



MO 8

D/F with CST response

ce/10

PRIME MINISTERRUNNING COST TARGETS

I have seen a copy of the Chief Secretary's minute to you of 3rd April, and the attached paper on the proposed direction and future role of the Departmental running costs exercise.

2. I welcome his proposal that, as a further measure of financial discipline, cash targets for running costs should be introduced in PES 85. There is, however, a particular difficulty in the case of my Department. MOD running costs cover all Service personnel and civilian staff, irrespective of function. The targets set will therefore comprehend expenditure on the pay of personnel in the operational as well as the support and administrative areas, and this will need to be taken into account in establishing the targets. Of our total running costs a greater proportion is attributable to pay (80%) than for Government as a whole (70%); and the greater part of this (55%) is for Service pay. Service pay is of course determined by a process involving an independent body, and on the basis of recent experience is likely to continue to move ahead faster than provided for in the Treasury factor. I am content to seek to absorb the excess costs of Civil Service pay awards within running costs targets as proposed; but to do the same in the case of Service pay would be likely to be punitively difficult. Whether additional Defence Budget provision is to be made available for Service pay awards will be for discussion in PES, but I should like Treasury agreement now that running costs targets will be supplemented on this account as required.



3. Subject to this point I am sure that these proposals will represent a valuable addition to our ability to control administrative costs and release resources for the more important purpose of programme expenditure. Given the operational nature, of course, of some of my Department's running costs I should not like to rule out the possibility, where justified, of exceeding the targets set but I would hope that this would be exceptional.

4. As regards the Chief Secretary's proposals for manpower control, numerical targets have served us well in the past in reducing overheads, but I agree that we should now aim for something more flexible in the interests of even better value for money. This is especially important in the case of this Department where civilianisation could lead to significant savings. We shall of course have to be satisfied that the new system will continue to exert downwards pressure on total numbers before the change is finally endorsed.

5. I am sending copies of this minute to Cabinet colleagues, Robin Ibbs and Sir Robert Armstrong.

rust

Ministry of Defence
17th April 1985

Elon Pol
Public Exp
PE 31



18 APR 1985

COMMUNICATIONS SECTION