



FROM: CHIEF SECRETARY
DATE: 12 February 1987

PRIME MINISTER

HANDLING OF THE 1987 PUBLIC EXPENDITURE SURVEY

With the 1987 Public Expenditure White Paper now published, we need to decide on the arrangements for the early part of this year's Public Expenditure Survey. I propose that we should build on the changes to procedure we made last year.

Additional bids and options for reduction

2. Last year Ministers were asked personally to scrutinise the priorities within their programmes and then, if they thought it necessary, to put forward any bids in writing to me with copies to yourself and the Lord President.

3. I believe that the new procedure provided a more orderly way of preparing for the main Survey negotiations, and I would hope that it will increasingly make a difference to the number or amount of the bids put forward. I therefore propose that we should proceed in the same manner this year.

4. As in previous years there will be very limited scope to make additions to programmes. I must ask that any bids for additions should only be made when there is a genuine change of circumstances and only after Ministers have done their utmost to accommodate such changes by re-ordering their priorities. Where Ministers do put forward bids it is important that they should back them up with details of what the extra money is designed to achieve, how it is proposed to measure and evaluate this, and what has been done to find offsetting savings from lower priorities.

5. I propose also that we should follow last year's practice in not requiring departments to put forward percentage options for achieving reductions from their baseline on a standard percentage

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Prime Minister
The Chief Secretary has already consulted you about these proposals. You need only re-consider that you agree.
DAS l/b

Should not

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basis. As last year, however, I propose that the Treasury should have the right to require departments to produce or cost options if we consider it necessary. In some cases these may be particular policy changes, in others it may be more sensible for departments to set out how they would achieve a given level of savings in an area of spending.

The Survey Report

6. With the separation of the additional bids from the preparation of the programme baselines, the Survey Report focussed last year on providing a record of what the baseline programmes would achieve. This helped us greatly to improve the output and performance information in the recent White Paper. I am sure that we need to make further progress this year in improving the quality of such information; the Treasury and Civil Service Select Committee is now focussing on that. I do not think, however, that the considerable work involved in editing this into a common format in the Survey Report itself is the best use of officials' time since the Report plays little part in subsequent Ministerial discussion.

7. I propose, therefore, that we should dispense with the Survey Report this year. The detailed baseline tables for each department will still need to be prepared but can be circulated as a Treasury working document with such minimal text as is required to explain differences between the new baseline and the provisions of the White Paper, and any particular understandings about the construction of the baselines.

8. The time saved on preparing the formal document should allow departments and the Treasury to put in more work on the value of the underlying programmes and on further development of output and performance budgeting. Departments should, as previously, prepare in advance of the Survey material on output and performance and on their financial work more generally. This can then be a basis for discussions between officials, and between Ministers if satisfactory progress cannot be made at that level. I would hope that such

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discussions can be completed before the summer break so the results can be fed into the September Survey discussions if appropriate.

Running Costs and Manpower

9. We introduced the running costs control system to extend to the totality of current spending on the Civil Service the tight disciplines that have since 1979 applied to Civil Service manpower. Obviously like the general expenditure control system of which it is now part it has to provide for new measures and to meet inescapable increases in demand and other changes to departmental plans. Recent levels of pay increases have also imposed strains. But generally its introduction has been successful.

10. I propose that it should now be fully integrated with the Survey and that Ministers should put forward additional bids only if they are convinced that they cannot keep within the provision agreed in the last Survey. If the aggregate of the bids is too large I envisage bringing forward proposals on the overall provision for running costs in July at the same time as I make proposals on expenditure generally; I would then pursue the matter in bilaterals in the normal way.

11. We have always intended to consider, in the light of experience of running costs control, whether there is a need to set further overall targets for reductions in Civil Service numbers beyond April 1988.

12. There are risks in moving away from manpower targets. Although the 19 per cent reduction in the size of the Civil Service since 1979 is a significant achievement in itself, the total plans for 1987-88 to be published in the Estimates on Budget Day are likely to exceed our target of 590,000 on 1 April 1988. A decision not to set any further targets, therefore, could be used by our opponents to suggest that we are relaxing our control on the cost of government.

13. But on balance I believe that it is right to take the risk. In particular this approach will allow managers on the ground to make the best use of all their resources and is in line with the pressure

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for improved management which we have been applying through the Financial Management Initiative and the work on Budgeting.

14. I therefore propose that we should not set new aggregate targets for manpower after April 1988. But by operating the running costs system strictly we need to keep a firm grip on manpower to ensure that numbers do not start to drift upwards. So, in scrutinising departments' running costs, the Treasury will need to continue to examine their forward manpower plans (which are already published in the Public Expenditure White Paper each year). Any proposal by a department to go beyond its published manpower plans should have to be agreed with the Treasury before any commitment is undertaken. In considering any such proposals, the primary consideration for the Treasury will be whether the revised plans are consistent with the running costs limits. This combination of manpower plans and the control of running costs should impose sufficient pressure on departments to maintain the impetus for efficiency savings and ensure that the overall trend of manpower numbers continues downwards.

Contingent Liabilities

15. In your minute of 23 May last year you asked departments to carry out a full review of their contingent liabilities and to report the results to the Treasury. This has been done and has been helpful in focussing attention on the size of such liabilities and on the importance of action both to minimise the risk of actual expenditure arising on liabilities already incurred and to avoid adding to the list where possible.

16. Your minute asked that the exercise should be repeated each year and the outcome of each department's review noted in the annual Survey Report. As you will have noted above, I am proposing that we no longer compile the Survey Report. But I believe that departments should review such liabilities regularly and I propose that they should report the results to the Treasury in the course of the Survey.

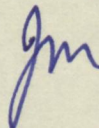
Conclusion

17. I would be grateful for confirmation that you and colleagues

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agree with these proposals on handling of this year's Survey and on manpower controls. I should be grateful for replies not later than Tuesday 17 February so that I can explain our new approach to manpower in the debate on the Public Expenditure White Paper which on present plans will be on Wednesday 18 February. I will then circulate the detailed Survey Guidelines as soon as possible after the Budget.

18. I am sending copies of this minute to Cabinet colleagues, the Minister of State (Privy Council Office) and to Sir Robert Armstrong.



JOHN MacGREGOR