



B/F with cost reply
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From the Secretary of State for Social Services

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
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(1) April 1985

Peter Rees

PUBLIC EXPENDITURE SURVEY AND RUNNING COST TARGETS

Thank you for copying to me your minutes of 3 April to the Prime Minister on Public Expenditure and Running Cost Targets.

On public expenditure I must enter the same reservations as last year. The 2½ per cent factor used to create the baseline for the third year is likely to be lower than the RPI forecast for determining the cost of a prices uprating of social security benefits. I was assured last year that this method of constructing the baseline was not intended to impose an additional squeeze on that programme, and I trust that this is once again the position. A similar point arises on the HPSS side, and is a matter of equal concern to me.

I generally welcome your proposals on running cost targets, but would make the following points.

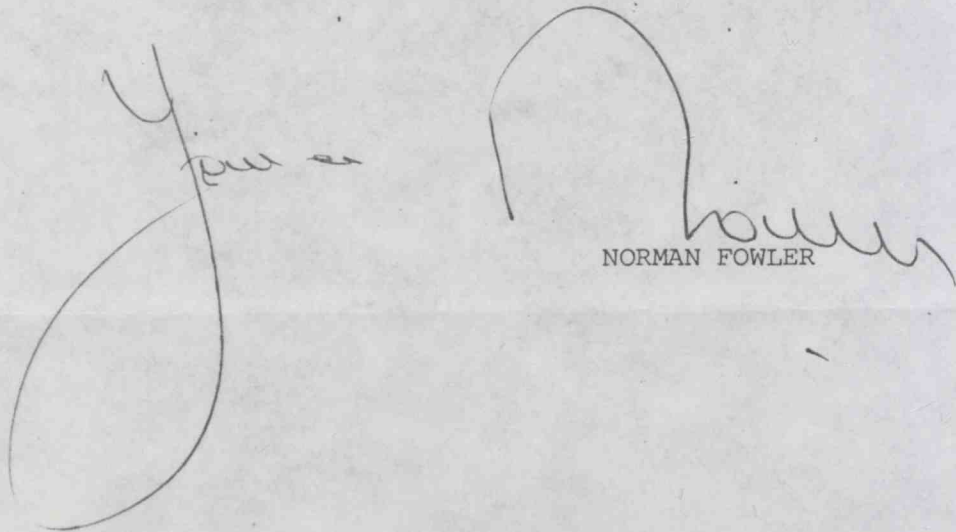
1. I do not think it is just a question (paragraph 5 of your minute) of Departments' having management systems to make running costs targets successful. A substantial fall or rise in the number unemployed has a substantial effect on the staffing of this Department. In particular it seems ordinary prudence to continue to have a substantial central contingency margin to cope with cost peaks.
2. It seems sensible not to represent the running costs targets in public now in such a way as to place the Government in unnecessary political or economic embarrassment later. The overall target, as the papers explain clearly, is however very ambitious. For example, if pay in the private sector continues to rise above the rate of inflation it will be hard to resist all repercussions on the civil service, and some at least of the potential efficiency gains will need to be used to offset this effect.
3. In the detailed work which will follow from the new approach, I very much hope that you and your officials will give a great deal of attention to further reducing central controls. It will be simply frustrating and counter-productive to the main aim of running costs targets if Departments' ability to manage within a cost sum is constrained by rules which date from a period of differently-g geared central control. I am also concerned about

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observing both the running cost target and the manpower control target in parallel up to 1988: it is absurd that we increasingly find ourselves trying to make manpower savings by measures which are wasteful of benefit expenditure; and the addition of running cost controls as yet another separate constraint is likely to make this even worse.

4. Finally, I wholly subscribe to the main aim of the running costs targets of introducing the sort of discipline found in the market place; but that discipline must be related in central government to the tasks which we want central government to carry out. I suggest that the target set at this stage should be treated as provisional and decisions on whether they should be higher or lower in a given year should be taken after Ministers have had the opportunity to consider detailed options and assess their implications for Government objectives and the tasks necessary to achieve them.

I am copying this letter to Cabinet colleagues, Grey Gowrie, Robin Ibbs and Sir Robert Armstrong.



NORMAN FOWLER

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