

PRIME MINISTER

1980 SCRUTINY OF DEPARTMENTAL RUNNING COSTS: RESULTS OF FURTHER ANALYSIS

1. On my return from Toronto I have seen the Lord President's minute to you of 11 May, reporting on the results of the inquiries he made after the Cabinet discussion on 29 January. The purpose of this minute is to offer comments which I hope may be helpful to you and your colleagues.

General

2. As the 1980 exercise was very much a pilot run, I am very glad to see (Annex B) that most Ministers find the scrutiny useful. I hope that those few who have expressed doubts will find them allayed by experience.

Technical development and relationship with other management information

3. The technical refinements that have been made to this year's scrutiny, on which Mr Hayhoe has written to Ministers, will help to increase its usefulness. Even so, I would expect further developments as other improvements occur in financial control and management information. Accordingly I am glad that the Financial Management Co-ordination Group (FMCG) is to take the lead in its development. If the annual scrutiny of running costs is to be of real value to busy Ministers duplication must be avoided. I would see that as an important objective of the FMCG, as well as the dissemination of good practice (see below).

Value of the exercise for Ministers in charge of departments

4. As the Lord President says, and this is a point which appears in some of the Ministerial reactions, the main value of the exercise is for departmental rather than central Ministers. But some Ministers have expressed doubts which deserve a response.

5. The primary purpose of the scrutiny is to provide departmental Ministers with information which enables them to appreciate and then to probe the costs at their hand. Detailed questioning; the selective digging down that ensues; and specific control are always in my experience most effectively done at the point of consumption. This emphasises the importance, not just of the departmental Minister and his most senior officials, but also of the very numerous line managers who, from day to day, consume and regulate the consumption of resources. But it is of course essential that what is served up to a Minister should be appropriate to his position in departmental management. He is entitled to manageable and intelligible digests of information, in which the main trends and issues are clearly identified.

6. I very much agree also with those Ministers who have said that the rather aggregated information provided in the scrutiny pro forma may need, for them, to be supplemented by disaggregated information (eg by function and unit of management). I would generally expect such information to be presented to Ministers in response to, and in support of, their questioning of costs rather than automatically in a first, weighty and possibly daunting batch of data. It follows that such underpinning data must be available if Ministers and senior officials on their behalf are to be able to control costs effectively.

7. In this context (and in support of what the Lord President says about the need to improve management accounting information), I suggest that a good general question for Ministers to ask is:

"Does my departmental management information system enable me and my senior management readily to identify where my costs are rising and (for example) where economies might be made with the least damage to my objectives?"

The Secretary of State for the Environment's current scrutiny (of the methods used to estimate, monitor and control expenditure on running costs and how they might be improved, including the scope for greater delegation of financial responsibility) promises a substantial read-across in this area to other departments. I hope that opportunities for the dissemination of good practice will be seized by the centre (see below).

Collective value of the exercise

8. Whilst the first line of attack on running costs is in departments, there is also value in a collective consideration. The administration of Government is very big business at £8300m a year. I believe that it is important for Ministers collectively to have an opportunity to see these costs (and how and where they arise) alongside other potential claims on resources and to satisfy themselves that the sum of the parts is an acceptable whole. This year the aim is to have this consideration in October, at about the same time as the consideration of public expenditure generally.
9. The follow-up exercise, on which the Lord President now reports, was intended primarily to help individual Ministers, in the light of the total picture, to satisfy themselves as to the reasons for their own rising costs, that there exist adequate systems of control and that action was being taken to keep costs down.
10. Annex A of his report offers a quite encouraging picture of what is happening on the control front. I noted in particular the efforts to control overtime spending, travel costs (including the use of local budgets), energy use, postage, stationery and telephones. There is variation between departments, though this may reflect variation in reporting rather than in practice. I also have no real feel, except in a few cases, for the effectiveness of departmental efforts at keeping costs down and achieving specific savings.

11. I would advise Ministers to take the opportunity offered by Annex A to consider the efforts of other departments to bring specific items of expenditure under control, for example:

the Inland Revenue's 90% use of 2nd class post;

the Treasury's 10% reduction in the volume of mail last year;

the Home Office's 20% cut in printing and publications; and

the Civil Service Department's 25% reduction in telephones etc.

12. For this and subsequent year's scrutinies I would also advise Ministers to call for a commentary by officials on the data at the time it is first presented to them, to cover the sort of ground set out in the recent follow-up questionnaire. In addition to the questioning of the detail to ascertain why costs are moving as they are, I would place particular emphasis on:

the need for a clear statement of the positive measures being taken to effect cost reductions;

the savings achieved as a consequence, for each type of expenditure; and

knowing what had been done to improve the systems of control in the department, to learn from the experiences of others and to what effect.

13. The Lord President mentions the need to reduce the volume of administrative expenditure by using cheaper procedures in areas where prices are rising. Departments are in the best position to identify opportunities for this. But the central departments also have a key role to play through firm budgetary control and the dissemination of 'best practice'.

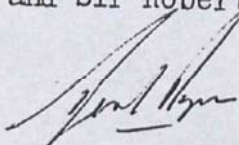
14. Despite the Government's efforts to control expenditure on administration, it increased by £1657m (25%) last year, £1100m of this going to wages, salaries and pensions and the rest to non-staff administrative costs. The Government is seeking a substantial limit on the increase in wages and salaries costs. But the increase in non-staff costs - upwards of £500m - is also very substantial. It represents a large claim on resources. I would advise Ministers to consider this in this year's scrutiny and the PES round. A good question might be:

"What would happen to the running of my department if I made a 10% cut in non-staff administrative costs over and above that which will occur as a result of the reduction in staff numbers?".

Publication

15. The Lord President recommends that the detailed results of the 1980 exercise should not be published unless specifically asked for. This is a matter for political judgment. May I just say that the Treasury and Civil Service Select Committee will probably want to know the costs of running Government when it comes to consider the question of efficiency in Government and that, on the principle that it is always better to initiate than to respond, there might be something to be said for meeting this in advance? The Government's White Paper on Efficiency might be a suitable vehicle for publishing pie charts and a summary table.

16. I am copying this to Ministers in charge of Departments and Sir Robert Armstrong.


Derek Rayner
18 May 1981