Prime Minister (2)

MLS 16/9

Not good

Treasury Chambers, Parliament Street, SW1P 3AG

Timothy Flesher Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1

15 September 1983

Dear Tim

1982-83 SCRUTINY OF RUNNING COSTS

Thank you for your letter of 12 August. I am sorry that the leave season has led to some delay in replying.

As the Prime Minister has suggested, the Chief Secretary intends to publish a summary table showing running costs by department as in previous years. He agrees that we should try to get across publicly the message that the trend in increases in running costs is in the right direction. But there are some difficulties in getting this over convincingly. Although the trend indicates an improvement over previous years, running costs are still actually increasing above inflation, and when staff numbers are reducing. Nevertheless, the Chief Secretary thinks it is worth publishing figures showing the overall trend, supplemented by examples of specific improvements departments have made. He proposes to do this by means of an arranged Parliamentary Question (giving trend information and running costs by department) publicised by a Press Notice. A draft of the Parliamentary Question is attached. He proposes to hold back the examples of specific improvements, which the Prime Minister suggested, for use in the debate on the Civil Service on 28 October.

The Prime Minister asked whether the target set for 1983-84 will further improve the comparison with general inflation. The answer to that is yes. Provision for 1983-84, taking account of budget changes, shows an increase of 5.9 per cent over the previous year compared with a forecast 5.5 per cent inflation. The Chancellor's 1% reduction in administration cash limits should cause a further reduction. Also the 1983-84 provision is inflated by distorting factors outside departments control, notably increases in the superannuation on-cost and the introduction of repayment for accommodation. The 5.9 per cent figure is reduced to 4.4 per cent if these factors are taken into account.

For 1984-85 (as for previous years) the Chief Secretary aims to constrain further the rate of increase in running costs by means of tight cash limits and manpower targets. Staff costs are easily the largest component of running costs so further reductions in manpower numbers and tight provision for pay increases in 1984-85 (which in turn should cause departments to seek to improve efficiency) are likely to be the most effective way of reducing increases in running costs. Pressure on non-staff costs will be maintained through cash limits, and by rigorous scrutiny of each type of expenditure in departments' Estimates bids for 1984-85, following up items noted in this year's scrutiny and pointers from specific efficiency studies.

A copy of this letter goes to the Private Secretaries to other members of the Cabinet, Mary Brown (Office of the Minister for the Arts), Ian Beesley (Efficiency Unit), and Richard Hadfield (Cabinet Office).

Yours sincerely

J.St. Grieve

DRAFT PARLIAMENTARY QUESTION

To ask Mr Chancellor of the Exchequer what measures are being taken to improve control of the running costs of Government departments and what are the latest figures available broken down by department, wages and salaries, personnel overheads, accommodation costs, office services and other services.

DRAFT ANSWER

The table below shows that, if allowance is made for additional expenditure caused by the Falklands conflict, the trend is towards a lower rate of increase in the running costs of Government Departments.

	Percentage increase		
	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)
Inflation (GDP deflator)	17.7	10.3	7.1

Comparison between 1981-82 and 1982-83 is complicated by factors outside departments' control: the decrease in the National Insurance Surcharge, an increase in notional allowance for pensions, and changes in the basis of accommodation costs. Correcting for these factors reduces the figure of 7.6 per cent to about 7.3 per cent.

Running costs tend to increase steadily unless a determined effort is made to check them. Ministers are therefore taking a personal interest in the costs of their departments and this is supplemented by an annual service-wide scrutiny carried out by the Treasury. This scrutiny has revealed a wide range of many individually small but useful improvements which have helped to contain the growth of expenditure.

The following tables show outturn for 1981-82 and forecast outturn for 1982-83 for each department. The figures for the Ministry of Defence cover military and civilian running costs which cannot be separated with precision and for 1982-83 include additional expenditure due to the Falklands conflict.

GROSS RUNNING COSTS - 1981-82 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)	5,444.4	73.5	430.8	5.8	1,245.8	16.8	154.6	2.1	131.0	1.8	7,406.6
Foreign and Commonwealth Office	167.9	57.6	23.6	8.1	58.3	20.0	21.4	7.3	20.5	7.0	291.6
Overseas Development Administration	22.9	58.2	2.2	5.5	6.0	15.2	3.3	8.3	5.0	12.7	39.3
Ministry of Agriculture, Fisheries and Food	127.9	71.6	11.5	6.4	26.7	14.9	11.3	6.3	1.2	0.7	178.6
Department of Industry	89.4	68.3	4.0	3.1	21.2	16.2	10.8	8.2	5.4	4.1	130.9
Department of Energy	14.8	56.2	1.1	4.1	3.8	14.5	2.1	7.9	4.5	17.2	26.3
Department of Trade	74.4	47.8	3.0	2.1	35.7	22.9	12.9	8.3	29.2	18.8	155.5
Department of Employment	207.2	77.2	6.4	2.4	32.7	12.2	17.5	6.5	4.8	1.8	268.5
Manpower Services Commission	195.3	65.8	9.2	3.1	54.8	18.5	31.3	10.5	6.1	2.0	296.7
Department of Transport	114.4	52.4	5.5	2.5	23.9	10.9	17.4	8.0	57.1	26.2	218.3
Department of the Environment	104.8	68.0	5.2	3.4	22.4	14.5	14.9	9.7	6.8	4.4	154.2
Property Services Agency	302.8	70.0	13.8	3.2	43.7	10.1	11.0	2.6	61.2	14.1	432.5
Home Office	445.8	85.4	19.1	3.7	23.8	4.6	21.1	4.0	12.5	2.4	522.3
Lord Chancellor's Department	97.1	65.7	5.4	3.6	29.0	19.6	12.6	8.5	3.7	2.5	147.8
Department of Education and Science	30.6	69.4	2.4	5.3	7.7	17.6	3.0	6.9	0.3	0.7	44.0
Department of Health and Social Security	742.4	59.4	21.8	1.7	114.4	9.2	97.8	7.8	272.5	21.8	1,248.9
Her Majesty's Treasury	43.4	69.6	1.6	2.6	7.3	11.6	3.6	5.8	6.5	10.4	62.3
Customs and Excise	259.7	77.1	16.9	5.0	38.2	11.3	16.8	5.0	5.3	1.6	336.8
Inland Revenue	595.5	75.2	15.2	1.9	111.5	14.1	55.9	7.1	13.6	1.7	791.7
Department of National Savings	60.5	38.4	0.7	0.5	8.5	5.4	20.6	13.1	67.1	42.6	157.5
Management and Personnel Office	14.7	48.3	2.0	6.4	5.7	18.6	3.8	12.5	4.3	14.2	30.5
Paymaster General's Office	6.4	57.2	0.0	0.4	1.0	9.0	2.1	19.0	1.6	14.5	11.2
Scottish Office	110.3	72.6	5.0	3.3	23.7	15.6	8.1	5.3	4.8	3.2	151.9
Welsh Office	23.3	54.1	1.2	2.8	3.3	7.6	3.4	7.9	11.8	27.5	43.0
Northern Ireland Departments and Northern Ireland Office	281.1	78.7	14.5	4.1	24.0	6.7	18.4	5.1	19.3	5.4	357.4
TOTAL MAIN DEPARTMENTS	9,577.1	70.9	622.3	4.6	1,972.9	14.6	575.6	4.3	756.3	5.6	13,504.3
TOTAL OTHER DEPARTMENTS	255.5	65.8	13.9	3.6	54.9	14.1	26.2	6.7	37.9	9.8	388.4
TOTAL ALL DEPARTMENTS	9,832.6	70.8	636.2	4.6	2,027.8	14.6	601.8	4.3	794.2	5.7	13,892.7

NB Calculations are based on actual not rounded figures.

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
nistry of Defence (including rmed 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
reign and Commonwealth ffice	178.8	54.4	25.0	7.6	74.9	22.8	26.3	8.0	23.4	7.1	328.5
erseas Development dministration	23.8	58.8	2.0	4.9	6.8	6.8	3.3	8.1	4.7	11.6	40.5
nistry of Agriculture, Fisheries nd Food	133.2	69.9	12.5	6.6	29.7	15.6	13.4	7.0	1.7	0.9	190.6
partment of Industry	92.5	66.2	4.6	3.3	23.3	16.7	12.0	8.6	7.3	5.2	139.8
partment of Energy	14.7	56.1	1.2	4.6	5.5	21.0	2.4	9.2	2.6	9.9	26.2
partment of Trade	78.7	48.6	4.0	2.5	39.7	24.5	13.1	8.1	26.3	16.3	161.8
partment of Employment	230.6	76.1	8.1	2.7	35.9	11.9	23.3	7.7	5.0	1.7	302.9
npower Services Commission	208.5	64.4	11.5	3.5	59.4	18.3	37.1	11.5	7.5	2.3	324.0
partment of Transport	119.0	54.1	6.5	3.0	25.9	11.8	24.1	10.9	44.5	20.2	220.0
partment 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
perty Services Agency	314.1	67.7	14.4	3.1	48.8	10.5	14.2	3.1	72.6	15.6	464.2
me Office	492.0	84.6	22.1	3.8	29.4	5.1	24.7	4.2	13.5	2.3	581.7
rd 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
partment of Education and cience	31.9	66.6	2.8	5.8	9.2	19.2	3.6	7.5	0.4	0.8	47.9
partment of Health and ocial Security	791.0	57.9	23.5	1.7	127.3	9.3	116.2	8.5	308.0	22.5	1,366.1
r 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
stoms and Excise	271.5	75.7	18.2	5.1	42.9	12.0	20.4	5.7	5.7	1.6	358.7
nd Revenue	640.4	74.4	19.1	2.2	123.5	14.4	61.2	7.1	16.3	1.9	860.5
partment 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
nagement 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
ymaster 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
ttish Office	116.6	72.2	5.8	3.6	25.3	15.7	8.4	5.2	5.4	3.3	161.6
lsh Office	24.0	53.6	1.2	2.7	3.6	8.0	3.6	8.0	12.4	27.7	44.8
rthern Ireland Departments d 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
TAL 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
TAL OTHER DEPARTMENTS	271.3	68.6	14.0	3.5	62.5	15.8	28.1	7.1	19.4	4.9	395.4
TAL 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

Calculations are based on actual not rounded figures.

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es and Salaries = Wages, salaries, overtime payments, employers' National Insurance contributions, and tional cost of accruing liability for pensions of serving staff;

rsonnel Overheads = Travel, subsistence, removals, entertainment, catering support, protective clothing and aining;

commodation costs = Rates, heating, lighting, utilities, furniture and fittings, and notional market rental ues for Crown and leased property;

fice Services = Postage, telecommunications, stationery, printing, binding, publications, library services, rrent expenditure on computers, office machinery and vehicles, and publicity and advertising.

er Costs = Services provided by the Post Office, other agencies, and other departments.

coverage of the tables above differs from the table relating to provision for 1981-82 which was published the Official Report Cl12 on the 2 March 1982. These tables include more staff in Northern Ireland Departments some additional payments to other Government departments. The coverage of accommodation costs in the Home fice has also been changed.

Civil Service
Dept Planning Cttee
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FILE

10 DOWNING STREET

From the Private Secretary

19 September, 1983

1982-83 SCRUTINY OF RUNNING COSTS

Thank you for your letter to Tim Flesher of 15 September. Mrs. Thatcher feels that it is most disappointing that running costs are still increasing above inflation, especially when staff numbers are reducing. She is, however, content for the Chief Secretary to answer the arranged Parliamentary Question attached to your letter. She has noted that he will use examples of specific improvements in the debate on the Civil Service on 28 October.

I am copying this letter to Mary Brown (Office of the Minister for the Arts), Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office).

W. F. S. PICKETT

J. Gieve, Esq.,

Chief Secretary's Office