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CONFIDENTIAL
AND MANAGEMENT - IN CONFIDENCE

The Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

23 May 1990

Dear Norman.

SCOTTISH OFFICE DEPARTMENTAL MANAGEMENT PLAN AND RUNNING COSTS

I am writing to set out my proposals for running costs for the Survey period for the Scottish Office and the other Departments for which I have responsibility and to draw attention to one capital project arising in the Survey period which I do not believe I will be able to finance from the Block.

Following discussions between our officials John Major and I agreed last autumn to roll forward the 3 year running cost settlement covering all my Departments. None of them is going to find it easy to carry out its responsibilities properly this year while containing its running costs within the settlement, because pay and other cost increases have been higher than the settlement assumed, but only the limit for Scottish Office administration is in real danger of being breached. Our officials are in touch about the difficulties which we can foresee, because of an exceptional number of unexpected new commitments, coupled with unforeseen increases in pay and accommodation costs. We have already had to find savings equivalent to 2½% of our staff and related costs, in addition to delivering the normal 1½% efficiency gains, and recruitment has been frozen since the beginning of April.

My proposals for the period 1991-92 to 1993-94 are based on my Departmental Management Plan, which my officials will be sending to yours, together with any necessary supporting detail. The picture which emerges from the Plan is one of intense activity; the Scottish Office is planning, implementing and monitoring an unprecedentedly large number of major policy initiatives, many of great complexity, while supporting the efforts which I and my colleagues are making to promote and explain these radical changes in Scotland. At the same time the Office faces steady or increasing demands for the wide range of services it delivers. The position is the same in the Prison Service and in my other Departments. In recent years we have consistently been obliged to absorb extra costs by making efficiency gains well in excess of the 1½% target. In particular our accommodation costs have risen sharply in real terms in recent years, through a combination of higher rents, increased maintenance charges and the imposition of VAT on rents. While the Departmental Management Plan assumes that we will continue to deliver annual 1½% efficiency gains, and shows in some detail what we have achieved and will achieve, I believe that if we plan to go on absorbing through additional efficiency gains both additional cost pressures and demands arising from new commitments we will simply store up the sort of trouble we face in the Scottish Office in the current year. It follows that we could not expect to absorb any further new commitments which might arise, for example, from significant changes in the local government finance regime or further developments in our green policy.

Against this background I propose adjustments to the Departmental running cost limits for all the Departments within my responsibility to reflect realistic assumptions about pay increases. The existing limits assume year-on-year increases in pay costs of 7% in 1991-92 and 6% in 1992-93. Except in the case of the Scottish Prison Service, this year's Plan is based on the increases of 9% and 8% in these years, and 7% in 1993-94 in place of the normal Survey uplift factor of 2½%. We have taken into account, so far as we can, the effects of performance - related pay adjustments, but I will want to look again at likely movements in pay costs before finalising limits for next year. For accommodation costs, we have made the best estimate we can in the light of the information currently available. As more information becomes available, the costs may have to be revised. For the Scottish Prison Service I have assumed increases of 9%, 8½, and 8%; this is in line with the Home Office assumptions.

In the case of Scottish Office Administration I consider that some further adjustment to the settlement is required to reflect the extra commitments which have emerged since it was reached, because I see no prospect of these particular demands abating and the Plan does not suggest that pressures in the rest of the Scottish Office are going to ease.

My proposals are set out in the following table (the existing baselines are in brackets):-

	1991-92		1992-93		1993-94	
	£m		£m		£m	
Scottish Office Administration (including HRM)	152.65	(144.25)	165.26	(151.95)	172.68	(155.75)
Scottish Prison Service	101.24	(92.74)	111.67	(103.17)	121.75	(105.75)
Scottish Courts Administration	36.363	(31.77)	36.00	(33.53)	38.92	(34.37)
General Register Office	14.14	(13.97)	10.22	(10.05)	10.49	(10.31)
Scottish Record Office	3.50	(3.32)	3.71	(3.41)	3.86	(3.50)

I turn now to capital projects. I am aware of an understanding between our officials that it would not normally be appropriate for me to make bids at this stage in respect of capital expenditure for Departmental administration, because of the special arrangements for the Scottish Block. There is however one essential project in prospect at the moment for which I believe a bid outside the Block and formula arrangements is justified.

I referred in my letter of 25 May last year to John Major to the possibility of relocating substantial parts of the Scottish Office away from the centre of Edinburgh, in order to provide some relief from rising accommodation costs and avoid the costs of the major refurbishment of New St Andrew's House which will have to be undertaken soon. It is now over a year since the full implications of the asbestos treatment on the ceilings of this building were established and we must remove the asbestos before the problem becomes critical. I made it clear last year that I could only contemplate relocation on the understanding that the capital costs could be offset by the receipts which would arise from the disposal of our city centre premises. Since the Treasury could not agree to such an arrangement we have concluded that we shall have to refurbish and retain New St Andrew's House. While the logistics of carrying out the refurbishment are still being studied it is becoming increasingly clear that the whole building will have to be vacated while work is in progress, and that it would make sense to retain the building into which staff are decanted for the longer term, and give up other smaller offices in central Edinburgh as New St Andrew's House is reoccupied.

The costs of this major project are still being studied but while I believe we can absorb the costs in 1991-92 we are likely to require additions of £3m in 1992-93 and £6m in 1993-94. The costs beyond the PES period would not be significant. These estimates assume that any new building will be leased. If, however, this assumption were to prove invalid, considerably higher capital expenditure would be incurred. The running cost consequences are taken into account in the proposals I have set out above.

I am conscious in putting these proposals forward of the particularly difficult economic background against which this year's Survey will be conducted. I have considered very carefully the need for the extra requirements set out above, but I am satisfied that they are necessary if we are to carry through the Government's policies effectively in Scotland and maintain our efforts to secure value for money in the programmes for which I am responsible.

I am copying this letter to the Prime Minister.

Yours ever

Malcolm

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