

27 March 1985

PRIME MINISTER

RUNNING COSTS TARGETS

It really is pretty pathetic that Government running costs have risen faster than inflation every year since 1980. The Treasury are right to go for targets that are 0.5% below the rate of inflation for each of the next 3 years.

But two wider questions are raised by their note. First, there is potential for confusion in having overall cost targets, whilst at the same time retaining separate objectives for civil service manpower and civil service pay. The Treasury recognise this, and therefore suggest that the current civil service manpower targets should not be taken beyond 1988. That is probably right. But it will mean that you go into the next Election with a good track record on civil service manpower, yet with future targets only for Government running costs as a whole.

Secondly, the FMI needs to be given a shot in the arm so that we can actually deliver these targets. Rather than make painful small cuts everywhere, departments should be encouraged to cut out entire functions when they are not needed. Moreover, managers should be given the freedom to decide on the most effective way of spending the tough

budgets for which they are given responsibility. The Ibbs Unit and the Treasury need to think further about changing departments' management arrangements.

I recommend that you agree with the Treasury proposal, but emphasise the need for new management arrangements so the cost objectives can be effective.

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