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J. H. *R. B.*

Many thanks for organising a delicious and very useful dinner last Monday. I know that Peter Rees and Barney Hayhoe were as pleased as I was to have the opportunity to discuss so many important issues. There were three topics in particular where I think we established a clear line ahead.

First, it is clear that all our efforts to improve value for money must take place in the context of Government policy. The Government has a clear policy to reduce the burden of public expenditure and get taxation down to reasonable levels. Until we have achieved that, we need to do all we can to ensure that increased efficiency shows up in lower expenditure. We cannot afford changes in financial management which become a means of institutionlising present levels of expenditure, and then try to console ourselves that public sector output has risen.

This does not of course mean that we should let up in any way in our efforts to improve the measurement of output, which I strongly support. Nor does it mean that there will not be instances where some of the efficiency gains can be retained by the department making them. Indeed, this probably already happens quite extensively. But in present circumstances I am sure that all our efforts must be devoted to securing the maximum possible efficiency savings as one of the key means of reducing public expenditure.

Second, we went over the implications of moving progressively to a target for running costs. I think we were all agreed that to do so would be desirable. Manpower targets are a less rational (and more emotive) overriding goal, running costs fit well with new initiatives to encourage contracting out, and this shift would permit us to phase out the pay factor. But we agreed equally that this change would require a gradual shift of emphasis, much better data, and that it would be right to continue to monitor staff numbers even if they were to lose their target status.

Third, we discussed the Prime Minister's seminars. We confirmed that the Efficiency Unit would consult Treasury officials in advance of each to take account of ideas we might have about fruitful avenues to pursue, and that the Unit would de-brief the Treasury afterwards.



As Peter and I mentioned, we shall be preparing in earnest in August for Peter's September bilaterals with the spending Ministers. Any further ideas you may have about issues we could raise then will be most welcome.

*Yours
Nigel*

NIGEL LAWSON