



With the Compliments
of

The Permanent Under Secretary of State
Scottish Office

Sir William Fraser **GCB**

Slides used at our Secretary of State's
presentation on Value for Money in
Government on 27 November.

Dover House
Whitehall
London SW1A 2AU
01-233 8229 or 7602

New St. Andrew's House
Edinburgh EH1 3SX
031-556 8400

GR
✓
●



CF
Don't you have
the file with
a copy of those
who showed
scene this?
JC

10 DOWNING STREET

These are to be
circulated to those
who received HERB's
meeting record.

HERB thought that
Janice was masterminding
the operation.

M/K
3/12

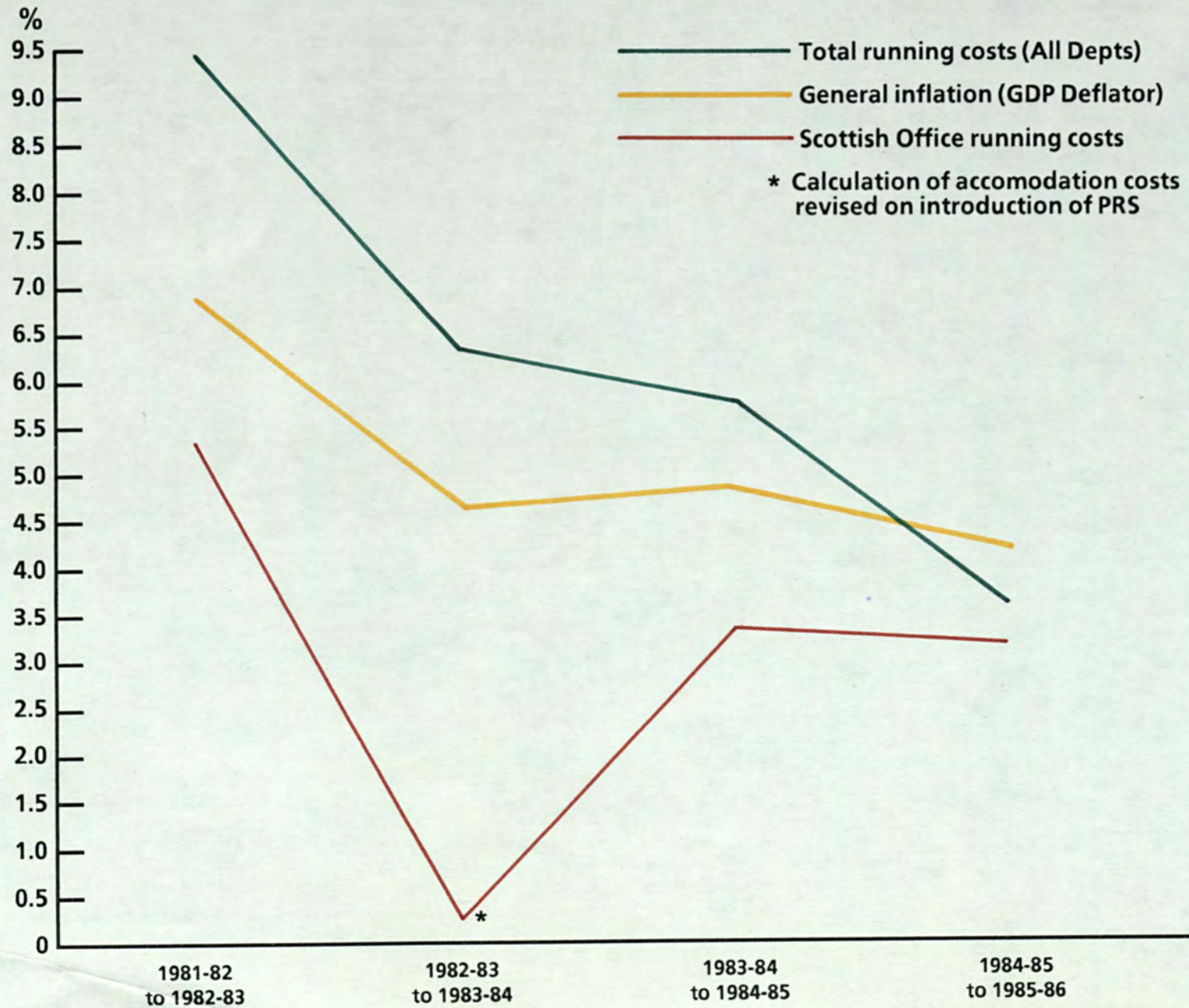
Sent to CS, HWT.
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J.G. - 80.

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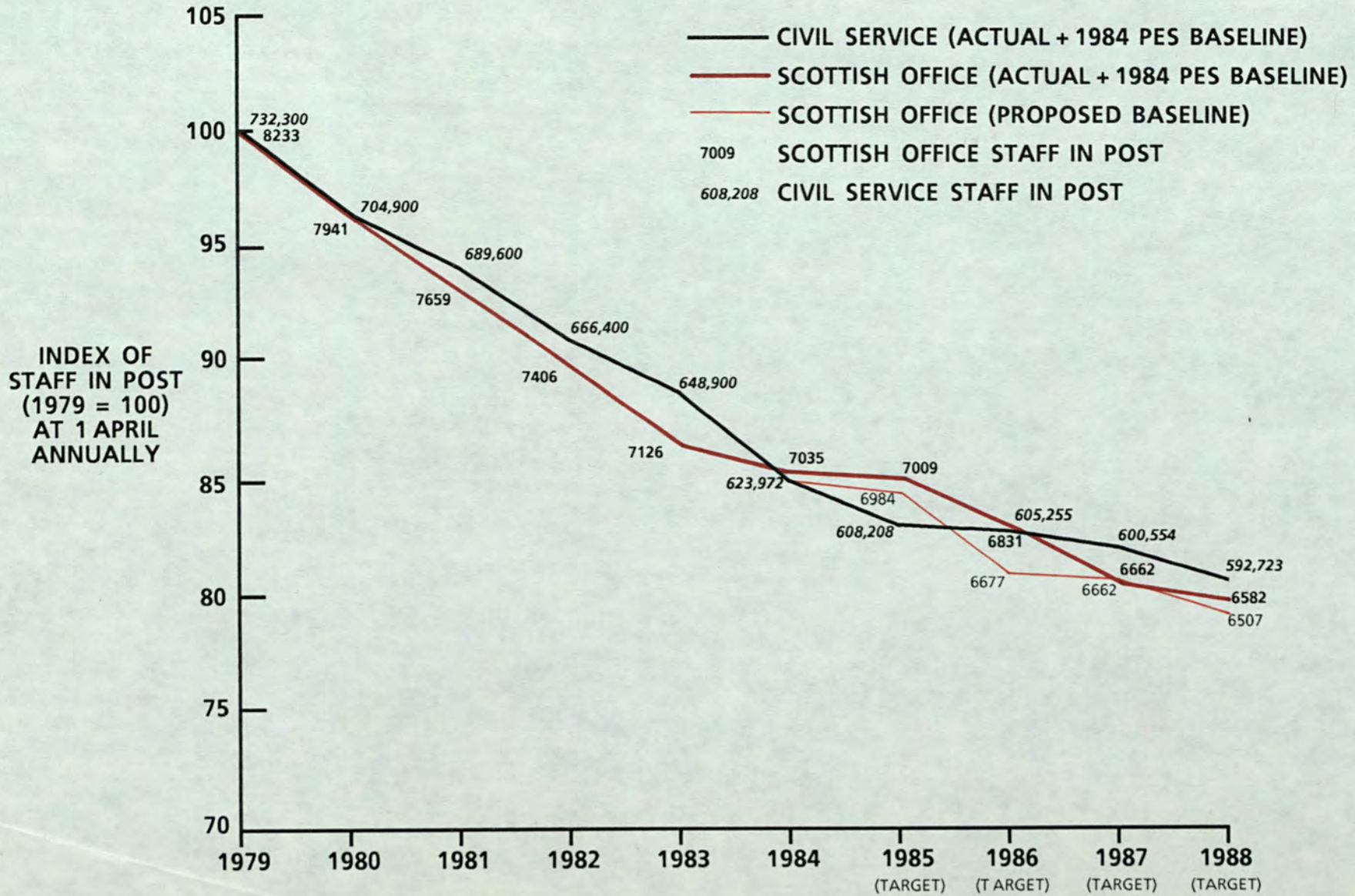
SCOTTISH OFFICE COMPUTER SERVICE (SOCS)

| | Complement | Remote terminals | Terminal user groups | Remote micro-computers | Office system stations | Mainframe production systems | Studies in hand |
|--------------------------|------------|------------------|----------------------|------------------------|------------------------|------------------------------|-----------------|
| Sept 1981 | 386 | 35 | 60 | nil | nil | 140 | 24 |
| Sept 1983 | 349 | 90 | 100 | 20 | 10 | 170 | 52 |
| Sept 1984 | 338 | 112 | 136 | 70 | 14 | 140 | 65 |
| Sept 1985 (estimated) | 336 | 200 | 150 | 120 | 65 | 140 | 70 |

INCREASES IN DEPARTMENT RUNNING COSTS COMPARED WITH INFLATION



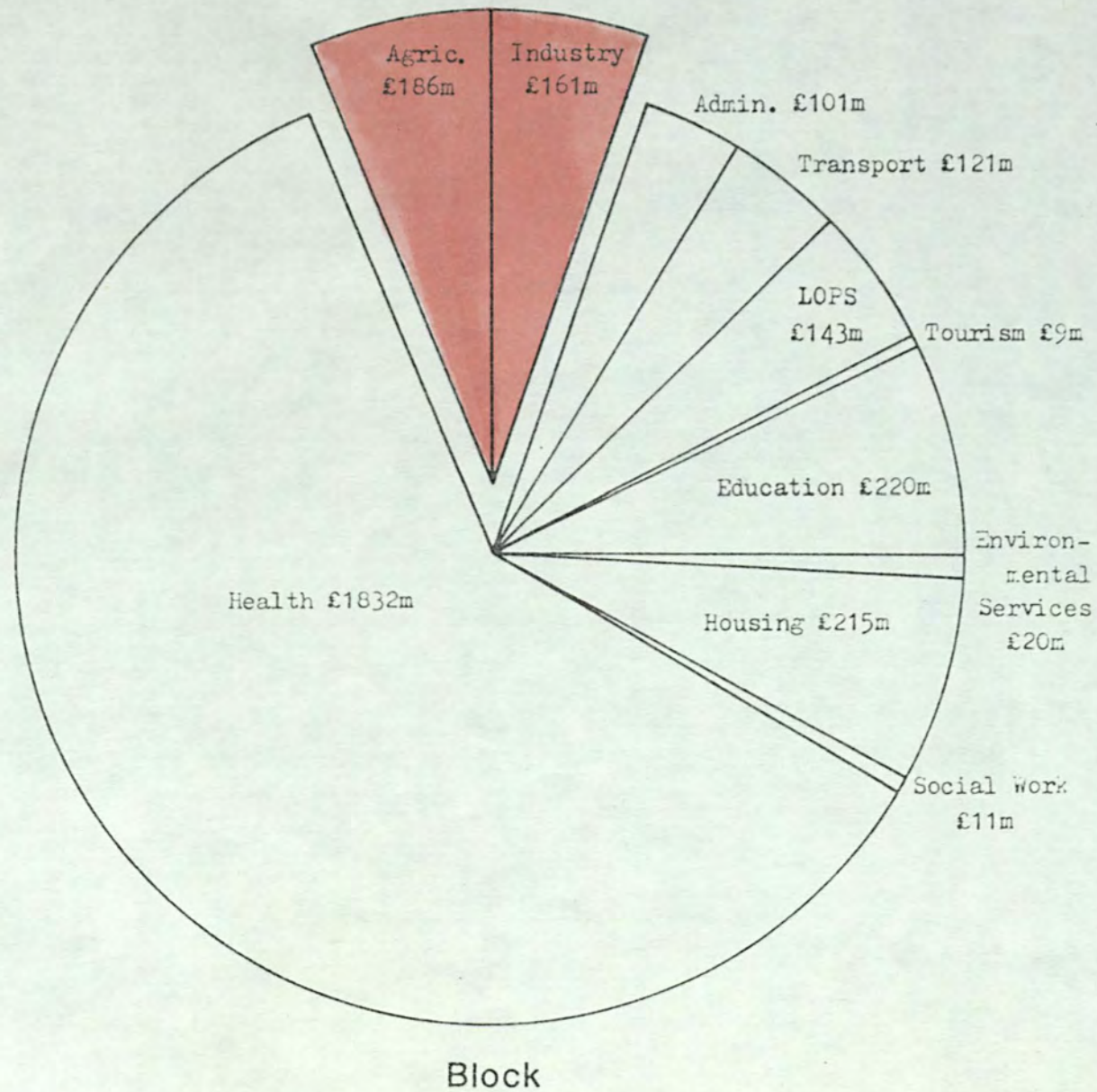
STAFF IN POST 1979-88 : CIVIL SERVICE & SCOTTISH OFFICE (EXCLUDING PRISON SERVICE)



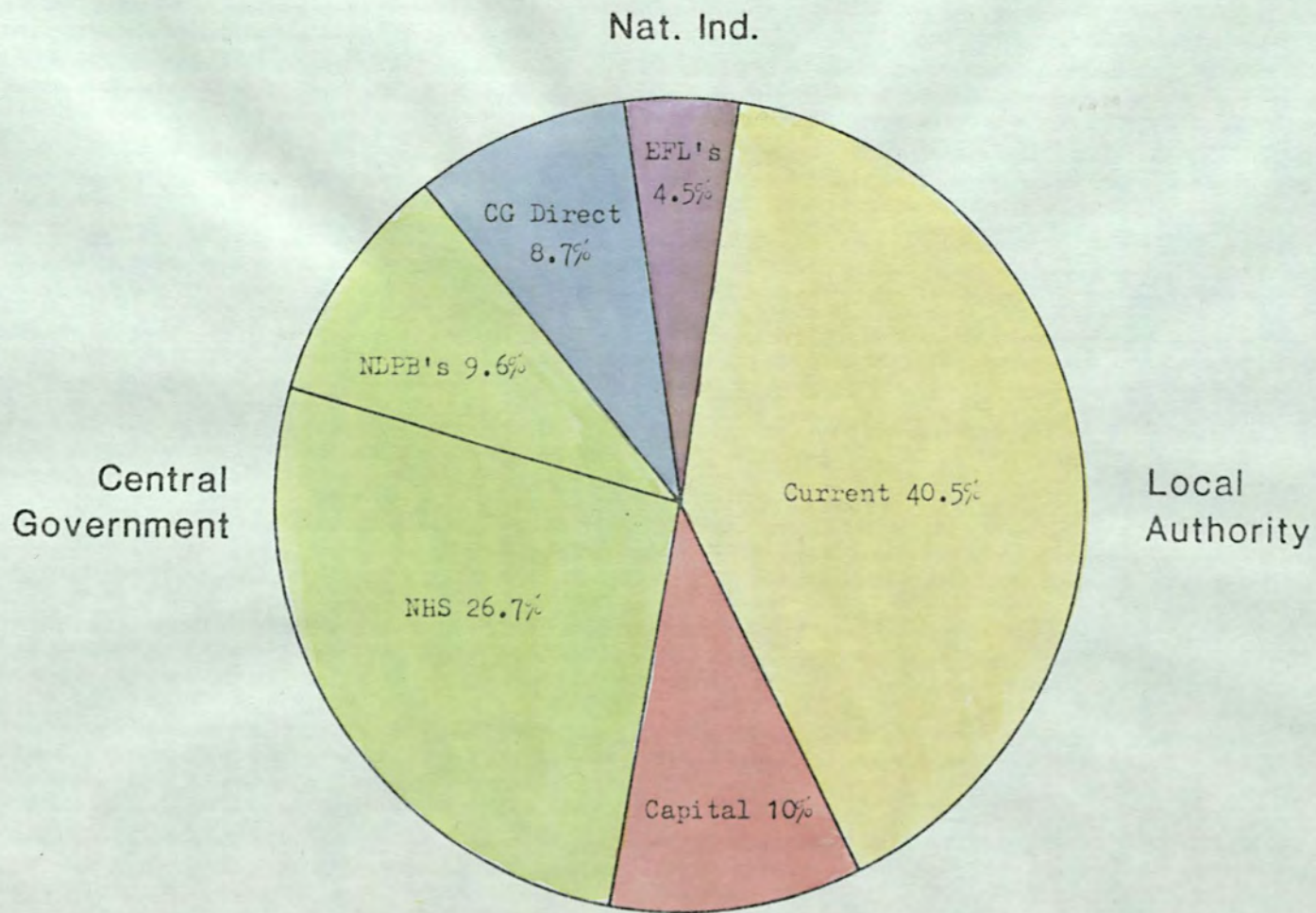
SCOTLAND PROGRAMME : CENTRAL GOVERNMENT
EXPENDITURE BY PROGRAMME

1984 - 85

Non-block



SCOTLAND PROGRAMME BY SPENDING AUTHORITY
1984 - 85



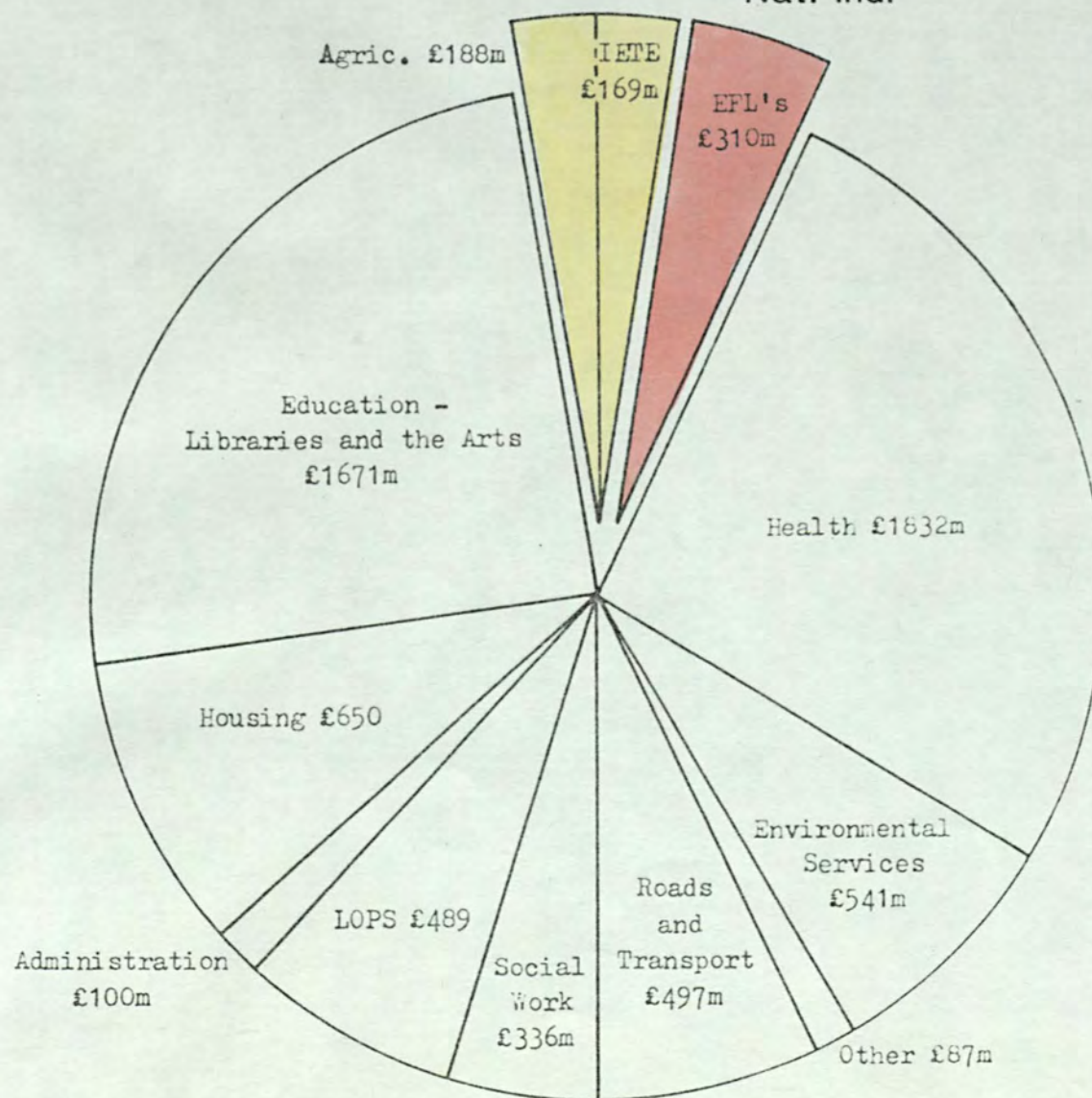
Source : 1984 Scottish Commentary

SCOTLAND PROGRAMME 1984 - 85

£ 6865m

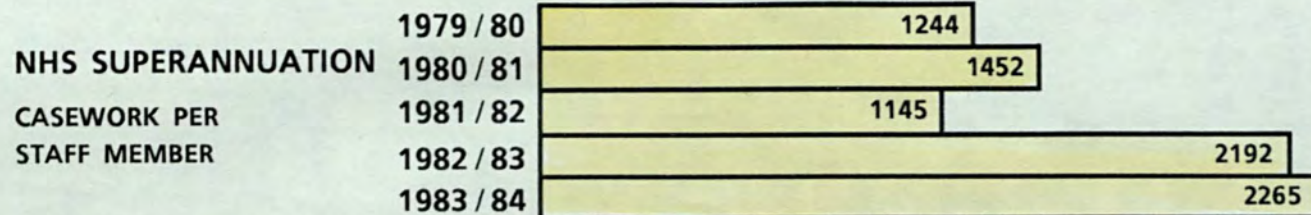
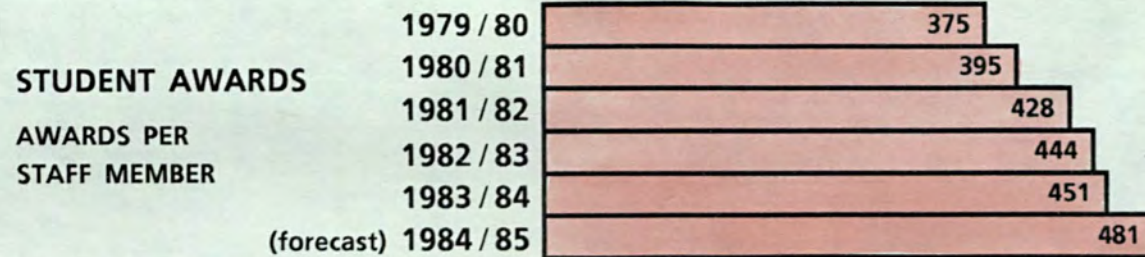
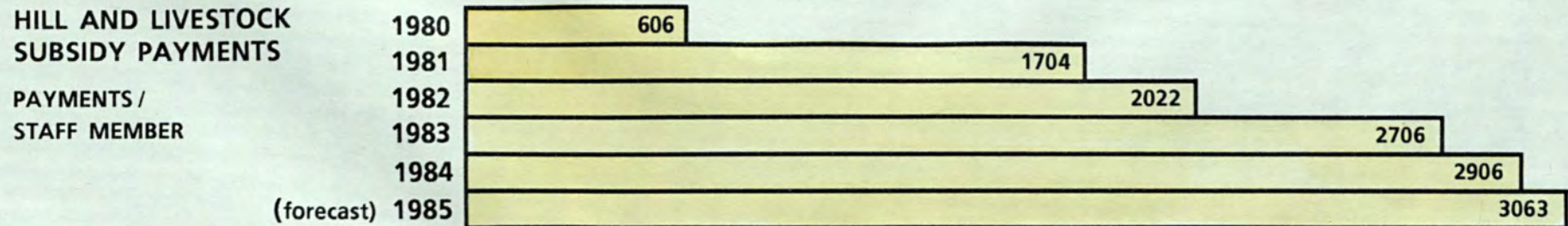
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Nat. Ind.

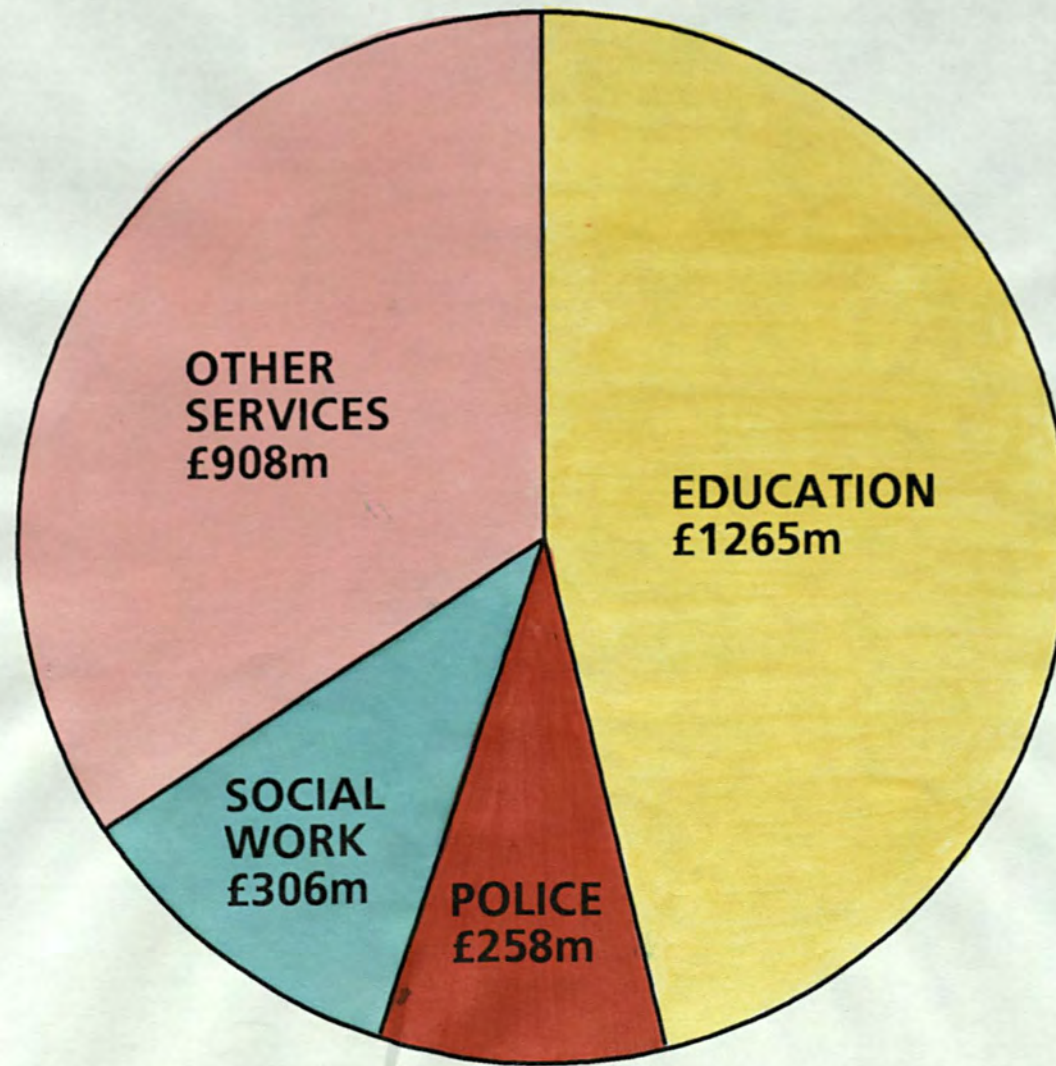


Block

PRODUCTIVITY EXAMPLES



**SCOTTISH LOCAL AUTHORITY RELEVANT CURRENT EXPENDITURE
1984-85 PES PROVISION**



Source : Cmd 9143 Table 2.18.2



Traditional Scottish pastime: looking for lost coins in the heather

Subject

76
CC Master

10 DOWNING STREET

From the Principal Private Secretary

28 November 1984

Dear John,

SCOTTISH OFFICE: VALUE FOR MONEY SEMINAR

The Prime Minister held a discussion yesterday with your Secretary of State, Sir Robert Armstrong, Sir Kerr Fraser and Sir Robin Ibbs about the efforts of the Scottish Office to obtain better value for money. The speaking notes and the charts with which your Secretary of State introduced the discussion are attached.

Sir Robin Ibbs commented that the most encouraging aspect of what had been done by the Scottish Office was that so much improvement had been achieved from a systematic approach supported by specific targets. The greatest scope for future savings was now in programmes rather than in running costs. He hoped that the Secretary of State would be able to specify under each of the programme headings two or three specific and major targets for improvement.

In discussion of the particular areas of expenditure, the following points were made:-

(i) Housing. Your Secretary of State said that, with a target of 30-35,000 sales of public sector houses, there was a prospect of reducing public sector housing to less than 50 per cent of the total stock before the next election. He was also setting targets for housing associations of 1,800 rehabilitated dwellings and 1,150 through new building, together with 500 for the Scottish Special Housing Association to meet specific needs. In response to a question from the Prime Minister, the Secretary of State said that he thought that it should be possible for Scotland to meet the housing targets without legislation to free local authorities from the obligation to sell houses at a sufficient sum to cover costs.

(ii) Inner Cities. It was noted that very great progress had been made with improving the centre of Glasgow. It was important that the lessons to be learned from this should be applied to the Urban Programme elsewhere

in the United Kingdom. The Secretary of State commented that having the various departments under the direction of the Scottish Office made co-ordination in Scotland easier.

(iii) Agriculture. The Prime Minister said that public expenditure on agriculture in Scotland, including hill livestock and CAP subsidies, appeared to have exceeded total farm income in the past two years; and research and advice to farmers was costing as much as £40 million a year. The figures which she had, suggested that public expenditure amounted to £165 million in 1983/84 compared with farmers' income of £100 million and total farm business income of £210 million. If these figures were correct, they suggested that a heavy price was being paid to provide agricultural employment and the care of the countryside. Your Secretary of State said that he would look into this: while he could think of certain areas in which public subsidies would amount to more than half the total income of farm businesses, he would be surprised if this were the average picture. On agricultural research, he said that the recent review had shown that the Scottish arrangements were very cost-effective and they were also well co-ordinated with those in the rest of the United Kingdom. Sir Kerr Fraser added that the Secretary of State was introducing graduated schemes of subsidy for less favoured areas: he wondered whether, since Scotland did not have arrangements equivalent to ADDAS, the public expenditure figures included the total cost of agricultural colleges.

(iv) Shipping Services in the Highlands and Islands. The Prime Minister asked whether sufficient pressure was being applied to the shipping services in the Highlands and Islands to achieve improvements in efficiency. Your Secretary of State pointed out that it had been a valuable manifesto commitment that fare increases on the shipping services should be kept below the Retail Price Index. But the services had been referred to the Monopolies and Mergers Commission, which had produced a valuable report with proposals for improvements in efficiency, and competition from Sir William Lithgow also maintained pressure on McBraynes to make their services efficient.

(v) Health. The Prime Minister said that Scotland appeared to have the highest numbers of doctors and hospital beds per head, with the least healthy population. She asked whether enough was being done to improve value for money by contracting out and by overcoming union resistance to improvements in the efficiency of the use of hospital plant. Your Secretary of State said that the reason for worse than average health in Scotland appeared to be dietary factors and the prevalence of smoking. Attempts to save money on the Health Service were constrained by the Government's pledges. There was resistance to contracting out of services in

Scotland, even when hospitals were offered the benefits of the savings to invest in new medical facilities. But costs and efficiency in one hospital were compared with those in another. There had been an improvement in organisation by making general managers of health boards directly responsible to the SHHD accounting officer. Sir Kerr Fraser added that the extension of technology was providing opportunities for reducing hospitals' administrative costs. Sir Robin Ibbs commented that it was important to provide incentives for improved efficiency by enabling hospitals to use savings on the improvement of health care; and the Prime Minister suggested that there might be advantage in publishing comparative figures of efficiency.

(vi) Education. Your Secretary of State commented that efforts were being made to rationalise the provision of teacher training: three colleges had been closed and more might need to be. The Prime Minister commented that a report by the Audit Commission had suggested that, if all teachers undertook their full quota of periods of teaching, substantial savings could be made. But in England, salary and conditions of service could not be negotiated in the same way. The Secretary of State commented that this position did not apply in Scotland.

(vii) Law and Order. Your Secretary of State said that legal aid had been a particular area of difficulty, and this was now being tackled.

(viii) Central Running Costs. The Prime Minister commented that one of the charts displayed by the Secretary of State suggested that the rate of improvement in running costs in the Scottish Office relative to other Departments was slowing down. Your Secretary of State commented that pressure was being maintained and the benefit of the hiving off of the State Hospital, the Royal Scottish Museum and the Royal Botanic Garden would come through in the next few years. Although the organisation of the Scottish Office was inevitably complex, there was a reporting line of each main area directly to a single Scottish Office Minister, and the Ministers were directly involved in the top management reviews of the areas reporting to them.

(ix) De-regulation. The Prime Minister asked about progress with efforts to reduce regulation, pointing out that the Scottish Office was not covered by the current scrutiny of burdens on firms. She also asked about the simplification of planning procedures in Scotland. Your Secretary of State commented that Scotland had led the way in removing restrictions on Sunday trading and licensing. They were watching closely what was being done in reducing burdens on firms in England and would follow these through in Scotland, where applicable. The planning process had been greatly

improved and a specific team of reporters allocated to it, although some problems remained with district planning authorities. But it was remarkable that some major and potentially controversial developments in Scotland looked like being accepted without major rows or prolonged planning enquiries.

Summing up the discussion, the Prime Minister said that she endorsed the comments made by Sir Robin Ibbes on your Secretary of State's presentation and congratulated your Secretary of State and Sir Kerr Fraser on what was being achieved in the Scottish Office. She would be grateful if your Secretary of State would look into the point which had been made about agricultural support and report back to her. Elsewhere in the programme, she endorsed Sir Robin Ibbes' proposal that your Secretary of State should aim to produce two or three specific targets for improvements in value for money in each of the main areas of expenditure.

I am copying this letter and the enclosures to Richard Broadbent (Chief Secretary's Office), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), Sir Robert Armstrong and Sir Robin Ibbes.

Your sincerely,

Robin Butler

John Graham Esq.,
Scottish Office.

SECRETARY OF STATE'S REMARKS ON "VALUE FOR MONEY IN GOVERNMENT" FOR PRESENTATION AT PRIME MINISTER'S SEMINAR AT 5PM on TUESDAY 27 NOVEMBER 1984

Introduction

1. Welcome opportunity to tell what we have done and intend to do to get better VFM and increased efficiency in Scottish Office.

2. Complex structure of small, mainly HQ policy units. Of 122 units only 14 have over 100 staff and 77 less than 30. Changes affect both way we run Department and very broad range of programmes we administer. Will give few examples of each and show how I secure real results by setting specific targets for individual managers wherever possible and judging performance accordingly.

Running Costs

3. Most conspicuous element is manpower. Excluding Prison Service (of which more later), staff down by 1,200 (14.5%) since 1979; 525 more posts to go by 1988 bringing total reduction to 21%. Red line on graph for Scottish Office mostly below black line for Civil Service as a whole; should revert to that position in period to 1988 on present figures.

4. Reductions achieved - despite new staffing demands and absorbing 114 posts with functions from other Departments - by:

- (a) hiving-off State Hospital (438) on 1.4.84; Royal Scottish Museum (169) by December 1985; and Royal Botanic Garden (150) by 1.4.86;

- (b) contracting out reduced SO cleaning costs by 55% saving £324,000 p.a.; Police College domestic costs by 25% saving £120,000 p.a.;

- (c) good housekeeping - slimmed units down despite complex structure described. Closed 17 offices since 1979 halving number of buildings in expensive Edinburgh area;

OHP 1

HANDOUT

- (d) management reviews - management services unit, staff inspectors, auditors and computer specialists -monitored on efficiency grids like this one for DAFS. Staff inspectors examined 625 posts over 15 months to March 1984 - net reduction 50. MSU reviews over year to 30/9/84 - direct savings £500,000 p.a. New Efficiency Unit resulting from CIRC scrutiny will build on that record;
- (e) efficiency scrutinies yielded savings of £1.1m p.a.; 1985 candidates are Social Work Services professional staff and Ancient Monuments direct labour organisation;
- (f) improved productivity in larger blocks of work. Examples in bar charts show:
- (i) hill and livestock subsidy - A Branch responsible for single scheme of grants, 2 years ago absorbed two new EC schemes. Now handles double number of payments with half number of staff;
- (ii) students awards up by 8.6% since 1979 staff down by 10% and further improvement forecast for 1984-85;
- (iii) NHS superannuation casework up by 15% since 1979 staff down by 29%;
- (iv) central accounts processing 30% more payments and 62% more receipts than 1979 with 13% fewer staff; further 14% productivity increase planned this year.
- (g) information technology high priority to offset dispersed locations. Linked word processors from next summer at 60 work stations in Edinburgh, London and Glasgow to augment document transmission and Remote Meeting Table facilities. Followed by new integrated telephone system closely tied in with new Whitehall system. Expect to save 30 posts once both fully operational but main gain in more efficient communications.

OHP 2

OHP 3

IT strategy of mixed configuration of mainframe, terminal and distributed computers contributing to productivity gains. Computer staffing down by 48 posts (12½%) since 1981 including 17½% on payroll clerical work. Data processing productivity up by 15% and use of computer terminals by 37%. Table shows expansion of activity along with reductions over past three years plus target figures for September 1985.

OHP 4

5. Improvement also in total running costs; chart shows annual rate of increase down to 5.3% in 1982-83 (artificially low in 1983-84 with introduction of PRS) will be 3.4% in 1984-85 and 3.3% in 1985-86 - well within figures for inflation and for average percentage increases for Departments as whole. Heavy reliance on travel (not much affected by staff cuts) and travel costs increasing more than inflation but 1985-86 budget only 3% more in cost terms than 1980-81. Telephone logging reduced call charges by 25%; will continue to save 3% p.a. in cost terms on telecommunications current expenditure.

Programme Expenditure

OHP 5

6. Scotland programme amounts to £6865m this year divided among block and non-block services as shown on pie chart.

OHP 6

7. Over fifty per cent goes on local authority services leaving £3bn CG expenditure allocated as on pie chart: note well over half of that goes on health.

OHP 7

8. This means 77% of total programme actually spent by local authorities and health boards. Pie chart shows that 4.5% spent by nationalised industries and 9.6% by NDPBs leaving 8.7% spent direct by Department.

9. Here are only few illustrations of how seeking to get better VFM from each kind of spender starting with direct spending at Department's own hand and with agriculture in which you expressed prior interest.

Agriculture

10. Since 1979 professional agricultural staff reduced by 206 posts (21%).
Mainly done by:

simplifying admin of capital grant and subsidy schemes;

disposing of agric. estates (from 1099 holdings in 1980 to about 140; realising, with other sales, over £20m);

reducing census and survey work;

merging 2 distinct networks - Agric. Inspectorate and Lands Staff - saving 30 posts and £450,000 net p.a.

11. Staff numbers fall with falling workload but opposite also true: eg had to set up machinery overnight to fix 3,000 individual milk quotas and deal with appeals. Broke back of very sizeable task in six months with only 20 extra staff 15 of them short term. For £250,000 - half in staff costs half in fees and expenses - launched scheme which has radically altered shape of agriculture industry in Scotland. Good VFM, set against expected savings in CAP expenditure on milk in Scotland over next five years.

Prisons

12. Prisons costing £59m next year. Rayner-style GB Resource Control Review recently reported that Scottish Prison Service operates "in a frugal and careful manner". Prisons HQ staff in ratio of 1:20 to Prison Service staff (c/f 1:15 in England). Slightly more prison staff per prisoner than in England (1:1.75 against 1:1.8) but average overtime in Scotland only eight hours per week against 15-16 in England. Better VFM by:

- (i) making each Governor accountable by attributing costs to individual establishments and probing divergences. Following pilot schemes, full budgetary control at 12 Scottish penal establishments from next April;
- (ii) production and stock control for prison industries being computerised saving over £100,000 p.a.;
- (iii) energy savings being pursued vigorously; target savings set at £250,000; consultants retained for energy audit; energy managers designated for each prison;
- (iv) management of supplies found satisfactory by Resource Control

Review team but constantly under review.

Education

13. Fund part of higher education directly. In 11 institutions which provide most degree courses outwith universities, student numbers rose from 11,500 in 1978-79 to projected 16,000 in 1984-85 with no increase in funding in real terms. Firm application of staff ceiling has raised student/staff ratios from 9:1 to over 11:1 in same period and 12:1 is in sight.

14. Approval of courses and redeployment of academic posts has helped to double output of graduates in maths, science and engineering from these institutions in five years.

Health

15. Health Service accounts for quarter of programme (£1,832m in 1984-85). Making Health Boards more accountable for performance and expenditure for instance:

- (a) Analyse annually detailed costs of running individual hospitals. Make sure action taken on excessive expenditure. Concentrated so far on hospitals with greatest potential for savings (mostly acute); a form of close monitoring of expenditure; identifies for health boards scope for internal savings to put towards improving patient care;
- (b) Require Boards to meet most new demands and commitments from within existing funds; will have to find equivalent of at least 1% of annual allocations (by cost improvement measures and greater efficiency) for eg improved treatment of kidney disease; hip replacement; treatment of drug abuse; technological change; better services for elderly; and part of excess costs of pay awards. This sets target of around £50m p.a. for internal savings by health boards by 1987-88 - or about 4% of budget for hospital services in that year -to be redirected to improving patient care;
- (c) Boards' forward plans used to meet national priorities and cost objectives eg 1976-83 acute bed numbers reduced from 20,400 to

18,800 by higher throughput (from 25.6 to 27.8 cases per bed per year) and increasing day cases from 58,800 to 81,600. Beds for elderly etc up from 10,800 to 13,200 in same period.

- (d) NHS management costs as proportion of total costs reduced by 10% since 1979 to 4.7%; growth in total staff numbers halted. Manpower forecasts of health boards to be examined in regular reviews of development plans.
- (e) SHHD now better able to discharge management role. New General Managers of Boards to be directly answerable to Department's Accounting Officer. Will fill awkward gap in chain of accountability for use of public monies in NHS.

Non-Departmental Public Bodies

16. Spend £660m p.a. through NDPBs. Since 1980 abolished nine executive and 26 advisory bodies. Still sponsor over 70 executive and 100 or so advisory because of range of subject matter for which equivalent provision has to be made in Scotland.

17. Completed 36 Pliatzky reviews and two pilot financial reviews; have already prepared programme for new style policy reviews and financial management surveys. All major bodies will be surveyed and improvements started by 1 April 1987.

18. Some progress by bodies themselves eg SDA's radical review of factory building and estates management led to drastically curtailed activity and contracting out reducing property staffing by 80 posts net. Agency also pioneering performance related pay to improve efficiency and effectiveness of senior management.

Local Authority Expenditure

19. Largest part of programme - 51% - but least direct control. In front line in use of statutory powers:

- (a) by pressure on total LA spending. Grant percentage reduced from 68.5 in 1979-80 to 55.8 in 1985-86. Selective action successfully

initiated on 14 occasions reducing expenditure by over £80m and bringing down rates of excessive spenders. Further general expenditure reductions will follow from stiffer penalties I imposed this year and which I will impose next if overspending continues.

- (b) Housing separately treated in subsidy terms. I have reduced Government housing subsidy as percentage of all new capital expenditure from 75% to 12% and of that part of capital expenditure going to authorities' own stock from 93% to 20%. Objective to reduce these percentages to 7% and 9% respectively by 1987. Local authorities also subsidise tenants through rates. I have previously used administrative penalties against low rent authorities by reducing their capital allocations. This has halted increase in rate subsidies but not reduced them. New statutory powers to limit rate subsidy to rents will be used for first time in relation to next year's spending. Objective to reduce spending by half by 1987 and continue reduction by stages thereafter.

OHP 8 20. Only this kind of general pressure on expenditure can exert leverage on authorities to start looking for better VFM from services Resultant non-co-operation not conducive to Scottish Office initiatives but start made on education, social work and police which pie chart shows accounts for two-thirds of LA current:

- (i) One HMCI of Schools specifically responsible for work to get best value out of money we spend on education.
- (ii) Reviewing with COSLA the planning of social work expenditure. Will analyse variations in unit costs. Must seek more cost-effective patterns of care if we are to cope with increasing demographic demand for services for elderly.
- (iii) Through tight control of police manpower, regular and civilian, plus pay, allowances and capital projects, control over 80% of police expenditure. Have impressed upon Chief Constables that looking for better policing for our money and already getting it: more officers operational; coping splendidly with prolonged picketing; more

resources redeployed against misuse of drugs; at least one force markedly improved detection rate. Additional Inspector of Constabulary appointed to step up scrutiny effort.

Initiatives also being taken by Accounts Commission over range of subjects to show how better VFM can be obtained. But onus must rest on authorities themselves. Best I can do is create financial situation which makes it imperative for them to improve VFM.

Summing Up

21. As suggested in invitation to Seminar, merely selected examples to demonstrate observable results. FMI has given impetus and opportunity to make improvements in running costs and programme expenditure. This builds on work already in embryo or seen to be needed.

22. Most valuable to me are management plans which set objectives, tasks and resources for each Assistant Secretary command against which I can assess performance of each of 137 such units. Plans include quantified outputs and target dates wherever possible; we have found it to be possible much more extensively than we thought. Provide framework for each junior Minister to keep Departments' activities consistent with own policy objectives so that bridge and engineroom properly in touch. I meet each Minister and Department separately to examine these plans regularly and at least once a year and find this approach to targeting resources particularly valuable in run up to PES decisions. Absolutely vital for me to synchronise top down with bottom up in running such disparate organisation -mostly from 400 miles away. Determined that resources in programmes should yield as much as can possibly obtain from them and will continue to develop further specific targets to demonstrate that that is being achieved.