

1. MR. WHITMORE it.
2. PRIME MINISTER

SCRUTINY OF DEPARTMENTAL RUNNING COSTS

You commented on the Chief Secretary's submission on this subject that you thought it would be useful to have a discussion in E of the figures on running costs broken down Department by Department.

Both Sir Derek Rayner's Office and I advise against such a discussion. Your colleagues would strongly resent any attempt to compare the running costs of their Departments. It could, for example, lead straight into an argument between the Home Secretary and Mr. Heseltine, partly because the figures for the Home Office's running costs are greatly distorted by the increase in accommodation costs attributed to the Department by the PSA.

That is just one example, but Ministers in general would probably argue that comparisons between Departments are almost all spurious. It may be fair to compare this year's total fuel bill in one Department with last years, and to question the cost movement. It is not fair to compare the fuel bill of a Department with new, compact and well insulated offices with that of one housed in older buildings. At Flag A you will find a breakdown of running costs Department by Department. You will see that the estimates of the Department of Employment's running costs for 1981/82 are 42% higher than the provisional out-turn for 1980/81. This rise must be largely due to the large expansion of staff in unemployment benefit offices. The corresponding figure for the Department of the Environment is minus 0.1%, and this is because their staff reduction is the largest of the year. Ministers will all have reasons for saying that their case is different from that of their colleagues.

Even if it were possible to avoid comparisons between Departments, and to concentrate on the increases within Departments,

I am still not sure that there would be much value in collective discussion. At Flag B is a minute from Sir Derek Rayner's Office which gives some examples of how certain categories of expenditure have moved within Departments, and which sets out the reasons for these movements. I think these examples are typical of the sort of questions and answers that would arise in any discussion of a Department's running costs, and they show the level of detail into which a collective discussion would have to go. I am not sure that such a discussion would help to move matters forward. I think it is more important to concentrate on encouraging Departments to set their own houses in order. That was the purpose of the presentation you gave on 24 February. It is also the objective of the programme of work on financial and managerial control within Departments set out in the minute from the Chief Secretary you saw over the weekend. The following are also relevant:-

- (a) The studies of arrangements in 6 Departments for estimating and controlling non-staff running costs which have now been launched.
- (b) The resource control reviews of large executive units, such as the Royal Mint, and indeed the rest of the scrutiny programme for 1982.
- (c) The specific studies of financial and managerial control in the Ministry of Defence, Department of Industry, Ministry of Agriculture, Department of Health, and the Ordnance Survey.

I hope that in the light of this you will agree that collective discussion of a breakdown of running costs Department by Department would not be worth while. Sir Robert Armstrong's Office advise me that if you were to hold such a discussion, it would have to be in Cabinet, and not in E Committee, since some of the large spending Ministers, like Mr. Fowler, are not members of E.

5 March, 1982.

WR

Mr RICKETT



ANNUAL SCRUTINY OF RUNNING COSTS

1. You asked for some examples of the kinds of question which the annual scrutiny throws up and the responses which departments make. The following are all drawn from the commentaries which departments submit to the Treasury.

MAFF

Q. Why did expenditure on entertainment increase from £30,000 in 1980/81 to an estimated ~~£14,000~~ £14,000 in 1981/82?

A. The greater part of the difference is accounted for by an extra £59,000 provided for entertainment arising from the UK Presidency of the European Community.

ODA

Q. Why did non-staff running costs increasing by 30% or more between 1980/91 and 1981/82.

A. Primarily due to more long distance telephone calls, need to provide uniforms for messengers, and provision of other new goods and services resulting from dispersal to East Kilbride.

Department of Employment

Q. Why did expenditure on stationery, photocopying, printing and publications rise by 96%

A. 69% of this is attributable to printing and distribution of forms previously on a DHSS vote. Also, stocks of envelopes are being built up prior to the change ~~to~~ *public postal methods.*



Northern Ireland Office

Q. Why are entertainment costs expected to rise by 52% in 1981/82?

A. The estimate was based on expectations of a recovery in the number of potential investors visiting Northern Ireland. In the event, industrial development activity has remained depressed and expenditure is not now expected to exceed 1979/80 outturn.

Crown Office

Q. Why are staff training costs expected to rise by 988%

A. This is due to the restoration of the Department's training programme which was completely suspended in 1980/81 because of the need to meet a fiscal penalty arising from an overspend the previous years.

2. The Treasury are not in a position to say whether these explanations are genuine. They have not gone back to departments on any of them. The point is, I think, that they are typical of the answers the Prime Minister would receive and unless she is prepared to go into a lot of detail (which her colleagues would probably not, in any case, have to hand), she would find herself no further forward.

E. Thoms

Mrs E Thoms
5 March 1982

COMPARISON OF 1980-81 (PROVISIONAL OUTTURN) AND 1981-82 (ESTIMATES)
GROSS RUNNING COSTS (including P&G liability and equivalent market rental)

DEPARTMENT	1980/81 PROVISIONAL OUTTURN £M	1981/82 ESTIMATE £M	DIFFERENCE 80/81 TO 81/82	
			AMOUNT £M	%
DEFENCE	6,446.5	7,201.5	+ 755.0	+ 11.7
FOREIGN AND COMMONWEALTH OFFICE	259.1	294.6	+ 35.4	+ 13.7
OVERSEAS DEVELOPMENT ADMINISTRATION	36.3	42.1	+ 5.8	+ 15.9
AGRICULTURE, FISHERIES AND FOOD	194.3	223.5	+ 29.2	+ 15.0
INDUSTRY	124.9	141.1	+ 16.2	+ 13.0
ENERGY	25.4	29.8	+ 4.4	+ 17.2
TRADE	140.0	159.6	+ 19.6	+ 14.0
EMPLOYMENT	208.7	296.8	+ 88.1	+ 42.2
MANPOWER SERVICES COMMISSION	275.3	311.5	+ 36.2	+ 13.1
TRANSPORT	174.9	196.3	+ 21.4	+ 12.2
ENVIRONMENT	162.8	162.6	- 0.2	- 0.1
PROPERTY SERVICES AGENCY	403.0	438.1	+ 35.1	+ 8.7
HOME OFFICE	514.6	621.0	+ 106.4	+ 20.7
LORD CHANCELLOR'S DEPARTMENT	142.6	144.9	+ 2.2	+ 1.6
EDUCATION AND SCIENCE	58.2	62.6	+ 4.4	+ 7.6
HEALTH AND SOCIAL SECURITY	1,102.9	1,303.7	+ 200.8	+ 18.2
TREASURY	18.5	20.5	+ 2.0	+ 10.6
CUSTOMS & EXCISE	311.9	339.1	+ 27.2	+ 8.7
INLAND REVENUE	735.9	810.4	+ 74.5	+ 10.1
NATIONAL SAVINGS	139.0	159.5	+ 20.5	+ 14.8
CIVIL SERVICE DEPARTMENT	55.6	61.9	+ 6.2	+ 11.2
PAYMASTER GENERAL'S OFFICE	10.4	11.8	+ 1.4	+ 13.5
SCOTTISH OFFICE	136.8	155.2	+ 18.5	+ 13.5
WELSH OFFICE	41.9	46.3	+ 4.3	+ 10.3
NORTHERN IRELAND DEPARTMENTS AND SERVICES	245.1	280.7	+ 35.5	+ 14.5
TOTAL MAIN DEPARTMENTS	11,964.6	13,514.8	+ 1550.2	+ 13.0
OTHER DEPARTMENTS	319.7	389.0	+ 69.2	+ 21.6
TOTAL	12,284.3	13,903.8	+ 1619.4	+ 13.2

NB. In some instances where rounded figures give distorted results, percentages have been based on actual figures. Calculations and totals are based on actual (not rounded) figures.

TABLE 1: PROVISION FOR CURRENT EXPENDITURE IN 1981-82

DEPARTMENT	WAGES AND SALARIES		PERSONNEL OVERHEADS		ACCOMMODATION COSTS		OFFICE SERVICES		AGENCY SERVICES		TOTAL PROVISION FOR CURRENT EXPENDITURE £m
	£m	% of total running costs	£m	% of total running costs	£m	% of total running costs	£m	% of total running costs	£m	% of total running costs	
DEFENCE	5,352.4	74.3	506.3	7.0	1,152.4	16.0	171.6	2.4	18.8	0.3	7,201.5
FOREIGN AND COMMONWEALTH OFFICE	177.8	60.4	23.8	8.1	57.1	19.4	27.8	9.4	8.1	2.7	294.4
OVERSEAS DEVELOPMENT ADMINISTRATION	24.6	58.6	2.8	6.7	6.0	14.2	2.5	6.0	6.1	14.6	42.1
AGRICULTURE, FISHERIES AND FOOD	131.2	58.7	15.1	6.8	26.7	11.9	11.1	5.0	39.4	17.7	223.5
INDUSTRY	87.7	62.2	4.9	3.5	21.2	15.1	15.0	10.6	12.3	8.7	141.1
ENERGY	15.1	50.9	1.5	5.2	3.8	12.8	2.1	7.2	7.1	24.0	29.3
TRADE	73.2	45.9	4.7	2.9	35.7	22.3	17.6	11.0	28.4	17.3	159.6
EMPLOYMENT	226.1	76.2	6.5	2.2	34.0	11.5	17.5	5.9	12.6	4.3	296.3
MANPOWER SERVICES COMMISSION	194.8	62.5	13.6	4.4	60.1	19.3	33.3	10.7	9.7	3.1	311.5
TRANSPORT	116.4	59.3	6.7	3.4	23.9	12.2	20.7	10.6	28.6	14.6	196.3
ENVIRONMENT	106.9	65.8	6.4	3.9	23.2	14.3	18.0	11.1	8.1	5.0	162.6
PROPERTY SERVICES AGENCY	303.4	69.3	16.0	3.7	35.0	8.0	12.6	2.9	71.2	16.2	437.1
HOME OFFICE	443.8	71.5	19.6	3.1	135.6	21.8	17.3	2.9	4.3	0.7	621.0
LOD CHANCELLOR'S DEPARTMENT	89.0	61.4	5.9	4.1	28.5	19.7	12.5	8.6	9.0	6.2	144.9
EDUCATION AND SCIENCE	41.0	65.5	2.7	4.3	12.3	19.7	5.7	9.2	0.9	1.4	62.6
HEALTH AND SOCIAL SECURITY	774.9	59.4	24.2	1.9	113.2	8.7	113.8	8.7	277.6	21.3	1,303.7
TREASURY	13.7	67.1	0.4	1.9	3.2	15.7	1.6	7.9	1.5	7.5	20.5
CUSTOMS & EXCISE	256.0	75.5	17.9	5.3	38.2	11.3	19.7	5.8	7.2	2.1	339.1
INLAND REVENUE	605.6	74.7	19.5	2.4	111.5	13.3	64.8	8.0	8.9	1.1	810.4
NATIONAL SAVINGS	64.6	40.5	1.0	0.6	8.7	5.4	19.3	12.1	65.9	41.3	159.5
CIVIL SERVICE DEPARTMENT	35.2	56.9	3.7	5.9	9.0	14.6	8.5	13.8	5.5	8.3	61.3
PAYMASTER GENERAL'S OFFICE	6.5	55.2	0.1	0.8	1.0	8.5	2.7	22.6	1.5	12.9	14.8
SCOTTISH OFFICE	109.1	70.3	6.2	4.0	22.8	14.7	10.0	6.4	7.1	4.6	155.4
WELSH OFFICE	22.4	48.5	1.5	3.2	3.3	7.1	3.7	7.9	15.4	33.4	45.9
NORTHERN IRELAND DEPARTMENTS AND SERVICES	202.0	72.0	11.3	4.0	37.6	13.4	15.3	5.5	14.5	5.2	280.7
TOTAL MAIN DEPARTMENTS	9,473.6	70.1	722.2	5.3	2,004.1	14.8	645.2	4.3	669.6	5.0	13,514.3
OTHER DEPARTMENTS	242.9	62.4	17.8	4.6	48.5	12.5	29.7	7.6	50.0	12.9	369.0
TOTAL	9,716.5	69.9	740.0	5.3	2,052.7	14.3	674.9	4.9	719.7	5.2	13,883.3

NB. In some instances where rounded figures give distorted results, percentages have been based on actual figures. Calculations and totals are based on actual (not rounded) figures.

2: NET COSTS OF DEPARTMENTS 1981-82

DEPARTMENT	TOTAL PROVISION FOR CURRENT EXPENDITURE £m	CAPITAL EXPENDITURE £m	RECEIPTS £m	NET TOTAL COSTS £m
DEFENCE	7,201.5	230.5	811.1	6,620.9
FOREIGN AND COMMONWEALTH OFFICE	294.6	20.9	38.0	277.5
OVERSEAS DEVELOPMENT ADMINISTRATION	42.1	1.3	0.4	43.0
AGRICULTURE, FISHERIES AND FOOD	223.5	20.6	40.2	204.0
INDUSTRY	141.1	17.7	50.3	108.4
ENERGY	29.8	0.6	2.7	27.7
TRADE	159.6	1.4	57.9	103.0
EMPLOYMENT	296.8	1.7	188.4	110.0
MANPOWER SERVICES COMMISSION	311.5	43.8	22.4	332.9
TRANSPORT	196.3	2.5	57.1	141.7
ENVIRONMENT	162.6	6.8	41.4	128.0
PROPERTY SERVICES AGENCY	438.1	0.3	85.3	353.1
HOME OFFICE	621.0	107.7	40.5	688.2
LORD CHANCELLOR'S DEPARTMENT	144.9	34.3	61.1	118.1
EDUCATION AND SCIENCE	62.6	1.7	0.4	63.9
HEALTH AND SOCIAL SECURITY	1,303.7	25.0	508.2	820.6
TREASURY	20.5	0.4	1.2	19.6
CUSTOMS & EXCISE	339.1	10.7	13.8	335.9
INLAND REVENUE	810.4	14.9	47.8	777.5
NATIONAL SAVINGS	159.5	0.9	68.9	91.5
CIVIL SERVICE DEPARTMENT	61.9	2.8	11.3	53.4
PAYMASTER GENERAL'S OFFICE	11.8	1.1	10.8	2.1
SCOTTISH OFFICE	155.2	23.5	8.1	170.6
WELSH OFFICE	46.3	1.4	2.0	45.6
NORTHERN IRELAND DEPARTMENTS AND SERVICES	280.7	16.6	14.2	283.0
TOTAL MAIN DEPARTMENTS	13,514.8	589.1	2,293.3	11,920.4
OTHER DEPARTMENTS	389.0	17.2	109.8	296.3
TOTAL	13,903.8	606.2	2,293.3	12,216.7

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MR RICKETT

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ANNUAL SCRUTINY OF RUNNING COSTS

I understand that the Prime Minister has it in mind to discuss with her colleagues (perhaps in E Committee) the results of the annual scrutiny of running costs and to question and compare departmental totals under the various subheads.

2. It is likely that Ministers would argue, with some justification, that comparison between departments can easily be spurious. For example, whilst it is fair to compare this year's total fuel bill with last year's and question the cost movement, it is not fair to compare the fuel bill of a department with new, compact and well insulated offices with that of one housed in older buildings and conclude that the former is ahead because its bill is lower.

3. What matters is that each department should question its own costs and make sure that the managers down the line who actually incur them are questioning too.

4. Three things help with this on top of the scrutiny of running costs itself and individual Departmental scrutinies and reviews:

- (1) the general squeeze on resources set up by the Government's retrenchment policy;
- (2) this year's reviews of resource control and of running costs, which are intended to produce a more permanent reform than ad hoc exercises; and
- (3) the MPO's Service-wide reviews of such functions as messengerial and typing services.

5. There is a good question about how the Prime Minister might bring her own influence to bear. She has already done so by means of the exhibition in No 10 in December 1980 and of the recent presentation and reception aimed at launching the reviews of resource control and running costs, the presentation being intended in part to enable Ministers to say how they were getting on with the control of running costs. I would counsel against a top-hat discussion with senior Ministers' held in the near future. Briefing the PM and departmental briefing of her colleagues in enough depth and detail to discuss the annual scrutiny in E would be enormously time consuming for her and for them and discussion must entail a risk of acrimony and resentment.

6. My advice would therefore be as follows:

7. The PM has given two relevant assignments to the Treasury (your letter to Mr Mathews of 8 February refers):

- (1) The Chief Secretary should let her know the outcome of the review of the form of the summary. (Sir Derek Rayner is meeting Treasury officials on 4 March to discuss this and how the Treasury can best make use of the information obtained through the annual scrutiny).
- (2) The Minister of State (Commons) (Mr Hayhoe) should take a particular interest on her behalf in establishing the scrutiny progressively as a matter of routine good management in departments.

8. As the PM has indicated that the central departments should consider how to make full use of the information without "harassing other departments" and that they should move progressively towards a sensible delegation of their authority to departments in return for the audit of departmental systems as the need arises, I think that she might call for a report from the Treasury on how they are progressing these two assignments to reach her by, say, end-April.

9. I offer that counsel because I think it is reasonable for the PM to look to the central departments as the obvious instrument of her will in this matter and as being well equipped to get into the sort of detail which - to be frank - I do not think a Ministerial meeting is. I regard the centre as having a real and continuing job to do in analysing and putting to good use the annual scrutiny information. As I see it, it can use it in 3 ways:

- (1) As a basis for selective audit. If no good explanation is offered for apparently anomalous price movements, or if the costs of a particular activity, service or commodity, across the Service look disproportionately high, the centre can use its assignment staff to help departments get after the problem.
- (2) To probe departments' figures when estimates are being finalised and to establish targets for keeping running costs down in the coming year.
- (3) To identify evidence of problems which fall square within the centre's responsibilities (for example, the discrepancy between estimates and outturn costs identified in this year's annual scrutiny).

10. For the immediate future, I think we might await the outcome of Sir Derek Rayner's meeting on 4 March. After that, I will ask to let you have a further draft letter to Mr Mathews which would seem a natural follow-up to the presentation/reception on 24 February.

MRS E THOMS

MRS E THOMS

3 March 1982

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