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Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq  
Private Secretary  
10 Downing Street  
London  
SW1

25 April 1986

Dear Mark,

**VALUE FOR MONEY TARGETS**

Thank you for your letter of 18 April enclosing a copy of the report which Sir Robin Ibbs has submitted to the Prime Minister on value for money targets.

The Chief Secretary warmly supports the main themes of the report. In particular, he agrees with the pragmatic and decentralised approach in the opening section of the report, and the emphasis on the role of top management and the need to stimulate ambitious targets.

On the recommendation on efficiency savings, the Chief Secretary feels it is important not to lose sight of the reasons why we need to seek efficiency savings in the first place. The Government has set itself demanding objectives for taxation, borrowing and expenditure. Given all the pressures in the other direction, the taxpayer's interest in efficiency savings must not be overlooked. The ICI analogy which Sir Robin Ibbs draws in paragraph 13 of his report is apt. We need to change the climate so that departments and managers are motivated by the need to get the best value for the taxpayer and not simply to promote the services with which they are currently concerned. Moreover, when Ministers come to take difficult decisions during the Survey, they will want to reflect the Government's own priorities between the various services, and this will not necessarily coincide with the outcome of ploughing back or sharing efficiency savings in the individual services.

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Sir Robin Ibbs' report recognises these points in a number of places, e.g. in paragraphs 13 and 15. Recommendation (9) suggests that the idea of ploughing back efficiency gains is something to be considered in appropriate instances. It should be possible to find ways of doing this in suitable cases, e.g. by building an adequate initial allowance for efficiency improvements into departmental allocations in the overall spending plans. But this has to be handled case by case, and the concept of "ring-fencing" (paragraph 16) will not necessarily be the most helpful. Ministers have been asked, in this year's public expenditure Survey, personally to scrutinise priorities within their programmes, and make every effort to accommodate upward pressures through offsets and improved efficiency. The Chief Secretary would not want them to be able to quote the report at him as a reason for resisting justified programme reductions on account of efficiency, especially in programmes where insufficient progress has been made hitherto.

The Chief Secretary hopes, therefore, that in commending the main themes of the report to Ministerial colleagues, the Prime Minister could underline the paramount importance of efficiency savings in achieving the Government's aims for reducing taxation, and stress that any arrangement of the kind mooted in the report must not stand in the way of those aims.

The report also suggests, in recommendation (8), that Treasury Ministers should take the lead in promoting wider understanding that if targets are demanding they may not be achieved at the first go. The Chief Secretary would be content to take suitable opportunities to explain this, although it would be helpful if other Ministers were to make it too. Obviously, it would be necessary to get the balance right; performance targets should be stretching but they should also be realistic.

I am copying this letter to Kate Jenkins.

*Yours ever,*

*Jill Rutter*

JILL RUTTER  
Private Secretary

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Gout. Machinery : Rayner  
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PRIME MINISTER

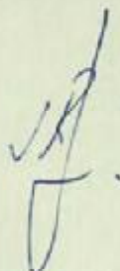
VALUE FOR MONEY TARGETS

I have seen a copy of John MacGregor's minute to you dated 25th April 1986. I am concerned that the Treasury, in an understandable desire to do nothing that would limit the scope for tax reductions, may inadvertently prevent savings part of which should be available to them for use in that way.

In Section 3 of my report to you on Value for Money Targets I argued that in appropriate instances Departments should be allowed to keep a proportion of savings as an incentive that can stimulate the search for better value. Properly controlled this is a way to encourage managers in Departments to obtain savings which they would otherwise not try for. This should not reduce opportunities for reducing taxation; on the contrary the whole purpose would be to encourage managers to search out and achieve savings which otherwise would not be made at all.

Regrettable though it may be, the fact is that many managers in Government are unwilling to drive for savings beyond those obviously obtainable, unless they can see some benefit accruing to their Department. Undue reluctance by the Treasury to permit opportunities for some "profit sharing" will merely slow down the rate at which improvements are achieved. Indeed positive encouragement by Ministers and the Treasury, in this and other ways, is vital if managers are to become bolder and more ambitious in their search for improvements.

I am copying this to Robert Armstrong.



ROBIN IBBS  
2nd May 1986



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