



Prime Minister <sup>(2)</sup>  
 For Janet  
 MEA 13/9

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq  
 Private Secretary  
 10 Downing Street  
 London  
 SW1

13 September 1985

Dear David

**CIVIL SERVICE MANPOWER NUMBERS:  
 STAFF IN POST AT 1 JULY 1985**

We now have the figures for civil service manpower numbers at 1 July, 1985. On that date there were 596,163 civil servants in post. This represents a net reduction of 2,863 since April, made up of 1,979 non-industrials and 884 industrials.

The reduction since the Government took office in 1979 is some 18.6 per cent (136,000). The number of non-industrials has gone down by 69,827 and that of industrials by 66,285.

There have been no changes of consequence in the quarter. The largest reduction was in MOD (1,093), due mainly to the first stages of intermediate management measures at Devonport and Rosyth Dockyards. There was an increase of 127 in the Scottish Office due partly to the transfer in of staff from DHSS.

The figures are usually published by means of an arranged PQ, but the July details were not available before Parliament rose for the Summer Recess. Last year we published the July figures by means of a Treasury Press Notice, and we intend to do so again this year. The Prime Minister may like to know what the figures are before the Press Notice goes out next week.

Yours ever  
 Richard

R J BROADBENT  
 Private Secretary

	1-4-25		CHANGE	
			+	-
<b>IRISH CHANCELLOR</b>				
<b>Lord Chancellor's Department (inc PTO)</b>	10190	10128½		-61½
<b>Land Registry</b>	6820	6918½	+ 98½	
<b>Public Record Office</b>	401	397½		-4½
<b>NORTHERN IRELAND OFFICE</b>	175	175½	+ ½	
<b>PAYMASTER GENERAL'S OFFICE</b>	836	852½	+ 16½	
<b>SCOTLAND</b>				
<b>Scottish Office</b>	9911	10,038½	+ 127½	
<b>Scottish Courts Administration</b>	882	879		-3
<b>General Register Office, Scotland</b>	262	261½		-½
<b>Registers of Scotland</b>	827	845½	+ 19.5	
<b>Scottish Record Office</b>	124	127	+ 3	
<b>SOCIAL SERVICES</b>				
<b>DHSS</b>	92788	92084½		-703½
<b>Office of Population Censuses and Surveys</b>	2102	2106½	+ 4½	
<b>TRADE &amp; INDUSTRY</b>				
<b>Department of Trade and Industry</b>	12620	12604½		-15½
<b>Export Credits Guarantee Department</b>	1778	1753½		-24½
<b>Office of Fair Trading</b>	302	305	+ 4	
<b>Office of Telecommunications</b>	69	83	+ 14	
<b>TRANSPORT</b>				
<b>Department of Transport (inc DVLD)</b>	14414	14366		-48
<b>WALES</b>				
<b>Welsh Office</b>	2279	2275½		-3½
<b>OTHER CIVIL DEPARTMENTS</b>				
<b>Charity Commission</b>	321	317		-4
<b>Crown Estate Office</b>	28	29	+ 1	
<b>Crown Office (Scotland) and   Procureur Fiscal Office</b>	968	980½	+ 12½	
<b>Director of Public Prosecutions</b>	233	234	+ 1	
<b>Law Officers' Department</b>	20	19		-1
<b>Lord Advocate's Department</b>	21	20		-1
<b>Privy Council Office</b>	32	32		
<b>Treasury Solicitor</b>	447	436½		-10.5
<b>Office of Arts and Libraries</b>	52	52		
	<b>599026</b>	<b>596,162½</b>	<b>+ 510</b>	<b>- 3373½</b>

NOTES Staff numbers expressed as full time equivalents (excluding casuals and overtime)  
\*Trading Funds

PRIME MINISTER

Though Sir Robin Ibbs has not seen the Chief Secretary's note below, his office tell me that he favours shifting control towards running costs, with less emphasis on targets for manpower numbers. That is how the private sector does it. I agree, provided the Treasury can give you copper-bottomed assurance that any new system effectively limits Civil Service resource use. We don't want manpower numbers rising after all the effort to get them down.

See also Policy Unit note attached.

N.L.W.

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NIGEL WICKS

13 September 1985

Management-in-Confidence



Chancellor of the Duchy of Lancaster

~~GENO~~

CABINET OFFICE,  
WHITEHALL, LONDON SW1A 2AS  
Tel No: 233 3299  
7471

Rt Hon John Macgregor Esq MP  
Chief Secretary to the Treasury  
HM Treasury

11 September 1985

*D. John,*

CONTROL OF CIVIL SERVICE RUNNING COSTS

Thank you for copying to me your minute of 10 September. <sup>-with MEA?</sup>

I fully endorse your views concerning the need to have effective controls, but I feel that we should be careful that these new limits do not bring further rigidities of the kind which have led in the past to an unwillingness to accept changes in manpower limits even when fully justified by resulting public expenditure savings.

While considering your proposals, therefore, I hope that we can also consider how these limits can allow scope for sensible trade-offs between manpower, running costs and public expenditure programmes generally.

I accept your view that we should not adopt a pay assumption for 1986-87. But I am sceptical whether it is entirely credible to suggest that no central guidance had been offered by Treasury concerning pay. Rather, I feel we should rest on the argument that we had, in any case, been enjoined by the Civil Service Unions not to prejudge the outcome of pay negotiations. But we must seek to bring our operating costs under progressively tighter control (as does industry generally) and this, represented by the running costs limits, must set the framework within which the pay negotiations are conducted.

I am copying this letter to the Prime Minister, other Cabinet colleagues, and to Sir Robert Armstrong and Sir Robin Ibbs.

NORMAN TEBBIT

CC 210  
B. T. 13?

FROM: CHIEF SECRETARY

DATE: 10 September 1985

PRIME MINISTER

## CONTROL OF CIVIL SERVICE RUNNING COSTS

1. When you gave your agreement in April to my predecessor's proposals for extending the running costs targets we first introduced last year you asked the Treasury and Efficiency Unit to consider what needed to be done to ensure the success of the new system. In response to this Peter Rees' minute of 26 July described a number of measures, including the arrangements Treasury Ministers were envisaging for the monitoring and in-year control of departments' running costs limits. As foreshadowed in that minute, I now attach a note setting out our proposals on monitoring and control in detail.

2. Our proposals are designed to be as simple as possible, and to rest heavily on the cash limits system, which has proved its worth as an instrument of control. As such, I hope they will commend themselves to you and to colleagues. But there is one fundamental point on which I hope we are all clear: however effective the systems which are put in place in departments to deliver these new targets, running costs limits can only be a success if we are all determined that they should be delivered.

3. As agreed at the 11 July Cabinet, I shall be aiming in the bilaterals to reach agreement on tough but realistic limits for each department. Discussions between officials are making useful progress, but it seems likely that there will be a number of issues which I will need to resolve with colleagues. Our agreed procedure for negotiating these limits, basing the discussion on each department's own proposal for a target for itself, usefully allows us to take proper account of relevant particular circumstances for individual

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departments. In this way, and especially by identifying offsetting savings and economies wherever possible, we will be seeking to take account of particular factors to which colleagues have drawn attention in earlier correspondence; and those to which we agreed in July to give special attention (running costs bids relating specifically to the control of fraud and the staffing of services whose costs are wholly recovered by fees).

4. Colleagues agreed in July to return in September to the question whether we should adopt a pay assumption for 1986-87. The Chancellor and I are firmly of the view that to announce a pay assumption as we have in recent years would be less appropriate in this year's circumstances. Until recently the pay assumption has been valuable in reducing expectations about pay increases both in the public services and more widely. But this year a pay assumption could, again, clearly not be more than 3%. The usefulness of a pay assumption at this level would be highly questionable. It would also put an impossible strain on the new running costs limits if they are, as they must be, tightly set and rigorously operated; and if delegated budgets within departments are to be taken seriously and developed, as we all wish them to be, they cannot indefinitely be based on artificially low pay assumptions.

5. Great care would, of course, be needed if we decide, on the basis of such considerations as these, to move towards a system in which there is explicitly more realistic provision for pay: we must at all costs avoid the - erroneous - impression that the government's commitment to public expenditure control has in any way weakened. To this end we might aim to argue in public that there was henceforward to be no pay assumption in the old sense, since that had been made redundant by running costs limits, which

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had been set at tight but realistic levels. If we were pressed to say more we could acknowledge that a range of different assumptions underlay departments' running costs limits, and that no central guidance to departments had been offered by the Treasury because we have no crystal ball for predicting the outcome of the pay negotiations; and that pay is, anyway, only one element in overall running costs, so that if departments' pay assumptions proved wrong, the intention would be, as in the past, that they should find economies in order to live within their agreed provision.

6. This line would help to underpin our argument that running costs limits were a principal determinant of what can be afforded for pay, and not vice-versa. But the treatment of these matters in Supply Estimates raises further problems. When the Chancellor and I have made a further assessment of the practicalities here we will put proposals to the Cabinet. Meanwhile, my intention is to conduct the bilaterals, as agreed at Cabinet on 11 July, with a view to reaching agreement on tough but realistic running costs targets for each department. My report to the Cabinet on the results of these discussions will, of course, cover any areas in which I have been unable to reach agreement with colleagues, as well as the implications of what I have agreed for total running costs and the overall targets we have set ourselves.

7. I am sending copies of this minute and the enclosed paper to the other members of the Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.



JOHN MacGREGOR

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MONITORING AND CONTROL OF RUNNING COSTSNote by the Treasury

This paper gives guidance to departments on new arrangements which are proposed for monitoring and control of departmental running costs. The arrangements build on departmental systems for monitoring and control already in operation. From 1986-87 running costs would be subject to in-year control as limits (like cash limits) rather than as targets. Where the new system has been proved to be effective, there should be no need for separate control of manpower targets after 1987-88.

*P17.  
Need  
to  
pause  
over this and have strong evidence of effective controls.*

Limits for 1986-87 onwards: PES provision

2. Running cost limits will be agreed for each department during the 1985 Survey. The intention is to publish the aggregate limit in the Autumn Statement and departmental limits in the 1986 PEWP for one year ahead. Running costs cover the civil service (excluding trading funds) and the armed forces, and include pay, accommodation, personnel overheads, office services and other services such as charges for contracted out work. The limits for each department will be based on gross costs excluding receipts. Manpower targets will be published in the 1986 PEWP up to April 1988, but it is intended that any totals published for later years should only be indicative.

Estimates provision

3. It is proposed that the running costs limit agreed in the Survey for each department (including those departments whose expenditure is not classified as public expenditure) will form the control total for determining Estimates provision. When preparing Estimates departments would not be free to switch provision into running costs beyond the limit (unless a transfer between departments has been agreed within the aggregate running costs total, eg associated with a transfer of staff between departments not anticipated in the Survey). It may be possible in some other cases to agree running cost limits in Estimates below the figures agreed in the Survey, eg following a dropping of functions by the department. In all cases departments and Treasury expenditure divisions will need to be able to demonstrate a reconciliation between PES and Estimates figures.



## In-year monitoring

4. The Treasury will continue to develop the monitoring system initiated for 1985-86. For all substantial blocks of running cost expenditure, departments are producing profiles of forecast and expected outturn supply expenditure through the APEX system, updating the figures monthly. In order to develop the system, a collective effort will continue to be needed from departments and the Treasury, to provide timely and good quality outturn information and updated forecasts as a basis for in-year control. The data supplied by departments will also be used regularly within the Treasury to brief Treasury Ministers. It will, however, remain the responsibility of departments to alert their Treasury expenditure divisions to any possible breach of their running cost limit.

## In-year control

5. If running cost limits are to be delivered, control mechanisms must be adequate. Within departments these may include budgetary controls, targets for improving productivity or reducing costs, and economies on particular items such as accommodation. The Treasury, however, proposes to use control mechanisms that are already in place as described below:

- (1) Virement: In future, the Treasury will normally only agree to virement into a subhead which contains running costs where the department can demonstrate that this involves a switch within its running cost provision, with a corresponding decrease on another running cost subhead on the Vote. This virement control cannot, of course, be applied to switching within a mixed running cost/non-running cost subhead, although departments are asked to follow the same principle. On the other hand, where running costs are divided into two or more subheads, eg for different budget centres, the presumption will be that the Treasury will be prepared in normal circumstances to approve virement between the subheads, provided no increase in running cost provision is implied; a token supplementary would only be considered necessary for large or unusual cases.
- (2) Cash limit increases: As now, cash limit increases because of higher running costs will not normally be granted unless offset by cash limit decreases also for running cost provision. The presumption against in-year changes in cash limits will remain.
- (3) Claims on the Reserve: As now, in normal circumstances claims on the Reserve will not be conceded for increased running costs. In recent years no claims on the Reserve have been attributed to civil service pay increases.

6. These controls will not, however, provide a sufficiently sharp focus for running costs control. It is proposed therefore that the necessary control will be achieved by applying to running costs certain elements of the cash limits regime:

- (1) Any change in the running costs limits would need the Chief Secretary's approval, with the revised limits being published in an arranged PQ.
- (2) The presumption would be against in-year increases. Where an increase is agreed, this would normally be financed by offsetting savings within the cash limit or exceptionally from another cash limit in the department's programme. If an in-year decrease in the limit were agreed, the first call on such savings would be to offset unavoidable overspends within the department's programme which might otherwise lead to a claim on the Reserve.
- (3) The Treasury would require a departmental investigation into any breaches at the end of the year.
- (4) Estimated outturn figures would also be published, together with the final provision for each running costs limit, in the Cash Limits Outturn White Paper in July.
- (5) Where the running costs limits agreed in the Survey involve interdepartmental transfers, the policy responsibility for delivering the limits (which will be set gross) should be clearly understood between the departments concerned. The normal presumption will be that it is the department receiving the transfer or providing the service who will have responsibility to find any necessary in-year savings, except where in-year variations in the total cost of the services involved are agreed to be within the responsibility of the department purchasing them.

7. These control arrangements are somewhat similar to those for cash limits, and, as with that system, rely on collective commitment. In this context, the improvements which departments are making in their internal budgeting arrangements are a crucial ingredient to the success of the new control system. In turn, the limits agreed in the Survey should offer a realistic and timely basis for departmental planning.

### Conclusion

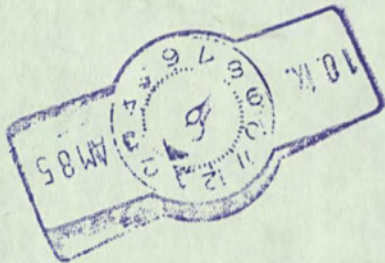
8. This paper proposes the following arrangements for the monitoring and control of running costs.

- (1) For 1986-87 Estimates, departments' running costs provision will be confined within the total agreed in the Survey;

- (2) in-year monitoring for 1986-87 will continue as this year, with increasing emphasis on high quality and timely data. Departments have the responsibility for informing Treasury expenditure divisions of any prospective breach;
- (3) in-year control will be introduced for 1986-87. Virement and cash limit proposals which increase running costs in aggregate will not normally be accepted, and for any increase there should be offsetting savings within overall PES provision to avoid a claim on the Reserve. These arrangements will be developed by analogy with the cash limits control regime. In-year changes will be announced and published in similar form to cash limits. These should be financed in the cash limits Outturn White Paper and will be investigated by the department and the Treasury.

Long Term: Civil  
Service

PE 18



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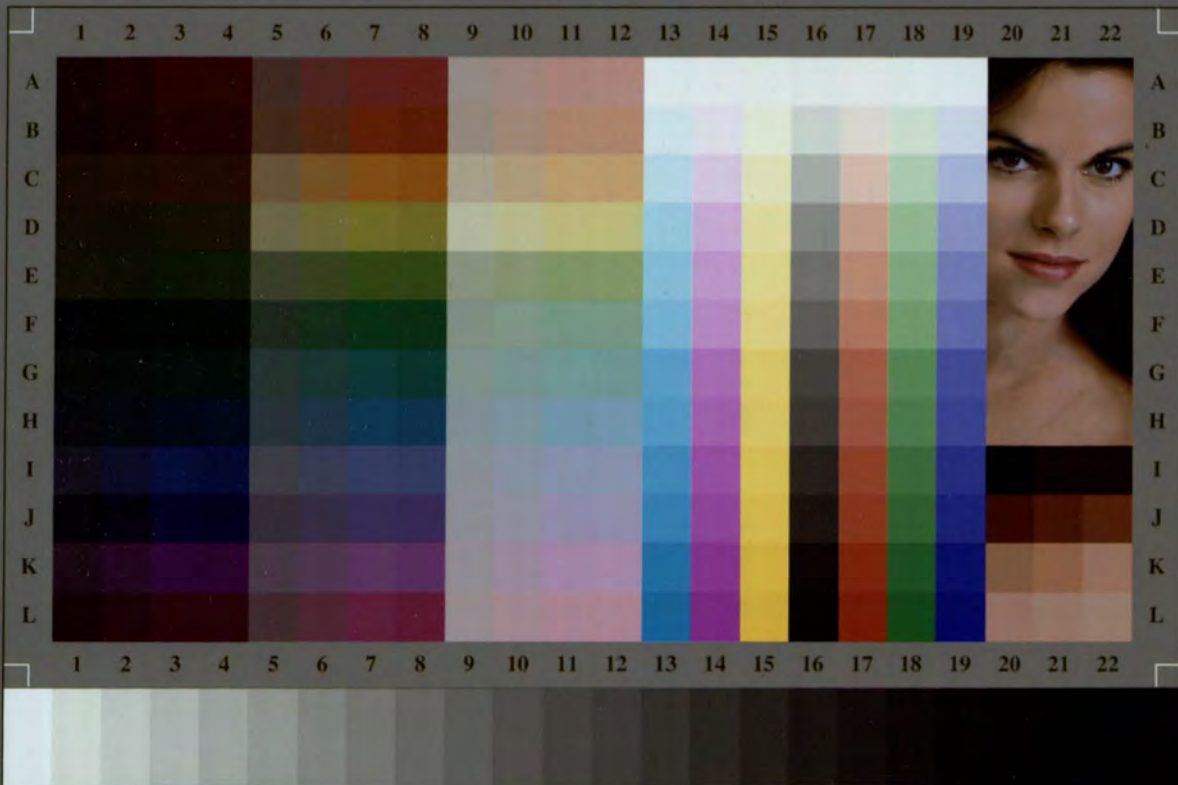
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