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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon David Waddington QC MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
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20 July 1990

David

with BP?

PUBLIC EXPENDITURE SURVEY 1990: HOME OFFICE

Thank you for your letter of 24 May setting out your proposals for changes to your department's expenditure provision in the current Survey.

2. I am writing to set out my initial response to your proposals in the light of the remit given by Cabinet on 19 July and to propose an agenda for our bilateral meeting. My office will be in touch to arrange a time which I suggest should be early in September.

3. The attached table summarises your proposals and some options for reductions which I would like to discuss with you. The figures have been discussed by officials and I hope we can take them as an agreed starting point for our discussions. If any changes are needed to reflect new information, a revised table will be sent to you before we meet.

4. Our officials have been discussing your bids for local authority current grants. I hope to be able to write to you shortly suggesting a provisional settlement for 1991-92. There will be some outstanding issues to discuss in the autumn, however, relating to police manpower, police grant, Commonwealth immigrants grant and civil defence. Expenditure on police specific grant in particular has been growing rapidly in recent years. In the light of the very difficult economic circumstances this year and the pressure on police pay that arises from the Edmund-Davies formula,

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I do not think I can agree to yet further increases in police officer complements. Moreover, as I said in my letter of 18 June and notwithstanding yours of 17 July, I believe we need to look again at the possibility of cash limiting police grant.

5. As you know, Cabinet took the view in April that strict control of public expenditure must be maintained, bids to increase planned levels of public spending could not be afforded, and the approach must be to offset any necessary increases in particular areas by savings elsewhere.

6. However, as I told Cabinet on 19 July, bids for additional spending this year exceed savings by an exceptionally large margin. Cabinet noted the very substantial pressures on demand-led programmes and the large cost of commitments already made, in particular the settlement on AEF, which will severely constrain the scope for any increases elsewhere. It agreed that bids should be eliminated or very sharply reduced, and any increases in discretionary spending which colleagues regard as essential should be offset by savings.

7. I am therefore asking all colleagues, in this exceptionally difficult year, to scrutinise their existing baselines and to identify options for making further substantial savings to offset those bids to which they give most priority. I would be grateful if you would report on the outcome of this exercise by the time we meet in the Autumn. I offer below some thoughts on where you might look for savings.

8. It is only by doing so that we will fulfil the remit given by Cabinet on 19 July that strict control of public spending must be maintained by sticking as closely as possible to the planning totals set out in the 1990 White Paper, with the aim of keeping the ratio of public spending (excluding privatisation proceeds) to GDP on a downward trend.

9. I am therefore disappointed that you have submitted substantial bids for increased spending which are not offset by savings elsewhere in your programme. As they stand, your bids for 1991-92 imply a 16 per cent increase in provision over the previous year, or almost 10 per cent in real terms. Such proposals are completely at odds with the Cabinet remit. By the time we meet therefore, I hope you will be in a position to select from the bids you have submitted only those to which you attach the very highest priority and which can be matched by reductions elsewhere.

10. Your departmental programmes have grown very substantially since we came into office, with a doubling of expenditure in many areas. With the easing of demographic and other pressures and the very difficult public expenditure position it seems to me that it is now time to consolidate and reassess priorities.

11. On prisons, for example, we have a very good story to tell. An unprecedented and sustained rise in spending. The largest prison building programme this century with 8 new prisons already opened and a further 14 in the pipeline. These will add a further 8000 new places to the 8500 already gained.

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12. The continued decline in the prison population projections is welcome. You have indicated that, subject to the August update of the projections, you might be able to drop your plans for Fazakerly and delay the start of work on Ashford, at a saving of around £82 million. I am, of course, grateful for this. But we need to look for something more.

13. All the indications suggest there will be a considerable crude surplus of prison places in the short to medium term. The current projections are obviously far too high - indeed, I find them very hard to take seriously: the figure for this April, 45,518 is way below the planning assumption of 53,600 for 1990-91 for example. Once the figures are revised in August, and allowance made for likely reductions resulting from policies for diversion from custody, I hope you will agree that we should take out of the baseline both Marchington and Ashford, along with Fazakerly.

14. Our officials are in touch on the case for relocation of the Prison Service's Headquarters. I appreciate that the decision to reorganise and move from London has already been taken. But the bid is extremely large and we will need to discuss the operational benefits and efficiency gains you expect to obtain.

15. I am grateful for your decision to withdraw the bid for contracting out prison escorting services. While the changes you propose are welcome, we will be in a better position to discuss them next year when you have had time to work up your proposals in more detail.

16. The majority of your non-prisons central government programmes have grown significantly in real terms over the last few years. Your bids this year cover almost every sector of non prisons spending with no indication of relative merits, and you are again looking for significant further increases. For example, your bids imply an increase in spending of over one third above current plans for police, by almost a third for "other crime", and by over 15 per cent for central and miscellaneous services. Quite simply, these cannot be afforded. I must ask you to look again with rigour to identify only those bids of overriding importance and to find savings to offset any increases which you consider essential.

17. On local authority capital you are bidding for grant and credit approvals amounting to 36 per cent of baseline provision in 1991-92 rising to 46 per cent in 1993-94. These very large bids need to be scaled down very substantially.

18. Turning to my options for reductions, I have suggested removing three prisons from the baseline. We can look at this in light of the revised prison population projections due in August. On the non prisons side, I seek reductions in civil defence, CICB and some more general efficiency savings.

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19. On civil defence, you are aware of my wish to see savings in the light of the recent developments in Eastern Europe and the reduced threat to our security. For the reasons set out in my letter of 18 May, I will be looking for a reduction in expenditure of 20 per cent.

20. On the CICB, your bids would imply increasing expenditure by over 50 per cent above current planned levels for 1992-93. I understand these bids merely take account of the consequential of the additional 60 staff taken on in response to the critical report by the Home Affairs Committee. Whatever the cause, the proposed increases are such that I think we need to take a hard look at the scheme and its future. I do not think we can continue to run the widest and most generous scheme in Europe. For the Survey, I would like to explore options to keep expenditure as close to this year's likely level as is possible. This could involve, among others, a substantial increase in the minimum threshold for awards or basing awards on only a proportion, say two thirds, of common law damages. I have asked my officials to discuss with yours the various options in time to inform our bilateral discussions.

21. Elsewhere, I would look to you to make continued progress in market testing and competitive tendering and to produce further savings.

22. On local authority current spending, my options include section 11 grant, civil defence and magistrates' courts fees. On section 11 grants to Commonwealth immigrants I am concerned about the size of the bids and the difficulties you face in keeping within the cash limit. We need to explore ways of keeping expenditure under control, and I suggest we should look in particular for a greater tapering and time limiting of grant and a reduction in the rate of grant. I also wish to see payments made in arrears as recommended by the review. This will produce a substantial one off saving in 1991-92. On civil defence I look for reductions on the same basis as for central government expenditure. On magistrates' courts, we need to move ahead on proposals for restructuring and updating fees as quickly as possible. I understand the fees were last changed in the 1960s.

23. I was very disappointed to see that you have reopened the firm three year settlement we carefully negotiated last year and have submitted substantial bids for 1991-92 and 1992-93. These are simply not affordable. Cabinet has agreed that expenditure on the Civil Service must continue to reduce as a proportion of the planning total, and that higher levels of cost containment must be achieved. I must therefore press you to cut back your bids drastically and to postpone non-urgent expenditure. In particular, I look to you to absorb any knock-on costs of this year's pay settlements within the figures we agreed last year, and to re-examine critically your manpower plans. We shall need to pay careful attention to your management plan, to judge the scope for increasing the level of efficiency gains to offset the cost of other priority tasks.

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24. I hope that provision for the Charity Commission can be settled between officials, preferably before our bilateral. If that does not prove possible, we will need to discuss it ourselves.

25. I am copying this letter to the Prime Minister, Malcolm Rifkind, Peter Brooke, and to Sir Robin Butler.

Norman Lamont
NORMAN LAMONT

AGENDA TABLE

Home Office	EXISTING BASELINE			£ million 1993-94	PROPOSED CHANGE IN BASELINE		
	1990-91	1991-92	1992-93		1991-92	1992-93	1993-94
1: TOTAL EXPENDITURE							
Total programme	4,817.5	5,013.2	5,160.5	5,289.5			
A BIDS FOR ADDITIONS TO BASELINE							
Central Government							
*A1 Prisons (building)		363.3	295.6	303.0	37.7	25.5	-36.8
*A2 Prisons (other)		234.3	236.8	242.8	57.4	66.0	76.7
*A3 Prisons (manpower)		685.6	753.2	772.0	25.5	46.3	116.3
*A4 Police		91.0	88.7	91.0	35.2	37.8	41.9
A5 Diversion from custody		43.4	46.9	48.0	7.4	11.7	13.2
A6 Criminal injuries C S		87.2	89.7	91.9	38.4	46.4	59.1
*A7 Immigration & nationality		98.2	108.2	101.0	17.9	28.0	28.9
*A8 Other non-prisons		265.9	266.5	283.1	55.9	56.5	59.9
Local authority							
A10 Police current grant		2,325.3	2,420.9	2,481.4	173.6	285.6	433.0
A11 Other current grants **		549.2	574.1	588.5	76.2	107.4	148.7
A12 Police capital grants/CAs		147.8	153.1	156.9	73.5	76.9	91.5
A13 Other capital grants/CAs		121.8	126.8	129.9	24.0	34.5	41.4
A TOTAL BIDS					622.7	822.5	1,073.8
C REDUCTIONS PROPOSED BY CST							
C1 Prisons		363.3	295.6	303.0	-45.5	-93.0	-53.2
C2 Non-prisons		585.8	600.0	615.0	-23.1	-27.2	-31.5
C3 L A current grant		334.1	346.1	354.8	-55.5	-37.2	-47.8
C4 L A capital (grant + CAs)		269.7	279.9	286.9	-30.0	0.0	0.0
C TOTAL					-154.1	-157.4	-132.5
GRAND TOTAL					468.6	665.1	941.3

* denotes bid with running cost implications

** includes estimate (£30 m each year) of expected late bid on Section 11 grant

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*II: GROSS RUNNING COSTS

(percentage change on previous year in brackets)

	BASELINE				PROPOSED CHANGE		
	1990-91	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Baseline	1,112.8	1,218.7 (9.5)	1,306.6 (7.2)	1,339.2 (2.5)			
Change proposed by Department					99.1 (18.4)	129.9 (9.0)	227.4 (9.1)
of which: A1		26.4	29.5	30.3	-0.1	-0.1	-0.1
A2		160.5	158.2	162.2	14.6	19.3	35.1
A3		685.6	753.2	772.0	25.5	46.3	116.3
A4		96.6	101.7	104.3	15.9	15.0	14.4
A7		92.9	102.3	104.8	11.8	12.9	21.2
A8		156.7	161.5	165.5	31.3	36.4	40.5
Change proposed by HMT							
C2		14.2	14.7	15.1	-2.8	-2.9	-3.0
CAPITAL FOR RUNNING COSTS							
Baseline (net)	495.5	583.9	308.8	316.5			
Change proposed by Department (net)					86.4	76.4	10.8
Change proposed by HMT (net)					-45.5	-93.0	-53.2

III: CIVIL SERVICE MANPOWER

	1990-91	1991-92	1992-93	1993-94	1991-92	1992-93	1993-94
Present plans	44,386	42,641	43,944	45,759			
of which within GRC control		42,641	43,944	45,759			
Department's proposal					934	1,006	2,139
HMT proposal					0	0	0