

E.R.

PRIME MINISTER

ms

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

I attach Policy Unit advice on the minute circulated by the Chief Secretary on departmental running costs.

Agree a response which:

- (i) expresses disappointment about the lack of progress in controlling running costs so far.
- (ii) reminds departments that the most effective way of reducing running costs is for Government to reduce and simplify the tasks which it takes upon itself.

Yes ms

Dub

3 August 1984

CONFIDENTIAL

MR BARCLAY

3 August 1984

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

The running costs in 1983/84 of government departments amounted to £16,000 million of gross spending. Over the 5 years from 1979/80 there has been a substantial increase in real terms in the cost of running the central administration.

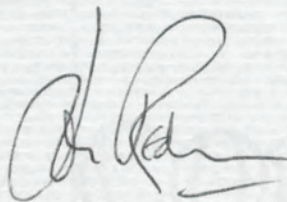
The savings identified in the commentaries are puny in relation to the total. The bulk of the expenditure is on manpower and pay, and most of the rest of the expenditure is a natural consequence of the manpower levels. Fewer people means less travelling and subsistence, less office accommodation, fewer phone calls and less paper.

The message from all of the figures points in the same direction. The FMI has not yet had any visible impact, and now that the information has been assembled, it requires management decisions to be made about what is and is not essential work in central departments. Despite the rundown in manpower, so far no real savings have been achieved in the last 5 years. (Even adjusting for the change in accounting base at the beginning of 1983, there has still been a substantial real increase in costs over a 5-year period.)

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The way to make an inroad into the administrative overhead comes through reducing the amount of regulation undertaken by government, simplifying the tax and benefit systems which are very labour-intensive, and reducing the substantial sponsorship rôles of government. If these things are done, then more exacting manpower targets could be set for the lifetime of this Parliament, and then you would find the administrative overhead did indeed decline. Without these decisions, the future is unlikely to be any better than the desultory experience of the past.



JOHN REDWOOD

CONFIDENTIAL

FILE

da



10 DOWNING STREET

From the Private Secretary

6 August 1984

Dear John,

1983/84 Scrutiny of Departmental Running Costs

The Prime Minister considered over the weekend the Chief Secretary's minute of 30 July reporting on the 1983/84 annual scrutiny of departmental running costs.

The Prime Minister believes that the report reveals a disappointing lack of progress in controlling running costs to date. Now that more sophisticated management information systems are in place, they need to be used to inform decisions about what functions should and should not be carried out in central departments. The Prime Minister would stress that the most effective way to reduce running costs is for Government to reduce and simplify the tasks which it takes upon itself.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, to Mary Brown (Lord Gowrie's Office) and to Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

Yours ever,
David

David Barclay

John Gieve, Esq.,
Chief Secretary's Office.

da



CCNY

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7th September 1984

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10/9

See Peter

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

-PTIS

I was interested to see your minute of 30th July to the Prime Minister and the accompanying report on the 1983/84 scrutiny of Departmental running costs. I suggest, however, that the value of the report would be enhanced if a supplementary analysis could be undertaken.

Annex A to the report shows the running costs of each Department but only for one year, 1983/84; consequently it does not give us any clear idea of how Departments compare in terms of their performance in controlling running costs. I believe it would be useful therefore to produce an analytical table which would enable us to see the trend of expenditure over a period of years. I recognise, of course, that we have pointed out from time to time that because of the wide-ranging nature of the activities which are represented in the MOD input to the scrutiny the figures which we provide cannot readily be compared with those of other Departments whose inputs tend to be limited to "the cost of running a Department of State" (and this difficulty is, of course, acknowledged by implication in the report). Nevertheless I would not regard this as a major objection to what I am proposing, provided that due allowance was made for the fact that our figures have been inflated by military expenditure arising from the Falklands conflict. It would after all be the trend in expenditure rather than the total of each Department's running costs which would provide the basis for comparison.

The Rt Hon Peter Rees QC MP



On the face of it, it should be possible to cover the period 1979/80 to 1983/84; and so far as 1983/84 is concerned Departments should now be in a position to use final outturn figures rather than the provisional figures which were included in the scrutiny returns. I suggest that, as in the report, the analysis should involve the use of gross figures (on a common price base) but that all capital expenditure should be excluded on the grounds that the incidence of such expenditure can distort an assessment of the trend in running costs. In addition, allowance would need to be made for the special factors mentioned in paragraph 3 of the report, including the introduction of the PRS arrangements on 1st April 1983. As regards the categorisation of expenditure it would probably not make sense to go down as far as the lowest level of diaggregation which has figured in the scrutiny since I understand that there has been a certain amount of reclassification over the years. For this reason it might be preferable to work on the basis of the general categories which appear in Annex A to the report, though I think there would be merit in breaking down the Wages and Salaries category into its constituent parts.

I hope that this "performance indicator" approach will commend itself to you and will not be seen by other Departmental Ministers as presenting any major problem, bearing in mind that virtually all the material required already exists.

I am sending copies of this minute to Cabinet colleagues, Lord Gowrie, Sir Robin Ibbs and Sir Robert Armstrong.

Yes
MHS

Michael Heseltine

GOVT Mach R 16

Layner



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP
Secretary of State for Defence
Ministry of Defence
Main Building
Whitehall
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SW1A 2HB

24 September 1984

Michael Heseltine

*mbp
DMS
25/9*

1983-84 SCRUTINY OF RUNNING COSTS

Thank you for your letter of 7 September. I welcome your support for the work done for the 1983-84 scrutiny of departmental running costs. I think, too, that your suggestion that the Treasury should produce an analysis of running costs showing the trend of expenditure over a period of years is most helpful and work on this is now in hand.

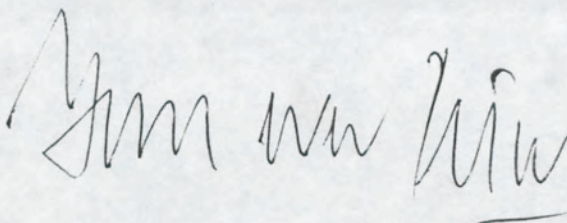
2 You mention that the Ministry of Defence figures cannot readily be compared with those of other Departments because, among other reasons, the figures were inflated in some years by military expenditure arising from the Falklands conflict. Similar issues apply for other Departments; for example in 1981 the UK had the Presidency of the European Communities and expenditure on entertainment in the Foreign and Commonwealth Office was consequently inflated. Nevertheless, these are not, as you say, major objections, although they underline the need to interpret the figures with care.

3 Turning to your suggestion on how the figures should be analysed, there are some difficulties. Information on running costs has up till now been collected manually rather than as part of the Treasury's systems for collecting information on expenditure in PES and Estimates; perhaps partly in consequence Departments have provided running costs information with a slightly different coverage from one scrutiny to the next. In consequence, comparisons between information collected in successive scrutinies will need to be treated with particular care. To meet these difficulties our analysis will give trend information only for the four years 1981-82, 1982-83, 1983-84 and 1984-85 Estimates provision. As you may know, officials here are currently making arrangements to collect running costs information from Departments as a routine part of PES and Estimates; so we hope to avoid these problems in future.

To minimise the workload and avoid further problems of changed coverage I propose to use provisional outturn for 1983-84 rather than approaching Departments for final outturn figures.

4 Aside from these minor points I accept your suggestions for the form of the analysis and I will circulate it to you and others as soon as possible.

5 I am sending copies of this minute to Cabinet colleagues, Sir Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read 'Peter Rees', written in dark ink.

PETER REES

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25 SEP 1984

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 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Peter Rees QC MP
 Chief Secretary to the Treasury
 Treasury Chambers
 Parliament Street
 London SW1

*in paper
 done
 16/9*

15 October 1984

Rees Peter

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

I was interested to see Michael Heseltine's letter of 7 September suggesting a comparative analysis of performance in controlling running costs. The figures would need to be interpreted with some care, as most Departments will have been affected by special factors over the past few years even if not quite on the scale of the MOD figures. It would also be important to supplement them with some indication of output, as running costs in themselves are not very revealing. With these cautions, however, I feel the exercise could prove instructive, and that it should be discussed further.

I am sending copies to Cabinet colleagues, Sir Robin Ibbs and Sir Robert Armstrong.

Rees Peter

Norman Fowler

NORMAN FOWLER

GOVT MAIL: Rayner P416

11 5 OCT 1964





CABINET OFFICE

~~From the Minister of State~~

Lord Gowrie

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London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON SW1

12 October 1984

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Dubs
17/10*

Dear Peter,

1983/84 SCRUTINY OF RUNNING COSTS

Michael Heseltine copied to me his letter of 7 September in which he suggested a further analysis of running costs over a number of years and I have since seen your reply of 24 September. I also think such an analysis would be very useful and was therefore pleased to learn that work on this is now in hand.

My only hesitation relates to treatment of capital costs. While I see Michael's point about how the varying incidence of capital expenditure could distort the analysis, I think that we should include the information somehow because more and more capital expenditure is being delegated to line managers to be controlled alongside other related running costs. Perhaps, the best way might be to enter it separately, below the line, so to speak.

I am copying this letter to Cabinet colleagues, Sir Robin Ibbes and Sir Robert Armstrong.

Gowrie,
[Signature]

GOWRIE

Rayner Pt 16

17 OCT 1984

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