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LO

10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M8/86

TO MINISTERS IN CHARGE OF DEPARTMENTS

CONTINGENT LIABILITIES

The recent collapse of the International Tin Agreement, leaving a massive deficit on its operations, has been a sharp reminder of the importance of guarding against commitments carrying a risk of imposing contingent liabilities on government in later years.

The guidance to departments on this subject has recently been tightened up by the Treasury and reissued in the new edition of "Government Accounting" and I trust that it will be closely observed. There are two points in particular which I should like to stress.

The first is that there needs to be a most careful and thorough appraisal of the risks, including the legal aspects, before any contingent liability is accepted. The only sure control over contingent liabilities is not to assume them in the first place. Particular vigilance should be exercised in the case of non-statutory assurances which may be construed as placing a financial obligation, moral or legal, on the government.

The second is the need to keep a careful watch on those contingent liabilities which have already been assumed. Any payment arising from a maturing liability will place a burden on the expenditure programme of the department responsible

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for the activity in question. As well as complying with the formal reporting arrangements, departments need regularly to look at all their outstanding contingent liabilities and consider whether all available steps are being taken to minimise the risk of a payment being required, or its amount. This review should cover contingent liabilities arising both from the department's activities and from those of public sector bodies which it sponsors. It must not be assumed that the Reserve is available to protect any department from the consequences of failing to exercise this vigilance.

I ask all Ministers in charge of departments to take a personal interest in this review of their own department's contingent liabilities, and arrange for the results to be reported to the Treasury before the Summer Recess. To ensure that similar reviews are carried out at no less than yearly intervals, I am asking the Treasury to ensure that a reminder is incorporated in the regular expenditure Survey procedure, so that the outcome of each department's review can be noted in the annual Survey report.

Margaret Thatcher

23 May 1986

PRIME MINISTER

The Treasury have now themselves suggested that you might minute colleagues about contingent liabilities.

You said earlier that you did not want to do so. However, it is an important subject, and a good minute, and I hope you will consider signing it.

David

DAVID NORGROVE

16 May 1986

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CXBG

Treasury Chambers, Parliament Street, SW1P 3AG

D R Norgrove Esq
Private Secretary
10 Downing Street
London
SW1

Dear David

15 May 1986

CONTINGENT LIABILITIES

Thank you for your letter of 28 April.

The Chief Secretary agrees that it would be useful to emphasise again to departments their direct responsibility for liabilities arising in their own areas. The existing instructions ensure that liabilities are reported to Parliament when they are undertaken. The point which might be further stressed is that, even when liabilities have been undertaken, departments should take all available steps within their power to minimise the risk of the liability maturing, or its amount if it does. It is important that this is given proper attention by Ministers and senior management in departments, and not simply regarded as a matter of routine reporting.

The Prime Minister is already separately pursuing the position in ECGD, which accounts for a very large element in the present contingent liabilities. On the others, the Chief Secretary feels it would be helpful if the Prime Minister were willing herself to ask Ministers in charge of departments to look personally at their department's current contingent liabilities, and report the outcome of this review to the Treasury. To avoid the matter being overlooked in future years, we could arrange for the assessment of contingent liabilities to be brought within the Survey procedure, and ask each department to record the outcome in a paragraph in the annual Survey report.

... If the Prime Minister agrees with this method of handling the matter, I enclose a draft minute which she could use. The Treasury will monitor the departmental replies and the Chief Secretary will send a further note to the Prime Minister if, in the light of that, any further steps seem to be needed.

Yours,

Jill

JILL RUTTER
Private Secretary

LOJ AAS.

~~DRAFT~~ MINUTE TO MINISTERS IN CHARGE OF DEPARTMENTS

CONTINGENT LIABILITIES

The recent collapse of the International Tin Agreement, leaving a massive deficit on its operations, has been a sharp reminder of the importance of guarding against commitments carrying a risk of imposing contingent liabilities on government in later years.

2. The guidance to departments on this subject has recently been tightened up by the Treasury and reissued in the new edition of "Government Accounting" and I trust that it will be closely observed. There are two points in particular which I should like to stress.

3. The first is that there needs to be a most careful and thorough appraisal of the risks, including the legal aspects, before any contingent liability is accepted. The only sure control over contingent liabilities is not to assume them in the first place. Particular vigilance should be exercised in the case of non-statutory assurances which may be construed as placing a financial obligation, moral or legal, on the government.

4. The second is the need to keep a careful watch on those contingent liabilities which have already been assumed. Any payment arising from a maturing liability

will place a burden on the expenditure programme of the department responsible for the activity in question. As well as complying with the formal reporting arrangements, Departments need regularly to look at all their outstanding contingent liabilities and consider whether all available steps are being taken to minimise the risk of a payment being required, or its amount. This review should cover contingent liabilities arising both from the department's activities and from those of public sector bodies which it sponsors. It must not be assumed that the Reserve is available to protect any department from the consequences of failing to exercise this vigilance.

5. I ask all Ministers in charge of departments to take a personal interest in this review of their own department's contingent liabilities, and arrange for the results to be reported to the Treasury before the Summer Recess. To ensure that similar reviews are carried out at no less than yearly intervals, I am asking the Treasury to ensure that a reminder is incorporated in the regular expenditure Survey procedure, so that the outcome of each department's review can be noted in the annual Survey report.

Trade, ECGD; 1/80