



FROM: CHIEF SECRETARY  
DATE: 12 February 1987

Cx FST EST MST

Sir P. Middleton

Mr F. Butler

COGPEC

Ms Dunn

Mr Hoare

Mr Ross-Goobay

Mr Tynie

CS

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

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

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

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.

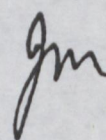
16. Your minute asked that the exercise should be repeated each year and the outcome of each department's review noted in the annual Survey Report. As you will have noted above, I am proposing that we no longer compile the Survey Report. But I believe that departments should review such liabilities regularly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

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

DOWNGRADE TO RESTRICTED  
AFTER 5 YEARS

PESC  
PESC(WM)

HER MAJESTY'S TREASURY  
PUBLIC EXPENDITURE SURVEY COMMITTEE

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Guidelines for the 1988 Survey

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Note by the Treasury

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Introduction

This paper sets out guidelines for the conduct of the 1988 Survey. The general arrangements are explained in the main sections of the text, with further more detailed guidance in the Annexes.

2. No major changes are proposed in the arrangements for the Survey this year. The circulation of a baseline working document last year instead of the Survey Report was a successful innovation, and will be repeated this year.

3. The rest of the paper is divided into the following sections and Annexes:

- I : Timetable
- II : Baseline working document
- III : Output, Performance, Targets and Value for Money
- VI : Ministerial proposals for changes to the baseline
- V : Local authorities
- VI : Nationalised industries
- VII : European Community expenditure
- VIII : Contingent Liabilities
- IX : Further information

ANNEX A : 1988 Public Expenditure Survey: key dates March-May

ANNEX B : Construction of the baseline

ANNEX C : Preparation of Ministerial and official letters

ANNEX D : Information on the economic composition, territorial, and science and technology consequences of proposed changes to be baseline

ANNEX E : Contingent Liabilities

## I TIMETABLE

4. A table setting out the key departmental dates is attached at Annex A. Departments are asked to submit running tallies setting up the baseline by Thursday 7 April. The baselines will be set and agreed by Wednesday 11 May, and circulated on Friday 20 May. Information on value for money should be sent to the Treasury by Friday 15 April, and Ministerial and official letters will be due by Wednesday 25 May. Information on contingent liabilities should reach the Treasury by Wednesday 1 June.

## II BASELINE WORKING DOCUMENT

5. As in 1987, information about Survey and running cost baselines will be brought together and circulated to departments as a working document. Information about output and performance measures and targets will be sent separately to the Treasury for bilateral discussion (see paragraphs 10 to 14 below and Annex C).

### The Baseline

6. Annex B gives detailed information on the construction of the departmental baselines to 1990-91. Departmental baselines for the new year 1991-92, will be calculated by the Treasury by adding [ ] per cent to the cash figures for 1990-91, adjusted as necessary in accordance with the guidance at Annex B.

7. Under the EUROPE system, some departments' baselines will be reduced to reflect excess spending by the European Community on lines of the EC budget which they sponsor. PESC(WM)[ ] sets out the reductions required and the timetable for

running tallies. The reductions should be made in the cash limited, central government programmes most clearly related to the EC spending in question.

8. The baseline for gross running costs in 1991-92 will be calculated in the same way as departmental baselines. Departments are asked to provide a breakdown of their running cost baseline on form DRC2 by 6 May (see PESC(WM)(88)[ ]); they should also show on this form the manpower figures for 1991-92 consistent with this running cost provision,

9. The text in the baseline working document will be limited to short explanations of any significant differences between the Survey baseline and provision in the White Paper, or any special understandings about the way in which the baselines have been constructed. These texts will be drafted by the Treasury as the running tally exercise progresses and cleared with departments as indicated in the timetable at Annex A.

10. It is proposed that a number of supporting analyses will also be circulated in May, for example, further elaborations of the main baseline tables and the baselines for the interdepartmental exercises such as the discussion of local authority relevant public spending in E(LA), and more detailed information on capital spending.

### III OUTPUT MEASURES, PERFORMANCE, TARGETS AND VALUE FOR MONEY

11. By 15 April, departments should provide Treasury divisions with their plans (targets or forecasts) for output and performance for the future survey years for each main element of their baseline. Particular emphasis should be given to measures of efficiency and effectiveness. These plans should be supported by the relevant historical information for earlier years. All expenditure should be covered, particularly programme expenditure, [and the administrative figures should be consistent with the management plans for running costs (if submitted separately)]. Similar information will be required with any additional bids that may be submitted at a later stage. Further guidance on the nature of the information required will be given in PESC(WM)(88)[ ].

12. Departments should also include information about what new policy evaluations, reviews and scrutinies they intend to carry out. This should take account of cases where the Treasury has already given notice of its wish to discuss the performance of a particular programme and of its intention to request evaluation information.



13. The information in paragraphs 11 and 12 above will be the basis for bilateral discussions between departments and expenditure divisions. These will take account of the plans agreed in the recent budgeting exercise for improving the coverage and use of output and performance measurement and will focus on how far the measures support planned expenditure and on setting targets for improving value for money. Further discussions may be needed at Ministerial level if satisfactory agreement cannot be reached at official level on the choice of measures and targets.

#### IV MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE

14. Ministers are asked to write to the Chief Secretary to report the outcome of their personal scrutiny of priorities within their programmes. They should submit at the same time their department's management plan for running costs in the Survey period, with clear commitments for efficiency gains. They should set out any proposals to reallocate existing resources to accommodate changing priorities. If after that scrutiny Ministers propose to seek net additional resources, the Ministerial letter should explain why, in their view, the proposals cannot be accommodated through offsets or improved efficiency. The letter should explain why the proposal is thought to be essential, with details of the proposed cost in each of the survey years. It should describe the objectives (what is to be achieved, by when, at what cost) and how effectiveness and efficiency will be evaluated, including the main performance measures and indicators and management targets. Supporting official letters including more detailed information will also be needed: guidance is at Annex D.

#### Options for reductions

15. In areas where the Treasury believes that there are or ought to be options which could be used to offset requests for additional resources or to produce savings and these have not been identified by departments, departments will be asked for costings of these options. In some cases it may be more appropriate for departments to set out how they could achieve a given level of savings in an area of spending. In either case departments should, as in previous years, provide the Treasury with the necessary information.

#### Gross Running costs and associated manpower

16. The public expenditure White Paper contained plans for gross running costs and manpower for 1989-90 and 1990-91. During the 1987 Survey several departments

in other cases

negotiated firm 3 year settlements with commitments to deliver agreed efficiency gains; the presumption is that these agreements will not be reopened. Where additional resources are sought, Ministers should explain why the resource needs cannot be met by a re-ordering of existing priorities or by efficiency gains set out in the accompanying management plan (see PESC(87)23). Details of the measures of output and performance relating to each bid, and of any offsetting savings or reduced requirements elsewhere within gross running costs, should be provided in the parallel official letters, which should also attach a separate DRC3 form for each proposed change to the baseline. It is important that the manpower implications of any proposed changes to cash provision are shown when the proposal is offered for consideration. Guidance on the information required is contained in PESC(WM)(88)[ ].

#### Civil Service Manpower outside gross running costs

17. Proposed changes to manpower plans for areas not covered by gross running costs control must be identified clearly in the official letters, and if significant should be referred to in Ministerial letters.

#### Economic composition of proposed changes to baseline

18. Annex D gives details of the information the Treasury needs to collect about proposed changes to be baseline, and how it should be prepared. This information should be forwarded, on a copy of the form attached to Annex E, with the official letter sent to the Treasury. Information on economic category analysis of bids is an important contribution to the Treasury's economic forecasts, and department's co-operation in submitting these forms promptly will be appreciated.

#### Territorial implications of proposed changes to baseline

19. Information on any territorial implications of proposed changes to baseline should also be indicated on the form attached to Annex D. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1988 Survey by copying relevant Ministerial and official correspondence to the respective Secretaries of State. ST3 division in the Treasury will advise in any case of doubt - Max Sharratt (270-5057) on Northern Ireland or Libby Wiseman (270-5064) on Scotland and Wales.

## Science and technology

20. As in 1987, the Treasury will be monitoring the changes to science and technology spending through the Survey. Proposed changes to baseline provision for science and technology spending should be indicated on the form at Annex D.

## Economic assumptions

21. Where they are needed, revisions to specific economic assumptions will be issued to the Departments concerned.

## V LOCAL AUTHORITIES

22. Local authority relevant public expenditure will, as in previous years, be considered separately in E(LA). Parts III, IV and VI to VIII of this paper do not therefore apply to LA relevant public expenditure. In particular it will therefore only be necessary for proposals for adjustments to programmes which will not be covered by discussions in E(LA) to be included in the Ministerial and official letters. (See Annex D.) Provision and allocations for local authority capital expenditure will be matters for consideration in the Survey. The Treasury will be discussing arrangements for handling these issues with the departments concerned.

## VI NATIONALISED INDUSTRIES

23. The external finance of the nationalised industries, and related expenditure as agreed by the Treasury and sponsor Departments (including redundancy provision), will be separately considered in the Investment and Financing Review. Arrangements for this are being notified to sponsor departments. The arrangements for reporting on contingent liabilities for nationalised industries are covered in paragraph 22 below.

## VII EUROPEAN COMMUNITY EXPENDITURE

24. PESC(EC) will consider spending allocated to programme 2.7. Departments should provide EC division in the Treasury with details of their latest forecast outturn for EC receipts for 1987-88 and their estimated for 1988-89 by Friday, 1 April. This information should be consistent with the provisions contained in the 1988-89 main Estimated, but set out on the basis of receipts by sub-programme within programme 2.7.

## VIII CONTINGENT LIABILITIES

25. Departments are reminded that in May 1986 the Prime Minister asked that all contingent liabilities should be reviewed at no less than yearly intervals, and that Ministers in charge of departments should take a personal interest in the reviews. Government Accounting, Section 0, paragraph 28, also draws attention to the need for such reviews to be undertaken.

26. A further review of contingent liabilities should be carried out concurrently with the initial stages of the Survey. This review should check that all available steps are being taken to minimise the risks of payments being required, and their amounts, and that the guidelines set out in Government Accounting, Section 0, paragraphs 26 to 57 are being scrupulously followed. It should cover contingent liabilities arising both from the department's activities and those of the bodies which it sponsors. Departments are asked to consider particularly carefully whether there are any liabilities of an obscure and hence hitherto unrecognised nature such as those which arise as a result of departments' staff acting in an ex-officio capacity (see \*). If any such liabilities are discovered they should be examined in the context of the guidance in Government Accounting, and discussed, if necessary with the relevant Treasury expenditure division.

27. Departments should report the results of the reviews to their Treasury expenditure divisions by 26 May in the form set out in Annex E. These reports should be approved by Ministers before they are submitted to the Treasury.

## IX FURTHER INFORMATION

28. The PESC(WM) papers listed below are also relevant:

[PESC(WM)( ) - 1987 Survey Baseline: Submission of Running tallies.

PESC(WM)( ) - Information on output, performance and value for money in the 1987 Survey.

PESC(WM)( ) - 1988 Survey: Running Costs Information.

PESC(WM)(LA)( ) - 1988 Survey Baseline: Submission of Local Authority Running tallies.

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\* will refer to the separate advice to be circulated before the PES guidelines.

PESC( )( ) - Accommodation costs under the Property Repayment Services  
PESC(WM)( )( ) (PRS) Scheme: 1988 Public Expenditure Survey.]

PESC(WM)(88) - EUROPES adjustments to baseline.

General questions arising from this paper should be addressed to the secretaries, Sarah Walker (270-5522) or Sheila James (270-5523). Questions on departmental running costs should be addressed to Graham Binns (270-4996) or Tony Davis (270-4997), on manpower to Ron Carpenter (270 4865), on contingent liabilities to David Shore (270-5361), and on EC expenditure to John Addison (270-4425).

MISS S P B WALKER

MISS S M A JAMES

1987 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-MAY

MARCH Thursday 10 March Last date for departments to comment on formats of main departmental tables.

Thursday 17 March PESC(WM) paper seeking running tallies to amend PES database issued.

APRIL Thursday 7 April Last date for departments to submit running tallies to amend PES database for years up to 1990-91, and for DRC2 forms (1989-90 to 1991-92) where departments are unlikely to submit running tallies to amend the PES database for 1991-92.

MAY Friday 15 April Last date for departments to submit output and performance information to Treasury expenditure divisions.

Wednesday 4 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year (with separately identified running cost baselines and manpower plans), and more detailed PESKEL reports to expenditure divisions and departments. Draft texts explaining changes since White Paper figures circulated.

Friday 6 May Last date for departments to submit running tally forms to amend PES database for 1991-92, and where appropriate DRC2 forms for 1989-90 to 1991-92 to provide breakdowns of running cost baselines and manpower plans.

Wednesday 11 May Last date for final comments on departmental tables. Last date for comments on textual explanations of changes since White Paper figures.

Friday 20 May Working document circulated to PESC and Ministers.

Wednesday 25 May Last date for Ministerial and official letters to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for gross running costs and associated manpower.

Wednesday 1 June Last date for information on contingent liabilities to be sent to expenditure divisions.

## CONSTRUCTION OF THE BASELINE

1. The starting point for the 1988 Survey will be the cash plans published in Cm288 adjusted for classification changes and the adjustments resulting from the EUROPEES arrangements [see paragraph 7 of main paper and PESC(WM) ].
2. For the new third year, 1991-92, baseline figures for programme expenditure and gross running costs will be calculated by the Treasury by adding [ ] per cent to the cash baseline figure for 1990-91. Any EUROPEES adjustments for 1991-92 will then be made to the enhanced figures.
3. Manpower plans for 1988-89, 1989-90 and 1990-91 are as published in Cm288 except where subsequently amended by agreement with the Treasury. Baseline manpower plans for 1991-92 should be consistent with the baseline figures for gross running costs calculated as above.
4. The general rule is that the baseline figures to be circulated in this year will not provide for any changes to the figures published in the White Paper. Any changes resulting from reassessment of priorities' should be part of the Survey and not reflected in the baseline. In particular, switches into gross running costs from other expenditure should not be made (except where already made in Estimates or by prior agreement with the Treasury). This will apply to the three Survey years 1989-90 to 1991-92.
5. However, there may be a case for making some adjustments to the database, in the following categories:
  - (i) Coding errors that need correcting. For example departments may have identified data that are wrongly coded and need to be corrected by switching money between sub-programmes, economic categories, territorial areas or spending authorities;
  - (ii) Any minor and non-contentious amendments to figures to central government spending beyond 1988-89 as a result of the Estimates scrutiny for 1988-89. PESC(WM)(8 ) asked departments to align PES and Estimates for 1988-89. In some, but not all cases changes in 1988-89 might have implications for later years involving switches between sub-programmes, economic categories or spending authorities and these may be reflected in the database. Increases in expenditure (or switches from programme

expenditure into gross running costs) should not be included, even where policy agreements have already been reached as these will be dealt with as part of the Survey itself.

In addition the classification changes required in PESC(WM)(8 ) should also be made.

6. In all cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions.

7. Running tallies for any agreed changes to the baseline (including those arising from EUROPES), for all years of the Survey (ie 1983-84 to 1990-91), or forward years as appropriate, should be sent to the Treasury by 7 April. Running tallies for agreed changes to the baseline for 1991-92 should be sent in, after the baseline for that year has been created, by 6 May.



## PREPARATION OF MINISTERIAL AND OFFICIAL LETTERS

### Ministerial letters

1. Paragraph 12 of the main paper explains the requirement for Ministers to write to the Chief Secretary reporting the outcome of their scrutiny of their programmes.
2. Any proposals, including proposed reductions, which have cost implications for other departments should have been discussed with the departments concerned and understandings should have been reached on the responsibility for funding the costs involved. The Ministerial letters should draw attention to the existence of such effects and the details of the agreements reached should be set out in the official letters - see paragraph 9 below.
3. Proposals for changes to nationalised industry expenditure, and local authority relevant public spending should not be covered. Switches out of local authority non-relevant current or capital expenditure should only be proposed, and will only be allowed, where the Treasury is satisfied that explicit policy changes will ensure the appropriate reduction (whether resulting from policy or estimating changes).
4. Increases for 1988-89 should not be proposed as part of the Survey exercise - any such proposals will be dealt with as they arise through the year as part of the operational control of the Reserve and in year departmental control of running costs and manpower.

### Official letters

5. Letters at official level should give details of the improvements in output and performance which would be achieved by any bids put forward.
6. The letters should number and list proposed bids and reductions in order of priority. They should also include any further detailed explanation which Departments wish to put forward or which the Treasury may request. For example, the letters should explain more fully how the need for additional provision arises, and whether or not it results from a policy or estimating change. They should also give fuller details of reduced requirements for provision already in the baseline indicating whether they result from an estimating change revised economic or demographic assumptions, or proposed policy changes. If a reduced requirement

represents a policy offset to one or more of the bids, the letter should indicate clearly to which bid or bids the proposed offset relates. In the case of proposed changes to demand led programmes, the Treasury will in due course seek agreement with Departments on an analysis of outturn for the relevant programme for at least the past two years. It is intended that this should contribute to the Treasury's overall assessment of the proposed changes.

7. These letters should clearly indicate which element of the total proposed changes to baseline relate to running cost proposals and related manpower changes. In addition they should separately identify running cost proposals which do not involve changes to baselines. Capital expenditure proposals and major items of maintenance expenditure of a similar nature ie with benefits running into future years should be supported by a full summary of the information justifying them. This will normally include details in each case of: a clear statement of objectives; the expected return (eg NPV, and/or other measures of net benefit); alternatives considered; the material factors in the proposed decision; the costs of foregoing or postponing the expenditure; and the impact on maintenance or other current expenditure.

8. For all proposed changes to the baseline, the official letters should indicate whether the expenditure is governed by existing legislation or regulations or is within the Government's administrative control.

9. For any proposed change affecting other departments, the letters should set out the details of agreements reached with those departments on the responsibility for funding the costs involved - see paragraph 2 above.

10. Paragraph [ ] of the main paper, and Annex E, give details of the information on the economic composition spending authority breakdown and territorial consequences of proposed changes to the baseline needed by the Treasury. Copies of the form attached to Annex E should be returned to the Treasury with the official letters.

11. All letters and supporting information (eg DRC3 forms for gross running costs and related manpower) should be sent to the Treasury by 25 May. Ministerial letters should be copied to the Prime Minister, and other Ministers in charge of departments who would be affected. Official letters should be sent by the Principal Finance Officer to the appropriate Head of Treasury Expenditure Group (or division in the case of small departments), with copies to other departments affected.

INFORMATION ON ECONOMIC COMPOSITION TERRITORIAL CONSEQUENCES AND SCIENCE AND TECHNOLOGY

The Treasury needs to collect the following information about proposed changes to the baseline:

(i) economic categories: This information is used by the Treasury forecasters in preparing the forecasts for the July Cabinet and the Autumn Statement.

(ii) spending authority: The spending authority should also be shown in brackets next to the description of the bid, by means of the following abbreviations:

CG: Central Government, excluding finance to public corporations

LA: Local authority (ie capital or other non-relevant current expenditure not covered in E(LA) discussions), excluding finance to public corporations

PC: other public corporations ie excluding nationalised industries

In the case of local authority spending, use (LACap) to indicate capital spending and (LACur) to indicate other current spending.

(iii) territorial consequences: ST3 division in the Treasury, the Scottish and Welsh Offices and the Northern Ireland Departments need to work out the consequences for the territorial blocks of agreed bids and savings.

Departments should provide the basic information needed by completing copies of the form attached to this Annex (one, or more if necessary, for each year of the Survey) and forwarding them to expenditure divisions with their official letter by 20 May. Divisions will check the information, particularly on territorial consequences, consulting ST3 and will forward it to the Secretaries.

PLEASE USE A SEPARATE SHEET FOR EACH YEAR

PUBLIC EXPENDITURE SURVEY 1988  
LIST OF BIDS, REDUCED REQUIREMENTS  
OFFSETTING SAVINGS

DEPARTMENT:

Name of originator:

Tel No:

Economic categories

Territorial Implications<sup>(5)</sup>

Bids <sup>(1)(2)</sup>	£m	Pay	Other	Subsidies	Current	Current	Expenditure	Stock-	Capital	Net	Net	Wales	Scotland	N.Ireland	Implications for
Reduced	Total		current	to the	grants	grants	on capital	building	grants	lending to	lending				Science and
Requirements &	cost		goods &	private	to the	overseas	assets (net)		to the	the private	overseas				Technology
Offsetting	(3)		services,	sector <sup>(4)</sup>	private		excluding		private	sector					spending <sup>(6)</sup>
Savings			(net)		sector <sup>(4)</sup>		stockbuilding		sector						

Additional bids

Reduced requirements

Offsetting savings

- (1) Please give very brief descriptions so that the editors can cross refer to the Official letters for more information. Downward changes in the estimate of the cost of existing policies should be shown as reduced requirements.
- (2) Please list bids and reduced requirements and offsetting savings in the order in which they are covered in the letters.
- (3) Total cost of bids/reduced requirements/offsetting savings should be shown here if possible; where the cost is split between economic categories, the broad proportions of the cost should be shown under the appropriate heading in cash. If there are any questions on appropriate economic categories, refer to Section A4 of the FIS Manual.
- (4) NB: subsidies aim to reduce prices, grants do not.
- (5) Please indicate if possible whether bids/reduced requirements/offsetting savings have territorial implications eg by "yes", "no" or "some".
- (6) Please indicate if possible the effect of bids/reduced requirements/offsetting savings in science and technology spending.

PLEASE CONTINUE ON SEPARATE SHEET IF NECESSARY (spares can be produced by photocopying blanks).

DRAFT

Draft of Annex to PES guidelines, covering the review of contingent liabilities.

ANNEX [ E ]

## CONTINGENT LIABILITIES

### Introduction

1. Paragraphs of the PESC paper, to which this note is appended reminded departments of the need to review contingent liabilities during the initial stages of the Survey.

2. The purpose of this annex is to set out details of the action to be taken by departments in reporting the results of their reviews to the Treasury.

### Types of Liability to be reported

3. All contingent liabilities at 31 March 1988 arising from a department's activities and from those of the bodies which they sponsor which carry a potential risk to departmental programmes of more than £100,000 should be reported except those which fall into the following categories:-

a. Those which may arise in the normal course of conducting business (see Government Accounting, Section 0, paragraph 32b), for example (i) liabilities arising from the risks involved in buying and selling goods and services; such liabilities are part and parcel of normal business life; or (ii) commitments which are an inherent feature of demand led services.

b. Those which may arise as a result of the Government's general practice of non-insurance.

c. Those which may arise as a result of departments' sponsorship of the nationalised industries; these are monitored in the context of EFL reviews.

4. Indemnities given for the loan of articles for exhibition should be reported. Although exhibitions are part of the every day business of museums and galleries, the borrowing of exhibits in discretionary and the associated indemnities are reported to Parliament at the PAC's request.

5. Departments are required to submit a return to the Accountant, HM Treasury by the end of June each year setting out details of contingent liabilities resulting from statutory guarantees, for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts. For the avoidance of doubt, <sup>any</sup> such liabilities where the risk exceeds £100,000 should also be included in departments' reports to expenditure divisions.

#### Format of Reports

6. It would be helpful if in reporting contingent liabilities to the Treasury departments could follow the format set out in Annex [ ]. In completing this the following should be noted:

a. column 1 should clearly indicate whether the liability arises from the department's activities or from those of a sponsored body (giving the name of the body);

b. column 2 should set out details of the statutory authority or, in the case of non-statutory contingent liabilities the reference of the departmental minute. Departments should consider whether existing reports to Parliament remain sufficiently up to date, taking account of any significant change in the nature or increase in the size of

the contingent liability, or change in material circumstances since it was accepted or last reaffirmed.

c. column 3 should be completed to compare this year's figure with last year's.

d. column 4 should cover brief description of the action departments are taking to minimise the risks.

#### Submission of Reports

7. The reports should be approved by the department's Minister and sent to the Treasury 26 May. Nil returns are required.

HM Treasury

1988

CONFIDENTIAL

1988 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 26 MAY 1988

DEPARTMENT \_\_\_\_\_

Nature of Contingent Liability 1	Statutory Authority (Where one exists) Departmental Minute Reference 2	Amount at Risk at 31.3.88 £m 3	Department's Comments To cover action to minimise the risk of payment, reasons for any significant changes in amount at risk 4	Treasury Comments 5
Liabilities in existence at 31.3.87 (To include any not previously reported)		(Show in brackets <sup>immediately</sup> below this year's figure the amount reported last year)		
Liabilities entered into from 1.4.87				