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10 DOWNING STREET

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Mufaxed to Chequers
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From the Private Secretary

MR. PRIESTLEY
CABINET OFFICE

The Prime Minister spoke to Sir Derek Rayner on 31 December about the annual scrutiny of Departmental running costs. Sir Robert Armstrong was also present.

The Prime Minister said that she shared Sir Derek's anger at the complacency with which Departments were reporting the scale of overhead cost increases. She recognised that salaries accounted for some 60 per cent of these costs, but that Government ought to be emulating private industry's efforts to produce real cash savings on other overheads. She would have to take up this problem with Ministers individually.

Sir Derek Rayner emphasised that the figures were a rough and ready measure, and in some cases there would doubtless be valid explanations of the scale of increase. He had asked for some further work to be done on the tables, which he felt could be presented in a more accessible and useful form.

The Prime Minister agreed that the Lord President's paper, in its final form, would need to be circulated to Cabinet so that all Ministers could see the broad shape of the problem. The Prime Minister would wish to drive home the lesson that Government credibility was threatened by this kind of cost increase. She preferred to do so by investigating a selection of Departments personally through the Minister in charge and his Permanent Secretary and Establishment Officer. She would take this up through the Treasury and the Civil Service Department. She had believed that the cash limit system was designed to catch precisely this kind of increase in costs.

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MANAGEMENT IN CONFIDENCE

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I am sending a copy of this minute to Mr. Wright (Cabinet Office).

M. A. PATTISON

2 January 1981

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