

CONFIDENTIAL

(87)

ech



bc BG

10 DOWNING STREET

From the Private Secretary

24 March 1986

GUIDELINES FOR THE 1986 PUBLIC EXPENDITURE SURVEY

The Prime Minister has seen the Chief Secretary's minute of 21 March about the guidelines for the 1986 Public Expenditure Survey.

The Prime Minister is content with the proposed guidelines, subject to the views of colleagues. She agrees in particular that proposals which raise issues of the definition of public expenditure need to be considered carefully and in a timely way. She endorses the procedure set out in the Chief Secretary's minute.

I am copying this letter to the Private Secretaries to members of Cabinet, Paul Thomas (Minister of State's Office, Privy Council Office) and Michael Stark (Cabinet Office).

(David Norgrove)

Ms. Jill Rutter,
H.M. Treasury.

CONFIDENTIAL

DJG

PRIME MINISTER

GUIDELINES FOR 1986 SURVEY

The Chief Secretary's proposals for the 1986 Survey are along familiar lines. As usual in recent years, he proposes that the uplift for the final year should be $\frac{1}{2}$ per cent less than inflation. This makes room for some re-ordering of priorities later.

He also (paragraph 6) suggests that if Ministers wish to propose changes in public expenditure definitions they should be brought forward in time to be examined before the Summer Recess, and, if they are not, the normal rule should be that they are deferred until the following Survey.

I have a personal interest in this, having carried out a review of public expenditure statistics a year or two ago. With the pressure to hold down public expenditure, Ministers have been very willing to look for statistical changes to make an apparent saving in public expenditure which did not in fact help make room for tax cuts. The Statutory Sick Pay scheme is an example. It reduced civil service numbers but it saved public expenditure only by changing the (Treasury) definitions, and the CSO in fact continue to regard expenditure under the scheme as public expenditure. There is quite a list of things which are equally dubious.

Agree to endorse the Chief Secretary's proposals, including that on statistics?

Y
as
mt

D.N.

DAVID NORGROVE

21 March 1986

L04ADJ

PRIME MINISTER

21 March 1986

GUIDELINES FOR THE 1986 SURVEY

The Chief Secretary's minute makes three important points:

- i. If there are any additional bids, they should only be put in as the result of a direct decision by the Minister himself in a letter copied to you.
- ii. The baseline for 1989-90 should be created by uprating the baseline for 1988-89 by 2½% - about ½% less than inflation.
- iii. Departments should avoid fiddles - such as fake contracting-out - which may reduce the public expenditure figures but don't change anything in the real world.

I recommend that you endorse the Chief Secretary's minute, though it might be sensible to wait a few days in case colleagues wish to comment.

David Willetts

DAVID WILLETTS

CONFIDENTIAL

JCBG



FROM: CHIEF SECRETARY

DATE: 21 March 1986

Prime Minister

Paragraphs 4 and 6 are under reading.

PRIME MINISTER

GUIDELINES FOR THE 1986 PUBLIC EXPENDITURE SURVEY

DWS
21/3

In my minute of 6 February I set out proposals for changes in the organisation of the 1986 Survey. Your Private Secretary's letter of 25 February recorded that you were content with the new approach and asked colleagues to give their closest possible attention to avoiding requests for additions to their programmes. In doing so, I urge colleagues to examine closely their programmes for the whole Survey period so that we have reliable plans for all three Survey years and can again keep additional bids to a minimum in future Surveys.

... 2 I now attach draft detailed guidelines for the conduct of the Survey. These follow the same general format as in earlier years, but reflect the changes in procedure this year. Subject to any comments from colleagues by 27 March, I propose that the guidelines should be formally circulated as a PESC paper in the first week of April.

3 In his letter of 24 February the Secretary of State for Transport asked that information about any proposals colleagues feel obliged to make for net additional provision should be circulated by the Treasury as soon as they have been assembled. I should reiterate my hope that colleagues will not feel it necessary to make such proposals. But I can confirm that, if any are made, I will arrange for a summary of them to be circulated, with appropriate supporting material, as soon as possible in June.

CONFIDENTIAL

NON P02 : Public Expend : Pt 34



CONTROL

CONFIDENTIAL

4 I would draw colleagues' specific attention to the proposal in paragraph 6 of the guidelines that the initial departmental baselines for 1989-90, the new third year of the Survey, should be based on an uplift of $2\frac{1}{2}$ per cent. This repeats the figure adopted for the final year in each of the last two Surveys and, again as in 1984 and 1985, is $\frac{1}{2}$ per cent below the inflation assumption for the new year set out on Budget day in the revised MTFs. I believe colleagues should be able to offset a small real reduction in resources through improved efficiency and productivity. And this approach provides a small margin for manoeuvre to permit re-assessment of priorities while still allowing the aggregate planning total to be held broadly constant in real terms. I shall of course be making detailed proposals for the planning totals in July.

5 The treatment of running costs will follow the same processes as for the main programme expenditure, except that proposals for changes in provision, additions or reductions, in gross (rather than net) running costs provision will be required.

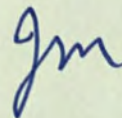
6 I would also stress one other point which is not mentioned in the guidelines. During the last Survey, a number of proposals were put forward which raised issues of the definition of public expenditure. For example, there have been proposals to reduce public expenditure by netting off payments against associated receipts; or to replace what would otherwise have been public investment with privately financed projects. Some of these proposals were raised at a very late stage, when MISC 120 was well into its work. The issues raised by such proposals are often complex. We need to be sure that an activity is genuinely transferred to the private sector without any

CONFIDENTIAL

CONFIDENTIAL

guarantee. For if it is not, the Government's claim on resources will not have been reduced and, notwithstanding an apparent reduction in the planning total, we will have done nothing to reduce the pressure on funds for investment or to facilitate reductions in the burden of tax. Indeed, if such savings are used to justify increases in expenditure elsewhere we will have made the position worse. I hope colleagues will reflect carefully before putting forward any ideas on these lines this year; and if they do wish to do so ensure that this takes place at an early stage in our discussions when there is adequate time for officials to explore the detailed implications. I suggest that, unless such proposals are brought forward in time to be examined before the Summer Recess, the normal rule should be that they are deferred until the following Survey.

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



JOHN MacGREGOR

CONFIDENTIAL

PESC(86)
PESC(WM)(86)

HER MAJESTY'S TREASURY
PUBLIC EXPENDITURE SURVEY COMMITTEE

GUIDELINES FOR THE 1986 SURVEY

Note by the Treasury

Introduction

The Chief Secretary's minute of 6 February to the Prime Minister proposed some changes to the arrangements for the early part of this year's Public Expenditure Survey. In particular, he proposed that additional bids should not be included in the Survey Report prepared by officials. Instead, Ministers should themselves write to him if, after having carefully scrutinised their programmes, they concluded that it was essential to seek net additional resources. The Prime Minister has asked Ministers to give their closest personal attention to avoiding requests for additions to programmes (her Private Secretary's letter of 25 February refers).

2. Against that background, this paper sets out guidelines for the conduct of the 1986 Survey and for the preparation of the 1986 Survey Report. The general arrangements for this year's Survey are explained in the main sections of the text, and detailed guidance for the conduct of the Survey can be found in the Annexes.

3. This PESC paper contains the following sections and Annexes:

- I TIMETABLE (paragraph 4)
- II THE SURVEY REPORT (paragraphs 5 to 15)
- III MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE (paragraphs 16 to 23)
- IV LOCAL AUTHORITIES (paragraph 24)
- V NATIONALISED INDUSTRIES (paragraph 25)
- VI EUROPEAN COMMUNITY EXPENDITURE (paragraph 26)
- VII FURTHER INFORMATION (paragraph 27)

- ANNEX A: 1986 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH - JULY
- ANNEX B: CONSTRUCTION OF THE BASELINE
- ANNEX C: PREPARATION OF PESC REPORT CHAPTERS
- ANNEX D: PREPARATION OF MINISTERIAL AND OFFICIAL LETTERS
- ANNEX E: INFORMATION ON ECONOMIC COMPOSITION AND TERRITORIAL CONSEQUENCES.

I. TIMETABLE

4. A table setting out the key departmental dates for the preparation of the 1986 Survey Report was circulated with Mr Turnbull's letter of 10 February to Mr Wilson (copied to PFOs). A more detailed timetable, including dates for the submission of Ministerial letters, is now attached at Annex A. Departments are asked to submit running tallies setting up the baseline by 11 April, and draft texts of the Survey Report by 15 April. The baselines will be set and agreed by 9 May - before the draft Report is circulated. Ministerial letters should be sent to the Chief Secretary by 30 May.

II. THE SURVEY REPORT

5. The aim of the 1986 Survey Report will be to provide an analytical data base designed to help the conduct of the Survey. Given the increasing emphasis being placed by Ministers on what public spending programmes are achieving rather than simply the resources they are consuming, the Report will also focus on the outputs to be achieved from the baseline expenditure. Without the inclusion of material on additional bids, the Report should be shorter than in previous years. It will provide

(i) a record of the cash baselines (separately identifying gross running cost and manpower baselines) from which discussions will start; and

(ii) a statement of the main output and performance measures and targets.

The Baseline

8. Annex B gives detailed information on the construction of the departmental baselines to 1988-89. Departmental baseline figures for the new year 1989-90 will be calculated by the Treasury by adding 2½ per cent to the cash figures for 1988-89, adjusted as necessary in accordance with the guidance at Annex B. In the case of Defence this will, as last year, apply only to the non-Falklands element of provision.

Texts

7. The baseline provision will have been described in the public expenditure White Paper (Cmnd 9702). Where it is possible to improve on that description eg by updating it, this should be done briefly in the introductory paragraphs.

8. As indicated in paragraph 5, the Survey report should provide information on outputs as well as inputs. Last year, departments were asked to include a short summary of their main performance indicators, and the principal steps being taken to improve value for money (VFM) through greater efficiency and effectiveness. This was a useful exercise and led to a valuable improvement in the PEWP. It is proposed to build on the start made then in assembling quantitative value for money information as clearly and concisely as possible.

9. Departments are therefore invited to extend the coverage of their main output and performance measures in this year's Report. In particular, it should be an objective this year to increase the information given on forward looking performance targets, together with a comparison of outturn with past targets. This information should be quantified in tabular form as far as possible. (NB: Output and performance measures are here taken to include 'indicators', or proxy measures used when output or performance is not directly measurable.)

10. As part of this exercise, departments are asked to summarise in their Survey texts the objectives and output in relation to capital (and associated maintenance) expenditure in the baseline.

11. A short descriptive passage on the baseline for gross running costs and manpower should be provided, concentrating on any significant year on year changes, and the effects of improvements in value for money and increased productivity eg from efficiency initiatives.

12. Annex C provides more detailed guidance on the preparation and organisation of departmental chapters.

Smaller departments

13. As in previous years, the smaller departments will be covered in two chapters: "Chancellor's Departments" and "Other Departments". For the texts, departments should provide a short summary of key improvements in output and performance. The more detailed information described in paragraphs 9-10 however will still be required by Treasury expenditure divisions.

Supporting analyses

14. It is intended that the Survey Report will include supporting material broadly along the lines of the Annexes in the 1985 Report, with the exception of Annex E (Economic classification of proposed changes to the baseline). The form of the Annex on local authority capital expenditure will be amended to show the composition of provision relevant to the main cash limit in England (DOE/LA1) and to other cash limits, to provide a clearer basis for Survey discussions. Arrangements for the preparation of the information on the economic classification of proposed changes are discussed later (paragraph 21).

Preparation of 1986 Report

15. As usual, Departments and Treasury divisions are asked to ease the task of editing and reproducing the Report by adhering to the standard conventions set out in Annex C.

III MINISTERIAL PROPOSALS FOR CHANGES TO THE BASELINE

16. The Chief Secretary has asked Ministers to write to him by the end of May if, having scrutinised their programmes, they still wish to put forward proposals for net additional resources. This should cover all departments for which they are responsible, including those in the chapter on "Other Departments" (see paragraph 13). As discussed below, the Treasury will require detailed supporting information for such proposals. Information will also be needed on additional gross running costs (even if offset by receipts), on reduced requirements and offsetting savings in these cases and also where Ministers propose to meet additions within the overall baseline. The following paragraphs explain how this information should be forwarded to the Treasury.

Ministerial and Official letters

17. If Ministers find it necessary to write, the Ministerial letter should say why the Minister considers it essential to put forward proposals for net additional resources, and why the upward pressures cannot be accommodated through offsets and improved efficiency. It should set out the additional resources requested with a brief description of why they are sought - eg as the result of a proposed change in policy, estimating change or revised economic assumptions. It should specify what the extra resources are designed to achieve, as compared with the output of the baseline programme, and set out the measures of output and performance which would be used later for evaluation. The letter should include a summary of the extent to which the net additional bid takes account of reduced requirements and proposed policy adjustments elsewhere; it should also state what action would be necessary if the resources had fully to be found from within the department's existing provision.

18. Detailed supplementary information on any of these aspects should be provided in supporting material provided at official level. This is described in Annex D. In the case of departments not seeking net additional resources or proposing net reductions, it will still be necessary for official letters to be sent to the Treasury. In order to provide the background for subsequent collective decisions, these should give details of reduced requirements together with proposed reallocations of provision reflecting Ministerial scrutiny of priorities within their programmes.

19. Any Ministerial letters should be copied to the Prime Minister, the Lord President 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. All letters should provide an estimate of the impact of any proposals on other programmes or another Minister's policy. More detailed guidance on the preparation of these letters is at Annex D.

Running costs and manpower

20. Additional resources sought for gross running costs and manpower, either as part of a proposed addition to programmes or as a separate proposal, should be identified in Ministerial letters, together with any offsetting savings. Official letters should indicate clearly whether the proposals are to be financed from running costs savings or from programme expenditures and provide supplementary information which will be used to

inform discussions between officials. The information on the baseline is broadly on the lines requested for 1986-87 in PESC(WM)(86)2. Detailed information will also be required on any proposed additional expenditure, reduced requirements, offsetting savings, or reallocations which affect the baseline for running costs and manpower. The intention this year is that running cost and manpower issues should, wherever possible, be resolved in discussion between officials in departments and expenditure divisions before the Ministerial bilaterals. Detailed guidance on the further information required is contained in PESC(WM)(86)[] .

Economic composition and territorial implications of proposed changes to baseline

21. Annex E 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 E, with the official letter sent to the Treasury. Departments are asked to keep the territorial departments informed of possible changes affecting the territorial blocks throughout the 1986 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 - Larry Woodman (233-7893) on Northern Ireland or Tony Davis (233-8045) on Scotland and Wales.

Economic assumptions

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

Options for reduction

23. In parallel with the decision not to ask departments to include material on additional bids in the Survey Report, departments are not themselves asked to set out options for reduction designed to produce a given percentage reduction in the baseline in each year. There may however, be areas where the Treasury believes that there are options which could, if it proved necessary, be used to offset requests for additional resources or to produce savings, but which have not been identified by departments. In such cases, the Treasury will need to ask for these options to be costed; if so, departments should, as last year, provide the Treasury with the necessary information.

IV LOCAL AUTHORITIES

24. Local authority relevant current expenditure will, as in previous years, be considered separately in E(LA). Details of local authority current expenditure need not be included in departmental chapters. Proposals for

adjustments to programmes which will not be covered by discussions in E(LA) should be included in the Ministerial and official letters. (See Annex D).

V NATIONALISED INDUSTRIES

25. 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 have already been notified to sponsor departments.

VI EUROPEAN COMMUNITY EXPENDITURE

26. PESC(EC) will continue to consider spending allocated to programme 2.7, as last year. Under the proposed new arrangements for the operation of EURO-PES, Departments seeking negotiating authority to agree levels of Community R&D expenditure which would go beyond the EURO-PES baseline and could not be covered by transfers within EURO-PES are expected to write to the Treasury identifying the offsetting domestic savings which could be made. In the case of Ministers seeking net additional provision, information should be included in the letters referred to in section III above.

VIII FURTHER INFORMATION

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

[LIST]

General questions arising from this paper should be addressed to the secretaries, Ros Dunn (233-4801) or Peter Barnes (233-4679). Questions on departmental running costs should be addressed to Mike Hoare (233-7188) or Paul Harris (233-7259), and on manpower to Ron Carpenter (233-4913).

MRS R M DUNN

P D P BARNES

1986 PUBLIC EXPENDITURE SURVEY: KEY DATES MARCH-JULY

- MARCH Friday 14 March Last date for departments to comment on formats of main departmental tables.
- Thursday 20 March PESC(WM) paper seeking running tallies to amend PES database issued.
- APRIL Friday 11 April Last date for departments to submit running tallies to amend PES data-base for years up to 1988-89.
- Tuesday 15 April Last date for departments to submit draft survey report texts to expenditure divisions.
- Wednesday 30 April Last date for expenditure divisions to send survey report texts to GEP1
- MAY Friday 2 May GEP Data Unit circulate draft survey tables showing Survey baseline including new third year, and more detailed PESKEL reports to expenditure divisions and departments.
- Wednesday 7 May Last date for departments to submit running tally forms to reallocate 1989-90 provision.
- Friday 9 May Last date for final comments on Survey report tables
- Monday 19 May Draft Survey Report circulated to PESC
- Thursday 22 May PESC meeting on Survey Report. Last date for comments on draft report.
- Friday 23 May Final report sent for copying and distribution
- Friday 30 May Survey Report available and circulated to Ministers. Last date for Ministerial and official letters to the Chief Secretary and expenditure divisions.
- JUNE 6 June Last date for departments to submit detailed forms on running costs. [NB May be changed in the light of the timing of the 1986 pay settlement].

Mid-June Chief Secretary discusses Ministerial proposals for additional resources with colleagues as necessary.

[Mid-June [E(LA) discussions of Local Authority Current expenditure].

JULY Early July EA discussions of nationalised industries

Early July PUBLIC EXPENDITURE CABINET

CONSTRUCTION OF THE BASELINE

The starting point for the 1986 Survey will be the cash plans published in Cmnd 9702, adjusted for any Budget policy changes and classification changes.

2. For the new third year, 1989-90, baseline figures for programme expenditure and running costs will be calculated by the Treasury by adding 2½ per cent to the cash baseline figure for 1988-89. In the case of defence this will only apply to the non-Falklands element of provision. The baseline for local authority relevant current expenditure in each programme in 1989-90 will be the same as in 1988-89.

3. "Baseline" figures for manpower numbers at 1 April 1987, 1 April 1988 and 1 April 1989 are as published in Cmnd 9702 except where subsequently amended by agreement with the Treasury. There is no general formula for creating manpower "baselines" for 1 April 1990; departments should show their indicative planning figures for that date within their running costs.

Switches within departmental figures

4. PESC(WM)86[] asks departments to align PES and Estimates for 1986-87 - this may involve switches between sub-programmes, economic categories or spending authority codes - [and to make certain other changes]. In line with the new procedures for Departmental review of priorities during April and May, however, the general rule is that the baseline figures to be included in this year's Survey Report will not provide for any other switches. In particular, switches into 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 1987-88 to 1989-90.

5. There may, however, be some minor and non-contentious adjustments, such as to reflect changes agreed before but not fully incorporated in the Cmnd 9702 database, and moves to repayment for particular services, which Departments now wish to reflect in the 1986 Survey baseline. Minor switches of this sort may be implemented by prior agreement with Treasury expenditure divisions.

6. Running tallies for any agreed changes to the baseline, for all years of the Survey, or forward years as appropriate, should be sent to the Treasury by 11 April.

PREPARATION OF PESC REPORT CHAPTERS

Coverage of the Report

As last year the Report will consist of an Introduction, Departmental Chapters and Supplementary Information in Annexes. The Chapters will cover the same departmental groupings and breakdowns as in last year's Report and as listed in Table 2.2 of the 1985 Autumn Statement.

Departmental tables

2. Each PESC report chapter will start with a table showing the baseline analysed by spending authority and function. One of the annexes to the Report will give an analysis of each Departmental grouping by broad economic category. Formats for the chapter tables have been discussed and agreed bilaterally with Departments. The baseline tables and figures will be supplied by GEP data unit.

Texts

3. The summary table should be followed by a brief description of the main areas of spending within the baseline. This should if possible improve on but not unnecessarily duplicate the descriptive material available in Cmnd 9702.

Output, performance and VFM

4. The main body of the text should be devoted to details of main output and performance measures together with other information about steps to improve value for money. The information should be presented in tabular form wherever possible, with the emphasis on forward looking targets.

5. This information, should cover as much of the baseline as possible, with appropriate cross-references to the main table, and show what the provision currently in the baseline is expected to achieve.

6. Similar information on outputs and objectives should also be provided

in relation to capital (and associated maintenance) expenditure in the baseline. This should include a brief statement of the criteria by which capital projects (under the control of the department or other spending authorities) are appraised and the procedures used to apply them. Departments should outline how the projects or programmes comprised by the baseline match up against these criteria, with some quantitative indication given of NPVs or other net benefits expected. The text of the Report should not list individual projects or set out in detail the procedures for appraising them. But where such information is not available Treasury divisions may seek it from Departments.

Running Costs and Manpower

7. The text of each chapter should have a section showing the aggregate baseline provision for running costs and manpower.

Surplus land and empty buildings

8. Departments are also asked to produce updated targets for disposals of surplus land and empty buildings, and latest estimates of their performance against those targets. This information will not be included in the Survey Report, but will be required by expenditure divisions.

Format

9. The editors suggest that the usual conventions are observed on format:-

- i. Texts should be attached to, not incorporated in, a covering note. Typing should be on White A4, 1½ spaced, 1½ inch margin. There should be no heading of the kind "Draft passage for PESC Report". To facilitate reproduction Treasury expenditure divisions are asked to send a top and a spare copy to GEPI division. (see also paragraph 8 below)
- ii. Please avoid the use of capitals as far as possible.
- iii. It will be understood that all figures in the Report are in cash, unless otherwise stated.

- iv. Please write "per cent not "%".
"1987-88" not "1987/88" or "1987-8"
"a year" not "per annum" or "pa"
"£ million" not "£m"

 - v. Please avoid abbreviations except where these are very familiar eg "NATO". Give an initial explanation of unfamiliar abbreviations, thus "Commonwealth Development Corporation (CDC)."

 - vi. In the top right hand corner please type the name of the Department in block capitals eg : HOME OFFICE

 - vii. Please number the paragraphs, or, if the particular piece of text will follow another relating to the same Department, leave spaces for paragraph numbers.

 - viii. Where tables are supplied, years should run along the top of the table, not down the side.
10. Typescript should be submitted in the normal way. Departments are encouraged, if possible, also to submit word processor discs compatible with the machines used by their expenditure divisions - normally Rank Xerox 630 machines.

PREPARATION OF MINISTERIAL AND OFFICIAL LETTERSMinisterial letters

Ministerial letters are only necessary if proposals are made for net additional resources or additional gross running costs. In order to facilitate the task of assembling the information contained in the letters, it would be helpful if they follow the format below as far as possible. For each proposal therefore, the information should be provided as follows:-

- Proposed changes in each Survey Year, set out in tabular form.
- A summary of the extent to which proposed increases are offset by reduced requirements and proposed policy adjustments elsewhere.
- Explanation of why the need for net additional resources arises, including any implications for gross running costs.
- Description of what the additional expenditure is expected to provide and what value for money is expected to be achieved including quantified output and performance data; and for capital expenditure, NPV or similar information justifying the proposal.
- An explanation of the consequences of leaving provision unchanged.

If additional resources are required for more than one reason, the proposals should be listed in broad order of priority.

2. Proposals for changes to nationalised industry expenditure, and local authority relevant current 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 delivery (whether resulting from policy or estimating changes).

3. Increases for 1986-87 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

4. Supporting material provided at official level will be required in two circumstances. First, to provide further more detailed explanation of the proposals outlined in the Ministerial letters, which Departments wish to put forward or which the Treasury may request. The letters should explain how the need has arisen eg policy changes, estimating changes, etc. They should also give details of reduced requirements for provision already in the baseline resulting from revised economic or demographic assumptions, or proposed policy changes. This should be done by setting out the potential reduction in each survey year, in tabular form, together with a brief explanation of how the saving has arisen.

5. Capital and comparable maintenance expenditure proposals should be supported by a 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.

6. Second, where a Minister is not seeking any net addition to provision, letters should be sent at official level giving details of any reduced requirements, together with proposed reallocations within the baseline resulting from the Ministerial scrutiny of priorities within programmes. This should include any reallocation between running costs and programme expenditure.

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

8. Running cost and manpower proposals must be separately identified in all cases, whether or not changes for the baseline provision are proposed.

Details of the information required are set out in PESC(WM)86[].

9. Paragraph 19 of the main paper, and Annex E, give details of the information on the economic composition 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.

10. All letters should be sent to the Treasury by 30 May. Supplementary information on running costs should be sent in by 6 June [NB may be changed in the light of the timing of the 1986 pay settlement].

INFORMATION ON ECONOMIC COMPOSITION AND TERRITORIAL CONSEQUENCES

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

- i. departmental running costs: The effects of proposed changes on departmental running costs need to be set out to help monitor the future profile of running costs in total. The figures should be consistent with the detailed breakdowns on forms DRC3 (See PESC(WM)(86)[]).
- ii. other economic categories: Attention also needs to be given to other economic categories, notably the capital/current split and subsidies. This information is given to the Treasury forecasters to help prepare the forecasts for the July Cabinet and the Autumn Statement.
- 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.

It would be helpful if departments would 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 30 May. Divisions will check the information, particularly on territorial consequences, consulting ST3 and will forward it to the Secretaries.

Name of originator:

Tel No:

Economic Categories

Territorial implications(5)

Bids(1) Reduced Requirements & Offsetting Savings	£m Total cost (3)	Gross Depart- mental Running Costs	Other pay	Other current goods & services (gross of charges)	Fees and charges	Current grants (4)	Current subsidies on goods & services	Capital spending (gross)	Capital receipts	Capital grants	Net lending (by Govt sector) (6)	Wales	Scotland	N.Ireland
---	----------------------------	--	--------------	--	------------------------	--------------------------	--	--------------------------------	---------------------	-------------------	---	-------	----------	-----------

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.

(4) NB: subsidies aim to reduce or remove 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 with C or NC beside each item whether the net lending is on commercial terms (C) or not (NC). NC should include both net lending at a subsidised rate and in circumstances where commercial lending would not be forthcoming.

