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Will discuss with
L.P. o Derek Rayner
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PRIME MINISTER

ANNUAL SCRUTINY OF DEPARTMENTAL RUNNING COSTS

... I attach the draft of a Cabinet paper on this, and would be glad to know if you think it is on the right lines.

There is, inevitably, a great mass of figures. Some did not reach us until the end of November; many were obscure and had to be clarified by subsequent enquiry; and I have only just received the last of the Ministerial commentaries. The figures are unreliable where rough attributions have had to be made, and it may well be that some departments have included items which others have left out. All we have been able to do so far is to collate the results. They need further probing and analysis. But at this stage, and in order to get the exercise going, all I can do is circulate the lot.

The broad totals, however, are probably not far out. On one view of the matter, they are about what one would expect. The large rise in wages and salaries is accounted for by the fact that the cost in 1980-81 included 11% left over from the staging of the last government's 1979 pay award as well as the 1980 award itself. For the rest, the increases in costs were broadly in line with the rises in the prices for the goods and services in question; the note by officials brings out how heavily the costs of central government administration are affected by rises in the prices charged by the nationalised industries (posts, telephones, agency charges, rail travel, heating).

Plainly, however, we cannot be content simply to accept the effects of inflation. The figures, as Derek Rayner truly points out, are enormous by any standards. The rates of increase are very high. And the variations between departments are so wide that one is bound to ask whether all this expenditure is under adequate control. They underline very sharply, in my opinion, the need for departmental Ministers to concern themselves personally with the costs of their departments, and I cannot say that I was reassured by the tone of some of their covering letters. I hope and imagine that you will wish to rub this point in at Cabinet.

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I suggest, however, that the discussion should be in general terms at this stage. We need to examine two questions. The first is whether the figures suggest the existence of types of expenditure (travel might be an example) over which control, including the efficacy of cash limits, needs to be improved across the Service as a whole. The second is whether they suggest that particular departments are controlling too loosely their expenditure either as a whole or in part. In neither case can the answer be deduced just from the raw figures. To take a domestic example, the CSD's own figures for personnel overheads and office services are high. But if one takes out the costs of No. 10 and the expenditure of the Civil Service Commission on such things as advertising and candidates' travelling expenses, personnel overheads come down from £871 per employee to £594 and office services from £2316 to £1803.

✓ I understand that you would like to take a hand yourself in probing the figures, and I greatly welcome the idea. But I think you will agree that some further analysis is needed in order to identify the real targets (as opposed to those figures for which scrutiny provides a reasonable and unavoidable explanation). That is why the paper proposes as the first steps:-

- (a) that Ministers should compare their figures with those for other departments and investigate in particular those of their costs which look comparatively high;
- (b) that my Department should investigate Service-wide the major causes of rising costs and more striking departmental variations, and report again in three months' time.

A copy of this minute and its enclosure goes to Geoffrey Howe and to Derek Rayner.

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9 January 1981

2
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