

FROM: CHIEF SECRETARY

DATE: 2 AUGUST 1983



PRIME MINISTER

1982-83 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

... I attach a report on the third annual scrutiny of the running costs of central Government departments. As was agreed last year, it was conducted at the end of 1982 so that it could be assimilated with the examination of the Estimates for 1983-84, and Ministers were asked to submit commentaries by the end of March 1983. In the event some of the commentaries were delayed until after the Election.

2. We can now look back over a run of 3 years and see (albeit in very broad terms) what has happened to the control of running costs since we came into office in 1979. Paragraphs 2 and 3 of the report show that some progress has been made. Although running costs are still increasing ahead of general inflation, the gap has narrowed considerably. If we exclude the Ministry of Defence (whose running costs were greatly increased last year by the Falklands campaign) and also certain other distorting factors not under departments' control, running costs increased by 7.3% against the GDP deflator of 7.1%. Costs per head of staff increased faster, since staff numbers went down by 2%. But since some costs are independent of staff numbers (eg postage) and some others rise as a result of staff reductions (eg computerisation and contracting-out), that fact does not of itself signify slack control.

3. As the detailed commentary in paragraphs 9-31 brings out, the movement of particular cost elements from year to year is much affected by particular factors, and it is not possible to

extract lessons for improving control from the aggregate figures. The Treasury will however introduce a new feature from this year on, by circulating to all departments a document which shows the expenditure of each department on those cost-headings which its managers are in a position to control, broken down by the major "businesses" for which the department is responsible. This will enable the manager to compare his spending with that of a similar business in another department.

4. I believe that it has proved worthwhile to develop and continue the annual scrutiny. It has served the purpose of bringing these costs to the attention of Ministers and senior officials in departments and of stimulating action to reduce them. I am encouraged by the large number of initiatives which Ministers and their officials have taken, and which are summarised in Annex B of the Report. We should keep up the impetus, and I propose to conduct a further scrutiny in 1983.

5. Several colleagues have repeated their earlier representations about the amount of additional work which the annual scrutiny imposes, and have pointed out that we need to integrate it with the wider and more fundamental approach represented by the Financial Management Initiative. There is force in both points. They have been discussed interdepartmentally between officials, who agreed to recommend the following features for 1983:

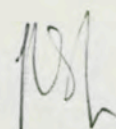
- (a) The scrutiny should still take place at the time of the Estimates, so that the experience of previous years and the flow of expenditure in the current year so far can both inform the scrutiny of the Estimates for the coming year.
- (b) The scrutiny figures themselves should not however include the Estimates figures for the coming year. The 1982 experience showed that this puts an excessive squeeze on the time available for examining the scrutiny figures.
- (c) Since the scrutiny figures thus become retrospective (though including figures for the current year based

on the first six months' actuals), the Ministerial commentaries can be prepared earlier and should accompany the scrutiny figures, instead of following them 3 months later.

- (d) Some of the detailed information previously gathered on small expenditure items should be aggregated, and the task of analysing changes in expenditure should be transferred from departments to the Treasury Computer, from which the analysis can be fed back to the spending departments.

6. I propose to adopt these recommendations. As well as improving the conduct of the scrutiny, they will ease the transition to the systems now being planned as part of the Financial Management Initiative, under which the general pattern of departmental planning and control will be based on the costs of units and their activities as opposed to inputs such as staff, travel and postage across the department as a whole, though information on the latter will continue to be needed for the purpose of monitoring and comparison. The longer-term aim, as you have recognised, will be a system in which information about running costs can be derived directly from the management accounts which departments develop to plan and control the costs of their activities, without the need for a special exercise each year. But we are not there yet. The intermediate step now proposed will enable departments to begin to estimate and budget on the basis of units and activities, while retaining a cross-cutting retrospective analysis on the existing basis.

7. I am sending copies of this minute and the report to Cabinet colleagues, Lord Gowrie, Sir Robin Ibbs and Sir Robert Armstrong.


PETER REES
2 AUGUST 1983
(approved by the Chief Secretary & signed
in his absence).

REPORT ON THE 1982-83 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

The running costs of central government departments (including the armed forces and the Northern Ireland Departments) in 1982-83 were £15 billion, offset by £2 billion in receipts. The results of the 1982-83 scrutiny of running costs are discussed below.

TOTAL RUNNING COSTS

2. The first annual scrutiny was done on an experimental basis in 1980. A run of figures is now available to show how running costs have increased since 1979-80; these are given in the table below. The figures in the first column are those reported in early 1982.

	Percentage increases		
	1979-80 to 1980-81	1980-81 to 1981-82	1981-82 to 1982-83
Running costs	19.2	11.5	9.4 (7.6 excluding MOD)
GDP deflator	17.7	10.3	7.1

One factor in particular distorts the 1982-83 figure; the additional Ministry of Defence expenditure occasioned by the Falklands conflict.

3. The figures show an improving grip by management on running costs. Some factors outside departments' control distort the figures for 1981-82 to 1982-83. These are accommodation, where the information is not reliable (see paragraphs 19 and 20), superannuation, where the Government Actuary has sharply increased the notional on-cost (see paragraph 12), and the reduction in the national insurance surcharge in 1982-83. The net effect of these factors is to bring the increase in comparable costs in these two years to about 7.3 per cent for all departments excluding the Ministry of Defence.

4. Details of the 1982-83 running costs of the larger departments are given in Annex A.

SAVINGS

5. One of the purposes of the scrutiny is to identify for Ministers the running costs of the operations for which they are responsible. Ministers provided commentaries on their running costs. The commentaries show that departments are making successful efforts to reduce their costs. Examples are savings of up to £2 million per annum expected from a new system of filling posts in Customs and Excise; £1.75 million saved on postage in Inland Revenue; and £1.6 million saved in printing and binding costs in Department of Trade. Annex B gives more details.

INNOVATIONS IN THE 1982-83 SCRUTINY

6. The timing of the 1982-83 scrutiny was changed to assimilate it with the 1983-84 Estimates. This was done to avoid duplication and bring the scrutiny information to bear on the setting of departmental budgets. Estimates figures for 1983-84 show an increase in total running costs of 6.1 per cent over the previous years forecast outturn. This compares with the 5 per cent inflation factor published in the Autumn Statement. Since Estimates are cash limits not to be exceeded, the outturn should be somewhat less. The comparative information on running costs was used in the Treasury's examination of 1983-84 Estimates.

7. This year for the first time departments were asked to submit separate running costs figures for each of their major businesses. Figures were provided for 96 businesses. There are wide variations in cost changes between different businesses in the same department. These are shown in Annex C. We recommend that details of expenditure on running costs in 1981-82 (the most recent year for which final outturn is known) are promulgated to departments so that managers can compare their costs with those for other businesses.

8. Another new feature in this year's scrutiny was that departments were asked to give details on key ratios currently in use and their proposals for developing their future use. Details are given in Annex D. Experience so far suggests that such ratios are mainly useful for comparing the cost of a single activity over time and comparing similar work in different branches in the same department. Without a great deal of work to ensure that definitions are the same, they cannot be used to make reliable comparisons between departments. So far development has been rather patchy, but most departments plan to take it further and it will be important to ensure cross-fertilization of ideas. A good deal of work is being done, in the context of the Financial Management Initiative and in the context of improving information given to Parliament, particularly on ratios of resources consumed to results achieved. We recommend that further work on key ratios is subsumed into the work being done to improve departments' financial management systems.

ANALYSIS OF TYPE OF EXPENDITURE

Manpower and Pay

	1981-82 £m	1982-83 £m	difference %
Pay - permanent staff	7893.8	8366.9	6.0
- overtime & casuals	40.0	43.1	7.7
National Insurance	448.3	424.4	-5.3
Notional Pension and Gratuity Liability	<u>1450.5</u>	<u>1594.4</u>	<u>9.9</u>
	<u>9832.6</u>	<u>10428.8</u>	<u>6.1</u>

9. Pay and related costs represents nearly 70 per cent of total running costs. These costs increased well below the rate of inflation.

10. Pay of permanent staff increased well below inflation. This reflects a fall in man years of 2.3 per cent and pay rises of about 6.1 per cent for the armed services, 5.9 per cent for most of the Civil Service, 11.5 per cent for London Weighting, 14.3 per cent for senior Civil Servants and senior officers in HM Forces and 4 per cent for Ministers. The increase in pay of permanent staff is higher than might be expected given reducing numbers and pay settlements. This is because of incremental drift and a changing proportion of higher paid grades. The effect of an incremental pay system is that incremental drift is one or two percentage points when the staff numbers are reducing and wastage is low because fewer new entrants come in on lower pay points. (Incremental drift is more or less nil when size is stable and negative in a growth situation.) Although there has not been grade drift among non industrial civil servants, the reduction in the size of the civil service has been greatest in the (lower paid) industrials. Falling staff numbers were offset to some extent by increased use of overtime and casuals especially in the Ministry of Defence (because of the Falklands), the Department of Health and Social Security (introduction of the housing benefit and the statutory sick pay scheme) and Inland Revenue (computerising PAYE).

11. National insurance decreased because the National Insurance Surcharge was reduced from 3½ per cent to 2 per cent over 1982-83.

12. Notional pensions and gratuity liability increased well above inflation because the Government Actuary revised his on-cost to reflect changed long term economic assumptions and a subjective factor to allow for deficiency payments. (The superannuation on-cost for non industrial Civil Servants has changed from 19 per cent to 24 per cent between 1983-84

and 1979-80.) Most contributory schemes have had to increase payments to cover deficiencies caused by poor investment performance in the 1970s.

Personnel Overheads

	1981-82 £m	1982-83 £m	Difference %	Difference excluding MOD %
Travel and Subsistence	307.8	407.2	32.3	10.7
Removals	104.1	150.8	44.9	11.9
Entertainment	4.4	4.6	5.0	-1.8
Catering support costs	120.3	136.0	13.1	2.1
Protective Clothing etc	75.1	92.6	23.4	3.0
Training	<u>24.5</u>	<u>29.5</u>	<u>20.3</u>	<u>22.5</u>
	<u>636.2</u>	<u>820.7</u>	<u>29.0</u>	<u>10.9</u>

13. Personnel overheads account for just over 5 per cent of running costs. They have increased well above the rate of inflation for the reasons given below.

14. For all departments travel and subsistence accounts for the greater part of expenditure in this area. Expenditure increased markedly in a number of departments. Notably, the Ministry of Defence travel and subsistence bill increased by over 50 per cent as a result of Falklands expenditure of about £21 million, extra expenditure on home to duty travel which was made necessary by the rail strike, and BAOR leave travel. Other departments with big increases included the Manpower Services Commission where increased expenditure was required to establish the Youth Training Scheme and the Community Programme; Department of Employment, in connection with staff training, mainly for taxation of unemployment benefit; and Inland Revenue, for additional effort on PAYE audit and the black economy. Some departments quoted increased training as a reason for higher expenditure on travel and subsistence.

15. Removal costs increased even more sharply; again mainly in the Ministry of Defence, who report a 70 per cent increase. Organisational changes affected these costs; for example, Scottish Office costs rose by nearly 50 per cent as staff were relocated following the reduction in staff numbers in the Agricultural Inspectorate and Lands Staff.

16. Expenditure on entertainment is small. It increased by less than the rate of inflation, mainly because the Foreign and Commonwealth Office expenditure in the previous year was

high when the UK had the Presidency of the European Community in the second half of 1981.

17. Expenditure on catering support and protective clothing, such as uniforms for the armed forces is mostly by the Ministry of Defence. It was much increased because of the Falklands campaign.

18. Demand for training has increased. Some departments said that the Financial Management Initiative had created a need for specialist training particularly in the finance area. Customs and Excise record a 16 per cent increase for training in computer audit work. Only two departments reduced expenditure in this area.

Accommodation

		1981-82 £m	1982-83 £m	Difference %	Difference excluding MOD %
PSA Estate	- Accommodation costs, excluding rent	498.5	460.3	-7.7	12.8
	Notional equivalent market rent	332.1	369.6	11.3	11.3
Non PSA Estate	- Accommodation costs	1186.0	1562.3	31.7	22.9
	Notional costs	<u>11.1</u>	<u>11.6</u>	<u>4.4</u>	<u>0</u>
		<u>2027.7</u>	<u>2403.8</u>	<u>18.5</u>	<u>13.3</u>

19. Accommodation costs are 16 per cent of running costs. They have increased at more than twice the rate of inflation. Because of the unsatisfactory mixture of allied service provision and costs borne directly by departments, the reasons for the increase are not very clear. They are in the main borne by the Property Services Agency on an allied service basis. Maintenance, heating, lighting, utilities, furniture and fittings and rates (which are the responsibility of the Rating of Government Property Department) are included. A notional equivalent market rent has also been included. For these costs no meaningful comparisons can be made, as they reflect broad assessments of each departments' costs in 1981-82, uprated by inflation for 1982-83, and take no account of departments' reduced use of accommodation. From 1 April 1983 repayment was introduced for some PSA services and it will be possible to make sounder year on year comparisons of accommodation costs in future.

20. In 1982-83 over 90 per cent of the accommodation charges which are borne on departments' own votes was incurred by the Ministry of Defence. The figures includes some items which further distort accommodation comparisons. We are working on removing distorting factors for the 1983-84 scrutiny.

Office Services

	1981-82 £m	1982-83 £m	Difference %
Postage	116.4	136.9	17.6
Telecommunications	174.8	211.7	21.1
Stationery, Printing and binding	130.2	138.6	6.4
Publications and Library Services	18.3	19.8	7.9
Computers, hire and running costs	39.1	50.5	29.2
Office machinery - current expenditure	31.3	36.1	15.0
Publicity and Advertising - non COI	19.4	24.5	25.8
Vehicles - running costs	6.4	6.6	3.1
Other administrative expenses	<u>65.7</u>	<u>78.6</u>	<u>19.6</u>
	<u>601.9</u>	<u>703.1</u>	<u>16.8</u>

21. Office services account for nearly 5 per cent of running costs: they have increased at more than twice the rate of inflation for reasons given below.

22. The cost of postage increased faster than inflation in 1982-83, despite reductions in the use of postage services, because expenditure in 1981-82 was depressed by the change to public postal methods (departments still had pre-paid envelopes to use and credits to come from the Post Office) and by the lack of activity during the Civil Service strike.

23. Telecommunications costs rose by over 21 per cent in 1982-83. This increase is partly the result of investing to achieve future savings and partly a sign of different working practices. Many departments have or will be installing telephone logging systems; the Manpower Services Commission has installed automatic exchanges in Skillcentres and computerised on-line vacancy clearing systems in jobcentres. The Inland Revenue have reported savings as a result of delegating budget control. Departments are also making greater use of telephones in place of personal visits.

24. Departments report successful efforts to reduce expenditure on stationery, printing, binding, publications and library services; these costs have increased much below the rate of inflation. But more use is being made of preprinted continuous stationery for use by

Computers which is more expensive than traditional forms; and of colour as an aid to communication. And much work is being done on the redesign and reduction in number of forms following departmental Forms Reviews. The effect of these efforts will be increased expenditure on this item but to save staff time (and the public's time) in dealing with forms.

25. Current expenditure on computer hire and running continues to rise steeply. These costs are normally associated with maintenance and software needs arising from the recent installation of hardware, for example, the build up of the Customs and Excise computer complex at Shoeburyness. Increased usage of desk top computer terminals and of computer bureau services in the private sector also contributes. Increasing computer costs are an offset to the cost savings from reducing staff numbers and total pay costs reported in paragraph 9. There are still a number of businesses which reported no expenditure in this category; this suggests that there is scope for more use of high technology.

26. The Ministry of Defence, Inland Revenue and the Department of Health and Social Security spent most on office machinery, although the increase in expenditure in the last two departments has been modest at about 5 per cent compared with nearly 30 per cent in the Ministry of Defence and 15 per cent overall. The deployment of word processors and other office machinery to boost efficiency is the likely reason for the increased expenditure.

27. Three big departments record increases of over 200 per cent on publicity and advertising; the Department of the Environment cite the cost of home improvements grants publicity; the Department of Industry state that their large increases resulted from policy decisions on small firms, information technology and preparation for the liberalisation of telecommunications; and the Department of Health and Social Security cite advertising campaigns for staff, following the earlier freeze on recruitment.

28. Only 0.9 per cent of expenditure on office services goes on the running costs of vehicles and this has been held well below the level of inflation.

29. The Ministry of Defence Falklands expenditure accounts for much of the increases in other administrative expenses. Other items in this category include car parking expenses, losses, compensation payments and administrative costs of the Sizewell enquiry.

Other Services

	1981-82 £m	1982-83 £m	Difference %
Post Office, Services, GIRO and bank services	360.0	382.3	6.2
Contract cleaning	50.3	61.7	22.7
Other agency charges, contract and consultancy services	144.9	152.8	5.5
Payments to other departments	<u>89.1</u>	<u>83.4</u>	<u>-6.4</u>
	<u>644.3</u>	<u>680.2</u>	<u>5.6</u>

30. Other services accounts for just over 5 per cent of running costs. Expenditure has increased below the rate of inflation. Post Office, Giro and bank services account for over half the expenditure in this category. More money is spent on contract contract cleaning as departments have contracted out more of this work; this is offset by savings in pay costs reported in paragraph 9.

Capital Expenditure

	1981-82 £m	1982-83 £m	Difference %
Land and buildings	76.8	90.9	18.4
Vehicles	4.33	4.32	-2.0
Telecommunications	8.8	11.3	28.6
Office machinery	8.3	9.7	17.1
Computers	79.4	73.6	-7.2
Other	<u>64.6</u>	<u>64.1</u>	<u>-8.0</u>
	<u>242.23</u>	<u>253.92</u>	<u>4.9</u>

31. Capital expenditure includes items such as land, buildings, vehicles, computers and major items of office machinery. It is not included in the running costs total and has increased below the rate of inflation. Expenditure on telecommunications equipment increased by 30 per cent reflecting the increased purchase of telephones logging equipment; experience has shown this can reduce telephone bills by 20 to 30 per cent. Expenditure on land and buildings is almost entirely by the Ministry of Defence and the Home Office. In the Ministry of Defence the increase arises from the major works requirements at Aldermaston

associated with the nuclear programme and in the Home Office from top priority capital works to save and improve the prison estate, and purchase land at existing establishments. Capital items such as buildings and vehicles are replaced as the need arises and expenditure varies considerably from year to year. For this reason comparison between one year and the next is not particularly useful.

Receipts

32. Receipts comprise:

- (a) payments from external customers (£955.1m)
- (b) payments from other departments (£867.7m)
- (c) the cost of services provided to other departments on an allied service basis where the cost is borne on the supplying departments vote) (£202.5m)

In 1982-83 receipts totalled £2,025 million - an increase of 1 per cent over the previous year.

COSTS OF PREPARING THE REPORT

33. A broad estimate of the cost of the staff time used in the Treasury and Manpower Personnel Office and in departments in gathering and processing the information for the report is £330,000.

CONCLUSIONS

34. Running costs represent about 13 per cent of total public expenditure. From 1981-82 to 1982-83 pay costs increased below the rate of inflation, but most other costs increased well above it in part because, for example, computers are used instead of clerical staff and in part in order to invest now to make savings later. As a whole running costs increased a little above the rate of inflation but there is evidence that management is improving control.

ANNEX A

GROSS RUNNING COSTS - 1982-83 FORECAST OUTTURN

DEPARTMENT	Wages and Salaries		Personnel Overheads		Accommodation Costs		Office Services		Other Services		Total Running Costs
	£m	% of total Running Costs	£m	% of total Running Costs	£m	% of total Running Costs	£m	% of total Running Costs	£m	% of total Running Cost	£m
Ministry of Defence (including Armed Forces)	5,759.9	70.1	593.0	7.2	1,517.9	18.5	185.6	2.3	158.8	1.9	8,215.1
Foreign and Commonwealth Office	178.8	54.4	25.0	7.6	74.9	22.8	26.3	8.0	23.4	7.1	328.5
Overseas Development Administration	23.8	58.8	2.0	4.9	6.8	6.8	3.3	8.1	4.7	11.6	40.5
Ministry of Agriculture, Fisheries and Food	133.2	69.9	12.5	6.6	29.7	15.6	13.4	7.0	1.7	0.9	190.6
Department of Industry	92.5	66.2	4.6	3.3	23.3	16.7	12.0	8.6	7.3	5.2	139.8
Department of Energy	14.7	56.1	1.2	4.6	5.5	21.0	2.4	9.2	2.6	9.9	26.2
Department of Trade	78.7	48.6	4.0	2.5	39.7	24.5	13.1	8.1	26.3	16.3	161.8
Department of Employment	230.6	76.1	8.1	2.7	35.9	11.9	23.3	7.7	5.0	1.7	302.9
Manpower Services Commission	208.5	64.4	11.5	3.5	59.4	18.3	37.1	11.5	7.5	2.3	324.0
Department of Transport	119.0	54.1	6.5	3.0	25.9	11.8	24.1	10.9	44.5	20.2	220.0
Department of the Environment	100.2	64.9	5.4	3.5	24.7	16.0	15.6	10.1	8.2	5.3	154.2
Property Services Agency	314.1	67.7	14.4	3.1	48.8	10.5	14.2	3.1	72.6	15.6	464.2
Home Office	492.0	84.6	22.1	3.8	29.4	5.1	24.7	4.2	13.5	2.3	561.7
Lord Chancellor's Department	106.0	65.6	6.2	3.8	32.0	19.8	13.8	8.5	3.5	2.2	161.6
Department of Education and Science	31.9	66.6	2.8	5.8	9.2	19.2	3.6	7.5	0.4	0.8	47.9
Department of Health and Social Security	791.0	57.9	23.5	1.7	127.3	9.3	116.2	8.5	308.0	22.5	1,366.1
Her Majesty's Treasury	45.5	67.5	1.7	2.5	8.7	12.9	3.7	5.5	7.9	11.7	67.4
Customs and Excise	271.5	75.7	18.2	5.1	42.9	12.0	20.4	5.7	5.7	1.6	358.7
Laland Revenue	640.4	74.4	19.1	2.2	123.5	14.4	61.2	7.1	16.3	1.9	860.5
Department of National Savings	62.2	40.9	0.9	0.6	10.1	6.4	21.8	14.3	57.2	37.6	152.1
Management and Personnel Office	15.5	45.2	2.2	6.4	6.7	19.5	4.7	13.7	5.2	15.2	34.3
Paymaster General's Office	6.8	56.2	0.1	0.8	1.1	9.1	2.3	19.0	1.8	14.9	12.1
Scottish Office	116.6	72.2	5.8	3.6	25.3	15.7	8.4	5.2	5.4	3.3	161.6
Welsh Office	24.0	53.6	1.2	2.7	3.6	8.0	3.6	8.0	12.4	27.7	44.8
Northern Ireland Departments and Northern Ireland Office	300.1	78.0	14.7	3.8	29.1	7.6	20.1	5.2	20.9	5.4	384.9
TOTAL MAIN DEPARTMENTS	10,156.5	68.6	806.7	5.4	2,341.4	15.8	674.9	4.6	820.8	5.5	14,801.5
TOTAL OTHER DEPARTMENTS	271.3	68.6	14.0	3.5	62.5	15.8	28.1	7.1	19.4	4.9	395.4
TOTAL ALL DEPARTMENTS	10,427.8	68.6	820.7	5.4	2,403.9	15.8	703.0	4.6	840.2	5.5	15,196.9

NB Calculations are based on actual not rounded figures.

DEPARTMENT

EXAMPLES OF SAVINGS

Ministry of Agriculture,
Fisheries and Food

4 per cent saving in headquarters office space. Ministry's official fleet reduced by 16 per cent. 4 per cent saving in headquarters typing cost. Pilot trials on extension logging expected to lead to savings in telecoms. 4 per cent saving in Headquarters typing staff and 7 per cent cut in Managerial staff.

Management and Personnel
Office

Savings in travel and subsistence resulted from asking recruitment candidates to pay towards their costs.

HM Treasury

Saving on printing followed from querying HMSOs billing arrangements. Savings in telecoms due to advertising the GTN. Expected savings in operator costs due to introducing a computerised exchange at Chessington.

Customs and Excise

Up to £2 million per annum expected from a new system of filling posts. Telecoms saving from removal of uneconomic lines, more use of GTN and investment in new switch board. Office machinery holdings rationalised with new equipment and less expensive maintenance agreements. Bulk mail transferred to cheaper 'Roadline' service. Contract cleaning led to savings.

Inland Revenue

Reductions in local office networks expected to lead to savings as is the introduction of telephone extension logging. Travel and subsistence savings from lower number of calls made on taxpayers, employers etc. Cessation of issue of coding notices on the occasion of each mortgage interest change saved £1.5 million in postage plus £0.25 million from the reducing number of income tax returns issued. Purchase of telephone logging equipment should produce future savings. Greater use of official cars produces savings on travel and subsistence.

Department for National Savings

Savings resulting from computerisation and the transfer of accounting for savings certificate sales to the Girobank.

Ministry of Defence

Comprehensive travel budget system helping to promote greater financial discipline. Introduction of responsibility and staff budgets etc, expected to have a major impact on running costs.

Department of Education
and Science

Telecoms savings from taking unwanted lines out of use and monitoring HMI expenditure on telephones. Savings on Library Services from reducing orders for Parliamentary papers and periodicals.

DEPARTMENT

EXAMPLES OF SAVINGS

Employment Group

Savings in existing computer based operations and from new computerisation. Mechanisation of payments and accounting work should realise savings of £0.13 million per annum. Savings on publications from revised mailing lists, introducing royalty charges and pruning production costs. Savings from the rationalisation of area and district offices computerisation of the payment of training allowances simplification in the structure of training and rehabilitation allowances; introduction of voluntary registration for employment.

Department of Energy

Saved £500,000 per annum from transferring accountancy staff, previously in Department of Industry, in house and reducing their numbers. Savings on travel and subsistence through strict monitoring and tighter budgeting and on telecoms from a reduction in the number of extensions.

Department of Environment

Savings in support services at the Building Research Establishment and in cartographic services and from contracting out work previously done in-house.

Property Services Agency

Improvements in travel and subsistence system likely to lead to savings.

Foreign and Commonwealth Office

Savings from reductions in use of VIP facilities of UK airports. £116,000 per annum on premiums from a reduction in world wide insurance. £78,000 in import duties from hiring cars in India. £41,000 from reductions in Agency Staff. Use of return load facilities saved freight charges. Use of Club rather than First Class saved money in the Queens Messenger Service. Reorganisation of work saved 23,800 hours of overtime. Review of visa fees will lead to an estimated £1 million extra revenue. £140,000 from reducing the number of protected cars. £28,000 per annum for printing diplomatic reports in house instead of using HMSO. £36,000 per annum from review of insurance arrangements. Scrutiny of stationary demands, reduction in paper quality saved approximately £10,500. An Office of Thomas Cook in Foreign and Commonwealth Office building expected to lead to travel savings.

Overseas Development Administration

Savings expected to emerge from an examination of general administrative expenditure.

Home Office

Worthwhile savings expected from a review of Supply and Transport. Savings expected from dispersal of Pay Branch to Bootle. Office machinery bought to deal with Prison Officers pay more efficiently.

DEPARTMENT

EXAMPLES OF SAVINGS

Department of Industry	Savings expected to emerge from the introduction of an annual activity costing and targetting system, the development of responsibility cost centres and the implementation of an extensive management information system.
Lord Chancellor's Department	Investigating organisational changes with a view to savings.
Land Registry	Strengthening of the internal audit team. Consideration of further computerisation.
Northern Ireland Office	Savings expected from telecoms logging equipment, from recruiting a professional catering manager, by reducing use of Government Car Service, and from tighter controls over overtime and revised rotas.
Scottish Office	A budgeting system for travel and subsistence produced savings. Telecoms savings achieved following an education campaign. From transfer of reprographic work from HMSO. From economies in library services. Contract cleaning produced savings. Increased receipts from sale of publications for Royal Scottish Museum. Introduction of telephone logging expected to yield further savings.
Department of Health and Social Security	Savings from the reorganisation of the Regional Office network.
Department of Trade	£1.6 million in printing and binding costs due to cheaper methods and fewer publications. £3.6 million increase in receipts due to fees increase at Patent Office. More contract cleaning.
Exports Credits Guarantee Department	Performance ratio of administration costs to business insured reduced. Telecoms savings from GTN link and installation of a new telephone exchange. Reduced accommodation costs resulting from dispersal to Cardiff.
Department of Transport	Introduction of cost centre budgeting and management information and accounting systems expected to produce savings.
Welsh Office	Economy in the use of telephone, mainly as a result of use of the GTN and higher receipts from various repayment services. Proposed introduction of telephone logging. Extension of memorandum trading accounts to all income earning activities. Computerisation of manual records for administering programmes. Reviews of transport costs and administrative forms.

DEPARTMENT

EXAMPLES OF SAVINGS

Small Departments

Various savings including economies in publicity and advertising; switching to contract cleaning; investment in more efficient telecommunications equipment; extending use of microfilm and computer based aid and various management studies.

Northern Ireland Civil Service

Savings expected from the introduction of financial management and management information systems and a programme of reviews.

ANALYSIS OF RUNNING COSTS BY BUSINESS

	1981-82 ACTUAL OUTTURN £M	1982-83 FORECAST OUTTURN £M	DIFFERENCE 1981-82 TO 1982-83 %
Ministry of Defence			
- Main	6582.7	7343.6	11.6
- Procurement Executive	488.8	511.1	4.6
- Dockyards	335.1	360.4	7.6
Foreign and Commonwealth Office	291.6	328.5	12.6
Overseas Development Administration			
- Headquarters	24.6	25.8	5.0
- Directorate of Overseas Surveys	5.3	5.1	- 2.9
- Land Resources Development Centre	1.0	1.1	3.7
- Centre for Overseas Pest Research	2.8	2.7	- 3.5
- Tropical Products Institute	5.6	5.8	4.4
Ministry of Agriculture, Fisheries and Food	178.6	190.6	6.7
Department of Industry			
- Administration	100.0	108.2	8.2
- Industrial Research Establishments	30.9	21.6	2.3
Department of Energy	26.3	26.2	- .1
Department of Trade			
- Innovation	23.1	22.9	- .8
- Trading Practices	23.0	25.8	12.2
- Departmental Administration	94.3	97.0	2.9
- Shipping Services	15.2	16.1	6.2
Department of Employment			
- Unemployment Benefit Service	212.3	246.2	16.0
- Other Administrative Costs	56.2	56.7	.9
Manpower Service Commission			
- Employment Services	143.0	152.8	6.9
- Training and Special Programmes	118.6	132.9	12.1
- Central and Regional Manpower Services	24.9	28.8	15.8
- Professional and Executive Register	10.3	9.5	- 7.5
Department of Transport			
- Roads and Transportation	51.6	50.5	- 2.2
- Licensing and Testing Schemes	65.3	63.6	- 2.6
- DVLD	84.9	89.3	5.3
- Research	16.5	16.5	.1
Department of the Environment (central)	154.2	154.2	-
Property Services Agency			
- Industrials	138.6	140.8	1.6
- Non-industrials	294.0	323.4	10.0
Home Office			
- Prisons	369.2	412.0	11.6
- Administrative Services	153.1	169.7	10.8

ANNEX C

	1981-82 ACTUAL OUTTURN £M	1982-83 FORECAST OUTTURN £M	DIFFERENCE 1981- 1982 %
Lord Chancellor's Department			
- Court Services	132.0	145.4	10.1
- Headquarters	9.1	9.0	- 1.6
- Other Legal Services	2.8	3.2	14.7
- Public Trustee's Office	3.9	4.0	4.5
Department of Education and Science			
- Administration	42.5	46.2	8.7
- University Grants Committee	1.5	1.6	7.9
Department of Health and Social Security			
- Health	46.8	52.5	12.3
- Social Security	1202.1	1313.6	9.3
H M Treasury			
- Central Computer and Telecommunication Agency	12.6	14.5	15.3
- Main and CCC	35.5	38.3	8.0
- Civil Service Catering Organisation	14.3	14.6	2.2
Customs and Excise	336.8	358.7	6.5
Inland Revenue	791.7	860.5	8.7
Department of National Savings			
- National Savings Bank - ordinary	64.9	62.8	- 3.2
- National Savings Bank - investment	10.2	11.5	13.3
- Premium Savings Bonds	29.6	25.5	-13.8
- National Savings Stocks Register	5.5	8.6	55.5
- Savings Certificates	37.5	33.2	-11.4
- Save as you earn	4.7	4.4	- 7.7
- HQ	4.7	5.6	20.4
- Training	0.5	0.5	9.3
Management and Personnel Office	30.5	34.3	12.7
Paymaster General's Office	11.2	12.1	8.1
Scottish Office			
- Administration	102.4	107.6	5.1
- Prisons	41.5	45.1	8.8
- State Hospitals	5.3	6.0	11.9
- Royal Scottish Museum	2.7	2.9	7.8
Welsh Office	43.0	44.8	4.2
Northern Ireland Civil Service	280.1	300.2	7.2
Northern Ireland Office			
- Other running costs	22.0	22.9	4.1
- Prisons	55.1	61.8	12.0
Total Major Departments	13504.2	14801.4	9.6
Total Other Departments	388.5	395.4	1.8
Total All Departments	13892.7	15196.8	9.4

NB Calculations are based on actual not rounded figures.

KEY RATIOS

1. Departments were asked to provide details of key ratios as part of their running cost returns. Because many departments were unclear what they were being asked to do the Treasury provided some examples. The purpose was in part to gather details of "best practice" in the use of ratios, for dissemination and to encourage departments to develop their own ratios for management use. It is clear from the replies that used key ratios as a routine management tool is patchy. Where they are used, key ratios are clearly useful. For example, the Land Registry produce a variety of performance factors through its management accounting system; these include comparative costs, for different areas broken down by accommodation, costs of different types of transactions and analysis of absences and outstanding accounts. The Departments of Employment uses a rather different set of ratios; their return explains that use of ratios of operational staff in Regions and support staff in the Regional Offices has raised some questions which might not otherwise have been asked. Also reviews of output to staff in post and in some instances cost are used by Headquarters staff to monitor most operations.

2. The examples given above are unusual; most departments do not use key ratios although many have plans to develop them in their financial management systems and some say that ratios on the line of the Treasury examples have been useful and that they plan to continue using and developing them. Also a good deal of work is being done on measures of performance, key ratios which measure the relationship between resources used and results achieved. Very few departments reported to us on measures of performance perhaps because of a misunderstanding of the scope of key ratios.

3. In theory key ratios can be helpful on different levels:

- a. to make comparisons between departments;
- b. to make comparisons in different parts of one department and;
- c. to make comparisons of a single activity in one department and over time.

4. The difficulty in making comparisons between departments is ensuring that definitions are common. From the returns we know that the ratio of numbers of personnel staff to total staff is 1:50 in the PSA, 1:31 in the Treasury and 1:14 in the Crown Estate Office. But this discrepancy is more likely to reflect differences in the definition of personnel staff than in efficiency. It would not be possible to make inter-departmental comparisons without a

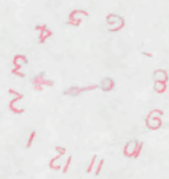
great deal of work to ensure that definitions were common. Given that departments see difficulties in inter-office comparisons because of local circumstances, this effort may not be worthwhile.

5. Departments see difficulties in making comparisons in different offices doing the same work because of the need to take special circumstances into account. Nevertheless such comparisons are used for this purpose. This type of comparison is also useful to show the unit costs of different tasks. For example the Department of National Savings shows (in 1981-82) the following transactions per head of staff for different savings schemes:

National Savings Certificates	3,152
Save As You Earn	21,116
National Bank Investment Account	7,153
National Savings Bank Ordinary Account	15,186
Premium Savings Bonds	1,986
National Savings Stock Registers	3,923

6. The returns show that making comparisons of a single activity over time is useful. Many of the returns show key ratios used in this way: examples are VAT staff ratios of traders per man year (increasing from 120:1 in 1979 to 150:1 planned for 1984 although Customs and Excise feel that this does not adequately reflect the growing VAT control problem) and the decrease in the number of CBX telephone extensions per head from 0.92 in 1980 to 0.87 in 1983 in the Department of Energy.

Civil Service: Scrutiny Pt 2



3 AUG 1983

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

12 August 1983

Dear John,

1982-83 Scrutiny of Departmental Running Costs

The Prime Minister was grateful for the Chief Secretary's minute of 2 August with details of the results of the scrutiny. She is encouraged that the trend is in the right direction and would like you to consider how the Government can get this message across publicly. She considers that it would be right to publish a summary table, as in previous years, with a short commentary and supplemented by selective examples of specific improvements which departments have made.

Mrs. Thatcher is concerned, however, whether the target set for 1983-84 will further improve the comparison with general inflation. She would be grateful for the Chief Secretary's advice on this and on how he intends to set targets for 1984-85 which will continue to bring improvement.

I am sending copies of this letter to the Private Secretaries to the other members of the Cabinet, Mary Brown (Office of the Minister for the Arts), Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office).

Yours ever,
Tim Flesher

Timothy Flesher

John Gieve, Esq.,
Chief Secretary's Office.

CONFIDENTIAL

Prime Minister:

The Chief Secretary's minute is attached. Sir Robin Ibbot is impressed by progress but has a number of presentational suggestions. Shall I minute the Chief Secretary as Sir Robin proposes?

PRIME MINISTER

1982-83 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

R
y/s
in box

I have seen the Chief Secretary's submission of 2 August about the results of this scrutiny. I am bound to say that I am impressed by the efforts made to get reasonably reliable information. And, as far as I can judge, the limited procedural changes listed in paragraph 5 are generally sensible.

2. It is the results that matter, however, and these show that the trend is in the right direction. Excluding the special effects of the Falklands conflict and other special distortions the gap between the percentage increase in running costs and the general rate of inflation has been narrowed from 1.5 percentage points in 1980-81 to 0.3 percentage points. That is good and you may want Ministers to take credit for this performance. In the past a summary table (similar to that in Annex A) has been published. You may wish to see that done again. In addition it would be good to get some of the better examples of savings made by departments - listed in Annex B - known publicly. (I do not think that all the examples in the annex are sufficiently hard to merit publicity.)

3. The Chief Secretary does not draw attention to his target for running costs in 1983-84 nor say how he intends to fix a target for the next year. The detailed report says that the Estimates for 1983 are 6.1% over the previous year's forecast out-turn and this compares with a 5% inflation factor published in the Autumn Statement. The Estimates are a cash limit and should be underspent, but I am not clear from this report whether the Chief Secretary expects the gap between the increase in running costs and inflation to continue to narrow and eventually cross-over which must be the objective. Hence, I am concerned that when

future results of the scrutiny are published they may not carry conviction that the Government has these costs firmly under control.

4. If you agree, you may care to have your private office minute the Chief Secretary on the lines of the attached.

5. I am copying this only to Sir Robert Armstrong.

Janis Beesley.

pp. ROBIN IBBS

(Approved by Sir Robin Ibbis and signed in his absence.)

8 August 1983

DRAFT PRIVATE SECRETARY MINUTE TO PS/CST

1982-83 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

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Shred not