capital Guidelines (ACG = RTIA + Basic Credit Approvals);

(iii) variations to baselines for capital grants and credit approvals: proposals from Departments by 24 May;

(iv) information on likely spending from LA capital receipts in 1991-92; this assessment, required to inform bilateral negotiations, will be circulated by DOE as soon as possible;

- , (v) bilateral negotiations on capital grants and credit approvals: September/October.

18. The above arrangements will apply to seven main services within the English Local Authority Block (ELAB), Home Office and urban blocks (excluding step (ii) for the latter two where it is not relevant). For Scotland, Wales and Northern Ireland there will be separate arrangements, consistent with the normal block rules. Further information can be found in the letter of 19 January from B H Potter (HMT) to J S Parker (DoE).



TREATMENT OF LA CURRENT EXPENDITURE IN THE 1990 SURVEY: OUTLINE  
TIMETABLE

- May
- Baseline tables finalised, including 1993-94.
  - Ministerial letters, and supporting official letters, with proposals for variations from the baseline for individual specific grants.
- July
- (a) E(LG): settles, for 1991-92, an envelope of Aggregate External Finance, Total Standard Spending and the Community Charge for Standard Spending.
  - (b) Announcement of Government decision on above.
  - (c) Bilateral discussions and announcements of (a) for Scotland and Wales.
- September/  
October
- Bilateral discussion of specific grants, as part of discussion of departmental programmes.
- October/  
November
- Final decisions on:
    - (a) breakdown of AEF for 1991-92 into RSG, NNDR payments, and specific grants;
    - (b) distribution of aggregate need to spend between services for 1991-92.
  - Announcement of split of AEF for 1991-92 and distribution of TSS by service.