OPERATIONAL SELECTION POLICY OSP15

CONTROL OF CENTRAL GOVERNMENT
EXPENDITURE 1969 - 1997

Revised December 2005
List of Tables and Appendices

Table 1 Timetable for Treasury work on the Supply Estimates
Table 2 Timetable for Parliamentary scrutiny of public spending

Appendix 1 Public Expenditure Surveys: recommendations for the selection of records for permanent preservation

Appendix 2 The work of Treasury’s General Expenditure Division

Appendix 3 Committees chaired by the Treasury to monitor aspects of public spending (derived from T 277 for 1970)

List of abbreviations

APEX Analysis of Public Expenditure
CoE Chancellor of the Exchequer
CST Chief Secretary to the Treasury
EEC European Economic Community
EU European Union
FIS Financial Information System
FMI Financial Management Initiative
FST Financial Secretary to the Treasury
GE General Expenditure Division of HM Treasury
GEP General Expenditure Policy Group of HM Treasury
GEA General Expenditure Analysis Group of HM Treasury
IMF International Monetary Fund
MoD Ministry of Defence
MTA Medium Term Assessment
MTFS Medium Term Financial Strategy
NCT New Control Total
OECD Organisation for Economic Co-operation and Development
OSP Operational Selection Policy
PAC Public Accounts Committee
PAR Programme Analysis and Review
PARC Programme and Analysis Review Committee
PES Public Expenditure Survey(s)
PESC Public Expenditure Survey Committee
PEWP Public Expenditure White Paper
P(E)FO Principal (Establishment and) Finance Officer
PSBR Public Sector Borrowing Requirement
TCSSC Treasury and Civil Service Select Committee
TOA Treasury Officer of Accounts
TPEC Treasury Public Expenditure Committee
1 Authority

1.1 In 1998 The National Archives published its Acquisition Policy. This set out the principles which guide the selection of records for permanent preservation in The National Archives. The following year The National Archives produced a complementary Disposition Policy dealing with the selection of public records to be held in places of deposit other than The National Archives.

1.2 Both policies are being implemented through the production of Operational Selection Policies. These are detailed statements of appraisal plans as they apply to categories of records found in one or more departments. They are developed by The National Archives in partnership with other government departments and in consultation with other repositories appointed by the Lord Chancellor as places of deposit. They are subject to public consultation.

1.3 Operational Selection Policies are intended to be working tools for those involved in the selection of public records for permanent preservation. They may be reviewed and revised at any time in the light of comments from record producers, reviewers or users of the records or as a result of newly discovered information. The extent of any review or revision exercise will be determined according to the nature of the comments received.

1.4 If you have any comments on this policy, please e-mail records-management@nationalarchives.gov.uk or write to:

Acquisition and Disposition Policy Manager
Records Management Department
The National Archives
Kew
Richmond
Surrey
TW9 4DU

Operational Selection Policies do not provide guidance on public access to selected records.

2 Scope

2.1 This Operational Selection Policy covers the most long-standing duty of the Treasury namely, in the words of Sir Richard Clarke, ‘the task of allocating public funds to departments, and ensuring that they keep within their allocation. It relates to all Treasury records generated by the annual estimates, Public Expenditure Surveys (PES), and the short-lived Programme Analysis and Review (PAR) system and the mechanism of control through cash limits introduced in 1976. It provides guidance to other government departments on the selection of records relating to Treasury control of departmental expenditure.

2.2 This Operational Selection Policy focuses on the period from 1969, when
annual Public Expenditure White Papers (PEWPs) were introduced, to the
election of the Labour government in May 1997, which suspended the PES
and conducted a comprehensive spending review. A subsequent White Paper
– Stability and Investment for the Long Term (Cm 3978, 1998) announced the
end of annual public expenditure surveys and introduced biennial spending
reviews.

2.3 This Operational Selection Policy covers spending by central government
departments controlled through the Estimates and the PES system. The
following topics are excluded but will be picked up in future Policies:

- Detailed changes in government approaches to the control of local
  authority expenditure.

- Finance for nationalised industries controlled through their sponsoring
department. Nationalised industries’ external finance, including
government subsidies and borrowing from UK and overseas capital
markets, counted towards the control total (see 6.9) included in the public
expenditure surveys. The external finance limit is set by the sponsoring
department in discussion with the Treasury. In the 1990s it was controlled
through an annual Investment and Financing Review whose purpose and
conduct closely resembled that of PES.

- Departmental discussions on the way their total allocation of money was
to be spent, once the total sums had been agreed with the Treasury.

- Scrutiny of expenditure through value for money exercises, ‘hiving off’
exercises, Organisation and Methods reports or reports by the Treasury’s
Management Accounting Unit.

- Accounting procedures and the related work of the Treasury Officer of
  Accounts.

- Spending on the security and intelligence services.

2.4 This Operational Selection Policy is not an exhaustive statement of all the
records that should be selected for permanent preservation. It is intended to
provide a clear direction to the records staff of central government departments
in determining which records should be permanently preserved at The National
Archives.

2.5 The National Archives Acquisition Policy themes

This Operational Selection Policy addresses the following Acquisition Policy
themes:

- Formulation of policy and management of public resources by the core
  executive (2.2.1.1)

- Management of the economy (2.2.1.2)
This selection policy refers to Disposition Policy section 2.2.6.2.

3 Departmental responsibilities

3.1 Within the overall responsibility stated in 2.1 are two forms of control operated by the Treasury – that which derives from statute and standing orders of the House of Commons, and that which it is has accrued over time as its responsibility for the general management of the economy has developed.

3.2 The statutory basis for Parliamentary control of Crown (that is Government) expenditure derives from 1688 when the standing army was legalised but its expenses were only granted for a year ahead by an annual vote. Gradually the principle that expenses be granted for a year ahead and for clearly defined purposes was extended to other areas of Crown expenditure until, by 1830, the expenses of all civil expenditure were so provided. The Consolidated Fund (effectively the name of the public bank account at the Bank of England) was created in 1787 as the fund into which all revenue was to be paid and from which all payments for public services were to be made.

3.2.1 The statutory position of the Treasury in this process derived first from a Standing Order of the House of Commons of 11 June 1713, which stated:

‘That this House will receive no Petition for any sum of money relating to public services but what is recommended from the Crown’.

This gave the Executive the sole power of financial initiative in Parliament. Together with a series of measures since 1667 giving the Treasury and the Exchequer responsibility for Parliamentary supplies, this Order established the primacy of the Treasury.

3.2.2 A series of subsequent initiatives culminated in the Exchequer and Audit Department Acts of 1866 and 1921 and the National Audit Act of 1983, which made the Treasury the accounting department for the Consolidated Fund, and responsible for ensuring there is proper accountability to Parliament for the use of public money. The 1866 Act gave the Treasury the power to judge and approve all public expenditure chargeable to Parliamentary Votes.

3.2.3 The principle of annual votes of expenditure for specified purposes by Parliament was, prior to the 1961 Plowden Committee report, the main, and statutory, form of control of spending. In fulfilment of this duty, the Treasury prepares submissions to the House of Commons – the Supply Estimates – which Parliament may approve, reject or decrease.

3.2.4 After the House of Commons has considered the Estimates (see Table 1) the Appropriation Act is passed which gives legal authority for amounts to be drawn from the Consolidated Fund and appropriated to the purposes specified in the Votes. Departments, through the Treasury, present the Appropriation Accounts to the House of Commons, and these show the actual expenditure by departments against the amounts of money voted to them.
3.2.5 The House of Commons may also scrutinise spending by government departments through the Public Accounts Committee (PAC), established in 1861, and various Select Committees and departmental committees which scrutinise public expenditure and which replaced the Estimates Committee from 1970 (see 15.0).

3.2.6 The Estimates are presented to Parliament by the Financial Secretary to the Treasury, and the Treasury is therefore responsible for ensuring the Estimates are in the correct format and are factually correct. The Treasury sees the Appropriation Act through Parliament and collates and presents the Appropriation Accounts to Parliament.

3.2.7 The Treasury is the accounting department for the Contingencies Fund, created in the early 19th century as the Civil Contingencies Fund, with a permanent capital on which the Treasury may draw to make advances to departments. Its uses were laid down in the Miscellaneous Financial Provisions Act, 1946, namely urgent expenditure in anticipation of monies voted by Parliament or for small payments, which do not fall into existing Estimates. Drawings on the Fund must be repaid when Parliament has voted the additional sums required. The PAC scrutinises Treasury use of this Fund because it means that Parliament is asked, in due course, to give ex post facto approval to the relevant department’s use of the money. The size of the Fund was set at 2% of the preceding year’s voted supply in the 1974 Contingencies Fund Act.

3.3 The second element in Treasury control is its role in managing the economy as a whole.

3.3.1 The extent of Treasury control, and indeed ascendancy over other departments in the direction of the economy is of relatively recent historical origin. Where other political imperatives have come to the fore the Treasury’s ability to dictate levels and types of spending is restricted and their overall impact on the direction of the economy is constrained. Hence, in the inter-war period the ‘Treasury view’ on the limitations of government intervention prevailed: during the Second World War, the needs of defence and production departments took precedence. The Department of Economic Affairs (DEA) was set up in 1964 partly as a counterweight to Treasury influence over economic policy. Since the DEA’s demise in 1969 much of British economic history charts the way the Treasury retrieved and extended its position as arbiters of economic policy. A report by the Treasury and Civil Service Select Committee on HM Treasury published in January 2001 (House of Commons 2000-1, 73-I) voiced concern at the extent of Treasury influence ‘over policy areas which are properly the business of other departments’.

3.3.2 The Treasury’s role to ensure that wider economic objectives are achieved has created a series of ‘less legally formalised’ components of expenditure control of which the most important is the system of Public Expenditure Surveys (PES). It is known as the PESC system from the Public Expenditure Survey Committee which originally provided overall control of the process. Treasury responsibility for preparing the Public Expenditure Surveys and the
presentation of material in the annual PEWP had no statutory basis but was the result of political developments and specifically government acceptance of the main recommendations of the Plowden Report of 1961. For the period covered by this Operational Selection Policy the PES system forms the main form of control over public spending, with the Estimates being part of a range of in-year monitoring processes which include the Financial Information System and policy reviews.

3.4 Division of responsibilities within the Treasury

3.4.1 The Chancellor of the Exchequer (CoE), the Chief Secretary to the Treasury (CST) and the Financial Secretary to the Treasury (FST) are political appointments. The CST has overall responsibility for public expenditure planning and control, and for its co-ordination within the Treasury and with other Treasury policies, the FST is responsible for Parliamentary financial business and relations with the PAC. Since the 1980’s the Private Office papers of these posts have grown in importance as a record of the events and processes described in this Operational Selection Policy. This Operational Selection Policy will guide the review of CoE, CST and FST Private Office papers throughout this period.

3.4.2 Throughout the period a Public Sector Group within the Treasury has taken various names and guises. It has usually been divided into divisions who together cover spending on defence, social security, health, education, local and regional government, housing, the environment, industry, agriculture, employment, transport, shipping and the Home Office and legal departments. This group traditionally also contained a division responsible for public corporations and the nationalised industries. Other divisions within the Treasury include expenditure controllers: in 1990 spending by the Foreign and Commonwealth Office and Overseas Development Administration as well as payments to the European Community were controlled by divisions within the Public Finance Group, an expenditure division in the Fiscal Policy Group controlled the spending of the Inland Revenue and HM Customs and Excise, and a division in the Monetary Policy Group was responsible for controlling the expenditure of the Department for National Savings.

3.4.3 One part of the Treasury’s organisation - the General Expenditure (GE) Division and its successors - played a crucial role in the Treasury’s control of public spending, and its functions are outlined in detail in Appendix 1. The changes in the General Expenditure Division’s areas of work after 1975 are traced in Appendix 2. It takes the lead in arranging the annual surveys and retains general oversight of the work of the expenditure divisions to identify corrective action. It is responsible for getting ready the Supply Estimates for presentation to Parliament and for the associated legislative procedure.

3.4.4 The running tally for the Estimates has been the responsibility of another continuous group within the Treasury – the Estimate Clerk, until 1975 within the Treasury Officer of Accounts and since 1975 in the General Expenditure Policy Group (see Appendix 2). The Estimate Clerk Branch also liaised with
the House of Commons to set the overall framework and timetable for Estimates work.

3.4.5 The Treasury Officer of Accounts (TOA) was part of GE Division from 1970 to 1975 after which it became a division within the Accounts and Purchasing Group and its successors. The TOA provided advice to all government departments on the form of government accounts and was the main channel of communication between departments and the PAC. It prepared the Treasury minutes on PAC reports, briefs Treasury Ministers and advised other departments on the reports.

3.4.6 A division within the Treasury has taken the lead on establishing principles of government procurement, including regulation of the profit formula. The work of the division was directed by discussions in the Treasury-chaired Procurement Policy Committee and its sub-committees and in inter-departmental committees, including those chaired by the Ministry of Defence. This division was the Environment and Purchasing Division within the Public Sector Group until 1975 when the work became the responsibility of the Accounts and Purchasing Division. This division also formulated policy on international agreements on procurement policy.

3.4.7 The Treasury provided the chair for many interdepartmental committees, which oversaw the work of the Treasury and departments in preparation of public expenditure estimates and surveys.

- The Public Expenditure Survey Committee (PESC) was chaired by a Treasury Deputy Secretary and included the Principal Establishment and Finance Officers (PEFOs) of all the major spending departments. It had various sub-groups to look at specific problems. Since 1984 PESC has not operated as a working committee but as a circulation list.

- The Programme Analysis and Review Committee oversaw and directed PAR reports on aspects of government work.

- The Steering Committee on Public Expenditure had representatives from a selection of smaller departments and the Ministry of Defence (MoD) and considered general issues relating to the control of public expenditure, including PESC and PAR.

- Treasury internal committees monitored control, especially through the Treasury Public Expenditure Committee (TPEC), which received and circulated PESC reports and looked into specific problems such as the measurement of the relative price effect.

3.4.8 The Treasury co-ordinates its own and other departments’ responses to two Select Committees: responses to the PAC are co-ordinated through the TOA and GE Division and its successors co-ordinate responses to the main Expenditure Committee (formerly the Estimates Committee).

3.4.9 This Operational Selection Policy guides selection of records in the
expenditure divisions, General Expenditure Division and its successors, the Estimates Clerk and the Treasury Officer of Accounts. It will guide selection in the following Treasury departments, which existed, between the 1975 reorganisation and the clerical integration of 1981 (see 3.4.10):

- The Central Unit (CU) which monitored all Treasury policies. Its primary role was to service the Treasury’s Policy Co-ordinating Committee, which comprised the Permanent Secretary, the Second Permanent Secretaries and Deputy Secretaries, the Chief Economic Adviser and his Deputy and the Head of Information Division. It managed the Budget and co-ordinated other packages of economic measures.

- The Medium Term Policy Analysis Group, which maintained close cooperation with the General Expenditure Groups.

- The Monetary Policy Division within the Home Finance group which studied the monetary implications of public expenditure and the PSBR.

- The Counter-Inflation Group which created records on the interaction between public sector pay and cash limits.

3.4.10 In 1981 the Treasury’s registry system was decentralised, in a process known as clerical integration. As a result the number of files series increased and changed more frequently. The successors to these departments may be traced through the family trees for the relevant series, which are reference documents used in the Treasury’s records management team.

3.5 Departmental responsibilities

3.5.1 The Treasury appoints an Accounting Officer for each Vote, who is usually the permanent head of the department concerned. The Accounting Officer signs the Appropriation Accounts and is responsible for ensuring the regularity and propriety of expenditure from public funds and that proper regard is paid to economy in the consideration of policy and in the implementation of authorised programmes. The supervision of resources within a department is delegated to the Principal Finance Officer and the Principal Establishment Officer.

3.5.2 Departments took part in the preparation of annual surveys through contact with the relevant expenditure division of the Treasury and through membership of PESC, whose members are the PEFOs of all the major spending departments. They also took part at relevant stages of any PAR for their department and were represented on the PAR Committee, which devised the system of PAR studies. Departmental Finance divisions were in close contact with Treasury expenditure divisions.

3.6 Levels of scrutiny

There are therefore three levels of scrutiny of public spending, all of which are mediated by the central role of the Treasury in co-ordinating and collating data and presenting it to ministers and in Parliament:
• Treasury control of central government spending through daily contact with departments in preparation of Estimates and PES

• Treasury input into the control of spending at ministerial level

• Treasury input into Parliamentary scrutiny through the Expenditure Committee, Public Accounts Committee and through the approval of Estimates

Sections 5 to 12 of this Operational Selection Policy looks at the first two of these, section 14 to 16 at the last two. Section 13 looks at Civil List Expenditure on the Royal Family.

4 Principles of review

4.1 Many of the records generated in the course of Treasury control of public spending are geared towards the publication of figures and policies for the purposes of Parliamentary scrutiny or broader public debate. The following regular government publications are sources for tracing the history of public spending:

• House of Commons debates
• Select Committees: reports, memoranda and cross-examination of witnesses
• Estimates, supplementary estimates, new and revised estimates, excess votes
• Appropriation Accounts
• National Accounts
• Public Expenditure White Papers (PEWPs), superseded from 1990 by the Autumn statement with its Public Expenditure Statistical Analysis and Departmental Reports on Government Expenditure Plans
• Financial Statement and Budget Reports
• Summer Forecasts (1994-96)
• Pre-budget reports (since 1997)

4.2 **Principle 1:** Files containing only duplicates of published documents must not be selected for permanent preservation. Discussions about the nature and timing of publication or the manipulation of published data may involve policy decisions and should be selected where this is the case. This principle does not apply to published papers annotated and/or inserted into files which otherwise contain policy discussions selected for permanent preservation.

4.2.1 Extensive policy discussion about the level and nature of central government expenditure takes place in various committees, within the Treasury, in other government departments and in Cabinet committees. Treasury committee papers were maintained through most of this period by the committee section and are all routinely selected for permanent preservation. Under the forthcoming Operational Selection Policy OSP12, *The Central Direction and*
Oversight of Government Policy and Programmes 1970 to date, Cabinet and Cabinet Committee papers are routinely selected for permanent preservation. Appendix 3 provides a list of examples of the topics covered in Treasury committee papers in 1970. Significant policy issues affecting departmental expenditure will be discussed at Management Board meetings or their equivalent within all government departments controlled by the systems outlined in this Policy.

4.3 **Principle 2:** Files which contain only duplicates of such committee papers must not be selected for permanent preservation. Papers which have been annotated as part of the policy discussion may be selected according to the criteria outlined in this Operational Selection Policy. Significant stages in the drafting of committee papers and significant discussions of and briefings for meetings will be selected from policy files. In general, records will be selected which shed light on matters which arise on committee and to indicate areas where apparent agreement in Parliament, Cabinet and in Treasury committees belied an actual controversy.

4.3.1 GE Division and its successors played a crucial role in the control of public spending (see 3.3.4.2). The historical value of its records is such that, under an agreement between The National Archives and HM Treasury, all its records which remain at second review are currently selected for permanent preservation. In 1975 the work of this division was divided between the General Expenditure Policy Group (GEP) and the General Expenditure Analysis Group (GEA). Appendix 2 summarises the work of these two groups and their successor divisions and teams. The agreement between The National Archives and HM Treasury was reviewed for the records of 1974 to take into account this Treasury reorganisation of 1975.

4.4 **Principle 3:** Reviewers need to be aware of the contents of this file series to avoid the selection of duplicate records and to ensure the selection of records in departments which fed into, affected or resulted from discussions in GE Division.

4.5 **Principle 4:** The disposal of records generated within government departments in the course of the scrutiny of spending plans should be as specified in The National Archives retention schedule 10 *Central Expenditure Records*, including the specification of records which should be retained for second review. There remains a risk that the destruction of such records will remove the detail needed to reconstruct the effectiveness of the systems of control outlined in this Operational Selection Policy. Treasury reviewers will therefore select for permanent preservation records which document changes to the processes described in this Policy.

4.6 **Principle 5:** This Operational Selection Policy is written in accordance with The National Archives’ Acquisition Policy and indicates the records that The National Archives wishes to see selected for permanent preservation. Departments will need to consider those records which they may need to retain for administrative, business and general audit purposes, such as Treasury approval for grants-in-aid or delegated authority.
4.7 Principle 6: Appendix 1 provides specific guidance for the selection of records generated by the PESC process. It has been drawn up to indicate that the records generated in Cabinet meetings, Cabinet Committees, Treasury Committees and by the Treasury’s GE Division and its successors will provide high level documentation of the history of the control of public spending. It indicates the areas where The National Archives will select other Treasury records and the records of other government departments, and should be understood in the light of the principles outlined in this section, together with specific selection criteria in this Operational Selection Policy.

5 Estimates

5.1 The Vote

Each estimate – or Vote – has a standard format setting out the broad functions of the department to whom the Vote is awarded, the amount of money sought and the purposes to which it will be put.

Tables 1 and 2 show that for money required in the financial year beginning in April, discussion begins in departments the previous summer and the Estimates are presented to Parliament usually in late March.

The structure and form of the Vote is first agreed, although it has to be consistent with the PEWP. To help in this the Treasury will send to departments a computer form with existing Vote details. In the course of discussing the structure of the Vote, and in the light of spending projections for the forthcoming year made in the previous PEWP, the Estimate is agreed in outline. In the Autumn the Treasury sends a circular letter to the PEFOS asking for Supply Estimates to be submitted by December.

One the departments have decided their Estimates figures and ensured that they are consistent with the projected spending figures in the previous PEWP, they sent them to the Treasury. By the 1980s various forms were in place, which allowed Treasury expenditure divisions to compare Estimates figures with the agreed PES. From 1996-7 the Main Estimates were produced direct from the PES database. In addition, Treasury expenditure divisions check the amounts sought for the coming year against what was spent in the previous year as shown in the Appropriation Accounts.

Since the introduction of the PESC system, discussions on Estimates have been of a technical nature because the fundamental policy discussions took place in the PES negotiations. The historical value of much of the records has correspondingly declined, and become concerned more with the method of presentation of figures to Parliament: Estimates, and the records of the Expenditure and Public Accounts Committee are published.

Reviewers should expect that most controversy will have arisen in discussions over PES projections and cash limits rather than the Estimates themselves. Records will be selected from Treasury and departmental files which document
Treasury functions, to document discussion of the relative merits of the Estimates and the PES process, and to document debates which arose concerning the form and presentation of the Votes.

5.2 The Appropriation and Consolidated Fund Acts

The Appropriation Act, authorising payments from the Consolidated Fund, is not passed until August, ie four-to-five months into the financial year. Departments’ authorisation for cash for the period from April to August is obtained by means of the Consolidated Fund Act of the previous December. This is known as the Vote on Account and will represent around 45% of the amounts authorised for the previous year. Despite the emphasis on Parliamentary approval of Crown expenditure, the Votes on Account are passed without debate in the House of Commons.

Treasury work on the Appropriation and Consolidated Fund Acts is routine, little discussion occurs and, as the results are all published, records relating to this stage will not be selected for permanent preservation.

5.3 Virement

Virement, introduced in a Treasury minute of 1846, allows transfers between sub-heads of a Vote so that monies underspent in one area of a Vote can be transferred to another sub-head. It had become a method of obtaining flexibility within the Vote and is seen as an option where excess expenditure cannot be contained within a sub-head. The cash transferred may not be used to increase running costs nor to finance new services nor to increase the level of services which Parliament may wish to consider through Supplementary Estimates.

Treasury records will be selected for permanent preservation where the transfer raised significant issues of Treasury policy. The records of other government departments will be selected where they are illustrative of the Department’s strategy for negotiating with the Treasury.

5.4 Revised Estimates

Revised estimates are submitted to Parliament where it is necessary to vary the terms of a Vote before Parliament has approved the main Supply Estimate. A revised estimate replaces the main Supply Estimate and may reduce the provision on the Vote as a whole, reallocate provision within the Vote or increase the appropriations-in-aid (receipts). It is presented at the same time as the summer Supplementary Estimates in June.

Revised estimates are published and records will not be selected for permanent preservation.

5.5 Supplementary Estimates

Supplementary estimates seek additional funds to those sought in the Supply
Estimates for the same financial year.

The range of reasons for a Supplementary Estimate are:

- To meet the cost of a new service
- To increase the gross provision of existing services
- To increase net provision because a shortfall is expected in appropriations-in-aid (receipts authorised to be used as an offset to expenditure)
- To secure Parliament’s approval to using money voted for one purpose to meet expenditure on another service within the same Vote
- To secure Parliament’s approval to using receipts in addition to those already authorised as appropriations-in-aid to meet extra expenditure on the Vote

Supplementary Estimates are divided into the same three parts as the main Supply Estimates but shows details only of the relevant sub-head(s).

The Treasury scrutinises any requests for Supplementary Votes and presents them to Parliament in June, November and February. The relevant Select Committees scrutinise them and submit a report to the House of Commons.

Parliament has three guillotine days a year for the consideration of Supplementary Estimates. Summer Supplementaries are usually approved in July and confirmed by the Appropriation Act. November and February Supplementaries are usually approved in December and March and confirmed in the winter and spring Consolidated Fund Acts respectively.

Records relating to Supplementary Estimates will be selected for permanent preservation from Treasury and spending departments’ files where they seek authority to introduce a new service, increase gross provision for a service or where they conceal actual or anticipated overspending, or result from significant unforeseen changes.

5.6 **Excess Votes**

When voted provision for the year is exceeded without an adequate increase approved through a Supplementary Estimate, a department may request an Excess Vote. Such situations arise rarely; they must be notified to the PAC and the Treasury will demand a departmental enquiry. Where the Vote is cash-limited (see 6.9) there has to be an equivalent reduction in the size of the Vote for the following year.

Records relating to Excess Votes will be selected for permanent preservation, especially where an Excess Vote prompted departmental and PAC inquiries.

5.7 **Contingencies Fund**

Any use of the Contingencies Fund (3.2.7) may yield records of historical value, especially where there is evidence that attempts were made to pre-empt
Parliamentary debate. They will be selected for permanent preservation from Treasury and other government departments' records.

5.8 **Grants-in-Aid**

A Grant-in-Aid is a grant from voted monies to a particular organisation or body, and is exempt from the normal rule that unspent balances of Supply grants must be surrendered to the Consolidated Fund at the end of the year. The services and amounts involved are set out separately in the Estimates. Grants-in-Aid may be given to museums to purchase specific items, to Commonwealth governments or to bodies carrying out public functions but with a measure of independence from government control, such as the Arts Council or the British Council.

Treasury records on Grants-in-Aid will be selected for permanent preservation especially for major cases of bodies supported through Grants-in-Aid, for instance the Arts Council and the British Council, and significant expenditure on works of art. Treasury records which discuss the role of Grants-in-Aid in general will be selected for permanent preservation. Treasury case files will not be selected for permanent preservation. Other government departments may need to retain such records for continuing business purposes and should select them for permanent preservation to document negotiations with the Treasury.

5.9 **Blue Notes**

As part of the work preparing the Estimates the Treasury maintained into the 1970s the so-called Blue Notes, which gave detailed accounts of departments' organisation and functions. They were originally updated annually but by the 1960s were updated only when significant changes occurred. They were not published and were used by the Treasury as a source of reference for compiling the Estimates.

Blue Notes provide an invaluable source of reference for changes in government organisation and departmental functions. One final copy of all Blue Notes produced are kept at The National Archives and may be found under references T 165, T 320 and T 332 according to where the Estimates Clerk was placed in the Treasury organisation at the time of the creation of the Notes. No further copies and no drafts or discussions of drafts will be selected for permanent preservation.

6 **Public Expenditure Surveys**

6.1 **History**

By the 1970s the system of forward planning which came to be known as the PESC system (Public Expenditure Survey Committee) had come to predominate over the traditional method of control and Parliamentary scrutiny of the annual Votes. In this section the term 'the PESC system' refers to the system as whole, PES to the actual surveys and PESC to the committee itself.
In 1961 the government published the report of an internal government committee chaired by Lord Plowden - *The Control of Public Expenditure* (Cmnd 1432). The crucial element in the system of control which this committee recommended was that:

‘Regular surveys should be made of public expenditure as a whole, over a period of years ahead and in relation to prospective resources; decisions involving substantial future expenditure should be taken in the light of these surveys’.

In addition the committee recommended greater stability of decisions on public expenditure to improve efficiency within the civil service, and improvements in tools to measure public expenditure and to present accounts to Parliament. Finally it wished Ministers to take collective responsibility on matters of public expenditure and proposed more effective machinery for this to happen.

The Public Expenditure Surveys (PES) covered the expenditure of all public authorities. It was therefore more extensive than the Supply Estimates, which covered, in the 1970s, about half of total public expenditure. To avoid double counting the PES had to exclude transfers within the public sector, whereas about 25% of the Estimates represented transfers to other public authorities, such as grants to local authorities for education.

The original aim of PESC was to plan spending five years ahead. From 1961 until the 1980s the Surveys effectively covered eight years: three were ‘outturn’ years, (year -3 to year -1) and five were forecast years (year 1 to year 5). Year 1 of the Survey was always the current Budget Estimate year. For instance 1971-2 was year 1 of the 1971 survey but became year -1 of the 1972 survey.

The system of public expenditure surveys introduced new features to the method of controlling public expenditure:

- The total expenditure of the public sector was planned
- Expenditure was analysed by function rather than (as in the Estimates) by which department spent the money
- Expenditure was analysed by economic category (such as current expenditure, capital expenditure, transfers) and on a basis consistent with the National Accounts
- Expenditure was expressed (until 1983) in constant prices showing the expected level of expenditure if prices remained the same as at the time of the original survey
- Each survey looked five years ahead
- Each survey was considered in the light of a parallel economic survey showing prospective available resources

For a brief period the operation of the PESC system acquired a high reputation at home and abroad. However, from the mid 1970’s the system underwent significant modification, the result of problems internal to the system itself, of hyper-inflation, and of general pressure on levels of government expenditure.
Hence the planning elements of PESC, whereby resources and expenditure were planned in tandem for several years ahead, diminished and rigorous forms of Treasury control over government spending increased. The latter was achieved through the introduction of cash limits, through changes to the planning total and greater use of the Reserve, and by means of scrutiny of the details of departmental spending through the control of running costs, the Financial Management Initiative and Rayner reports. The period of forward planning was reduced to four and then to three years. In 1997 the system was replaced by the Comprehensive Spending Review (see 6.12).

Treasury records which shed light on the evolution of the ‘Plowden system’ as a whole, including discussions of the proper role, scope and size of public expenditure, and of possible mechanisms for its control will be selected. Records of other government departments which comment on departmental perspectives of the trend, advisability and effects of the changing forms of Treasury control will be selected.

6.2 The PESC timetable

There were annual changes to the PESC system although the timetable and the key stages in the process remained unchanged in its essentials throughout the period of this Operational Selection Policy. This section summarises these stages. Appendix 1 provides a more detailed timetable of the system, as it operated in 1990, and should be used to provide a basic guide to disposal of records throughout the period.

Early each year, departments sent the Treasury their forecasts of the cost of continuing existing policies over the next five financial years. Discussions took place between departments and the Treasury on the figures and the underlying assumptions about policies and methods of arriving at the figures. By May there was supposed to be sufficient agreement for the Treasury to prepare a draft report for the PESC.

The PESC co-ordinated and analysed the vast amounts of data produced by the first stage of discussions, and agreed a factual report showing what present policies would cost at constant prices over the next five years. The PESC report was submitted to Cabinet in June at the same time as a report on the Treasury’s Medium Term Assessment (MTA) of macro-economic trends.

In the next few months ministers, in Cabinet and in bilateral discussions between Treasury ministers and spending ministers, decided on the aggregate of public expenditure over the next five years and its allocation to major functional programmes. In 1984 Margaret Thatcher appointed a Cabinet sub-committee – MISC 62, known as the ‘Star Chamber’ Committee. It consisted of senior ministers of non-spending departments and adjudicated where bilaterals or the Cabinet could not resolve the differences between the Treasury and the spending departments. The creation of the EDX Committee in 1992 (see 6.8) effectively continued this role.

Once the Cabinet had agreed the government’s public spending plans, they
were published in the Public Expenditure White Paper (PEWP) either in December or January. From 1990 the PEWP’s were replaced by Departmental Reports (see Table 2).

A record of the annual discussions on the scope of the public expenditure will be captured through Treasury Committees, Cabinet Committees, Parliamentary committees and proceedings and House of Commons debates. Reviewers should select records of internal Treasury and departmental discussions, which complete the historical picture without duplication.

6.3 Limitations to the rationality of the PESC system

The Treasury presented the Public Expenditure Surveys as a rational and technical solution to the problem of balancing government income and outlay. For the following reasons historians have questioned this interpretation and papers released from the 1970s will play a significant role in the debate.

Political expedience and the immediate requirements of fiscal policy, and other factors such as the response to International Monetary Fund (IMF) demands or the implications of European Union, were likely to have a much more significant impact on spending decisions than any technical assessment of prospective resources and social and economic need. These issues are addressed in 6.6.

The planning element is necessarily limited because the bulk of public expenditure comprises current and capital spending on programmes, which can only be changed, in the short run, at the margins. In the long-term changes will require statutory authority.

Many of the figures given in PEWPs were little more than broad estimates. Debt interest expenditure figures could only be based on assumptions about the movement of interest rates. Social security payments were fixed but the total sums paid out reflected demographic changes or the rate of unemployment. Agricultural subsidies were dependent on prevailing market prices.

The divergence between planned and actual expenditure became very marked by the mid-1970s. Evidence put to the Expenditure Committee by Professor Wynne Godley in 1976, showed that ‘at 1974-5 prices, expenditure in 1974-5 was about £5.8b more than it had been planned to be in the Public Expenditure White Paper of November 1971’ (HC 69-I, 1975-76) and see 6.10. The situation was resolved through the introduction of cash limits.

Records relating to discussions on the rationality of PES in the 1970’s, and to the response to critiques within and without the Treasury will be selected. Records documenting changes to the number of plan years, and records showing any longer-term planning undertaken by the Treasury, such as the ten years projected in the Green Paper of 1984, will be selected for permanent preservation.
6.4 **PESC and wider objectives**

Treasury control of central government expenditure was guided by wider economic objectives. It was concerned with the macro-economic and aggregate effects of public spending on inflation, employment and the Public Sector Borrowing Requirement (PSBR).

In addition, and partly in fulfilment of these macro-economic policies, the Treasury pursued a variety of supply-side objectives. These were set out briefly in the PEWPs and in more detail by the 1990s in Departmental Reports. These permeated the daily work of Treasury expenditure divisions in their scrutiny of government spending plans.

These micro-economic objectives varied over the period covered by this Operational Selection Policy. Some, such as policies to improve the efficiency of government through Organisation and Methods surveys, value for money exercises and the more recent scrutiny of public services to establish which should be abolished or privatised or contracted out are covered in the Operational Selection Policy OSP24, *Records Relating to the Machinery of Government and the Management of the Civil Service 1974-2000*.

With increasing emphasis from the 1990s the Treasury had an overriding aim to ‘improve the performance of the economy and the outlook for jobs, by promoting more efficient markets and better use of resources throughout the economy’ (*Departmental Report of the Chancellor of the Exchequer’s Departments*, March 1994).

One major element in the search for improved efficiency within the Civil Service was the introduction in 1982 of the Financial Management Initiative (FMI). The aim was to improve the allocation, management and control of resources throughout central government. Following a pilot programme involving thirty-one departments, the Treasury developed a system by which departments set objectives and measured their achievement in relation to their running costs. Running costs amounted (in 1985-6) to about 13% of government expenditure.

Treasury records which demonstrate the Treasury’s role in scrutinizing the extent to which departmental expenditure plans fulfilled wider objectives outlined above will be selected. Treasury records which demonstrate the responsibility of Treasury expenditure divisions for scrutinising running costs as part of the PESC process will be selected.

6.5 **The Medium Term Financial Strategy**

The Medium Term Financial Strategy (MTFS) embodied the principle of fixed rules for public borrowing and monetary expansion and therefore the limits of public spending. It was first introduced in Sir Geoffrey Howe’s budget of March 1980 and was a major plank of government policy for the next five years. Its central aim was to reduce inflation and it set targets of monetary growth underpinned by policies for government spending and taxation. A central aim
was to reduce the level of public spending in absolute terms, an aim altered by 1984 to reducing public expenditure as a share of Gross Domestic Product (GDP).

The Treasury was sceptical of the MTFS commitments to long-term targets and resented the loss of discretion for Treasury Ministers in their discussions with spending departments. On the other hand it saw the MTFS as a useful bargaining weapon in such discussions, although the MTFS targets were largely exceeded.

Discussions within the Treasury of the value of MTFS as a means to control public spending should be selected. Comments on its impact on discussions between the Treasury and departments should be selected from records both in the Treasury and in other government departments.

6.6 Surveillance by international bodies

The requirements of the Maastricht Treaty on full European Union which became effective from November 1993 has put further pressure on the need to reduce the aggregates of public spending. The Maastricht Treaty's convergence criteria for monetary union include the provisions that governments must publish annual budget deficits which exceed 3% of GDP and outstanding government debt which exceeds 60% of GDP. The Waigel 'stability pact' endorsed at the 1996 Dublin summit, continued limits on public sector deficits.

External surveillance of British public expenditure decisions is a new element in the development of the system in the 1980's and 1990's. IMF Article 4 reviews and Organisation for Economic Co-operation and Development (OECD) country economic reviews also monitored Treasury actions and calculations.

Records will be selected to demonstrate the impact of this surveillance on public expenditure decisions and on the form and presentation of figures. Records will be selected to demonstrate Treasury thinking about these surveys and any Treasury attempts to secure changes in draft reports on British public expenditure by international bodies. (Section 10.0 below covers the control of Britain’s contributions to the EU budget.)

6.7 Public spending and medium term assessments

The Plowden system envisaged that decisions about public spending would be made in the context of assessments of resources available to government.

Planning of expenditure took place concurrently with an exercise, conducted elsewhere in the Treasury, using computer models to establish short and medium-term assessments of economic growth and hence of the likely level of resources available to governments.

As early as 1970 the Treasury stated in the PEWP of that year that projections
of revenue over the PESC period would not be published because ‘such projections are based on what are inevitably arbitrary and highly uncertain assumptions’. From 1977 any attempt at providing a prospective survey of resources was abandoned, for the economic conditions of the 1970s made assumptions about growth, inflation and employment highly tentative. This technical problem together with the need from 1975 to ensure short-term restraint in public spending led to a change in focus in the Plowden system, from resource planning to year-by-year control.

Records will be selected from Treasury files to document discussions of the difficulty of using the medium term assessments to define the scope of expenditure, and to illuminate the interaction between public expenditure plans and medium term assessments. Records of other government departments which comment on these themes from a departmental perspective will be selected.

### 6.8 Definitions of public spending

The definition of public expenditure and the scope of the planning total have changed over time in line with immediate needs and ideological positions. The nature of the changes also served eventually to reduce the element of planning, by stipulating beforehand an upper limit to public spending totals.

From 1969 to 1976 the UK definition of public expenditure covered current and capital expenditure of central government and local authorities, capital expenditure of nationalised industries and other public corporations, public sector debt interest and net lending. Conceptually the definition measured total payments from the public to the private sector and the main areas of expenditure subject to government influence.

In the 1976 PEWP the definition changed to exclude capital expenditure by nationalised industries which was self-financed or financed from non-government sources. It made debt interest net of provision for interest from trading surpluses and net of dividend received by government. This reduced the debt interest for that year by 80%. Double counting was removed but so was a figure to show the total interest paid by the public sector to the private sector. The changes, which became known as the Pliatzky definition, came in response to criticism of high levels of government spending. They had the effect of narrowing the definition from public sector to general government expenditure.

The PEWP for January 1978 (Cmnd 7049) contained five different tables covering five different measurements of total public expenditure and according to which measurement was taken public spending was planned to rise in 1978-9 by between 2.2 and 8.2%.

The PEWP for January 1979 (Cmnd 7439) introduced the concept of the ‘planning total’. This had been referred to in the previous PEWP as the ‘adjusted total’ and which was defined as: total programmes + the contingency reserve + the market borrowing of nationalised industries.
In July 1988 the White Paper – *A New Public Expenditure Planning Total* (Cm 441) – redefined the planning total as that which central government was responsible for determining. The main effect of this was to exclude expenditure that local authorities financed or determined for themselves. This change was pursuant to reforms in local government finance through the Local Government Finance Bill then before Parliament and the Abolition of Domestic Rates (Scotland) Act of 1987. The new planning total included:

- central government’s own expenditure
- central government’s support for local authority expenditure
- external financing of public corporations and nationalised industries
- a Reserve
- planning total to be net of privatisation proceeds

The White Paper argued that this planning total would make the alignment between the Supply estimates and the planning total in the PEWPs easier. The change was criticised in a subsequent report by the Treasury and Civil Service Select Committee, which could not see how to reconcile old and new figures.

In 1993-4 the New Control Total (NCT) was introduced. The aim was to find a means to reduce public spending as a share of national income by limiting the growth of public expenditure to a figure less than the growth of the economy over time. An annual ceiling expressed in cash terms was stipulated, and this ceiling was to reflect an average real growth rate of no more than 1.5% per annum. This more detailed control necessitated a change in the scope of the PES. It excluded social security spending directly related to unemployment so that the economic cycle would not have a destabilising impact on other public spending totals. It now included local authority self-financed expenditure because that could not be allowed to vary without requirements for offsetting adjustments.

It has been argued that the NCT changed the very nature of PES, the latter becoming a means ‘to review the allocation between programmes of resources within the agreed overall limit for public expenditure’ (R. Chapman *The Treasury in public policy-making*, 1997).

The same White Paper which established the NCT criticised the old system whereby the overall level of public expenditure tended to emerge from compromises reached during bilateral negotiations between the Chief Secretary to the Treasury and ministers. By setting in advance the increase in public spending the Treasury intended to create a ‘top-down’ approach in which weight was given to ‘what was affordable’ rather than ‘what was desirable’. The creation at the same time of the EDX committee, chaired by the Chancellor of the Exchequer, was geared to ironing out disputes arising from the effect of the NCT on limits imposed on departmental budgets.

All discussions on the development of the planning total, and of changes to the definition of public expenditure will be selected from Treasury records. Since much of this was linked to other elements in the government’s policies of the
time, such as the poll tax and ideological attitudes towards state expenditure, much will emerge in Cabinet minutes and Private Office papers. Reviewers should be aware of this, but should select records demonstrating discussions and papers feeding into ministerial considerations. Records in other government departments which comment on the planning total and changes to the regime and the impact of changes on their bargaining position with the Treasury will be selected.

6.9 Cash limits

The introduction of cash limits was perhaps the major element in the process of dilution of the Plowden planning principles.

In its criticisms of the PESC system in 1976 (see 6.3.5), the Select Committee on Expenditure concluded that: ‘The Treasury’s present methods of controlling public expenditure are inadequate in the sense that money can be spent on a scale which was not contemplated when the relevant policies were decided upon’.

In 1976 the Treasury published a White Paper Cash Limits on Public Expenditure (Cmnd 6440). Up to that time spending was discussed in terms of the prices prevailing in the first base year of the survey or ‘volume’ terms. This allowed measurement of changes in the volume of spending but, in the context of high inflation, said little about the real levels of spending. The PESC report and the PEWP had also provided figures which adjusted constant prices for the ‘relative price effect’ and gave a cash estimate of projected public expenditure. The relative price effect indicated the cost of providing government services relative to the cost of goods and services produced in the private sector.

The White Paper explained that cash limits would cover about 75% of all central Government voted public expenditure other than social security benefits. Cash limits, ‘will represent a planned limit on the amount of cash that the Government propose to spend on certain services, or blocks of services, during the coming financial year’. The main exclusions would be those services where, once policy and rates of payment had been decided, the totals disbursed were dependent on the number of qualified recipients.

Cash limits extended to some items of non-voted expenditure such as central government financial support to local authorities. External financial limits were a form of cash limit applied to nationalised industries. Parliamentary approval of cash limits was secured at the same time as the Estimates: changes to cash limits fell for consideration at Supplementary Estimates time. Breaches of cash limits would be investigated by the department and a report made to the Chief Secretary.

The development of cash limits within the Treasury preceded the report of the Select Committee on Expenditure. In 1974-5 the Treasury had already
imposed cash limits on several building programmes in central and local government and had announced plans for more extensive use in a White Paper *The Attack on Inflation* (Cmd 6151, 1975). However, the White Paper on cash limits ensured the further development of such a system of financial control.

The PEWP for 1981 (Cmd 8175) included a column showing planned spending for 1981-2 on a cash basis and at the same time the forward plans were for two years only. The following PEWP of March 1983 (Cmd 8784) saw the abolition of volume planning entirely, and the PEWP was couched wholly in cash terms.

That this was a change of policy was later expressed in a Treasury/Cabinet Office publication of 1989 which states in relation to the effect of cash limits: ‘The Government must first decide what can be afforded before making plans to spend it. Finance determines expenditure and not the other way around’.

In 1981-2 cash limits began to be used as a means of controlling public sector pay. For the first time in 1981 the Treasury stipulated a ‘pay factor’, which allowed for a 6% rise in pay and related costs for the coming financial year. Settlement above the figure could only be financed by reducing expenditure elsewhere. According to a Treasury witness before the Treasury and Civil Service Select Committee the pay factor was a measure of what the government had decided was affordable and was intended to affect the result in the public sector pay negotiations.

In July 1983 the Treasury modified the cash limits system by introducing an End of Year Flexibility Scheme. This allowed central government departments to carry forward a limited underspend on capital programmes from one year to the next. This principle was later extended to cover other schemes including MoD procurement budgets.

Cash limits were applied to ‘blocks’ of expenditure, different from the votes and sub-heads in the Estimates. No block was supposed to be the responsibility of more than one department yet each block had to be large enough to provide scope for departments to find more economical ways of carrying out their programmes. Hence, by 1976 the Treasury was preparing three sets of figures – the Supply Estimates, the Cash Limits published in an annual White Paper, and figures prepared for the PEWPs. Each set of figures was calculated on a different price basis and with a different coverage and breakdown. Following criticism of this by both the PAC and the Select Committee on Expenditure in 1978 the Treasury brought the Estimates Votes into line with cash limit blocks. No one Vote was allowed to contain both cash limited and other expenditure.

Cash limits are a highly controversial method of control. They changed the nature of PESC and became a means of implementing income restraint. They were the focus of criticism as an administrative device not subject to parliamentary control or scrutiny. All records relating to the development and implementation of cash limits have potentially high historical value. The discussions in Treasury expenditure divisions and in the GE Division appear to
be so voluminous that it is anticipated that this part of the Operational Selection Policy will be revised in the light of experience of second review of such files from 1975-6 onwards.

A part of GEP group was responsible from 1975 for administering and developing the system of cash limits and provided a central source of advice and information on the pricing of public expenditure. All its records are currently selected for permanent preservation (see 4.4).

Other central units within the Treasury have played important roles in the development of cash limits, including the Central Unit and the Counter-Inflation Group and their successors. These records, when considered in conjunction with discussions in PESC, Treasury, Cabinet and in Cabinet committees, will ensure the capture of the most important policy records relating to the development and implementation of cash limits, including discussions on the strength of various price indices. Records will be selected to ensure the themes outlined above are fully documented.

6.10 The Contingency Reserve

The Contingency Reserve is the unallocated amount of money within the planning or control total of public expenditure to cover unforeseen items of expenditure or items, which cannot be properly quantified at the time of the publication of the PEWP.

In the 1980s the Reserve came to play an increasingly important role, increasing from £2,750m in 1984-5 to £4,750m in 1985-6. It was intended to cover all contingencies including estimates of the cost of changes in demand-led programmes, policy changes and new initiatives in the course of the year. Its development further undermined the planning element in PES, and served to increase the significance of the Estimates for establishing precision in departmental spending plans.

Claims on the Reserve were usually linked to Supplementary Estimates. All submissions from departments had to be cleared in draft with GE division. Claims on the Reserve could be covered under the End of Year Flexibility Schemes, but departments making claims on the Reserve were not allowed to carry forward unspent provision into the following year. Ultimately the Chief Secretary had authority for approving access to the Reserve but this was delegated to heads of expenditure teams, with overall approval co-ordinated through GE division.

Records relating to the increasing use of the Reserve, the thinking behind it and the effect on PES should be selected.

6.11 Annual changes to PESC

Because of the changes in the PESC system over time, it is difficult to provide an outline of the process in any one year. For this reason it is important that Treasury reviewers select records that capture details of annual changes to
the system. One complete set of forms for each year, and the accompanying explanations of how departments should complete them, should be selected from Treasury records for permanent preservation.

6.12 The Comprehensive Spending Reviews

The Labour government’s first pre-Budget report of November 1997 announced the first comprehensive spending review as promised in its election manifesto. This was followed by a White Paper *Stability and Investment for the Long Term. Economic and Fiscal Strategy Report 1998* (Cm 3978, June 1998) This announced a new system to plan public expenditure including the abolition of the PESC system and its replacement by a system of firm three-year plans. There would be a small Reserve for contingencies but the annual round of PES discussions, where departments had bid for extra funds would go. This process was tied in with the adoption of a new Code for Fiscal Stability promising that, over the economic cycle, the government would only borrow to invest and would ensure that the level of public debt as a percentage of national income was held at a stable and prudent level.

The origins of this development will be traced as much in Labour Party archives as through those of the government, but Treasury records showing moves towards the adoption of such a code with its associated method of control of public expenditure will be selected.

7 Territorial shares of Public Expenditure

Various means have been used in the past to determine the shares of public expenditure among the UK territories – England, Scotland, Wales and Northern Ireland. The Goschen formula, introduced by the then Chancellor of the Exchequer in 1891 was used originally to calculate the Scottish education grant, but was extended to general public expenditure shares. It had fallen into abeyance by the 1950’s and in the 1960’s and 1970’s public expenditure plans for Scotland, Wales and Northern Ireland were determined by political bargaining and negotiation on a similar basis to other public spending programmes.

In 1978 a formula was devised to share out changes in public expenditure plans between the countries of the UK, based on the size of the population of the countries. It is known as the Barnett formula after the then Chief Secretary, Joel Barnett, and is used to determine, not the overall levels of spending in the different countries, but changes to the block budgets at the disposal of the Secretaries of State for Scotland, Wales and Northern Ireland. The Secretaries of State themselves then have complete discretion over how to deploy their budget, although, given that much expenditure is determined by demand and statutory levels of funding, discretion is limited in practice. The formula is intended to produce convergence in levels of funding per head, assuming relative stability in the relative sizes of the populations in the respective countries.

In the 1992 Autumn Statement the formulae for the allocation of resources to
the territories was revised to reflect population changes evident in the 1991 Census and to keep total spending in line with published targets. The effect seems to have been to benefit Wales and Northern Ireland at the expense of Scotland.

Records on the evolution of the Barnett formula within the Treasury, discussions and calculations concerning the overall territorial impact of public expenditure will be selected. Records in other government departments on the impact of the formula within their areas of spending and in the records of the Scottish, Welsh and Northern Ireland Offices will be selected.

8 Forward review of spending – PAR

Shortly after taking office the Heath government published a White Paper on *The Reorganisation of Central Government* (Cmnd 4506, 1970). Laying out the new ‘functional principle’ for the allocation of responsibilities in government it argued that the PES system was a powerful instrument for demand management and financial control but it did not allow specific policies and functions to be tested against alternative policy options. It outlined the conclusions of a team of businessmen in the Civil Service Department that evaluations of the policies behind PES programmes be undertaken.

The system of PAR was designed to supplement the PESC system and was co-ordinated by PARC, an inter-departmental committee under Treasury chairmanship, which in turn reported to a new ministerial committee. PARC decided a schedule of reviews to be carried out by spending departments. Those departments set up committees to carry out such reviews and these contained representatives from the Treasury and the Central Policy Review Staff.

The PAR system effectively ceased to exist after the 1974 election, although its end was not formally announced until 1979 when the incoming Conservative government invited Sir Derek Rayner to act as an adviser to the Prime Minister. His task was an annual programme of scrutinies of departmental expenditure to ascertain whether their activities could achieve the same outcome in more efficient ways including consideration of ending, contracting out or charging for certain services.

The records of the PARC are routinely selected for The National Archives and are with Treasury committee papers in T 277. Records of the ministerial committee overseeing the work of the PAR programme and other Cabinet and Cabinet committee proceedings will be selected for permanent preservation (see Operational Selection Policy OSP12 *The Central Direction and Oversight of Government Policies and Programmes 1970 to date*). This will ensure that all the reviews are selected and major policy discussions will be covered. Other records in the Treasury and departments should be selected to show how each review raised debates about the PAR system itself. The same criteria will guide the selection of records relating to the Rayner reviews.

9 The Financial Information System
In July 1975 a Treasury/Civil Service Department study team suggested a new system to improve the flow of information on spending – the Financial Information System (FIS). At that time the progress of government expenditure was monitored by Vote issues from the Consolidated Fund. The issues, by individual Vote, were known daily and broad totals made available weekly to departments through APEX (Analysis of Public Expenditure - a system operated by the Paymaster General to record the expenditure and receipts of government departments). The report believed this system was under strain, given the need for tighter monitoring of expenditure, the problems inflation raised for monitoring and the need to relate Estimates to PESC. Although the report was initiated two years before the White Paper on cash limits, it was clearly geared to implementing a programme of cash limits and reconciling these with the volume provisions expressed in the Surveys.

The Treasury’s FIS is often referred to as the Treasury computer. Data is fed into a computer and can be manipulated and analysed in a variety of ways. FIS was both a technical device to monitor the progress of spending and a means to consolidate Treasury control of the PESC process.

The sort of information required for FIS and the data which could be acquired from it, represented a new layer of control between the Treasury and the departments. Four sources of information provided the material for FIS:

- The Profile of the expected pattern of expenditure and allowable receipts over the year was to be supplied to the Treasury by departments. This was a new element in the exchange of information between the Treasury and departments. The Profile was scrutinised by the Treasury and the final agreed version fed into FIS

- Payments and receipts from the Consolidated Fund for each month were supplied by departments through APEX

- Each department submitted a mid-year expenditure return showing their best estimate of expenditure in the first half of the year

- Each department provided forecasts of the outturn towards the end of the financial year

The Treasury thereby ensured that it had as sound a grasp of the department’s progress as the department itself.

Implementation and development of FIS was the responsibility of a group within GE division and its successors (see Appendix 2). Its role was to design the computer and clerical systems required to operate FIS and to co-ordinate work of departments to develop their own FIS to meet the requirements of the central system.

The specifications of the central FIS were designed by the ‘Treasury team’ of management consultants, supervised by a small ‘Departmental team’.
GEA3 – General Expenditure Computer Division and its successors collected and maintained statistical information for the control of public expenditure as a whole. It provided statistical support to the Estimate Clerk and prepared the Chief Secretary’s memorandum on the Estimates, in consultation with the Estimate Clerk. It worked with the ‘Treasury team’ to implement FIS. It provided the chair and secretariat of the Working Methods Sub-committee of the PESC, which oversaw the development of FIS.

Historical interest in FIS and its evolution is likely to be in the following areas:

- FIS as an adjunct to cash limits and hence to the role of PESC
- FIS as an independent means to tighten Treasury control and make it more effective
- FIS as a management information system capable of manipulating large quantities of complex data: the role of FIS in the development of computing and management information systems within government
- The hardware and software developed to manage FIS

The mass of data fed into FIS will not be selected: records of GEA3 will be selected to document the themes outlined above.

The papers and minutes of the Working Methods Sub-committee of PESC are routinely selected for permanent preservation and are in T 277.

Records relating to examples of hardware and software developed, and to technical discussions to support these changes should be identified for possible presentation to an archive other than The National Archives (see Disposition Policy, 2.2.6.2.). Policy discussions behind the technical developments will be selected for permanent preservation at The National Archives, so long as they are not duplicating the discussions in the Working Methods Sub-Committee of PESC.

10 Contributions to the Budget of the European Union (EU)

In 1997 Britain’s net contribution to the EU budget was £2.5 billion p.a. Both contributions to and receipts from the EU currently appear in one item in the PES programme. In the Estimates, payments to the EU budget are a direct charge on the Consolidated Fund, but receipts appear as net subheads in Departmental Votes.

Following arrangements agreed at Fontainebleau in 1984 the UK’s gross contribution to the EC budget was abated. On average Britain’s contribution was reduced by two thirds of the difference between UK’s gross contribution and receipts. This meant on average that 66% of the value of any increase in receipts from the budget is lost by the consequential reduction in the following year’s abatement. This consideration will impact on discussions between
Treasury expenditure divisions and spending departments in receipt of European funds.

Since 1984 the Treasury has operated a system called EuroPES to contain the impact on public expenditure of Britain’s gross contribution to parts of the EU budget, namely research and development, energy, transport, the environment and education and training.

Records will be selected under this theme to document discussions on how to present Britain’s contributions to and receipts from the EU Budget and how discussions on spending decisions impacted on abatement. Discussions on how EuroPES operated were held in EC3 Division of the Treasury in the 1990s. Records which indicate the broad aim of the system and comments on its effectiveness should be selected.

11 Policy reviews

Reviews of the policies, functions and organisation of departments are carried out either as a result of regular discussions between the Treasury and the department or as a result of a ministerial or Cabinet decision.

A formal policy review may lead to a Green or White Paper, for instance changing the basis of student grants or the financing of the NHS, or may involve the practical working through of a major initiative such as the Financial Management Initiative.

Normal policy reviews are projects to probe an aspect of a department’s financial management and studies have tended to result from particular problems revealed in Survey discussions.

One copy of each policy review will be selected for permanent preservation in the files of the department concerned. Departmental and Treasury discussions leading up to and resulting from the Review should be selected where there was a significant change of policy anticipated or implemented. All other records relating to the work of the review team should not be selected.

12 Delegated authority

Delegated authority determines the levels and categories of expenditure outside which the Treasury must be specifically consulted. Changing the level of delegated authority can encourage a department to improve its internal efficiency. Each year the Treasury expenditure divisions consider whether the delegated authority for their departments required review and this is an opportunity for the Treasury to review the general financial management of a department.

Discussions in Treasury relating to the general use of delegated authority in maintaining and refining control will be selected for permanent preservation. Records of the Treasury and other government departments will be selected to document negotiations over delegated authority between the Treasury and
Central government departments.

13 Expenditure on the Royal Family

Civil List expenditure, as defined in the Civil List Act of 1972 covers 'salaries and expenses of Her Majesty’s household and royal bounty, alms and special services'.

The coverage of the Civil List has varied, with items of Royal expenditure increasingly being removed and placed on Departmental votes. In 1974-5 total government expenditure on the Royal Family (excluding royal annuities and Royal Household pensions) amounted to £4.64m, while the Civil List amounted to £1.1m. By 1990-1 the respective figures were £46.2m and £7.9m. In 2000 this process was somewhat reversed when £2.1m was transferred from Departmental Votes to the Civil List.

The Queen's request for extra money in 1971 prompted the setting up of a Select Committee on the Civil List, whose evidence, minutes and findings were published for the first time (HC 29 1971-72). The Select Committee recommended that a sum be settled above what was considered immediately necessary and surpluses paid into a fund to be used to meet rises due to inflation in later years. The annual sum was set at £980,000, to be paid from the Consolidated Fund for the next five years.

The Select Committee of 1971-2 also recommended that the Royal Trustees, who were the Prime Minister, the Chancellor of the Exchequer and the Keeper of the Privy Purse, present a report on the Civil List to Parliament every ten years. These appeared in 1974, 1984 and 1990, and have presented figures of expenditure on the monarchy through the Civil List, other Departments’ votes and on annuities.

In 1975 the Civil List Act again changed the procedure for voting the Civil List, making increases in Treasury payments for the Civil List, annuities to certain members of the Royal Family, contributions towards their expenses and payments for Civil List pensions voted annually in the same way as the usual House of Commons Supply procedures. They were to be subject to cash limits.

A Prime Minister's statement in July 1990 announced that arrangements for the Civil List would revert to the procedure suggested by the 1971-2 Select Committee and operated until 1975. The government announced an annual sum which was to remain the same for ten years and planned to produce surpluses in early years to be absorbed by expected levels of inflation in the later years.

Government departments whose votes bore the costs of services connected with the Royal Family were Foreign and Commonwealth Office, Department of the Environment, Department of Transport, Stationery Office (until 1990), Treasury, Ministry of Defence and Central Office of Information. Records of the Prime Minister's office will also be covered by this section of this Operational
Selection Policy by virtue of his constitutional position and as a Royal Trustee.

Within the Treasury, Accounts branch has had responsibility for controlling the Civil List throughout the period, and incidental expenses related to the Royal Family.

Treasury and departmental records will be selected which cover policy issues involved in administering the Civil List and items of royal expenditure on the departmental vote. Discussions on the political and financial implications of the transfer of royal expenditure to departmental votes will be selected. Discussions on the changes in 1975 and 1990, methods of implementation and of presentation to Parliament will be selected.

Treasury views of the Select Committee’s proceedings, evidence submitted, reports and methods of implementation should be selected for permanent preservation where they add to the published accounts. Discussions of the presentation of figures for the Royal Trustees’ report where they appear in Treasury, Prime Ministerial and other government department papers should be selected where implications for wider government objectives, such as the control of inflation, or for the legal or financial position of the Crown are present.

14.0 **Control of spending at Ministerial level**

Until 1992, as part of the planning process, in June of every year the Cabinet received two estimates prepared by the Treasury. One was a report of the PESC and the second an estimate of future resources or revenue projections. A series of lengthy Cabinet meetings, extending into October or November, would then discuss and agree the Autumn Statement. The timetable for this process is set out in Tables 1 and 2 and Appendix 1.

A major change in the extent of ministerial control and scrutiny of Treasury advice came with Sir Leo Pliatzky’s rebuilding of the public spending system in 1975. In order to ensure that cash limits were not evaded through the use of the contingency reserve, he developed a new Cabinet procedure that Treasury ministers could not be over-ruled on financial matters in Cabinet Committees: only the full Cabinet could do that. Pliatzky later described the move as ‘quite a significant constitutional change’.

In the period covered by this Operational Selection Policy there were many changes in the Cabinet’s organisation of ministerial scrutiny of public spending plans. The most important of these were the introduction of the ‘Star Chamber’ in 1984 and of the EDX committee in 1992.

The process by which ministers contributed to the overall control and allocation of public spending will be covered in published documents, in Cabinet and Treasury committees, in the Prime Minister’s correspondence and in Private Office papers. Additional Treasury records will be selected for permanent preservation which indicate Treasury control over and responses to Cabinet scrutiny.
Treasury input into Parliamentary scrutiny of public spending

Supply Estimates set out the financial requirements of government departments for formal government approval. The Treasury submits them to Parliament in the Spring. Parliament’s approval is almost automatic as the main debates over government expenditure arise in discussion on the PEWP (see below). The Supply Estimates differ from the PEWP because they concern only the expenditures of departments of the central government, including payments made by those departments to other public authorities which appear in the PEWP programmes as expenditures by those authorities. The policies underlying requests to Parliament for Votes are those set out in the annual PEWPs.

Select committees have become the principal means by which Parliament scrutinise the spending decisions of government departments.

In October 1970 a White Paper Select Committees of the House of Commons (Cmnd 4507) proposed that the Select Committee on Estimates, which had been established in 1912, be replaced by the Select Committee on Expenditure. Its remit was to be: ‘To consider public expenditure and to examine the form of the papers relating to public expenditure presented to this House.’

The Committee was established with a cross-party membership of around 45 MPs and could establish sub-committees to examine the expenditure projections of specific departments. This change reflected the new dominance of PES over Estimates. The main Expenditure Committee and its sub-committees focussed on public expenditure rather than just the Supply Estimates and, unlike the Estimates Committee, were not barred from considering the policies behind the figures.

In 1979, following a report by the Select Committee on Procedure, the system was changed again. The overall expenditure Committee was abolished and 15, later 16, departmental committees were established to examine the expenditure, administration and policy of named government departments. The new system was intended to provide a stronger, more consistent form of scrutiny.

The PAC was established in 1861. It is a cross-party select committee with a maximum of 15 members nominated by the House of Commons for the life of the Parliament. The chairman is usually a senior member of the Opposition, often a former Treasury minister. The Committee’s remit is to enquire into the financial administration of government departments and to examine their accounts. Historically its role was to check the audit of accounts by the Comptroller and Auditor General but throughout the period of this Operational Selection Policy it has conducted more wide-ranging enquiries based on the Appropriation Accounts, the observations of the Comptroller and Auditor General and the National Audit Office. The Committee presents reports to Parliament, the Government replies in the form of a Treasury minute and
Parliament then debates the PAC reports and the relevant Treasury minutes. All these are published.

The Treasury represents the Executive on the PAC and in liaison with the Comptroller and Auditor General. The TOA provides the link between these and the Treasury. The TOA co-ordinates departments’ responses to reports by the Comptroller and Auditor General and formulates the Treasury minute in response. The TOA or his/her deputy appears every time the PAC meets.

The Treasury and Civil Service Select Committee was established by Order of the House of Commons on 25 June 1979 along with fourteen other departmentally-related Select Committees. Its terms of reference were ‘to examine the expenditure, administration and policy of the Treasury, Board of Customs and Excise and Inland Revenue’.

It conducted an annual programme of enquiries around two reviews of government economic policies at the time of the Budget (in March/April) and the Autumn Statement (November/December). The papers, proceedings and reports of this Committee are published.

Records relating to the questioning of Treasury and departmental witnesses before the various select committees and departmental committees scrutinising expenditure, and before the PAC should be selected from Treasury and departmental files as a counterpart and balance to the historical picture which is available from published documents. Records will be selected which reveal Treasury and other government departments’ perceptions of the effectiveness of the new methods of select committee scrutiny of public expenditure. Reviewers in departments should select discussions in their departments around controversial issues which came before the PAC and the Expenditure Committee and its sub-committees. Records will be selected from the Treasury’s TOA series to demonstrate the co-ordinating function of the TOA but records relating to their administrative work around the PAC enquiries will not be selected.

16 Publication of spending plans and figures

There have been significant changes to the timing and method of presentation of PEWPs and the Estimates.

Table 2 (at annex) summarises the timetable for Parliamentary scrutiny of government spending plans and estimates, based on the situation in 1989 and with the additional elements as they were added in the 1990s.

In his Budget speech of March 1992, the Chancellor of the Exchequer announced changes to the annual budget timetable so that tax and spending decisions could be presented to Parliament at the same time. This ‘unified’ budget had a significant impact on the way public expenditure information was presented to Parliament.

Until the 1960s the Government presented both tax and spending proposals to
Parliament at the time of the Budget in March. The detailed Estimates and the Financial Secretary’s memorandum on public spending were normally presented somewhat earlier.

From 1969 the Government published a PEWP usually in December or January, while tax proposals continued to be made in the Budget. The gap that had opened up between the announcement of spending and of taxation plans faced criticism from an independent enquiry by the Armstrong Committee on Budgetary reform (1980) and by a report of the Treasury and Civil Service Select Committee (*Budgetary Reform*, HC 137, session 1981-82). The government accepted the principle but was concerned that tax decisions announced several months before the start of the tax year could be overtaken by events. It introduced the Autumn Statement in 1982 to meet some of the Committee’s recommendations.

The development in the 1980s of increasingly sophisticated reports to Parliament generally served to increase the gap between the announcement of spending and tax decisions. The sixth report by the Treasury and Civil Service Select Committee for the 1988-89 session recommended that material in chapter 1 of Volume 1 of the PEWP be included in the Autumn statement, and the existing Volume 2 of the PEWP be divided into departmental reports. This method was, in all essentials, adopted from Autumn 1988. This brought most of the proposals for public spending, other than the Estimates, together at the November Budget.

A White Paper of 1992 proposed a unified budget and the first unified November budget was in 1993. Allied with this was the development, for a brief period from 1994 to 1996, of a summer forecast and a forecast at the time of the November budget. These contained sections with overall forecasts for public expenditure growth based around the concept of the control total. In turn these were replaced from 1997 with Pre-Budget reports published in November and containing general forecasts of the growth of public expenditure.

Discussions within the Treasury relating to changes in the timing and presentation of public expenditure information to Parliament will be selected for permanent preservation especially for the light they can shed on the Treasury’s attitude to Parliamentary scrutiny. Departmental records which comment on these themes from a departmental perspective will be selected.

17 Implementation

Treasury reviewers can refer to sections of this Operational Selection Policy speedily using an index based on Treasury prefixes.
Table 1: Timetable of Main Supply Estimates

The timetable below is based on a training manual of 1989 produced by the Treasury and the Cabinet Office – *Public Expenditure Management. I: Supply Estimates*. (See also Table 2) The timing of the activities may have changed slightly over the period covered by this Operational Selection Policy.

<table>
<thead>
<tr>
<th>Date</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>August/September</td>
<td>Forms circulated showing previous Vote. Discussions on structure of Vote.</td>
</tr>
<tr>
<td>October</td>
<td>Vote structure agreed.</td>
</tr>
<tr>
<td>Late October</td>
<td>Annual circular letter calling for Supply Estimates.</td>
</tr>
<tr>
<td>October/early November</td>
<td>Estimates approved by Departmental Ministers.</td>
</tr>
<tr>
<td>Early December</td>
<td>Departments submit main draft Supply Estimates to Treasury.</td>
</tr>
<tr>
<td>December to January</td>
<td>Treasury scrutiny of main Supply Estimates.</td>
</tr>
<tr>
<td>Late January/early February</td>
<td>Submission of Supply Estimates to Treasury Ministers.</td>
</tr>
<tr>
<td>February</td>
<td>Approval of estimates notified by Treasury to departments.</td>
</tr>
<tr>
<td>February/March</td>
<td>Proof reading of final printed text of main Supply estimates.</td>
</tr>
</tbody>
</table>
Table 2: Timetable for Parliamentary scrutiny of public spending

<table>
<thead>
<tr>
<th>Date with months before financial year (-), the financial year, and after (+) financial year</th>
<th>Parliamentary scrutiny</th>
</tr>
</thead>
<tbody>
<tr>
<td>October (-6)</td>
<td>Pre-budget reports published (from 1997)</td>
</tr>
<tr>
<td>November (-5)</td>
<td>Autumn statement published. TCSSC considers Autumn statement</td>
</tr>
<tr>
<td>December (-4)</td>
<td>Parliamentary debate on Autumn statement</td>
</tr>
<tr>
<td>December (-4)</td>
<td>PEWP published until 1990 when it was replaced by Departmental Reports on the Government Expenditure Plans with one command paper for each of the former PEWP programmes. These were published together with a statistical supplement - the Treasury’s Public Expenditure Analysis for the next three years.</td>
</tr>
<tr>
<td>January (-3)</td>
<td>PEWP considered by the TCSSC (until 1990) Parliamentary debate on the PEWP</td>
</tr>
<tr>
<td>March (-1)</td>
<td>MTFS and Budget documents (Financial Statement and Budget Report) published. These confirm spending totals agreed in previous PEWP. From 1994 these were published in November Supply Estimates presented</td>
</tr>
<tr>
<td>April to June (1-3)</td>
<td>Estimates Day debates</td>
</tr>
<tr>
<td>July (4)</td>
<td>Cash Limits White Paper published Appropriation Act Revised Estimates presented Summer Supplementary Estimates presented</td>
</tr>
<tr>
<td>November (8)</td>
<td>Winter Supplementary Estimates presented to Parliament</td>
</tr>
<tr>
<td>December (9)</td>
<td>Consolidated Fund Act</td>
</tr>
<tr>
<td>January (10)</td>
<td>Spring Supplementary Estimates presented to Parliament</td>
</tr>
<tr>
<td>February (11)</td>
<td>Late Spring Supplementary Estimates presented to Parliament</td>
</tr>
<tr>
<td>Month</td>
<td>Event</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>March (12)</td>
<td>Consolidated Fund Act</td>
</tr>
<tr>
<td>April (+1)</td>
<td>Public Expenditure Outturn White paper published</td>
</tr>
<tr>
<td>July (+4)</td>
<td>Appropriation Act</td>
</tr>
<tr>
<td>Autumn (+7 to +9)</td>
<td>Appropriation Accounts published. Consideration by the PAC</td>
</tr>
<tr>
<td>Following year (+13 to +24)</td>
<td>Series of PAC reports and Treasury minutes in response. Parliamentary debate on PAC reports</td>
</tr>
</tbody>
</table>

## Appendix 1

### PESC Timetable and Selection of Records

<table>
<thead>
<tr>
<th>Date (1)</th>
<th>Stage in the PESC process</th>
<th>Cabinet (2)</th>
<th>HMT committee (3)</th>
<th>GE Division and successors (4)</th>
<th>Treasury expenditure divisions records (5)</th>
<th>Departmental policy records (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January/February (15)</td>
<td>Treasury post-mortem on previous Survey</td>
<td>No</td>
<td>TPEC</td>
<td>Yes</td>
<td>Limited selection at second review</td>
<td>No records to be selected</td>
</tr>
<tr>
<td></td>
<td>Departments post-mortem</td>
<td>No</td>
<td></td>
<td></td>
<td>Limited selection at second review</td>
<td>Limited selection at second review</td>
</tr>
<tr>
<td></td>
<td>PESC post-mortem and agreement of next PES timetable</td>
<td>No</td>
<td>PESC</td>
<td>Yes</td>
<td>Limited selection at second review</td>
<td>No records to be selected</td>
</tr>
<tr>
<td></td>
<td>Treasury develop draft guidelines for next Survey</td>
<td>No</td>
<td>PESC TPEC</td>
<td>Yes</td>
<td>Limited selection at second review</td>
<td>No records to be selected</td>
</tr>
<tr>
<td></td>
<td>Draft guidelines sent to departments for comment</td>
<td>No</td>
<td>TPEC PESC</td>
<td>Yes</td>
<td>Limited selection at second review</td>
<td>No records to be selected</td>
</tr>
<tr>
<td>March (13)</td>
<td>Draft guidelines agreed by departments</td>
<td>No</td>
<td></td>
<td>Yes</td>
<td>Select records on the basis of collection themes 6.3 to 6.13</td>
<td>Select records on the basis of collection themes 6.3 to 6.13</td>
</tr>
<tr>
<td></td>
<td>Guidelines agreed by Cabinet</td>
<td>Yes</td>
<td>TPEC PESC</td>
<td>Yes</td>
<td>No records to be selected</td>
<td>No records to be selected</td>
</tr>
<tr>
<td>March/ April (13/12)</td>
<td>Treasury and departments agree base-line expenditure on basis of previous PEWP/</td>
<td>No</td>
<td>PESC TPEC and sub-</td>
<td>Yes</td>
<td>Select records on the basis of collection themes</td>
<td>Select records on the basis of collection themes</td>
</tr>
<tr>
<td>Date (1)</td>
<td>Stage in the PESC process</td>
<td>Cabinet (2)</td>
<td>HMT committee (3)</td>
<td>GE Division and successors (4)</td>
<td>Treasury expenditure divisions records (5)</td>
<td>Departmental policy records (6)</td>
</tr>
<tr>
<td>----------</td>
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<td>--------------------------------</td>
<td>---------------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>May/June (11/10)</td>
<td>Departmental Ministers reply to CST. Letter makes ‘bids’ for money required in excess of baseline figure</td>
<td>No</td>
<td>PESC TPEC</td>
<td>Summaries and controversial issues likely to be covered</td>
<td>Select records on the basis of collection themes 6.3 to 6.13</td>
<td>Select records on the basis of collection themes 6.3 to 6.13</td>
</tr>
<tr>
<td>‘Shadow-boxing’: Treasury and departments clear the ground for possible bi-laterals between the CST and Ministers in bids for extra money</td>
<td>No</td>
<td></td>
<td></td>
<td>Key stage of the process for selection. Select records on the basis of collection themes 6.3 to 6.13</td>
<td></td>
<td>Key stage of the process for selection. Select records on the basis of collection themes 6.3 to 6.13</td>
</tr>
</tbody>
</table>

**Operational Selection Policy OSP15**

*Control of Central Government Expenditure 1969-1997, Appendix 1*
<p>| Treasury expenditure controllers draft report for PESC | No | Yes | Key stage of the process for selection. Select records on the basis of collection themes 6.3 to 6.13 | Key stage of the process for selection. Select records on the basis of collection themes 6.3 to 6.13 |
| Draft survey report considered by PESC | No | PESC | Papers servicing PESC | No records to be selected | No records to be selected |
| July (9) CST proposals for overall Survey totals submitted to Cabinet. Accompanied by estimate of prospects for the economy. Cabinet: • decides whether to confirm the planning totals • asks CST to ensure Department agree to stay within their agreed amounts, • decides areas where a Star Chamber will be set up. | Yes | PESC TPEC | Will contain draft papers and other commentary on Cabinet proceedings | No records to be selected | No records to be selected |
| September/ October (7/6) Bilateral meetings between the CST and Departmental Ministers | No | | Will contain commentary on these meetings. | Select commentary on these meetings. | Select commentary on these meetings. |
| October/ ‘Star Chamber’ convened as | Yes | PESC | Will contain commentary on these meetings. | Select commentary on these meetings. | Select commentary on these meetings. |</p>
<table>
<thead>
<tr>
<th>November (6/5)</th>
<th>necessary to resolve outstanding differences between Treasury and departments.</th>
<th>commentary on these meetings</th>
<th>on these meetings.</th>
<th>on these meetings.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cabinet meets to:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• take reports from CST or chairman of Star Chamber on results of deliberations</td>
<td></td>
<td></td>
<td>Select commentary on these meetings.</td>
<td>Select commentary on these meetings.</td>
</tr>
<tr>
<td>• approve settlements made in Star Chamber</td>
<td>Yes</td>
<td>PESC</td>
<td>Will contain commentary on these meetings</td>
<td></td>
</tr>
<tr>
<td>• resolve outstanding differences</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• agree Survey figures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>November (5)</td>
<td>Results of Survey exercise published in Autumn statement (see 13.0 for changes in timing.)</td>
<td>No</td>
<td>Will contain significant discussions on presentation of figures</td>
<td>Select appropriate commentary</td>
</tr>
<tr>
<td>January (3)</td>
<td>Departmental plans published in separate volumes incorporating changes made since the November publication of the PEWP</td>
<td>No</td>
<td>May contain discussions on presentation of figures</td>
<td>Select discussions of Departmental plans where the presentation of figures raises issues of policy.</td>
</tr>
</tbody>
</table>
Guide to Notes

1. Numbers in bracket represent months before beginning of financial year being planned
2. This column indicates whether Cabinet or Cabinet committee discussions occurred at this stage
3. The name of the Treasury committee is given here where they are likely to have discussed issues arising at this stage
4. This column indicates where records of the GE Division and its successors (selected without review) covered this stage of the process
5. This column indicates where selection is to take place from Treasury expenditure division records
6. This column indicates where selection is to take place from Departmental policy records
Appendix 2

Summary of the work of GEP, GEA and successors

In 1975 the work of GE division was split into General Expenditure Policy Group (GEP) and General Expenditure Analysis Group (GEA) working closely together. This Appendix summarises the description of the work of these two groups contained in a Treasury manual of 1975.

General Expenditure Policy Group

This had three divisions.

GEP1 – General Expenditure Division

To quote the 1975 Manual: ‘The Division’s principal objective is to ensure that prospective levels of public expenditure are compatible with the Government’s wider economic and financial aims. To this end, it takes the lead in arranging the regular Surveys which enable Ministers to take decision of public expenditure plans in the light of assessments of their resource and financial implications. When such decisions have been taken, it is for the individual expenditure divisions to ensure their application to particular programmes, but GEP1 retains a general oversight and identifies any need for corrective action if the overall level of expenditure appears to be departing from the planned path. The Division’s other main objective is to ensure that the cash requirements of central Government are met, through the presentation of Supply Estimates and the associated legislative procedure.’

Thus in consultation with GEA, Central Unit and the Expenditure Divisions, GEP1:

- Arranged for the review of public expenditure plans in the annual Surveys
- Edited the PESC report and the PEWP
- Provided the secretariat for PESC and its sub-committee and for TPEC and its sub-committee
- Made recommendations about the desirable total and its allocation to programmes and advised the Central Unit on any public expenditure elements in wider economic packages
- Co-ordinated discussions of public expenditure in PESC and TPEC and, with GEA advised expenditure divisions to ensure a consistent approach
- Acted as liaison between the Treasury and Select Committee on expenditure and its sub-committees
- Dealt with general questions of Parliamentary Supply, including editing and publishing the Supply Estimates and liaising with the House authorities regarding Consolidated Fund and Appropriation Bills
- Disseminated information about the procedures involved in controlling public expenditure within the Treasury and the public sector as a whole
One branch within this Division was that of the Estimates Clerk which managed all the arrangements for Supply Estimates and the associated legislative procedures. It provided advice on questions which arose on the Estimates in the Expenditure Committee, and it edited the Blue Notes.

GEP2 – Cash Limits and Expenditure Pricing Division

The Division had two tasks:

- To administer and develop the system of cash limits as a reinforcement of the general system of expenditure control
- To provide a central source of advice and information on the pricing of public expenditure, for the public expenditure surveys, for monitoring and for analyzing actual expenditure, and for other purposes

Most of GEP2 consisted of statisticians to advise on the general methodology of setting cash limits and the specific methodology for deciding such issues as pay, land and construction expenditure.

GEP3 – Programme Analysis and Review Division

This division co-ordinated PAR and the long-term studies group.

General Expenditure and Analysis Group

To quote the 1975 Treasury manual - ‘The group provides statistical and analytical support and advice on public expenditure matters to the rest of the Treasury and is responsible for the implementation of the FIS.’

It was divided into three divisions.

GEA1 – General Expenditure and Analysis Division

Its main tasks were:

- To prepare public expenditure estimates and projections for economic forecasts and for the Budget and to prepare public sector tables for the Financial Statement and Budget Report
- To monitor the outturn information on the PSBR and the main financial balances against the forecasts, and to prepare analyses of changes in successive forecasts and of changes between the forecast and outturn
- To provide a general statistical service to the public services sector, including work on public expenditure statistics in EEC and Organisation for Cooperation and Development (OECD)
- To oversee the preparation of Scottish and Welsh budgets

GEA2 – General Expenditure FIS Division

This division's main tasks were:

- To implement the proposals of the FIS team’s report (1975)
- To discuss and agree with other Treasury divisions and with the Central Statistical Office their needs for financial information
To design all the computer and clerical systems required to operate FIS
To co-ordinate the work of other departments in developing their own financial information systems to meet the requirements of the new central system

This division had a “Treasury team” of management consultants employed on contract by the Treasury to design, implement and maintain the computer system. Their work was directed and supported by the “Departmental team” which ensured that information to and from departments matched the requirements of the system.

GEA3 – General Expenditure Computer Division

The tasks of this division were:
- To collect and scrutinise statistical information needed for the control of public expenditure as a whole
- To provide statistical support for the Estimates Clerk
- To work with GEA2 to develop the computer system and devising procedures for scrutinizing the output of FIS to improve the information available to the Treasury on public expenditure
- To prepare the Chief Secretary’s Memorandum on the Estimates
- To chair and provide the secretariat for the Working Methods Sub-committee of PESC

GEP and GEA after clerical integration in 1981

GEP was split into:

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CUCR</td>
<td>Cash Limits and Unallocated Contingency Reserve Policy</td>
</tr>
</tbody>
</table>

In 1993 CUCC and CLCC became ESTB/MON - Estimates Policy/Monitoring
In 1996 EPA became EPB - Expenditure Policy

GEA was split into:

<table>
<thead>
<tr>
<th>EXS</th>
<th>Expenditure Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSA</td>
<td>Public Sector Accounts</td>
</tr>
<tr>
<td>CME</td>
<td>Computer Monitoring Expenditure</td>
</tr>
</tbody>
</table>

In 1989 EXS became SPE - Statistics of Public Expenditure
In 1982 CME became PED - Public Expenditure Data and was integrated with SPE in 1989.
Appendix 3

Treasury committee papers for 1970 covering the control of public spending (T 277)

Public Expenditure Survey Committee
PESC Sub-committee on Working Methods
Treasury Public Expenditure Committee
Steering Committee on Public Expenditure
Treasury Group on Long Term Studies
Steering Group
Sub-group on Environmental Services
Sub-group on Nationalized Industries
Sub-group on Social Services
Working group on Finance for Exports and Shipbuilding
Working group on Family Support
Working party on the Organization of the Social Security Departments
Home Finance Intelligence Group: Working Group on the Public Sector Borrowing Requirement
Committee on Nationalized Industries Borrowing
Committee on Local Authority Borrowing