



PRIME MINISTER

*Agree with Chief Sec
that this can
be done on
running cost
linked to the
Estimates procedure
not*

Prime Minister:

The Chief Secretary presents the results of the review of the Scrutiny of running costs. The main proposal is that the scrutiny should be linked with the Estimates. Only Mr Heselgrave disputes he wishes it to be linked with PES. Sir Derek Rayner disagrees. (see Day A) In any event, Mr Heselgrave would prevent any scrutiny this year. Agree Chief Secretary's line?

SCRUTINY OF DEPARTMENTAL RUNNING COSTS

In my minute of 1 February, I reported the results of the 1981 Scrutiny of Departmental Running Costs. I said then that the present form of the Scrutiny was unsatisfactory and that I would ask officials to examine how to improve it.

2. An interdepartmental working group of officials has examined this issue. I attach a copy of their recommendations. These have been discussed with departments generally. All but one agree. Derek Rayner has been kept in touch and he supports the recommendations.

3. The main proposal is that the Scrutiny should be assimilated with the annual Estimates procedures. That would cut out duplication of work. Departments already need the information contained in the Scrutiny in order to prepare their Estimates properly. Thus instead of a backward-looking exercise not directly related to the decision-taking process, the Scrutiny would become an integral part of the Estimates procedure.

4. Secondly, provision is made for departments to provide separate figures for their main businesses when there is a strong case for doing so, instead of aggregating them all together. In some cases, aggregating the costs of very different activities, eg Scottish prisons with the rest of the Scottish Office, has obscured trends rather than revealed them. Management accounting systems should enable departments to obtain and display information at whatever level of aggregation is useful, and the annual scrutiny must help rather than impede that development. This recommendation is

therefore a useful bridging step towards the systems advocated by the paper on financial management.

5. In addition, officials have examined the question of key ratios and performance indicators which you raised last year (your Private Secretary's minute of 1 June 1981). Broadly, their conclusion is that there is indeed scope for departments to develop measures of this kind, eg ratios relating common elements of cost such as accommodation, stationery and telecommunications to the staff costs with which they are associated, and ratios relating to the cost of front-line operations supporting activities such as personnel, accounts and office services. The working group recommends that such ratios should become a regular part of the scrutiny. This will take time. We should not expect great advances in time for this year's scrutiny. But the Treasury will press for the development of significant ratios as quickly as possible. Their main use will be within departments, but the Treasury should also be able to mount comparisons between departments of the way in which their ratios move over a run of 2 or 3 years.

6. As Michael Heseltine indicated to you in his minute of 19 July about the response to the Treasury and Civil Service Committee, he finds difficulty in accepting the first main recommendation. He would prefer to integrate the scrutiny with the Public Expenditure Survey, on the grounds that the Treasury should not challenge a department's Estimates once the main survey decisions have been taken, and that a scrutiny of running costs in the autumn would not fit well with the timing of the system for fixing manpower and administrative budgets in his department which he is introducing as a result of the Joubert Report.

7. I wholly agree with Michael that the main thrust of improvement must lie in introducing better systems in departments for the estimating and control of running costs. The Service-wide scrutiny should not hamper that prime objective. When those systems have been introduced and are showing results, the Treasury will be

ready to adapt its arrangements both for the scrutiny and, subject to any necessary Parliamentary approval, for the Estimates. But we have not reached that point yet. Even the system recommended by Mr Joubert does not yet exist on the ground, and other departments will take longer. Meanwhile we must keep up the pressure to reduce administrative expenditure. That cannot be done effectively as part of the Survey, which settles broad totals only. The Treasury's examination of the Estimates is therefore the right occasion for it, and associating the scrutiny of running costs with the Estimates will help to make it more effective.

... 8. Derek Rayner agrees; I attach a copy of his letter to me of 30 July. As he points out, unless the scrutiny is conducted this autumn, there cannot be one in 1982 at all. I hope therefore that we can all agree to go ahead as I have proposed on the understanding that the Treasury will be ready to discuss problems for the future with the DOE and other departments as necessary.

9. Your Private Secretary's letter of 15 March also asked about movements in the volume of resources consumed and intended action to retrench worrying expenditure. Now that expenditure is being controlled in cash rather than in volume terms, we do not have volume figures for all of the administrative costs which the Scrutiny covers. The dominating elements are however wages and salaries, and accommodation. You are familiar with what has happened on civil service manpower. The figure for 1 July of under 660,000 represents a reduction in numbers of 10% since 1 April 1979. As for accommodation, the size of the office estate was reduced by nearly 4 million sq ft between April 1979 and December 1981, and savings of about 1½ million sq ft are planned for 1982-83. The saving is proportionately rather smaller than in manpower (4m sq ft equals over 5%). That is because there have been some offsetting increases in local benefit offices and some new building, eg for computerising PAYE; and there is always a time-lag between reducing staff and reducing their accommodation. But the PSA are pressing ahead with their programme of reduction.

10. Examples of other action are:-

(a) the programme of cross-service reviews by the MPO of stores, transport, typing, messengers and telecommunications has yielded savings from 10% (telecommunications) to 40% (messengers);

(b) MPO have issued management guidelines arising from the studies at (a) which are intended to promote tauter management of these resources in future;

(c) further studies of telecommunications by the CCTA now in progress are expected to produce useful additional savings;

(d) the cross-service reviews of running costs and of the resource control of major executive units are now in progress.

11. The recent Rayner review of support services in R and D establishments typifies the general approach: all this work is aimed not only at immediate savings but at establishing principles and guidelines which should ensure better control in future. There is a close link between it and the financial management initiative which you launched on 17 May and which is tackling the need for better management and control at a deeper level.

12. The immediate issue is that of this year's scrutiny. The detailed instructions for this must issue at the beginning of September, but departments need to begin to prepare now. I propose that the 1982 scrutiny should go ahead on the basis I have suggested.

13. Copies of this minute go to Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.

L.B.

LEON BRITTAN
5 AUGUST 1982

CHAPTER 8: SUMMARY AND CONCLUSIONS

8.1 We see a clear need to improve the impact of the running costs scrutiny in departments and to ensure that it is more useful to the centre in monitoring departmental performance. It must become an intrinsic part of the annual processes of financial management, and of practical help to management in setting departmental budgets and also a source of action at the centre.

8.2 We therefore recommend, subject to the reservations expressed by DOE that:

(a) the scrutiny should cease to be simply an historical exercise; it should become forward looking and an up-to-date tool for departmental management and the centre;

(b) the scrutiny be assimilated to the annual Estimates processes so as to become a basis for decisions there;

(c) departmental managers at all levels who are concerned with proposing or authorising Estimates bids have information about Outturn and Estimates before them in an appropriate form and be required to justify their bids or recommendations in the light of them;

(d) the present Forms A and B supporting departmental Estimates submissions be replaced with new annual scrutiny forms which can provide the data both for the running costs and the Estimates scrutiny;

(e) the exercise should be geared to the needs of managers and, where appropriate, a running costs return should be prepared for separate departmental "businesses" - as agreed with the Treasury;

(f) information on key ratios should become a regular part of the running costs scrutiny;

(g) following official-level discussions on Estimates submissions Ministers should submit commentaries on the running costs returns commenting, inter alia, on action taken, or to be taken, to reduce running costs or to improve value for money.

(h) those commentaries should be the basis for specific proposals for action to be put to Minister by the Treasury.



for Mr
Cecil Sewer

10 DOWNING STREET

From the Private Secretary

9 August 1982

Dear John,

The Prime Minister has seen the Chief Secretary's minute of 28 August about the review of the scrutiny of departmental running costs. The Prime Minister has noted the progress which has been made on the review. She has agreed that this year's scrutiny of running costs should be carried out on the basis proposed by the Chief Secretary in association with the Estimates exercise, on the understanding that the Treasury will be ready to discuss the conduct of future scrutinies with the Department of the Environment and other Departments as necessary.

I am sending a copy of this letter to the Private Secretaries to Members of the Cabinet, Richard Hatfield (Cabinet Office) and Clive Priestley (Management and Personnel Office).

Yours ever,
Tim Flesher

John Gieve, Esq.,
HM Treasury.

TIM FLESHER

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LONDON SW1P 3EB

My ref: H/PSO/15698/82

Your ref:

Prime Minister

②

To note.

(You have already
accepted the Chief
Secretary's proposal.)

MS 4/9

MS

See below

Thank you for sending me a copy of your minute of 5 August to the Prime Minister.

As you know, I am not persuaded that the line you have taken is the right way ahead. And I would not agree that "Departments already need the information contained in the Scrutiny in order to prepare their Estimates properly". The traditional way of preparing Estimates was to build them up on an item-by-item basis, in the way in which your proposals would perpetuate. This led to the sort of lax estimating that we have seen in the past and that the Joubert report focussed on. In particular, by taking responsibility for the make up of budgets out of the hands of individual managers, there is a very real risk of weakening the sense of responsibility for costs as they are incurred.

I believe that we would get better results by concentrating on getting the totals right - and that means getting them down - in the Survey and that the scrutiny of departmental running costs ought to be used for that purpose, rather than at the Estimates stage, when time is short, and Cabinet decisions have already been taken.

I am sending copies of this letter to the Prime Minister and the other members of the Cabinet, and to Sir Derek Rayner.

Yes, see

MS

MICHAEL HESELTINE