

PERSONAL

Mr Rickett

*OK for 10 minute*

Note

*I have spoken to Clive  
Preston. Sent Rayner with  
minutes accordingly*

*Govt Mach*

*wh 1/7*

INTERNAL AUDIT AND FINANCIAL CONTROL (Case study of financial management)

1. I have had a call from Mr Pestell, the Head of CSD's Manpower Group. Among other things, he looks after the annual scrutiny of departmental running costs. He rang me about the reference in Mr Whitmore's letter of 22 June to Sir Douglas Wass to bringing in two Ministers and their Permanent Secretaries, with management consultants, to examine the outcome of their scrutiny.

2. Mr Pestell is not clear what the management consultants would do before and at the meetings. (I assume that there would be one for each department.) I should be grateful for an early word with you about this. In the meantime, you might find the following thoughts helpful.

PURPOSE OF THE SCRUTINY AND OF THE PM'S MEETING

3. I attach a copy of Sir Derek Rayner's letter to the Home Secretary of 22 February 1980 which launched the scrutiny. May I draw your particular attention to its enclosed Note 1, especially:

- possible questions about the cost of the department as a whole (Note 1, paras 18 - 21); and
- information about parts of the department (Note 1, paras. 22 - 26).

4. Those paragraphs bring out the essential points that Ministers can address themselves to questions of relative simplicity about the costs of the department as a whole (the pounds, if you like) but that they need to get down to some detail in order to understand and query its composition (the pence).



5. You might also like to look at Sir DR's minute to the PM of 18 May, copy also attached for convenience.

6. I doubt whether management consultants could do much to improve on the purpose of the scrutiny or the questions in which that purpose is expressed, although they might be able to comment usefully on:

- the underlying information systems
- the allocation of and the accountability for costs
- the seriousness with which the scrutiny is taken.

7. But of course they could do nothing without spending some time in the department which - to judge by the Coopers & Lybrand study in MAFF - would be quite expensive. (We might have a word about who would pay for this.)

8. As for the purpose of the meetings, Sir DR suggested in his minute to the PM of 20 January this year that a "presentation" by those at the key levels in the management chain would be a very helpful technique. If one included a department like DHSS, those in the management chain might include the Permanent Secretary and a local office manager, for example.

9. I am not quite sure how it is envisaged how the management consultants would be used at the meeting. Putting in the crudest possible terms, would they be playing the part of the prosecutor and the department that of the defendant? My own feeling is that the PM would get as much value, if not more, out of her meetings with Ministers if she asked each of them what he received by way of information, what he did with it and what had happened as a result and each Permanent Secretary how he organised the control of departmental running costs, including the parts played by himself, his PEO

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and PFO and his line managers.

10. I think also that the PM might have Sir DR along instead of or in addition to management consultants, not least because of his scepticism about whether enough of them have their feet on the ground.

11. We shall be glad to brief, whatever happens.

WHICH DEPARTMENT?

12. With an administrative expenditure of £1,132m (1980-81, cost per employee of £11,745) DHSS would be a good candidate to include. Other "big system" departments are the Inland Revenue and Customs and Excise.

13. Another possibility would be DOE. Mr Heseltine has taken a close personal interest in the running of his Department. The latest manifestation of this is his current scrutiny of the control of overheads. This is being undertaken by a good Economic Adviser, Mr Joubert, who might be included in the party.

14. If the PM wanted a much smaller department, I understand that GCHQ takes its running costs very seriously and has operated a system of "local cost centres" for some time.

15. May we please speak?

*C*

C PRIESTLEY  
29 June 1981

Encs: Sir DR's letter of 22 February 1980 and his minute to the PM of 18 May 1981



CABINET OFFICE

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22 February 1980

The Rt Hon William Whitelaw MP  
Secretary of State for the Home Department  
50 Queen Anne's Gate  
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*For Home Secretary,*

THE SCRUTINY OF DEPARTMENTAL COSTS

(Earlier reference: Mr Whitmore's letter to Private Secretaries of 17 October)

1. Cabinet decided last autumn that it should have an annual statement on the cost of government and that departmental Ministers should examine the cost of running their department.
2. This letter offers advice on how to proceed. Note 1, enclosed, deals with the scrutiny of costs and is the basis for action now. Also enclosed is a paper (Note 2) which sets out my personal views on the sort of full departmental account of assets, costs and receipts which I regard as the goal to be reached in due course and towards which I regard Note 1 as an interim step. Note 2 is for information, not action.

General

3. The management of resources in government tends in my experience to be an amalgam of macro-economics and cash accounting. The purpose of Note 1 is, by contrast, to help Ministers to develop management accounting appropriate to the place they occupy at the top of their organisations.
4. Like other top managers, Ministers have to delegate much of the day-to-day responsibility for ensuring that resources are used effectively and that claims for extra resources are justified and cannot be met elsewhere. But so that delegation is not abdication, Ministers want information which enables them to survey and appraise their costs, notably but not only in the PESC/Estimates cycle, and to dig down selectively throughout the year.

5. They also need appropriate staff support. In my view, those best qualified to examine the consumption of resources on behalf of Ministers and their Permanent Secretaries are people with professional training in management accountancy. I believe that a Minister and his Accounting Officer should be served in the capacity of Principal Finance Officer by the kind of man or woman who in the private sector has overall responsibility for the financial affairs of his company. This would represent a change in the basic concept, but I make no apology for this. I regard it as especially important because the range of responsibilities carried by the typical Accounting Officer is usually very wide and formidable and he will not be able to go into all departmental expenditures in detail nor personally follow up all the questions that will be raised. It is therefore essential in my judgment that in dealing with the scrutiny of costs Accounting Officers are increasingly served by experienced accountants who have direct access to them and that these accountants have staff who are numerate and carry sufficient authority to probe in depth in any area where in their view it is imperative to ask more questions.

6. It will be said with some truth that awareness of costs has not necessarily in the past brought expenditure under control nor eliminated the desire of some departments to have what they would like without regard to cost. This will continue to be inevitable as long as there remains a lack of awareness and of involvement by senior people in making sure that the resources available are used to the best advantage. It will also continue if there is no real penalty for those who are extravagant, providing the rules have been obeyed and budgets not exceeded.

Scrutiny of departmental running costs - the "expenditure account" (Note 1)

7. I have consulted the Secretary of State for the Environment, the Chief Secretary and the Minister of State, CSD, in preparing Note 1. Agencies responsible to them will supply departments with some of the data required, while the CSD is ready to help departments in giving effect to the proposals contained in it. I am grateful to these Ministers for this.

8. The first year in which departmental costs are scrutinised in the way suggested in Note 1 is bound to be a little rough and ready, with some gaps in the information available to Ministers. I suggest we accept this and that, in setting up the proposed system, it is essential to ensure that the best is not made the enemy of the good nor that it becomes an annual ritual which accepts that extra expenditure is permissible because of slippage in timing or accelerates activity by costly overtime to keep in line with forecasts.

9. I should like to stress two points. First, in developing means of informing themselves Ministers should not in my view feel constrained to follow the strict rules of cash accounting but should instead use approximation where necessary: orders of magnitude and a picture of the movement of costs are what is necessary. It is essential also that in the first instance the information presented to Ministers is sufficiently brief and clear so that the relevant questions will come easily to mind. Ministers will need to seek further information to answer some of these questions. The back-up data lying behind what is first put to Ministers must therefore be of a kind which enables such questions to be answered.

10. Secondly, the enclosed Note 1 discusses information for the annual scrutiny by departmental Ministers on which Cabinet agreed. But I am sure that in present circumstances and for the foreseeable future Ministers will need some of it more than once a year if they are to assure themselves that the substance and movement of costs are according to plan. I recommend that Ministers set aside time each month for the examination of some part of the resources they use or have in their keeping.

11. Ministers in charge of departments will no doubt want to take the lead themselves at PESC and Estimates. But it may be helpful to them and to their junior Ministers to look to one or more of their Ministerial team to continue the scrutiny throughout the year. That would increase familiarity with the data and with the issues against the time for deciding bids and forward plans for resources and enable Ministers to plan both for reducing costs and for the better use of those resources which do have to be consumed.

A full account of assets, costs and receipts (Note 2)

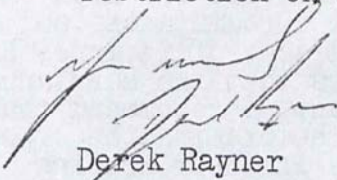
12. What I have termed the "expenditure account" is only a first but an important step towards providing cost information for Ministers. The enclosed Note 2, Thoughts on a departmental account, outlines very roughly the sort of account which might be the target to go for with the help of experience.

13. This would be an account for each Minister (and on this foundation for the Cabinet as a whole) of his costs, his receipts, if any, and the assets in his keeping. It will take a little time to produce such an account, because data on the value of land and buildings among other assets are not, I understand, readily to be had. So I should repeat that Note 2 is not intended to be and cannot be actioned now. I include it, however, to show the direction I believe the development of cost information should take.

Next steps

14. I hope that Ministers will be able to move ahead on the basis recommended in Note 1. If I can help I will do so gladly. I recognise that the arrangements proposed will mean some additional work, but I believe it can produce nothing but good since such extra effort as is required will be of positive advantage to Ministers and their departments.

15. I am copying this to the Prime Minister, your Cabinet colleagues, the Minister of Transport, the Minister of State, CSD and to Sir Ian Bancroft, Sir Robert Armstrong, Sir Douglas Wass, Sir Kenneth Berrill and Mr K J Sharp. I ask for no restriction on its circulation.



Derek Rayner

Encs: Note 1 Annual scrutiny of departmental running costs -  
the expenditure account

Note 2 Thoughts on a departmental account

NOTE 1

ANNUAL SCRUTINY OF DEPARTMENTAL RUNNING COSTS

1. I recommended last year and it was agreed that "each Minister in charge of a Department should at the appropriate point in the PESC/Estimates cycle, scrutinise the overheads of his Department as well as his staff costs". This is because in order to run anything, one needs first to know and then to question his costs. But I also believe that Ministers should avoid excessive detail - they are not in the business of accounting for the petty cash.

Scope of the information needed

2. This note is about providing and using information on the cost of having a Department, that is, of its staff, of its buildings and of supplying it with goods (eg stationery, furniture and equipment for scientific research) and services (eg water and electricity) which it uses. In offering it to Ministers, I acknowledge that some departments may already have sophisticated information systems, especially those which have Trading Funds; the latter should not, in my view, be excluded from the scrutiny, but it may be that their costs are already displayed in enough detail in their accounts for there to be no need to assemble them again as suggested below (paragraph 11) and in the Annex.

3. I also recognise that the detailed day-to-day responsibility for good management cannot and should not be exercised by Ministers themselves but by their officials. However, officials' authority for making good use of manpower, goods and services is delegated to them by and they discharge it under and on behalf of Ministers. I see the peculiar responsibility of Ministers here most clearly represented by two inalienable tasks, approving their Estimates of Expenditure and satisfying themselves, by selective examination, that the manpower, goods and services used in their name are used efficiently and well.

4. It may not at first be clear what information on the cost of manpower, goods and services should include and exclude. I offer the following thoughts on this.



5. First, the information to be provided should be only for the manpower, goods and services used by Ministers in running their own operations and administration, ie those operational and administrative expenditures whose form, scale and deployment are under the direct personal control of Ministers.

It may be helpful if I offer some comments in extension of that view:

a. I would exclude those "running costs" expenditures by such large public sector bodies as local authorities, the National Health Service and nationalised industries, since - although these are partly funded through departmental Votes - they are not under the Minister's personal control or within his management responsibility.

b. I would exclude grant-in-aid bodies, other than the Manpower Services Commission, Health and Safety Commission and the Advisory, Conciliation and Arbitration Service, since these are staffed by civil servants. I am writing to the Secretary of State for Employment about this. However, when in such cases the Minister's Accounting Officer is required to ensure that the body has an "appropriate financial regime", I recommend that it should be his responsibility also to assure himself that the head of that body has available to him a satisfactory management information system.

c. There may be problems of interpretation over the general aim, which is to include all relevant operational and administrative costs of the Minister's department. It might be argued that in some cases there is an unclear dividing line between, on the one hand, staffing, housing, maintaining and servicing a function and, on the other, the function itself. One example which has been mentioned to me is that of the Home Office's Prison Department, the question being where administration and "overheads" end and the function itself begins. I am firmly of the view that, for the purposes of the first year of this exercise, one need not strive to draw over-nice boundaries. In the case of the Prison Department, I would regard administration, "overheads" and function as forming a single cost centre and I would consider that all of this should be included as being part of the cost of running the operations of the Home Office.

d. By contrast, I would exclude expenditure not related to the operational management of the Department, even though it is spent on functions for which the Minister is directly responsible. Examples are intervention buying of agricultural produce, the development costs of Concorde and the government's contribution to teachers' superannuation. I would exclude also the cost of grants, loans or benefits to associations, organisations or individuals outside the department.

e. I understand that a particular problem may occur over agency or contractors' services. I suggest that where these are an essential part of the activity within the Minister's management responsibility, for example Post Office agency services, they should be included. However, where they go well beyond this (eg the use of local authorities as agents for trunk roads programme) they should be excluded.

f. I recognise that there may be special problems in the Ministry of Defence, owing to the difficulty of separating Civil Service from HM Forces costs.

6. Secondly, provided there is a broad consistency of treatment between departments, I do not think it matters much if in the first year in which Ministers scrutinise their departmental costs the exercise has rough edges and is to a degree experimental. I expect we shall all learn from the experience and I do not have a ready-made specification which will indicate with precision the exact scope and content of the data to be provided.

7. Thirdly, however, that "broad consistency" will be very much helped by the fact that it is already possible to specify with reasonable accuracy many of the constituent parts of a department's expenditure (see paragraph 11 below).

8. Fourthly, I suggest that the types of expenditure to be included should be determined not according to who pays, but who consumes. Whether or not repayment is introduced for those services currently provided on allied service terms, I suggest that Ministers will wish to manage their use and consumption of, for example, accommodation and PSA supplies as if they were a direct charge upon their Votes. Indeed I believe that the Treasury guide, Government Accounting, already asks departments so to behave. While the Property Services Agency is responsible for the management of the Government's

office estate as a whole, I see the consuming Departments as exerting a very powerful influence on the planning, allocation and control of such resources and, of course, as determining the total demand for them. Similarly, they determine the demand for other types of accommodation.

9. On this basis, I recommend that the information to be assembled should cover the following three broad categories of cost:

a. Those staff and other costs of running a department which are paid for out of its Votes and for which the Minister is accountable to Parliament.

b. The cost of those "supporting services" which are a charge upon the Votes of others and provided free to the department on allied service terms.

c. Those costs which do not entail actual expenditure by the department but which, I suggest, should nevertheless be taken into account when calculating the total cost to the taxpayer of running it. These costs are the pension and gratuity liability which accrue because staff are employed and the equivalent market rental of the offices the department occupies.

10. The Supply Estimates and associated tables provide some useful information on costs in those categories. But it is in my view an inadequate form for management purposes. For example, the information there given on "supporting services" is not presented on a departmental basis; the degree of detail about direct departmental costs is not sufficiently defined to enable the various components of the department's running costs to be managed individually; and the comparison with the previous year only does not offer an adequate span of time for effective monitoring.

Information about the Department as a whole

11. I have set out in the Annex relevant types of expenditure and the period the data should cover. The types are in brief:

- A. Staff (including pension and gratuity liability)
- B. Other services
- C. Personnel overheads
- D. Office and other accommodation costs
- E. Office services
- F. Other non-office expenditure

12. I recommend that all Ministers should have information prepared for them on this basis.

13. The costs are gross and expressed in money terms. Capital and current expenditures are separately identified (although in an ideal management information system capital expenditures would be displayed in an annualised form, depreciation and interest charges being the cost of the resources consumed each year).

14. In the case of services not paid for out of departmental Votes (paragraph 9b above), data on costs not already available to Ministers from within their own departments may be obtained from the Property Services and other agencies which supply those services. A list of contact points is given at the end of the Annex. If such costs are not at once available in the form required, they will be provided in the course of the coming year for incorporation in the schedule later. This procedure will apply to the PSA, Central Office of Information and Rating of Government Property Department and to HMSO and the CCTA in respect of expenditure before the move to repayment on 1 April 1980. It is another case where Ministers may need to accept that there will be some rough edges in the first year.

15. The cost of office accommodation (paragraph 11D above) can be charged at an equivalent market rental, by rental zones, whether it is leased or Crown freehold. This will put all departments on a comparable basis in monitoring accommodation costs. The cost of specialised buildings (Crown Courts, Prisons, Laboratories etc) is, I am informed, harder to assess. The PSA tell me that this is because there will often be no

market rent for such property and that it may be difficult to arrive at a capital value. In these cases, I propose, for the present, that only the capital cost of new construction undertaken each year should be shown. (Such projects will already have appeared in the department's PESC and will appear in Estimates.) For the future, it should be possible to devise a suitable method of capital valuation, possibly a form of depreciation based on initial or replacement cost. I have asked the PSA to advise me on this, as I am anxious that Ministers should have available to them a valuation of the capital assets in their hands. I intend to go separately into the questions of repayment for or attribution of PSA expenditure on behalf of user departments. The treatment of accommodation costs can accordingly be considered again in the light of the outcome.

16. I attach some importance to the question, covered by A in paragraph 11 above and the Annex, of how much pension liability as well as wage-salary and other cost liabilities a Minister accepts when he recruits staff. A career civil servant is a substantial investment from the moment he/she is taken on to the moment his/her working life ends, but pension liability is as much a cost of employing a civil servant as his/her pay. This point is covered by my recommendation on the inclusion of pension and gratuity liability at paragraph 9 above.

17. In case officials need help in interpreting the intended scope and coverage of the cost information, I have agreed with Mr Channon that they should write to Mr A R Williams, Manpower 1 Division, Civil Service Department.

Possible questions about the cost of the Department as a whole

18. In the first instance I suggest that information needs to be brought together and displayed for the department as a whole. It will provide Ministers with answers to such simple, but important questions as:

- What is the total cost of running my department now and how does it compare with costs in previous years?

- Which particular costs make a significant contribution to the total? What efforts is the department making to keep those under control?
- How much has inflation caused expenditure to rise and how is my department improving efficiency to off-set its effects?
- Are my non-staff costs moving in line with what would be expected in the face of changing staff levels?
- Where have I failed to achieve planned changes in my costs?
- Are the savings I am achieving merely at the margin or am I operating on the main bulk of my costs?

19. In addition to the information set out in the Annex, to provide Ministers with a feel for what they are buying for the taxpayer, I suggest that some of the expenditures should be supplemented vividly by notes on quantities, eg numbers of staff employed, square footage of office space, amounts of paper and energy consumed, numbers of staff trained, number of cars in the transport fleet.

20. I attach special importance to two things, firstly the level of staff wastage. If high, it means a significant wastage of resources, notably in the costs of recruitment, training and supervisory time, in addition to unrealised investment in wages and salaries. Similarly, it is necessary to give a clear breakdown of staff by grade. In my own business, I need to know how many managers, assistant managers, supervisors and sales staff we have and how many specialists, technologists and technicians. This is because, without careful scrutiny, the relative proportions of the various types of employee tend to change unpredictably and it is all too easy to make economies, not by cutting back on the numbers of senior grades, but on those whose jobs can most easily be measured.

21. Secondly, the cost of stocks. The "non-office expenditure" covered by paragraph 11 F above may include the purchase and storage of various kinds of stocks and stores. Where these include supplies that are expensive both to buy and to store, I suggest that it would be helpful to have a separate analysis to provide data on purchase and storage costs, so that Ministers can enquire why, for example, the level of purchase and stockholding has gone up or down.

Information about parts of the Department

22. Information about the department as a whole can only take Ministers part way along the road to effective management. To plan and control the costs of running their departments I suggest that they will need to ask, and to have information available to answer, such questions as:

- Why are the costs of particular items at the levels that they are and changing in the way they are?
- Where in my department do the cost of particular items mainly arise and the changes originate, eg HQ or Local Offices; Policy/Advisory or delivery of the services; desk staff or support staff?
- What is the rate of staff turnover or wastage, with particular reference to grades that matter to my operations?
- What grades does my staff consist of and in what numbers? Which are expanding or contracting and why? What change in the pattern of skills employed by my department does this represent and why?
- What is the cost to the department of running a particular programme?
- Are the staff and other costs of a particular programme moving in the same direction as my policy in relation to the programme? If not, why not?
- Where in my department have my economy drives failed to bite?
- How much have this year's policy initiatives affected the cost of running my department?
- In what areas could I achieve savings in the longer term by increasing expenditure in the short term?

23. I suggest that providing answers to such questions will mean underpinning gross information on the department as a whole with similar information on its component parts.

24. It will be necessary for costs to be got together in relation to organisational units and, if Ministers so desire, expenditure programmes or particular activities. The definition of the "organisational units" and of "activities" will be for Ministers to determine in the light of their own departmental circumstances. For example, in some cases it might be satisfactory to specify a Deputy Secretary command as an "organisational unit", whereas in others an Assistant Secretary (or lower) command would be appropriate. An example of an activity could be training across the whole department.

25. Ministers need not have this supplementary information presented to them in its entirety unless they wish. Its main purpose should be as a source of information which can be tapped so as to explain the data presented on the whole department and in answering Ministers' specific questions. It should also, of course, sharpen the awareness of costs and bring home the need to control them at all levels of management.

26. Having the wherewithal to examine the cost of a particular activity is the precondition for enquiring into value added for money spent. That enquiry should not and cannot be confined to appraising staff and running costs - it is bound to extend to the appraisal of the outcome of policies on the ground and therefore to the search for effective ways of assessing outcome. This may apply just as much to the expenditure of public bodies other than the department when Ministers are evaluating policies and considering the total cost of implementing a programme, but this note is addressed to the cost of departmental administration, not to the cost of policies.

#### Timing of the scrutiny

27. I suggest that Ministers should have an opportunity to scrutinise the cost of running their department in good time for the decisions they need to take each year on the level and direction of change of such costs in the next and coming years. I recommend therefore that departments should prepare



their analyses in April of each year for presentation to Ministers in early May. The decisions taken by Ministers on the detailed expenditures should then be reflected in the preparation of the next year's Estimates. In November each year, when these Estimates are being prepared for the following financial year, I suggest that Ministers will then wish to ensure that their management decisions have been taken on board and make further adjustments as necessary. But I should emphasise that I see the information as being just as if not more helpful to Ministers in relation to planning for later years as for the next following year. This is because, in my view, it bears heavily on the medium-term management policy of the department, as well as upon the scrutiny of costs here and now and to decisions on the administrative budget for the next year.

28. I recommend that the information should be scrutinised by the Minister in charge of the department. However the responsibility for taking the first look at the data might be delegated to a Minister of State or a junior Minister. He/she could also be responsible for any follow-up after the scrutiny.

29. The data listed in paragraph 11 and set out more fully in the Annex will also provide the base for an annual statement on the cost of running central government. This will be prepared by CSD Ministers for the Cabinet, who will consider it at about the same time as the PESC report. I understand that Mr Channon would like to receive returns from Ministers by the beginning of June, together with a commentary indicating each Minister's conclusions as a result of his scrutiny.

30. I recognise that all the information necessary to meet the management needs of Ministers may not be available in this first year of operation. It is important however that Departments begin now to refine their cost information systems with a view to its being fully operational in 1981-82. I therefore recommend that the scrutiny for 1980-81, although it should be done for real, should be regarded as a pilot run, so that the new procedures can operate smoothly in and from next year. I recognise that there could be problems of timing in this first year. If necessary,

in order to get a reliable test, the submission of trial analyses to Ministers could be put back, provided that Mr Channon received all returns by the end of September to allow enough time to consider the lessons to be learned from this first attempt at the scrutiny of costs.

31. I shall be glad to do what I can to help with the trial.

Summary of recommendations

32. Principal Accounting Officers should assure themselves that heads of bodies funded through departmental Votes have available to them a satisfactory management information system (paragraph 5b).

33. The information to be assembled should cover (a) staff and other running costs paid for out of the department's Votes; (b) the cost of supporting services provided on allied service terms; and (c) notional expenditure (paragraphs 9-12 and Annex).

34. Departments should prepare their analyses each April for presentation to Ministers early in May, beginning this year. Ministers' decisions on the detailed expenditures should then be reflected in preparing the next year's Estimates (paragraph 27).

35. The information should be scrutinised by the Minister in charge of the Department, although the first look and follow-up action might be delegated to a junior Minister (paragraph 27).

36. The 1980-81 scrutiny, although done for real, should be regarded as a pilot run (paragraph 30).

Derek Rayner  
Cabinet Office  
Whitehall SW1

22 February 1980

TOTAL DEPARTMENTAL COSTS

	Last year -		This year		
	Penultimate Year (Actual) Gross	Last Year (forecast Outturn) Gross	This year (Estimate) Gross	Increase/Decrease + or -	% Change + or -
<b>A. Staff</b>					
1. Average Numbers of permanent staff					
2. Costs	£	£	£	£	
Wages and Salaries (including Insurance contribution)					
i. Permanent Staff (UK based)					
ii. Overtime					
iii. Casuals					
iv. Period Appointees; staff on loan from outside bodies (paid for by the department)					
v. Staff locally engaged overseas					
vi. Employers' superannuation contributions					
vii. Other pay costs					
3. Pension and gratuity liability (1)					
<b>TOTAL WAGES AND SALARIES</b>					
<b>B. Other Services</b>					
1. GIRO and other banking services					
2. Post Office Agency charges					
3. Other agency charges, cost of staff employed by contractors, consultants and fee paid staff					
[Note: this item is intended to include the employment of contract labour eg cleaning staff but not the direct labour element in government contracts]					
4. Payments to other departments for 2 services provided (eg establishments or common support services)					
[specify each department separately]					
<b>TOTAL OTHER SERVICES</b>					

(1) Notional expenditure only.

	Penultimate Year (Actual) Gross	Last year (forecast Outturn) Gross	This year (Estimate) Gross	Last year - This year	
				Increase/ Decrease + or -	% Change + or -
	£	£	£	£	
<b>C. <u>Personnel overheads</u></b>					
Travel					
Subsistence					
Entertainment					
Removals					
Catering Subsidies					
Protective Clothing, Uniforms etc					
External training, seminars etc					
<b>TOTAL PERSONNEL OVERHEADS</b>					
<b>D. i. <u>General Office Accommodation Costs</u></b>					
Equivalent market rents (1)					
Rates (2)					
Heating, lighting(2)					
Maintenance (2)					
Furniture and fittings (2)					
<b>ii. <u>Other Accommodation Costs</u></b>					
Rates (2)					
Heating, lighting(2)					
Maintenance (2)					
Furniture and fittings (2)					
Capital Costs - New Construction (2)					
<b>TOTAL ACCOMMODATION COSTS</b>					

(2) Expenditure borne on other departments' Votes (also applies to stationery, printing, office machinery and administrative computers before 1980-81).

				Last Year-This Year	
	Penultimate Year (Actual) Gross	Last Year (forecast outturn Gross	This Year (Estimate Gross	Increase/ Decrease + or -	% Change + or -
	£	£	£	£	
<b>E. <u>Office Services</u></b>					
Carriage, freight					
Transport-own depart- ment (inc.vehicle maintenance)(3)					
Transport-PSA(2)(3)					
Telecommunications (5)					
Postage					
Office Machinery(3)					
Stationery					
Photocopying					
Printing & Publi- cations (3)					
Publicity and advertising (2)(3)					
Library Services					
Administrative Computers (3)					
Minor Administrative Expenses [separately annotated where substantial]					
<b>TOTAL OFFICE SERVICES</b>					
<b>F. <u>Other Non-Office Expenditure</u></b>					
<b>i. <u>Capital Expen- diture</u></b>					
Land					
Plant & Equipment					
Vehicles					
<b>ii. <u>Running Costs</u></b>					
Land					
Plant & Equipment					
Vehicles					
<b>iii. <u>Other Current Costs</u></b>					
<b>TOTAL OTHER EXPENDITURE</b>					
<b>TOTAL EXPENDITURE A-F borne on own Votes</b>					

NOTE 2

THOUGHTS ON A DEPARTMENTAL ACCOUNT

1. I believe that each Minister in charge of a Department should have available at the right moment in the PESC/Estimates cycle an account of the capital and human resources which he and his senior officials use.

2. A structure for this account might in outline be as follows. The presentation of data on costs etc should cover the previous year, the current year and the forthcoming year (estimates), with a projection to the end of the PESC period.

A. ANNUAL CAPITAL ACCOUNT

1. Estates and buildings: value of investments (which should be periodically revalued).
2. Plant and machinery: value of investments, less depreciation.
3. Costs of capital (eg interest charges and depreciation).
4. Stocks and stores.

B. ANNUAL EXPENDITURE ACCOUNT

1. Cost of staff salaries, wages and overtime.
2. Liability to pay future pensions in respect of present staff.
3. Cost of overheads related to staff, eg stationery, telecommunications.
4. Cost of overheads related to estates, buildings, plant and machinery, eg maintenance, heating, lighting, cleaning.

C. ANNUAL CONSOLIDATED ACCOUNT

The accounts at A and B above combined as appropriate.

	Penultimate Year (Actual) Gross	Last Year (forecast outturn) Gross	This Year (Estimate) Gross	Increase/ Decrease + or -	% Change + or -
	£	£	£	£	
TOTAL EXPENDITURE A-F borne on other depts' Votes (2)					
TOTAL EXPENDITURE A-F which is notional only (1)					
GRAND TOTAL A-F					

- (1) Notional expenditure only
- (2) Expenditure borne on other departments' Votes (also applies to stationery, printing, office machinery and administrative computers prior to 1980/81).
- (3) Please separate expenditure between Capital Costs and Running Costs where possible.

- Notes:
- (a) Pension and Gratuity Liability is to be calculated on the latest rates notified by the Treasury [currently 19% for Non-Industrials and 16% for Industrials].
  - (b) Substantial costs will also need to be subdivided by organisational units (eg locations, functions, Under Secretary Commands etc). The precise nature of the breakdown will need to reflect the internal organisation of the department itself. All staff costs will require this treatment; the separation of other costs will depend upon a number of factors eg practicability, materiality and whether cost control will be facilitated.
  - (c) Expenditure figures should be shown gross. A separate note analysing receipts may also be required in order to present a full picture.
  - (d) Current year figures should be reconcilable with those shown in Supply Estimates after allowing for notional items. Figures for last year should be as near as possible to the final appropriation account figures. Penultimate year figures must be exactly reconcilable with that year's Appropriation Accounts.
  - (e) Any goods or services provided free to the department on allied service terms should be marked. The expenditure to be shown under these items should be obtained from the relevant allied service department.
  - (f) The contact points in these departments are as follows:
    - Property Services Agency: Mr P B Overton,  
20 Albert Embankment, London SE1(211 3254)
    - Central Office of Information: Mr D J Etheridge,  
Hercules Road, London SE17(928 2345 ext 8114)
    - Rating of Government Property Department: Mr P S Mewes,  
69 Notting Hill Gate, London W11  
(229 9841 ext 46)
    - HM Stationery Office: Mr P Jefford, Sovereign House,  
Botolph Street, Norwich (0603 22211)
    - Central Computer and Telecommunications Agency: Mr D Fowler, Riverwalk House,  
157-161 Millbank, London SW1 (211 0327)

D. ANALYSIS OF EXPENDITURE ACCOUNT

This should include a commentary on such items as:

1. Breakdown of staff by grade and skill.
2. Level and incidence of staff turnover.
3. Level and incidence of absenteeism and uncertificated sick leave.
4. Stockholding compared with stock usage; cost of stock handling and distribution.
5. Maintenance and cleaning.
6. Level and incidence of costs of services (heating, lighting, water etc).

E. ACCOUNT OF INCOME

This should include an analysis and account of receipts.

3. The structure outlined in para. 2 is about the cost of the Department as a whole. The assemblage of the necessary data would, however, enable accounts to be prepared for management in respect of particular activities, functions or organisational units and thus enable Ministers to examine certain areas of their Department in detail.

4. For example, it should be possible to cost expenditure on a research establishment and to value its assets in respect of:

- the Capital Account, estate, building, plant and machinery
- the Expenditure Account, staff and staff overheads; overheads related to the maintenance and upkeep of the estate, buildings etc; purchase of goods etc.



5. It would also be possible to analyse expenditure and income (if any) for the establishment as noted in D and E above. Indeed, I would regard this less as a possibility than as a requirement for line management.

6. As far as Ministers are concerned, I regard information of the kind outlined above as serving two main purposes in respect of a research or similar establishment. First, it enables them to make a reality of that management task which is appropriate to their status by providing them with statements of values and costs. They need this in order to know what they have in hand and to be conscious of cost.

7. Secondly, when Ministers are faced with the need to retrench as well as to manage expenditure, the information will enable them to pose pertinent questions on the overall movement of expenditure and to make such decisions as these:

- to keep or to sell land (capital receipts plus savings in associated recurrent expenditure)
- to keep to existing levels of upkeep and maintenance or not
- to keep or discontinue or not enter upon a particular or a preferred activity
- to keep or to reduce levels of stockholding
- to keep or reduce levels of fees and charges

8. Another example is of the administrative/executive/clerical activity, function or organisation. Again, I think that the inquiring Minister needs information in respect of such items as:

- Capital assets, if any (D above)
- Rental charges in respect of leasehold accommodation and equipment

- Staff costs
- Overheads related to staff and to non-staff items.

9. Such information, again, will help Ministers responsible for good management and for retrenchment by giving them knowledge of costs and enabling them to ask such questions as some of those in paragraph 7. Here some of the main questions should, I suggest, be addressed to the question of excellence. If Government has to provide a service, Ministers will want it to be a first class service. So the questions which arise include: the issue whether productivity and effectiveness can be increased by simplification of procedures; mechanisation; removing the causes of staff instability; and devising a management structure which is appropriate to the task in hand and is not oppressively long.

Derek Rayner  
29 January 1980