



Ref. A04056

PRIME MINISTER

Annual Scrutiny of Departmental Running Costs

(C(81) 5)

## BACKGROUND

✓ As agreed by Cabinet in October 1979, and following advice from Sir Derek Rayner, the Civil Service Department have completed their first annual scrutiny of Departmental running costs. A detailed report is attached to the Lord President's memorandum (C(81) 5).

2. The figures show marked variations between Departments. To some extent these variations will reflect differences of performance between one Department and another; but they will also reflect inevitable differences of structure and circumstances, and there is bound also to be an element of inaccuracy in the figures collected. We need more information and analysis before we can draw more than very general conclusions. The Lord President therefore proposes, in his paragraph 9, that Departments and CSD should now look at the figures critically and ensure that action is being taken to bring down costs where appropriate. He will report on the outcome of this to Cabinet before Easter. In parallel with this work, officials would look at outstanding technical questions in consultation with Sir Derek Rayner and in time for the next scrutiny. The Lord President recommends that a decision whether to publish anything on the outcome of the 1980 review should be deferred until the further analysis is available at Easter.

3. I suggest - and I see Sir Derek Rayner also suggests - that it is at that stage, when the figures are on a more reliable basis, that you should consider inviting Ministers and Permanent Secretaries of Departments whose increases still look unwarrantably large to come in and go through their figures with you.

4. But, however rough the present figures, the general message is clear enough. I have no doubt - my own experience in the Cabinet Office confirms - that annual scrutinies on these lines will offer a good deal of help and stimulus to



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Departmental managements in their efforts to bring down costs. But, given the roughness of this first run of figures, we have to be wary about drawing conclusions from the absolute levels of the figures for a given Department, or from apparent comparisons between one Department and another, without more supporting information. For instance, it is not surprising that policy Departments such as the Northern Ireland Office, Energy, or the Treasury have higher costs per employee than Departments, such as Defence or the Inland Revenue, which have a high proportion of lower-paid industrial and clerical staff; personnel overheads per employee will be higher in those Departments where a good deal of travel and subsistence payments are necessary. Comparisons would be more useful if they were between like Departments, or perhaps between different parts of the same Department. "Equivalent market rentals" put a significant extra loading on the figures for 10 Downing Street and the Cabinet Office!

5. I suggest that, in the further work by the Lord President, the aim should be not only to look more analytically at the figures collected in the 1980 exercise, and to see what conclusions can safely be drawn from them, but also to consider the possibilities for sharpening up the 1981 exercise by picking out the key ratios and comparisons which really will be significant and of use to Departmental managers. In this respect it is worth noting that the 1980 exercise was itself expensive - paragraph 27 of the report by officials claims that it cost the Chancellor of the Exchequer's Departments £60,000.

#### HANDLING

6. After the Lord President has introduced his paper other Cabinet Ministers will wish to comment. I suggest that you try to keep the discussion general: it would be tedious and not very useful if the discussion consisted of a succession of apologies and excuses by each Minister for his own Department's performance and rankings. You could remind the Cabinet that the Lord President proposes to bring a further report forward before Easter, taking account of a more detailed analysis. At that stage (you might add) you may want yourself to discuss some of the larger increases with the Ministers and Permanent Secretaries of the Departments concerned. In the meantime it would be helpful if Cabinet could pick

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out any general points which they would like him to take on board in this exercise. The questions of staff numbers and of Civil Service pay are under review elsewhere and you will probably want to focus on non-pay costs.

7. Since the figures are still in a raw state, the Cabinet may well agree that it is better to refine them further in the course of the work leading up to the Easter report, and then to consider the question of their publication.

#### CONCLUSIONS

8. You will wish to sum up with reference to the recommendations in paragraph 9 of C(81) 5:-

- (i) Inviting the Lord President to arrange for further interdepartmental work, taking into account the points made in Cabinet's present discussion, and reporting further before Easter.
- (ii) Approving the proposed further work on technical questions in consultation with Sir Derek Rayner.
- (iii) Deciding whether the question of publication of the 1980 review figures should be taken now or deferred until Easter.

RAA

ROBERT ARMSTRONG

21st January, 1981

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