



MS

ANNUAL SCRUTINY OF DEPARTMENTAL RUNNING COSTS

1. Before Wednesday's meeting with you, the Lord President and Sir Robert Armstrong I thought it might be helpful to set down my thoughts on:

a. points that might be driven home at Cabinet on Thursday; and

b. the part that you yourself might take afterwards.

2. May I say first, however, that I very much agree with the tone of the Lord President's minute to you of 9 January. The attitude of some Ministers has, unhappily, been disdainful. But it is not all bad news. Some Ministers have used the data to ask searching questions and I think that it would be good to acknowledge this.

Cabinet discussion

3. I suggest that Cabinet should avoid bogging itself down in the detail of each Department's costs. It would be more helpful to focus on the general lessons to be drawn out of the pilot run and to move forward.

4. To that end you or the Lord President might wish to draw out such points as these:

a. The detail of this pilot run may not all bear either close examination or the condemnation of particular departments BUT the general trends are distinct enough and worrying enough (see below).

b. The annual scrutiny is manifestly valuable. The methods can be improved. But it should now become an accepted part of each Minister's armoury. (It is



incredible that it has never been done before and the Government can take credit for introducing it.)

c. Its main value lies in the Departments (that being the place where the costs of both wages/salaries and goods and services arise and where control ought to be exercised) but Cabinet consideration of the whole picture is important for deciding the policy to be followed by departments but driven from the centre.

d. At £8,340 million, simply running Government is big business. Ministers are in the "management" game whether they like it or not. This first run paints a disturbing picture of costs rising at an insupportable rate and in need of control. The roughness of the pilot run does not weaken the general message.

e. If costs are to be brought under control Ministers must use the annual scrutiny as an opportunity to question where the money goes on administration and ensure that officials are not merely monitoring but also controlling costs. BUT the regime is mainly for officials to devise and run for Ministers. That makes the job of the centre very important (see below).

f. Ministers collectively and individually need a cost control/cutting policy. I suggest that that should be the objective of the departmental investigations recommended in the Lord President's paper. It may be too late to affect Estimates for 1981/82 but Ministers should, I suggest, be seeking an out-turn which is less than Estimates. It is simply not good enough to regard the rate of inflation as the bench-mark of acceptability or to assume that overheads will decline as staff numbers come down.



g. If I may suggest it, the Lord President's report to Cabinet on the outcome of the departmental and CSD investigations should propose a policy both for the centre and for departments. It would be particularly helpful also if the CSD in its investigations identified a "best practice" Department from which others might learn. I also think it important that, once a policy has been declared (eg to hold the increase in the costs of goods and services to an agreed level), a senior CSD official should be charged to achieve it and that, similarly, each department should nominate a senior official to ensure that the targets are achieved.


Prime Minister's role in follow-up

5. The Cabinet paper recommends that departments and CSD should examine the costs critically with a view to a report to Cabinet before Easter.

6. I doubt whether it would be right for you to get drawn too far into such inquiries yourself. If you so wished, the right time for you to meet separately or together two or three Ministers, Permanent Secretaries and Establishment Officers (as you suggested when we last met) might be when the results of the CSD's work are available and you could rely on a more dependable brief than might be possible now.

7. Meanwhile, I believe that you would find it helpful to ask a Department to give you a "presentation" on how costs arise, are monitored and controlled on the ground.

8. Both in business and in government I have found "presentations" invaluable as a means of getting a feel for the problem at hand. The Department should be a large one



(perhaps DHSS) and those giving the presentation should be at key levels in the management chain - from the Permanent Secretary to the local manager. Let the humble Accommodation Officer and Stationery Clerk be included! Each would explain his responsibility in the area of cost control and how it is discharged.

The scrutiny in the wider context

9. The three essential points emerging from the scrutiny and other papers coming to you shortly* will probably be:

- a. Excellence in management (departmental or central) does not and will not happen by accident. Particular people need to be made unmistakably aware of their responsibilities - and given the data, scope and incentive to discharge them well.
- b. The leadership of the centre is of great importance. It needs not just specifying, but practising.
- c. The "allied service" (or "free good") system is the enemy of good management by departments.

10. I also think that the existing division of responsibility for common services between CSD, HMSO, COI and PSA inhibits effective control. I therefore hope that the "Common Services Agency" proposal I made last year can be examined after the CSD/Treasury question has been settled.

11. I am copying this to the Lord President and Sir Robert Armstrong.


Derek Rayner

20 January 1981

* My Report on repayment for Property Services; the Chancellor's paper on controlling expenditure; my paper on the management tasks of Ministers and their senior officials; and my notes to you on financial control (as illuminated by three of last year's scrutinies) and on management review.