

C S
Long Term
Management 2



10 DOWNING STREET

PRIME MINISTER

Derek Rayner is furious about the figures thrown up by the annual scrutiny of Departmental running costs. He is not only outraged by the overhead cost increases, when set aside the efforts which the private sector have had to make to hold costs this year: what really worries him is the apparent complacency of Ministers in reporting overhead cost increases of this scale.

This is due to come to Cabinet early next year. You might find it helpful to talk to Derek before the Cabinet meeting about how to handle it there.

I should like to talk to D-R as soon as possible. These figures are disgraceful.

23 December 1980

MB

PERSONAL

PRIME MINISTER

ANNUAL SCRUTINY OF DEPARTMENTAL RUNNING COSTS

Flag A -
(main text +
the key annex)

Flag B.

1 I have recently read a first draft of the report being prepared for Cabinet by the Lord President of the Council summarising the results of the work commissioned earlier this year to prepare an annual report on the costs of Government for Ministers individually and collectively. A copy of my comments to the Minister of State, CSD, on the draft has been supplied to your office privately.

2 From the individual returns that have been copied to me, I was conscious of a sharp movement upwards, but the summary indicates that the cost of administering Government has risen, in spite of the attack on numbers, by a staggering 25 per cent over last year.

3 I find it disappointing, to say the least, that a number of Ministers have recently commented on other papers that it is not for them to manage, while some have questioned the modest costs of preparing the very basic and simple management accounts involved in this exercise. There is also a reluctance in some quarters to recognise or take seriously items costing millions, because Government budgets run into tens of billions. This has particularly shocked me, knowing how difficult it is for the wealth-creating sectors of the nation to produce an extra million pounds of added value, and how easily in running Government millions add up to tens of millions, particularly across the range of departments.

4 Although the information in this first round was in places crude and will certainly be inaccurate in detail, it did serve to indicate only too clearly the scale of the increase in expenditure on administration. The Government, to its credit, has already decided to cash-limit expenditure on wages and salaries, but the implication which emerges from the report - and which in my view needs to be seized and acted upon - is that the drift will continue in other areas. Taken across Government as a whole, the cost of meeting these inflationary increases in overheads is difficult to explain or defend, given cuts in Government or Government-funded services of the kind we have seen over the last year.



5 The key question is whether such large increases in the cost of Government are accepted as a fact of life - inexorable and immutable.

6 Perhaps I might make these points on the major items of cost:

a Salaries

I believe that increases in costs, including the pensions commitment, should be mitigated by reductions in numbers, ie increased productivity.

b Accommodation costs

With the reductions in numbers under way, there is considerable scope for reducing the amount of space occupied as well as an opportunity to look with new eyes at the more effective use of expensive office accommodation. Departments will play their part much better if some device is created which will allow them to take credit on their overheads for accommodation they declare vacant. My proposals for charging accommodation costs, shortly to come before you, will provide Ministers with the first very important step towards this.

c Other overheads (telephones, energy, stationery, postage etc)

I believe that a directive should be issued that costs must be rigidly held down. (We have had some very successful experience at M & S.) Examples occur all over Whitehall. In my visits to other Government offices, I find corridors ablaze with light and offices often lit by elaborate overhead light fittings. In my office I had the 100 watt bulbs replaced by 60 watt bulbs without loss of adequate working light.

d Capital expenditure

In order to bring down running costs, some capital expenditure has been and will continue to be necessary. (In order to sharpen up the attack on waste, I think that approved capital expenditure should be shown separately in the future scrutiny of costs, as to my personal knowledge it distorts some of the real increase in costs in some of the charts which will shortly be sent to you.)

7 If you wish to discuss any of this, I am at your service.