



FROM: CHIEF SECRETARY

DATE: 26 July 1985

PRIME MINISTER ^②*To note and approve ST 2617*CONTROL OF CIVIL SERVICE RUNNING COSTS *mf*

In giving your agreement in March to the introduction of running cost controls, you asked the Treasury and the Efficiency Unit to consider what needs to be done to ensure that running cost targets are as successful as manpower targets have been. I discussed this at a helpful meeting with Robin Ibbs last month.

2 Cabinet has approved my proposals for dealing with running costs in the Survey and I shall be taking these forward during my bilaterals with Ministerial colleagues in the Autumn.

3 I also intend soon to put to colleagues proposals for new arrangements for in-year control and monitoring of departmental running costs limits. I envisage that the departmental running cost limits agreed in the Survey will operate as control totals in the course of 1986-87. Departments' Estimates for running costs will have to be within the agreed limits and no supplementary provision would normally be allowed. Quarterly, and later, monthly monitoring reports, developed from the current system that monitors supply expenditure generally, would provide early warning of possible departmental problems. Any changes in running cost limits would, like manpower targets and cash limits, require Treasury Ministers' approval, and revised limits would be published, for example, by an arranged PQ.

4 These improvements in control and monitoring are important and will help, but will not be good enough unless senior management in departments are ready to deliver the tough yet realistic running cost limits to be set each year. We know that, as yet, there are considerable variations in departments'

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ability to do this and it is most important that colleagues insist that their departments carry this out properly. Robin Ibbs and I have, therefore, considered other measures. We agree that it will be essential to give managers the authority and to get their commitment to restrain running costs. Tony Wilson's review of budgeting is already exposing strengths and weaknesses in departmental control arrangements. The recommendations he should bring forward in due course will strengthen their ability to set and monitor running cost limits.

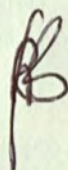
5 We agree also on the need to keep running cost limits and controls simple (simplicity has been the key to the success of manpower targets). There should be quarterly departmental monitoring of running costs, with the option of calling for monthly reports in cases where problems are revealed. It would be for a department to respond, perhaps by scrutiny study, where persistent difficulties were revealed; but the Treasury's monitoring system has to be good enough to ensure that departments have taken action when problems emerge.

6 Robin Ibbs suggested that Treasury and departmental staff inspectorates might be reshaped to become running costs inspectorates. This is an attractive idea: inspectors already have a diagnostic role going wider than staff inspection and they are encouraged to make recommendations on non-manpower matters. There is scope for further enhanced co-operation between staff inspectorates and other efficiency arms of Government departments (such as O & M and management accountancy) which can play a part in ensuring that running costs limits are monitored and controlled. I intend to see, therefore, how far we can develop flexible arrangements to enhance their role and provide additional opportunities for throwing up significant savings. I propose to do so initially in our review of the co-ordination and direction of the central Consulting, Inspection and Review services. Meanwhile we will ensure that all inspectors and other efficiency specialists, are alive to the need to examine running costs as part of their normal work and systematically to feed back any worthwhile information to senior management.

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7 I hope you will approve these proposals and actions and endorse the key role colleagues can play in insisting that their senior managements set tough yet realistic running cost limits each year. The processes of agreement during the Survey, and the reviews, such as that of budgeting practices, can help but it is the willingness of colleagues to make a success of tight running costs that should ensure that this technique of control matches our success in holding down manpower numbers.

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



for PETER REES

[Approved by the Chief Secretary]

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10 DOWNING STREET

From the Private Secretary

8 August 1985

This is just to record that the Prime Minister has seen the Chief Secretary's minute of 26 July on the control of Civil Service running costs and has approved the arrangements set out in that minute.

TIMOTHY FLESHER

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

RB



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30 August 1985

De P...

CONTROL OF CIVIL SERVICE RUNNING COSTS

I have read your minute of 26th July to the Prime Minister with great interest and I am in full agreement with your general proposition about the need for effective control of running costs, subject of course to my retaining the capability to manage the defence cash limit as a single block.

I note that you will be consulting colleagues about the proposed new arrangements for in-year control and monitoring of Departmental running costs limits. But I very much hope that we shall have an opportunity to consider the whole package of Treasury proposals (including the pay aspects) after they have been discussed at official level.

I am sending copies of this letter to the Prime Minister, to our other Cabinet colleagues, and to Sir Robert Armstrong and Sir Robin Ibbs.

Yes
W
Michael Heseltine

The Rt Hon Peter Rees QC MP

Long Term: Civil Service
PE17



CWD



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From the Minister of State

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J/PSO/36166/85

22 August 1985

NBM

Dear Peter

CONTROL OF CIVIL SERVICE RUNNING COSTS

You sent Patrick Jenkin a copy of your minute of 26 July to the Prime Minister. I am replying in Patrick's absence.

We fully support the drive to make running cost targets effective, and we shall be ensuring that we have the necessary mechanisms in place in the Department to achieve this. But I think we must be clear from the start that, once the targets have been agreed between us, Departments themselves should be responsible for delivering them. Too much intervention from the centre would run counter to FMI principles, and would I think lead us in the wrong direction. I am sure you will bear this in mind in drawing up your proposals for new arrangements.

The idea of re-shaping Departmental staff inspectorates to become running cost inspectorates raises a range of questions about the respective roles of the various consultancy and inspection services, and we shall be interested to see these explored further as you propose.

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

THE LORD ELTON