



10 DOWNING STREET

From the Private Secretary

8 February 1982

Dear Terry

Scrutiny of Departmental Running Costs 1981

The Prime Minister was grateful for the Chief Secretary's minute reporting the outcome of last year's scrutiny; for the clear analysis which supported it; and for the work put into the exercise by Ministers and their departments.

The Prime Minister has asked me to make the following points about the way the scrutiny is developing.

First, Mrs. Thatcher agrees that it is extremely disappointing that, despite the good work which some departments have been doing, running costs are still rising so much. This underscores the need not merely to keep track of cost movements but to reduce the amount of resources consumed. The Prime Minister therefore has no doubt that the exercise should continue.

Secondly, the Prime Minister is strongly of the view that the scrutiny must not be allowed to lapse into a routine. Apart from being valuable in its own right, the exercise helps make a reality of the Government's policy of achieving better cost awareness and cost control. In order to be used, it must provide reliable and relevant data at the right time. The Prime Minister is glad to know that departments are using the information to question costs and she agrees that the form of the summary should be reviewed with the aim of making it even more useful to them. She would be grateful if the Chief Secretary would let her know the outcome of this review.

Thirdly, the Prime Minister thinks that while the scrutiny itself must be made as simple and economical as possible, the main emphasis must be on action rather than on the figures. This means detailed inquiry by, but chiefly on behalf of Ministers, especially in cases where the figures seem curious; for example, the Prime Minister was struck by the reference to an expenditure of £90m on "protective clothing, uniforms etc" in Annex E, paras. 7 and 10.

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Fourthly, the Prime Minister hopes that the presentation to be held here on 24 February on the control of staff and non-staff costs will make a valuable contribution on this front. She looks forward to hearing the views of Ministers on that occasion. The Prime Minister hopes incidentally that the co-ordinated Running Costs reviews will clearly bring out the distinction to be made between the responsibilities of those deep in a department who may feel that they have little opportunity to affect the cost of their operations and those high managers who, with the central departments, have greater opportunities for doing so.

Finally, the Prime Minister agrees that a summary of the results of the scrutiny should be published by means of a Written Answer.

I am copying this letter to the private secretaries of members of the Cabinet, to Sir Derek Rayner, Sir Robert Armstrong and Sir Douglas Wass.

Yours ever
Willie Rickett

T.F. Mathews, Esq.
HM Treasury.



JHP
BF [signature]

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Dear Terry

I enclose a letter which I am sending you on the Prime Minister's behalf in response to the Chief Secretary's minute of 1 February, for which she was grateful. The Prime Minister has asked me to make a number of other points in this letter, which is restricted to the Treasury and MPO.

First, the Prime Minister thinks that the constructive analysis contained in the report represents a great improvement compared with last year's report. She would be grateful if her thanks could be conveyed to the officials concerned. She found Annex E particularly helpful and suggests that in the next round its substance should be given a greater prominence by being included in the main text.

Secondly, the Prime Minister wishes me to let you know that she attaches great importance to the role and work of the central departments in consolidating the scrutiny as part of the continuing machinery of good management. By this, she does not mean that the scrutiny should be a separate exercise for ever and a day but that the principles which lie within it should be established progressively as a matter of good routine management in departments. She would like the Minister of State (Commons) to take a particular interest in this on her behalf and to designate a senior official to lead for him.

Thirdly, the Prime Minister hopes that the central departments will consider how to make full use of the information, without unfairly harassing other departments. In particular, she thinks that while the centre should move progressively towards a sensible delegation of its authority to other departments, they must use the scrutiny information as a basis for audit of departmental systems as the need arises. She thinks that central action will be all the more effective if it is directed at particular targets, whose selection the scrutiny should assist.

Finally, the Prime Minister noted the references in the Chief Secretary's minute to the consultancy work conducted in certain departments last year and to the review of internal audit (para. 7(c) and (d)). She would be grateful if she might receive an early report on the progress made with the consultancies in the Ministry of Agriculture and the Department of Industry and,

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I am copying this to John Kerr, Adrian Carter and Jeremy Colman (HM Treasury), David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office). *and to Jim Buckley*

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T F Matthews Esq
HM Treasury

SCRUTINY OF DEPARTMENTAL RUNNING COSTS 1981

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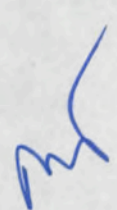
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Private Secretary



The Chief Secretary's minute is at Flag A. Of its annexes, I suggest you need to read only the one at Flag B.

SCRUTINY OF DEPARTMENTAL RUNNING COSTS

Yes not content that I should write to Departments and to the Treasury and MPO, as drafted by Sir Derek at C?

I have seen the report on the 1981 scrutiny of running costs which the Chief Secretary submitted to you on 1 February.

2. The exercise is only two years old and inevitably there are still problems of mechanics and coverage. Even so, this year's report is much better than the last. The crucial point is that technicalities should not be allowed to obstruct action: the precision of the figures is much less important than getting the costs down and a great deal remains to be done, as is shown by the summary in Annex E, which I reproduce below.

I believe we should look at the figures down dpt. when we have time.

Cost Element	1980/81	1981/82	Difference	Difference
	Prov O'turn	Estimates		
	£m	£m	£m	%
Wages and Salaries	8756.3	9716.5	+ 960.2	+ 11.0
Personnel Overheads	635.1	740.0	+ 104.9	+ 16.5
Accommodation Costs	1790.2	2052.7	+ 262.5	+ 14.7
Office Services	543.5	674.9	+ 131.4	+ 24.2
Other Services	559.2	719.7	+ 160.5	+ 28.7
	12284.3	13903.8	1619.5	+ 13.2

3. Provided the review of the format proposed by the Chief Secretary is aimed at improving the relevance and reliability of the information - and not at paring it down to the bones - I am confident that purely technical problems can be resolved. The main emphasis must be on what is done to keep costs under control.

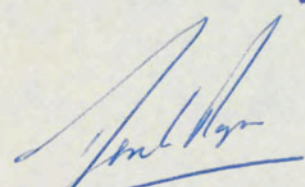
4. Annex E is a thoughtful and thorough analysis of the results of the scrutiny. It was, I understand, prepared by the Accountancy, Finance and Audit Division in the Treasury and should lead the report rather than be buried in the annexed data.



I am glad to see (for example, in paragraph 6 of this Annex) that departments are using the figures to question their costs.

5. The Treasury's role in this exercise should not rest at analysis, however. The main benefits will only accrue if the centre puts the information to practical use. By following up trends and pursuing anomalies in depth, it will demonstrate to departments that the information has real use. This will generate more reliable information and stimulate departments into asking more questions themselves.

6. I attach two draft letters which might be sent on your behalf to the Chief Secretary emphasising the value of the scrutiny and encouraging the Treasury and MPO to develop it sensibly and positively. One draft is intended as your general endorsement. This might go to all your colleagues. The other is for the more limited consumption of the Treasury and MPO.


Derek Rayner
5 February 1982

Encs: Draft letters as indicated