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PRIVY COUNCIL OFFICE

WHITEHALL. LONDON SW1A 2AT

25 October 1990

Dear Stephen,

The Lord President held a meeting with the Chief Secretary and Sir Robin Ibbs at 4.45 pm on Wednesday 24 October, to discuss the arrangements for the planning and control of expenditure on the works services Vote, the creation of which is recommended in Sir Robin Ibbs' report to the House of Commons Commission. You and I were also present.

The Chief Secretary said that he had no wish to jeopardise the arrangements for improved financial management contained in Sir Robin Ibbs' report. These were welcome to the Treasury, and he was glad that the Lord President and Sir Robin thought they might be acceptable to the House of Commons Commission (HOCC). The Treasury accepted the present arrangements for the Administration Vote which had been in place for a number of years; but they were very far from being a model for arrangements to control other expenditure by the House. He was concerned that Sir Robin Ibbs' proposal for the works expenditure to be transferred to a separate Vote, under the control of the HOCC, would leave the Treasury exposed to significant unplanned increases in expenditure. Given the absence of the constraints of collective responsibility for the success of the Government's policies for controlling public expenditure which underpinned his PES bi-laterals with Ministerial colleagues, it was particularly important that discussions between him and the HOCC should be as close as possible to a proper PES bi-lateral, and based on adequate arrangements for monitoring and controlling the expenditure.

Accordingly, he sought a single, cash-limited Vote, with plans for the PES round and Estimate justified to him with supporting evidence, and full account taken of affordability and value for money considerations. He hoped that the works programme could be discussed and any disagreements resolved with him before the new Vote was created. For the future, he envisaged the plans for forward years being agreed in each PES round, although exceptionally he would be prepared to see growth in the level of cash provision determined by reference to the cost of construction index. In addition, he would want major capital projects (those above a specified total cost) to be put to him for approval, and also to agree beforehand any increases in the

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works programme due to exceptional circumstances. It was anomalous that House expenditure alone was exempt from the normal disciplines of cash limits, and he wondered whether the Lord President had given thought to legislation, if necessary, to remedy this.

The Lord President said that the position as regards legislation was that under the 1978 House of Commons (Administration) Act (Section 3.1), the HOCC had complete discretion to determine the expenditure of the House. As Chancellor, he had tried in the early 1980s to persuade the House authorities to accept cash limits as well as the switch from volume to cash planning. While they had been willing to co-operate as far as possible in controlling expenditure, the House authorities had refused to accept formal cash limits so as to retain the financial autonomy guaranteed to them, in the last analysis, by the 1978 Act. Each time this question had been reopened since, the position had remained unchanged. The House's view was restated, for example, in paragraph 11 of the HOCC Annual Report for 1987/88. In his view, there was nothing to be gained by reopening that issue again now by seeking to insist on a formal cash limit. But there was every reason to hope that the HOCC would agree to tighten up their self discipline, not least by endorsing the proposals in Sir Robin Ibbs' report. His objectives, and those of Sir Robin Ibbs' report, were the same as the Treasury's, even though there were differences about the detail of the arrangements envisaged for control of works expenditure. Sir Robin's report recommended a separate Vote for works expenditure, where tighter control arrangements of the sort set out in Annex F to his report, would operate. They recognised that works expenditure was not like expenditure on CCTA services, which had been absorbed into the Administration Vote from 1 April 1987. Not least because the sums at stake were so much larger, they accepted the Treasury's desire for better planning and control. But it would not be possible to bring other House expenditure within the sort of arrangements envisaged for works expenditure, without reopening the issues settled by the 1978 Act.

Sir Robin Ibbs said that he agreed with the Lord President that an attempt to bring other areas of expenditure under the same sort of control recommended for works expenditure would not be acceptable to the HOCC, or the House more generally. What was proposed in Annex F to his report was a significant tightening up and a very great improvement on the present arrangements for works expenditure where there was no real day to day control by the House. A separate works Vote was the essential first step in engaging the House authorities in the proposed, much more intensive discussions with the Treasury about works expenditure.

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The whole point of the reforms recommended in his report was to give the HOCC, and underneath them the managers of individual Departments of the House, much greater control of expenditure, so that it would be possible to know what was being spent and whether it represented sensible priorities and value for money.

In discussion, the following further points were made:

(i) Works expenditure was particularly prone to cost escalation and notoriously difficult to control in practice. The House generally would not need much encouragement to think of ways of spending additional money on works. Sir Robin Ibbs' investigations had revealed, perhaps unsurprisingly, a significant backlog of maintenance work; there was also the need to fund Phase 2 of the New Parliamentary Buildings. All these upward pressures underlined the need for firm control and proper forward planning of expenditure. On the other hand, the difficulty of carrying out works in the House other than during the summer recess was a very real practical constraint on the amount of expenditure that could be incurred in any one year. The maintenance backlog would have to be tackled at some stage, and it was surely better to get arrangements for controlling works expenditure which the House would accept in place and use them to agree and subsequently control a sensible long-term programme. The changes under way at the PSA meant that the Parliamentary Works Office could not remain in its present form in any event, and the present arrangements in practice provided no real mechanism for ensuring that expenditure was sensibly planned and took account of priorities;

(ii) With the exception of a formal cash limit, none of the Chief Secretary's additional requirements was inconsistent with the approach summarised in Annex F to Sir Robin Ibbs' report. Some of them might form part of detailed guidelines to be agreed between the Commission and the Treasury for the procedures to be used in examining the rolling Programme and the Estimate and the relevant Treasury. On the other hand, the Treasury were particularly anxious to see a more formal reference to affordability, and were concerned lest Treasury views were simply overridden in a process of "discussion". Against this, the House already exercised much greater self control than the statutory position might lead one to expect, and it might be possible to get much closer to the effect of a cash limit on a voluntary basis. Under Sir Robin Ibbs' proposals, individual Department Heads would have fixed budgets and would be answerable to the HOCC if they exceeded them, and this would provide a powerful additional control on expenditure in year that was absent at the moment.

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The Chief Secretary suggested that he should offer drafting amendments to Annex F to help take on board the concerns he had raised. Sir Robin Ibbs responded that he would not be willing to include in his report additional points which he believed would not be acceptable to the HOCC. The Lord President said that the strategy for implementation rested on the HOCC endorsing the report quickly, and it was to be discussed at their meeting on 29 October. He proposed that the Chief Secretary should instead write to him with his suggestions, which he would then put before the Commission at their meeting on 29 October as an indication of the way in which the Treasury wanted to develop the framework contained in Annex F to Sir Robin's report, in subsequent discussion. He accepted that it would not, therefore, be possible to tell the Commission that the Chief Secretary had agreed with the proposals in Annex F as they stood. The Chief Secretary agreed to write to the Lord President.

I am sending copies of this letter to Dominic Morris (No 10), Sonia Phippard (Cabinet Office) and Sir Robin Ibbs.

Yours sincerely,

T J Sutton

T J SUTTON
Principal Private Secretary

Stephen Bowden Esq
APS/Chief Secretary