

PO-CH/NC/0449

PART A

Part. A.

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Begins: 3/4/87
Ends: 5/8/87

MANAGEMENT - IN - CONFIDENCE.

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PO CH | NL | 0449
PT. A.

Chancellor's (Lawson's) Papers:
Improving Management and the Machinery
of Government.

DD's: 25 Year
D Anderson
7/2/96.

PO CH | NL | 0449.
PT. A.



mp

Ch/ Your NIC question ...

ST tell me that if a person has two jobs, both sub-LEL, and if the employments are clearly separate, then no NICs payable. [So you were right.]

Only if it's possible to show the 2 employers act "in association" would the earnings be aggregated.

John
mp



CABINET OFFICE

70 Whitehall London SW1A 2AS

01-270 0101

*The full report on
for v. much better; see
on that show & supplement
x somewhat amorphous.*

*PPS Tony
out. For next
PEM letter
I will be interested
LS knows no vms
of PPM & FBRB.
WT might have a
mtg.*

b1f PEM bilateral (A)

From the Secretary of the Cabinet and Head of the Home Civil Service

Sir Robert Armstrong GCB CVO

Ref. A087/984

3 April 1987

My dear Peter,

I am enclosing herewith copies of the Efficiency Unit's report on the next steps in improving management in Government, and of the minute with which Robin Ibbs has submitted it to the Prime Minister.

He and I are to discuss it with the Prime Minister on Monday 6 April. I intend to propose that, if the Prime Minister decides in principle that these recommendations should be pursued, they should be discussed in the first instance in a small group of Permanent Secretaries (of which you would of course be one) and a small group of Ministers (of which the Chancellor of the Exchequer would be one), before they are reported to the whole college of Permanent Secretaries and to the Cabinet. If the decision is still to go ahead, there will then be a lot of work to do, both in working out the recommendations in much greater detail and in explaining them to and consulting on them with the unions and Parliament (via the Treasury and Civil Service Committee). I do not see us getting beyond the first part of the time-table for implementation set out in Annex 1 until after the election, and I do not think that we should try.

I should like to discuss with you at an early stage the administrative arrangements for processing the recommendations. If we decide to have a "Project Manager" (whatever we actually call him), I think that he will need to report to and be overseen by a small group of Permanent Secretaries (not unlike SASC, but not necessarily the same composition). We could have a word about who should serve on the small group, and indeed about who might be chosen as the Project Manager.

/I am sending

Sir Peter Middleton KCB

*RTA
to
PEM
3/4*

I am sending copies of this letter and the documents to Robin Butler and Anne Mueller. I should be grateful if they could be treated as personal to you and them for the time being.

Yours ever

Robert

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

Attached is the report of the recent scrutiny by the Efficiency Unit on Improving Management in Government.

2. You will recall that when I outlined the findings and recommendations to you in January I emphasised their radical nature. This is because of their implications for the way in which Ministers discharge their responsibilities. If similar problems existed in an organisation outside government, the recommendations would appear little more than obvious commonsense. But because it is not possible in government entirely to separate management from politics, the problem has an added dimension; this is the fundamental obstacle that keeps impeding progress and providing excuses. Lessening of this obstacle will require not only an increase in the importance that Ministers attach to good management, but also some further and progressive modification in the way in which operational performance is supervised by Ministers and accounted for to Parliament. Significant change has already been achieved but because of the importance of this aspect it is addressed specifically in paragraph 23 of the report and developed further in Annex 2. But only you and your colleagues can give the lead necessary to ensure that steady management improvement is not sacrificed to short-term political pressures.

3. The three main recommendations are:

- The executive functions of government should be organised in separate executive units, referred to in the report as "agencies"; these should then operate, with much greater freedom than now, within appropriate policy and resource frameworks set by Ministers in Departments. These would be of course within financial limits agreed with the Treasury.

- Departments should ensure that their staff are properly trained in the delivery of services; they will then be able to develop and interpret government policy and manage the agencies in a way that can maximise results.

- "A Project Manager" should be appointed who is senior, experienced and of Permanent Secretary rank. He would be charged with ensuring that the right sustained pressures for improvement build up, that Departments play their part, that political difficulties are solved and that change occurs on a rigorous timetable. Considerable simplification should be possible in other management arrangements at the centre.

1st?
Example?
(was for Mr. Judd
looked up)

4. The changes we are recommending will only succeed if they are fully supported by you, your colleagues, the Head of the Civil Service and Permanent Secretaries generally. First, Ministers must be convinced that there are benefits for them in this, especially a reduction of their workload; that their accountability to Parliament is clear; and that they are able to direct the political aspects of performance. Second, as Derek Rayner always maintained, the changes will not succeed unless positively carried forward by the Civil Service itself.

5. I have consulted Robert Armstrong and Kenneth Stowe on how Ministers and officials could best be built into the process of directing and sustaining this fundamental change in the way the Civil Service operates. They are developing ideas on how a small advisory Board of some Permanent Secretaries and perhaps some outsiders might support you, the Head of the Civil Service and the Project Manager in driving the changes through. They are also considering how a positive and continuing ministerial lead and involvement might best be ensured.

6. The recommendations are aimed at achieving a step change in the quality of management performance. You have pointed out to me that after more than seven years much is still not right; for example the Nimrod fiasco, and the extraordinary difficulty we are having in getting for you a satisfactory routine progress report on projects from the MOD - other Departments too are at fault in other ways. The changes now proposed are aimed at tackling the underlying problems that lead to these failures and poor value for money.

7. Since we saw you in January, we have explored how the recommendations are likely to be received, and particularly what the reaction will be from the senior Civil Service. I have outlined the findings and recommendations at the weekly meeting of Permanent Secretaries and had discussions there on two occasions, as well as talking with Permanent Secretaries individually; the Efficiency Unit has had extensive discussions with the Treasury. It is fair to say that there has been broad support for the analysis and what is proposed. Nobody underestimates the magnitude of the task; various difficulties have been highlighted, particularly those at the interface between management and politics. But it became clear that some Departments have already started to move in the general direction we are suggesting. To some extent the recommendations, although radical, amount to greatly speeding up an evolutionary process that is already beginning. The positive reaction of Permanent Secretaries is certainly very encouraging and reflects both the degree of concern that exists about the need for better progress, and the extent to which the recommendations are seen as realistic and practical.

What about?

8. The report was based on fieldwork by the Unit who have talked widely to civil servants at all levels. Their findings are in paragraphs 2-12 of the report. The conclusions and recommendations are in paragraphs 13-43. The final section of the report (paragraphs 44-51) spells out the next steps. Annex 1 gives an indicative timetable.

9. I believe the report provides an opportunity for a unique and radical advance in the conduct of public business and service to the taxpayer. We have a meeting arranged for Monday 6 April at which I hope we can discuss the implications of the recommendations and how best to proceed. Robert Armstrong will be joining us at that meeting and I am sending him a copy of this minute and the report.



ROBIN IBBS
2 April 1987

cc Mr FER Butler
Mr Anson
Mr Kemp
Mrs Strachan

Ed Policy
(1) Less weight to PG
(2) Answer body
(3) Audit
(4) Tactics

Revision of 3 June 1987

STOWE REPORT

The Better Management of Government

Introduction

I was asked by the Head of the Civil Service, with the agreement of the Head of the Treasury and of the Prime Minister's Adviser on Efficiency, and with the approval of the Prime Minister, to review the central arrangements for the management of the Civil Service.

2. In this memorandum I report on the conversations I have undertaken and the conclusions I have reached; and set out for consideration some proposals for dealing with the issues which have been revealed.

3. I consulted widely at senior levels within Government. In particular, I consulted the Permanent Secretary Heads of Departments; the Heads of the Government's principal professional services (Accountancy, Economic, Legal, Medical and Statistical); the second Permanent Secretary, Treasury, responsible for public expenditure; the Head of the Management and Personnel Office in the Cabinet Office; and a number of senior officers at grades 3 and 2 (the five Deputy Secretaries in relevant posts in the Treasury, MPO and Cabinet Office were especially helpful). I also consulted outside Government, eg former civil servants and others with knowledge of government.

4. Immediately before my consultations began, the Prime Minister's Efficiency Unit had completed its scrutiny of the progress made to date in the better management of Government Departments, and Sir George Moseley had completed his review of the Senior Open Structure of the MPO. I take account of these in what follows.

+ stick to do.

Whatever else in this nonsense stays, Para 5 of Annex 3 is totally unacceptable. PESC must be preserved as is.

The Work to be Done

5. The better management of the Civil Service, and of civil servants, cannot be divorced from the better management of the work it has to do, ie to carry out the tasks of government. The substance of that work is in part closely directed by Ministers as they generate the demand for information and advice, and determine the action. But much is not: many tasks are required to be done or in practice have to be done without any involvement of Ministers at all, eg in relation to the rights and obligations of individuals, or in response to statutory and international authorities. And much of this is demand-led.

6. Both kinds of work - informing and advising Ministers and Parliament; and implementing by executive action the policies of Ministers and the laws enacted by Parliament - are concurrently heavily loaded and undergoing substantial and rapid change. Many of the problems and concerns brought to my notice underlined this fact. Continuing and accelerating change in the work to be done, and in the way it has to be done, are seen as inevitable but also as an impediment to coping with the pressure and doing it well. Yet change is not only a permanent feature: there is a need for more, not less of it, in some respects at least, if the United Kingdom's problems are to be successfully resolved. And there is certainly need for more change in the way the Civil Service is itself managed, if it is to respond to current and prospective demands on it.

7. These considerations led me to focus my discussion with Heads of Departments on two questions. Assuming (for obvious reasons) the continuation in the next Parliament of present Ministerial policies, under the present Administration:

1. What do you want to achieve in your Department over the next 2/3-4/5 years, the timescale depending upon the nature of the Department's Ministerial objectives?

2. What help do you want from "the centre" of Government, ie the Cabinet Office, Management and Personnel Office, and Treasury, to enable you to do this, are you getting it, and are you getting what you do not want?

The answers to the first question are summarised in the --- Permanent Secretaries' own words in Annex 1. At Annex 2 is a summary of Permanent Secretaries' views on what they looked for from the central Departments and on what they were or were not getting.

Findings

8. The substance of my consultations, and the conclusions to be drawn therefrom, are easily distilled:

1. The overriding impression I have gained is of a Civil Service whose senior management is poised to face an exciting future and impatient to make the necessary changes, so as to make a success of what it will have to do. But it is widely believed that the management of the Civil Service has not yet sufficiently adapted to the new environment; and that Ministers' expectations will not be able to be met unless changes are made in management, both at the centre and in Departments.

2. There is no support for, nor confidence in, the present structure of management at the centre, at any level. This view is held as strongly in the MPO, Treasury and Cabinet Office as it is in the Departments.

3. From the standpoint of the centre itself the common view is that there are too many "management" interests competing for departmental attention and that a disproportionate amount of time is spent on

"co-ordination", ie resolving conflicts of interest, or competing for the attention of Heads of Departments and their line managers, whose priorities lie elsewhere.

4. From the standpoint of the operating Departments outside the centre, it is seen in much the same light. But they voice the additional concern that the centre has the freedom and the inclination to distinguish artificially between good policy and good management (and to focus on the latter under sundry heads) which Departments do not have. This makes some of the centre's efforts appear, in consequence, to be irrelevant or ill-informed.

5. The simple combination in one post of the roles of Secretary of the Cabinet and Head of the Home Civil Service is seen as a handicap. The overload on it stands in the way of these conflicts and problems being resolved, but the authority to resolve them cannot be found elsewhere. It is also seen as liable to result in the subordination of the better management of the Civil Service to the day-to-day response to Ministerial wishes and the pressure of business.

Comment

9. The views recorded in Annexes 1 and 2 provide at least some background against which the arrangements for the central management of the Civil Service should be judged; and in the light of those views, and of my wider consultations, I make the following observations.

10. No-one should under-estimate the magnitude of the tasks which the Civil Service will be called on to perform over the next decade, nor the leadership and competence required of its managers at the centre, and in Departments, from Permanent Secretary downwards. Some at least of those I consulted in the

central Departments were necessarily aware of what is recorded in Annex 1; others could not be. But, judged by my consultations, nowhere in the centre would there be any disposition to disagree that changes are needed in the centre itself, as well as in departments, to enable the Civil Service to deliver what Ministers, Parliament, and the public expect of it.

11. The problem at the centre is not primarily a problem of organisation, to be solved by re-allocating some of the existing activities. It is more a problem of attitude, of re-thinking what the centre's objectives should be. The judgments in Annex 1 reflect in general Ministerial views of departmental priorities - subject, of course, in some cases to collective consideration and agreement. If they are even approximately right, and agreed, then what is required of the centre is understanding of and support for the achievement of those objectives. And if, for good reason, that support cannot be made available, the consequences should be honestly addressed by Ministers. In short, the centre needs informed and well-targeted direction to support the totality of Government objectives.

12. Those objectives, as set out by the Permanent Secretaries, constitute a massive task of policy development (including legislation) or service development, or both. Taken together, they constitute a radical programme for the next Parliament, which if achieved, would entail profound, and desirable, change in the United Kingdom. Any Prime Minister could be proud to take credit for it, if achieved.

13. So far as I could judge, the departmental objectives were not mutually inconsistent. But they had one obvious deficiency, and they implied a major problem.

14. The deficiency was that, while Permanent Secretaries

Crazy recognised the validity of the central economic aim of reducing inflation and creating the right climate for private sector expansion, not one of them saw the Treasury as interested essentially in the improvement of the economy or the enhancement of public welfare. The Treasury was seen only as a Department whose ambition was to cut public expenditure, not interested in policy. Conversely, not all Departments were seeing themselves as major contributors to the over-riding economic aim. One can understand how these perceptions have arisen, but they are wrong and require urgent correction.

15. The major problem implied (and sometimes stated) was that the centre was not adequately equipped to pull all this together; that the departmental resources (especially high quality staff) would not be adequate because the magnitude of the task was not understood; and that too much of the "management" effort at the centre was - though praise-worthy in itself - not very relevant to departmental priorities as perceived by Ministers and their Permanent Secretaries.

16. None of this is directed at individuals. The centre has in it some of the ablest people in Government, many recruited from other Departments and, therefore, familiar with the problem. Their commitment to making it work as well as it does is widely respected; and their difficult-to-conceal frustration attracts sympathy. It is recognised that if able and energetic people are employed to tell Departments how to manage their business better, they will. But that may not get the best results.

17. Nor is it inconsistent with the findings of the Senior Open Structure Review of MPO and the Efficiency Unit scrutiny of Departmental management (The Next Steps). As regards the centre, the SOS Review describes the scene thus:

"A discussion of remedies lies outside my terms of reference. Suffice it to record that a very great deal of

senior staff effort is currently being devoted to ensuring that the two central departments keep reasonably in step; that the division of responsibilities between the two departments appears unnecessarily bizarre; and that, in the opinion of many of those involved, the present arrangements may be retarding rather than advancing the attainment of some of the Government's objectives."

The Next Steps, which specifically recognises the differing managerial needs and interplay of service-delivery on the one hand and, on the other, of policy development and political support for Ministers, comments thus on the centre:

"However, pressure at the highest level (to achieve better managerial performance in departments) will only be effective if the centre of the Civil Service is organised with certain essential characteristics. It must be authoritative, and able to ensure that its authority is recognised and acted upon. It must be "slimline": the development of a new bureaucracy would be disastrous. It must be seen to be competent and helping rather than obstructing the delivery of effective service by operational departments. It must be cohesive and not as apparently diverse and fragmented as at present."

18. The view commonly expressed, and not only inside Government, that the roles of Head of the Home Civil Service and of the Secretary of the Cabinet cannot sensibly be held in one post is in a different category. The tasks that fall to be done under each head are not commonly well understood: indeed, there is no formal and public "job description" for either office. And very few individuals indeed have done either job or observed at first hand what is entailed. The suggestion that the roles be separated, if applied simplistically and within the present structure, would repeat the error of the Fulton Committee in its proposition (para 182 of the Fulton Report) that the functions

of "manager" and "senior policy adviser" can and should be separated at the highest level. They cannot be, as experience has shown. And nowhere is the suggestion now made that the Permanent Secretary's role should be so bisected in departments generally. Nevertheless, the view that change is needed is not advanced irresponsibly. And it is possible that the underlying concerns, if accurately diagnosed, could be met by a new approach to the conduct of business at the centre.

Conclusions

19. I draw the following conclusions:

1. The tasks facing Government in the next 3 to 10 years are in volume and in complexity as great as, and perhaps greater than, at any time since the post-Second World War reconstruction. Annex I speaks for itself. But it is not the whole story: the demands of Parliament, of the judicial process, and of the media will continue to grow; as will the demands of the public for services delivered by Government to be brought up to an acceptable standard. The work of the Civil Service will need to be better and differently managed to accomplish all, or even much, of this.

(variant on Alliance slogan!)

2. The time is, therefore, ripe for change - substantial and speedy - both in the centre and in departments. But it requires the right lead from the centre.

3. To this end, some change in organisation at the centre, for example to clarify the functions in the management fields as between Treasury, MPO and Efficiency Unit, might appear prima facie desirable. But simply to re-distribute any or all of the existing management functions (plus the new task of implementing The Next Steps) without re-thinking what are the centre's functions

All this is under P.S.A. Spec

Nothing about the fast-lanes

and priorities would simply add another distraction. In the longer term, there may be a case for substantial change but I do not see this as the highest priority.

4. Much more important are the twin issues of (a) how to secure better direction and control of all the activities at the centre which relate to the management of the Civil Service; and (b) how to ensure that what is done at the centre is targeted on results whose achievement will be seen by departments and their Ministers as belonging to their own management objectives and priorities. This is a matter of management process rather than of structure and organisation.

5. More important still is to build in to the management process at the centre the means whereby:

- progress on major reforms and their better management, can be both supported and monitored;
- energy, enterprise and vision can be continually renewed; and
- the requirement for further management change and development can be identified and pursued in support of - and not at odds with - the work of Government as a whole.

The New Central Machinery of Government: Options

20. The files of the Treasury, the Cabinet Office and the MPO record many essays in how to make the central machinery better - or at least different. The options, well rehearsed over many years, boil down to:

But the report is about the management of the centre

how many reforms

- No* a. recreate the CSD by transferring the responsibility for pay and manpower (and, therefore, a large part of running cost control) to the MPO;
- No* b. recreate the pre-Fulton Treasury, with or without minor refinements;
- No* c. split the re-created Treasury into a Department of Economic Affairs and an Office of Budget and Manpower; and
- Maybe* d. maintain the status quo.

Associated with these is the option of embodying all or any parts of the Civil Service management functions in a Prime Minister's Department.

21. I have deliberately not undertaken any new analysis of these options. Any immediate gain from options (a) or (b) over the status quo would be modest, and the long-term gain uncertain; the disruption and cost would not be insignificant. There are profound objections of principle to option (c). Virtually none of those I consulted thought that the solution to current and prospective problems in the management of Government business lay primarily in organisational change per se, although the muddle at the interface between MPO and Treasury needs tidying.

22. The option of a Prime Minister's Department is a constitutional development: it cannot leave the collective responsibility of the Cabinet as a whole, and the specific responsibilities of the departmental Ministers, untouched. It should not, and need not, be driven by the requirement, urgent though it is, to make a better job of managing the work of Government and of the civil servants who do it. It is not pursued further here. What is relevant is the concern of the Prime Minister, as Minister for the Civil Service, that she

should be regularly informed about progress - or lack of it - in the management of the Government's major objectives, and of Civil Service efficiency in achieving them.

23. The deficiency which needs urgent attention is the absence of overall direction and control of those functions relating to the work of Government which must be done at the centre. The urgency is enhanced by the proposals in The Next Steps. If Ministers collectively accept the analysis and prescription in The Next Steps, the machinery to implement it does not exist. But to bolt on a new unit, for this purpose, to the existing central units would compound confusion. The critical path to implementing The Next Steps, (and to carrying forward effectively the existing FMI) lies, therefore, through the establishment quickly and economically of a well-ordered process for direction and control.

24. What is required at the centre now is an effective change-driving mechanism which:

a. has the authority of and is accountable to the Prime Minister;

b. secures the commitment of the ^{Key mins} Chancellor and the Chief Secretary, and their Permanent Secretaries, ie the resource controllers;

c. can form an overview of the totality of the Government's work programme and so direct, as necessary, all the existing central management instruments, so as to support that programme and determine priorities for necessary change;

d. includes relevant high-level expertise, and experience in change-making management, from outside Government;

What does
this mean

TEM

360

e. includes expertise and experience in Government from two or three major departments at Permanent Secretary level; and

f. has the standing to present its case for change, and for the progress achieved, to the Prime Minister, to departmental Ministers, to the Government's employees, to the public and to Parliament.

25. This could be done, and might best be done, by establishing a central board of management for the Civil Service, which would include all the elements set out in paragraph 24 but especially these four crucial elements:

- it must have the authority of and be accountable to, the Prime Minister;
- the Treasury and the Prime Minister's Efficiency Unit must be committed to it and in it;
- it should be led, or chaired, by the Prime Minister's principal adviser, adequately supported; and
- there must be a strong - but carefully-chosen - external element.

My judgment is that the last is a vital new component which contains the key to the success of what Government is embarked on. The independent external element could help by challenging existing practice, by pressing for change where it is needed (and help in holding it back where it is irrelevant), and by critical monitoring of progress. It could give new credibility to the central leadership of a Crown service and those who work in it. Most important of all, the right kind of "outsiders"

could give confidence to Ministers that there is a built-in protection against insularity and inertia. A brief outline of such a board and how it might work is at Annex 3.

26. There are models elsewhere in Government departments which are already demonstrating the merits of this approach. Each operates as best suits its responsibilities. The same would be true of a board for the management of the Civil Service, but it is worth recording the valuable suggestion made by one Permanent Secretary as to how the centre should conduct itself, which such a board could well develop and direct. This is to adopt in the centre-department relationship the principle of an annual "audit" of each Department's performance, measured against agreed objectives which take full account of the totality of the Department's responsibilities. Such a review would follow on from the Department's own reviews of its performance, under the now-generally-established management accounting process, and would require the centre and the Department to get their act together. The outcome of an annual review of this kind ought to be reported to Ministers, so that outstanding points of conflict can be resolved. It should necessarily be related to the PES process. And it should embody a clear understanding between the centre and the individual Departments as to the action required during the next year over the whole range of management issues, and at all levels, ie ad hoc and unco-ordinated interventions in particular aspects of a Department's performance during the year would cease.

27. Finally, it cannot be emphasised too strongly that this approach does not erode Ministerial responsibility: a central board of management could not be more than advisory to the Prime Minister and her colleagues in terms of policy for Civil Service management and it could not detract from each Minister's responsibility for his Department. But it should be able, with the authority of the Prime Minister behind it, to require, support and insist on high performance from all the Departments

of State in formulating and delivering both the Government's programme for the next Parliament and its services to the public.

28. To sum up:

1. We have a problem in the centre with its functions in managing the Civil Service, in Departments with their management of themselves, and in the apparent disconnection between the two.
2. Notwithstanding all the progress made so far in the creation and implementation of new policies, there are massive tasks ahead on which we shall falter or stumble if the Civil Service is not adequately resourced and better managed at all levels.
3. The Next Steps report makes valuable proposals for the better management of service delivery. But the implementation of these will itself require change in the targeting and leadership of the management effort at the centre as well as in Departments.
4. But management of service delivery is not enough. The over-riding requirement of political support for Ministers both in day-to-day business and in policy development is just as demanding in terms of management.
5. The totality of the management task in Departments and in the centre must be comprehended so that it can be brought under effective and coherent leadership and direction.

6. Tinkering with the allocation of responsibilities at the centre will be a distraction rather than a solution. Some organisational change may become necessary. What it should be is more likely to become obvious if (see para 19.4 and 19.5) we meet the real need first.

7. To this end, I propose in outline the establishment of a central board of management for the Civil Service - paragraphs 25-26 and Annex 3.

KENNETH STOWE

3 June 1987

*Nothing about the Government's
Objectives for the economy or the private sector*

The Government's Programme: What the Major Departments Aim to Achieve over the Next Few Years

1. MAFF
 - (i) Continued UK influence on the CAP. There is need for a strategic look at where agricultural policy in Europe is going. Neither budgetary constraints (inevitable) nor the prospect of serious international agricultural trade negotiations in the GATT (desirable) will be sufficient to bring about necessary changes. Our aim should be to make the CAP cheaper, more market-orientated and probably with more national discretion;
 - (ii) development of domestic agriculture (and the food industries) so as to remain competitive in Europe, provide what the consumer wants and handle the inevitable run down in production in certain areas in a way which is socially acceptable and environmentally beneficial. The former includes maintaining viable communities in the hill and other marginal areas. The latter involves continuing the process of "extensification" as represented by Environmentally Sensitive Areas, farm woodland, etc. The "greening" of the Ministry should be taken further and could involve some machinery of government changes;
 - (iii) turning the Agricultural Development and Advisory Service (ADAS) into a more commercial organisation and persuading the industry to meet more of the cost of advice and Government R & D;
 - (iv) protecting UK interests in the Common Fisheries Policy.
2. Customs & Excise
 - (i) Maintain and enhance the effective collection of VAT and the very-high-yielding excise duties eg discover VAT underdeclarations of £2-3 billion in the period to 1991;
 - (ii) increase effectiveness in the investigation and prevention of drugs smuggling eg by establishing a planning system for drugs preventive work which takes fully into account risk analysis and, wherever appropriate, targets for results;

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(iii) maintain effective customs controls over freight, means of transport and passenger traffic while so far as is possible facilitating trade and the travelling public;

(iv) maintain the investigation of significant fraud.

3. MOD

recorded separately.

4. DES

(i) establish a national curriculum with the support of the best teachers and heads and a wide degree of acceptance by the informed public for what it consists of;

(ii) secure effective financial delegation to schools and FE colleges;

(iii) introduce a viable scheme to enable schools to opt for direct funding by the DES and independence of local government ;

(iv) improve the management of the teacher force and in particular ensure that the newly-enacted conditions of service are made effective;

(v) establish polytechnics as self-governing institutions independent of local government;

(vi) secure a concentration of research facilities in centres of excellence and equip them to do research to international standards;

CONFIDENTIAL

(vii) secure a financial regime for higher education and science which is consistent with the Government's declared policy objectives.

5. Employment encourage the development of an enterprise economy and the reduction of unemployment by improving the supply of labour in terms of

(i) quality - by training and re-stimulation of the unemployed;

(ii) flexibility - by encouraging better mobility and less rigid work patterns, and by trade union law reform;

(iii) cost - by encouraging more competitive unit labour costs and other costs of employment, and incentives;

and by influencing relevant activities by other Government departments.

6. Energy (i) bring into being a commercially-oriented UK coal industry able to compete effectively in a free energy market without Government support;

(ii) create a framework for the operation of the electricity supply industry in England and Wales, whether in the public or the private sector, which will ensure the provision of adequate capacity at an economic price;

(iii) promote the maximum economic exploitation of the UK's oil and gas resources both offshore and onshore;

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(iv) encourage and, if unavoidable, fund research and development into new technologies for the supply and use of energy, both nuclear (e.g. the fast reactor and fusion) and non-nuclear (e.g. wind and tidal power), so as to widen the range of the UK's energy options in the next century;

(v) promote the more efficient use of energy throughout the UK economy.

7. DOE

(i) establish a stable and productive environment in the older cities e.g. through the creation of Urban Development Corporations;

(ii) establish an acceptable balance between environmental protection and economic development, by finding policies which work with and not against the grain of economic development;

(iii) reform the rating system in England and Wales;

(iv) privatise the water industry;

8. FCO

(i) achieve greater flexibility in deploying resources;

(ii) reconcile widening gap between the tasks of the Diplomatic Service and the resources available to it.

9. DHSS

(i) match resources and expectations in the delivery of care and Social Security (involving for example output measurement in health and attention to rates rather than structures in Social Security);

(ii) concurrently, prepare for the introduction of the revised Social Security Scheme from April 1988;

(iii) simplify so far as possible the machinery for delivering services, for example by the progressive introduction of the Social Security IT programme which will by the 1990s potentially save 20% of the manpower deployed;

(iv) reconstruct the financing and management of the NHS so as to maximise potential resources and meet rising demand;

(v) reconstruct community care services to meet the needs of the very large numbers of the very elderly and other high dependency groups in the population;

(vi) secure and retain the resources, especially of skilled manpower, that will make service delivery to modern standards possible.

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10. Home Office (i) manage, with minimum damage, the structural misalignment of the sentencing practice of the courts and the capacity of the prisons;
- (ii) reduce/contain the volume of crime and disorder, and the fear of it;
- (iii) maintain the status of the police service as "citizens in uniform", by enhancing their effectiveness and acceptability;
- (iv) secure a satisfactory public and legal base for the Security Service and its activities.
11. Inland Revenue achieve a closer alignment between the shape and content of the direct tax system and the resources available to administer it, so that the Revenue can better claim to be operating the system efficiently, effectively and with a proper level of service to taxpayers. This means:
- (i) encouraging Ministerial initiatives towards sensible further simplification and streamlining of the tax system;
- (ii) pushing ahead with the implementation of computer systems;
- (iii) getting a better grip on taxpayer compliance, if the necessary resources are available;
- (iv) finding a realistic solution to continuing losses of experienced manpower;
- (v) improving the image of the Revenue with the public and politicians (a by-product).

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12. LCD restore public confidence in the system of justice, by:

- (i) restructuring the civil courts and creating a family court;
- (ii) allocating work more rationally among the judges;
- (iii) streamlining civil and criminal procedures, and making them intelligible and acceptable to the users;
- (iv) reducing the load on the courts by all possible means, including decriminalisation and more conciliatory (non-adversarial) processes;
- (v) introducing modern methods of management support by IT;
- (vi) radically enhancing judicial training, going beyond purely technical aspects of judges' work and including social factors, developing judicial careers and trying to eliminate staleness and "burn-out";
- (vii) reforming the relationship of the judges with each other (including discipline and morale) and with the public, in particular the media;
- (viii) achieving greatly improved support and co-operation from the legal profession, both in and out of court, including the resolution of current economic problems, and bringing legal aid under effective control.

13. PSA develop the responsiveness, adaptability, and sensitivity to costs of the best firms in the property business while ensuring the necessary standards of probity and public accountability expected of a Government Department. Specifically:

- (i) introduce commercial accounts and then probably constitute the Agency as a Trading Fund;

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- (ii) encourage greater sensitivity in PSA staff to the needs of clients, while still ensuring value for money for taxpayers as a whole;
- (iii) convince Ministers collectively and the Treasury of the deleterious affects of continued underfunding of the civil estate on the Government's operations and staffing and the management of the civil estate assets;
- (iv) change staff attitudes right down the line.

14.DTI

- (i) extend the scope of the market by putting the ownership and management of industry into the private sector;
- (ii) improve the working of the market by securing priority for wealth creation (with other Departments), improving market efficiency (e.g. by removing barriers to trade, a single Community market by 1992), and increasing confidence in the market (by regulation which safeguards consumers, promotes fair competition and safeguards the market's reputation);
- (iii) enhance the performance of British industry and commerce by supporting innovation (e.g. maximising industrial benefit from R & D), improving market knowledge (e.g. by producing statistics), assisting exporters to compete internationally on equal terms, developing necessary skills (with other Departments), reducing regional economic disparities (e.g. by finance for

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the Assisted Areas), and investment support (assisting exceptional projects, encouraging inward investment). [N.D revise to follow].

15. Transport (i) carry out a strategic overview of the system of motorways and trunk roads needed in, say 2010;

(ii) wherever politically possible apply a market test to new roads . investment (e.g. by involving private finance);

(iii) complete programme of deregulation/privatisation/competition for public transport;

(iv) achieve a clear understanding on continuing support for non-commercial rail services (e.g. investment to increase capacity on commuter services);

16. Scottish Office (i) a fresh look at penal policy in order to reduce the prison population (links to Home Office point(i));

(ii) achieve more even distribution of economic and commercial activity within UK e.g. by exploiting IT to reduce Scotland's disadvantage of distance, by promoting new investment (links to DTI point (iii));

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(iii) promote health care, enable more patients to remain in the community and enhance screening programmes (links to DHSS point (v));

(iv) improve school and further education by diversifying its provision, dispersing the funding and administration of schools, extending coverage, enhancing the quality of the teaching profession, and modernising curricula (links to DES points (i) (ii) and (iv));

(v) devise new forms of tenure and management for public housing while progressively reducing its scale, tackle housing in need of modernisation and repair, make large peripheral housing estates more satisfactory places to live (links to DOE point (i));

(vi) promote means to reduce crime by a fresh approach to the built environment (links to Home Office point (ii));

(vii) balance the interests of conservation with those of fragile rural economies (links to DOE point (ii));

(viii) ensure effective introduction of a new local government finance regime in which the new community charge replaces domestic rates and working relationships between central and local government are no longer dominated by controls on local government expenditure (links with DOE point (iii));

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(ix) strengthen the democratic process of local government and improve its effectiveness in providing services by evolving, with DOE and Welsh Office, principles and practice for the conduct of local authority business.

17. Welsh
Office

(i) wherever possible to influence central policy-making at the outset to take account of Welsh needs and possibilities, and adapt central policies to meet special Welsh needs and advantages;

(ii) take advantage of multi-functional nature of Welsh Office to co-ordinate policies and activities so that the total effect is greater than the sum of the parts;

(iii) continue to bring central government closer to people in Wales and deliver services to them better;

(iv) step up private sector investment and activity and make the market work better in Wales (links to DTi point (iii));

(v) speed up urban renewal, again to increase private sector investment (links to DOE point (i));

(vi) maintain social stability in urban and rural areas (links to DOE points (i) and (ii));

(vii) consolidate progress in maintaining Welsh language and culture and if possible improve it;

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(viii) reform management of NHS in Wales and increase its output faster than its input (links to DHSS point (iv));

(ix) complete provision of essential infrastructure, in particular major trunk road improvements in North Wales (links to Transport point (i)).

13. Northern Ireland Office

(i) to achieve balanced and stable government in Northern Ireland. This means continuing in co-operation with whatever government is in office in Dublin, to operate the Anglo-Irish Agreement of 1985 which, in spite of opposition by the Unionist majority in the North, seems to offer the best prospect of making progress in the longer term towards the desired aims of peace, stability and reconciliation. At the same time, we shall want to pursue attempts to secure devolved government on a basis acceptable to both communities in Northern Ireland; and, if this proves impossible (which seems likely), to continue to govern the Province by direct rule in as fair and efficient a manner as possible.

(ii) to pursue the campaign against terrorism within the rules of law and to preserve public order. To ensure that the security forces have the necessary resources and that these resources are used in the most cost effective way. And to use the Anglo-Irish Agreement as a means of improving cross border co-operation against terrorism.

(iii) to enable Northern Ireland to share in the resurgence of economic activity so that those who live there may enjoy a standard of living comparable to that of other parts of the United Kingdom without increasing the scale of public expenditure. In particular, to improve job opportunities and to ensure that as far as possible employment is shared fairly between the two communities.

What Permanent Secretaries Need from the Centre to Deliver their Programmes

Six broad themes stand out in what Permanent Secretaries look for from the central Departments to support the Government's major programmes.

- i. Fewer central initiatives, more focus on helping Departments achieve their objectives. Central management initiatives are excessive in number and do not always address the management problems individual Departments are encountering. Many Permanent Secretaries identify potential improvements in management and efficiency within their Departments on which they wish to concentrate, but consider that central initiatives currently impede the ability of departmental officials to get on with managing departmental resources so as to achieve departmental aims. Central Departments should instead offer consultancy and specialist advice addressing line Departments' problems, and otherwise so far as possible leave Departments alone to manage their agreed programmes and resource allocations, in line with the logic of the FMI. The centre should be able to explain how any initiative it does impose on Departments relates to agreed policy aims. Specific suggestions are that central Departments might adopt a "peer review" approach to line Departments, in which a review team would combine both necessary central appraisal of line Departments and the dissemination of best practice; and that central Department staff should understand, and preferably have experience of, large executive operations.

- ii. More freedom to manage within agreed resource ceilings. Central Departments need to re-examine public expenditure conventions and control mechanisms in the light of the FMI. In particular they seek greater flexibility on "annuality", on gross running cost controls (perhaps

permitting Departments to move resources between running costs and programme expenditure where this would yield better service), and on the boundary between public and private expenditure (to support joint public/private projects).

iii. Matching departmental resources to departmental programmes. There is a risk of a growing gap between Departments' programmes and the resources available; some Permanent Secretaries identify specific needs for increased staff numbers in the short term, others see the problem of quality as more acute.

iv. Strategic overview and co-ordination from the centre. The centre of Government needs to be able to provide coherent statements of what Government (or parts of it) is about. A more effective overview is needed to secure co-ordination and, where necessary, integration, looking well ahead. This should look across departmental boundaries, so as to comprehend the interaction of one Department's policies with those of another, analyse how the machinery of government might best be structured to contribute to efficient programme delivery, and achieve effective decision-taking on interdepartmental issues.

v. Framework for Civil Service. What is required is an adequately (but not excessively) consistent framework for the operation of a career Civil Service. This needs to indicate clearly how civil servants relate to their employer, to include terms and conditions which bear a positive relationship with what civil servants are asked to think of themselves and to provide motivation. There is a particular need to be able to recruit and retain in Departments staff with skills currently in short supply; this may entail discretion to decide on increased pay for such groups, or a wider approach to providing skilled

manpower from agencies and consultancies as well as direct employment. Central responsibilities for pay and management should cease to be compartmentalised, should give more weight to management needs as opposed to economic and political considerations, and should secure a more effective contribution from the operating Departments. Particular needs identified are for training to be further developed, for more outsiders to be recruited to key senior executive posts, for individual Departments to be better able to draw on the resources of the Service as a whole, and for individual Departments, including those geographically remote from other large Departments, to continue to be able to attract new blood.

iv. Review financial accountability to Parliament. There is a real conflict between traditional forms of accountability for public money to Parliament and the "risk-taking" culture implicit in growing public/private sector financial partnerships. Some Permanent Secretaries suggest that there may be a need to develop new policies and structure for Parliamentary accountability, taking account of the FMI and including a review of the adequacy and relevance of the present PAC and NAO roles.

A Board of Management for the Civil Service

There is already in existence a Joint Management Board jointly chaired by the Head of the Civil Service and the Permanent Secretary to the Treasury and drawn from the Cabinet Office (MPO) and the Treasury. There is also a Joint Management Meeting jointly chaired by the Second Permanent Secretaries in the Treasury (Public Expenditure) and the Cabinet Office (MPO). These bodies, though useful, are not well known, and do not, of themselves, meet the requirement set out in paragraph 24.

2. An effective board of management for the Civil Service would need to have a different kind of role and structure if it were effectively to address the problems considered in this report.
3. The primary role of such a board would be to advise the Prime Minister on, and supervise the overall direction of, those functions relating to the management of the Civil Service which must be performed at the centre. Examples of such matters are (looking backwards) manpower controls, the introduction of performance-related pay and the development of VFM practice under the FMI, and (looking forward) the special problems relating to the maintenance of the five largest professional groups in the Civil Service.
4. The board would also:
 - (i) have the key role in overseeing the programme for the implementation of The Next Steps;
 - (ii) be responsible for securing at the earliest possible date the "slimline" central management capability specified in paragraph 40 of The Next Steps;

(iii) undertake a rolling programme of (usually) annual reviews with each Department of the management of Departmental programmes and services, and the progress being made in meeting their objectives; and

(iv) maintain a visible support for the Head of the Civil Service in providing the necessary leadership of and communication with the personnel of the Service, eg by well-presented visits to a variety of Civil Service units.

5. The board of management could simply be established as an advisory board intended to act in this way. If more formal terms of reference were desired, these might be on the lines:

The central board of management, under the chairmanship of the Head of the Civil Service:-

Worth a try

~~(a) is to satisfy itself that the central Departments take the action necessary to ensure that operating Departments have adequate means effectively to carry out the Government's policies and to manage the programmes and services that support or implement those policies;~~

(b) will review annually with operating Departments the objectives of Departmental programmes and the progress being made towards achieving them; and

(c) reports to the Prime Minister.

6. The board of management would be formally chaired by the Prime Minister's principal adviser, ie currently Sir Robert Armstrong in his capacity as Secretary of the Cabinet and Head of the Home Civil Service. In order that the board should meet, and be known to meet, regularly it would certainly be necessary for there to be a Deputy Chairman of sufficient standing that he could play a substantial role in providing visible support for

the Head of the Civil Service. This role could appropriately be combined with the role of Project Manager for the implementation of The Next Steps (as specified in paragraph 41 thereof). An alternative would be to combine the Deputy Chairman role with the role of one of the Permanent Secretaries in the Treasury, (in which case, the Project Manager for The Next Steps would be a full member of the board of management) but given the load on these posts it is not to be preferred.

5. Other members of the board (using current terms and appointments) would be:

- one of the Permanent Secretaries to the Treasury;
- the Head of the MPO;
- the Prime Minister's Efficiency Adviser;
- two or three senior Permanent Secretaries who are current heads of Departments*; and
- two other external appointees of standing, carefully chosen for their relevant expertise and experience, eg in personnel or large-scale financial management or management of diverse businesses.

*Regular meetings of all Permanent Secretaries for exchange of information would, of course continue; there would be merit in developing further under the chairmanship of a board member the practice of convening, ad hoc, small groups of Permanent Secretaries to address particular issues; and it would be important to ensure that the Permanent Secretary members of the board of management were experienced in a diversity of Departments, perhaps serving, therefore, for only one or two years as board members.

6. The board would need a secretariat, with the capacity also to commission investigative work required by the board. The secretariat could subsume both the existing Efficiency Unit and the Joint Management Unit. It would be small: headed by a Grade 3 officer with perhaps two Grade 7s and clerical staff in support.

7. The board's programme and methods of work would obviously be developed on its own initiative but it should have a public face in the sense that its members should from time to time visit different units of the service; it might also have referred to it by the Prime Minister specific matters for investigation and report; it would, of course, report to appropriate Ministers on matters relating to particular Departments, eg annual "audits"; and it should submit a brief and well presented Annual Report to the Prime Minister.

8. The board's collective advice to Ministers, like the advice of its members who are permanent officials, would of course be confidential. But its terms of reference and its membership, would need to be publicly announced and properly presented to Parliament and the Civil Service. Ministers could, with advantage, publish from time to time reports to them by the board on specific matters, as well as its Annual Report (in place of the existing Report of the Management and Personnel Office). By so doing, and by the visible presence of board members in Civil Service units from time to time, they and the board itself could substantially enhance the leadership of the Civil Service as a whole.

Pup

Draft of 12 June 1987

The Better Management of Government
Report by Sir Kenneth Stowe

Introduction

I was asked by the Head of the Civil Service, with the agreement of the Head of the Treasury and of the Prime Minister's Adviser on Efficiency, and with the approval of the Prime Minister, to review the central arrangements for the management of the Civil Service.

2. In this memorandum I report on the conversations I have undertaken and the conclusions I have reached; and set out for consideration some proposals for dealing with the issues which have been revealed.

3. I consulted widely at senior levels within Government. In particular, I consulted the Permanent Secretary Heads of Departments; the Heads of the Government's principal professional services (Accountancy, Economic, Legal, Medical and Statistical); the second Permanent Secretary, Treasury, responsible for public expenditure; the Head of the Management and Personnel Office in the Cabinet Office; and a number of senior officers at grades 3 and 2 (the five Deputy Secretaries in relevant posts in the Treasury, MPO and Cabinet Office were especially helpful). I also consulted outside Government, eg former civil servants and others with knowledge of government.

4. Immediately before my consultations began, the Prime Minister's Efficiency Unit had completed its scrutiny of the progress made to date in the better management of Government Departments, which was reported to the Prime Minister in "The Next Steps". Sir George Moseley also completed his review of the Senior Open Structure of the MPO. I take account of these in what follows.

The Work to be Done

5. The better management of the Civil Service, and of civil servants, cannot be divorced from the better management of the work it has to do, ie to carry out the tasks of government. The substance of that work is in part closely directed by Ministers as they generate the demand for information and advice, and determine the action. But much is not: many tasks are required to be done or in practice have to be done without any involvement of Ministers at all, eg in relation to the rights and obligations of individuals, or in response to statutory and international authorities. And much of this is demand-led.

6. Both kinds of work - informing and advising Ministers and Parliament; and implementing by executive action the policies of Ministers and the laws enacted by Parliament - are concurrently heavily loaded and undergoing substantial and rapid change. Many of the problems and concerns brought to my notice underlined this fact. Continuing and accelerating change in the work to be done, and in the way it has to be done, are seen as inevitable but also as an impediment to coping with the pressure and doing it well. Yet change is not only a permanent feature: there is a need for more, not less of it, in some respects at least, if the United Kingdom's problems are to be successfully resolved. And there is certainly need for more change in the way the Civil Service is itself managed, if it is to respond to current and prospective demands on it.

7. These considerations led me to focus my discussion with Heads of Departments on two questions. Assuming (for obvious reasons) the continuation in the next Parliament of present Ministerial policies, under the present Administration:

1. What do you want to achieve in your Department over the next 2/3-4/5 years, the timescale depending upon the nature of the Department's Ministerial objectives?

2. What help do you want from "the centre" of Government, ie the Cabinet Office, Management and Personnel Office, and Treasury, to enable you to do this, are you getting it, and are you getting what you do not want?

8. The Permanent Secretaries' answer to the first question were, of course, reflections of their current Ministers' policies, which had to a considerable extent been collectively considered and agreed; and many had been made public in the Government's Election Manifesto or in the process of the Election itself. Although not recorded here, they were a necessary part of the background to the views expressed in --- answers to the second question, which are summarised in Annex 1.

Findings

9. The substance of my consultations, and the conclusions to be drawn therefrom, are easily distilled:

1. The overriding impression I have gained is of a Civil Service whose senior management is poised to face an exciting future and impatient to make the necessary changes, so as to make a success of what it will have to do. But it is widely believed that the management of the Civil Service has not yet sufficiently adapted to the new environment; and that Ministers' expectations will not be able to be met unless changes are made in management, both at the centre and in Departments.

2. There is no support for, nor confidence in, the present structure of management at the centre, at any level. This view is held as strongly in the MPO, Treasury and Cabinet Office as it is in the Departments.

3. From the standpoint of the centre itself the common view is that there are too many "management" interests

competing for departmental attention and that a disproportionate amount of time is spent on "co-ordination", ie resolving conflicts of interest, or competing for the attention of Heads of Departments and their line managers, whose priorities lie elsewhere.

4. From the standpoint of the operating Departments outside the centre, it is seen in much the same light. But they voice the additional concern that the centre has the freedom and the inclination to distinguish artificially between good policy and good management (and to focus on the latter under sundry heads) which Departments do not have. This makes some of the centre's efforts appear, in consequence, to be irrelevant or ill-informed.

5. The combination in one post of the roles of Secretary of the Cabinet and Head of the Home Civil Service is seen as a handicap. The overload on it stands in the way of these conflicts and problems being resolved, but the authority to resolve them cannot be found elsewhere. It is also seen as liable to result in the subordination of the better management of the Civil Service to the day-to-day response to Ministerial wishes and the pressure of business.

Comment

10. No-one should under-estimate the magnitude of the tasks which the Civil Service will be called on to perform over the next decade, nor the leadership and competence required of its managers at the centre, and in Departments, from Permanent Secretary downwards. Some at least of those I consulted in the central Departments were necessarily aware of the challenges ahead; others could not be. But, judged by my consultations, nowhere in the centre would there be any disposition to disagree that changes are needed in the centre itself, as well as in

departments, to enable the Civil Service to deliver what Ministers, Parliament, and the public expect of it.

11. The problem at the centre is not just a problem of organisation, to be solved by re-allocating some of the existing activities. It is also a problem of attitude, of re-thinking what the centre's objectives should be. If Permanent Secretaries are even approximately right in their assessment of departmental objectives over the next 3-4 years, then what is required of the centre is understanding of and support for the achievement of those objectives, and the centre's objectives should be defined and directed accordingly. In short, the centre needs informed and well-targeted direction to support the totality of Government objectives realistically assessed.

12. The departmental objectives as reported to me constitute a massive task of policy development (including legislation) or service development, or both. So far as I could judge, the departmental objectives were not mutually inconsistent. But they had one obvious deficiency, and they implied a major problem.

13. The deficiency was that, while Permanent Secretaries recognised the validity of the central economic aim of growth in Gross Domestic Product by creating the right climate for private sector expansion and reducing inflation, in terms of their own Department's relations with the Treasury they saw the Treasury as interested primarily in controlling and where possible reducing public expenditure, to the virtual exclusion of other considerations such as the implementation of policy or the betterment of services. Conversely, not all Departments were seeing themselves as major contributors to the over-riding economic aim. One can understand how all these perceptions have arisen, but they are wrong and require urgent correction.

14. The major problem implied (and sometimes stated) was that the centre was not adequately equipped to pull all this together; that the departmental resources (especially high quality staff) would not be adequate because the magnitude of the task was not understood; and that too much of the "management" effort at the centre was - though praise-worthy in itself - not very relevant to departmental priorities as perceived by Ministers and their Permanent Secretaries.

15. None of this is directed at individuals. The centre has in it some of the ablest people in Government, many recruited from other Departments and, therefore, familiar with the problem. Their commitment to making it work as well as it does is widely respected; and their difficult-to-conceal frustration attracts sympathy. It is recognised that if able and energetic people are employed to tell Departments how to manage their business better, they will. But that may not get the best results.

16. Nor is it inconsistent with the findings of the Senior Open Structure (SOS) Review of MPO and the Efficiency Unit scrutiny of Departmental management (The Next Steps). As regards the centre, the SOS Review describes the scene thus:

"A discussion of remedies lies outside my terms of reference. Suffice it to record that a very great deal of senior staff effort is currently being devoted to ensuring that the two central departments keep reasonably in step; that the division of responsibilities between the two departments appears unnecessarily bizarre; and that, in the opinion of many of those involved, the present arrangements may be retarding rather than advancing the attainment of some of the Government's objectives."

17. The Next Steps, which specifically recognises the differing managerial needs and interplay of service-delivery on the one

hand and, on the other, of policy development and political support for Ministers, comments thus on the centre:

"However, pressure at the highest level (to achieve better managerial performance in departments) will only be effective if the centre of the Civil Service is organised with certain essential characteristics. It must be authoritative, and able to ensure that its authority is recognised and acted upon. It must be "slimline": the development of a new bureaucracy would be disastrous. It must be seen to be competent and helping rather than obstructing the delivery of effective service by operational departments. It must be cohesive and not as apparently diverse and fragmented as at present."

18. The view commonly expressed, and not only inside Government, that the roles of Head of the Home Civil Service and of the Secretary of the Cabinet cannot sensibly be held in one post is in a different category. The tasks that fall to be done under each head are not commonly well understood: indeed, there is no formal and public "job description" for either office. And very few individuals indeed have done either job or observed at first hand what is entailed. The suggestion that the roles be separated, if applied simplistically and within the present structure, would repeat the error of the Fulton Committee in its proposition (para 182 of the Fulton Report) that the functions of "manager" and "senior policy adviser" can and should be separated at the highest level. They cannot be, as experience has shown. And nowhere is the suggestion now made that the Permanent Secretary's role should be so bisected in departments generally. Nevertheless, the view that change is needed is not advanced irresponsibly. And it is possible that the underlying concerns, if accurately diagnosed, could be met by a new approach to the conduct of business at the centre.

Conclusions

19. I draw the following conclusions:

1. The task of carrying out the Government's programme over the next 3 to 10 years is in volume and in complexity as great as, and perhaps greater than, at any time since the post-Second World War reconstruction. But it is not the whole story: the demands of Parliament, of the judicial process, and of the media will continue to grow; as will the demands of the public for services delivered by Government to be brought up to an acceptable standard. The work of the Civil Service will need to be better and differently managed to accomplish all, or even much, of this.

2. The time is, therefore, ripe for change - substantial and speedy - both in the centre and in departments. But it requires the right lead from the centre.

3. To this end, some change in organisation at the centre, for example to clarify the functions in the management fields as between Treasury, MPO and Efficiency Unit, might appear prima facie desirable. But simply to re-distribute any or all of the existing management functions (and to add the new task of implementing The Next Steps) without re-thinking what are the centre's functions and priorities would simply add further distractions. In the longer term, there may be a case for substantial change. I do not, however, see this as the highest immediate priority, although an early change to eliminate overlap in the management field would have both practical and symbolic value.

4. Much more important are the twin issues of (a) how to secure better direction and control of all the activities

at the centre which relate to the management of the Civil Service; and (b) how to ensure that what is done at the centre is targeted on results whose achievement will be seen by departments and their Ministers as belonging to their own management objectives and priorities. This is a matter of management process rather than of structure and organisation.

5. More important still is to build in to the management process at the centre the means whereby:

- progress on major reforms and their better management, can be both supported and monitored;
- energy, enterprise and vision can be continually renewed; and
- the requirement for further management change and development can be identified and pursued in support of - and not at odds with - the work of Government as a whole.

The New Central Machinery of Government: Options

20. The files of the Treasury, the Cabinet Office and the MPO record many essays in how to make the central machinery better - or at least different. The options, well rehearsed over many years, boil down to:

- a. recreate the CSD by transferring the responsibility for pay and manpower (and, therefore, a large part of running cost control) to the MPO;
- b. recreate the pre-Fulton Treasury, with or without further refinements;

c. maintain the status quo.

21. I have deliberately not undertaken any new analysis of these options even though each has its current protagonists. My own judgment is that any immediate gain from options (a) or (b) over the status quo would be modest, and the long-term gain uncertain; the disruption and cost would not be insignificant. Very few of those I consulted thought that the solution to current and prospective problems in the management of Government business lay primarily in organisational change per se, although the muddle at the interface between MPO and Treasury needs tidying.

22. One very relevant factor in all this is the concern of the Prime Minister, as Minister for the Civil Service, that she should be (but has not been) regularly informed about progress - or lack of it - in the management of the Government's major objectives, and of departmental efficiency in achieving them.

23. The deficiency which needs urgent attention is the absence of overall direction and control of those functions relating to the management of Government business which must be done at the centre. The urgency is enhanced by the proposals in The Next Steps. If Ministers collectively accept the analysis and prescription in The Next Steps, the machinery to implement it does not exist. But to bolt on a new unit, for this purpose, to the existing central units would compound confusion. The critical path to implementing The Next Steps, (and to carrying forward effectively the existing FMI) lies, therefore, through the establishment quickly and economically of a well-ordered process for direction and control of the Civil Service management effort.

24. What is required at the centre now is an effective change-driving mechanism which:

a. reports and is accountable through the Head of the Home Civil Service as the Prime Minister's principal official adviser, to the Prime Minister;

b. secures the commitment of the Chancellor and the Chief Secretary, and their ^{Treasury} Permanent Secretaries, ie the resource controllers;

c. can form an overview of the totality of the Government's work programme and so advise, as necessary, on all the existing central management instruments, so as to support that programme and determine priorities for necessary change;

d. includes relevant high-level expertise, and experience in change-making management, from outside Government;

e. includes expertise and experience in Government from two or three major departments at Permanent Secretary level; and

f. has the standing to present its case for change, and for the progress achieved, to the Prime Minister, to departmental Ministers, and to the Government's employees; and, as appropriate, to the public and to Parliament.

25. This could be done, and might best be done, by establishing an advisory board of management for the Civil Service, which would include all the elements set out in paragraph 24 but especially these four crucial elements:

- it would report and be accountable through the Head of the Home Civil Service to the Prime Minister;
- the Treasury and the Prime Minister's Efficiency Unit must be committed to it and in it;

- it should be led, or chaired, by the Head of the Home Civil Service, as the Prime Minister's principal adviser, adequately supported; and
- there must be a strong - but carefully-chosen - external element.

My judgment is that the last is a vital new component which contains the key to the success of what Government is embarked on. The independent external element could help by challenging existing practice, by pressing for change where it is needed (and help in holding it back where it is irrelevant), and by critical monitoring of progress. It could give new credibility to the central leadership of a Crown service and those who work in it. Most important of all, the right kind of "outsiders" could give confidence to Ministers that there is a built-in protection against insularity and inertia. A brief outline of --- such a board and how it might work is at Annex 2.

26. There are models elsewhere in Government departments which are already demonstrating the merits of this approach. Each operates as best suits its responsibilities. The same would be true of a board for the management of the Civil Service, but it is worth recording the valuable suggestion made by one Permanent Secretary as to how the centre should conduct itself, which such a board could well develop and direct. This suggestion needs further examination; but in essence it is that the centre-department relationship should incorporate the principle of a periodical (annual) stocktaking or "audit" of each Department's performance measured against agreed objectives which takes full account both of the totality of the Department's responsibilities and of all the central responsibilities for management. Such a review could follow on from the Department's own reviews of its performance, under the now-generally-established management accounting process, and would require the centre and the Department to get their act together. The

outcome of a stocktaking of this kind would be reported to Ministers, so that any outstanding points of conflict can be resolved. It should necessarily be related to the PES framework. And it should embody a clear understanding between the centre and the individual Departments as to the action required during the next year over the whole range of management issues, and at all levels, ie ad hoc and unco-ordinated interventions in particular aspects of a Department's performance during the year would cease.

27. Finally, it cannot be emphasised too strongly that this approach does not erode Ministerial responsibility: a central board of management could not be more than advisory to the Prime Minister and her colleagues in terms of policy for Civil Service management and it could not detract from each Minister's responsibility for his Department. But it should be able, with the authority of the Prime Minister behind it, to enjoin, support and encourage high performance from all the Departments of State in formulating and delivering both the Government's programme for the next Parliament and its services to the public.

28. To sum up:

1. We have a problem in the centre with its functions in managing the Civil Service, in Departments with their management of themselves, and in the apparent disconnection between the two.
2. ~~Notwithstanding all the progress made so far in the creation and implementation of new policies, there are massive tasks ahead on which we shall falter or stumble if the Civil Service is not adequately provided for within available resources and better managed at all levels.~~
3. The Next Steps report makes valuable proposals for the

better management of service delivery. The implementation of these will itself require change in the targeting and leadership of the management effort at the centre as well as in Departments.

4. But management of service delivery is not enough. The over-riding requirement of political support for Ministers in day-to-day business and in policy development is just as demanding in terms of management.

5. The totality of the management task in Departments and in the centre must, therefore, be comprehended so that it can be brought under effective and coherent leadership and direction.

6. Tinkering with the allocation of responsibilities at the centre will be a distraction rather than a solution. Some organisational change may become necessary. What it should be is more likely to become obvious if (see para 19.4 and 19.5) we meet the real need first.

7. To this end, I propose in outline the establishment of a central board of management for the Civil Service - paragraphs 25-26 and Annex 2.

KENNETH STOWE

June 1987

What Permanent Secretaries Need from the Centre to Deliver their Programmes

Six broad themes stand out in what Permanent Secretaries look for from the central Departments to support the Government's major programmes.

i. Fewer central initiatives, more focus on helping Departments achieve their objectives. Central management initiatives are excessive in number and do not always address the management problems individual Departments are encountering. Many Permanent Secretaries identify potential improvements in management and efficiency within their Departments on which they wish to concentrate, but consider that central initiatives currently impede the ability of departmental officials to get on with managing departmental resources so as to achieve departmental aims. Central Departments should instead offer consultancy and specialist advice addressing line Departments' problems, and otherwise so far as possible leave Departments alone to manage their agreed programmes and resource allocations, in line with the logic of the FMI. The centre should be able to explain how any initiative it does impose on Departments relates to agreed policy aims. Specific suggestions are that central Departments might adopt a "peer review" approach to line Departments, in which a review team would combine both necessary central appraisal of line Departments and the dissemination of best practice; and that central Department staff should understand, and preferably have experience of, large executive operations.

ii. More freedom to manage within agreed resource ceilings. Central Departments need to re-examine public expenditure conventions and control mechanisms in the light of the FMI. In particular they seek greater flexibility on "annuality", on gross running cost controls (perhaps

permitting Departments to move resources between running costs and programme expenditure where this would yield better service), and on the boundary between public and private expenditure (to support joint public/private projects).

iii. Matching departmental resources to departmental programmes. There is a risk of a growing gap between Departments' programmes and the resources available; some Permanent Secretaries identify specific needs for increased staff numbers in the short term, others see the problem of quality as more acute.

iv. Strategic overview and co-ordination from the centre. The centre of Government needs to be able to provide coherent statements of what Government (or parts of it) is about. A more effective overview is needed to secure co-ordination and, where necessary, integration, looking well ahead. This should look across departmental boundaries, so as to comprehend the interaction of one Department's policies with those of another, analyse how the machinery of government might best be structured to contribute to efficient programme delivery, and achieve effective decision-taking on interdepartmental issues.

v. Framework for Civil Service. What is required is an adequately (but not excessively) consistent framework for the operation of a career Civil Service. This needs to indicate clearly how civil servants relate to their employer, to include terms and conditions which bear a positive relationship with what civil servants are asked to think of themselves and to provide motivation. There is a particular need to be able to recruit and retain in Departments staff with skills currently in short supply; this may entail discretion to decide on increased pay for such groups, or a wider approach to providing skilled

manpower from agencies and consultancies as well as direct employment. Central responsibilities for pay and management should cease to be compartmentalised, should give more weight to management needs as opposed to economic and political considerations, and should secure a more effective contribution from the operating Departments. Particular needs identified are for training to be further developed, for more outsiders to be recruited to key senior executive posts, for individual Departments to be better able to draw on the resources of the Service as a whole, and for individual Departments, including those geographically remote from other large Departments, to continue to be able to attract new blood.

iv. Review financial accountability to Parliament. There is a real conflict between traditional forms of accountability for public money to Parliament and the "risk-taking" culture implicit in growing public/private sector financial partnerships. Some Permanent Secretaries suggest that there may be a need to develop new policies and structure for Parliamentary accountability, taking account of the FMI and including a review of the adequacy and relevance of the present PAC and NAO roles.

A Board of Management for the Civil Service

There is already in existence a Joint Management Board jointly chaired by the Head of the Civil Service and the Permanent Secretary to the Treasury and drawn from the Cabinet Office (MPO) and the Treasury. There is also a Joint Management Meeting jointly chaired by the Second Permanent Secretaries in the Treasury (Public Expenditure) and the Cabinet Office (MPO). These bodies, though useful, are not well known, and do not, of themselves, meet the requirement set out in paragraph 24.

2. An effective board of management for the Civil Service would need to have a different kind of role and structure if it were effectively to address the problems considered in this report.

3. The primary role of such a board would be to advise the Prime Minister on, and supervise the overall direction of, those functions relating to the management of the Civil Service which must be performed at the centre. Examples of such matters are (looking backwards) manpower controls, the introduction of performance-related pay and the development of VFM practice under the FMI, and (looking forward) the special problems relating to the maintenance of the five largest professional groups in the Civil Service.

4. The board would also:
 - (i) have the key role in overseeing the programme for the implementation of The Next Steps;

 - (ii) be responsible for securing at the earliest possible date the "slimline" central management capability specified in paragraph 40 of The Next Steps;

(iii) establish a rolling programme of periodical (usually annual) reviews, jointly with each Department, of the management of the Department's programmes and services, and the progress being made in meeting objectives; and

(iv) maintain a visible support for the Head of the Civil Service in providing the necessary leadership of and communication with the personnel of the Service, eg by well-presented visits to a variety of Civil Service units.

5. The board of management would be formally chaired by the Prime Minister's principal adviser, ie currently Sir Robert Armstrong in his capacity as Secretary of the Cabinet and Head of the Home Civil Service. In order that the board should meet, and be known to meet, regularly it would certainly be necessary for there to be a Deputy Chairman (or two Deputies) of sufficient standing that he (they) could play a substantial role in providing visible support for the Head of the Civil Service. This role could be combined with the role of "Project Manager" for the implementation of The Next Steps (as specified in paragraph 41 thereof). Other possibilities which might be preferred, however, are to ask an external member to take on this role (cf Sir Roy Griffiths role in the NHS Management Board) and/or to combine the Deputy Chairman role with the role of one of the Permanent Secretaries in the Treasury. The "Project Manager" would then be designated as a board Member.

6. Other members of the board (using current terms and appointments) would be:

- the Permanent Secretary to the Treasury, who could be a Deputy Chariman;
- the Second Permanent Secretary, Treasury, in charge of public expenditure;

- the Second Permanent Secretary in charge of the MPO, for so long as that Office exists;

the Prime Minister's Efficiency Adviser, who would, of

- course, retain in that role his access to the Prime Minister and would be supported in it by the secretariat of the board (see paragraph 7 below); he could be a second Deputy Chairman of the board;
- two other external appointees of standing, carefully chosen for their relevant expertise and experience, eg in personnel or large-scale financial management or management of diverse businesses;
- two or three Permanent Secretaries who are current heads of Departments*.

7. The board would need a secretariat, with the capacity also to commission any investigative work required by the board. The existing Efficiency Unit and possibly the Joint Management Unit could become parts of the Secretariat, though the Efficiency Unit would still be directly responsible to the Prime Minister's Efficiency Adviser. It would be small: headed by a Grade 3 officer with perhaps two Grade 7s and clerical staff in support; the net result should be the first - and viable - step towards a slimmer centre.

*Regular meetings of all Permanent Secretaries for exchange of information would, of course continue; there would be merit in developing further under the chairmanship of a board member the practice of convening, ad hoc, small groups of Permanent Secretaries to address particular issues; and it would be important to ensure that the Permanent Secretary members of the board of management were experienced in a diversity of Departments, perhaps serving, therefore, for only one or two year as board member.

8. The board's programme and methods of work would obviously be developed on its own initiative but it should have a public face in the sense that its members should from time to time visit different units of the service; it might also have referred to it by the Prime Minister specific matters for investigation and report; it would, of course, advise or report to appropriate Ministers on matters relating to particular Departments and it should submit a brief and well presented Annual Report to the Prime Minister in place of the existing Report of the Management and Personnel Office.

9. The board's collective advice to Ministers, like the advice of its members who are permanent officials, would of course be confidential. But its terms of reference and its membership, would need to be publicly announced and properly presented to Parliament and the Civil Service. Ministers could, with advantage, publish from time to time reports to them by the board on specific matters, as well as its Annual Report. By so doing, and by the visible presence of board members in Civil Service units from time to time, they and the board itself could substantially enhance the leadership of the Civil Service as a whole.

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PM

From: SIR PETER MIDDLETON

Date: 12 June 1987

CHANCELLOR

cc Chief Secretary

MACHINERY OF GOVERNMENT

PEM
to
CH/EX
12/6

There are two developments which we have to treat with particular care:

- (a) the Ibbs Report (Next Steps);
- (b) the Stowe Report (The Better Management of Government).

.. 2. I attach copies of both these reports. They are loosely related to each other, but are very vague about what exactly is being proposed. They both have good points but, if wrongly handled, could involve a considerable threat to the Government's economic policies at both a macro and a micro level.

Ibbs

3. You know the broad outlines of the Ibbs Report. Having spent the previous Parliament trying to persuade Ministers to become departmental managers he proposes to spend the next Parliament excluding them from management. The chosen vehicle is to set up operational agencies to which day-to-day management of policies would be delegated. There would ultimately be a central core of about 20,000 civil servants involved in policy. The centre would devolve

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much of its present controls (set out in Appendix C) to these agencies.

4. The programme is very rapid - ludicrously so in my view - as set out in Annex 1. In 12 months departments would be expected to have timed action plans for turning 95% of the Civil Service into operational agencies within 5 years. This would be supervised by a new Permanent Secretary (project manager) in the Cabinet Office. There would thus be three Permanent Secretaries in the Cabinet Office if the MPO remains in existence.

5. The Treasury position is this. We are in favour of greater devolution provided that it is done within public expenditure control totals and provided it supports these controls. As budgetting develops and becomes more effective we can give managers more responsibility, and indeed have been doing in the context of the FMI and the development of new pay structures.

6. I see the essence of the Treasury's approach to the next Parliament as defending the Government's nominal approach to the economy while devoting an increasing amount of effort to increasing the efficiency of the economy - matching what has been a successful macro policy to what I hope will be an increasingly successful micro policy.

7. The reason Ibbs is a threat is that it appears to us to undermine the principle of cash control on the expenditure side - though that is not its intention. Expenditure control systems present difficult management problems. We are making progress with budgets. But we still have not got robust arrangements for administrative expenditure. We have not yet managed to push budgetting far into programme expenditure. In these circumstances the removal of central controls would just become an additional source of pressure for Government expenditure. Our controls over running costs, pay, manpower and grading would be given up or eroded in the hope that this would give managers the incentive to manage better within existing resources. But in practice managers still think predominantly of getting more resources and expanding programmes.

8. You and the Chief Secretary will have to decide whether this is a good deal; we doubt it. I think a cursory reading of the Customs

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... approach (attached) will leave Treasury Ministers in no doubt that departments see this development as an opportunity to take the Treasury cork out of the departmental bottle.

9. It is, however, important to decide what our essential interests are now we are faced with this proposal which appears to turn the present policy on quangos on its head (remember the success of agencies such as the Procurement Executive, the PSA, the MSC etc!) They seem to us to be as follows:

(a) we must retain control over expenditure in the Treasury - we cannot leave the project manager (who will in practice be steered by Ibbs) to decide it case by case. This means that:

(i) all bids would have to be channelled through a departmental Minister whether they were for agencies or not. He would have to trade off allocations between agencies under his control;

(ii) the present public expenditure control arrangements would need to remain in existence including cash limits and annuality;

(iii) the Treasury would wish to continue to approve large projects and be given full information about departmental programmes (which may be difficult to achieve in practice);

(iv) if the Treasury is to be in a more arms length position we have to do what we can to prevent departments having things both ways - greater independence within large block budgets and access to the Treasury for new requirements - or landing us with extra bills because of their own mismanagement;

(b) we must continue the thrust for more value for money out of public expenditure. I know that that is what Ibbs

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is all about. But he relies on a massive gesture of faith in local and departmental management. To support it we should need to have clearer objectives, performance indicators, output reviews etc though we know these are difficult to make stick in practice. (The body of the Report acknowledges the need for them, but the timetable in Annex 1 would mean charging ahead before they were in place and working properly);

(c) so we need to maintain and strengthen the present central controls which are designed to contain the pressures for more public expenditure and limit the extent to which public expenditure is absorbed in administrative expenditure. This is where the main attack will come:

(i) obviously we shall need to retain overall control of the PES total. And, at the very least in our view, the agency approach would also need to be supported by effective controls on administrative expenditure. They need to be firmly administered - greater devolution requires greater central determination to resist erosion;

(ii) running cost controls have not proved particularly robust and may not be a firm enough barrier against pressure from the new Agencies (there will be agency chairmen's groups such as we have at present with the nationalised industries). Having launched running costs control we need to give it a fair run. If it proves not to be effective we may need to consider going back to some kind of manpower control, although experience showed that that did not in itself (even with central control of pay rates) ensure adequate control of running costs. Certainly we should need something to maintain the present control over the senior open structure if Ministers still attach importance to it;

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(d) there is a major question about pay and terms and conditions. These are presently subject to central control (most for the Treasury but some are MPO) with varying degrees of delegation. Handing them over to the agencies, particularly pay, will involve a great deal of risk as many have no experience whatsoever of negotiating on pay. If the pay bill is to be properly contained there will have to be robust budgetting in agencies, the development of the necessary expertise in agencies, and central arrangements to limit leap-frogging - brought about as much by management as the unions - and to settle the many disputes which arise between departments, and to deal with remaining Service-wide industrial relations issues. More generally, in a situation where I assume pay restraint in the economy generally will remain paramount, very tight control over Civil Service pay settlements - seen as an example to very many other employers, public and private - will remain crucial. And however much pay is handed over to the agencies Ministers will still need to be consulted just as they are for other significant groups (eg teachers and mineworkers);

(e) there are a number of other things which the Treasury monitors as part of the overall policy which could be devolved further if you were willing to take a risk on the Ibbs approach. These include:

(i) grading standards - but it should be noted that these are an important defence against drift. We should need to ensure that drift continues to be limited; and if departments and their agencies have any sense they would want that too;

(ii) appointments - we could not lose all controls. I doubt whether effective sanctions - eg dismissal - could be developed against the management of non-performing agencies. But we need to do what we can to inject this essential complement to accountability into the concept.

10. I do not think that Ibbs' ideas are very well thought out. I

doubt whether there is a clear split between policy formation and its implementation; the Ibbs Report does not demonstrate that the present mix is the root cause of management problems. There is a danger that he would create two distinct classes, of "thinkers" and "doers", and that after a time the former would be accused, possibly rightly, of being out of touch with the realities of administration. I doubt whether Ministers would be willing to stand aside from the delivery of services - the NHS experience is not encouraging - or whether Parliament and the press would let them. I also doubt whether it makes sense to have another Permanent Secretary in the Cabinet Office supervising all this when so many of our vital interests are affected. I hope Ministers will not buy this one without a lot of further thought. We are moving towards a more efficient public sector. There is already considerable delegation consistent with the introduction of satisfactory control systems. If the Treasury has to devote its energies to defending the present public expenditure control system - already difficult without Ibbs - against which could be a whole new set of pressures, it will set back what we want to do on this micro side in both the public and private sectors. In any event, even if you are prepared to take a risk with Ibbs, I hope you will do it gradually - agency by agency - and not in a "Big Bang" approach.

Stowe

11. Stowe's Report is a follow up to Ibbs. It is clearly the spending departments' view of the centre - departments try to implement "policy", and we try to stop them. The centre is badly organised, so he recommends a board of management whose functions are far from clear to oversee things.

12. The Report is pretty bad. He sees the Treasury as obstructing the wonderful policies set out in the Annex by refusing to provide the money. I strongly recommend you to read paragraph 11 of his Report. You might look at paragraph 14 too; the idea that the Treasury is not interested in the economy because it does not equate this with public spending is a novel one.

13. However, that is background. We should concentrate on what

the Report is supposed to be about - better management. So far as that is concerned:

- (a) we agree that arrangements at the centre are hopelessly inefficient as they stand;
- (b) we do not agree that "tinkering" with responsibilities at the centre would be a "distraction". The simple solution would be to transfer the MPO's residual responsibilities for pay and efficiency to the Treasury. This would solve existing confusions at a stroke - at the expense of some familiar staff problems for us;
- (c) we should prefer to cope with these problems rather than the new Civil Service central board of management - which will involve a lot of unproductive work and confusion for us as it stands;
- (d) There are some serious problems with the half-million non-industrial civil servants; the best if not the only way of tackling these constructively and economically will be to centralise these issues operationally in the Treasury.

14. If by chance a board of the Stowe sort does get set up, there are some vital things to establish:

- (a) we do not want it to co-ordinate Government policy (Annex 2, point (iv));
- (b) we would want to ensure that its functions were purely advisory and that it would not clog up the business of running the machine. In particular (my underlining):
 - (i) "the primary role ... would be to advise the Prime Minister on, and supervise the overall direction and control of, those functions relating to the management of the Civil Service which must be performed at the centre" (Annex 4, paragraph 3);

(ii) a central board of management could not be more than advisory in terms of policy and it could not detract from Ministerial responsibility in each department" (paragraph 24);

(iii) even if it should necessarily "be related to the PES process" (paragraph 24) and it should "secure the commitment of ... the resource controllers" (paragraph 22(b)), it should not have any locus in public expenditure allocation;

(c) we would not want it to be engaged in an annual departmental audit (paragraph 24) - this would be both dangerous and impossible. It would need to look at about one department a week.

15. If we could achieve this, it would protect the Treasury's main interest. The Chancellor would retain his responsibilities for economic policy and, with the Chief Secretary, for public expenditure. But the board would become a sort of TSRB for the rest of the Civil Service. There would inevitably be conflicts on particular issues of concern to Treasury Ministers, just as we had with MPO on performance-related pay, but on a wider range of issues, including major pay questions. All these bodies become spenders sooner or later. It is difficult to see what the proposed outsiders would contribute. On the other hand, if Ministers are unwilling to grasp the MPO nettle, it might just provide better co-ordination of the central management effort if it is realistic to believe that it would corral the Efficiency Unit. Against that the centre's responsibilities in the day-to-day operational running of the Civil Service are troublesome enough even now, given the split between us and MPO. The addition of the proposed board, unless we could be sure it kept its hands off day-to-day work, would make an already difficult situation even worse.

16. On balance I think we are better off without any additional central superstructure. I come to this conclusion by considering my own role. I do not relish the prospect of reporting to you and

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being a member of the proposed board. I do not want to report to you via it or to it via you. I do not want to spend all the time that would be involved when there is a much simpler solution to hand.

P E MIDDLETON

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NB This is not on agenda
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18/6/87.

The Better Management of Government
Report by Sir Kenneth Stowe

Introduction

I was asked by the Head of the Civil Service, with the agreement of the Head of the Treasury and of the Prime Minister's Adviser on Efficiency, and with the approval of the Prime Minister, to review the central arrangements for the management of the Civil Service.

2. In this memorandum I report on the conversations I have undertaken and the conclusions I have reached; and set out for consideration some proposals for dealing with the issues which have been revealed.
3. I consulted widely at senior levels within Government. In particular, I consulted the Permanent Secretary Heads of Departments; the Heads of the Government's principal professional services (Accountancy, Economic, Legal, Medical and Statistical); the second Permanent Secretary, Treasury, responsible for public expenditure; the Head of the Management and Personnel Office in the Cabinet Office; and a number of senior officers at grades 3 and 2 (the five Deputy Secretaries in relevant posts in the Treasury, MPO and Cabinet Office were especially helpful). I also consulted outside Government, eg former civil servants and others with knowledge of government.
4. Immediately before my consultations began, the Prime Minister's Efficiency Unit had completed its scrutiny of the progress made to date in the better management of Government Departments, which was reported to the Prime Minister in "The Next Steps". Sir George Moseley also completed his review of the Senior Open Structure of the MPO. I take account of these in what follows.

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The Work to be Done

5. The better management of the Civil Service, and of civil servants, cannot be divorced from the better management of the work it has to do, ie to carry out the tasks of government. The substance of that work is in part closely directed by Ministers as they generate the demand for information and advice, and determine the action. But much is not: many tasks are required to be done or in practice have to be done without any involvement of Ministers at all, eg in relation to the rights and obligations of individuals, or in response to statutory and international authorities. And much of this is demand-led.

6. Both kinds of work - informing and advising Ministers and Parliament; and implementing by executive action the policies of Ministers and the laws enacted by Parliament - are concurrently heavily loaded and undergoing substantial and rapid change. Many of the problems and concerns brought to my notice underlined this fact. Continuing and accelerating change in the work to be done, and in the way it has to be done, are seen as inevitable but also as an impediment to coping with the pressure and doing it well. Yet change is not only a permanent feature: there is a need for more, not less of it, in some respects at least, if the United Kingdom's problems are to be successfully resolved. And there is certainly need for more change in the way the Civil Service is itself managed, if it is to respond to current and prospective demands on it.

7. These considerations led me to focus my discussion with Heads of Departments on two questions. Assuming (for obvious reasons) the continuation in the next Parliament of present Ministerial policies, under the present Administration:

1. What do you want to achieve in your Department over the next 2/3-4/5 years, the timescale depending upon the nature of the Department's Ministerial objectives?

2. What help do you want from "the centre" of Government, ie the Cabinet Office, Management and Personnel Office, and Treasury, to enable you to do this, are you getting it, and are you getting what you do not want?

8. The Permanent Secretaries' answer to the first question were, of course, reflections of their current Ministers' policies, which had to a considerable extent been collectively considered and agreed; and many had been made public in the Government's Election Manifesto or in the process of the Election itself. Although not recorded here, they were a necessary part of the background to the views expressed in --- answers to the second question, which are summarised in Annex 1.

Findings

9. The substance of my consultations, and the conclusions to be drawn therefrom, are easily distilled:

1. The overriding impression I have gained is of a Civil Service whose senior management is poised to face an exciting future and impatient to make the necessary changes, so as to make a success of what it will have to do. But it is widely believed that the management of the Civil Service has not yet sufficiently adapted to the new environment; and that Ministers' expectations will not be able to be met unless changes are made in management, both at the centre and in Departments.

2. There is no support for, nor confidence in, the present structure of management at the centre, at any level. This view is held as strongly in the MPO, Treasury and Cabinet Office as it is in the Departments.

3. From the standpoint of the centre itself the common view is that there are too many "management" interests

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competing for departmental attention and that a disproportionate amount of time is spent on "co-ordination", ie resolving conflicts of interest, or competing for the attention of Heads of Departments and their line managers, whose priorities lie elsewhere.

4. From the standpoint of the operating Departments outside the centre, it is seen in much the same light. But they voice the additional concern that the centre has the freedom and the inclination to distinguish artificially between good policy and good management (and to focus on the latter under sundry heads) which Departments do not have. This makes some of the centre's efforts appear, in consequence, to be irrelevant or ill-informed.

5. The combination in one post of the roles of Secretary of the Cabinet and Head of the Home Civil Service is seen as a handicap. The overload on it stands in the way of these conflicts and problems being resolved, but the authority to resolve them cannot be found elsewhere. It is also seen as liable to result in the subordination of the better management of the Civil Service to the day-to-day response to Ministerial wishes and the pressure of business.

Comment

10. No-one should under-estimate the magnitude of the tasks which the Civil Service will be called on to perform over the next decade, nor the leadership and competence required of its managers at the centre, and in Departments, from Permanent Secretary downwards. Some at least of those I consulted in the central Departments were necessarily aware of the challenges ahead; others could not be. But, judged by my consultations, nowhere in the centre would there be any disposition to disagree that changes are needed in the centre itself, as well as in

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departments, to enable the Civil Service to deliver what Ministers, Parliament, and the public expect of it.

11. The problem at the centre is not just a problem of organisation, to be solved by re-allocating some of the existing activities. It is also a problem of attitude, of re-thinking what the centre's objectives should be. If Permanent Secretaries are even approximately right in their assessment of departmental objectives over the next 3-4 years, then what is required of the centre is understanding of and support for the achievement of those objectives, and the centre's objectives should be defined and directed accordingly. In short, the centre needs informed and well-targeted direction to support the totality of Government objectives realistically assessed.

12. The departmental objectives as reported to me constitute a massive task of policy development (including legislation) or service development, or both. So far as I could judge, the departmental objectives were not mutually inconsistent. But they had one obvious deficiency, and they implied a major problem.

13. The deficiency was that, while Permanent Secretaries recognised the validity of the central economic aim of growth in Gross Domestic Product by creating the right climate for private sector expansion and reducing inflation, in terms of their own Department's relations with the Treasury they saw the Treasury as interested primarily in controlling and where possible reducing public expenditure, to the virtual exclusion of other considerations such as the implementation of policy or the betterment of services. Conversely, not all Departments were seeing themselves as major contributors to the over-riding economic aim. One can understand how all these perceptions have arisen, but they are wrong and require urgent correction.

14. The major problem implied (and sometimes stated) was that the centre was not adequately equipped to pull all this together; that the departmental resources (especially high quality staff) would not be adequate because the magnitude of the task was not understood; and that too much of the "management" effort at the centre was - though praise-worthy in itself - not very relevant to departmental priorities as perceived by Ministers and their Permanent Secretaries.

15. None of this is directed at individuals. The centre has in it some of the ablest people in Government, many recruited from other Departments and, therefore, familiar with the problem. Their commitment to making it work as well as it does is widely respected; and their difficult-to-conceal frustration attracts sympathy. It is recognised that if able and energetic people are employed to tell Departments how to manage their business better, they will. But that may not get the best results.

16. Nor is it inconsistent with the findings of the Senior Open Structure (SOS) Review of MPO and the Efficiency Unit scrutiny of Departmental management (The Next Steps). As regards the centre, the SOS Review describes the scene thus:

"A discussion of remedies lies outside my terms of reference. Suffice it to record that a very great deal of senior staff effort is currently being devoted to ensuring that the two central departments keep reasonably in step; that the division of responsibilities between the two departments appears unnecessarily bizarre; and that, in the opinion of many of those involved, the present arrangements may be retarding rather than advancing the attainment of some of the Government's objectives."

17. The Next Steps, which specifically recognises the differing managerial needs and interplay of service-delivery on the one

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hand and, on the other, of policy development and political support for Ministers, comments thus on the centre:

"However, pressure at the highest level (to achieve better managerial performance in departments) will only be effective if the centre of the Civil Service is organised with certain essential characteristics. It must be authoritative, and able to ensure that its authority is recognised and acted upon. It must be "slimline": the development of a new bureaucracy would be disastrous. It must be seen to be competent and helping rather than obstructing the delivery of effective service by operational departments. It must be cohesive and not as apparently diverse and fragmented as at present."

18. The view commonly expressed, and not only inside Government, that the roles of Head of the Home Civil Service and of the Secretary of the Cabinet cannot sensibly be held in one post is in a different category. The tasks that fall to be done under each head are not commonly well understood: indeed, there is no formal and public "job description" for either office. And very few individuals indeed have done either job or observed at first hand what is entailed. The suggestion that the roles be separated, if applied simplistically and within the present structure, would repeat the error of the Fulton Committee in its proposition (para 182 of the Fulton Report) that the functions of "manager" and "senior policy adviser" can and should be separated at the highest level. They cannot be, as experience has shown. And nowhere is the suggestion now made that the Permanent Secretary's role should be so bisected in departments generally. Nevertheless, the view that change is needed is not advanced irresponsibly. And it is possible that the underlying concerns, if accurately diagnosed, could be met by a new approach to the conduct of business at the centre.

Conclusions

19. I draw the following conclusions:

1. The task of carrying out the Government's programme over the next 3 to 10 years is in volume and in complexity as great as, and perhaps greater than, at any time since the post-Second World War reconstruction. But it is not the whole story: the demands of Parliament, of the judicial process, and of the media will continue to grow; as will the demands of the public for services delivered by Government to be brought up to an acceptable standard. The work of the Civil Service will need to be better and differently managed to accomplish all, or even much, of this.

2. The time is, therefore, ripe for change - substantial and speedy - both in the centre and in departments. But it requires the right lead from the centre.

3. To this end, some change in organisation at the centre, for example to clarify the functions in the management fields as between Treasury, MPO and Efficiency Unit, might appear prima facie desirable. But simply to re-distribute any or all of the existing management functions (and to add the new task of implementing The Next Steps) without re-thinking what are the centre's functions and priorities would simply add further distractions. In the longer term, there may be a case for substantial change. I do not, however, see this as the highest immediate priority, although an early change to eliminate overlap in the management field would have both practical and symbolic value.

4. Much more important are the twin issues of (a) how to secure better direction and control of all the activities

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at the centre which relate to the management of the Civil Service; and (b) how to ensure that what is done at the centre is targeted on results whose achievement will be seen by departments and their Ministers as belonging to their own management objectives and priorities. This is a matter of management process rather than of structure and organisation.

5. More important still is to build in to the management process at the centre the means whereby:

- progress on major reforms and their better management, can be both supported and monitored;
- energy, enterprise and vision can be continually renewed; and
- the requirement for further management change and development can be identified and pursued in support of - and not at odds with - the work of Government as a whole.

The New Central Machinery of Government: Options

20. The files of the Treasury, the Cabinet Office and the MPO record many essays in how to make the central machinery better - or at least different. The options, well rehearsed over many years, boil down to:

- a. recreate the CSD by transferring the responsibility for pay and manpower (and, therefore, a large part of running cost control) to the MPO;
- b. recreate the pre-Fulton Treasury, with or without further refinements;

c. maintain the status quo.

21. I have deliberately not undertaken any new analysis of these options even though each has its current protagonists. My own judgment is that any immediate gain from options (a) or (b) over the status quo would be modest, and the long-term gain uncertain; the disruption and cost would not be insignificant. Very few of those I consulted thought that the solution to current and prospective problems in the management of Government business lay primarily in organisational change per se, although the muddle at the interface between MPO and Treasury needs tidying.

22. The deficiency which needs urgent attention is the absence of overall direction and control of those functions relating to the management of Government business which must be done at the centre. The urgency is enhanced by the proposals in The Next Steps. If Ministers collectively accept the analysis and prescription in The Next Steps, the machinery to implement it does not exist. But to bolt on a new unit, for this purpose, to the existing central units would compound confusion. The critical path to implementing The Next Steps, (and to carrying forward effectively the existing FMI) lies, therefore, through the establishment quickly and economically of a well-ordered process for direction and control of the Civil Service management effort.

23. A further and very relevant factor is the concern of the Prime Minister, as Minister for the Civil Service, that she should be (but has not been) regularly informed about progress - or lack of it - in the management of the Government's major objectives, and of departmental efficiency in achieving them.

24. What is required at the centre now is an effective change-driving mechanism which:

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- a. reports and is accountable through the Head of the Home Civil Service as the Prime Minister's principal official adviser, to the Prime Minister;
- b. secures the commitment of the Chancellor and the Chief Secretary, and their Permanent Secretaries, ie the resource controllers;
- c. can form an overview of the totality of the Government's work programme and so advise, as necessary, on all the existing central management instruments, so as to support that programme and determine priorities for necessary change;
- d. includes relevant high-level expertise, and experience in change-making management, from outside Government;
- e. includes expertise and experience in Government from two or three major departments at Permanent Secretary level; and
- f. has the standing to present its case for change, and for the progress achieved, to the Prime Minister, to departmental Ministers, and to the Government's employees; and, as appropriate, to the public and to Parliament.

25. This could be done, and might best be done, by establishing an advisory board of management for the Civil Service, which would include all the elements set out in paragraph 24 but especially these four crucial elements:

- it would report and be accountable through the Head of the Home Civil Service to the Prime Minister;
- the Treasury and the Prime Minister's Efficiency Unit must be committed to it and in it;

- it should be led, or chaired, by the Head of the Home Civil Service, as the Prime Minister's principal adviser, adequately supported; and
- there must be a strong - but carefully-chosen - external element.

My judgment is that the last is a vital new component which contains the key to the success of what Government is embarked on. The independent external element could help by challenging existing practice, by pressing for change where it is needed (and help in holding it back where it is irrelevant), and by critical monitoring of progress. It could give new credibility to the central leadership of a Crown service and those who work in it. Most important of all, the right kind of "outsiders" could give confidence to Ministers that there is a built-in protection against insularity and inertia. A brief outline of --- such a board and how it might work is at Annex 2.

26. There are models elsewhere in Government departments which are already demonstrating the merits of this approach. Each operates as best suits its responsibilities. The same would be true of a board for the management of the Civil Service, but it is worth recording the valuable suggestion made by one Permanent Secretary as to how the centre should conduct itself, which such a board could well develop and direct. This suggestion needs further examination; but in essence it is that the centre-department relationship should incorporate the principle of a periodical (annual) stocktaking or "audit" of each Department's performance measured against agreed objectives which takes full account both of the totality of the Department's responsibilities and of all the central responsibilities for management. Such a review could follow on from the Department's own reviews of its performance, under the now-generally-established management accounting process, and would require the centre and the Department to get their act together. The

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outcome of a stocktaking of this kind would be reported to Ministers, so that any outstanding points of conflict can be resolved. It should necessarily be related to the PES framework. And it should embody a clear understanding between the centre and the individual Departments as to the action required during the next year over the whole range of management issues, and at all levels, ie ad hoc and unco-ordinated interventions in particular aspects of a Department's performance during the year would cease.

27. Finally, it cannot be emphasised too strongly that this approach does not erode Ministerial responsibility: a central board of management could not be more than advisory to the Prime Minister and her colleagues in terms of policy for Civil Service management and it could not detract from each Minister's responsibility for his Department. But it should be able, with the authority of the Prime Minister behind it, to enjoin, support and encourage high performance from all the Departments of State in formulating and delivering both the Government's programme for the next Parliament and its services to the public.

28. To sum up:

1. We have a problem in the centre with its functions in managing the Civil Service, in Departments with their management of themselves, and in the apparent disconnection between the two.
2. Notwithstanding all the progress made so far in the creation and implementation of new policies, there are massive tasks ahead on which we shall falter or stumble if the Civil Service is not adequately provided for within available resources and better managed at all levels.
3. The Next Steps report makes valuable proposals for the

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better management of service delivery. The implementation of these will itself require change in the targeting and leadership of the management effort at the centre as well as in Departments.

4. But management of service delivery is not enough. The over-riding requirement of political support for Ministers in day-to-day business and in policy development is just as demanding in terms of management.

5. The totality of the management task in Departments and in the centre must, therefore, be comprehended so that it can be brought under effective and coherent leadership and direction.

6. Tinkering with the allocation of responsibilities at the centre will be a distraction rather than a solution. Some organisational change may become necessary. What it should be is more likely to become obvious if (see para 19.4 and 19.5) we meet the real need first.

7. To this end, I propose in outline the establishment of a central board of management for the Civil Service - paragraphs 25-26 and Annex 2.

KENNETH STOWE

June 1987

What Permanent Secretaries Need from the Centre to Deliver
their Programmes

Six broad themes stand out in what Permanent Secretaries look for from the central Departments to support the Government's major programmes.

i. Fewer central initiatives, more focus on helping Departments achieve their objectives. Central management initiatives are excessive in number and do not always address the management problems individual Departments are encountering. Many Permanent Secretaries identify potential improvements in management and efficiency within their Departments on which they wish to concentrate, but consider that central initiatives currently impede the ability of departmental officials to get on with managing departmental resources so as to achieve departmental aims. Central Departments should instead offer consultancy and specialist advice addressing line Departments' problems, and otherwise so far as possible leave Departments alone to manage their agreed programmes and resource allocations, in line with the logic of the FMI. The centre should be able to explain how any initiative it does impose on Departments relates to agreed policy aims. Specific suggestions are that central Departments might adopt a "peer review" approach to line Departments, in which a review team would combine both necessary central appraisal of line Departments and the dissemination of best practice; and that central Department staff should understand, and preferably have experience of, large executive operations.

ii. More freedom to manage within agreed resource ceilings. Central Departments need to re-examine public expenditure conventions and control mechanisms in the light of the FMI. In particular they seek greater flexibility on "annuality", on gross running cost controls (perhaps

permitting Departments to move resources between running costs and programme expenditure where this would yield better service), and on the boundary between public and private expenditure (to support joint public/private projects).

iii. Matching departmental resources to departmental programmes. There is a risk of a growing gap between Departments' programmes and the resources available; some Permanent Secretaries identify specific needs for increased staff numbers in the short term, others see the problem of quality as more acute.

iv. Strategic overview and co-ordination from the centre. The centre of Government needs to be able to provide coherent statements of what Government (or parts of it) is about. A more effective overview is needed to secure co-ordination and, where necessary, integration, looking well ahead. This should look across departmental boundaries, so as to comprehend the interaction of one Department's policies with those of another, analyse how the machinery of government might best be structured to contribute to efficient programme delivery, and achieve effective decision-taking on interdepartmental issues.

v. Framework for Civil Service. What is required is an adequately (but not excessively) consistent framework for the operation of a career Civil Service. This needs to indicate clearly how civil servants relate to their employer, to include terms and conditions which bear a positive relationship with what civil servants are asked to think of themselves and to provide motivation. There is a particular need to be able to recruit and retain in Departments staff with skills currently in short supply; this may entail discretion to decide on increased pay for such groups, or a wider approach to providing skilled

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manpower from agencies and consultancies as well as direct employment. Central responsibilities for pay and management should cease to be compartmentalised, should give more weight to management needs as opposed to economic and political considerations, and should secure a more effective contribution from the operating Departments. Particular needs identified are for training to be further developed, for more outsiders to be recruited to key senior executive posts, for individual Departments to be better able to draw on the resources of the Service as a whole, and for individual Departments, including those geographically remote from other large Departments, to continue to be able to attract new blood.

iv. Review financial accountability to Parliament. There is a real conflict between traditional forms of accountability for public money to Parliament and the "risk-taking" culture implicit in growing public/private sector financial partnerships. Some Permanent Secretaries suggest that there may be a need to develop new policies and structure for Parliamentary accountability, taking account of the FMI and including a review of the adequacy and relevance of the present PAC and NAO roles.

A Board of Management for the Civil Service

There is already in existence a Joint Management Board jointly chaired by the Head of the Civil Service and the Permanent Secretary to the Treasury and drawn from the Cabinet Office (MPO) and the Treasury. There is also a Joint Management Meeting jointly chaired by the Second Permanent Secretaries in the Treasury (Public Expenditure) and the Cabinet Office (MPO). These bodies, though useful, are not well known, and do not, of themselves, meet the requirement set out in paragraph 24.

2. An effective board of management for the Civil Service would need to have a different kind of role and structure if it were effectively to address the problems considered in this report.

3. The primary role of such a board would be to advise the Prime Minister on, and supervise the overall direction of, those functions relating to the management of the Civil Service which must be performed at the centre. Examples of such matters are (looking backwards) manpower controls, the introduction of performance-related pay and the development of VPM practice under the FMI, and (looking forward) the special problems relating to the maintenance of the five largest professional groups in the Civil Service.

4. The board would also:

(i) have the key role in overseeing the programme for the implementation of The Next Steps;

(ii) be responsible for securing at the earliest possible date the "slimline" central management capability specified in paragraph 40 of The Next Steps;

(iii) establish a rolling programme of periodical (usually annual) reviews, jointly with each Department, of the management of the Department's programmes and services, and the progress being made in meeting objectives; and

(iv) maintain a visible support for the Head of the Civil Service in providing the necessary leadership of and communication with the personnel of the Service, eg by well-presented visits to a variety of Civil Service units.

5. The board of management would be formally chaired by the Prime Minister's principal adviser, ie currently Sir Robert Armstrong in his capacity as Secretary of the Cabinet and Head of the Home Civil Service. In order that the board should meet, and be known to meet, regularly it would certainly be necessary for there to be a Deputy Chairman (or two Deputies) of sufficient standing that he (they) could play a substantial role in providing visible support for the Head of the Civil Service. This role could be combined with the role of "Project Manager" for the implementation of The Next Steps (as specified in paragraph 41 thereof). Other possibilities which might be preferred, however, are to ask an external member to take on this role (cf Sir Roy Griffiths role in the NHS Management Board) and/or to combine the Deputy Chairman role with the role of one of the Permanent Secretaries in the Treasury. The "Project Manager" would then be designated as a board Member.

6. Other members of the board (using current terms and appointments) would be:

- the Permanent Secretary to the Treasury, who could be a Deputy Chariman;
- the Second Permanent Secretary, Treasury, in charge of public expenditure;

- the Second Permanent Secretary in charge of the MPO, for so long as that Office exists;

the Prime Minister's Efficiency Adviser, who would, of

- course, retain in that role his access to the Prime Minister and would be supported in it by the secretariat of the board (see paragraph 7 below); he could be a second Deputy Chairman of the board;
- two other external appointees of standing, carefully chosen for their relevant expertise and experience, eg in personnel or large-scale financial management or management of diverse businesses;
- two or three Permanent Secretaries who are current heads of Departments*.

7. The board would need a secretariat, with the capacity also to commission any investigative work required by the board. The existing Efficiency Unit and possibly the Joint Management Unit could become parts of the Secretariat, though the Efficiency Unit would still be directly responsible to the Prime Minister's Efficiency Adviser. It would be small: headed by a Grade 3 officer with perhaps two Grade 7s and clerical staff in support; the net result should be the first - and viable - step towards a slimmer centre.

*Regular meetings of all Permanent Secretaries for exchange of information would, of course continue; there would be merit in developing further under the chairmanship of a board member the practice of convening, ad hoc, small groups of Permanent Secretaries to address particular issues; and it would be important to ensure that the Permanent Secretary members of the board of management were experienced in a diversity of Departments, perhaps serving, therefore, for only one or two year as board member.

8. The board's programme and methods of work would obviously be developed on its own initiative but it should have a public face in the sense that its members should from time to time visit different units of the service; it might also have referred to it by the Prime Minister specific matters for investigation and report; it would, of course, advise or report to appropriate Ministers on matters relating to particular Departments and it should submit a brief and well presented Annual Report to the Prime Minister in place of the existing Report of the Management and Personnel Office.

9. The board's collective advice to Ministers, like the advice of its members who are permanent officials, would of course be confidential. But its terms of reference and its membership, would need to be publicly announced and properly presented to Parliament and the Civil Service. Ministers could, with advantage, publish from time to time reports to them by the board on specific matters, as well as its Annual Report. By so doing, and by the visible presence of board members in Civil Service units from time to time, they and the board itself could substantially enhance the leadership of the Civil Service as a whole.

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From: SIR PETER MIDDLETON

Date: 18 June 1987

CHANCELLOR

Ch
No need to read,
just says "thanks & agree"

TxA
cc Chief Secretary
Mr F E R Butler
Mr Anson
Mr Kemp
Mrs Strachan

AA

PEN
To
CH/EX
18/6

MACHINERY OF GOVERNMENT

There are two developments which we have to treat with particular care:

- (a) the Ibbs Report (Next Steps);
- (b) the Stowe Report (The Better Management of Government).

A meeting has been set up with the Prime Minister for Tuesday 7 July. We shall let you have nearer the time some key points to make. This note sets out my views in a bit more detail.

2. I attach copies of both reports. They are loosely related to each other, but are very vague about what exactly is being proposed. They both have good points but, if wrongly handled, could involve a considerable threat to the Government's economic policies at both a macro and a micro level.

Ibbs

3. You know the broad outlines of the Ibbs Report. Having spent the previous Parliament trying to persuade Ministers to become departmental managers he proposes to spend the next Parliament excluding them from management. The chosen vehicle is to set up operational agencies to which day-to-day management of policies would be delegated. There would ultimately be a central core of about 20,000 civil servants involved in policy. The centre would devolve

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much of its present controls (set out in Appendix C) to these agencies.

4. The programme is very rapid - ludicrously so in my view - as set out in Annex 1. In 12 months departments would be expected to have timed action plans for turning 95% of the Civil Service into operational agencies within 5 years. This would be supervised by a new Permanent Secretary (project manager) in the Cabinet Office. There would thus be three Permanent Secretaries in the Cabinet Office if the MPO remains in existence.

5. The Treasury position is this. We are in favour of greater devolution provided that it is done within public expenditure control totals and provided it supports these controls. As budgeting develops and becomes more effective we can give managers more responsibility, and indeed have been doing in the context of the FMI and the development of new pay structures.

6. I see the essence of the Treasury's approach to the next Parliament as defending the Government's nominal approach to the economy while devoting an increasing amount of effort to increasing the efficiency of the economy - matching what has been a successful macro policy to what I hope will be an increasingly successful micro policy.

7. The reason Ibbs is a threat is that it appears to us to undermine the principle of cash control on the expenditure side - though that is not its intention. Expenditure control systems present difficult management problems. We are making progress with budgets. But we still have not got robust arrangements for administrative expenditure. We have not yet managed to push budgeting far into programme expenditure. In these circumstances the removal of central controls would just become an additional source of pressure for Government expenditure. Our controls over running costs, pay, manpower and grading would be given up or eroded in the hope that this would give managers the incentive to manage better within existing resources. But in practice managers still think predominantly of getting more resources and expanding programmes.

8. You and the Chief Secretary will have to decide whether this is a good deal; we doubt it. I think a cursory reading of the Customs

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approach (attached) will leave Treasury Ministers in no doubt that departments see this development as an opportunity to take the Treasury cork out of the departmental bottle.

9. It is, however, important to decide what our essential interests are now we are faced with this proposal which appears to turn the present policy on quangos on its head (remember the success of agencies such as the Procurement Executive, the PSA, the MSC etc!) They seem to us to be as follows:

(a) we must retain control over expenditure in the Treasury - we cannot leave the project manager (who will in practice be steered by Ibbs) to decide it case by case. This means that:

(i) all bids would have to be channelled through a departmental Minister whether they were for agencies or not. He would have to trade off allocations between agencies under his control;

(ii) the present public expenditure control arrangements would need to remain in existence including cash limits and annuality;

(iii) the Treasury would wish to continue to approve large projects and be given full information about departmental programmes (which may be difficult to achieve in practice);

(iv) if the Treasury is to be in a more arms length position we have to do what we can to prevent departments having things both ways - greater independence within large block budgets and access to the Treasury for new requirements - or landing us with extra bills because of their own mismanagement;

(b) we must continue the thrust for more value for money out of public expenditure. I know that that is what Ibbs

is all about. But he relies on a massive gesture of faith in local and departmental management. To support it we should need to have clearer objectives, performance indicators, output reviews etc though we know these are difficult to make stick in practice. (The body of the Report acknowledges the need for them, but the timetable in Annex 1 would mean charging ahead before they were in place and working properly);

(c) so we need to maintain and strengthen the present central controls which are designed to contain the pressures for more public expenditure and limit the extent to which public expenditure is absorbed in administrative expenditure. This is where the main attack will come:

(i) obviously we shall need to retain overall control of the PES total. And, at the very least in our view, the agency approach would also need to be supported by effective controls on administrative expenditure. They need to be firmly administered - greater devolution requires greater central determination to resist erosion;

(ii) running cost controls have not proved particularly robust and may not be a firm enough barrier against pressure from the new Agencies (there will be agency chairmen's groups such as we have at present with the nationalised industries). Having launched running costs control we need to give it a fair run. If it proves not to be effective we may need to consider going back to some kind of manpower control, although experience showed that that did not in itself (even with central control of pay rates) ensure adequate control of running costs. Certainly we should need something to maintain the present control over the senior open structure if Ministers still attach importance to it;

(d) there is a major question about pay and terms and conditions. These are presently subject to central control (most for the Treasury but some are MPO) with varying degrees of delegation. Handing them over to the agencies, particularly pay, will involve a great deal of risk as many have no experience whatsoever of negotiating on pay. If the pay bill is to be properly contained there will have to be robust budgetting in agencies, the development of the necessary expertise in agencies, and central arrangements to limit leap-frogging - brought about as much by management as the unions - and to settle the many disputes which arise between departments, and to deal with remaining Service-wide industrial relations issues. More generally, in a situation where I assume pay restraint in the economy generally will remain paramount, very tight control over Civil Service pay settlements - seen as an example to very many other employers, public and private - will remain crucial. And however much pay is handed over to the agencies Ministers will still need to be consulted just as they are for other significant groups (eg teachers and mineworkers);

(e) there are a number of other things which the Treasury monitors as part of the overall policy which could be devolved further if you were willing to take a risk on the Ibbs approach. These include:

(i) grading standards - but it should be noted that these are an important defence against drift. We should need to ensure that drift continues to be limited; and if departments and their agencies have any sense they would want that too;

(ii) appointments - we could not lose all controls. I doubt whether effective sanctions - eg dismissal - could be developed against the management of non-performing agencies. But we need to do what we can to inject this essential complement to accountability into the concept.

10. I do not think that Ibbs' ideas are very well thought out. I

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doubt whether there is a clear split between policy formation and its implementation; the Ibbs Report does not demonstrate that the present mix is the root cause of management problems. There is a danger that he would create two distinct classes, of "thinkers" and "doers", and that after a time the former would be accused, possibly rightly, of being out of touch with the realities of administration. I doubt whether Ministers would be willing to stand aside from the delivery of services - the NHS experience is not encouraging - or whether Parliament and the press would let them. I also doubt whether it makes sense to have another Permanent Secretary in the Cabinet Office supervising all this when so many of our vital interests are affected. I hope Ministers will not buy this one without a lot of further thought. We are moving towards a more efficient public sector. There is already considerable delegation consistent with the introduction of satisfactory control systems. If the Treasury has to devote its energies to defending the present public expenditure control system - already difficult without Ibbs - against which could be a whole new set of pressures, it will set back what we want to do on this micro side in both the public and private sectors. In any event, even if you are prepared to take a risk with Ibbs, I hope you will do it gradually - agency by agency - and not in a "Big Bang" approach.

Stowe

11. Stowe's Report is a follow up to Ibbs. It is clearly the spending departments' view of the centre - departments try to implement "policy", and we try to stop them. The centre is badly organised, so he recommends a board of management whose functions are far from clear to oversee things.

12. The Report is pretty bad. I strongly recommend you to read paragraph 11. You might look at paragraph 13 too; the idea that the Treasury is not interested in the economy because it does not equate this with public spending is a novel one.

13. However, that is background. We should concentrate on what

the Report is supposed to be about - better management. So far as that is concerned:

- (a) we agree that arrangements at the centre are hopelessly inefficient as they stand;
- (b) we do not agree that "tinkering" with responsibilities at the centre would be a "distraction". The simple solution would be to transfer the MPO's residual responsibilities for pay and efficiency to the Treasury. This would solve existing confusions at a stroke - at the expense of some familiar staff problems for us;
- (c) we should prefer to cope with these problems rather than the new Civil Service central board of management - which will involve a lot of unproductive work and confusion for us as it stands;
- (d) There are some serious problems with the half-million non-industrial civil servants; the best if not the only way of tackling these constructively and economically will be to centralise these issues operationally in the Treasury.

14. If by chance a board of the Stowe sort does get set up, there are some vital things to establish:

- (a) we do not want it to co-ordinate Government policy (Annex 1, point (iv));
- (b) we would want to ensure that its functions were purely advisory and that it would not clog up the business of running the machine. In particular (my underlining):
 - (i) "the primary role ... would be to advise the Prime Minister on, and supervise the overall direction and control of, those functions relating to the management of the Civil Service which must be performed at the centre" (Annex 2, paragraph 3);

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(ii) a central board of management could not be more than advisory to the Prime Minister and her colleagues in terms of policy for Civil Service management and it could not detract from Ministerial responsibility in each department" (paragraph 27);

(iii) even if it should necessarily "be related to the PES framework" (paragraph 26) and it should "secure the commitment of ... the resource controllers" (paragraph 24(b)), it should not have any locus in public expenditure allocation;

(c) we would not want it to be engaged in an annual departmental audit (paragraph 26) - this would be both dangerous and impossible. It would need to look at about one department a week.

15. If we could achieve this, it would protect the Treasury's main interest. The Chancellor would retain his responsibilities for economic policy and, with the Chief Secretary, for public expenditure. But the board would become a sort of TSRB for the rest of the Civil Service. There would inevitably be conflicts on particular issues of concern to Treasury Ministers, just as we had with MPO on performance-related pay, but on a wider range of issues, including major pay questions. All these bodies become spenders sooner or later. It is difficult to see what the proposed outsiders would contribute. On the other hand, if Ministers are unwilling to grasp the MPO nettle, it might just provide better co-ordination of the central management effort if it is realistic to believe that it would corral the Efficiency Unit. Against that the centre's responsibilities in the day-to-day operational running of the Civil Service are troublesome enough even now, given the split between us and MPO. The addition of the proposed board, unless we could be sure it kept its hands off day-to-day work, would make an already difficult situation even worse.

16. On balance I think we are better off without any additional central superstructure. I come to this conclusion by considering my own role. I do not relish the prospect of reporting to you and

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being a member of the proposed board. I do not want to report to you via it or to it via you. I do not want to spend all the time that would be involved when there is a much simpler solution to hand.



P E MIDDLETON



*prep
(ltd's report)*

FROM: A C S ALLAN
DATE: 22 June 1987

SIR P MIDDLETON

cc PS/Chief Secretary
Mr F E R Butler
Mr Anson
Mr Kemp
Mrs Strachan

MACHINERY OF GOVERNMENT

The Chancellor was grateful for your minute of 18 June, and agrees with the approach you recommend.

ACSA

A C S ALLAN

Ref. A087/1858

PRIME MINISTER

cc Sir T Burns
Mr GER Butler
Sir G Lither
Mr Anson
Mr Kemp

25/6/87.

Organisation at the Centre

I have put various submissions to you in recent weeks about possible changes in the machinery of government, but none of these has dealt with the question of organisation at the centre. This submission is intended to fill that gap.

2. The appointment of a new administration provides a natural opportunity to review the organisation at the centre of Government, and in particular the way in which to distribute the various functions concerned with the management of the public service. These are, basically, the responsibilities for public service pay and manpower which now rest with the Treasury and the responsibilities for personnel management, recruitment, training, management efficiency and the occupational health service which now rest with the Cabinet Office (Management and Personnel Office) (MPO).

3. The present arrangements date essentially from November 1981, when the Civil Service Department (CSD) was wound up. Some external commentators, and notably the Treasury and Civil Service Committee, have proposed that a Department for the Civil Service should be recreated, with broadly the same range of responsibilities as those which the old CSD had.

4. I do not believe that you should re-create a Civil Service Department. It may have made sense to carve the CSD out of the Treasury in 1968, so as to concentrate attention on the management issues highlighted by the Fulton Committee; but the main process of implementing the Fulton recommendations (insofar as they were implemented) was complete in three years or so, and

by 1981 the disadvantages of having a separate department, responsible at the centre of government for management issues but divorced from the main streams of policy formulation, had become evident.

5. When in 1981 we were considering the arrangements that should be put in place if the Civil Service Department was abolished, both Sir Derek Rayner and I were inclined to recommend putting all its functions back into the Treasury. In the end, you decided - with Sir Derek Rayner's and my agreement - not to do that, but to put back into the Treasury only the "resource" functions of the CSD (pay and manpower), partly because the Chancellor of the Exchequer of the day did not want to take on any more, and partly because you wanted to keep a direct personal link with the pursuit of management efficiency, retaining the Efficiency Unit for that purpose, and with the broad policy aspects of personnel management.

6. The resulting split has not proved to be wholly ideal. Responsibility at the centre for management and efficiency is messily divided three ways; between the Treasury, the MPO and the Efficiency Unit. The interaction between pay and personnel management is more difficult to manage, with two departments responsible, than it would be with one. In the central departments, time and energy are consumed in co-ordination across departmental boundaries; and other departments complain that the centre (including the Efficiency Unit as well as the Treasury and the MPO) does not always speak with a clear and undivided voice. There is no doubt that it is the Treasury which, because of its responsibility for control over resources (pay and manpower), is seen as having the teeth. And the MPO, at lower levels, suffers from the same problem as the Civil Service Department did, though to a less degree (thanks to a deliberate policy of bringing in people from other departments on secondment), in that it is not directly involved in the formulation and execution of Government policies.

7. Nevertheless, I would not now think it right for the whole responsibility for management of the public service (apart from the Efficiency Unit) to be put back into the Treasury. This is partly a matter of overload: it remains the case that Ministerial and senior official management at the Treasury is already hard pressed and can do without an addition to its burdens. It is also partly because the Treasury is generally perceived - fairly or unfairly - as being too exclusively preoccupied with controlling and reducing the growth of public expenditure; interested in management and efficiency only as a means of saving public money to the exclusion of other considerations. The Treasury's concentration on rigorous financial control is likely to increase - and should do so - if Sir Robin Ibbs's "The Next Steps" proposals are implemented. I believe that it is important to keep a capacity at the centre outside the Treasury, responsible to you, which provides, and is seen to provide, expertise and advice independent of the Treasury on issues of public service management and efficiency. Sir Peter Middleton shares the view that it is useful to have a capacity on Civil Service matters at the centre outside the Treasury, which can bring a different point of view to bear, and suggest a need for further thought before decisions are taken.

8. Two other matters have a bearing on the organisation at the centre. These are:

1. Sir Robin Ibbs in "The Next Steps" has pointed out that we now have an opportunity to speed up the rate at which management in government is improved. He stresses that this has to be done by the Civil Service itself seizing the opportunity which has been identified. He argues that this requires us to consider some significant change at the centre so that under the Head of the Home

Civil Service the achievement of this improvement becomes a line management task, at the centre as well as in departments.

2. Sir Kenneth Stowe, in a report to me, a copy of which I attach, has reviewed the functioning of the centre in relation to the heavy programme of work which lies ahead for the whole of government. He concludes that the main deficiency is not organisation as such but the process of management at the centre. He, like Sir Robin Ibbs, sees the need for a "change-driving" mechanism led by the Head of the Home Civil Service, and a slimmer and better directed management effort. He proposes to this end the setting up of an advisory board for management in the public sector which could among other things reinforce the changes in management which we want to achieve.

I should like in passing to say what an enormous help it has been to have Sir Kenneth Stowe here in the period between his leaving the Department of Health and Social Security and his retirement from the public service next month. On these subjects in particular he has been able (freed from departmental distractions) to give time and energy to considering them and discussing them with a wide range of people whose experience qualifies them to give helpful and constructive advice. As a result, his report is the outcome of a thorough consideration and wide discussion of the issues.

9. Improved advisory arrangements will not by themselves be enough to bring about the changes for which we are looking. We shall need to have at the centre an executive capacity which has the responsibility for ensuring that change takes place, and that it takes place in an orderly way. If Sir Robin Ibbs's "The Next Steps" proposals are approved, there will need to be what Sir Robin has called a "project manager", who will need in Sir Robin's view to be of Grade 1 (Permanent

Secretary) rank. The "project manager" will be responsible through the Head of the Home Civil Service to the Prime Minister for providing impetus to the process of setting up "executive agencies" on the lines proposed, and for acting as a source of central advice and co-ordination, so as to ensure that departmental proposals are soundly based and well worked out and to minimise the risks that proposals or activities by one department do not create intolerable difficulties for others. We shall need to get some one in position to undertake these responsibilities as soon as Ministers have approved the Ibbs proposals. The "project manager" will need a small support staff, which we should be able to find within the Cabinet Office without any increase in numbers. He will also be able to look to the Efficiency Unit for advice and support. He might be in the image of Sir Kenneth Stowe, a seasoned and experienced Permanent Secretary called to the centre for his last posting; or he might be a newly promoted Grade 1 (or Grade 1A) with the right kind of previous experience, serving at the centre as a prelude to appointment as a Permanent Secretary in charge of a department. Either model would be perfectly workable, and I see no need to choose irrevocably for one or the other: the choice could change from time to time to fit the people available.

10. Sir Kenneth Stowe's proposal is separate and different from that, but its thrust is in the same general direction. He proposes that, in order to bring greater coherence and a new approach to management of the public service, we should establish an advisory board for management of the public service (we might be able to find a shorter and more memorable title which would help to enhance its standing). As for its terms of reference, it would be advisory not executive, and would be given the task of supporting the Head of the Home Civil Service (who would be its chairman) in the following functions:

- advice to Ministers on the direction and priorities for change;

- support for the Head of the Home Civil Service in the task of ensuring that change is achieved satisfactorily; and in particular support on the implementation of "The Next Steps", if those proposals are approved by Ministers;
- advice on matters of policy on personnel management, including recruitment and training;
- availability for consultation on questions of pay and grading policy;
- availability for consultation on the programme and work of the Efficiency Unit.

11. Both Sir Kenneth Stowe and Sir Robin Ibbs believe that a force is needed which puts pressure on departments continually to seek improvement in their management function. Such a board is intended to fulfil this function. Whether and how best it could do so is a matter which requires more work and thought before it would be possible to say whether that would be practicable and useful.

12. As for its composition, the Chairman would be the Secretary of the Cabinet and the Head of the Home Civil Service, as being your principal official adviser, and it should include:
Permanent Secretary, Treasury (who should be a Deputy Chairman);

Two or three departmental Permanent Secretaries: these should be chosen ad hominem and might serve for fixed terms of, say, three years;

The Prime Minister's Efficiency Adviser, who could be a second Deputy Chairman;

Two other external members: these might also be asked to serve for fixed terms of three or four years.

13. The Second Permanent Secretary, Treasury (public expenditure), the Second Permanent Secretary, Cabinet Office (MPO) and the "project manager" for "The Next Steps" would receive papers and be invited to attend meetings when matters within their respective responsibilities were being discussed (and in practice probably regularly). I should also propose that the Permanent Under Secretary of State, Foreign and Commonwealth Office, as Head of the Diplomatic Service, should receive papers of the board and be invited to attend its meetings, so that he could be aware, and contribute to the discussion, of any issues where there was a "read-across" to the Diplomatic Service.

14. As I indicate in paragraph 21 below, some streamlining of functions at the centre is a necessary consequence of the proposals by Sir Robin Ibbs and Sir Kenneth Stowe. Any change will, however, need to be thought out carefully and timed to synchronise with the other changes at the right time. So long as the present distribution of functions continued, the Treasury would continue to report on questions of running costs, Civil Service pay, Civil Service manpower and Civil Service industrial relations through the Permanent Secretary, Treasury and the Second Permanent Secretary, Treasury (public expenditure) to the Chancellor of the Exchequer and the Chief Secretary. The Cabinet Office (MPO) would continue to report on questions of personnel management (including recruitment and training) through the Second Permanent Secretary, Cabinet Office (MPO) and me to the Minister of State for the Civil Service and to the Prime Minister. The "project manager" would report on the implementation of "The Next Steps" to the Head of the Home Civil Service and through him to the Prime Minister.

15. The Efficiency Adviser, supported by the Efficiency Unit, would continue to report directly to the Prime Minister.

The knowledge that he was on the board would also add greatly to its authority.

16. In deciding how to advise their Ministers, each of these senior officials would be able to consult the advisory board on major issues.

17. The Head of the Home Civil Service would continue to report directly to the Prime Minister as at present on senior appointments, other public appointments, honours, machinery of government, discipline and security, and would continue to be supported by the existing advisory machinery on senior appointments and honours. The advisory board of management would not be concerned with these matters.

18. There would be an Office of the Head of the Home Civil Service in the Cabinet Office, which would comprise;

- the "project manager" for "The Next Steps" and his supporting staff;

- the secretariat of the advisory board for management of the public service;

- the staff of the Efficiency Unit (for 'pay and rations' purposes: they would continue to report on policy matters to the Efficiency Adviser);

- the small groups of staff which provide support for the Head of the Home Civil Service on his other responsibilities (appointments, honours, machinery of government, discipline and security);

- any residual functions (eg determination of policy and

resources frameworks for the Civil Service Commission and the Civil Service College) from the MPO when it disappeared (see paragraph 21 below).

19. This proposal for an advisory board would in my view offer the following advantages:

- it would reinforce the central driving force for change;
- it would associate departmental representatives with the process of central management and supervision of change;
- if the board was given responsibility for conducting the sort of periodic stock-taking of each department mentioned in paragraph 11 above, it would provide the Prime Minister and the Head of the Home Civil Service with an instrument for monitoring the performance of departments in terms of management efficiency;
- in strengthening and broadening the process of directing and overseeing management at the centre, it would in effect provide an answer to those who say that combining the posts of Secretary of the Cabinet and Head of the Home Civil Service means that the interests of the Civil Service are not adequately represented in the process of Government;
- the presence of two external members would both provide the board with an inbuilt source of wisdom and experience on management matters, and provide you and others with an assurance that it was not just a case of the Civil Service licking its own face.

20. If Ministers approve Sir Robin Ibbs's proposals "The Next Steps" and the Prime Minister approves the proposals for an advisory board for management of the public service, there will

be major consequences for the organisation and distribution of functions at the centre. I would not want to propose any redrawing of the frontiers between the Treasury and the Cabinet Office (MPO) until these proposals had been fully worked out and brought into effect: we should in any case avoid making changes now if we can foresee the likelihood of making further changes fairly soon.

21. If, however, we implement Sir Robin Ibbs's "The Next Steps" proposals, the Treasury's responsibilities on pay will be substantially reduced, as departmental agencies assume the freedom to determine pay and grading which would be an indispensable element in their executive responsibility. And the *raison d'être* of the MPO in its present form would be reduced if the Civil Service Commission, the Civil Service College and the Occupational Health Service were to become (as they well might) "executive agencies" of the kind proposed by Sir Robin Ibbs and move out from the Cabinet Office (MPO), although it would still be necessary to retain at the centre a capacity for advice on recruitment and training policies. Once those developments had occurred, it would probably make sense to transfer responsibility at the centre for personnel management to the Treasury. Responsibility for laying down the policy and resources frameworks of the Civil Service Commission, the Civil Service College and the Occupational Health Service could then be placed with the Head of the Home Civil Service, supported by the Office described in paragraph 19, and reporting to the Prime Minister. The MPO as such would then disappear. At that point, the "project manager" might well be given additional responsibilities in support of the Head of the Home Civil Service on other matters as well as the implementation of "The Next Steps" proposals. But that is all for the future. Though we should have to start planning at once, immediate decisions are not required, and indeed cannot in my view be taken until

the other matters - "The Next Steps" proposals and the proposals for an advisory board - have been decided and brought into operation.

22. When you have time to do so, you may like to discuss these proposals with me, and with Sir Peter Middleton, Sir Kenneth Stowe and Sir Robin Ibbs, to whom I am sending copies of this minute. I have discussed the proposals with all of them. They are all in general agreement with the proposal for an advisory board for management of the public service, though Sir Robin Ibbs does not believe that it would be helpful unless the strong line management responsibility for change under the Head of the Home Civil Service is introduced, and Sir Peter Middleton doubts whether the "stock-taking" function referred to in paragraph 11 would be useful or indeed practicable: he sees that as essentially a function of year-by-year Treasury control and oversight of departmental expenditure. Sir Peter Middleton has reserved the Treasury's position on Sir Robin Ibbs's "The Next Steps" proposals, which have not yet been considered by the Chancellor of the Exchequer. He would also prefer to transfer responsibility for personnel management from the Cabinet Office (MPO) to the Treasury without further delay, thus securing a Permanent Secretary post - especially desirable in his view if we are to have a new Permanent Secretary as "project manager" for "The Next Steps" - whereas I have suggested that no change should be made in the distribution of functions as between the Treasury and the Cabinet Office (MPO) until decisions have been taken on "The Next Steps" and on the future disposition of the Civil Service Commission and College, and until the proposed advisory board has been established.

23. The first priority is clearly to take decisions on "The Next Steps"; now the Election is over, we have restarted that process. If those decisions are in favour, it will be

necessary to get a "project manager" in position, to make an announcement, and to get on as fast as possible with the processes of consultation which will have to be gone through.

24. If you were to give approval in principle to the proposals for an advisory board for management of the public service, we could then get on with working out detailed proposals for its title, terms of reference and composition, suggest candidates for appointment to it, work out the detail of the supporting secretariat, and prepare a draft announcement to be made after the announcement of "The Next Steps". You would no doubt want to let your Cabinet colleagues know how you were proposing to proceed before making an announcement; and before doing that you would want to discuss the proposals with the Chancellor of the Exchequer and the Minister of State for the Civil Service. Copies of this minute could be sent to them as a basis for such a discussion.

RA

ROBERT ARMSTRONG

25 June 1987

PEM
to
CH/EX
30/6

PM

*[Group to include
pos in the wall as
my in]*

From: SIR PETER MIDDLETON

Date: 30 June 1987

CHANCELLOR

cc Chief Secretary

*BE
P. Middleton
1/2/87*

ORGANISATION AT THE CENTRE

I recently minuted you about the Ibbs report, the Stowe report, and the future of the MPO. Sir Robert Armstrong has now put the attached minute to the Prime Minister on these issues.

2. It proposes the advisory board to co-ordinate activities at the centre, with a clear steer towards early - though not immediate - abolition of the MPO. It assumes implementation of the Ibbs proposals on agencies. It concludes by suggesting that the Prime Minister holds a meeting with you and Mr Luce.

3. You will see that I have made sure that the Treasury's position is comprehensively reserved - see, for example, paragraph 22. But if something like this does go ahead, there are certain minimum requirements for the Treasury.

4. First, the Treasury must retain control and report directly to Treasury Ministers on those matters which are within its responsibilities - pay (subject to Ibbs), superannuation, running costs and industrial relations. The note recognises this. Second, I do not agree that we need three people of Permanent Secretary rank dealing with Civil Service management at the centre in addition to Sir R Ibbs - Mr Butler, Miss Mueller (the head of the MPO) and the new Project Manager. Finally, if there is to be a Project Manager, he should be a Grade 1A rather than a full Permanent Secretary. It would be ludicrous for him to outrank Robin Butler, who is responsible for controlling all public expenditure.

PEM



pur

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

10 July 1987

Dear Tim,

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister held a meeting yesterday about Sir Robin Ibbs' report on Improving Management in Government: The Next Steps. I attach a copy of my minute to Sir Robert Armstrong which records the outcome of the discussion.

You will see from the Prime Minister's summing up of the discussion that she would like your Secretary of State and the Secretary of State for Transport to join the further discussions on this subject. The Offices of Sir Robert Armstrong and Sir Robin Ibbs will be in touch with your Department to explain the background to this work and to discuss how best to associate the two Departments with the next steps.

I am sending a copy of this letter to Roy Griffins (Department of Transport), Alex Allan (H.M. Treasury), Trevor Woolley (Cabinet Office) and to Kate Jenkins (Efficiency Unit).

*Yours truly
Nigel Wicks*

N. L. WICKS

CH/EXCHEQUER	
REC.	13 JUL 1987 <i>13/7</i>
AD	MR ANSON
COPIES TO	PC/CST
	SIR P. MIDDLETON
	MR FERBER

Timothy Walker, Esq.,
Department of Trade and Industry.



pmg

EFFICIENCY UNIT

**IMPROVING MANAGEMENT
IN GOVERNMENT :
THE NEXT STEPS**

Management

- **Getting people to do what you want**
- **Getting situations dealt with as you want**
- **Achieving this within specified resources**

Necessary conditions for success

- **Define and communicate what you want**
- **Define and communicate the constraints**
- **Define how trouble is to be handled**

Which means

Define: — Objectives
— Policy
— Resources
— Targets
— Procedure
for trouble

Then hands off

But pressure to remind it's
for real

Government is not quite like this

- **Who is responsible for delivery of services?**
- **If staff are put on the spot and given freedom to manage, can they do it?**
- **Can damaging repercussions be avoided?**
- **What pressure is there to go for continual improvement?**

Findings

- **Management neglected**
- **Civil service monolithic**
- **No pressure for improvement**

Conclusions

- **Look at the job to be done**
- **Have the right people to do it**
- **Create pressure for improvement**

Recommendations

- **Establish agencies for executive functions**
- **Staff to be properly trained and experienced**
- **Reorganise the centre to create pressure for results**

Dangers

- **Sloppy frameworks**
- **Fail to give adequate freedoms**
- **Give freedoms too quickly**
- **Fail to manage transition**
- **Go too slow, too fast or not selectively**
- **Too few good managers**

Accountability

Ministers remain answerable ultimately, but

- **Primarily for framework:**
 - objectives
 - policy
 - resources
 - how political problems will be handled
 - targets

- **Delegate operational responsibility to Managers within the framework**
- **Expect Managers to answer direct on operational issues; or to provide answers which Ministers quote**
- **Responsible for appointing competent people.**

Characteristics for Agencies

- **Separate organisations**
- **Clearly identifiable head appointed by the Minister**
- **Policy and resources framework, with annual review**
- **Agreement about handling politically sensitive issues**
- **Freedom for managers in delivery**

Benefits

- **Ministers can concentrate on policy and strategy**
- **Managers eager for results and better able to get them**
- **Better value from public expenditure**





THE JUDGE OVER YOUR SHOULDER

Judicial Review of Administrative Decisions

This pamphlet, which has been prepared by the Treasury Solicitor's Department in conjunction with Cabinet Office (MPO) Training Division, gives administrators at all levels an introduction to the basic principles of administrative law and judicial review. Enquiries about the content should be addressed to the Treasury Solicitor's Department (Telephone 01-210 3140 GTN 210 3140).

March 1987



CABINET OFFICE
MANAGEMENT AND
PERSONNEL OFFICE

THE JUDGE OVER YOUR SHOULDER

Judicial Review of Administrative Decisions

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Introduction

1. You are sitting at your desk granting licences on behalf of your Minister. Your enabling statutory powers are in the widest possible terms: 'The Secretary of State may grant licences upon such conditions as he thinks fit'. With power like that you might think that there could be no possible ground for legal challenge in the courts whatever you do. But you would be wrong.

2. Scarcely a day passes without the *Times Law Reports* containing one or more cases where someone is challenging the decisions, or actions, of central or local government or a public body. There has been a considerable rise in the number of such challenges in recent years. The procedure by which such challenges are normally made is known as 'judicial review' and the law which the courts apply in such cases is known as administrative law. In 1974 there were only 160 applications for leave to seek judicial review. By 1985 the figure had grown to more than 1,230 and in the same year a similar procedure was introduced in Scotland. The increase is probably due in the main to the following factors:

- The simplification of the judicial review procedure coupled with a requirement by the courts that this procedure rather than any other court procedure should be used.
- 'Nothing succeeds like success'. A few well publicised cases have alerted individuals and pressure groups to the possibilities of judicial review as a means of achieving their objective.

- An increasing willingness on the part of the judiciary to intervene in the day-to-day business of government, coupled with a move towards an imaginative interpretation of statutes.

3. The purpose of this pamphlet is to give you guidance as to the principles involved and to highlight the danger areas where you are particularly at risk of laying your Minister open to a challenge in the courts. This pamphlet is not, and cannot be, a substitute for seeking legal advice. Nor can it be a comprehensive guide to administrative law. What it can do is to enable warning bells to ring so that you can take legal advice at the right time.

What is administrative law?

4. In very general terms administrative law is the law governing the administration. It governs central and local government and public bodies when exercising statutory or other powers or performing public duties. Administrative law therefore may extend to 'non-departmental public bodies' ('quangos') where they are given special powers even where they act independently of government. The functions described above are called 'public law functions'. It is necessary to distinguish these from 'private law functions' which are functions performed by private individuals as well as public bodies, eg entering into a contract. It will be private law rather than public law which will operate where a person claims damages as a result of being injured by someone else. A claim for damages as a result of a factory accident, for example, will be a matter of private law even if the factory is operated by the Crown.

The basic question in judicial review: What power or discretion has been conferred and has it been exceeded?

5. The starting point in most judicial review cases is the interpretation of the words of the enabling legislation. Few cases will reach court in which there are not competing arguments about the correct meaning of the words in the legislation and, therefore, the correct scope of the power or discretion conferred by them. Sometimes a case can be determined by simple statutory interpretation. A 1921 case illustrates the point:

Example:

A local authority empowered to provide wash houses where local people could bring their own washing and do it themselves acted outside its statutory powers ('ultra vires') when it proceeded to open a laundry service trading for profit: *Attorney General — v — Fulham Corporation* (1921) 1 CH 440.

6. Not all cases are this simple, however. What makes administrative law difficult is that the courts have developed a means of extended statutory interpretation which goes beyond the wording of the statute or subordinate legislation itself. This means that the decision-maker cannot rely on the words of the legislation alone but will need to know what additional requirements the courts impose. For example we will see below that the courts will, on occasion, read into legislation an obligation to consult before a particular power can be exercised, even where the legislation in question

contains no express requirement to this effect. If a court decides that there has been a failure to consult it may then decide that there was no power to act without first consulting. In such circumstances the authority in question will have exceeded its powers. The grounds of challenge, ie the grounds upon which it may be argued that an authority has exceeded its powers, will now be looked at in greater detail.

The grounds of challenge

7. In the GCHQ case *Council of Civil Service Unions — v — Minister for the Civil Service* (1985) AC 374 Lord Diplock divided the grounds of challenge into illegality, irrationality and procedural impropriety.

Illegality

8. This is another way of saying that the authority got the law wrong. The opportunities for getting the law wrong are potentially very wide indeed. Even where a statute appears to confer the widest possible discretion the courts will consider that the discretion has not been properly exercised if it is outside the purpose or the spirit of the Act. In deciding what that purpose or spirit is the courts will look at the Act as a whole.

Example:

Under the Agricultural Marketing Act 1958, the Milk Marketing Scheme included a complaints procedure by which a Committee of Investigation examined any complaint made about the operation of

the Scheme 'if the Minister in any case so directs'. When a particular complaint arose the Minister refused to direct that it should be referred to the Committee of Investigation, and claimed that he had an unfettered discretion in deciding whether or not to refer complaints to the Committee. The House of Lords held that the reasons given by the Minister for his refusal were not good reasons in law and showed that he had not exercised his discretion in a manner which promoted the intention and objectives of the Act of 1958. 'The policy and objects of the Act must be determined by construing the Act as a whole, and construction is always a matter of law for the court'. *Padfield — v — Minister of Agriculture* (1968) AC 997.

Example:

The Wireless Telegraphy Act 1949 appeared to give the Home Secretary the widest possible discretion to revoke TV licences. In January the Home Office announced an increase in the licence fee from April. The applicant took out a new licence in March at the then current rate, resulting in a saving in money. The Court of Appeal held that the Secretary of State could not exercise his powers of revocation in order to prevent the applicant from taking out a year's licence at the lower rate. The Court of Appeal held that the use of the power of revocation was for a purpose not authorised by Parliament in the Act. *Congreve — v — Home Office* (1976) QB 629.

9. However wide a discretion appears to be, therefore, the courts will always cut it down to what they consider to be the proper purpose for which the discretion was conferred. Thus, for example, where planning authorities may grant planning permission 'subject to such conditions as they think fit' the courts have severely limited the apparent width of this power. A planning condition must fairly and reasonably relate to the permitted development. The decision-maker must direct his mind to the right questions within the scope of the Act and not take into account irrelevant considerations.

Irrationality (unreasonableness)

10. The courts say that all powers and duties must be exercised reasonably. The courts will not however substitute their own view of what is reasonable for that of the decision-maker. The courts purport only to interfere on this ground where a decision 'is so outrageous in its defiance of logic or of accepted moral standards that no sensible person who had applied his mind to the question to be decided could have arrived at it' — per Lord Diplock in the GCHQ case (*CCSU — v — Minister for the Civil Service*). Lawyers call this 'Wednesbury unreasonableness' after the name of a leading case. In practice the courts very rarely make such an express finding. They are more likely, if there is a decision which they do not wish to allow to stand, to find that the decision-maker has taken into account an irrelevant consideration or failed to take into account a relevant consideration or otherwise has directed his mind to the wrong question. Where it is not clear what questions the decision-maker has addressed his mind to, the courts may say that he must have addressed his mind to the wrong questions

because if he had addressed his mind to the right questions and still reached the same conclusion his decision would have been 'unreasonable'.

Do you have to give reasons?

11. There is no general principle of law that reasons should be given for decisions. However:

- The relevant legislation may provide that reasons should be given for a decision.
- There may be an implied right to be given reasons as part of the general obligation to let a person know the case he has to answer, eg if someone is given a right of appeal against a decision he must know sufficient about the grounds of the decision in order to exercise his right of appeal effectively.
- It may be necessary as part of the decision-making process to acquaint people with the current state of your thinking. If for example you are proposing to proceed upon certain factual assumptions it will be necessary to check those facts with anyone who may be in a position to challenge them. This again is part of the general obligation to let a person know the case he has to answer.

- In some circumstances the courts may infer from the absence of reasons that there are no good reasons for a decision: see the *Padfield* case in paragraph 8. If a challenger is able to mount a plausible challenge, the decision-maker will in practice have to defend himself in court by explaining the reasons for the decision.
- Quite apart from any legal obligation ordinary courtesy may require the giving of reasons.

12. If for any purpose you do give reasons it is important to see that the reasons are good in law, ie that they are within the four corners of the power or discretion conferred upon you. It is necessary to show that you have directed your mind to all the right issues and none of the wrong ones, that you have not 'fettered your discretion' (see paragraph 17 below) and that all reasons given hold up to scrutiny. Do not use 'make weight' reasons if they do not hold up under close examination. It is generally better to give two good reasons than to give three good reasons and one bad. It is also important to make it clear in any written decisions that all representations have been considered and taken into account. An example might be: 'I have considered carefully everything which you say in your letter and your further representations at our subsequent meeting but I see no reason to grant a licence in this case'. The precise formulation will of course depend upon the facts and circumstances of the case.

Procedural impropriety

13. This is an important and developing head of challenge. Broadly speaking it covers all questions relating to the manner in which a decision is reached. Primarily this relates to the question whether a person or body affected by a decision has been given a fair hearing. In order to protect the interests of persons adversely affected it is important that the decision-maker should give a full opportunity for representations to be made in order that he may be fully acquainted with all the relevant considerations before making his decision. In order for a right to a hearing to be effectively exercised it may also be important for those making representations to know the case they have to answer. In recent years the courts have tended to describe the duty to give a fair hearing in more general terms as 'a duty to act fairly'.

14. What the duty to act fairly amounts to is difficult to define in general terms. It will depend upon the facts and circumstances of the case. At one extreme it may involve a duty to allow legal representation and cross-examination of witnesses. At the other extreme it may amount to no more than an obligation to consider any written representations which are made.

15. The circumstances in which the courts will impose a duty to act fairly towards persons likely to be affected by a decision are now almost limitless. They extend not only to decisions affecting private persons but also to those affecting public bodies and authorities.

Example:

Under sections 48 to 50 of the Local Government Planning and Land Act 1980 the Secretary of State had power to reduce the amount of the rate support grant payable to an authority, but before he could exercise this power he had to lay certain orders before Parliament for approval. Before the orders had been approved and before the Secretary of State exercised his power to reduce the rate support grant, the Local Authorities Association asked for a meeting to discuss the issue. The Secretary of State refused the meeting because he did not think it would have any effect. The Court of Appeal held that fairness demanded that their objections should be heard at some time between the granting of the power and its exercise, and the Minister's decision was therefore set aside. This was despite the fact that his policy had been fully discussed with them and debated in Parliament before the passing of the Act empowering the cuts. *R — v — Secretary of State for the Environment ex parte Brent L.B.C.* (1982) 2 WLR 693, (1983) 3 AER 321.

16. The above case illustrates that it is extremely dangerous to assume that further representations will have no effect and therefore refuse to hear them or consider them. The courts will not normally allow decision-makers to close their minds to what might be material considerations in the exercise of their discretion.

Fettering of discretion

17. The courts' refusal to countenance 'fettering of discretion' can give rise to difficulties where an administrator wishes to exercise a discretion consistently between different applicants according to a predetermined policy. The courts have held that it is legitimate for decision-makers to have a policy as to how like cases are to be treated but that they must not allow the policy to close their minds to the circumstances of a particular case which might lead to the policy not being applied in that case.

Bias

18. Another form of procedural impropriety is bias. Here it is the appearance or suspicion of bias which counts. Examples of bias in this context are potential conflicts of interest caused by having a financial interest in the subject matter of the decision or being a relative of the applicant. More general 'bias' in relation to the subject matter does not come under this particular head although it may form the basis of a challenge on other grounds. If for example the decision-maker is prejudiced against members of a particular political party he may be led into taking into account an irrelevant consideration. Similarly a 'bias' in favour of certain categories of applications over others may be a legitimate exercise of discretion, depending upon the wording of the enabling legislation, provided that the decision-maker has not closed his mind to the circumstances of the particular case (see paragraph 17 above).

Legitimate expectation

19. In recent years the courts have developed a doctrine of 'legitimate expectation' to indicate rights which the courts will give effect to in administrative or public law over and above rights which derive from express statutory provision or from private law rights such as those deriving from contract. The GCHQ case is the best known example of this. The House of Lords was prepared to hold in principle that the Council of Civil Service Unions had a legitimate expectation, arising from the existence of a regular practice of consultation, that they would be consulted in future unless or until they were given reasons for the withdrawal of this right and an opportunity to comment on those reasons and to make representations against the withdrawal. The right to consultation was not one which derived from any statute which was applicable to the case nor did it derive from contract. It was purely a public law right which the courts had built up in case law. In the particular circumstances of that case the interest of national security overrode what would otherwise have been a legitimate expectation. The point of principle, however, remains.

20. When considering the duty to act fairly in any particular case, therefore, it is necessary to look at the conduct of the parties as a whole in order to decide whether the circumstances are such that a person affected by a decision has acquired a legitimate expectation that the decision-maker should act towards him in a particular way.

Abuse of power

21. It seems now that the courts will be prepared in certain cases to look not merely to the *way in which* the decision is reached but to indicate *what* that decision should be.

Example:

A taxpayer withdrew claims for reliefs on the understanding, he alleged, that the Inland Revenue would not pursue another matter in the light of explanations given. Subsequently when the true nature of the unpursued matter became clear the Revenue sought to exact tax in respect of this. The House of Lords held that the Revenue had never agreed or represented that it would not pursue the tax if the true facts showed tax to be due. If however there had been a proper agreement it would have been an abuse of power for the Revenue to reopen the matter. *Preston — v — IRC* (1985) AC page 835.

22. It is not yet clear what precisely the courts mean by 'abuse of power' or how far they will extend its meaning. It does however provide a basis upon which the courts could move towards considering whether the decision itself was right or wrong rather than merely the way in which the decision was reached. In *Preston — v — IRC* referred to above, if the court had found that there had been an agreement it would have been prepared to hold that the Revenue could not pursue a claim for tax notwithstanding its *prima facie* legal and statutory power to do so.

Who makes the decisions?

23. In this pamphlet we have referred to 'the decision-maker' to cover as appropriate both the Minister or other person formally charged with making the decision and the official who will in fact have the conduct of the matter. The courts accept that Ministers cannot personally make every decision which bears their name. This is known as the *Carltona* principle from the leading case of that name. Thus the courts have held that where the relevant legislation provided that breathalysing apparatus had to be approved by the Secretary of State it was perfectly lawful for an Assistant Secretary in the Home Office to approve the apparatus on behalf of the Secretary of State. Whilst such 'vertical' delegation is perfectly lawful you must be careful to avoid delegating the decision-making to an outside body (and merely rubber-stamping that decision) or delegating the decision-making power to another department if yours is the department which ought to be making the decision.

Example:

The Secretary of State for Trade exercised his powers under the Import, Export and Customs Powers (Defence) Act 1939 to restrict by licence the importation of bananas. Unfortunately the only people who knew about bananas in Whitehall were in the Tropical Fruit division of the Ministry of Agriculture. Accordingly it was the Minister of Agriculture who actually made the decision as to how the licences in banana import were to be allocated and the Secretary of State for Trade merely endorsed this decision. It was held that the Secretary

of State for Trade who was entrusted with the decision, had actually through his officials properly to consider the matter. He and his officials could of course consult with their colleagues but it was they who had to make the decision, which in this case they had failed to do. The decision was accordingly set aside — *ex parte Chris International* (unreported).

Will the courts substitute their own views for those of the decision-makers?

24. The powers which the judges have built up over the years are not limitless. It is for the person entrusted with the decision-making power to make the decision not the courts. Provided there has been no illegality, procedural impropriety, unreasonableness or abuse of power the courts should not interfere. Further, even if the courts do set aside the decision made, it is usually still for the decision-maker, rather than the courts, to make a fresh decision. It can happen that the same decision is reached second time round without taint of illegality.

25. Nonetheless words like 'fairness', 'reasonableness', 'legitimate expectation', and 'abuse of power' allow the courts a considerable degree of flexibility in deciding how the legal principles are to be applied in particular cases. This makes it difficult to be certain in advance how the court will decide a particular case. There are however a number of questions which you can ask yourself.

Questions to ask yourself

26. ● Have you got the powers to do what you want to do? Are you merely adopting a particular statutory interpretation which happens to suit what you want to do? (See paragraph 5.)
- Are you exercising the power for the purpose for which it was given? (See paragraphs 8 and 9.)
 - Are you acting for the right reasons? Have you taken into account all relevant information and excluded irrelevant considerations? (See paragraphs 8-12.)
 - You may not need to spell out the reasons for your decision but if you do are the reasons which you give the correct ones? (See paragraphs 8-12.)
 - Will you hear and consider the point of view of people likely to be affected by the decision? Have they been put in the picture sufficiently so that they have a fair opportunity to make representations? (See paragraphs 13-16.)
 - Have you allowed in your timetable sufficient time for consultation and representations?
 - Have you made up your mind in advance or given that impression, eg have you merely blindly followed departmental policy without considering the circumstances of the particular case? If you propose to follow a general policy in a particular case should

you make it clear when communicating your decision that you have carefully considered the individual application to see whether it merited an exception being made? (See paragraph 17.)

- Have you or anyone involved in making the decision any conflicting interest which might lead someone to suppose that there is bias? (See paragraph 18.)
- Are there any grounds for thinking you might not be acting fairly? Have you led anyone to suppose that you will be acting differently from what is now intended? (See paragraphs 19 and 20.)
- Has the decision-making been wrongly delegated? (See paragraph 23.)
- Do you propose to act in a way which a court may regard as abusing your power or generally so unreasonable that it is likely to find against you? (See generally paragraphs 10, 21, 22, 24 and 25.)

27. If you have serious doubts on any of these questions you should take legal advice before committing your Minister or your department to a particular decision.

THE JUDGE OVER YOUR SHOULDER



MANAGEMENT IN CONFIDENCE
CONFIDENTIAL

From: J Anson
Date: 10 July 1987

MR A ALLAN

cc
PS/Chief Secretary
Sir Peter Middleton
Mr F E R Butler

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

Your office sent me the action folder for the record of the discussion of the Ibbs proposals at No 10 yesterday.

2. There is no need for the Chancellor to intervene immediately in response to this note. The next step is for Sir Robert Armstrong to draft a further paper, and we will be in touch with that. I would suggest however that the record of the meeting should be copied to Mr Battishill and Sir Angus Fraser. It would look better if this came from your office rather than mine. *By the same token, I think the time has come to copy this largely self-contained note, on a personal basis, to the other Treasury Ministers.*


J ANSON



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONGORGANISATION AT THE CENTRE

The Prime Minister held a meeting today with Sir Peter Middleton, Sir Robin Ibbs, Sir Kenneth Stowe, Mr. F.E.R. Butler and yourself to discuss your minute of 25 June on Organisation at the Centre.

2. Opening the discussion, the Prime Minister said that she was fearful of establishing new organisations, like the proposed advisory board for the management of the public service, and making machinery of government changes without good evidence that improved efficiency and better value for money would result.

3. Discussion then turned to the specific proposals in your minute.

The division of responsibilities between the Treasury and the Cabinet Office/MPO

4. In discussion, it was pointed out that the suggestion for a redistribution of duties between the Cabinet Office and the Treasury represented a move further away from the old Civil Service Department organisation. The aim would be to group officials responsible for management and efficiency in the Treasury and those responsible for appointments, security, training, recruitment etc., matters in the Cabinet Office.

5. Summing up this part of the discussion, the Prime Minister agreed that you should put detailed proposals to her for dividing the MPO's present functions between the Treasury and the Cabinet Office. Your report should make clear the number of staff involved and the justification for the transfers suggested. She attached importance to keeping the functions transferred to the Cabinet Office to the minimum possible.

The advisory board for the management of the public service

6. In discussion, the following points were made about the proposed advisory board:

- (i) Its function would be more valuable once the redistribution of responsibility between the Treasury and the Cabinet Office envisaged above had

for
M C J Butler
PPS
pmp

28/7/87.

taken place.

- (ii) The main function of the board would be to provide a stimulus for change at the centre of government. It would provide a source for challenging and questioning, in a sustained and consistent manner, management practices throughout the civil service.
- (iii) It was emphasised that the board should indeed be advisory. It should not be involved in, for example, negotiations about pay or public expenditure levels.
- (iv) There was some doubt expressed whether the civil service had a sufficient reservoir of top management talent to secure the effective working of the advisory board. It was argued that, to the extent that this was true, the contribution of the three outsiders on the advisory board would be even more valuable since their presence would help give confidence to the advice put forward by the board.

7. Summing up this part of the discussion, the Prime Minister said that while she was not ready to take a final decision to establish the proposed advisory board, she wished you to develop the concept and put forward detailed proposals, including terms of reference, which took account of the new distribution of responsibilities at the centre. You should suggest names for both civil service and outside members, though approaches should not be made to anyone at this stage.

The project manager

8. In discussion of the project manager, it was suggested that his role would depend upon Ministers' decisions on Sir Robin Ibbs' report "The Next Steps". His role in relation to the advisory board needed further consideration, especially to determine whether he would have any executive role in following up the board's recommendations.

9. Summing up this part of the discussion, the Prime Minister said that the role of the project manager needed further consideration in the light of decisions on "The Next Steps" and on the role of the advisory board.

10. Summing up the discussion as a whole, the Prime Minister asked that you should follow up the points to which she had referred in her summings up, and produce a paper which she would wish to discuss with the Chancellor of the Exchequer and the Minister of State, Privy Council Office, as well as with those present. You may wish to suggest whether any other Minister should be involved in these discussions.

11. Copies of this minute go to Sir Peter Middleton, Sir Robin Ibbs, Sir Kenneth Stowe, and Mr. Butler.

N. L. U.

NLW

28 July, 1987.

pup

Ref. A087/2373

PRIME MINISTER

5/8/87.

Organisation at the Centre

At your meeting on 28 July I undertook to discuss with Sir Peter Middleton and Mr Butler detailed proposals for dividing the present functions of the Management and Personnel Office between the Treasury and the Cabinet Office.

2. There are certain functions in direct support of the Head of the Home Civil Service which should remain as such in the Cabinet Office:

Senior Appointments (including Succession Planning)

Public Appointments

Ceremonial (ie honours)

Security

Business Appointments after Retirement

Machinery of Government.

3. For the rest, the rationale of the division of functions we propose is that functions bearing on manpower, pay and financial conditions of service and on financial management should go to the Treasury; and those functions bearing on the duties and standards and on the selection and development of civil servants should remain with the Head of the Home Civil Service and the Cabinet Office. This rationale would be the basis of any public announcement and communications to staff.

4. Thus the Treasury would take responsibility for functions of the MPO relating to:

Flexible working patterns

Public and Privilege holidays

Retirement and redundancy

Reinstatement and re-employment

Performance-related pay

Recruitment policy

Retention policy

Structure and grading policy

Transfers of staff

Dispersal and location policy.

5. The Treasury would also take responsibility for certain management consultancy services which MPO provides to Departments, for the Accountancy Support Unit, and for the Central Unit on Purchasing (which reports at present both to the Treasury and to the MPO).

6. The Cabinet Office would have responsibility for functions of the MPO relating to:

Conduct and discipline (including Civil Service Appeals Board)

Civil Service Code and Guide*

Promotion policy

Probation policy

Staff appraisal and reporting

Career development, including secondments to industry

Communications with staff and motivation

Welfare

Equal Opportunities.

* The Treasury would, as now, be responsible for those sections of the Code and Guide relating to matters for which they were responsible; the Cabinet Office would be responsible for other sections and for general editorial matters.

7. There are three MPO agencies whose functions relate to standards and staff selection and development:

Civil Service Commission (including the Civil Service Selection Board)

Civil Service College (and other training responsibilities at the centre, including the Top Management Programme)

Occupational Health Service

It is proposed that all three should continue as agencies of the Cabinet Office. The First Civil Service Commissioner (Grade 2) would support the Head of the Home Civil Service in his responsibilities for standards and staff selection; and the Grade 2 in charge of the College and training would support him on staff development. The Occupational Health Service, which is due to be finally established by the end of the year following a scrutiny, should to all intents and purposes be self-governing.

8. Sir Robin Ibbs has suggested a "project manager" in connection with his proposals for the next steps in improving the efficiency of management. The time to take this proposal forward will be later in the year, when we know what decisions Ministers have taken at their next meeting (probably now in October) about the future of this programme. Sir Robin Ibbs has proposed a full Permanent Secretary. Neither Sir Peter Middleton nor I believe that that grading is called for. Depending on what decisions are taken, the appointment might be at Grade 1A (Second Permanent Secretary) or Grade 2 (Deputy Secretary); and I do not exclude the possibility that it could be combined with the Grade 2 post on staff development referred to in paragraph 7, though Sir Robin Ibbs is likely to consider that whoever is the "project manager" should be engaged full-time on that work.

9. We should like to see the establishment of the proposed Management Advisory Board as an inherent part of these arrangements. I shall make a separate submission on its composition and terms of reference shortly. The Board's secretariat would be in the Cabinet Office, reporting to the Head of the Home Civil Service; and it would be found from the existing complement of the MPO.

10. The existing Joint Management Unit would be disbanded. Its main functions would be redistributed within the Treasury, and the secretariat to the proposed Management Advisory Board would be responsible for co-ordinating management reforms in the Civil Service.

11. It is proposed that the following bodies, which are organisationally separate, should continue to be carried on Cabinet Office Votes:

No 10 Downing Street
Office of the Government Whips
Office of the Parliamentary Counsel
Efficiency Unit

The Efficiency Unit would continue to support the Prime Minister's Efficiency Adviser who would himself report directly to the Prime Minister. The Efficiency Unit would also have an important part to play in support of the Management Advisory Board, and, if Ministers decide to implement "The Next Steps", of the project manager. The Prime Minister's Efficiency Adviser would be a member of the Board.

12. It would be necessary to take decisions about Ministerial responsibility. The Chancellor of the Exchequer and the Chief Secretary, supported by the Paymaster General, would be responsible for the functions transferred to the Treasury; the Paymaster General would normally answer Parliamentary Questions

on those matters. We believe that you will wish to be supported by a Minister in day to day charge of the functions which remain with the Cabinet Office. We therefore envisage that the Head of the Home Civil Service should report to the Minister of State, Privy Council Office and through him to the Prime Minister on matters of standards and staff selection and development; and, as now, directly to the Prime Minister on most of the functions listed in paragraph 2. It would be consistent with the general logic that the Minister of State, Privy Council Office, should answer Parliamentary Questions on standards and staff selection and development. The "frontier" between the Paymaster General and the Minister of State for the purpose of Parliamentary Questions has hitherto been a little fuzzy. We believe that under the arrangements now proposed it will be clearer; that there should be some other Minister than yourself available to answer questions on all but the most important issues that arise within your responsibility as Minister for the Civil Service; and that this other Minister should be separate from the Treasury. We therefore recommend that the Minister of State, Privy Council Office should continue to answer questions to the Minister for the Civil Service on these matters.

13. It would be desirable to change the title "Management and Personnel Office". Subject to legal advice, this would require a Transfer of Functions Order (negative resolution); but that is likely to be required in any case to transfer the responsibilities for structure and recruitment policy from the Minister for the Civil Service to the Treasury. It is desirable to keep an identifiably separate unit for this work, since the remit of the Parliamentary Commissioner for Administration (PCA) extends to the MPO at present but explicitly not to other parts of the Cabinet Office, and we should want to keep it that way so as to be sure that the PCA had no locus in relation to the collective decision-making machinery of government which is served by the Secretary of the Cabinet and the Cabinet Office

secretariats. We propose that the Management and Personnel Office be retitled the Office of the Minister for the Civil Service (OMCS).

14. Under these proposals 70 staff now employed in the MPO would be transferred to the Treasury from the groups dealing with personnel management and management and efficiency, leaving 50 staff to deal with the functions of those groups which would remain with the Cabinet Office. We hope that it will be possible to save some of the posts both in the Treasury and the Cabinet Office, when we come to work out the transfer in detail.

15. If you approve these proposals, it would be very desirable to make an early announcement, so as to remove the uncertainty which has been created among MPO staff by the knowledge that the organisation at the centre has been under review. We hope that an announcement could be made this week. We consider that it would be highly desirable to combine with the announcement an announcement of the decision to set up a Management Advisory Board. A draft Press Notice accordingly is attached. Such an announcement would pave the way for the detailed planning required to give effect to the proposals. Putting them formally into effect will have to await a meeting of the Privy Council and the return of Parliament, in view of the need for a Transfer of Functions Order; but the changes could be put into effect administratively at an earlier date.

16. I am sending copies of this minute to the Chancellor of the Exchequer and the Minister of State, Privy Council Office.

RA

ROBERT ARMSTRONG

5 August 1987

DRAFT PRESS NOTICE

The Prime Minister has reviewed the distribution of functions between the Cabinet Office (Management and Personnel Office) and the Treasury. Those functions of the present Management and Personnel Office which bear directly on financial management and on manpower, pay and financial conditions of service, will be transferred to the Treasury. Under the Head of the Home Civil Service the Cabinet Office will be responsible for advising the Prime Minister as Minister for the Civil Service on duties and standards in the Civil Service and on the selection and development of civil servants. For this purpose an Office of the Minister for the Civil Service will be set up as a Sub-Department of the Cabinet Office, and will replace the Management and Personnel Office. The Minister of State, Privy Council Office, will be in day-to-day charge of the new Office, as he has been of the Management and Personnel Office, and will continue to answer Parliamentary Questions relating to matters dealt with by the new Office. A Transfer of Functions Order will be laid before Parliament in due course.

A Management Advisory Board is to be established to advise on management issues affecting the Civil Service. The Head of the Home Civil Service will be the Chairman and the Permanent Secretary to the Treasury will be the Deputy Chairman of the Board. Other members will be three people from outside the Civil Service including the Prime Minister's Advisor on Efficiency and three Permanent Secretaries of other Civil Service Departments. The names of the members will be announced in due course.