CONFIDENTIAL

VMe ECL
cc BG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary 21 March 1988

Dear Jill,

GUIDELINES FOR THE 1988 PUBLIC EXPENDITURE SURVEY

The Prime Minister was grateful for the Chief Secretary's minute of 16 March and the attached draft guidelines for the 1988 survey. She is content for these guidelines to be formally circulated as proposed.

I am copying this letter to the Private Secretaries to members of Cabinet, Richard Luce, Chris Patten, Patrick Mayhew, Kenney Cameron and Sir Robin Butler.

Yours,
Paul

PAUL GRAY

Ms. Jill Rutter,
Chief Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

SW2AEF

PRIME MINISTER

GUIDELINES FOR 1988 PUBLIC EXPENDITURE SURVEY

You agreed last month that the Treasury guidelines for the 1988 survey should closely follow the 1987 pattern. The Chief Secretary has now circulated his proposals under the attached minute of 16 March.

I do not see anything in the material that need cause you difficulty. The material relates only to the conduct of the early stages of the survey process up to June; you will be able to consider the handling of the subsequent stages in due course.

Content now formally to endorse the guidelines?

Yes m

RRCG.

(PAUL GRAY)
18 March 1988

006/4214

CONFIDENTIAL

cc BG.

FROM: CHIEF SECRETARY
DATE: 16 March 1988

PRIME MINISTER

GUIDELINES FOR THE 1988 SURVEY

With the 1988 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 think the procedures adopted last year worked well, despite the interruption of the General Election, and I do not think that we need to make any substantial changes this year. The attached draft Guidelines, therefore, follow closely those circulated at this time last year. There are the following points of general interest to colleagues.

(i) **Baselines** - I propose that the departmental baselines for 1991-92, the new third year of the Survey, should be calculated on the basis of an uplift factor of 2½ per cent. This repeats the figure adopted for the final year in each of the last four Surveys. Of course, this determines only the starting point for the Survey negotiations and is not intended to pre-judge the final outcome. However, by providing for a small real reduction it provides a useful margin for re-ordering priorities across public expenditure as a whole.

(ii) **Bids and options** - As in both the last two Surveys, I propose that Ministers should review priorities within their programmes personally before putting in any proposals for changes in May. As in previous years also, the Guidelines do not require departments to put forward policy changes that would achieve reductions from their baseline on a standard percentage basis but provide that the Treasury should have the right to require departments to produce or cost options where it considers it appropriate.

very important.

PRCG.

(iii) **VFM** - I propose that the procedures for discussing the value for money provided by programmes should be broadly similar this year to last. The Guidelines require departments to supply information on output, performance and value for money as a basis for discussions with the Treasury. The discussions will build on those that were held last year and on the subsequent work on the 1988 Public Expenditure White Paper. They are intended to ensure that our Survey negotiations are informed by as full an understanding as possible of the efficiency and effectiveness of programmes. In the course of this year's exercise we will also be taking a close look at the scope for further disposals of land and buildings about which I wrote to you on 23 February.

You have already endorsed this.
RRCG.

I attach great importance to this aspect of the Survey and I am convinced we should make further progress this year in establishing targets for value for money where that is possible. It is particularly important that Ministers putting forward bids 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 explain what has been done to find offsetting savings from lower priorities or increased efficiency.

(iv) **Running Costs** - Following the decision in last July's Cabinet, I will be seeking to agree with colleagues, on the basis of fully-worked out management plans, 3 year settlements for the running costs of departments where that was not achieved last year, and to roll forward the management plans for a further year where they already exist. We will be looking for minimum cumulative annual efficiency gains of 1½ per cent in this area. My officials have already been in contact with departments to clarify the form and coverage of such plans and I hope colleagues will take a close personal interest in the proposals for their departments.

(v) **Contingent liabilities** - The Guidelines set out the arrangements for this year's annual review and report on contingent liabilities. As we have found in recent years, this is an area where we continue to need to be vigilant. This annual review of contingent liabilities is a very important part of good departmental management.

(vi) **"Next Steps"** This year we shall need to take account of proposals for departmental agencies. Their future financial and running costs provision will need to be examined in the Survey as part of the process of determining each department's programme as a whole, in a way which enables decisions on the establishment of agencies to be carried forward rapidly.

2 I would be grateful for any comments you or other colleagues may have by 25 March. Subject to these I propose that the Guidelines should be formally circulated by the end of the month.

3 I am copying this minute to other Cabinet colleagues, Richard Luce, Chris Patten, Patrick Mayhew, Kenney Cameron, and Sir Robin Butler.

John M.

JOHN MAJOR

4278/14

CONFIDENTIAL

DOWNGRADE TO RESTRICTED
AFTER 5 YEARS

PESC
PESC(WM)

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

Guidelines for the 1988 Survey

Note by the Treasury

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 : Value for Money and Policy Evaluation
IV : 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-June

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 the baseline

ANNEX E : Contingent Liabilities

I TIMETABLE

4. The key departmental dates are shown in 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 29 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 11 to 16 below).

<u>The Baseline</u>

6. Annex B gives detailed information on the construction of the departmental baselines. Departmental baselines for the new year 1991-92 will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1990-91.

7. Under the EUROPES 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 cash limited, central government

programmes.

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 (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 VALUE FOR MONEY AND POLICY EVALUATION

11. The procedures for handling value for money information in the Survey will build on those adopted last year. Departments are asked to supply information on output, performance, and value for money by **29 April** to provide the basis for bilateral discussions between departments and the Treasury.

12. Departments should discuss with their Treasury expenditure divisions the precise form and coverage of the information required. In general, it should include for each main element of their baseline a statement of objectives, an assessment of what the baseline plans for future years will buy, the latest figures on output and performance and relevant historical information from earlier years. Particular emphasis should be given to measures of effectiveness and efficiency. Departments should report the most recent outturn information relating to existing targets (whether or not these have been published) and should set out targets for future years.

13. The information provided should build on that discussed in the Survey last year and on that included in the 1988 Public Expenditure White Paper and in departmental management systems and publications. If the VFM coverage of departments' running costs management planning material due in Treasury by the end of March (see paragraph 6 of PESC(87)(23)) is accepted by the appropriate expenditure group as offering the prospect of a satisfactory approach, no further VFM material on running costs will be required before the fully worked-up draft management plans expected with the Ministerial and official letters due by 25 May. Further guidance on what is required is given in PESC(WM)(88)3.

14. Departments should also include information derived from policy evaluations, scrutinies and reviews completed in the last year and should set out their plans for further evaluations etc for 1988-89 taking account of cases where the Treasury has given notice of its wish to discuss the performance of a particular programe and of its intention to request evaluation information. The information should also include departments' plans for disposing of surplus land, housing, and other buildings.

15. The discussion of this information by Treasury expenditure divisions and departments is intended to prepare the groud of the Survey discussions of plans, bids, and reductions by clarifying the departments objectives and how effective and efficient the programmes are in meeting those objectives. In addition to considering what the output, performance, and evaluation information indicates about the efficiency and effectiveness of programmes, this may involve identifying further analysis and reviews needed to inform the work already taking place in the context of budgeting on ways of improving value for money information, for example of extending coverage, aligning better output and performance measures with expenditure programmes, developing output measures into measures of performance, and identifying areas where new targets should be set.

16. The discussions which start in May will focus on the baseline programmes and will be broadened in June to take account of any changes in outputs or expenditure provisions sought in Ministerial submissions.

IV MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE

17. Ministers are asked to write to the Chief Secretary to report the outcome of their personal scrutiny of priorities within their programmes. They should

set out any proposals to reallocate existing resources to accommodate changing priorities, setting out in order of priority any increases in particular areas and the reductions which are proposed to offset those increases. They should also set out any net reduced requirements. If exceptionally after their scrutiny Ministers propose to seek increases for which offsetting reductions are not offered (ie to seek net additional resources), the Ministerial letter should explain why, in their view, the proposals cannot be accommodated through further offsets or improved efficiency. For all proposed increases, whether or not offset, the letter should explain why the proposal is thought to be essential, with details of the proposed cost in each of the survey years; and 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. Ministers should submit at the same time their department's management plan for running costs in the Survey period, with clear commitments to efficiency gains (see paragraph 19 below). Supporting official letters including more detailed information will also be needed: guidance is at Annex C.

Options for reductions

18. 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

19. 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 negotiated firm three-year settlements with commitments to deliver agreed efficiency gains; the presumption is that these agreements will not be re-opened. In other cases, Ministers should if necessary explain why the resource needs cannot be met by a re-ordering of existing priorities or by the required minimum 1½ per cent efficiency gains (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. The proposed management plans will be discussed in detail between officials in advance of Ministerial bilaterals. These discussions will also take account of the stages reached by departments in reviewing their location of work (see PESC(88)).

Civil Service Manpower outside gross running costs

20. 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

21. Annex D gives details of the information the Treasury needs to collect about proposed changes to the baseline, and how it should be prepared. This information should be forwarded, on a copy of the form attached to Annex D, 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 departments' co-operation in submitting these forms promptly will be appreciated.

Territorial implications of proposed changes to baseline

22. 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

23. 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

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

V LOCAL AUTHORITIES

25. 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 C). 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

26. 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 29 below.

VII EUROPEAN COMMUNITY EXPENDITURE

27. 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 estimates for 1988-89 by **Friday, 1 April.** This information should be consistent with the provisions contained in the 1988-89 main Estimates, but set out on the basis of receipts by sub-programme within programme 2.7.

VIII CONTINGENT LIABILITIES

28. 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 O, paragraph 28, also draws attention to the need for such reviews to be undertaken.

29. 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 O, 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 a hitherto unrecognised nature (including those which arise as a result of departments' staff acting in an ex-officio capacity, on which separate guidance is being circulated). If any such liabilities are discovered they should be examined in the context of the guidance in Government Accounting, and discussed with the relevant Treasury expenditure division.

Report on contingent liabilities to the Treasury

30. Departments should report the results of their reviews to their Treasury expenditure divisions by **1 June** in the form set out in Annex E. These reports should be approved by Ministers before they are submitted to the Treasury. When departments submit their lists to the Treasury they should also confirm that the position has been considered by the Accounting Officer, and that he is satisfied that all the department's contingent liabilities have been reviewed and that all those over £100,000 are listed.

IX FURTHER INFORMATION

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

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

PESC(WM)(88)3 - Information on output, performance and value for money in the 1988 Survey.

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

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

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 Dick Meadows (270-5363), 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-JUNE

MARCH

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

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

Thursday 31 March Last date for departments preparing running cost management plans to send planning material in draft to expenditure divisions.

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.

Friday 29 April Last date for departments to submit output and performance information to Treasury expenditure divisions.

MAY

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 and management plans to be sent to the Chief Secretary and expenditure divisions. Last date for DRC3 forms to support each proposed change for gross running costs and associated manpower.

JUNE

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. For the new third year, 1991-92, figures for programme expenditure and gross running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figure for 1990-91. The adjustments resulting from the EUROPES arrangements (see paragraph 7 of the main paper and PESC(WM)(88)( ) will then be made to these 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 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 <u>not</u> 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 <u>all</u> cases these adjustments can only be implemented by prior agreement with Treasury expenditure divisions.

7. Running tallies for any agreed changes to the baseline 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 17 of the main paper explains the requirement for Ministers to write to the Chief Secretary reporting the outcome of their scrutiny of their programmes, and attaching their running cost management plan.

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 further 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 as in the Ministerial letter. 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 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 elements of the total proposed changes to baseline relate to running cost proposals or involve 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.

10. Paragraphs 21, 22 and 23 of the main paper, and Annex D, give details of supplementary information on proposed changes to the baseline needed by the Treasury. Copies of the form attached to Annex D 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. Use (LACap) to indicate capital spending and (LACur) to indicate other current spending.

PC: other public corporations ie excluding nationalised industries

(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.

(iv) science and technology: as last year, changes in spending on science and technology are to be monitored during the Survey.

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 **25 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 AND

OFFSETTING SAVINGS

DEPARTMENT:

YEAR:

Name of originator:

Tel No:

		Economic categories										Territorial implications(5)			
Bids(1)(2) Reduced Requirements & Off-setting Savings	£m Total cost (3)	Pay	Other current goods & services (net)	Subsidies to the private sector(4)	Current grants to the private sector(4)	Current grants overseas	Expenditure on capital assets (net) excluding stockbuilding	Stock-building	Capital grants to the private sector	Net lending to the private sector	Net lending overseas	Wales	Scotland	N.Ireland	Implications for Science and Technology spending(6)
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 or by "yes", "no" or "some".

(6) Please indicate ~~if possible~~ the effect of bids/reduced requirements/offsetting savings in science and technology spending as defined on page 47 of Volume I of Cm 288.

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

ANNEX E

CONTINGENT LIABILITIES

Introduction

1. Paragraphs 28 to 30 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 will still need to send a separate return to the Accountant, HM Treasury, by the end of June each year setting out details of contingent

liabilities resulting from statutory guarantees; this is required for inclusion in the annual Supplementary Statement to the Consolidated Fund and National Loans Fund Accounts. But any such liabilities in this category should also be included in departments' reports to expenditure divisions if the risk exceeds £100,000.

Format of Reports

6. It would be helpful if in reporting contingent liabilities to the Treasury departments could follow the format attached. 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: if this year's figure is not fully available by 1 June an estimated figure should be inserted.

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 by 1 June. Nil returns are required.

CONFIDENTIAL

1988 PES: SUMMARY OF REVIEW OF CONTINGENT LIABILITIES

TO BE RETURNED TO HM TREASURY BY 1 [illegible] 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	
Liabilities in existence at 31.3.87 (To include any not previously reported)		(Show in brackets immediately below this year's figure the amount reported last year)		
Liabilities entered into between 1.4.87 and 31.3.88				