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Have circulated 2 copies
to Mrs Cooper (p. 23)
2. Mr Loughran (2 copies)

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new meeting
Deputy to
94 PE
FINANCIAL FLEXIBILITY
PEACE DIVIDEND

MINUTES OF PCC MEETING HELD ON 28 OCTOBER 1994 IN THE
CONFERENCE ROOM, STORMONT HOUSE

03263/94

Paula Preece
file 111
22/11

- Present:
- | | |
|--------------------|------------------------|
| Mr Fell (Chairman) | Mr Bell |
| Mr Carvill | Mr Mills |
| Mr Elliott | Mr Quinn |
| Mr Legge | Mr Watkins |
| Mr Loughran | Mr Cornick |
| Mr Murray | Mr McConnell |
| Mr Semple | Miss Quinn (Secretary) |
| Mr Spence | |

cc Mr Gibson
Mr McConnell

1. The agenda for the meeting was as set out in my note of 25 October 1994.

1994 PE SURVEY - RESOURCE BALANCE AND PROVISIONAL ALLOCATIONS (PCC 94/25)

Introduction

2. Mr Semple introduced his submission, which had been prepared before the Prime Minister's statement on 21 October, by explaining that DFP faced another very tight national Survey. The Chancellor was again trying to undershoot the July Cabinet remit, which was to stick to previous planned totals for Years 1 and 2, and a 1% uplift, in real terms, in Year 3. DFP discussions with HM Treasury had concentrated on Year 3 and the Needs Assessment, and had secured a strong position for Northern Ireland compared with Scotland and Wales.

3. He felt that HMT had been more co-operative since the ceasefire announcements, and a deal on the 1995 Survey had almost been reached. The Prime Minister's statement during his visit to Northern Ireland had also been helpful, with its assurance that new EC money would be additional. It was also hoped that the Northern Ireland Block would get first cut at the law and order 'peace dividend'. However, for the Block overall, cash increases of 2.4/0.3/0.9% would mean reductions in real terms in each of the Survey years, and a great deal of uncertainty remained about the increases which

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would be yielded under the comparability formula. The only means of funding new PE pressures would be surrenders from the law and order budget or a fresh approach to the Prime Minister or Chief Secretary to the Treasury on the basis of the former's 21 October statement.

Strategic Priorities

4. The three existing strategic priorities had been confirmed in the Spring, and following bilaterals with Baroness Denton and Michael Ancram the Secretary of State had given a slight steer in favour of education rather than health spending. 'Defeating terrorism' could not remain the top priority, however, if terrorism has ceased and there is a working assumption that the cessation is permanent. An enduring peace should result in significant reductions in law and order spending, though the timing and extent of these remained uncertain. NIO caution on these points was understandable, but certain assumptions needed to be made if the resources released were to be used to best advantage. DFP would explore this issue with NIO through further bilateral discussions (Action: Mr Semple/Mr Legge). 'Strengthening the economy' and 'Targeting social need' remained valid priorities, and resource allocations had reflected this as far as possible. The current arithmetic excluded a pressure of up to £9m in Year 1 for the Hualon proposal arising from slippage in 1994/95. DFP had explored with Departments the possibility of a short term political priority of 'cementing the peace', but this idea had not met with much enthusiasm. In view of the political concentration on the manifesto commitment, a slight growth in the HPSS programme had been managed. Spending on the schools programme would broadly maintain services at existing levels, but there would not be sufficient resources available to permit an attack on perceived underfunding in comparison with GB. Mr Semple then invited PCC to consider whether they could live with lower DRC allocations, by shedding additional numbers of staff under the HMT 80%/20%

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redundancy deal, so that resources could be moved from DRC to other programmes.

PE Allocations

5. Mr Semple confirmed that the proposed allocations were as set out in the annexes to his submission but highlighted the following points:

- provision had been made for piloting a long term unemployment initiative;
- no funding had been provided for reform of water charging and although some provision had been made for the water and sewerage capital programme in Year 1, private capital would be needed to help DOE meet its EC requirements;
- funding for the Springvale project would be left to the 1995 Survey (though this may need to be revisited in-year); and
- a small central reserve had been set up which may have to be supplemented in-year.

Presentation

6. Finally, Mr Semple stressed that the presentation of this year's Survey would be particularly sensitive and important; there would be an expectation of a 'peace dividend' emerging from the law and order programme and of resources being deployed to support the theme of 'embedding the peace', and the EU/US dimension would have to be worked in. It would be especially difficult to explain that the reduced NI Block (in real terms) was the result of comparability and national policies constraining public expenditure, rather than the outcome of a raid by HM Treasury.

DISCUSSION

Defeating Terrorism and the Peace Dividend

7. During discussion on a possible peace dividend, Mr Legge emphasised that NIO's caution had been reflected also in the statements by the Prime Minister and the Secretary of State on 21 and 27 October respectively, both of which had acknowledged that any measures taken on law and order as a result of the ceasefires should be reversible. He was optimistic that savings could be made quickly on short-term measures which were reversible, such as police overtime, but felt that it was too early to quantify the savings which could be achieved through reductions in security force levels. Mr Legge suggested that the unionist audience would not wish to see any immediate reduction of security capability, and that HMT were unlikely to claw back law and order savings not redeployed this year. Initial savings on security force reductions would, in any event, accrue to the MOD budget, which could arguably place an even greater burden on the RUC. NIO would, however be content to explore the potential for savings with the RUC and PANI, provided any resources surrendered would be on a contingency basis and could be reinstated if this proved necessary. (Action: Mr Legge)

Strengthening the Economy and Targeting Social Need

8. Mr Spence and Mr Watkins felt that paragraph 4.15 of Mr Semple's submission was too critical of the short-term measures needed to consolidate peace. Mr Semple explained that this paragraph had been designed to provoke discussion, but that he would refine it to modify the balance between palliative and longer term measures. (Action: Mr Semple)

Education Funding and Health Service Manifesto Commitment

9. Mr Carvill asked for a reference to be inserted in this section to the Resource Needs Balance Study. (Action: Mr Semple). He also queried whether the real terms growth in the settlement for the HPSS Boards applied to the personal social services as well as the health service and, if so, did this provide more favourable treatment for the PSS than in GB. Mr Fell invited DFP and DHSS to consider whether there would be any presentational value in highlighting the fact that, since there were difficulties in disaggregating the HPSS programme in Northern Ireland between the health service and the personal social services, the uplift for health will be applied to a larger (relative) figure than in GB. (Action: Mr Elliott/Mr Semple)

Private Finance

10. Mr Semple reminded colleagues of the Secretary of State's commitment to the private finance initiative, and urged them to identify savings through application of the initiative. (Action: Departments)

Illustrative Outcomes

11. Mr Elliott said the proposal for 0.1% real growth for the Health Service was very tight and added that the figure for the Health Boards would be -0.4% which they would see as a breach of the manifesto commitment. He said efficiency savings at 3% were at the limits of reality. Mr Carvill welcomed the decision to hold expenditure per pupil steady (though this would not reduce the differential between NI and GB) and the commitment to provide additional resources for further education if these could be made available.

Long-term Unemployment

12. Mr Loughran confirmed that a submission on long-term unemployment, which would argue for the transfer of social security benefits, was being made to Ministers. He also indicated that when the Community Work Programme was established ACE would be run down. Mr Fell recommended that the submission should make it clear that the pilot projects should not proceed without the transfer of social security benefits to the Block.

Industrial Developments

13. Mr Loughran indicated that he was content with the proposed allocation for industrial development. There was however some discussion about the Hualon project including the slippage of expenditure into Year 1 of the Survey and the possibility of objections being submitted to the European Commission. If any such objection was accepted by the Commission as vital, the project could be delayed by 18 months or more.

DOE Infrastructures

14. Mr Spence welcomed the additional resources for the water service in Year 1, but highlighted the uneven nature of PE provision for the large capital programme. While private finance would be pursued rigorously, this was unlikely to solve the problem of EC compliance funding. He considered paragraph 7.10 of the DFP paper to be in need of revision as a trade sale of the Water Service was in DOE's view totally unrealistic. He also warned that there were a number of other Water Service issues (ie water charging, privatisation) which were proving virtually insoluble. The rapid deterioration in the existing roads infrastructure, pressure for new roads and the TSN implications of any attempt to decrease housing provision meant that there was no prospect of switching funds between these programmes.

Mr Spence
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Mr Spence proposed that there was a strong case for purchasing Churchill House from British Telecom in Year 3, perhaps through a private financing arrangement, and agreed this would be taken up with DFP in the context of the wider Accommodation Strategy. (Action: Mr Spence/Mr Semple)

Springvale

15. Mr Fell thought it appropriate to put in a marker about the Springvale proposal, though a bid should not be submitted until the economic appraisal is completed. Mr Spence confirmed that the economic appraisal had now gone out to tender.

Special Assistance from the US and the EU

16. Mr Watkins offered that the financial contribution from the US was likely to be small but that good progress was being made with EU assistance, which he estimated to be in the order (possibly) of £100m over 3-5 years.

Public Presentation

17. There was some discussion of the public presentation of the Survey in terms of this year's PE priorities. Mr Semple proposed that 'embedding the peace' could be introduced as an overarching theme now rather than waiting for the next opportunity to revise the existing priorities. Mr Watkins added that the theme would need to be backed up with dedicated resources if it was to be seen as more than just rhetoric.
18. Mr Fell invited Mr Bell and Mr Watkins to consider how the Survey outcome should be presented given that 'Defeating Terrorism' was the top priority for the first nine months of the Survey. (Action: Mr Bell/Mr Watkins) It was agreed that the Secretary of State should be asked to decide if the

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DR/53299

global outcome of the Survey reflected adequately the Prime Minister's recent assurances on public spending in Northern Ireland. (Action: Mr Semple)

1994 PE SURVEY - DEPARTMENTAL RUNNING COSTS (PCC 94/28)

19. Mr Semple reported that the DRC settlement for the Block over the Survey period represented a good result given EDX's overall approach. DRC cuts had been minimised, and savings from the Prisons sector had provided considerable easement. It was now up to Departments to manage workload and pay increases. The following numbers of redundancies were being proposed:

General Service Staff	148
P&T Staff	171
Industrials	110
Others	<u>61</u>
	490

A reduction of approximately 3000 posts was expected over the Survey period, for most of which the HMT redundancy package would apply.

20. Mr Murray expressed concern that the rural development programme announced by Ministers could not be implemented if the DRC allocation for DANI (which was lower than its pro rata share) was allowed to stand. It was agreed that Mr Murray and Mr Semple would discuss this issue and put advice to Ministers. (Action: Mr Murray/Mr Semple)

21. Mr Elliott identified a gap of £1.8m in the allocation for the Social Security Agency. Mr Semple believed that there was scope to release savings through improved performance, for example, by lowering the Agency's absenteeism rate of almost 10%. It was agreed that Mr Elliott and Mr Semple would explore the extent to which further resources might be

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available from the central reserve. (Action: Mr Elliott/
Mr Semple)

22. Mr Carvill questioned the basis on which pro rata reductions had been made to departmental allocations and suggested that a more strategic approach was needed to reflect the differing circumstances in Departments. Mr Semple invited Departments to consider undertaking Fundamental Expenditure Reviews to help the process of assessing optimal allocations.
23. Mr Watkins warned that no DRC cover yet existed for any work arising from the forthcoming EU package. Mr Fell agreed that it would be prudent to establish a DRC reserve for EU measures. (Action: Mr Semple)
24. Mr Semple also mentioned the need to cover the costs of any voluntary early retirement scheme for senior staff.

FINANCIAL FLEXIBILITIES (PCC 94/26)

25. Mr Spence and Mr Loughran welcomed the proposal, and suggested that there might be scope to broaden areas of activity further. Mr Carvill and Mr Elliott argued that the paper did not represent the most effective method of managing resources in-year and that the present method of DFP scrutiny represented a strategic approach. Mr Murray added that while a more strategic approach was welcome, there remained a need to retain a central fund. Mr Legge supported the proposal which he said was consistent with the way HM Treasury is moving. Mr Fell recognised that while there was support in principle for a more strategic approach, further consideration should be given to how this should be achieved and how it should relate to the review of financial administration. He asked Mr Semple to pursue this further through bilateral discussions with Departments and to submit a revised proposal to PCC by December. (Action: Mr Semple)

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CEASEFIRE: CONTINGENCY PLANNING (PCC 94/30)

26. Mr Watkins explained that this paper had been designed to challenge a number of conventional notions, rather than to provide a basis for operational decisions. It was generally felt that the paper contained a number of interesting ideas and should be exposed to Ministers as a 'think piece'. In view of the timescale for the PE submission to Ministers, it was agreed that comments on the paper should be passed to Mr Maxwell in Central Secretariat by Wednesday 2 November and that a covering note should be added to the paper which would explain its relationship to the PE paper. (Action: PCC/Mr Maxwell)

ANY OTHER BUSINESS

27. Mr Fell informed PCC that he had been contacted by the Vice-Chancellor of the University of Ulster, Professor Trevor Smyth, who was keen to develop further contacts between senior staff at the University and senior civil servants. It was agreed that details of staff from Grade 3 upwards should be provided to the University. (Action: Departments/Miss Quinn)



MAURA QUINN