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The Rt Hon Peter Rees QC MP  
Chief Secretary  
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#### **RUNNING COSTS TARGETS**

I support the proposals in the paper you circulated on 3 April. A single financial target from 1988/89 will give the flexibility which departments need in deciding the best mix of resources while at the same time exerting a downward pressure on manpower and costs from the centre.

Separate departmental targets compatible with the aggregate target will allow variations according to need. I think that must mean that in some circumstances there will be bigger increases than the average associated with increases in manpower numbers - an eventuality which is catered for at present through the manpower reserve. In my own programmes you are already aware that the expansion of YTS and CP announced in the Budget will require more staff. We also need to take into account the cost effectiveness of groups of extra staff. For example, as you know, we are experimenting in the Department with Regional Investigation Teams for the investigation of fraud in claiming benefit. It may turn out that these staff pay for themselves several times over in the savings in benefit resulting from their activities. I am sure you will agree that in such cases we should not fail to take the opportunity to make savings simply because extra staff are needed to achieve them.

The method of calculating the aggregate target will put a tight lid on the total. It will be more difficult to expect departments to absorb increases which they have not been able to allow for in PES and Estimates like the part of Civil Service pay increases above the pay assumption and, in my case, levels of unemployment above those assumed.

I support your proposals for a gross rather than a net basis and a broad rather than a narrow definition of running costs. In MSC, however, the STA and PER are on a cost recovery basis which effectively removes them from control by running costs targets.



Your conclusion in the section on the pay assumption that in this area it should continue is based on the argument that it has value in Civil Service pay negotiations and influences pay settlements elsewhere. I doubt whether there is much force in the latter point. In my view it tends to restrict the room for manoeuvre, it sets a 'norm' to be challenged, and it has been so widely breached as to cast doubt on its credibility. If it is not necessary for running costs targets I would welcome the opportunity to consider further with colleagues whether it should continue (perhaps on the basis of a more detailed note by the Treasury) in good time before the need arises to take a decision about the next pay round.

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

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