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FROM: CHIEF SECRETARY
DATE: 17 April 1990

PRIME MINISTER

PROSPECTS FOR THE 1990 SURVEY

Attached
At Cabinet on 15 March, John Major warned that a number of developments would put acute pressure on present spending plans and reminded colleagues of the absolute importance to the Government's economic strategy of ensuring firm control of public expenditure. Colleagues may find it helpful to see how this looks before we get into the annual Survey round.

2. As John Major has repeatedly indicated, we cannot afford to take risks with inflation. A tight fiscal policy, in support of monetary policy, will be essential if we are to get inflation down and keep it down. Within that tight fiscal policy, we need to make progress, as soon as it is prudent to do so, towards encouraging enterprise by reducing the disincentive effects of taxation. However the present fiscal surplus is more than accounted for by privatisation proceeds and local authority asset sales; without those, the Government would already have been in deficit. And, although the year has hardly begun, the public expenditure Reserve for 1990-91 is already substantially accounted for, while the Reserves for 1991-92 and 1992-93 are under enormous pressure. There is very little room for manoeuvre.

3. Public expenditure restraint has been a central element in our economic strategy for the past decade. Our stated objective has been to bring down the ratio of public spending to national income. In the 6 years to 1988-89, the ratio fell by 8 percentage points. The extent of this fall reflected the exceptional strength of the economy, and a temporary pause, or even a small rise, is to be expected as the economy

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slows. The overspend in 1989-90 led to a small rise in the ratio from the low level reached in 1988-89, and has caused some commentators to question our resolve to maintain firm control over spending. But that makes it all the more important that we should continue to plan for a resumed if gradual decline in the ratio over the medium-term.

4. What are the prospects? First, the planning total in the financial year just over, 1989-90, has been overshot by nearly £2½ billion, the largest such overspend for 5 years. It is more than £1 billion higher than expected when the public expenditure White Paper was published in January. Local authority overspending, particularly on capital account, has played a big part in this.

5. The planning total for 1990-91, which excludes local authority self-financed expenditure, includes a Reserve of £3 billion. Already £700 million of this is pre-empted by extra community charge benefit, due to local authorities setting community charges far above the Government's standard spending guideline level. This is on top of other agreed commitments, such as the health review body awards and the Jubilee Line. We started therefore with big claims on the Reserve even before the year began. If we are to retain confidence in the control process, after last year's unsatisfactory performance, we must keep within the Reserve we have published.

6. Looking beyond that to the Survey years, the fiscal projections in the Budget Red Book show the limited room for manoeuvre if we are to achieve even a minimal rate of decline in the ratio over the medium term. Total local authority spending was marked up sharply by £2½ billion in 1990-91 in the light of authorities' budgets for that year, and by £3 billion in each of the two following years. But even so, the figures allow for barely any real growth in local spending over the Survey period. And the lower PSDR means that we can take less credit than we previously expected from falling debt interest.

7. The fiscal projections also start from the assumption that we keep within the overall planning totals agreed last Autumn. To achieve that, only a very limited amount can be released from the Reserves in each successive Survey. Colleagues should be aware, however, that the claims already conceded for 1990-91 together with the effect of the latest inflation forecasts on indexed benefits, have already pre-empted the scope for drawing down the Reserve over the Survey period.

8. I must ask colleagues to have this exceptionally difficult background in mind when considering whether they need to submit bids in the 1990 Survey, and also when we come to consider the level of grants to local authorities. The baseline for the Survey already contains a real increase in programmes of 6 per cent between 1989-90 and 1991-92, well in excess of the likely economic growth over the same period. The scope for any increases in present programme plans will be extremely restricted for the reasons I have outlined, unless comparable savings can be found elsewhere.

9. As you said at Cabinet, the continued successful control of public expenditure is central to the Government's reputation for sound economic management, and we must ensure that this reputation is maintained.

10. I am copying this minute to Cabinet colleagues, Richard Luce, Lynda Chalker, Patrick Mayhew and Peter Fraser, the Chairmen of the Revenue departments and to Sir Robin Butler.

CEvans

NORMAN LAMONT

approved by the Chief Secretary
and signed in his absence

PESC(D)(90)1

11 April 1990

HER MAJESTY'S TREASURY

PUBLIC EXPENDITURE SURVEY COMMITTEE
DEVELOPMENT SUB-COMMITTEE

OUTPUT AND PERFORMANCE MEASUREMENT:
TECHNICAL GUIDE

NOTE BY THE SECRETARY

This note reports progress on the draft technical guide on output and performance measurement issued by the Treasury in August 1988 (PESC)(D)(88)3).

2. We are very grateful for all the useful comments we received from departments on the guide: over 60 people took the trouble to fill in a questionnaire, many in great detail. The replies will be invaluable in shaping the final product.

3. We had intended to issue a final version of the guide much sooner, but a number of technical questions relating to output and performance measures arose in the context of Executive Agencies. The completed guide will benefit from current thinking in this area. A final draft is now in preparation and should be completed by the summer: a synopsis is attached.

4. It is not intended to reissue the original Management Guide (June 1988): most questionnaire respondents felt it was of limited use as a free-standing document.

5. Many commentators remarked on the lack of examples in the previous version of the technical guide. Hopefully, this can now

be remedied. Examples which help clarify any of the concepts in the guide would be most welcome; the following particularly so:

- the use of OPMS (in resource allocation; and for managing "arms-length" bodies);
- target-setting methodology;
- the use of key indicators for top management;
- the construction of aggregate indicators;
- OPMS for policy work;
- the use of policy evaluation to help determine policy changes.

If your department has tackled any of these issues successfully, I should be most grateful to hear from you. It would also be helpful to know if you feel any topics have been omitted from the list overleaf.

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OUTPUT AND PERFORMANCE MEASUREMENT IN CENTRAL GOVERNMENT: A GUIDE FOR MANAGERS AND SPECIALISTS

Contents

1. INTRODUCTION
2. USING THE GUIDE
3. MANAGEMENT OVERVIEW

- 3.1 Introduction

Introduction to basic OPM concepts.

- 3.2 Uses of OPMS

Outline of different uses of OPMS

Distinction between use of OPMS and techniques such as policy evaluation and investment appraisal.

- 3.3 Constructing OPMS

Short guide to the stages in developing OPMS

Points to watch for.

4. DEVELOPING OUTPUT AND PERFORMANCE MEASURES FOR EXECUTIVE FUNCTIONS

- 4.1 Classifying activities

How to classify activity to be measured according to whether it is demand-led or not, whether outputs are measurable or not, etc.

Examples for each type.

- 4.2 Developing measures

Suggestions for developing measures of economy, efficiency and quality for each type of activity.

5. POLICY EVALUATION

Role of OPMS (particularly measures of effectiveness) in policy evaluation.

6. MEASUREMENT

Detailed definitions of measures discussed in previous chapters. Techniques for putting numerical values on them.

7. SETTING TARGETS AND INTERPRETING VARIANCES

8. PRESENTATION

Methods of selecting data for different reporting purposes.

9. SPECIAL TOPICS

9.1 OPMS for policy work

9.2 OPMS for research and development

9.3 Measuring efficiency gains in Management Plans

9.4 Performance-related pay

9.5 OPM in "arms-length" management

9.6 Executive Agencies

APPENDICES: Setting objectives and targets; valuation of outputs; measuring and apportioning costs; efficiency with multiple inputs and outputs; aggregation.

BIBLIOGRAPHY

GLOSSARY OF TERMS

INDEX

PESC(90)8

PESC(WM)(90)11

6 APRIL 1990

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

ACCOMMODATION ISSUES FOR THE 1990 SURVEY

Note by the Treasury

The paper giving guidance to Departments on arrangements for dealing with the planned changes in accommodation responsibilities in the 1990 Public Expenditure Survey, together with advice on changes in the accommodation charge rules being implemented from 1 April 1991, will be circulated shortly.

In particular, the paper will deal with the changes Departments will need to make in order to reflect their choices for maintenance options on the Common User Estate; arrangements for those on the Departmental Estate to pay passing rents, and to pay opportunity cost rents on vacant properties; and the introduction of building specific maintenance charges. In these exceptional circumstances, running tallies, provisionally requested by 10 April, will not now be required until June.

Any questions on this paper should be addressed to Larry Woodman (GTN 270 4756).

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