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From the Private Secretary

Willie Rickett Esq
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10 July 1981

Dear Willie,

1980 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

Thank you for your letter of 1 June with the Prime Minister's response to the Lord President's minute of 11 May on the 1980 scrutiny of departmental running costs. She sought his advice on the possibility of picking out "key ratios" or "performance indicators" from the scrutiny figures.

The Prime Minister has posed a question which is very important and extremely difficult to answer. As far as the 1980 scrutiny is concerned, the Lord President shares the Prime Minister's view that the outcome has been disappointing in this respect. It did not provide a basis for comparing one department's performance with another, and (to answer the immediate question) it is not possible to derive "key ratios" or "performance indicators" from the figures. The 1981 scrutiny now in progress should be useful within departments, particularly in providing a second set of figures for comparison with the first, and its general value will certainly be enhanced by the statements of positive measures to achieve cost reductions which the Prime Minister has asked for. But it will still not provide any objective comparative measure across departments. We should therefore consider what should be done for the future.

Further work is clearly needed. The Lord President thinks that its main thrust should be towards developing cost ratios and indicators which will help Ministers in managing their own departments; it is both easier and more profitable to do this within a department where the outputs are comparable (for example, between one Social Security Office and another or between the performance of the whole social security machinery in one year and in the next) than it is between departments whose tasks and outputs are widely different. The results of such work can also be a great help to the central departments in scrutinising each department's claims for money and manpower. But he would also like to see the question of interdepartmental comparison studied further to see whether and how we can improve on the first two scrutinies in future years in that respect. In particular, there should be scope for developing Service-wide measures and standards for some of the routine administrative activities like typing, messenger services etc.

The Lord President accordingly proposes to commission work from officials:-

- (a) to consider what cost ratios/indicators might be helpful to Ministers in their own internal comparison of performance; and
- (b) to consider what cost ratios/indicators might be developed to facilitate comparisons with other departments.

The results of this work will be reported to the Financial Management Co-ordination Group in the first instance, so that it can be taken account of in the group's proposals for the future development of the running cost scrutinies.

The task will be a continuing one in the sense that the development of these ratios and the management accounting systems to support them will take time. But it is important to keep up the momentum, and the Lord President will call for a progress report by the end of November.

Copies of this letter go to the recipients of yours.

*Yours sincerely,
Jim Buckley.*

J BUCKLEY