

PREM 19/680

Long Term Management & Manpower Policy

PART 10


Slimming down L. Authority Staff

Performance Related Pay
Financial Management

CIVIL
SERVICE

Pt 1: March 1979

Pt 10: May 1982

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.5.82							
1.6.82							
28.6.82							
19.7.82							
26.7.82							
27.7.82							
2.8.82							
6.8.82							
10.8.82							
18.8.82							
19.8.82							
30-7-82							
— ENDS —							
							

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PREM 19/680

PART 10 ends:-

JULY 1982.

PART 11 begins:-

AUGUST 1982

PRIME MINISTER

Arrangements for securing the efficiency of Central Government

27/7/82
I attach a minute from Sir Derek Rayner proposing that his unit and the MPO's Management and Efficiency Divisions should be taken out of the MPO and, under the leadership of a Deputy Secretary (who is plainly intended to be Mr. Priestley), should report direct to you. This would leave the rump of the MPO which would continue to be headed by a Second Permanent Secretary but which would be able to give up a Deputy Secretary post.

I am rather surprised that Sir Derek Rayner has come up with this idea now. It is only some 4 months ago that he was urging the need to merge his unit with the Management and Efficiency Divisions inside the MPO. It is also inconsistent with what he said when he came to see you on 6 July when his primary concern was not to change the organisation but to find a different job for Mr. Cassels.

If we adopted the solution sketched out in Sir Derek Rayner's minute, the change would come at roughly the same time as you strengthen your office, on the lines discussed at your meeting this morning, to provide you with more and better advice on policy issues across the whole range of Government business and, in particular, in the area of foreign affairs, defence and intelligence. This latter change is bound to add to your load of meetings and paper (though that addition would be well worthwhile). I doubt the wisdom of increasing the additional load still further by making you directly responsible for the present Rayner unit and the Management and Efficiency Divisions of the MPO.

Another consequence of doing what Sir Derek Rayner suggests would be that what was left behind - which would be basically a Personnel Office and no more - would not be a viable command on its own. You would probably have to put it in the Treasury. That may not in itself be a bad thing, though whether the

/ Chancellor

Chancellor of the Exchequer would welcome the additional responsibilities is another matter. More importantly, it would leave the Lord Privy Seal with little or nothing to do but her work as Leader of the House of Lords. I should be very surprised if she did not resist this strongly.

The truth is that the problem is a personnel one rather than a matter of organisation, and I believe that we should try to tackle it by finding a personnel solution rather than changing the organisation. This means, as you and Sir Derek Rayner agreed earlier in the month, moving Mr. Cassels as soon as a suitable job for him can be found. Another aspect of the personnel problem is Mr. Priestley himself. You have said that you do not want him to disappear from view in the MPO, and I do not believe that there is any danger of that happening. What we now need to do for him is to give him opportunities that will lead, in due course, to his promotion to Deputy Secretary.

If you are minded to pursue the ideas sketched out in Sir Derek Rayner's minute you will clearly need to have an early discussion with the Lord Privy Seal and Sir Robert Armstrong.

JWH.

9c 5v



Prime Minister:

2 MARSHAM STREET
LONDON SW1P 3EB

I shall be
interested to see
if the Chancellor responds!

My ref:

Your ref:

30 July 1992

Jan Peckham

TH
30/7

M

MANPOWER SAVINGS IN THE DOE AND THE PSA

I understand that there has been some discussion between my Department and the Treasury about the actual level of manpower savings in my Department. It has apparently been suggested that the savings in my Department may not be "true" savings in the sense that they are inflated by hiving off. That is not the case. The table below shows the facts:

	<u>1.4.79</u>	<u>1.7.82</u>	<u>Savings (%)</u>
DOE(C)	11593	8650	2943 (25%)
PSA	38819	29736	9083 (23%)
	<u>50412</u>	<u>38386</u>	<u>12026 (24%)</u>

In DOE Central only about 100 posts of the 2943 saved were hived off - the setting up of the independent Countryside Commission. The rest were saved by the work not being done any longer or being done more efficiently or through privatisation.

In the PSA, many of the savings have been in major design and building maintenance work which is now done in the private sector. But that, I would have thought, is very much an objective to be desired.

When the District Audit service assumes commission status next year, and if I am successful in setting up an independent agency for ancient monuments, I will increase the amount of hiving off savings by a further 1500. But by the end of 1983/4 my tally of savings will be well below my published targets by then, even without counting these extra figures.

I think that this should serve to illustrate the effectiveness of the management systems we are running in the Department.

I am sending a copy of this to the Prime Minister, Janet Young, and Leon Brittan.

Handwritten signature of Michael Heseltine

MICHAEL HESELTINE

Rt Hon Sir Geoffrey Howe QC MP

30.11.1982





PERSONAL AND CONFIDENTIAL


NOTE 1

MINIS

1 The function of MINIS is to help DOE Ministers review PERSONALLY AND IN DETAIL the work of DOE(Central) and the PSA annually, systematically and comprehensively. It covers internal expenditures on staff and non-staff items.

2 There have been three rounds of MINIS so far. It is still evolving. It began with Mr Heseltine's desire as a new Minister to get to know his department and retrench it. It is therefore "top down" in its development. The intention now is to support it with better data and - crucially - better management habits at official level. MINIS:

- (1) Presents summary data ("MINIS statements") about each Under Secretary Directorate. This indicates what it does, its costs and the priority of its activities. Progressively it will reach deeper into the department and use better management information as DOE sets up "cost centres" post-Joubert. The statement is preliminary to a meeting with the Secretary of State.
- (2) Provides in the statement for each Directorate a backward look, comparing actual with planned performance, and a forward look at planned objectives and at possible alternatives.
- (3) Monitors progress with manpower reductions and budgets for future manpower.
- (4) Requires Directors to use MINIS to review their functions and performance thoroughly and to involve their own line managers in this.
- (5) Requires the Permanent Secretary to discuss MINIS statements with each Director and to report to the Secretary of State, who will decide whether he himself wants to meet the Director. The norm is to meet, I understand.



COMMENTARY

3 You can reasonably distinguish between PRINCIPLES and METHODS and between what you expect from MINISTERS and from OFFICIALS. The principles - obliging officials from top to bottom not just to know but to control their costs, to assess their performance, to cut out the needless or less necessary work and to plan ahead with discipline as far as possible in the Westminster/Whitehall setting - are robust and of general application.

4 You can reasonably insist that, in order to convince Parliament and others that the Government means a lasting change in official habits, the report on the financial management initiative promised for July 1983 (see para 14 of the draft reply to the Treasury and Civil Service Select Committee) must show how departments (ie OFFICIALS) are adopting them in their particular circumstances in support of the management function of their particular Minister. Some Backbenchers, notably Mr Eggar, who is an evangel for MINIS, regard this as a test of the Government's convictions and its grip on "the system". Apart from that political point, you can also insist on the general rightness of accelerating the development of management information at large in Whitehall - and not just in relation to internal expenditure.

5 But you have no interest in insisting that your colleagues adopt the MINIS package exactly as Mr Heseltine has it. This is not the battle in which you should engage the dignity of your office and your own personal authority because:

- (1) Your colleagues could make good play with the constitutional argument that they are masters in their own house and that you are not entitled to instruct them in matters of detail.
- (2) MINIS is known to be evolving still - and evolving alongside the honourable endeavours of other Ministers/departments to do much the same (eg Defence, Agriculture, Social Security).
- (3) It is also known to have been very paper intensive and, on paper, to require a lot of time: DOE (Central) has between 50 and 60 Directors and if the Secretary of State takes it seriously, he must spend many hours on it. The paper part remains true, but the commitment of Ministers' time in DOE is known to have been patchy. And you can get the

(Seal)

"detail/time" point into focus by running your eye across the differing scope, scale and functions of departments (MOD at the one extreme, DES at the other) and across the differing temperaments of your colleagues.

- (4) It would be bad leadership to attack everyone regardless of their merit. It would be good leadership
- a to make known to all your firm commitment to the principles and your clear expectation that they will be clothed in methods appropriate to the tasks/functions/character of the different departments;
 - b to require that the financial management initiative which you launched in May is run with energy and commitment by the central departments; and
 - c to lean selectively on those who deserve it, while giving praise and encouragement to the virtuous.
- (5) Finally, my staff, and examining officers in 6 departments, are carrying out a Rayner-style review of running costs, aimed in part at a general advance on staff and non-staff costs as part of the financial management initiative; this should come up with some goods in mid-Autumn.

ADVICE

6 You will no doubt want to go ahead with the meeting with the Chancellor, CST and LPS on Monday morning on personal/political grounds. But there is no need to get drawn into a ding-dong on the wrong ground. Having heard what they want to say, I suggest that you should say that:

- (1) You want, on grounds of principle and presentation, the reference in the draft reply to the Select Committee to management information to point up more clearly the principles central government should be aiming at in expenditure on itself and should acknowledge the contribution made by Ministers who have taken this seriously, notably the SS/Environment. It should do both in language which appears to have been written by a live human being with convictions. (Lady Young may hand you a draft. I suggest that you do not commit yourself then and there.)



- (2) Subject to that, you would be willing to clear the draft reply for publication at a sensible time during the recess, say September. (This is a matter of courtesy to Parliament and those known to be most interested, notably Mr du Cann and Dr Bray.)

- (3) You want your office to write to all Ministers (after your return from holiday?), expressing your convictions about management information and your wish that the plans being prepared under the financial management initiative deal with this clearly and determinedly. AND OPTIONALLY

- (4) You would like a report on the conduct of the initiative by the Treasury/MPO. You might like Sir Derek Rayner to do this for you as you asked him to represent your interest in the organisation of the initiative BUT THIS TURNS IN PART ON YOUR DECISIONS ON OTHER MATTERS (SEE NOTE 2).

CP

C Priestley
30 July 1982

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

cc for information

Sir Derek Rayner
Mr Whitmore

th
30 mi

MINIS etc

1 You asked for a note last evening. Note 1 contains advice on MINIS and on your meeting with the Chancellor, the Chief Secretary and the Lord Privy Seal on Monday morning. Note 2 contains some thoughts on serving your personal commitment to good management in the civil service.

2 I am grateful for this opportunity to advise, as for your continuing commitment. I accept the risk that I may seem a creep and/or a rat. But so that you cannot reasonably suspect me of running with the hare and hunting with the hounds, may I say that:

- (1) I am typing and copying this myself. It is being copied only to Sir Derek Rayner and Mr Whitmore; Mr Flesher gets a copy of Note 1 only.
- (2) The existence of the note is not known outside the Rayner unit.
- (3) Lady Young's minute to you of yesterday is based on a draft supplied by me. The note on MINIS etc attached to it was prepared by Mr Joubert (ex-DOE), a member of the Rayner unit.
- (4) I shall be joining in the briefing for the Chancellor and other Ministers before they see you on Monday.

3 May I wish you a very good holiday?

CP
C Priestley
30 July 1982



PERSONAL AND CONFIDENTIAL

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CP

C Priestley
30 July 1982



PERSONAL AND CONFIDENTIAL

NOTE2

ARRANGEMENTS FOR SECURING THE GREATER EFFICIENCY OF THE CIVIL SERVICE

1 I am aware of Sir Derek Rayner's minute to you on 27 July.

2 May I remind you of para 38 of the draft reply to the Select Committee, which reads as follows?

"Responsibility for the organisation, management and overall efficiency of the Service, and for policy on recruitment, training and other personnel matters rests with the Prime Minister as Minister for the Civil Service, and is discharged by the MPO. The MPO will continue to act in these matters with the authority of the Prime Minister."

3 I think that the choice lies between:

- (1) Getting an official head of MPO who will have your confidence and be seen to have it.
- (2) Taking the Rayner unit and my other (Management and Efficiency) Divisions out of the MPO. The Divisions would be somewhat reduced. They would report, with the unit, solely to you, through an official in whom you had confidence.

4 It may be possible to find the mix of round pegs and round holes which is necessary for (1). But on the whole I would favour (2) because:

- (1) You are accustomed to the Rayner unit. You need an instrument in your own hand, operating in your name, to give expression to your convictions. It would have value/impact in substance and presentation. The risk is that MPO, unless under very determined leadership supported by you, will be ground down by the neutralism/disinterest/inertia in the upper echelons of Whitehall.



(2) You need to free yourself from, or very much reduce, the nagging worry that the "system" is not responding. Therefore, you should commission an instrument in your own hand to achieve certain objectives, eg and notably secure the translation of intended reform into practical changes on the ground, as well as continuing with review work.

(3) You will want to respond positively to Sir Derek Rayner's new position at M&S, but he feels honour-bound not to draw back until you are well served.

5 You need not feel that you would have to spend much of your time on the instrument. Given a clear, firm and well-known commission from you, it could get on. Indeed, it might be less time-consuming and much less worrying for you than the the existing arrangements.

6 I must not pretend that I have no interest in the matter. But acknowledging that and setting it aside, I would counsel you to follow the line in Sir Derek Rayner's minute of 27 July and appoint, say, a "Private Secretary (Management)" with a staff as indicated above or designate that staff as, say, "Prime Minister's Management Unit". I think that this course is more likely to be achieved quickly than the other, but I am conscious that it could not be achieved without some hassle with Lady Young and others.

7 There is a trade-off here between getting what you expect to be comfortable with and continuing frustration. Although it is very easy for me to say, I think that you should go for what you want.

CP

C Priestley
30 July 1982



10 DOWNING STREET

From the Private Secretary

29 July, 1982.

The Lord Privy Seal minuted the Prime Minister on 19 July about revisions in the Civil Service Order in Council, the Diplomatic Service Order, and the Civil Service Commission General Regulations. The Prime Minister has now agreed in principle to the Lord Privy Seal's proposals for the revision of the Orders and Regulations.

I am copying this letter to Francis Richards (Foreign and Commonwealth Office).

T. FLESHER

Jim Buckley, Esq.,
Lord Privy Seal's Office.



PERSONAL AND CONFIDENTIAL

PRIME MINISTER


ARRANGEMENTS FOR SECURING THE EFFICIENCY OF CENTRAL GOVERNMENT

I discussed this with you and Mr Whitmore on 6 July, when we left things on the footing that you would consider the possibility of personnel changes at the MPO.

2. I have thought about the matter more since we met. There is a further way out which you might like to consider also.

3. Earlier this year your instinct was that my unit and MPO's management and efficiency (ME) divisions should report to you, outside the organisation of the MPO. If this is still your view an alternative way forward would be this:

- (1) The unit and the ME divisions would report directly to you. The post heading up these staff should be up-graded to Deputy Secretary to give it the necessary standing; the Under Secretary post would lapse; and the staff would be reduced in numbers from its present 58. The precise numbers to be established by an immediate review of the tasks to be undertaken under such an arrangement.
- (2) That would leave the MPO with a Second Permanent Secretary (Mr Cassels), a Deputy Secretary (Mr A M Fraser) and eight Under Secretaries (Personnel Management; Civil Service Commission (2); College and Training; Machinery of Government; Financial Management Advisory Unit; and Medical and Security Advisers).
- (3) Of the Under Secretary posts at (2), Machinery of Government already reports directly to Sir Robert Armstrong as Joint Head of the Civil Service on much of its work. The Financial Management Advisory Unit, which is part of the apparatus for



the current financial management initiative which you launched in May, should report to the Deputy Secretary post which I envisage at (1).

- (4) It is arguable that, reduced in effect to a Personnel Office, the MPO does not justify both a Second Permanent and a Deputy Secretary post. The Deputy Secretary is First Civil Service Commissioner as well as in charge of personnel management, recruitment (Commission) and training (mainly College). This gives him a substantial personal load of interviewing. Even so, I doubt whether the amount of work at the upper levels of a reduced MPO would be enough to warrant both posts.
- (5) It is for consideration therefore whether the Second Permanent Secretary should become First Civil Service Commissioner, now or later on. If now, the Deputy Secretary (Mr Fraser) would return to his own department (Customs and Excise) rather earlier than I believe is planned. As I understand it, Mr Fraser is a likely successor to Sir Douglas Lovelock, who retires in September 1983. I also understand that there is on paper a Deputy Secretary vacancy in the Customs in October this year, when one of the two Deputy Secretaries there retires. But things could stand as they are until the planned date for Mr Fraser's return to the Customs.

4. There is obviously a difficulty here about the Lord Privy Seal, as well as the Second Permanent Secretary. The public rationale might be this:

- (1) You have shown in current Permanent Secretary appointments the importance you attach to the efficiency of central government. It is another logical expression of this that you should establish clearly a reporting line directly between a central management/efficiency staff and yourself.

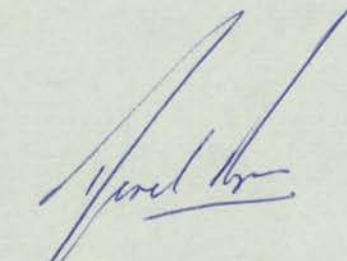


(2) Recruiting and training the civil service which will serve the nation for the rest of this century and into the 21st are of such importance that they require a substantial high level effort in their own right, eg recruiting more scientists and mathematicians to cope with the technological developments which government must master and making the training of general administrators much more professional than it is now.

NEXT STEPS

8. Given your forthcoming vacation, Mr Whitmore's impending departure and my business pressures, which have developed even further since we met, I have put Mr Priestley on notice to do some rapid staff work if that would be helpful, including drafts of the necessary minutes and notices.

CONQUEROR


Derek Rayner
27 July 1982



Prime Minister:

Agree to see
Lady Young, the
Chancellor and the
Chief Secretary?

JK 29/7
Yes -
perhaps
to see
the end
of
this
mess
MS

PRIME MINISTER

DRAFT REPLY TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE

We discussed this on Tuesday. I would welcome the opportunity to talk to you again about this, together with Geoffrey Howe and Leon Brittan.

I attach a note which explains the origins and purposes of MINIS. It explains that MINIS concentrates on expenditure internal to the department; that it is neither static nor perfect, but still evolving; that its principles are powerful and of general application; and that in the financial management initiative we at the centre are looking to all departments to adopt them, if they do not already do something similar.

The financial management initiative requires departments to devise arrangements which make a considerable advance and which provide Ministers and officials with far better means to manage their departments. Several colleagues have put and are continuing to put a lot of effort into getting the system they want (including the Minister of Agriculture and the Secretaries of State for Industry and Energy). I see no advantage in trying to oblige them to do exactly the same as the Secretary of State for the Environment: it will not encourage colleagues' own commitment to good management and it will put back good work in progress.

The FMI stemmed from both your own strong commitment to better management and from the fact that some Ministers and departments, including notably the Secretary of State for the Environment and his department, have done enough work on their own initiative to provide a strong base for a general advance. In launching the FMI in your personal minute of 17 May you called on each department to produce for discussion with the central departments by end-January 1983:

"a specific programme of work, appropriate to its tasks and circumstances and the progress it has already made in improving financial management".

The theme of general principle, applied with intelligence to the case of each individual department, runs through the memorandum which you circulated with your minute. A change now may not only confuse departments but by cutting across the FMI may damage the centre, whose strong, detailed central scrutiny will be needed even if we decide departments should implement a common form of management information system.

I am copying this to the Chancellor of the Exchequer, the Chief Secretary, Sir Robert Armstrong and Sir Derek Rayner.

Baroness Young

BARONESS YOUNG
29 July 1982

MINIS AND THE FINANCIAL MANAGEMENT INITIATIVE

The origin of and history of MINIS

MINIS arose from the report on a Rayner study in 1979. This was commissioned by the Secretary of State for the Environment to enable him to familiarise himself with his Department and its activities, and to retrench and monitor it. It was designed to meet "the long term aim of Ministers to establish a system in DOE Central which will provide them with regular information of all the Department's activities and of what they cost, and of progress towards the implementation of policies". It was originally a 6-monthly exercise, but has moved to an annual cycle. Three rounds of MINIS have been completed and work has begun on MINIS 4.

2 MINIS is an evolving system which changes in response both to Ministers' requirements and to experience of its operation. The MINIS rounds have been developed with successive themes:

- (1) MINIS 1 told Ministers what the Department did and how it was organized.
- (2) MINIS 2 emphasised the distribution of manpower cuts to enable the Department to meet its targets.
- (3) MINIS 3 paid special attention to performance assessment; and
- (4) MINIS 4 will begin to incorporate better cost information as the Department implements the recommendations of the Joubert report.

The common principles underlying MINIS and the Financial Management Initiative

4 The 1979 Rayner report set out the principles as follows:

"A system should provide information recurrently and comprehensively, for all organizational units, relevant expenditure, and policy goals; for planned performance; and in relation to types of functions. It should do so with timeliness; at a frequency and in appropriate

groupings to be of maximum value to Ministers; with costs which can be aggregated to align with Departmental votes and which are appropriate for management purposes, respectively; with any constraints on management options noted and at an appropriate level of detail".

5 There have been several other recent major studies of financial and management information. Notable examples are in MOD, MAFF, DOI and DHSS. The Treasury and MPO have pulled these lessons together to devise the initiative on Financial Management which the Prime Minister launched on 17 May. The paper, which is to be published as an appendix to the Government's reply to the Treasury and the Civil Service Committee's report on efficiency and effectiveness, fully endorses the principles embodied in MINIS. It addresses the following main subjects:

- (1) The setting of objectives and the measurement of performance.
- (2) Managerial responsibility for the use of resources;
- (3) Management accounting and information systems; and
- (4) Staffing and training.

It goes wider than MINIS in 2 major respects. It covers the detailed information that is needed for management control at lower levels. And it is concerned with the setting of objectives and the monitoring of results for a Department's external expenditure as well as the internal activities which are the main subject matter of MINIS.

6 The initiative requires Departments to develop and define comprehensive programmes of work for improvements in their financial management. The essential principles to be followed are:

- (1) Articulate Departmental tasks into manageable blocks over which named officials carry responsibility for results and resources. Delegate as far down the line as possible.

- (2) Plan for desired results by setting objectives for each such manageable block (or 'cost centre'), and allocating resources to it within the framework of the Public Expenditure Survey.
- (3) Provide appropriate information to Ministers and managers at all levels for monitoring and controlling performance against plans. Use the information as the basis for auditing effectiveness and taking corrective action.
- (4) And thus enable policies and programmes to be designed and decided with more precise awareness of their cost and administrative implications.

7 It is inherent in this approach that Departments should devise systems which are geared to their own needs but observe common principles. The principles set out are the same as those underlying MINIS.

Strengths and weaknesses of MINIS as a model for Departments

8 In commenting to Mr Michael Heseltine on the system proposed in the Rayner scrutiny report (letter of 29 January 1980), Sir Derek Rayner commented that it was "at once too limited and too comprehensive". In his view "the approach to costing is limited because it does not include all costs, while the approach to performance is at a level of detail which I fear could bog Ministers down in a line by line examination of highly summarised information notwithstanding the fact that such information will only be available to Ministers if required".

9 It is a strength of MINIS that it is an evolving system, and improvements are being made in both these areas. But both its original design and its current development are tailor-made for the DOE. MINIS is particularly suitable for a Department with some 60 different directorates, concerned with a large number of heterogeneous policy areas. It enables the Minister to compare his activities and costs, to indicate his priorities between them, and to guide the allocation of state resources accordingly.

10 A system on MINIS lines appears well suited to those Departments whose business falls into a number of relatively small discrete units. Apart from DOE (Central) itself, examples include DES and DEn. The former is on the second annual round of its "Staffing of Functions Review", which is rather like a simplified MINIS. The latter is developing its Management Information Review (Energy) system, which is also similar to MINIS. DOI is working on a management information system that starts from a Department-made framework of objectives set by the Secretary of State, but is otherwise similar to MINIS. The Home Office is working up an annual performance review system. In its review of central Home Office functions it is likely to develop along similar lines to MINIS.

11 Even in these cases, systems will need to be tailor-made. The Home Office Prison Department, for example, needs an information system adapted to its unique task. In general, however, when the Treasury and MPO assess the Departmental plans for financial management, they will expect the Departments concerned to come up with systems that are similar to MINIS in many respects.

12 At the other end of the spectrum are Departments and businesses whose management requirements are substantially different. The large Trading Funds require a very different kind of management information; the systems operating in the Royal Mint and HMSO are proving effective, as shown by their trading results. The Departments responsible for very large executive operations conducted by networks of local offices have needs which are different again. Whereas the Health side of DHSS carries out a triennial review of headquarters directorates on MINIS lines, a single return from the Under Secretary responsible for the complex Social Security network would be clearly insufficient, and the Department is developing and strengthening an information system for Social Security that has already produced a significant improvement in managerial control. The Revenue Departments are working on similar lines. Here the need is for a system which digs deep down into the management of the operation, and compares the performance of numerous local offices with similar functions and assesses the cost-effectiveness of processes which are common to them all. While it ultimately gives the same purpose as MINIS,

the categories of information and the way they are measured are necessarily different.

13 A further difficulty in using MINIS as a model for other Departments lies in the fact that it is an evolving system. Even if other Departments had identical management requirements to those of the DOE Central, they would not, given the experience that has accumulated with MINIS over 4 rounds and the modifications it has undergone, and continues to undergo, adopt MINIS exactly as it is at any particular time; and if they did, continuing evolution both in DOE and the other Departments would result in their diverging quite rapidly from one another.

Common principles, not common format

14 Departments do not have identical management requirements. Most of them are widely differing agglomerations of various "businesses", with certain features in common, but considerable differences in the tools they need to manage and control their businesses effectively.

15 It is for similar reasons that successfully managed companies in the private sector will develop and operate widely differing management systems, although they will, by and large, follow principles common to all well managed organizations. Examples are GEC, Shell, M & S. It is those principles that the financial management initiative is intended to plant in Whitehall, and disseminate as widely as possible.

16 In assessing the Departmental response to the initiative, the Treasury and MPO will be watching closely for adherence to the principles that are common to MINIS and any other good management system for Ministers. They will be asking the following questions:

- (1) Does the plan enable Ministers and senior officials to set out objectives, break them down into activities with priorities, identify who is responsible for each, allocate resources (manpower, financial and other) to activities, set targets, measure performance against target, monitor costs of activities, and highlight areas for corrective action?

- (2) Is the system taken seriously at all management levels; is it an effective management tool, or just window dressing?
- (3) How timely and accurate is the information underpinning the system, and how is it acted upon?
- (4) Does the system make appropriate use of current technology?
- (5) Is it comprehensively linked with all the elements of the decision-taking and review machinery, including staff inspection, staff assessment, internal audit and the scrutiny programme?

✓ MASTER
SUBJECT



HLF

LM

10 DOWNING STREET

From the Private Secretary

27 July 1982

Dear Tim,

As you know, the Lord Privy Seal met the Prime Minister today to discuss the Government response to the report of the Treasury and Civil Service Select Committee on Efficiency and Effectiveness in the Civil Service. The Prime Minister took the view that the existing draft did not give a strong enough commitment to a common system of management information in Departments and in particular MINIS. The common system was necessary partly to enable comparisons to be made & partly because without such a system the movement of senior managers between Departments would be seriously inhibited. MINIS had proved itself in the Department of Environment and the Prime Minister was unconvinced by arguments that it could not effectively be applied elsewhere. Without a commitment to a common management information system, there was a danger that the Government's pursuit of better management and greater efficiency would lose momentum. The Lord Privy Seal agreed that the momentum for change should be continued and the draft response went a long way in the direction of central prescription. Departments had, however, argued with some justification that MINIS was not appropriate in all cases; so long as there was strong central oversight, for example through a Cabinet Committee, it would be better to ask Departments to develop their own systems. The discipline of the regular publication of reports would be a further incentive to develop practical and comprehensive systems. Such an approach was consistent with the current financial management initiative which was proceeding under the direction of the Chief Secretary, whereas the imposition of MINIS might well under-cut that initiative. The Lord Privy Seal felt that the existing draft response represented the best way forward; the Chancellor and Sir Derek Rayner were of the same mind. The Lord Privy Seal further said that she would submit a note setting out what was already being done in Departments. The Prime Minister said that she would reflect further on the draft.

I am sending a copy of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), David Wright (Cabinet Office) and Clive Priestley (Management and Personnel Office).

Yours ever,
Tim Fisher

J. Buckley, Esq.,
Lord Privy Seal's Office.

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10 DOWNING STREET

PRIME MINISTER

You enquired whether the proposals in the attached minute from Lady Young would prevent us from taking advantage of job release. I gather from MPO that the existing rules already prevent us from so doing because the principle of fair and open competition requires the advertisement of jobs and the selection of the best candidate. We can offer no guarantee that those selected will be drawn from the register of unemployed. The minute would therefore make no difference to the position.

A handwritten signature in black ink, appearing to be 'Mf'.

A handwritten signature in blue ink, appearing to be 'JH'.

26 July 1982

CC Ho MAFF JHSS
LCO DOE WPSO
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DES D/Ind CAZ
NIO WPO DOT
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da

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Sir Derek Rayner

10 DOWNING STREET

From the Private Secretary

26 July 1982

Dear Terry,

The Chief Secretary minuted the Prime Minister on 25 July about the final report of the Open Structure Review.

The Prime Minister has agreed to the Chief Secretary's proposals for the publication of the report and for an arranged Question. She has noted, however, that the report does not exclude the possibility of external verification in the arrangements for comprehensive reviews of every Department.

I am sending a copy of this to the Private Secretaries to Members of the Cabinet, to David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office).

Yours sincerely,

Timothy Flesher

Terry Mathews, Esq.,
Chief Secretary's Office.

Timothy Flesher

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da

PRIME MINISTER

Will discuss
with Lady Young
on Mon. evening. mb

Response to the Treasury and Civil Service Select Committee's
Report on Efficiency and Effectiveness

Attached is the package of material on the response to the Select Committee's report. It is flagged as follows:-

- A. A minute from Lady Young commenting on Michael Heseltine's minute.
- B. The relevant extract from the draft response.
- C. Within that extract, the most important paragraph which comments on MINIS.
- D. Michael Heseltine's minute.
- E. Geoffrey Howe's minute commenting on Michael Heseltine's minute.
- F. A set of responses to the original MPO draft from Permanent Secretaries for which you asked. (in attached folder)

Since you last saw the papers, we have of course received the Permanent Secretaries minutes from Sir Robert Armstrong, and you may wish to glance through these. In addition, Lady Young has further minuted you (Flag A) suggesting ways of meeting Mr. Heseltine's concern. She proposes:-

- (i) an amendment to paragraph 24 of the draft response which hardens the Government's commitment to MINIS-type systems throughout Departments, and
- (ii) harder reporting arrangements on the financial management initiative which you launched.

Lady Young emphasised the same point as Geoffrey Howe; that both are agreed with Michael Heseltine's objectives. She believes, however, as does the Chancellor, that the draft response as amended represents the most positive way forward. Do you agree with Lady Young and the

/ Chancellor

Chancellor that the draft as amended and the new reporting arrangements she proposes adequately meet Mr. Heseltine's concern (and the concern of the entire Government) for a move towards better management in the Civil Service? It is still possible if you do agree for the response to be published before the Recess. Getting it right, however, is more important than early publication, and if you feel that more is needed, we shall have to find a way of reconciling the varying views. In any event, Lady Young has asked to see you at 1830 on Monday evening, and you will no doubt wish to defer a final decision (unless you wish to agree with her) until then.



23 July, 1982.



PRIME MINISTER

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

I have seen Michael Heseltine's minute to you of 19 July, and Geoffrey Howe's of 21 July.

Michael Heseltine is absolutely right about the need for good management information systems in Departments. There really is no dissent as to objectives: the question for us as a Government is how best to make vital changes happen. It may be that we can better bring out our commitment to the principles underlying MINIS by amending paragraph 24 to make this point, and I attach a re-draft which does this.

A common centrally-imposed management information system by April 1983

As you know, the Financial Management initiative was launched in May (your Personal Minute of 17 May). The Central Departments have set up a special Unit to reinforce it. To the Unit's certain knowledge at least 6 Departments are already working on management information systems on MINIS lines adapted to their own particular circumstances.

Like Geoffrey, I believe it would cut damagingly across this for the MPO now to step in and try and impose a common system on all Departments for the next financial year. If we tried to go for that I believe we would probably lose the real opportunity we now have to raise steadily the standard of management across Whitehall by practical action. Nor, as you will understand, could any Government agree unconditionally to publish all the information involved: for example there is much information about the prevention of drug-smuggling or the elimination of fraud which the Revenue Departments could not possibly release.

Securing change through the Financial Management initiative

I recognise that grasping the prize which the Financial Management initiative potentially offers will require very firm central resolve. May I suggest that it might meet Michael's concern (which we all recognise) if the reporting arrangements to central Ministers on the Financial Management initiative were further formalised, possibly with the benefit of regular meetings of a small Ministerial group? I should say that in the time available I have not been able to discuss this with Geoffrey or Leon Brittan, but I believe it is steps of this kind rather than further re-drafting which may be advantageous now. As far as the draft is concerned, the critical paragraphs are 17-25. It says what needs to be said: that the Treasury and the MPO will be more prescriptive where necessary; and on releasing

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information, I have deliberately said in paragraph 25 that this will be covered in the central Departments' report (itself to be published by next July) so as to give us the maximum leverage.

I would imagine that Michael's fifth point (about relating the control of non-staff costs to the PES rather than the Estimates timetable) could be examined in the course of the Financial Management initiative, and that it would be right to do so.

Publication

Michael, rightly, invites you to consider whether the draft White Paper will carry credibility. If we judge the Financial Management initiative to be the path which better promotes efficiency and safeguards the taxpayer's interest, I think we can present the draft White Paper attractively. We should present the initiative as a strong central drive which you personally have commissioned. And where possible the draft is specific and gives timetables: for instance, the commitment in paragraph 45 that from next April Principal Finance Officers will attend before appointment, or without delay thereafter, the new Senior Finance Course at the College. I still hope that we will be able to publish before the Recess and I believe the Select Committee would welcome this.

I am sending copies of this minute to Cabinet colleagues, Sir Derek Rayner and Sir Robert Armstrong.

Baroness Young

BARONESS YOUNG

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TCSC REPLY

REVISED DRAFT OF PARAGRAPH 24

24. The principles underlying the MINIS system are clearly valid and of general application across Government departments. Departments will be expected to give effect to them, and this accords with the Committee's aim. The precise form of system each department adopts will depend on the nature of its business, the method of operation preferred by the Minister and his senior staff and the best way of building up management systems that have already been developed.

23 JUL 1982



greater co-operation between different departments' offices operating in the same geographical area⁽¹⁾. It is improving management/staff communication: for example, DHSS has recently issued a note to all its local office staff setting out the personnel policies it proposes for the next two years and emphasising the efforts being made to avoid redundancies while nonetheless achieving its manpower targets. The responsibilities of the central departments and their Ministers are recognised in the Early Tasks paper (Appendix 2) published by the Management and Personnel Office (MPO); and two of the MPO's five major objectives for 1982/83 are to promote the motivation and performance of staff and to develop good employment practices throughout the Civil Service.

THE PRESENTATION, MANAGEMENT AND REVIEW OF PROGRAMMES

12. The Committee made a number of recommendations related to the presentation, management and review of programmes (Recommendations (i) to (x)). One particularly important development of the Government's policy, designed to ensure the systematic and comprehensive application of higher standards of financial management, has recently been initiated by the Treasury and the MPO, and is relevant to the Committee's Recommendations (iv), (v) and (vi). It will build on the valuable work that has already

(1) Departments involved are: HM Customs and Excise, Department of Employment (including the Manpower Services Commission and the Health and Safety Executive), Department of Education and Science, Department of Health and Social Security, Home Office, Inland Revenue, Lord Chancellor's Department, Ordnance Survey, and Department of Transport.

been undertaken in various departments to develop better financial management systems.

Financial Management

13. The aim of the financial management initiative is to promote in each department an organisation and system in which managers at all levels have:

- a. a clear view of their objectives and means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money; and
- c. the information (particularly about costs), the training and the access to expert advice that they need to exercise their responsibilities effectively.

14. The working document with which the initiative was launched on 17 May is at Appendix 3. Departments are called upon to examine the way they manage all aspects of their programmes and to work out the best pattern of managerial responsibility, financial accounting and control. Keeping in touch throughout with the Treasury and the MPO, each department is to develop and define a plan which on completion will be sent to the Treasury and the MPO (before the end of January 1983); those departments will publish a central report by July 1983.

15. It is expected that every department's plans will include the following points:

- a. there will be an outline plan of development which will cover the whole of the department's activities. The assembly of each plan may proceed in stages, including pilot projects;
- b. there will be an information system that not only provides higher management with aggregated information needed for estimating and control, but managers at successive levels down the line with the information they need to do their job properly;
- c. the responsibilities of managers for the control of the resources they consume and, wherever feasible, the results they achieve will be specified systematically;
- d. the plan will include a system for the budgeting and control of administrative costs;
- e. where practicable, performance indicators and output measures will be developed which can be used to assess success in achievement of objectives. This is no less important than the accurate attribution and monitoring of costs; the question departments will address is "where is the money going and what are we getting for it?".

The full achievement of the aims of the initiative will require a heavy commitment of resources, including the efforts of senior management, and departments will need time. However, some departments were already well ahead. The MOD, for example, has had for some time

cost and management accounts covering expenditure approaching £4½ billion and widespread staff and travel budgets. It had already conducted a major study of financial accountability in the Department and is now developing a system of responsibility budgets for line managers.

16. A small MPO/Treasury Unit comprising both civil servants and management consultants has been set up to help departments in the preparation and review of their plans. It will work mainly in departments, advising senior management in the light of its experience gained from other departments and from the private sector. It will also help to identify Service-wide issues and to point to useful changes in existing practices and rules.

Management of programmes - general

17. The Government supports the principles contained in the Committee's Recommendation (xi) - that whilst there should be greater devolution of management, central departments should adopt a stronger and where necessary more prescriptive role in reviewing the effectiveness and efficiency with which management operates.

18. The Treasury and the MPO seek by prescription and scrutiny to ensure that high standards are reached by all; to compare one departmental programme with another where appropriate; and to ensure that Parliamentary and other requirements are met. It is for the Treasury and the MPO, making full use of the knowledge and

experience of other departments, to establish clear principles, to disseminate information and guidance about how principles can be applied and to check that they are applied in practice. It is with these considerations in mind that the two departments have initiated the drive to improve financial management set out in Appendix 3.

19. The improvement of financial management and the presentation of management information in departments must, however, take account of the fact that the functions and businesses concerned are numerous and diverse, and must recognise that departments themselves are better placed to develop the practical application of centrally defined principles. The Government accepts the suggestion which is commended in Recommendation (i) and set out more fully in paragraphs 50 to 56 of the main Report, that the evaluation of a programme requires the development of an analytical framework. The Government agrees with the Committee's comments that there should be no question of rigidity, and that policies or problems should not be distorted to fit any particular framework but the framework should be adapted and developed to fit the problems.

20. The flexibility that will be needed can be illustrated by reference to the responsibilities of DHSS which extend to five large and separate businesses which vary greatly in type and span of control, accountability and methods of working. These include some 86,000 directly employed staff in the social security system, where expenditure is specifically under the direct control of DHSS Ministers; some 2,700 staff working in the special hospitals which are run directly by DHSS; nearly a million staff employed by

the NFS authorities, who are also responsible for the allocation of money provided by DHSS Ministers for which they remain accountable; and the provision of local authority social services by local authority staff out of local authority resources and the rate support grant, where the DHSS responsibility is limited to guidance and advice. MOD's direct responsibilities are equally diverse, and include defence policy and the oversight of operations, the administration of more than half a million service and civilian personnel, research and development, the production of equipment and munitions, and the large scale procurement of equipment. On the other hand a small department, such as the Department of Energy with no more than 1,100 staff but an extensive policy range, is developing manpower and running cost controls and methods of policy review fitted to very different circumstances. These differences mean that a wide variety of analytical systems will be needed and that those that are developed will have to be sufficiently flexible to cover a wide range of activities.

21. Government initiatives such as that on financial management described above aim to build on the work that has already been done by departments, to systematise it and extend it. Action on the Department of the Environment's Management Information System for Ministers (MINIS) provides a good example. Indeed the Committee recommended (Recommendations (iv) and (v)) that MINIS, or its clear equivalent, should be adopted in all departments, that MINIS-type costings should be capable of reconciliation with departments' conventionally recorded expenditure, and that MINIS-type documents should be made publicly and readily available.

22. The strength of MINIS is that it provides a comprehensive framework which brings together information about activities, costs,

past performance and future plans for each part of the Department of the Environment. It shows how expenditure on staff and non-staff running costs is divided between Directorates, and relates this information to the size of public expenditure programmes being administered. This information enables Ministers and senior management to review all aspects of the Department's work regularly, and to determine priorities and how internal resources are to be allocated between them.

23. All departments similarly require a comprehensive system of management information. The systems developed by departments in response to the financial management initiative should ensure that it is provided. Indeed, they should go further. In following the criteria outlined in paragraphs 13-15 above and detailed in Appendix 3, they should cover not only internal expenditure but expenditure on programmes directly run by departments and should also provide the information needed to discharge responsibility for funds paid out in grants to other agencies which are themselves directly responsible for spending the money.

24. All departments will consider carefully what they can learn from the MINIS system. The precise form of system they adopt will depend upon the nature of the businesses they run, the method of operation preferred by the Minister and his senior staff and the best way of building up management systems that have been already developed. In this way the principles endorsed by the Committee will be adopted and applied generally.

25. The costings used in departments' management information systems will be compatible with their normal methods of recording expenditure,

as the Committee recommended. The MPO and Treasury intend to encourage departments to disclose as much as possible of the information they derive from their management systems. They attach particular importance to making material relating to the identification of priorities and the allocation of manpower and other resources available to Select Committees and the public, though not all such material can be disclosed, for example if it concerns measures to combat fraud. The MPO and the Treasury expect to receive guidance on the question of disclosure of information from the Unit referred to in paragraph 16, and their central report on the financial management initiative will cover it.

Presentation and review of programmes

26. The Committee recommended (Recommendation (iii)) that the annual Public Expenditure White Paper should update and bring together statements about programmes, and that the annual Supply Estimates should offer more detail on targets and outputs. There are limits to the amount of information that can manageably be contained in the White Paper and Estimates, but the maximum relevant information will be made available, and the White Paper and Supply Estimates will continue to reflect improvements in the presentation of expenditure and the measurement of output. The style of the Public Expenditure White Paper has changed considerably over the years to match changing interests, and will continue to do so. The Government will also continue to consult Parliament about changes in Supply Estimates to ensure that developments in financial management do not conflict with Parliamentary needs. Departments will continue to extend the practice of publishing information about their programmes, their objectives and their performance in achieving them. The MOD, for example, publishes an annual Statement on Defence Estimates in two volumes.

27. The Committee recommended (Recommendation (vii)) that departments should work out with the MPO an annual programme of reviews to evaluate their programmes, establish the machinery for conducting

them, and report to MPO (and thence to Parliament) the results of the reviews and decisions taken on them. It also suggested (Recommendation (xiii)) that the Treasury should probe the effectiveness of departmental programmes. It has long been the practice for individual departments to subject programmes and policies to review as the need or opportunity has arisen and it is essential for good administration that they should continue to do so. A further stimulus has been applied in recent years: for example "Rayner" scrutinies have often gone well beyond immediate management questions into the policies that underlie programmes. Moreover, there are already arrangements for systematically following up issues identified by Ministers during the Public Expenditure Survey as requiring more detailed review. The scope for more effective probing by the Treasury will be enlarged by the financial management initiative, with its emphasis on evaluating objectives and output as well as measuring costs; and the Treasury will continue to stimulate reviews of expenditure programmes where it perceives the need. The Government believes that the steady development of existing review activity will be more fruitful than the institution of a highly centralised approach.

28. The Government considers that it should be for individual departmental Ministers, not central departments, to decide whether to publish the results of their reviews and, where appropriate, to announce in advance that they are taking place. Ministers have demonstrated increasing readiness to do so, and this policy will be continued.

The role of other bodies in the review of programmes

29. The Committee recommended that departmental Select Committees should be able, via the PAC, to request the C&AG to review the efficiency and effectiveness of government programmes; that the C&AG should report annually on enquiries into government programmes conducted during the last 10 years, on programmes that have not been reviewed in that time, and on planned reviews; and that departmental Select Committees should be able to table substantive motions requiring information or debate on recommendations relating to improved efficiency and effectiveness (Recommendations (viii) - (x)).

30. With regard to the first of these recommendations, the C&AG's powers to examine the files of Government Departments, and comment on his findings, derive from the Exchequer and Audit Departments Acts. Thus, his access to departmental files relates to his audit of the departments' accounts.

31. His reports on efficiency and effectiveness arising out of his audit are considered by the PAC, the terms of reference of which refer specifically to the accounts. Neither the C&AG nor the PAC, unlike the departmental committees, comment on the merits of Government policies; the C&AG's powers of access should not cover such a purpose. In the view of the Government the existing procedure under which the PAC reports and makes recommendations, having considered the C&AG's report and having taken evidence from Accounting Officers, is very effective. For these reasons the Government do not consider that it would be appropriate for the C&AG to use his powers on behalf of other Select Committees.



PRIME MINISTER

OPEN STRUCTURE REVIEW: FINAL REPORT

Attached is the final report of the review of Civil Service posts in the Open Structure. The remaining steps mentioned in the interim report I sent you on 1 June have now been taken. The final statistics differ little from those in the interim report - a reduction of just under 20%.

2. Your Private Secretary's letter of 3 June expressed your particular interest in the proposals for future reviews of Open Structure posts. These are summarised in paragraphs 10-14 of the report. They seek to build on the natural opportunities a Head of Department has to review the organisation and staffing of his department. Each department should be reviewed comprehensively every three years or so, in consultation with the Treasury and MPO. Wardale suggested not less often than every five years, but every 3 years will make for more effective discipline. The annual report each autumn will provide an opportunity for regular stock-taking over the whole field.

3. I endorse these proposals. They should, I believe, prevent creeping growth in future. Paragraph 11 of the report states the intention to maintain the tauter staffing regime which has now been established. To this end it re-affirms the rule that all new posts in the Open Structure be approved by the Treasury, and that new posts at Deputy Secretary or above be submitted to you for your approval.

Prime Minister:

The final report of the open structure review confirms the direction suggested in the interim report: a reduction of 20% or so. Agree to the Chief Secretary's proposal?

Yes

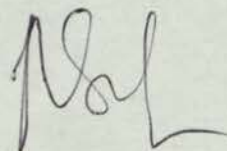
TF 23/7

4. Sir Derek Rayner has suggested that the arrangements proposed in paragraph 13 for periodic comprehensive review of each department should include provision for external verification to be sought by the centre, preferably through the use of completely independent persons. I see the case for this and the report does not exclude it. But I think we should decide this at the time, as each review is mounted. We need to be careful to say nothing now to weaken the personal responsibility which is being placed on official Heads of Department to sustain the stringent policy now established.

5. If you are content I propose that the report should now be published. If it is settled before the House rises, publication ... should be by means of arranged PQ, for which a draft is enclosed. The last sentence picks up your comment on the interim report. This is optional, but I think it would be sensible, and appreciated by the Service, to include something of this kind.

6. If it is not cleared in time for a PQ, I see no need to hold it back until the House returns. We can send copies to the Treasury and Civil Service Committee during the Recess and publish by press notice on the lines of the draft Answer, including, if you agree, the last sentence.

7. I am copying this to Cabinet colleagues, Sir Robert Armstrong and Sir Derek Rayner.



for LEON BRITTAN
23 July 1982

[Approved by the Chief Secretary
and signed in his absence]

DRAFT WRITTEN PQ

Q. To ask the Chancellor of the Exchequer whether he will make a statement about the review of senior posts in the Civil Service.

A. The review announced to the House on 1 December last has now been completed. All departments have reviewed their senior posts. Copies are being placed in the library of a report by the Treasury summarising the proposals which have been made.

The Government has adopted these proposals. Almost all will have been implemented by 1984. They will mean a reduction since the Government came into office of 156 in the number of posts in the Home Civil Service at under-secretary level and above. This represents nearly 20%, more than matching the reduction in the total size of the Home Civil Service over the same period. Most of the reductions will be by natural wastage, but some early retirements are needed. Reductions which have been or will be made in equivalent posts in the Diplomatic Service in this country are 6 out of 31 such posts (nearly 20%), and in equivalent posts held by senior officers of the Armed Forces 36 out of 217 (17%).

The Government intends to maintain the tauter staff structures established by this review. The report sets out arrangements for keeping senior posts under regular review in future.

Implementation of these proposals will entail some changes in working practices, and will mean that Ministers and senior officials more frequently deal with and receive advice from people of middle or junior rank. The Government believes that besides reducing the number of senior civil servants, the changes should also bring benefits to efficiency and economy in administration by checking the tendency for business to be handled at a higher level than is warranted by its importance or difficulty.

The Government wishes to acknowledge the hard work and co-operation of senior civil servants of the open structure in this review and in the changes which it brings.

**REVIEW
OF
OPEN STRUCTURE POSTS**

**REPORT
BY
HM TREASURY**

JULY 1982

REPORT OF THE OPEN STRUCTURE REVIEW

1. On 1 December 1981 the Government informed Parliament of their acceptance of the main conclusions and recommendations of the report produced by Sir Geoffrey Wardale on the Chain of Command in the higher ranks of the Civil Service, and announced a comprehensive review of all such posts.

2. All departments were asked to conduct a rigorous assessment of their posts in the Open Structure, which comprises the three senior civil service grades, under-secretary, deputy secretary and permanent secretary. The object was to examine how far work at the top of each department could be organised more economically and flexibly, with greater delegation of authority, in order to secure the better use of a smaller number of top staff.

3. With one exception, all these departmental reviews have now been completed. They covered all posts in the Open Structure, including lawyers, statisticians, economists etc holding posts at these levels. The exception is the Property Services Agency, where the number and deployment of senior staff is under review as part of the examination of re-structuring of the Agency being undertaken by the Chief Executive appointed earlier this year. The review by Ministry of Defence included equivalent senior officers of the Armed Forces (two star and above). The review by the Foreign and Commonwealth Office covered senior Diplomatic Service posts based in this country; it did not cover posts abroad.

Method of Review

4. In all departments the detailed work was conducted or closely supervised by the Permanent Secretary, and the conclusions approved by the Minister in charge of the Department. Questionnaires and interviews were commonly used to test each post. Treasury officials were kept in touch with progress, and in six departments took part in the inspections and interviews. In two departments they were assisted by outside consultants. The Civil Service unions have been kept in touch with the review and had opportunities to comment both departmentally and centrally.

The Outcome

5. This scrutiny of the top management structure of each department has produced proposals for changes which significantly reduce the number of senior posts. This will entail in many cases changes in working practices. The practice of "grade skipping", already common in many departments, will be adopted more widely. Ministers, and senior officials, will more frequently deal with and receive advice from people of middle or junior rank.

6. These changes will mean some reduction in the amount of senior officials' time and effort immediately at the disposal of Ministers on individual pieces of business. Advice will be less concentrated. There will be some loss of resilience and of the capacity of departments to respond quickly to unexpected events. But besides reducing the number of senior civil servants, the changes should also bring benefits to efficiency and economy in administration, by checking the tendency for business to be handled at a higher level than is warranted by its importance or difficulty. More delegation to middle and junior management is in line with current management doctrine. It will not only speed administrative processes, but also by giving more responsibility to middle and lower grades, make jobs at these levels more satisfying.

7. When the work of the review began in January 1982, some departments had already recently made changes in their management structure of the kind sought by the review. The baseline was therefore adopted of April 1979. At that time, excluding the Property Services Agency, there were 789½ civil servants in the Open Structure. The proposals now put forward by departments when fully implemented will reduce the number of posts in the Home Civil Service to 633½, a reduction of 156 posts or just under 20%. This compares with 14% for the Civil Service as a whole when the Government's target of a Civil Service of 630,000 by April 1984 is reached. About half the proposed reductions had already been implemented by January 1982. The remainder will mostly be completed over the next year or so, so that most of the changes will have been made by April 1984. The reductions proposed for the Armed Forces total 36 posts (17%) and for the Diplomatic Service in London 6 posts (just under 20%).

8. The numerical results of the reviews are set out in detail in the annex to this report. The figures show all the changes which have taken place or are proposed. They therefore include some which result from changes in the pattern of business or of departmental structure rather than from applying the considerations emphasised by the present review. Some cases may combine some or all of these factors.

Personnel Management Implications

9. Most of the proposed reductions in post can be achieved by natural wastage. But some early retirements are needed, and wider use will be made of the "structural retirement" rules. An important consequence of reductions on this scale in the number of senior posts is the adverse impact on immediate promotion opportunities, and hence on the career prospects of many staff, some within the Open Structure, but especially those below it. The Management and Personnel Office are considering with departments ^{what response this problem requires,} ~~how far this problem calls for special measures.~~

Arrangements for Future Reviews

10. It is to be expected that the number and deployment of posts in the Open Structure will change in the future as in the past from time to time. The current review has been related to the load and pattern of work as it is at present and can be foreseen with certainty. Future changes will reflect differences in the pattern of work resulting from Ministerial policy decisions.

11. It is the Government's policy to maintain at the top of departments the tauter staff structures which have been established by the present review. Official Heads of Departments are expected personally to keep their open structure posts under continuous review, taking account of changes in the pattern of business. Posts which become dispensable because of such changes, or for other reasons, should be eliminated as promptly as possible. Sometimes the efficient conduct of business may require the creation of new posts, but any new posts in the open structure will require strong justification, and must be approved specifically by the Treasury. Proposals for creating new posts of deputy secretary or above will be submitted for the Prime Minister's approval.

12. The firm application of this policy should prevent any unwarranted retention or increase of senior posts in future. Nevertheless experience, including the experience of the review, suggests a need to consider from time to time departmental management structures as a whole as well as the justification for individual posts, and a need for central as well as departmental consideration. To this end the following arrangements are proposed.

13. In addition to changes in the pattern of business, retirements and new appointments provide natural and convenient opportunities to review the organisation and staffing of a department. The aim will be to use these opportunities as they arise, so that at periodic intervals official Heads of Departments ^{will} carry out in consultation with the Treasury and the Management and Personnel Office a comprehensive review of their top management structures. Such reviews need not, and should not, take place simultaneously in every department. Their timing will depend on events in the department. But the intention is that the top management structure of each department should be reviewed as a whole every three years or so. The Treasury will keep in touch with Heads of Departments as to the timing and methods of these reviews. The unions will be consulted as appropriate about proposals emerging from such reviews.

14. Meanwhile, in the autumn of each year the Treasury, in consultation with departments, will compile a report for Ministers on the number of Open Structure posts and on any changes over the past year. These reports will record implementation of the changes to be made as a result of the present review, including a few (not included in the present figures) to which further consideration is to be given. They will provide an opportunity for Ministers to decide whether a fresh general review should be carried out, either over the whole field or in selected areas.

OPEN STRUCTURE REVIEW - SUMMARY OF DEPARTMENTAL PROPOSALS

	April 1979	Jan 1982	Proposed	Reduction on 1979
Posts in Home Civil Service Open Structure by grade:				
Permanent Secretary	40	38 (3 reductions 1 new post)	37	3
Deputy Secretary	163	146	135	28
Under Secretary	586½	522	461½	125
Total for Home Civil Service	789½	706	633½	156
Equivalent posts in the Diplomatic Service in this country.	31	28	25	6
Equivalent posts held by Senior Officers of the Armed Forces.	217	205	181	36

OPEN STRUCTURE REVIEW - DEPARTMENTAL PROPOSALS

DEPARTMENTS WITH 10 OR MORE OPEN STRUCTURE POSTS AT APRIL 1979

Department	Staff in post		Proposals
	April 1979	Jan 1982	
Ministry of Defence	111	103	84
Department of Health & Social Security	75	65	56
Department of Industry	53½	47	43
Department of the Environment	51	42½	37*
HM Treasury	44 +	39	32
Scottish Office	43	40	35
Department of Employment Group	37	33	30
Ministry of Agriculture, Fisheries & Food	35	32	30
Board of Inland Revenue	30	28	26
Home Office	30	29	27
Department of Trade	29	22	22
Department of Education & Science	25	22	20
Cabinet Office	22	18	19
Department of Transport	21	22	19
Department of Energy	21	18	15
Lord Chancellor's Department	16½	16½	15½
Welsh Office	16	14	12
HM Customs & Excise	16	14	12
Overseas Development Administration	14	11	9
Management & Personnel Office ++	13½	12	11
Parliamentary Counsel	11	9	10
Sub totals carried forward	714½	637	564½

* These figures exclude the PSA. Open Structure numbers in the PSA at 1.4.79 and 1.1.82 were 19 and 18 respectively.

+ Adjusted to take account of former CSD.

OPEN STRUCTURE REVIEW - DEPARTMENTAL PROPOSALS

DEPARTMENTS WITH LESS THAN 10 OPEN STRUCTURE POSTS AT APRIL 1979

Department	Staff in post		Proposals
	April 1979	Jan 1982	
Treasury Solicitor's Department	9	9	9*
Northern Ireland Office	8	8	8
Government Communications Headquarters	6	6	6
Export Credits Guarantee Department	6	5	6
Office of Fair Trading	5	4	4
Department of the Director of Public Prosecutions	4	4	4
Government Actuary's Department	4	4	4
Office of Population Censuses & Surveys	3	3	3
Department of National Savings	3	3	2
Charity Commission	3	2	2
Her Majesty's Stationery Office	2	1	1
HM Land Registry	2	2	2
Law Officers' Department	2	2	2
Lord Advocate's Department	2	1	1
Prime Minister's Office	2	2	2
Public Trustee Office	2	1	1
Crown Estate Office	2	1	1
Crown Office/Procurator Fiscal Service	1	3	3
Ordnance Survey	1	1	1
Royal Mint	1	1	1
Central Office of Information	1	1	1
Scottish Courts Administration	1	1	1
Intervention Board for Agricultural Produce	1	1	1
Public Record Office	1	1	1
Registry of Friendly Societies	1	1	1
Privy Council Office	1	1	1
Civil Service Pay Research Unit	1	-	-
Sub totals	75	69	69
Sub totals brought forward	714½	637	564½
Grand totals	789½	706	633½(-19.8%)

* Including ½ post transferred from Lord Chancellor's Department

23. VII 1992





Ref. A09105

MR. WHITMORE

Response to Treasury and Civil Service Committee (TCSC) on Efficiency
and Effectiveness

I understand that, on the suggestion of the Secretary of State for the Environment, the Prime Minister has asked to see copies of the letters that certain Permanent Secretaries wrote to Mr. Cassels about an earlier draft of the response to the TCSC.

2. I attach herewith copies of the letters sent by all those with whom I have been able to make contact, to make sure that they knew that I was proposing to let you have these copies (there are only two missing, and I will send those forward as soon as I have made contact with the writers).

3. I am sending the copies forward with some reluctance. I fear that the Prime Minister will think this stuffy, bureaucratic and obstructive. I don't mean to be, and I am of course perfectly content to inform her fully about the reactions of Departments to the draft. But the Prime Minister's request puts John Cassels and me rather on the spot with our colleagues. The letters were written as working documents between officials, without the knowledge or expectation that they would be shown to the Prime Minister. I am very keen to involve the positive co-operation of Permanent Secretaries in what the MPO is trying to do, and to do nothing that will impair the willingness which they have shown to be helpful and constructive. It is regrettably but inescapably true that, if they felt that any letter they sent to John Cassels or me was liable to be copied to the Prime Minister, they might be tempted to pull their punches or write to us less frankly than they otherwise would. Our own ability to serve the Prime Minister and the Lord Privy Seal would be damaged if that happened.

RA

ROBERT ARMSTRONG

23rd July, 1982

BF
12/8 IF reportPrime
Minister :

4



Prime Minister

I understand that the Chief Secretary will also be meeting you. Await his comments? VF 23/7

attached

I am now in a position to take the opportunity to respond to your note of May 17 on Financial Management. The paper you attached said that the main objectives of spending departments should be to have "a clear view of their objectives" and an ability to "measure performance in relation to those objectives". You also indicated that while the yardstick of profitability is lacking in most cases in government, nevertheless "the principle should be applied to the maximum possible extent".

In the context of PSA I recognise also the need to give individual departments a greater influence over their own spending programmes as far as property is concerned.

As colleagues will know, we are already moving to the PRS (Property Repayment Service) in April 1983 which goes part of the way to do this; but I am now considering the next step to go further in this direction and at the same time meet the objectives set in your letter.

The PSA is giving preliminary consideration to the possibility of establishing within it a Property Division - an outline of which is given at Appendix A.

As far as Departments are concerned, their relationship with PSA will essentially be an extension of the principles of PRS; and clearly there will need to be further discussion with Departments to take account of their views in working out the details.



As far as Government is concerned, the proposition would be in accord with your request and would hold out the prospect of tougher financial management in this important part of PSA's activity.

In order to make progress with this idea without risking wasted effort, I felt the need to inform colleagues in advance because if there is any disagreement in principle, I should like those issues resolved now. At this stage, therefore, I am merely asking for your reaction to the principle of a Property Division regulated by a trading fund. We would expect that it would take some 6 months before we were able to come back with flesh on the bones and to identify positively the costs and benefits.

Derek Rayner, who has been consulted, has said "I agree with the emphasis on incentives to rational economic behaviour likely in principle to flow from the more competitive environment of a trading fund."

I shall be grateful for your views, and those of Cabinet Colleagues to whom I am copying this minute. I am also copying this to Sir Derek Rayner and Sir Robert Armstrong.

MH

MH

22.7.82

POSSIBLE PROPERTY DIVISION WITHIN PSA

The essentials would be:

- i. the Division's portfolio would embrace those parts of the Government estate where there is a potential alternative use. It may cover 80% of the Civil Estate and maybe 20% of the Defence Estate and have an asset value of £3-5 billion;
- ii. the PD will negotiate a Memorandum of Understanding (see Note 1 attached) in respect of each property which will establish effectively a form of "contractual" relationship between itself and departmental tenants. This will build on PRS (Property Repayment Services) which starts in April 1983;
- iii. the object is to enable the PSA through the property division to act as closely as possible to a private sector property company and the individual departments to act as independently as possible in what they perceive as their best interests;
- iv. the PD would have Trading Fund status, which would enable:
 - a. the development of an objective measure of the financial utilisation of our property assets via a "Return on Capital"; the trend of which could then be compared with the private sector,
 - b. the real property costs of government decisions to be identified,
 - c. a longer term view to be taken of property matters,
 - d. a clearer distinction to be drawn between capital and revenue expenditure on property,
 - e. the introduction of more options or alternatives both for Departments and internally in the handling of maintenance,
 - f. more generally, a tougher commercial attitude to be developed both within the PD and by overspill in other parts of PSA.

Note 1 The "Memorandum of Understanding" would cover:

current market rent

rent reviews every 3, 5 or 7 years

extension of maintenance responsibility (including in
most cases internal decoration) to the tenant

tenure, ie period tenant expects to require the property

CS L-T Mangrove
Pt 11



22 JUL 1982

Coordinator

DM 2/6 over
weekend
mb

Prime Minister: E



You already have
Michael Heseltine's minute;
The Chancellor argues in
favour of Lady Young's
draft response

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

TF

PRIME MINISTER

The Chancellor has asked me
to point out that his Departments
have achieved a manpower saving of 11.3%
whereas discounting living costs, DOEs have
achieved only 9.5%!

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT
ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

P.M. Box

Michael Heseltine sent me a copy of his minute to you of 19 July.

2. I entirely agree with Michael about the crucial importance of establishing good management information systems in the Civil Service and I admire what he has done in his own Department. I also agree with him on the desirability of publishing the information which is produced, and I welcome the commitment in paragraph 25 of Janet Young's draft to go as far as practicable in this direction.

3. I first approached these issues with a view very similar to Michael's. And I still have a lot of sympathy for what he says. But as a Minister with direct responsibility for a range of Departments with quite different responsibilities, functions and methods of work, I have found after careful examination that a common form of management information system would not in fact be appropriate to them all. At my request Arthur Cockfield last year explored the possibility of introducing a MINIS-type system in all my Departments: his clear conclusion was that while there were important lessons to be learned - such as the need for coherent management plans bringing together a number of separate management and efficiency exercises - it would be a mistake to seek to impose a common system based on MINIS principles, and we should instead seek to improve existing management information systems in each Department, tailoring them to the particular - and very different - job each Department has to do. With some regret, I concluded that this was right; and it is now being done.

4. More generally, Michael's proposal is, I believe, difficult to fit alongside the initiative on financial management which Leon Brittan



is leading and which - in your minute of 17 May - you asked all Cabinet colleagues to push forward. One of the main objectives of that initiative is to knit management information and financial information together. The reasons for that, and the disadvantages of considering cost and value for money separately from the deployment of staff and other resources, are all too familiar to you. They mean, in my view, that it would not be right, even if if were practicable, to separate the two in the interests of a crash programme to introduce new common management information systems for next year.

5. Our objectives are the same, and I entirely share Michael's concern about credibility. But the systems which Departments develop will be much more useful, and therefore in the end more genuinely credible, if they are carefully designed to bring financial and other information together in a way which actively promotes the sound and cost-conscious management of all resources.

6. Copies go to the recipients of Michael Heseltine's minute.

G.H.

21 July 1982

PRIME MINISTER

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT
COMMITTEE'S REPORT ON EFFICIENCY AND EFFECTIVENESS
IN THE CIVIL SERVICE

** Minute attached*

You approved over the weekend Lady Young's draft of the response to the above Report. Lady Young commended the draft to you as a significant step forward, a view which was shared by the Chancellor, the Chief Secretary and Sir Derek Rayner. The attached minute from Mr. Heseltine, however, which was prompted by the circulation of the draft today, makes it clear that he takes the view that the draft does not go far enough in the direction of transforming management information systems. In particular, he argues that there should be a stronger commitment to MINIS as such.

This is rather an unexpected response at this stage of proceedings and leaves us essentially with two options:-

- (i) either ^{to} ~~you/~~ accept Lady Young's view that the draft represented the best compromise between the desire to make progress and the difficulties raised by Departmental Ministers - this would essentially mean over-ruling Mr. Heseltine's objections;
- or
- (ii) to hold a meeting involving Mr. Heseltine, Lady Young, the Chief Secretary and Sir Derek Rayner.

The latter option would involve not publishing the response before the Recess (which is, of course, undesirable) not only because the meeting itself would, given the state of your diary, take time to arrange, but also because to incorporate Mr. Heseltine's suggestions in the White Paper would be strongly resisted by other Departmental Ministers. Indeed, I understand from Lady Young's office that she remains firmly of the opinion that there is no chance of agreement on a draft which goes further in the direction proposed by Mr. Heseltine than that which you have already approved.

/Similarly

Similarly, she feels that Mr. Heseltine's minute is unduly pessimistic about the impact of the response. Nevertheless, as you will see, Mr. Heseltine's reservations are very strong.

Do you wish to go for option (i) involving as it does over-ruling Mr. Heseltine's reservations, or option (ii) involving as it does a further delay with no guarantee of reaching agreement on any more advanced a draft than that already circulated?

TJ.

19 July 1982



Prime Minister

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

I have seen Janet Young's letter of today's date and the response it is proposed should be made to the report of the Select Committee.

I am concerned that the Draft White Paper, in its present form misses a major opportunity for the Government to bring about a rapid transformation of the management information systems now operating in central Departments. There is increasing Parliamentary interest; you will no doubt have seen the recent early day motion, now signed by 100 of our colleagues.

It is my view that the draft observations do not go nearly far enough in meeting the concerns expressed by our Parliamentary colleagues, nor in establishing a framework in Whitehall that will lead to change on the scale and at the pace which can and should be achieved.

I believe that there are certain key elements which are lacking in the draft response. First, it is essential for there to be a common form of management information system. That common form should be laid down, in its main elements, from the centre. Unless this happens, we shall most certainly see a number of Departments seeking to achieve the minimum. And the draft response is now appearing to suggest that a management information system should be developed as part of a total system of financial management. My view, as you know, is that MINIS is a fundamental management tool in its own right.



There must be a risk that the remit to set up a comprehensive financial management regime will divert effort from the establishment of a common management information system.

Second, as MINIS has again shown, there is a powerful argument for publishing the information which Ministers see, and in some detail. This has not in practice caused problems here.

Third, I believe that systems could be in operation for the next financial year, and that it would be right for a commitment to this to be made.

Fourth, unless the MPO, perhaps with the help of Derek Rayner, are given a very clear responsibility and remit for devising and laying down the common form, and for then monitoring it, I am in no doubt that the combined forces of Whitehall Departments will prevail against change on an effective scale.

Fifth, I have been urging, thus far unavailingly, the need to relate our control of non-staff costs to the Public Expenditure Survey rather than the Estimates timetable. If there is no willingness to adopt our existing accounting regimes to the needs of effective management systems, much of our work on Joubert and the like, will be wasted.



For these reasons I am concerned that the publication of the White Paper, even in the very much improved form in which Janet Young has now sent it to you, will lead to a lack of credibility in the seriousness of our intentions. I very much hope that you will therefore consider, even at this late stage, and I understand the time pressures, a rather more positive and constructive document.

I am copying this to the recipients of Janet Young's letter of today's date.

MH

MH

19 July 1982

9 JUL 1982

11 12 1
10 9 8 7 6 5



Prime Minister

MANAGEMENT SYSTEMS FOR WHITEHALL

Because of my interest in securing proper management in Whitehall departments, my Permanent Secretary, rightly, showed me an early draft of the Government observations on the recent report by the Select Committee. Because of my concern that the report was not sufficiently responsive or constructive, a view that she shared, Janet Young spent several hours with me discussing the issues. The document you have now approved is an improvement.

But I am still very unhappy with the version it is now proposed to publish. My views are set out in the attached minute. I am still deeply concerned that after 3 years we are still, in far too many departments, only scratching at the surface. My greatest worry is that unless there is a clear central line, which would need to be strongly backed by you, Whitehall will do just enough to make it look as if real changes are happening, but in practice will do little. I believe that you ought to ask to see the responses from Permanent Secretaries to the draft first circulated by MPO. These letters will give you a flavour of the underlying attitudes which exist. That need not be the case. I believe that the Permanent Secretary and officials in my own Department, perhaps because they have been so deeply involved in working up and developing the MINIS system, are totally behind the systems now operating here. But unless we provide a different sort of impetus for the Permanent Secretaries in other departments, I fear that only a fraction of the results which might be achieved will be achieved.

D



I am not, for obvious reasons, copying this note to any of our colleagues, though Janet Young, of course, is fully aware of the points I have made.

MH

MH

19 July 1982

How can I stop
us from taking
advantage?



Yes
No

Prime Minister:
agree to
Lady Youngs
proposals for a
tensure as to Civil Service
Order in Council

PRIME MINISTER J. R. Palmer?

REVISION OF THE CIVIL SERVICE ORDER IN COUNCIL, 1978; THE DIPLOMATIC SERVICE ORDER, 1964; AND THE CIVIL SERVICE COMMISSION GENERAL REGULATIONS, 1978

As part of the Government's programme of manpower reductions the Civil Service Commission will on 1 January 1983 cease to have any formal responsibility for recruitment to the junior grades - broadly speaking all grades below the Executive Officer level. This makes it necessary to revise the Civil Service Order in Council, 1978, the Diplomatic Service Order, 1964 (which provides the main basis of Ministerial powers over the Diplomatic Service) and the General Regulations governing recruitment, which are made by the Civil Service Commissioners with the approval of yourself as the Minister for the Civil Service and of the Foreign and Commonwealth Secretary.

This minute seeks your agreement in principle (and that of the Foreign and Commonwealth Secretary) to the basis on which it is proposed to draft the revised Orders and Regulations.

The Civil Service Commissioners have taken the opportunity to consider whether any changes are desirable beyond those required to give effect to the new recruitment arrangements. The attached paper sets out the issues considered and two important conclusions emerge. The first is that the principle of selection on merit on the basis of fair and open competition, which has always governed the Commission's activities, should be maintained for their own future work and also applied to the large area of recruitment for which departments will in future be responsible. The second is that there should be no change in the provisions of Article 1(2) of the Civil Service Order in Council. Apart from listing certain categories of appointments (eg of political advisers) which are rightly excluded from the Commissioners' area of responsibility, this article specifically requires the Commissioners' agreement before departments can make short term appointments without a certificate of qualification ie without open competition.

Sir Robert Armstrong endorses the Commissioners' conclusions on both these main points. In my own view, the first is fundamental and the second is a sensible compromise. The existing provisions make it possible for a particular appointment to be made without advertisement or open competition if the circumstances justify it: but it is prudent to require departments to satisfy the Commissioners that such exceptional action is justified.

If you agree broadly with what is proposed the Commissioners will consult the Treasury Solicitor on points of detail in order to establish the precise form of the amendments that will be required, and will keep in close touch with the Foreign and Commonwealth Office.

When that has been done, I will seek your approval of the revised draft of the Civil Service Order in Council, and of the General Regulations (for which the Foreign and Commonwealth Secretary's approval will also be needed).

I am sending a copy of this minute to the Foreign and Commonwealth Secretary.

Janet Young

BARONESS YOUNG
19 July 1982



REVISION OF THE CIVIL SERVICE ORDER IN COUNCIL, 1978; THE
DIPLOMATIC SERVICE ORDER, 1964: AND THE CIVIL SERVICE COMMISSION
GENERAL REGULATIONS, 1978

BACKGROUND

1. From 1 January 1983, the Civil Service Commission will cease to have any formal responsibility for recruitment to junior grades - broadly speaking all grades below Executive Officer level - in what is at present the delegated recruitment area of the Home Civil and Diplomatic Services. Recruitment to those grades will then be the responsibility of recruiting departments, acting in accordance with guidance laid down by the Management & Personnel Office - not the Civil Service Commission. It will therefore be necessary to amend the Civil Service Order in Council, 1978 (Appendix A), the Diplomatic Service Order 1964 (Appendix B) - which provides the main basis of ministerial powers over the Diplomatic Service-and the General Regulations governing recruitment (Appendix C) which are made by the Commissioners with the approval of the Minister for the Civil Service and the Foreign Secretary.
2. The opportunity has been taken to consider whether any changes are desirable beyond those needed to give effect to the new recruitment arrangements. This paper sets out the main issues considered and the amendments proposed.

ISSUES

3. Fair and open competition. The principle of selection on merit on the basis of fair and open competition (which is set out in General Regulation 4 at Appendix C) has always governed the Commission's activities. The Commissioners believe that this principle should be maintained for their own future work, and should continue to be applied to the large area of recruitment which will in future be the responsibility of departments.



4. Exceptions provided for in the Civil Service Order in Council, 1978. Article 1(2) of the Order in Council provides for certain exceptions to the requirement that the Commissioners approve the qualifications of all persons proposed for appointment to the Home Civil or Diplomatic Services. The exceptions are:

- a. appointments made directly by the Crown;
- b. appointments specifically excluded by statute (eg block transfers by Act of Parliament);
- c. part-time appointments under 18 hours per week;
- d. appointments which terminate at the end of a current administration or sooner (eg special advisers);
- e. casual appointments of up to 12 months;
- f. appointments not exceeding 5 years in duration to which the Commissioners are satisfied that it is desirable to appoint someone without the issue of a certificate of qualification.

5. Appointments in categories a to e are specific exclusions from the requirements of the Order in Council, ie the Commissioners have no responsibilities in relation to them. It is considered that those appointments should continue to be excluded from the Commissioners' responsibilities. No change is proposed.

6. The exception at 4f is different: although the Commissioners are not required to approve the qualifications of, or to certificate, people who are appointed under it, their prior approval for such appointments must be obtained. The Commissioners have considered whether or not it is appropriate for them to retain their powers to control short-term appointments or whether departments should be free to recruit without open competition when they see fit. However, the Commissioners recognise that the present arrangements provide a safeguard against patronage while the escape clause enables special action to be taken and an appointment made without competition when the Commissioners are satisfied that the circumstances justify it. They conclude that the present arrangements should continue and recommend that no change is made.



7. Exceptions Provided for in the General Regulations. The General Regulations provide a discretionary power to enable the Commissioners to issue a certificate of qualification, in respect of a permanent appointment, without open competition. (This corresponds to the one provided for in the Civil Service Order in Council, mentioned in paragraph 4 above and discussed in paragraph 6, which relates to short-term appointments.) The discretionary power is in Regulation 11a at Annex C, and can be used only when the Commissioners are satisfied that it is appropriate to do so in the case of a particular individual. This power is used rarely (and cases are reported in the Commissioners' Annual Reports) but it is useful, and sensible, in exceptional cases. The Commissioners recommend that these arrangements should continue.

8. The General Regulations allow for a range of other discretionary powers and exceptions: for example, there is a power to permit the appointment on a trial basis of someone whose health does not meet the standard for established appointment but who may be able to satisfy the health requirement at a later stage. No change in these discretionary powers is proposed.

9. Control of departmental recruitment. The Management & Personnel Office will in future issue to departments the necessary guidance and instructions about recruitment. Amendments to the Civil Service Order in Council will therefore need to achieve two broad objectives:

a. to make it clear that the Commissioners will have responsibility in future for recruitment to only part (ie the certificated part) of the Home Civil Service and of the Diplomatic Service; to define that area; and to ensure that the Commissioners continue to have, in respect of that area, the powers which they have at present with regard to the Home Civil Service (and Diplomatic Service) generally;

b. to provide any necessary powers to enable the Minister for the Civil Service (and the Foreign & Commonwealth Secretary) to issue guidance and instructions about recruitment to the non-certificated part of the Civil Service (and of the Diplomatic Service).



10. Once ministers' views are known the Treasury Solicitor's advice will be needed on how best to draft the Order(s) to replace the existing Orders so as to achieve these objectives.

11. Nationality Rules. The nationality rules for the Home Civil and Diplomatic Services which form part of the General Regulations will need to be amended in the light of the British Nationality Act, 1981. The Lord Privy Seal has consulted her colleagues and the revised rules are being finalised. The new rules will need to be incorporated in the General Regulations and in the guidance and instructions to departments about non-certificated recruitment.

CONCLUSIONS

12. i. The principle of selection on merit on the basis of fair and open competition should continue to govern appointments to the Home Civil and Diplomatic Services, whether recruitment is the responsibility of the Civil Service Commissioners or departments (paragraph 3);
- ii. no change should be made to the existing exceptions (for which the Civil Service Order in Council provides) from the requirement that the Commissioners have to approve the qualifications of people appointed to the Home Civil Service or Diplomatic Service (paragraphs 4-6);
- iii. no change should be made to the Commissioners' discretionary powers provided under the General Regulations (paragraphs 7 & 8);
- iv. the Civil Service Order in Council 1978 and the Diplomatic Service Order 1964, should be amended to enable (a) the Civil Service Commissioners to continue to discharge, in respect of the certificated area of the Home Civil and Diplomatic Services the powers which they have at present with regard to those 2 Services generally; and (b) the Minister for the Civil Service and the Foreign and Commonwealth Secretary to control recruitment to the non-certificated parts of the Home Civil and Diplomatic Services (paragraphs 9 and 10);



v. the new nationality rules for the Home Civil and Diplomatic Services should be incorporated in the Civil Service Commissioners' revised General Regulations and in the guidance and instructions for departmental recruitment (paragraph 11).

Civil Service Commission

2 July 1982



THE CIVIL SERVICE ORDER IN COUNCIL 1978

At the Court at Balmoral

THE 29th DAY OF SEPTEMBER 1978

PRESENT,

THE QUEEN'S MOST EXCELLENT MAJESTY
IN COUNCIL

Whereas by the Civil Service Order in Council 1969 (hereinafter referred to as "the principal Order") provision was made for certifying the qualifications of all persons proposed for permanent appointment to any situation in Her Majesty's Home Civil or Diplomatic Service and for regulating the conduct of Her Majesty's Home Civil Service and the conditions of service therein:

And whereas it is expedient to make further provision in relation to the matters aforesaid:

Now, therefore, Her Majesty is pleased, by and with the advice of Her Privy Council, to order, and it is hereby ordered, as follows:—

1.—(1) Subject to the following provisions of this Order and to any regulations made under Article 2, the qualifications of all persons proposed for appointment to any situation in Her Majesty's Home Civil Service or Diplomatic Service shall, before they are appointed, be approved by the Commissioners, whose decision shall be final, and no person shall be so appointed until a certificate of his qualification has been issued by the Commissioners.

(2) The provisions of paragraph (1) above shall not apply to appointments—

- (a) to situations to which the holder is appointed directly by the Crown;
- (b) to situations filled by the appointment or transfer of classes of persons by or in pursuance of any Act of Parliament which exempts such persons from the requirement that a certificate of qualification shall be issued before appointment;
- (c) to situations which normally involve less than eighteen working hours in each week;
- (d) such that the period for which the situation is to be held thereunder by the person appointed terminates at the end of an Administration;

(e) by virtue of which the total period of continuous service of the person appointed does not exceed twelve months;

(f) by virtue of which the total period of continuous service of the person appointed does not exceed five years, and it has been proved to the satisfaction of the Commissioners that it is desirable that such person be appointed without the issue of a certificate of his qualification.

2. The Commissioners may, subject to the approval of the Minister for the Civil Service or Her Majesty's Secretary of State for Foreign and Commonwealth Affairs, as the case may be, from time to time make General Regulations prescribing the conditions on which the Commissioners may issue certificates of qualification (including certificates expressed to be valid only for a limited period) for the purposes of this Order, and the circumstances in which and the conditions on which persons may be appointed to situations before the issue of a certificate of qualification.

3. A person as respects whom a certificate of qualification has been issued by the Commissioners may be transferred or promoted within Her Majesty's Home Civil Service or Diplomatic Service or otherwise receive a further appointment therein without the issue of a further certificate of qualification, except in such circumstances as the Commissioners may (after consultation with the Minister for the Civil Service or Her Majesty's Secretary of State for Foreign and Commonwealth Affairs, as the case may be) from time to time prescribe by regulations.

4. The Minister for the Civil Service may from time to time make regulations or give instructions for controlling the conduct of Her Majesty's Home Civil Service, and providing for the classification, remuneration and other conditions of service of all persons employed therein.

5. In this Order the expression "the Commissioners" means the persons for the time being appointed by Her Majesty in Council to be Her Majesty's Civil Service Commissioners for the purposes of this Order.

6.—(1) This Order may be cited as the Civil Service Order in Council 1978, and shall come into operation on 1st December 1978.

(2) The principal Order is hereby revoked.

(3) Without prejudice to paragraph (4) below—

(a) any instrument in force at the commencement of this Order and made or having effect as if made under any provision of the principal Order re-enacted in this Order, and anything whatsoever done under or by virtue of any such provision, shall be deemed to have been made or done under or by virtue of the corresponding provision of this Order;

(b) any instrument or other document referring to the principal Order shall be construed as referring to this Order or the corresponding provision of this Order.

(4) The Interpretation Act 1889 shall apply for the interpretation of this Order and of any regulations made under this Order as it applies for the interpretation of an Act of Parliament, and as if for the purposes of section 38 of that Act this Order were an Act of Parliament and the principal Order were an Act of Parliament thereby repealed.

N. E. Leigh

EXPLANATORY NOTE

(This Note is not part of the Order.)

This Order revokes and re-enacts with amendments the Civil Service Order in Council 1969.

The principal change is that whereas the 1969 Order required the qualifications of persons proposed for permanent appointment to the Home Civil Service or the Diplomatic Service to be approved and certified by the Civil Service Commissioners, the present Order applies, subject to certain exceptions, to all appointments, whether permanent or not. Various exceptions are set out in Article 1(2) and Article 2 also empowers regulations to be made prescribing the circumstances in which, and the conditions on which, persons may be appointed before a certificate of qualification is issued.

4. As regards Her Majesty's Home Civil Service -

a. the Minister for the Civil Service may from time to time make regulations or give instructions for controlling the conduct of the Service, and providing for the classification of all persons employed therein and, so far as they relate to matters other than remuneration, expenses and allowances, the conditions of service of all such persons; and

b. the Treasury may from time to time make regulations or give instructions providing for the number and grading of posts in the Service, the remuneration, expenses and allowances of all persons employed therein and, so far as they relate to remuneration, expenses or allowances, the conditions of service of all such persons."

The 20th day of November 1964

APPENDIX B

Present,

THE QUEEN'S MOST EXCELLENT MAJESTY
IN COUNCIL

Whereas Her Majesty maintains a Foreign Service, a Commonwealth Service and a Trade Commission Service ;

And Whereas it is expedient to establish a single Service to take the place of the said Services ;

Now, therefore, Her Majesty is pleased, by and with the advice of Her Privy Council, to order, and it is hereby ordered, as follows :—

1. On 1st January 1965 Her Majesty's Foreign Service, the Commonwealth Service and the Trade Commission Service shall be amalgamated to form a single Service which shall be known as "Her Majesty's Diplomatic Service" and which shall discharge the functions of the Services aforesaid.

2. On 1st January 1965 the following persons who were immediately before that date members of the Services mentioned below shall become members of Her Majesty's Diplomatic Service in a grade determined by the Secretary of State to be equivalent to the substantive rank which they held immediately before the said date in the said Services :—

- (a) all members of Her Majesty's Foreign Service ;
- (b) all members of the Commonwealth Service who have not before that date elected to remain members of the Home Civil Service ;
- (c) those members of the Trade Commission Service who before that date have applied to join Her Majesty's Diplomatic Service and have been accepted for it by the Secretary of State.

3.—(1) A person who immediately before 1st January 1965 is a member of the Trade Commission Service but who on that date does not become a member of Her Majesty's Diplomatic Service may, if he either has applied for transfer thereto or does so before 1st January 1966, be accepted for transfer to Her Majesty's Diplomatic Service by the Secretary of State.

(2) A person for whom a Certificate of Qualification for service in Her Majesty's Foreign Service or the Commonwealth Relations Office has been issued by the Civil Service Commissioners before 1st January 1965 but who has not on that date taken up appointment may be appointed in Her Majesty's Diplomatic Service by virtue of the said Certificate of Qualification.

4. Members of the Commonwealth Service who on 1st January 1965 become members of Her Majesty's Diplomatic Service may at any time before 1st January 1966 elect to transfer to the Home Civil Service, and those who so elect may be so transferred without the issue of a further Certificate of Qualification by the Civil Service Commissioners.

5. The incorporation under the foregoing provisions of this Order of a person in Her Majesty's Diplomatic Service shall not affect that person's tenure of any post or appointment in the service of Her Majesty held at the date of incorporation ; provided that in the case of a post or appointment in Her Majesty's Diplomatic Service such person shall, on becoming a

member of that Service, hold the post or appointment as a member of that Service and subject to the conditions and regulations applicable to such members.

6.—(1) Except as provided in Articles 2 and 3 of this Order, no person shall be appointed a member of Her Majesty's Diplomatic Service, unless a Certificate of Qualification for appointment to Her Majesty's Diplomatic Service has been issued by the Civil Service Commissioners in his favour.

(2) Members of Her Majesty's Diplomatic Service may be employed in any appropriate post of the Service in the United Kingdom or overseas as required in the public interest.

(3) A member of Her Majesty's Diplomatic Service may be seconded for special duties outside that Service or may be transferred to another branch of Her Majesty's Civil Establishment, subject, where necessary, to the issue of an appropriate Certificate of Qualification by the Civil Service Commissioners.

7.—(1) The Secretary of State shall from time to time make regulations for Her Majesty's Diplomatic Service.

(2) The said regulations may in particular provide for all or any of the following matters:—

- (a) the division of the Service into branches and grades;
- (b) the conditions of appointment of new members to branches and grades of the Service;
- (c) the salaries for the branches and grades of the Service;
- (d) the conditions of promotion in the Service;
- (e) in conformity with any Act or Acts of Parliament which may be applicable, the conditions of retirement and pension of members of the Service.

(3) The said regulations, in so far as they specify salaries, allowances, travelling allowances, or conditions of retirement and pension, shall not be made without the concurrence of the Lords Commissioners of Her Majesty's Treasury.

8.—(1) In this Order the expression—

(a) "member of Her Majesty's Foreign Service" means a person who has been granted a Certificate of Qualification by the Civil Service Commissioners and who is serving as a member of Branch A, B, C, D or T of Her Majesty's Foreign Service;

(b) "member of the Commonwealth Service" means a person who has been granted a Certificate of Qualification by the Civil Service Commissioners and who is serving in a post under the Secretary of State for Commonwealth Relations in one of the grades or capacities listed in paragraph (2) of this Article, provided that the person concerned is not on loan to the Commonwealth Relations Office from another Government Department, and the expression "Commonwealth Service" shall be construed accordingly;

(c) "member of the Trade Commission Service" means a person who has been granted a Certificate of Qualification by the Civil Service Commissioners and who is serving in one of the grades or capacities listed in paragraph (2) of this Article in an appointment—

- (i) in the Trade Commissioner establishments of the Board of Trade, or

(ii) in any other establishment of the Board of Trade provided he is in receipt of Home Service Allowances, or

(iii) in a Foreign Service establishment on loan from the Board of Trade,

provided that the person concerned is not on loan to the Board of Trade from another Government department, and the expression "Trade Commission Service" shall be construed accordingly.

(2) The grades or capacities referred to in sub-paragraphs (b) and (c) of paragraph (1) of this Article are the following:—

any grade in the Administrative Class ;

any grade in the Legal Class ;

any grade in the Executive Class ;

any grade in the Information Class ;

any grade in the Research Officer Class ;

the grade of clerical officer ;

any typing grade ;

Commonwealth Relations Office Security Guards.

(3) For the purpose of paragraph (1) of this Article a person shall be deemed at any date to be serving in one of the posts, grades or capacities referred to therein if such person is serving in that post, grade or capacity at that date, or if having so served before that date, he was immediately before it on secondment to a post outside the Service or on loan to another Government Department or has been granted leave of absence.

9.—(1) This Order may be cited as the Diplomatic Service Order 1964.

(2) The Foreign Service Order in Council 1943 shall be revoked on 1st January 1965 provided that the revocation of any provision of that Order by this paragraph shall not affect the validity of anything previously done thereunder or by virtue thereof.

W. G. Agnew.

THE CIVIL SERVICE COMMISSION

GENERAL REGULATIONS 1978

By virtue of the powers conferred on them by Articles 2 and 3 of the Civil Service Order in Council 1978, Her Majesty's Civil Service Commissioners (hereinafter called "the Commissioners"), with the approval of the Minister for the Civil Service and Her Majesty's Secretary of State for Foreign and Commonwealth Affairs, hereby make the following Regulations:

PRELIMINARY

- 1.1 These Regulations may be cited as "The Civil Service Commission General Regulations 1978" and shall come into operation on 1 December 1978.
- 1.2 These Regulations are applicable to candidates of both sexes and to all appointments, transfers or promotions in respect of which, by virtue of the Civil Service Order in Council 1978, a certificate of qualification is required to be issued by the Commissioners.
- 1.3 In these Regulations, unless the contrary intention appears,
 - a. words importing the masculine gender shall include females, and
 - b. words in the singular shall include the plural and words in the plural shall include the singular, and
 - c. the expression "Civil Service" shall mean Her Majesty's Home Civil Service and Diplomatic Service, and
 - d. the expression "specified" shall mean specified by memoranda or other official instructions issued from time to time as occasion requires by the Commissioners for the situation or grade or group or class of situations concerned, provided that, where the situation or grade or group or class of situations is peculiar to one Department, the memoranda or other official instructions shall also be agreed with the Head of that Department.

CERTIFICATES OF QUALIFICATION

2. A certificate of qualification for appointment to a situation in the Civil Service will be issued by the Commissioners only when they are satisfied that a candidate is eligible under the provisions of these regulations in respect of age, health, character, knowledge and ability, and nationality, and that he fulfils any other conditions which may be specified.
- 3.1 In the case of an appointment or appointments of limited duration the validity of a certificate of qualification may be restricted to a limited period terminating on the date specified in the certificate.
- 3.2 A person in respect of whom a limited period certificate of qualification has been issued under Regulation 3.1 shall not be appointed to a further situation requiring a certificate of qualification until a further certificate has been issued.
- 3.3 The circumstances in which and the conditions on which persons may be appointed before the issue of a certificate of qualification to situations requiring such a certificate are specified in the Schedule to these Regulations.

METHOD OF ENTRY

4. All appointments which require to be certificated under these Regulations, other than those covered by Regulation 11, shall be made solely on merit on the basis of fair and open competition. Recruitment shall be by means of specified competitions, which shall be sufficiently publicised to the satisfaction of the Commissioners and shall be open to all persons who satisfy the specified conditions and who apply at the time and in the manner specified. Such competitions shall be held at such periods and for such situations or grades or groups or classes of situations as the Commissioners shall from time to time determine.

AGE

5.1 Every candidate shall satisfy the Commissioners that he is within the specified limits of age.

5.2 If no limits of age are specified, the candidate shall satisfy the Commissioners that his age is suitable to the duties of the situation which he seeks.

6. The Commissioners may exceptionally at their discretion extend the specified upper age limit for any candidate if they are satisfied that there is due and sufficient cause.

HEALTH AND REGULARITY OF ATTENDANCE

7. Every candidate shall satisfy the Commissioners that his health is such as to qualify him for the situation which he seeks and that he is likely to give regular and effective service for at least five years or for the period of any appointment of shorter duration:

Provided that, in the case of a candidate who is

- a. already employed on functions which have been transferred to the Crown and who is being admitted for employment in the Civil Service in consequence of such transfer, or
- b. already engaged in an employment or office to which the Principal Civil Service Pension Scheme applies either directly or by analogy,

the Commissioners may at their discretion waive or modify the standard of health required of that candidate for the purposes of the issue of a certificate of qualification.

CHARACTER

8. Every candidate shall satisfy the Commissioners that his character is such as to qualify him for the situation which he seeks.

KNOWLEDGE AND ABILITY

9. The Commissioners shall satisfy themselves that every candidate is qualified in respect of knowledge and ability to discharge the duties of the situation which he seeks.

10. Subject to the provisions of Regulation 11 hereof, the tests in respect of knowledge and ability shall be such as are specified in the relevant memoranda or other official instructions and may include qualifying or competitive tests, examinations or interviews or a combination of these; the tests or examinations may be written, oral or practical. Candidates may also be required to possess specified academic, professional or technical qualifications or appropriate experience, or a combination of these.

11. Without prejudice to the provisions of Regulation 9 hereof the Commissioners may, if they think fit, dispense with or modify any tests, in respect of knowledge and ability, if

- a. the Head of the Department or other appointment authority has satisfied the Commissioners that the admission of a particular candidate to a particular situation is for special and exceptional reasons justified by the needs of the public service and the proved merits of the candidate, or

b. it has been proved to the satisfaction of the Commissioners that it is desirable that the candidate concerned, having been employed on functions which have been transferred to the Crown, should be admitted for employment in the Civil Service, or

c. it has been proved to the satisfaction of the Commissioners that it is desirable that a candidate already holding a situation in another public service should be admitted for employment in the Civil Service, or

d. it has been proved to the satisfaction of the Commissioners that it is desirable, by reason of a shortage of qualified candidates, to admit to a particular situation a candidate who has reached an appropriate standard in a competition for an equivalent or higher situation but has failed to secure appointment to that situation, or

e. a candidate for whom the Commissioners have previously issued a certificate of qualification is put forward by the Head of the Department or other appointing authority for reinstatement, or for appointment to a situation inferior to that which he previously held, and the Commissioners are satisfied as to his knowledge and ability.

NATIONALITY

12.1 To be eligible for appointment (other than to a situation to which Regulation 12.2, Regulation 12.3 or Regulation 12.4 applies) a candidate must be a British subject, a British protected person or a citizen of the Irish Republic and in addition satisfy one of the following conditions:

a. if he was at birth a British subject, a British protected person or a citizen of the Irish Republic:

i. at least one of his parents must be, or have been at death, a British subject, a British protected person or a citizen of the Irish Republic, or

ii. the candidate must have resided in a country or territory within the Commonwealth or in the Irish Republic or have been employed elsewhere in the service of the Crown or partly have so resided and partly have been so employed for at least 5 years out of the last 8 years preceding the date of his appointment:

b. if he was not at birth a British subject, a British protected person or a citizen of the Irish Republic, he must have resided in a country or territory within the Commonwealth or in the Irish Republic or have been employed elsewhere in the service of the Crown or partly have so resided and partly have been so employed for at least 5 years out of the last 8 years preceding the date of his appointment:

c. if not qualified under a. or b. of this Regulation, he must satisfy the Commissioners that he is so closely connected with a country or territory within the Commonwealth either by ancestry, upbringing or residence, or by reason of national service, that an exception may properly be made in his favour.

12.2 A candidate will not be eligible for appointment to a situation in the following Departments:

Cabinet Office
Ministry of Defence (other than the Meteorological Office, to which Regulation 12.1 applies)

unless

a. at all times since his birth he has been either a British subject or a citizen of the Irish Republic and

b. he was born in a country or territory which is (or then was) within the Commonwealth or in the Irish Republic and

- c. each of his parents was born in a country or territory which is (or then was) within the Commonwealth or in the Irish Republic and is or was at death a British subject or a citizen of the Irish Republic and has or had been one or the other at all times from birth:

Provided that, notwithstanding that the aforesaid conditions are not satisfied, he may, if the conditions specified in Regulation 12.1 are satisfied, be admitted to appointment by special permission of the Minister responsible for the Department concerned.

12.3 A candidate will not be eligible for appointment to a situation in the Diplomatic Service unless:

- a. at all times since birth he has been either a British subject or a citizen of the Irish Republic, and
- b. each of his parents is or was at death a British subject or a citizen of the Irish Republic and has or had been one or the other at all times since birth, and
- c. the Secretary of State is satisfied that the candidate is so closely connected with the United Kingdom, taking into account such considerations as ancestry, upbringing, and residence, that he may properly be appointed; and
- d. he undertakes to become a citizen of the United Kingdom and Colonies as soon as possible after his appointment if he is not already such a citizen:

Provided that, notwithstanding that condition b. above is not satisfied, he may, by special permission of the Secretary of State, be admitted to appointment if:

- i. one of his parents is or was at death a British subject or a citizen of the Irish Republic, and has or had been one or the other at all times since birth (see below), and
- ii. his father, if not a British subject or a citizen of the Irish Republic at all times since birth, is or was at death a British subject or a citizen of the Irish Republic.

For the purpose of i. above, any period before 1 January 1949 during which his mother lost British nationality as a result of marriage to an alien may be disregarded.

The foregoing requirements of this Regulation may also be applied to situations under the Secretary of State, other than situations in the Diplomatic Service, if the Commissioners, with the approval of the Secretary of State, so prescribe.

12.4 To be eligible for appointment to a situation under the Secretary of State for Foreign and Commonwealth Affairs, other than a situation to which Regulation 12.3 applies, a candidate must satisfy the requirements of Regulation 12.3 a. and Regulation 12.3 b. Provided that, notwithstanding that the aforesaid conditions are not satisfied, he may, if the conditions specified in Regulation 12.1 are satisfied, be admitted to appointment by special permission of the Secretary of State.

12.5 For the purpose of this Regulation, references to British subjects apply equally to Commonwealth citizens, and references to citizens of the Irish Republic include references to citizens of the Irish Free State or of Eire.

REVOCATION

13. The General Regulations made by the Commissioners on 23 October 1969, as amended or varied by the Regulations made on 23 June 1970, 23 July 1970, 27 October 1970, 22 December 1970, 4 May 1971, 1 June 1972 and 31 July 1973 are hereby revoked:

Provided that, save as laid down in this Regulation, all regulations, rules and notices made or issued by the Commissioners regarding the admission of candidates to situations in the Civil Service shall remain in force until revoked or cancelled by further memoranda or other official instructions issued by the Commissioners.

SCHEDULE

1. This Schedule sets out the circumstances in which, and the conditions on which, persons may be appointed to situations before the Commissioners have issued a certificate of qualification. Paragraph 2 sets out the circumstances in which the Commissioners may give authority in particular cases for appointments to be made before the issue of a certificate of qualification. Paragraphs 3 and 4 and Part II set out the circumstances in which departments may make appointments before the issue of a certificate of qualification without further reference to the Commissioners.

PART I

2. The Commissioners may authorise appointments on the basis of a period of service on specified conditions designed to enable the Commissioners to satisfy themselves regarding a person's suitability for a certificate of qualification in respect of any of the requirements governing health, character, knowledge and ability or nationality, as stated in the Regulations, in the following circumstances:

- a. Subject to paragraph 4 below, if there is a shortage of fully qualified candidates a person who does not fully satisfy the specified conditions of knowledge and ability but has nevertheless reached an appropriate standard and who is otherwise acceptable may exceptionally be offered an appointment on the basis of a period of trial service of not less than the probationary period for the situation; and provided such service has been satisfactory the Commissioners will accept the nomination of such a candidate for the issue of a certificate of qualification.
- b. For a candidate who does not fully satisfy the health regulation the Commissioners may authorise an appointment, specifying the manner and time for a further consideration of the health of the candidate in order that the candidate may subsequently satisfy the Commissioners that he is fully qualified in respect of the health regulation for the issue of a certificate of qualification. If, on review, there is still a doubt as to the ability of the candidate to satisfy the health regulation, the Commissioners may authorise an extension of the period of trial service.
- c. If there are doubts about a candidate's character which are insufficient to justify rejection and he is otherwise acceptable for appointment the Commissioners may authorise a period of trial service in order that the candidate may subsequently satisfy the Commissioners that he is qualified in respect of character for the issue of a certificate of qualification.
- d. For candidates who do not satisfy the nationality Regulation for the issue of a certificate of qualification, but who may do so at a later date, the Commissioners may authorise a period of service on specified terms.
- e. Subject to paragraph 4 below, if it is considered urgently necessary that a candidate should be appointed to a particular situation before the Commissioners' enquiries have been completed, a department may so appoint him on a conditional basis pending certification, provided that there is no *prima facie* doubt as to his eligibility for a certificate of qualification.
- f. If there is a shortage of candidates for a particular situation or grade, and a department wishes to appoint a person of high ability to that situation or grade without open competition, the Commissioners may authorise such appointment on a provisional basis for a period not exceeding 12 months, on condition that the person concerned competes in the next open competition for the situation or grade in question.

3. In the case of those grades and situations specified in Part II of this Schedule, for which it is generally impracticable to test a candidate's knowledge and ability, Departments may without further authorisation from the Commissioners make appointments for a period of trial service in order to test a candidate's knowledge and ability. If such a candidate satisfactorily completes the trial service the Commissioners will accept his nomination for the issue of a certificate of qualification.

4. Where recruitment of clerical grades falling within the circumstances described in paragraph 2a above and of any grade falling within the circumstances of paragraph 2e above is carried out under the delegated or decentralised recruitment arrangements appointments may be made by Departments in those circumstances without further reference to the Commissioners.

PART II

5. The following are the grades and situations to which appointments may be made for a period of trial service before the issue of a certificate of qualification:

A. NON-INDUSTRIAL GRADES AS FOLLOWS:

Accommodation Stores Accountant	Custodian of Ancient Monuments
Apprentice Recreation Specialist	Custodian at the Palace of Westminster
Armouries Warden	Cypher Officer Grade II
Assistant at Reception Centres	Cypher Operator
Assistant at Re-establishment Centres	Daily Help
Assistant Hostel Manager/Manageress	Data Processor
Attendant	Deputy Hostel Manager
Attendant at Court of Session	Displayman
Attendant at Royal Courts of Justice	Displayman, Junior
Attendant on Medical Officers	Domestic Staff in Judges' Lodgings
Audio Transcriber	Domestic Superintendent Grade III
Bailiff in County Courts	Doorkeeper
Blind Telephonist	Drawing Office Assistant
Car Driver	Duplicator Operator
Care Assistant Class I	Electrical Officer in Ocean Weather Ships
Caretaker	Electrical Officer RMAS
Catering Manager Grades III and IV	Estate Warden
Catering Officer Grades II and III	Eye Fitter
Chef Grades I and II	Eye Maker
Chief Cook Grades I and II	First Aid Attendant
Cinema Projectionist	Fishery Officer, Assistant
Cinema Projectionist, Assistant	Fourth Engineer in Ocean Weather Ships
Civilian Housekeeper	Fourth Engineer RMAS Cable Ships
Civilian Operating Room Assistant	Fourth Officer RMAS Cable Ships
Civilian Radio Operator	Frontier Service Assistant
Civilian Welfare Officer	Gardens Supervisor
Cleaner	Gas Meter Examiner Grade III
Cleaner of Instruments	Gas Meter Examiner, Assistant
Cloakroom Attendant	Government Telephonist
Coastguard Officer	Graduate Engineer
Community Relations Adviser	Graphic Designer
Company Sergeant Major	Graphic Designer, Assistant
Constable	Hall Porter
Cook, Assistant	Handicraft Instructor
Cook, Assistant Head	Head Armouries Warden, Deputy and Assistant
Cook, Senior Cook, Head Cook	Head Publications Salesman/Saleswoman
Cook/Caterer	Head Porter
Council Chamber Keeper	Home Security Officer
Court Officer	Hostel Clerk
Crown Office Messenger	
Curator) Jewel House, Tower of	
Curator, Assistant) London	

Hostel Manager
 Hostel Manager, Assistant
 Hostel Manager, Deputy
 Hostel Orderly
 Hostel Recreation Officer
 Hostel Steward
 Housekeeper
 Housekeeper Caterer
 Housekeeper Caterer, Assistant
 Houseman
 House Matron
 House Porter
 House Steward

Inseminator
 Inspector of Custody Guards

Kitchen Porter

Laboratory Attendant
 Laminator
 Laundress/Seamstress
 Library Assistant
 Linen Keeper
 Linguist Typist
 Livestock Assistant (South Uist)

Macer
 Marine Survey Assistant
 Mason's Assistant
 Matron Housekeeper
 Mechanist
 Medal Issuer
 Medical Board Assistant
 Mercantile Marine Officer
 Messenger
 Mess Manager, Grades A and B
 Model Maker
 Museum Packer
 Museum Technician Grades III and IV

Needleworker
 Night Patrol
 Nursing Assistant
 Nursing Auxiliary

Object Cleaner
 Office Assistant in Government Whips' Office

Packer (other than Customs & Excise)
 Paper Keeper
 Park Attendant
 Park Constable
 Photographer (unqualified)
 Photographer, Assistant (unqualified)
 Photoprinter
 Porter
 Porter/Cleaner

Prison Auxiliary
 Process and General Supervisory Class
 Grades III, IV and V
 Production Keeper and Assistant Production
 Keeper
 Psychological Tester
 Publications Salesman/Saleswoman
 Purse Bearer to the Lord Chancellor

Radio Officer
 Radio Officer RMAS
 Radio Operator
 Radio Operator in Ocean Weather Ships
 Radio Technician
 Radio Technician in Ocean Weather Ships
 Recreation Director
 Recreation Director, Assistant
 Regimental Sergeant Major
 Repository Assistant Grade II
 Repository or Search Rooms Assistant
 Reproduction Staff Classes A and B
 Residential Child Care Officer (Grades I,
 II and III)

Sampler Tester
 Second Engineer in Ocean Weather Ships
 Second Officer in Ocean Weather Ships
 Second Officer RMAS Ocean Tugs and
 Whitehead
 Security Guard
 Security Officer*
 Senior Security Officer
 Senior Surgery Assistant in HM dockyards
 Senior Waitress
 Servant
 Social Case Worker (Unqualified)
 Special Duty Orderly
 Specialist Teleprinter Operator
 Stamping Officer
 Starter at Richmond Park Golf Course
 Station Warden
 Storekeeper
 Storekeeper, Assistant
 Storekeeper/Domestic Supervisor
 Storekeeper Grade IV
 Storeman
 Stores Officer, Assistant
 Stores Officer Grades C and D
 Student Dental Surgery Assistant (Unqualified)
 Superintendent of Parks, Assistant
 Supervisory Traffic Representative and
 Traffic Representative

*Not to be confused with Security Officer (Physical) and Security Officer (Investigating) which are grades recruited by Civil Service Commission.

Survey Assistant
Survey Storeman

Tapestry Restorer
Telecommunications Operator
Teleprinter Operator
Third Engineer in Ocean Weather Ships
Third Engineer RMAS Ocean Tugs and
Whitehead
Third Officer in Ocean Weather Ships
Ticket Assistant
Tipstaff
Tracer
Traffic Handler
Train Bearer to the Lord Chancellor

Usher

Valet
Verbatim Reporter Grades I and II
Viewer

Waitress
Warden
Warder
Warder/Attendant
Wireless Technician
Writer

Yeoman of Signals
Yeoman Warder

B. GOVERNMENT INDUSTRIAL EMPLOYEES

All grades

**CIVIL SERVICE COMMISSION
CIVIL SERVICE DEPARTMENT**

1 December 1978



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Management and Personnel Office

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Civ Service

19 July 1982

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 2AG

Dear General,

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

On 1 April the Select Committee on the Treasury and the Civil Service published a report, prepared by its Sub-Committee under the chairmanship of Dr Bray, on "Efficiency and Effectiveness in the Civil Service". You and I have drafted the Government's response in the form of a White Paper, after thorough consultation with departments at Permanent Secretary level. The Prime Minister, as Minister for the Civil Service, has seen the attached draft, and in particular the stance we have judged it right to take on disclosure of information, MINIS and the role of the central departments. She has approved the draft and asked me to circulate it for information to colleagues. We are agreed on the importance of publishing before the Commons rises.

I am sending copies of this letter and the White Paper to the Prime Minister, other members of the Cabinet and Sir Robert Armstrong.

Yours ever
Baroness

BARONESS YOUNG

EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

GOVERNMENT OBSERVATIONS ON THE THIRD REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE: SESSION 1981-82, HC236

[Final draft]

The Government welcomes the Report of the Treasury and Civil Service Committee on "Efficiency and Effectiveness in the Civil Service" (Third Report from the Committee, Session 1981-82, HC236) as a timely and valuable contribution to promoting greater efficiency and effectiveness in the Civil Service.

2. The Government accepts, totally or with some reservations, 20 of the Committee's 26 recommendations. Of the others, four concern the powers and role of the Comptroller and Auditor General (C&AG), and seek to expand and support recommendations of the Public Accounts Committee (PAC). The Government is considering the PAC's recommendations and its response to **Recommendations (xvi) and (xvii)** of the Treasury and Civil Service Committee's Report will be made known in due course.

3. The Government's response to the substance of the Committee's recommendations follows. The Committee's recommendations and the nature of the Government's response are summarised in Appendix 1 for ease of reference.

ACHIEVEMENTS SO FAR

4. The Committee concentrated its enquiries upon **arrangements** to promote efficiency and effectiveness in the Civil Service. It concluded that "there is no clear orientation towards the achievement of effectiveness and efficiency at the higher levels of the Civil Service or in government generally"; and that, although there is a commendable concern with economy in the use of resources, there are too few attempts to set operational objectives, measure outputs and results, and hence guide the proper use of resources.

The Government's policy for good management

5. The Government has since May 1979 regarded good management throughout the whole of the Civil Service as an aim to be pursued as a matter of policy in its own right. This policy holds the key to securing a general and sustained improvement in efficiency and effectiveness. The Government's objectives have been to review the functions of government, to eliminate those that are unnecessary or are no longer required, to make sure that those that are retained are

performed as efficiently and effectively as possible, to build on existing examples of good management practice in departments, and to disseminate such examples more widely. The Government's policy for meeting its aims was described in "Efficiency in the Civil Service" (Cmnd 8293, July 1981).

6. The first part of the Government's policy - which, as the Committee appreciated, shows concern with economy in the use of resources - entails setting a financial framework, with stricter limits on the amount of money and manpower available, to stimulate economy and efficiency. Departments use manpower monitoring systems which exercise close control over staff numbers month by month. Early in its life the Government set a target for the size of the Civil Service of 630,000 by April 1984 - over 100,000 fewer than when it came to office. Reductions are on course: on 1 April 1982 the size of the Civil Service was 666,400, the smallest number for 16 years. Service-wide some £½ billion a year in pay is already being saved. For some departments the 1979 baseline itself represented much lower manpower levels than in the past. In the Ministry of Defence (MOD), for example, civilian staff numbers had been reduced by over 20,000 United Kingdom - based civilians between 1976 and 1979, and some 30,000 more have gone since then.

7. The second part of the Government's policy - which tackles problems identified by the Committee - has been to secure better value for money. The Government has sought to create and maintain an environment which is conducive to good management and to set and attain particular management targets. This demands critical examination of the continuing need for activities, functions and policies, as well as their costs, and an assessment of whether any should be transferred or contracted out to the private sector. Between 1978-79 and 1980-81 the number of Inland Revenue staff per 10,000 taxpayers has fallen from 24 to 21 (12½%); it is estimated that the relative costs of administering Social Security benefits will have fallen by 6% between 1978-79 and 1981-82; and savings in MOD manpower have been the major factor in enabling expenditure on equipment - and hence on front-line capability - to be increased from 31% of the Defence Budget in 1974-75 to 46% in 1982-83. Other examples of improvements made by departments include the following:

a. The Ministry of Agriculture, Fisheries and Food has streamlined its regional organisation and simplified the arrangements for making grants to farmers for capital equipment, thus saving so far 700 posts worth about £6 million a year.

b. In HM Customs and Excise, operational research techniques have improved the effectiveness of the Department's programme of VAT control visits. The increase in detection of under-declarations resulting from these techniques is estimated at about 20%, worth about £25-30 million a year.

c. The MOD has created a Directorate General of Management Audit, bringing together the functions of central management services, staff inspection and internal audit. This is already beginning to yield results in better co-ordination, more selectivity in coverage, and the development of management audit techniques using mixed discipline teams to examine more complex issues where straightforward inspection or audit alone would not give sufficient assurance of the Department's efficiency.

d. The Department of Health and Social Security (DHSS) has carried out a major study to examine the way business is handled at the various levels of the Social Security organisation, and the traffic in work between headquarters, regional and local offices. The report, published in September 1981, proposed a big reduction in the extent to which local offices are required to refer matters elsewhere for decision. Implementation of these recommendations is expected to lead to a net saving of around 1,000 posts over the next 12-18 months as a result of reducing the number, size and functions of the regional offices.

8. The scrutinies conducted by departments with the help and advice of Sir Derek Rayner provide notable examples: departments will have completed 133 scrutinies by the end of 1982, identifying so far potential annual savings worth £300 million and one-off savings of £37 million. A "Rayner" review of government statistics (Cmnd 8236, April 1981) has already reduced by 10% the burden of enquiries on industry and other organisations and saved £10 million (690 posts) a year in government expenditure. A further substantial reduction is expected by 1984 and additional savings of £7 million a year (840 posts) as the remaining recommendations are implemented. A recently completed review of support services for government Research and Development has identified savings and improvements worth about £15 million a year (1,500 posts) and about £7 million once and for all savings.

9. The Government has also taken initiatives to secure lasting improvement, affecting both people and systems, in the quality of Civil Service management. On the "people" side the introduction by the Government of a more formal system of centralised succession planning to identify and plan staff moves in crucial posts provides essential support for the principle that people likely to occupy senior management posts - especially those concerned with financial management - should be given suitable experience and training earlier in their careers. On the "systems" side internal audit has been strengthened, and administrative forms have been reviewed (results were announced in February 1982 (Cmnd 8504)). Further reviews of the management of large, self-contained executive operations, of the control of running costs, and of personnel management are in progress.

10. The Government shares the Committee's view (**Recommendation (xxvi)**) that efforts to increase efficiency and effectiveness would be hampered by a failure of morale in the Civil Service and has no doubt about the importance of good staff relations. Achievement of the Government's objectives of a smaller and more efficient Service that provides good value to the taxpayer may cause some uncertainties for staff; this is bound to be so when an organisation is reducing in size. The Government is wholly persuaded of the need for good communications and the prompt announcement of decisions to minimise these difficulties, so that the Civil Service can sustain its sense of pride in a job worth doing and well done. It is clearly important for the Government to do everything possible to carry its employees with it in the implementation of policy, to explain the need for its policies and the longer term advantages of a more streamlined and effective Civil Service, and to make clear - as it is happy to do in this Report - that it appreciates and values the work that is done by its civil servants, including their essential contribution to carrying through all the improvements in efficiency and effectiveness that have been made so far and which are in train.

11. For the future, the Government wishes to see staff involved more closely in the development and formulation of the decisions that affect their work, where this will itself enhance their effectiveness in carrying out their tasks. It is considering ways in which staff can gain some benefit from efficiency savings - for example by investing a proportion of such savings to improve output and enhance the working environment. It is seeking to secure greater co-operation between different departments' offices operating in the same geographical area (1). It is improving management/staff communication: for example, DHSS has recently issued a note to all its local office staff setting out the personnel policies it proposes for the next two years and emphasising the efforts being made to avoid redundancies while nonetheless achieving its manpower targets. The responsibilities of the central departments and their Ministers are recognised in the Early Tasks paper (Appendix 2) published by the Management and Personnel Office (MPO); and two of the MPO's five major objectives for 1982-83 are to promote the motivation and performance of staff and to develop good employment practices throughout the Civil Service.

THE PRESENTATION, MANAGEMENT AND REVIEW OF PROGRAMMES

12. The Committee made a number of recommendations related to the presentation, management and review of programmes (**Recommendations (i) to (x)**). One particularly important development of the Government's policy, designed to ensure the systematic and comprehensive application of higher standards of financial management, has recently been initiated by the Treasury and the MPO, and is relevant to the Committee's **Recommendations (iv), (v) and (vi)**. It will build on the valuable work that has already been undertaken in various departments to develop better financial management systems.

Financial Management

13. The aim of the financial management initiative is to promote in each department an organisation and system in which managers at all levels have:

- a. a clear view of their objectives and means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money; and
- c. the information (particularly about costs), the training and the access to expert advice that they need to exercise their responsibilities effectively.

14. The working document with which the initiative was launched on 17 May is at Appendix 3. Departments are called upon to examine the way they manage all aspects of their programmes and to work out the best pattern of managerial responsibility, financial accounting and control. Keeping in touch throughout with the Treasury and the MPO, each department is to develop and

(1) Departments involved are: HM Customs and Excise, Department of Employment (including the Manpower Services Commission and the Health and Safety Executive), Department of Education and Science, Department of Health and Social Security, Home Office, Inland Revenue, Lord Chancellor's Department, Ordnance Survey, and Department of Transport.

define a plan which on completion will be sent to the Treasury and the MPO (before the end of January 1983); those departments will publish a central report by July 1983.

15. It is expected that every department's plans will include the following points:

- a. there will be an outline plan of development which will cover the whole of the department's activities. The assembly of each plan may proceed in stages, including pilot projects;
- b. there will be an information system that not only provides higher management with aggregated information needed for estimating and control, but managers at successive levels down the line with the information they need to do their job properly;
- c. the responsibilities of managers for the control of the resources they consume and, wherever feasible, the results they achieve will be specified systematically;
- d. the plan will include a system for the budgeting and control of administrative costs;
- e. where practicable, performance indicators and output measures will be developed which can be used to assess success in achievement of objectives. This is no less important than the accurate attribution and monitoring of costs; the question departments will address is "where is the money going **and** what are we getting for it?".

The full achievement of the aims of the initiative will require a heavy commitment of resources, including the efforts of senior management, and departments will need time. However, some departments were already well ahead. The MOD, for example, has had for some time cost and management accounts covering expenditure approaching £4½ billion and widespread staff and travel budgets. It had already conducted a major study of financial accountability in the Department and is now considering proposals for a system of responsibility budgets for line managers.

16. A small MPO/Treasury Unit comprising both civil servants and management consultants has been set up to help departments in the preparation and review of their plans. It will work mainly in departments, advising senior management in the light of its experience gained from other departments and from the private sector. It will also help to identify Service-wide issues and to point to useful changes in existing practices and rules.

Management of programmes - general

17. The Government supports the principles contained in the Committee's **Recommendation (xi)** - that whilst there should be greater devolution of management, central departments should adopt a stronger and where necessary more prescriptive role in reviewing the effectiveness and efficiency with which management operates.

18. The Treasury and the MPO seek by prescription and scrutiny to ensure that high standards are reached by all; to compare one departmental programme with another where appropriate; and to ensure that Parliamentary and other requirements are met. It is for the Treasury and the MPO, making full use of the knowledge and experience of other departments, to establish clear principles, to disseminate information and guidance about how principles can be applied and to check that they are applied in practice. It is with these considerations in mind that the two departments have initiated the drive to improve financial management set out in Appendix 3.

19. The improvement of financial management and the presentation of management information in departments must, however, take account of the fact that the functions and businesses concerned are numerous and diverse, and must recognise that departments themselves are better placed to develop the practical application of centrally defined principles. The Government accepts the suggestion which is commended in **Recommendation (i)** and set out more fully in paragraphs 50 to 56 of the main Report, that the evaluation of a programme requires the development of an analytical framework. The Government agrees with the Committee's comments that there should be no question of rigidity, and that policies or problems should not be distorted to fit any particular framework but the framework should be adapted and developed to fit the problems.

20. The flexibility that will be needed can be illustrated by reference to the responsibilities of DHSS which extend to five large and separate businesses which vary greatly in type and span of control, accountability and methods of working. These include some 86,000 directly employed staff in the social security system, where expenditure is specifically under the direct control of DHSS Ministers; some 2,700 staff working in the special hospitals which are run directly by DHSS; nearly a million staff employed by the NHS authorities, who are also responsible for the allocation of money provided by DHSS Ministers for which they remain accountable; and the provision of local authority social services by local authority staff out of local authority resources and the rate support grant, where the DHSS responsibility is limited to guidance and advice. MOD's direct responsibilities are equally diverse, and include defence policy and the oversight of operations, the administration of more than half a million service and civilian personnel, research and development, the production of equipment and munitions, and the large scale procurement of equipment. On the other hand a small department, such as the Department of Energy with no more than 1,100 staff but an extensive policy range, is developing manpower and running cost controls and methods of policy review fitted to very different circumstances. These differences mean that a wide variety of analytical systems will be needed and that those that are developed will have to be sufficiently flexible to cover a wide range of activities.

21. Government initiatives such as that on financial management described above aim to build on the work that has already been done by departments, to systematise it and extend it. Action on the Department of the Environment's Management Information System for Ministers (MINIS) provides a good example. Indeed the Committee recommended (**Recommendations (iv) and (v)**) that MINIS, or its clear equivalent, should be adopted in all departments, that MINIS-type costings should be capable of reconciliation with departments' conventionally recorded expenditure, and that MINIS-type documents should be made publicly and readily available.

22. The strength of MINIS is that it provides a comprehensive framework which brings together information about activities, costs, past performance and future plans for each part of the Department of the Environment. It shows how expenditure on staff and non-staff running costs is divided between Directorates, and relates this information to the size of public expenditure programmes being administered. This information enables Ministers and senior management to review all aspects of the Department's work regularly, and to determine priorities and how internal resources are to be allocated between them.

23. All departments similarly require a comprehensive system of management information. The systems developed by departments in response to the financial management initiative should ensure that it is provided. Indeed, they should go further. In following the criteria outlined in paragraphs 13 to 15 above and detailed in Appendix 3, they should cover not only internal expenditure but expenditure on programmes directly run by departments and should also provide the information needed to discharge responsibility for funds paid out in grants to other agencies which are themselves directly responsible for spending the money.

24. All departments will consider carefully what they can learn from the MINIS system. The precise form of system they adopt will depend upon the nature of the businesses they run, the method of operation preferred by the Minister and his senior staff and the best way of building up management systems that have been already developed. In this way the principles endorsed by the Committee will be adopted and applied generally.

25. The costings used in departments' management information systems will be compatible with their normal methods of recording expenditure, as the Committee recommended. The MPO and Treasury intend to encourage departments to disclose as much as possible of the information they derive from their management systems. They attach particular importance to making material relating to the identification of priorities and the allocation of manpower and other resources available to Select Committees and the public, though not all such material can be disclosed, for example if it concerns measures to combat fraud. The MPO and Treasury expect to receive guidance on the question of disclosure of information from the Unit referred to in paragraph 16, and their central report on the financial management initiative will cover it.

Presentation and review of programmes

26. The Committee recommended (**Recommendation (iii)**) that the annual Public Expenditure White Paper should update and bring together statements about programmes, and that the annual Supply Estimates should offer more detail on targets and outputs. There are limits to the amount of information that can manageably be contained in the White Paper and Estimates, but the maximum relevant information will be made available, and the White Paper and Supply Estimates will continue to reflect improvements in the presentation of expenditure and the measurement of output. The style of the Public Expenditure White Paper has changed considerably over the years to match changing interests, and will continue to do so. The Government will also continue to consult Parliament about changes in Supply Estimates to ensure that developments in financial management do not conflict with Parliamentary needs. Departments will continue to extend the practice of publishing information about their programmes, their objectives and their performance in achieving them. The MOD, for example, publishes an annual Statement on Defence Estimates in two volumes.

27. The Committee recommended (**Recommendation (vii)**) that departments should work out with the MPO an annual programme of reviews to evaluate their programmes, establish the machinery for conducting them, and report to MPO (and thence to Parliament) the results of the reviews and decisions taken on them. It also suggested (**Recommendation (xiii)**) that the Treasury should probe the effectiveness of departmental programmes. It has long been the practice for individual departments to subject programmes and policies to review as the need or opportunity has arisen and it is essential for good administration that they should continue to do so. A further stimulus has been applied in recent years: for example "Rayner" scrutinies have often gone well beyond immediate management questions into the policies that underlie programmes. Moreover, there are already arrangements for systematically following up issues identified by Ministers during the Public Expenditure Survey as requiring more detailed review. The scope for more effective probing by the Treasury will be enlarged by the financial management initiative, with its emphasis on evaluating objectives and output as well as measuring costs; and the Treasury will continue to stimulate reviews of expenditure programmes where it perceives the need. The Government believes that the steady development of existing review activity will be more fruitful than the institution of a highly centralised approach.

28. The Government considers that it should be for individual departmental Ministers, not central departments, to decide whether to publish the results of their reviews and, where appropriate, to announce in advance that they are taking place. Ministers have demonstrated increasing readiness to do so, and this policy will be continued.

The role of other bodies in the review of programmes

29. The Committee recommended that departmental Select Committees should be able, via the PAC, to request the C&AG to review the efficiency and effectiveness of government programmes; that the C&AG should report annually on enquiries into government programmes conducted during the last 10 years, on programmes that have not been reviewed in that time, and on planned reviews; and that departmental Select Committees should be able to table substantive motions requiring information or debate on recommendations relating to improved efficiency and effectiveness (**Recommendations (viii) to (x)**).

30. With regard to the first of these recommendations, the C&AG's powers to examine the files of government departments, and to comment on his findings, derive from the Exchequer and Audit Departments Acts. Thus, his access to departmental files relates to his audit of the departments' accounts.

31. The C&AG's reports on efficiency and effectiveness arising out of his audit are considered by the PAC, the terms of reference of which refer specifically to the accounts. Neither the C&AG nor the PAC, unlike the departmental Select Committees, comments on the merits of government policies; the C&AG's powers of access should not cover such a purpose. In the view of the Government the existing procedure under which the PAC reports and makes recommendations, having considered the C&AG's report and having taken evidence from Accounting Officers, is very effective. For these reasons the Government does not consider that it would be appropriate for the C&AG to use his powers on behalf of other Select Committees.

32. **Recommendation (ix)** is addressed to the C&AG who, as an independent officer, deploys his resources as he thinks fit.

33. The departmental Select Committees have powers, subject to well-established conventions, to call Ministers to account and to seek information from them about policies and programmes and about the way they are administered. The Government welcomes the role of Select Committees in doing so, but believes that they have sufficient and appropriate powers for that job.

34. The Committee also recommended (**Recommendation (ii)**) that Ministers should continuously account to Parliament for resources used and results achieved in relation to objectives; and that government should ensure freedom for independent enquiry and money to support independent programme reviews. The Government fully endorses the importance of Ministerial accountability to Parliament, and believes that Select Committees provide a valuable additional instrument for Parliament in carrying out its own role in the review process. Outside bodies too will continue to participate in this process, and the Government will take into account their comments as part of its own reviewing work.

THE ROLE OF THE CENTRAL DEPARTMENTS

35. The Committee made a number of recommendations concerning the role of the central departments (**Recommendations (xi) to (xv)**). The Government's view on **Recommendation (xi)** concerning the balance between devolution to departments and central prescription have already been given (paragraphs 17-18 above); and its views on **Recommendation (xiii)** - the Treasury's role in probing the effectiveness of departmental programmes - are at paragraph 27. The Committee also recommended that the MPO should do more to disseminate examples of good practice from elsewhere, including abroad (**Recommendation (xii)**); that the Treasury and the MPO should be co-located to assist in necessary collaboration (**Recommendation (xiv)**); and that the MPO should act with the full support of the Prime Minister (**Recommendation (xv)**).

36. The Government endorses these recommendations with minor reservations. One of the MPO's main tasks is to build upon the substantial work that has been done already by departments to promote good management systems and practice. The MPO has been working with departments in reviews of a number of common activities, and as a result of this work has drawn up and issued guidelines on good management practice in four of these areas: typing, telecommunications, messenger services and transport. Work in other areas, such as stores, is in hand, and it is proposed that further guidelines will be issued. Already savings in the areas studied amount to £21 million per annum. The lessons from the Administrative Forms Review are being vigorously followed up. The review of support services for government Research and Development, which has just been published, will also give rise to guidance of general application. This year's multi-

department reviews of the control of running costs, (1) of the management of large self-contained executive operations, (2) and of personnel work (3) should also provide the basis for practical and long-lasting guidance to departments. This will be published.

37. Another example of arrangements for the dissemination of best practice, both from within government and from the private sector, is the establishment of the MPO/Treasury Unit described in paragraph 16 above. However, comparisons with costs of related **overseas** programmes are usually of limited value because, except at a superficial level, circumstances differ so much. For example, the Inland Revenue has found that revenue bodies in other countries are normally responsible for a different mix of taxes, each of which may be more or less complex, with different levels of taxation, different divisions of work between taxpayer and department (for instance, because of self assessment) and different systems and powers. Likewise, attempts by HM Customs and Excise to compare the cost of VAT collection in the United Kingdom and in other European countries have been made more than once, but have been inconclusive because some countries are unable to identify what it costs them to collect VAT whilst others cannot produce figures on bases comparable with those used in the United Kingdom; there are significant differences both in the tax-collecting organisations and in the scope of the tax itself. While therefore the Government accepts that there is value in those responsible for running particular activities in departments studying the practices adopted in other countries, it does not consider that the probable returns are sufficient to justify substantial studies to compare costs directly.

38. Responsibility for the organisation, management and overall efficiency of the Service, and for policy on recruitment, training and other personnel matters rests with the Prime Minister as Minister for the Civil Service, and is discharged by the MPO. The MPO will continue to act in these matters with the Prime Minister's authority.

39. In April this year the MPO published a paper ("Early Tasks") setting out its major objectives for 1982-83 (Appendix 2). The Treasury and the MPO share many responsibilities for the framework within which government departments operate, making it essential that these two central departments work closely together. MPO and Treasury Ministers, and the Joint Heads of the Home Civil Service, meet regularly and frequently to consider questions of Civil Service management. There are many formal and informal links below that; for example, the use of "assignment" staff such as Staff Inspectors and O&M experts is now jointly planned. Links between the Treasury and the MPO will be made much easier, as the Committee recognised, by the Government's decision to house the two departments at the Great George Street building. It is expected that the main move, involving as it does other departments, will be completed by Spring 1983.

Departments taking part in reviews:

(1) Department of Education and Science; Department of Employment; Department of Energy; Foreign and Commonwealth Office; Management and Personnel Office; Department of Trade.

(2) Ministry of Defence (Meteorological Office and RAF Support); Department of the Environment (PSA District Works Offices); Home Office and Scottish Office (Prisons); Royal Mint; Department of Trade (Coastguards).

(3) Ministry of Agriculture, Fisheries and Food; HM Customs and Excise; Department of Employment; Department of Health and Social Security; Home Office; Inland Revenue; Lord Chancellor's Department; Property Services Agency; Scottish Office.

OTHER PUBLIC SECTOR BODIES

40. The Committee made recommendations concerning audit by the C&AG of public sector bodies (**Recommendations (xvi) and (xvii)**), and the achievement of efficiency and effectiveness in such bodies (**Recommendation (xviii)**). The first two of these recommendations follow up views already expressed by the Expenditure, Procedure and Public Accounts Committees of the House of Commons. The Government has undertaken to consider the views expressed in the debate of 30 November 1981 on the role of the C&AG. The Government is considering all the relevant issues, including the Treasury and Civil Service Committee's views.

41. The Government accepts that the standards and methods of approach it wishes to see applied to the management of departments and to the control of their programmes are capable of extension within the public sector, and will expect non-departmental public bodies to take account of the lessons learned in departments. Where appropriate, departmental Ministers will oversee the management methods used by the bodies they sponsor. The MPO publication "Non-Departmental Public Bodies: A Guide for Departments" gives specific guidance to sponsor departments on securing the proper control and accountability of non-departmental public bodies.

PERSONNEL MANAGEMENT AND EFFICIENCY

Definition of responsibilities

42. The Committee recommended that the relative responsibilities of Ministers and their Permanent Secretaries should be more clearly defined, and that newly-appointed Ministers should have the opportunity to replace any Permanent Secretary with whom they cannot work satisfactorily (**Recommendation (xxii)**). The Government agrees that, as part of the process of strengthening line responsibilities, there is a need for a clear understanding between a Minister and his Permanent Secretary on the way in which the responsibility for managing the department is discharged and the extent to which the Minister delegates authority in management matters to his Permanent Secretary. Any general guidance on the issue would have to accommodate a wide range of differing circumstances and personalities, but the Government is considering whether any useful general guidance can be formulated.

43. The Government sees no need to institute formal arrangements to review the appointment of a Permanent Secretary after the appointment of a new Minister. If a newly-appointed Minister and his Permanent Secretary are not able to establish a mutually acceptable working relationship, that fact will certainly come to the notice of the Prime Minister and the Joint Head of the Civil Service, and it is for the Prime Minister to decide how best to deal with the matter, with advice from the Joint Head of the Civil Service as appropriate.

44. The Committee recommended further extension of the personal authority of line managers within departments (**Recommendation (vi)**); the Government agrees. A good deal of recent work has been done to this effect. Departments generally will in future pay for most of the goods and services provided by Her Majesty's Stationery Office, the Central Computer and Telecommunications Agency and, from 1983, the Property Services Agency. Many courses at the Civil Service College will be on repayment from 1983. The requirement to make such payments will enhance awareness of costs, and make it easier for local managers to be given more authority to control the use of resources they consume.

Training and career management

45. Line managers need help in order to discharge these changed duties properly; this underlines the importance of training (as the Committee recognises - **(Recommendation (xxi))**) and of career management. Training has constantly to be adjusted to reflect current priorities, especially when numbers of training staff are being reduced. As a contribution to Information Technology Year 1982 no fewer than 4,000 civil servants have during the last 6 months attended courses at the Civil Service College on the practical potential of information technology. Training in forms design has been increased following the Administrative Forms Review. The Civil Service College is now redesigning and expanding courses on financial management skills and a new Senior Finance Course has been introduced for staff expected to fill senior posts with important financial responsibilities. After April 1983 it will normally be required that an officer will have completed this course before being appointed a Principal Finance Officer or will do so without delay after appointment. In order to carry out the Government's intention to double the number of professionally qualified accountants in the Civil Service much is being done to train people to professional standards by using Colleges of Higher and Further Education and also the MOD facilities at Worthy Down (where over the past 4 years an average per year of 28 MOD staff and 17 from other departments have been trained in Cost and Management Accountancy). In addition, for those jobs that do not demand full professional qualifications but do demand aptitude, much effort is being put into training, both in-house at the Civil Service College and in departments, and externally.

46. Objective 3 of the MPO's Early Tasks paper (Appendix 2) concerns the selection, training and career management of staff. The supporting programmes include a review led by the MPO which will assess what training is necessary for staff with potential for senior management, what gaps there are in the considerable training opportunities already available inside and outside the Service, and how best to fill them. In line with the Committee's **Recommendation (xx)** the review will also consider what extra training provision is needed for those expected to rise to top posts; there will be consultation with people outside the Civil Service as well as within it.

47. The Government fully agrees with the Committee's view (**Recommendation (xix))** that a substantial proportion of the most senior posts in the Civil Service should be filled by officers with successful records in financial and general management. It is already the policy that all senior posts should be open to those best fitted to hold them from all groups and classes in the Service and that effective use should be made of people of high potential whatever their current occupational group or class. Improvements have been made in the arrangements for succession planning for senior posts to reflect this policy. The Government's examination of the structure of Civil Service grades (of which the Committee is already aware from Cmnd 8170) may also be relevant, although decisions on this cannot be made until the recommendations of the Megaw Report have been taken into account. Meanwhile one important change of direct relevance to the Committee's current concern has been made. From 1 July 1982 members of the expanded Government Accountancy Service have been included within the Administration Group. This will make it easier to give accountants experience of administration early in their careers, so that they will be fitted for senior posts later on. It will in due course lead to an increase in the number of professionally qualified accountants in the upper reaches of the Service.

Pay and Industrial Relations

48. A Committee of Inquiry chaired by Sir John Megaw was appointed in June 1981 to make recommendations on the future principles and system for determining the pay of the non-industrial Home Civil Service. Among the topics which the inquiry was asked to consider is the scope for introducing merit pay in the Civil Service (**Recommendation (xxiii)**). Copies of the Government's evidence on all these issues have been sent to the Select Committee and are publicly available. The Committee reported on 7 July and the Government is now considering its recommendations, taking into account those of the Select Committee on merit payments and on the general principles which should underlie arrangements for determining pay (**Recommendation (xxiv)**).

49. The Select Committee commented upon the need for proper control over the use of "facility" time for trade union activities (**Recommendation (xxv)**). The Government agrees; it has renegotiated, with considerable improvements, the agreement dating from October 1974, and the new national agreement came into effect on 30 April 1982. The Government has taken into account the need for greater precision, particularly in relation to the distinctions between "industrial relations duties" and "trade union activities". Departments have been made responsible for agreeing their own arrangements for facilities within the new national framework, which should enable them to exercise better control over the use of facility time.

CONCLUSION

50. The progress made so far in implementing the Government's policies to secure greater efficiency and effectiveness will be further consolidated in the period ahead. There can be no final completion: the task is continuous. However, the efforts made by departments, whether in response to central programmes or on their own initiative, are very substantial indeed and the returns will continue to increase. The Government is grateful for the further stimulus provided by the Report of the Select Committee.

KEY TO RECOMMENDATIONS

Recommendation	Response	Paragraphs in Government's Observations
i. A common framework of analysis to be used by departments.	Accepted in part	19
ii. Responsibility of Ministers and Parliament for the review programme.	Accepted in part	34
iii. Contents of the Public Expenditure White Paper and Estimates.	Accepted in principle	26
iv. MINIS and equivalent systems; documents to be made available.	Accepted in principle	25
v. MINIS costings to be compatible with conventional records of departmental expenditure.	Accepted	25
vi. Responsibility and accountability of line managers.	Accepted	44
vii. Annual programme of departmental reviews to be introduced and results published.	Not accepted	27
viii. Select Committees to commission C&AG to carry out reviews of efficiency and effectiveness of Government programmes.	Not accepted	29-33
ix. C&AG to publish annual report of reviews carried out in last 10 years.	Drawn to the attention of the C&AG	29-33
x. Select Committees to table substantive motions for debate and vote in Parliament.	Not accepted	29-33
xi. Central departments to move away from guidance to prescription.	Accepted in part	17-18
xii. MPO to collect and disseminate examples of good practice and to review the advantages of obtaining cost comparisons from abroad.	Accepted in part	36-37
xiii. Treasury to probe effectiveness of programmes for which it provides funds.	Accepted in part	27
xiv. Close collaboration needed between Treasury and MPO; co-location of the two Departments.	Accepted	39

KEY TO RECOMMENDATIONS (Cont'd)

Recommendation	Response	Paragraphs in Government's Observations
xv. MPO to be seen to act with full authority and support of Prime Minister.	Accepted	38
xvi. C&AG's audit to be concerned with efficiency and effectiveness; C&AG to have access to accounts of public sector bodies.	Under consideration	40
xvii. C&AG to have access to accounts of all bodies in receipt of "public funds".	Under consideration	40
xviii. Standards of efficiency and effectiveness to be required in other public sector bodies.	Accepted	41
xix. Senior posts to be filled by staff with experience in financial and general management.	Accepted	47
xx. Establishment of a senior staff training course; MPO to set up working party.	Accepted in part	46
xxi. Review training of line managers in light of Select Committee's recommendations.	Accepted	45
xxii. Clarification of relationship between Ministers and Permanent Secretaries; new Minister to be able to change Permanent Secretary.	Accepted in part	42-43
xxiii. System of merit pay to be considered.) Accepted as part) of the consideration) to be given to the) Report of the) Megaw Inquiry))))))	48
xxiv. Arrangements for pay to enable unions to accept civil servants continuing to co-operate in improvements in productivity and efficiency without special payment.		
xxv. Facilities Agreement: need for precise revised provisions and careful control of facility time.	Accepted	49
xxvi. Morale: improvement of industrial relations and restoration of morale essential for achievement of efficiency and effectiveness.	Accepted	10-11

THE MANAGEMENT AND PERSONNEL OFFICE: EARLY TASKS**INTRODUCTION**

1. In the message which the Prime Minister sent to the staff of the Management and Personnel Office (MPO) when it was set up she said -

" . . . it is people who make the services provided to and by Government work well. I should like all our services to be excellently run and all civil servants to have the confidence that comes from a job worth doing and well done, and to be proud that they work for the public. I look to the new Office to have as its aims improving methods of work and efficiency in the Civil Service and encouraging and helping people to give of their best".

2. This statement outlines how the MPO is setting about its tasks. It is being underpinned by management action within MPO to assign responsibility for carrying out tasks and meeting objectives on the basis of detailed planning documentation.

THE APPROACH

3. Government Departments, under the direction of Ministers, exist to provide the public with services which must be as good as they can make them within the constraints of the resources available. Each and every Department affects the lives of individual citizens in diverse ways, some direct and immediate, some more indirect. Each faces its own special and constantly changing problems. Each Department carries the main responsibility for the quality and efficiency of the services it provides; it must therefore be responsible for organising itself, for deploying its resources to best effect and for developing the skills and potential of the civil servants it employs.

4. The public judge the effectiveness and efficiency of government mainly by their experience of doing business with the men and women in the front line of Government Departments all over the country. Their performance is to be reckoned not only in cost but also in the amount and quality of the services provided. It is primarily for Ministers and senior officials in charge of Departments to encourage and help their staff to serve the public well.

5. The MPO has two main functions. The first is to promote the efficiency and effectiveness of Government Departments, a task which involves identifying, supporting and spreading good management systems and practice in Departments and monitoring, questioning and auditing performance in securing them. The second is to maintain a Service-wide framework for the development of personnel policy and practice, and to provide central services to all Departments, notably through the Civil Service Commission (recruitment), the Civil Service College (training) and the Medical Advisory Service (occupational health).

6. The Treasury now has responsibility not only for the management and control of public expenditure in general but also for that of Civil Service pay and manpower in particular. The objective of reducing the size of the Civil Service to 630,000 by 1 April 1984 constitutes a constraint which bears upon the scale of the service to the public, and sets a premium on improving the quality and efficiency of that service.

7. Thus the Treasury and MPO share responsibilities at the centre of Government - over and above the responsibilities which each Department carries in its own sphere - for the framework within which Government Departments and civil servants work, for the efficiency with which Government business is done, for the competence, well-being and morale of the civil servants on whom that depends and for the conduct of relations centrally with the trade unions representing civil servants. It is this shared responsibility which has led the MPO and the Treasury to launch jointly a major initiative to improve financial management and so develop managerial effectiveness in Government Departments - see paragraph 8(2) below.

8. In order to use its resources effectively, the MPO has to be selective in identifying what objectives to pursue. The major objectives for the MPO in 1982-83 will be as follows:

(1) To carry out its part in the programme of efficiency work in 1982 announced by the Chancellor of the Duchy of Lancaster on 9 December 1981. It will support Sir Derek Rayner with further departmental scrutinies in the programme for which he is responsible to the Prime Minister, and will co-ordinate reviews of the use and control of resources in various executive operations; of projects to help Departments improve their systems of estimating, monitoring and controlling their running costs; and of personnel work in nine Departments covering more than half the Civil Service.

(2) Jointly with the Treasury, and in consultation with other Departments, to launch a major initiative to improve financial management in Government Departments. Departments will be invited to work up practical plans for improving their financial management in the light of guidance issued by the Treasury and the MPO. The initiative will call for a major and systematic effort to clarify the objectives and responsibilities of managers and provide them with the information, training and expert advice that they need. As plans are put into effect there will be a general raising of standards of financial management in Government Departments. The initiative will also assist the MPO and the Treasury to examine any changes in the existing practices and rules of the central Departments which may be needed to promote managerial effectiveness and financial management in Departments; and will help the MPO to develop a longer-term strategy for promoting efficiency and to define a further practical programme of work for 1983.

(3) To review the central selection, training and career management of staff, in particular with a view to -

(a) ensuring that skills in financial management are brought up fully to the standards necessary for good management;

(b) encouraging more staff early in their careers to deepen their knowledge of relevant disciplines, such as accountancy, ADP, etc;

(c) arranging for more of the younger staff likely in time to carry important management responsibilities to gain first-hand experience of how the work of Government impinges on the outside world, for instance by doing a spell in a local office;

(d) managing the careers of potential senior managers in the first half of their service so as to enable them to gain greater depth of knowledge in particular aspects of departmental work;

(e) as a corollary to (d), broadening in mid-career the skills and experience of staff expected to reach the highest levels of responsibility so as to give them wider insights on which to draw;

(f) increasing the scope for recruiting staff at senior levels from outside in mid-career, either on short-term exchanges and secondments or on permanent transfer, and for enabling civil servants in mid-career to gain experience in other types of employment relevant to their future work, for example in industry; and

(g) facilitating early retirement for staff wishing to leave the Service voluntarily and for Departments wishing to retire the less efficient.

(4) **To promote the motivation and performance of staff** by improving the quality of personnel management and the training relevant to it, by conducting projects which involve staff in improving the output and organisation of their work, by promoting understanding of the implications for people of the introduction of new technology, both for the efficiency of their work and for their satisfaction in it, and by raising the effectiveness of occupational health advisory services.

(5) To promote the development of good employment practices throughout the Civil Service in line with Government policies applying to all employers, in particular in the field of training, and in the employment of women, of members of the ethnic minorities, and of disabled people.

CONCLUSION

9. In selecting major objectives for 1982-83, the intention has been to put together a practical programme with a good pay-off. Its success will lie in the extent to which it helps Government Departments and the men and women who work in them to serve the public well. Towards the end of the period the MPO will assess progress and consider what major objectives should be set for 1983-84.

Management and Personnel Office
April 1982

FINANCIAL MANAGEMENT

Note by the Treasury and MPO

The time has come for a general and co-ordinated drive to improve financial management in Government departments.

2. This paper sets out the objectives, places them in the wider context of management and organisation, and invites the departments listed at Annex A to work up programmes of action and discuss them with the Treasury and MPO.

3. Programmes of action should build upon the work done recently in a number of individual departments, in several cases with help from consultants; and the further work already planned for 1982. Departmental reviews which have pointed the way include the major reviews of financial management in MAFF, the Department of Industry and the Ministry of Defence; the institution of the MINIS system in the DOE; the studies of a budgetary system for the control of administrative costs and of management responsibilities in the network of Social Security offices in DHSS; and the review of support services and R&D establishments in six departments. In 1982, reviews are planned of the arrangements for controlling running costs in the FCO, MPO, Department of Trade, Department of Employment, Department of Energy and DES; of resource control in certain executive operations in the Home Office, Scottish Office, Ministry of Defence, Department of Trade, PSA and the Royal Mint; and of personnel management practices in nine departments.

4. The need now is:

- to keep in focus the fundamental objectives;
- to sustain the impetus towards them, translating the recommendations of reviews into action fitted to the tasks and priorities of each department;

- to identify and take action on any changes needed in Service-wide arrangements or requirements of central departments;
- to help departments to draw on the lessons of each other's experience.

The Objective

5. The main objective is to promote in each department an organisation and a system in which managers at all levels have

i. a clear view of their objectives; and assess and wherever possible measure outputs or performance in relation to these objectives;

ii. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money;

iii. the information (including particularly about costs), training and access to expert advice which they need to exercise their responsibilities effectively.

6. There are obstacles to the application of these principles in the public service. The yardstick of profitability is lacking. Many Government objectives are generalised, and the test of their success is often acceptability rather than a quantified measure of output. In some areas, final measures of output are elusive and only partial indicators of performance can be devised. The task of applying the principles will therefore take time, and complete success in every particular is not to be looked for. Nevertheless, the principles are fundamental to good management and the effective use of resources. They should be applied to the maximum practicable extent.

7. A manager is anybody who has to take managerial decisions, ie decisions about the deployment and use of money and staff. The lowest level at which such decisions are taken varies. In some policy divisions they may normally be taken at Principal or Assistant Secretary level; in some operational areas they may be taken by Higher Executive or even Executive

Officers. But the principles set out above apply to all areas of a department's work, whether it is advice on policy, the execution of policy or a specialist or staff function.

8. Good management thus goes wider than the good systems of financial control and the information needed to support them, which are the primary subject of this memorandum. The achievement of the objective requires a managerial structure within which the system of financial management can operate effectively. It will be necessary to consider the implications of financial plans for the management and organisation of each department as a whole and for the allocation of responsibilities within it.

The contribution of management accounting

9. The development and use of management accounting, linked as appropriate to other information systems, can make a central contribution both to the managerial structure and to the management of resources within that structure. It is not the accounting system itself that is crucial, but the discipline of breaking down a department's activity between managers, whose responsibilities can thus be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more clearly assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up and using a management accounting system, if properly planned and carried through, imposes that discipline. A more detailed note on management accounting is at Annex B, and notes on a suggested approach to implementation at Annex C.

10. The wide variety of work in Government departments and the different kinds of expenditure they incur mean, however, that the approach adopted to pursue the objective in paragraph 5 - and in particular the extent to which a full management accounting system will be apposite - will differ from one area to another. For example:

- a. In some executive operations, like the running of prisons and R&D establishments or the support of the Armed Forces, where the resources are consumed directly by the Government, the costs of procedures and

activities can be measured and indicators of performance or measures of output can in principle be devised, the potential of the management accounting approach can and should be fully exploited. Comparisons between establishments, or between alternative means of securing an objective, should then help to improve decisions.

b. Where the activity involves the procurement of goods and services from other agencies, eg in the building of roads or the procurement of defence equipment, the Treasury has issued fresh guidance in the last year or so both on public purchasing policy and on the use of investment appraisal. The tasks of specifying objectives, assessing alternative means of achieving them (in terms of quantity, quality, cost, time etc) and monitoring results against expenditure will be helped by the application of the management accounting approach and the better information it generates.

c. In executive operations like the paying of benefits or the collection of taxes, the rates of taxes and benefits and the rules governing their application are laid down by statute and the final outputs are therefore largely outside the responsibility of the managers who administer them. But the principles of good management summarised above apply to the administration of benefits and taxes, and the information derived from that process should be used not only to control costs and improve efficiency but also to throw light on the effectiveness of the policy decisions made elsewhere in the department. Departmental systems should clarify the respective responsibilities of those who manage the operation and those who formulate the schemes and monitor their effectiveness, and provide the information needed by each.

d. Where a department pays out grants to other agencies which themselves carry the direct responsibility for how the money is spent, the department will require an information system and the appropriate techniques (eg of investment appraisal) which enable it to make a good job of its responsibilities for the funds in question. The nature of the system will vary with the department's relationship with the spending agency. In the case of local authorities, due regard must be paid to their independence and accountability to their own electorates. The department may want to encourage the use of management accounting in the bodies it finances (a good example is DHSS's concern with

management accounting by health authorities), partly as a source of information to help both formulation of policies and priorities and monitoring; and partly to encourage efficiency in the spending agencies. As far as the department's own operations are concerned, its system will focus on the effectiveness and efficiency of the grant-paying process.

e. Where the activity is to provide an internal service, eg finance, establishments, legal advice, Ministers' private offices, outputs are not generally measurable. The same is true of some, but not all, policy work. It is still right, however, that those in charge of them should know their costs and be given as much responsibility as possible for controlling them.

11. Each department should work out its own best pattern of managerial responsibility, financial accounting and control. But the following points apply generally and should be reflected in the plans of all departments:

a. Each department should construct an outline plan of development which will in time cover the whole of its activities. The plan should ensure that the most urgent priorities are tackled first, and that constituent parts of the department's system, as they are constructed, will be compatible.

b. In most cases it will be well to advance in planned stages. These may include pilot projects. In large departments with a wide variety of functions, the task of filling in the initial outline may take several years and may need modifying if functions and responsibilities are changed.

c. The system should not only meet the needs of higher management for aggregated information for estimating and control, but should also provide managers at successive levels down the line with the information about their resources which, together with information about performance and outputs, will help them to do their job properly. Unless the system meets the second criterion as well as the first, managers will not use it and its accuracy will degenerate.

d. The responsibilities of managers should be specified systematically for the control of the resources they consume and, wherever feasible, the results they achieve. Each department should therefore examine the scope for breaking its structure down into cost-centres or responsibility-centres to which resource costs can be allocated and for which, where appropriate, measures of output can be devised and monitored.

e. Whatever the pattern of their other expenditures, all departments incur the costs of their own administration. All departmental plans should include a system for the budgeting and control of administrative costs. Where outputs are difficult to assess, the identification of costs will still pose questions of value for money.

f. The management accounting system should be used within the department for the purposes of planning and control. If it is relegated to the status of an optional extra for the display of information only, again the information fed into it will not be accurate and the system will not be used. The Treasury will review with departments, as the need arises, how their management accounting systems and their existing systems for the public expenditure survey, estimates and appropriation accounts can best be related.

g. The development of performance indicators and output measures which can be used to assess success in achieving objectives is no less important than the accurate attribution and monitoring of costs. The question to be addressed is "where is the money going **and** what are we getting for it?" Systems should be devised to provide answers to both sides of the question wherever and to the extent that it is possible to do so. Relevant information on performance and (where possible) outputs will often be non-financial in character.

h. Attention should be paid to the costs and cost-effectiveness of the proposed system. In principle, costs can be allocated in different ways: to units of the organisation, to programmes of activity, to objectives. Computerised systems make much elaboration possible, and some of it is necessary. Equally, they can be expensive. In general, therefore, systems should not be more elaborate than the objective essentially requires.

Constraints on Cash and Manpower

12. All activity must continue to be managed within the limit of the total resources allocated annually to each department, both cash and manpower. That discipline can only be maintained effectively if the managers to whom authority is delegated are also subject to it.

13. Good financial management requires, however, that the manager should be concerned with his total costs and not simply with his annual cash flow. Notional costs, such as the accruing liability for superannuation, are relevant to decisions which involve a choice between staff and other resources. In some areas the manager uses resources which include capital items like buildings and stocks acquired in the past, and these can be a major factor in the costs of his operation. Where this applies, the accounting system which provides the information to help him take decisions should be constructed accordingly.

14. Cash control, though essential, has to be complemented by systems and techniques that encourage intelligent reaction to changes in prices and enable departments to assess levels of service or outputs as well as total costs so that optimum use can be made of the cash and manpower available in each period.

Other Constraints

15. Centrally devised rules govern the form of Government accounts and the presentation of information to the Treasury and Parliament. The Treasury will be ready to review departments' needs (see paragraph 11 f above) and where changes in the existing requirements seem desirable, will be ready to make proposals to Parliament accordingly.

16. Similarly, central rules govern the pay, grading and conditions of service of civil servants; many of them are the subject of negotiation and agreement with the Civil Service Trade Unions. Within departments those arrangements limit the extent to which the individual manager can change the pattern of his resources to provide an exact fit with what he perceives as the needs of his particular job from time to time. Such constraints are

common in large organisations, both public and private. They will continue to be needed in the Civil Service. But departments are encouraged to make maximum use of the scope for delegation which those constraints allow, coupled with the development of a management information system by which the use of more delegated authority can be monitored. In addition, the Treasury and MPO will be ready to consider and consult about specific proposals from departments which are aimed at introducing greater flexibility in the civil service management regime and at improving the incentives for managers to manage well.

Techniques and Training

17. The main needs are:

- a. to spread cost-consciousness and a wider readiness to identify and try to measure costs and results, and to act in the light of this information;
- b. to develop and apply techniques of measuring and appraising which the relatively junior managers who take most decisions will recognise as sensible and will use;
- c. to assemble and use the specialised skills relevant to the work of each department;
- d. to give senior managers sufficient understanding of the relevant disciplines to know when they need specialised advice, and to assess and use the advice given.

18. Action is in hand to increase the supply of qualified accountants, and to improve and expand training in financial management. Training in internal audit is being expanded. A finance course for senior administrators will be mounted in 1982. The Financial Management Co-ordination Group is about to review training in financial management as a whole and will shortly consult departments about further plans.

Appointments of senior staff

19. Crucial to the success of the drive to improve financial management will be the appointment of the right people to the post of Principal Finance Officer and other posts which involve heavy responsibilities for financial management or financial advice. They will need appropriate training and experience and the right personal qualities for the job. The succession plans which each department draws up every year should pay special attention to these posts. Appointments as Principal Finance Officer already have to be approved by the Treasury, in consultation with the MPO. The Treasury will be discussing this further with departments.

Action

20. In the light of this paper, and taking into account the work already done and in hand, the departments listed at Annex A are invited to develop and define a programme of work for the improvement of financial management, and to discuss their programmes with the Treasury and MPO before the end of January, 1983. For this purpose, departments should regard the relevant Treasury Expenditure Division as the central point of contact. Programmes should be divided into stages as appropriate, with target dates specified.

21. In drawing up their plans, departments are invited to consider:

- a. their arrangements for carrying this work forward, including the allocation of responsibility for first formulating and then carrying out the plan, terms of reference, the deployment of suitably qualified and experienced staff, and any external help they may require;
- b. how far their existing systems, and plans already in hand, will meet their requirements and the criteria set out in this paper; and the size and scope of what remains to be done;
- c. whether their existing organisation is compatible with an effective structure of responsibility for management - both of programmes executed outside the department and of departments' own operations; and what changes may be needed;

d. the scope for developing cost and responsibility centres and the creation of budgets for their managers; what additional authority could be delegated to managers; what that implies for any changes in the respective responsibilities of line managers and of finance and establishments divisions; or in requirements now laid down by the Treasury and MPO;

e. what parts of the department's activity, within the outline comprehensive plan, should have priority in the development of management accounting;

f. what work is needed for the development of output measures, what areas should have priority and how those and other indicators of performance can best be built into the management system;

g. how their management accounts, as they develop, can best be related to the Vote accounting system, and any implications for possible changes in the latter;

h. the implications of their plans for staffing and training, both in finance work and in line management;

i. whether computerised systems would be desirable and if so how best to obtain them economically, bearing in mind the large extent to which the same basic needs recur in individual departments;

j. how the management information produced can be used to keep Parliament better informed about the progress of departmental programmes;

k. the costs of introducing and running the systems they propose.

22. Departmental Trade Union Sides have a legitimate interest in the development of departmental systems. Departments will wish to discuss their plans as appropriate with their Trade Union Sides.

23. The Treasury and MPO will keep in touch with departments as their plans develop; inform themselves of the results of the work already in hand (see paragraph 3) with the aim that any general lessons that emerge are made known through the appropriate machinery; encourage the common use of computerised systems; and circulate any guidance as necessary on central requirements or Service-wide issues generally.

24. In addition to the normal working contacts outlined in paragraph 23, departments may find it helpful to draw on help and advice in tackling the application of the principles in this paper to their particular circumstances. To this end, a small MPO/Treasury unit is being established, which will report to the joint Heads of the Civil Service. This will consist of up to 6 members (both civil servants mainly drawn from the divisions with the relevant experience and knowledge in MPO and Treasury and senior consultants) and will have a limited life (probably twelve months). It will mainly work in departments, responsible to and subject to the direction of the Permanent Secretary concerned, to help the senior management of the department, in the light of the experience of other departments and the private sector, on how best to approach the task and to fit it into the wider context of the organisation and managerial effectiveness of the department as a whole. The unit will pay particular attention to considering with departments how implementation of change can be facilitated, including changes flowing from recommendations of scrutinies, reviews and other studies already complete. The unit will also report on any opportunities or problems which it finds to be common to departments and on any changes in existing practices and rules which it believes would enlarge the opportunities or help to resolve the problems. This should help the Treasury and MPO not only to see how best they can contribute to the working out of departmental programmes but also in developing their approach to management and efficiency in the longer term.

AGRICULTURE, FISHERIES AND FOOD

Ministry of Agriculture, Fisheries and Food
Intervention Board for Agriculture Produce

CHANCELLOR OF THE EXCHEQUER

Treasury
Central Office of Information
Customs and Excise
Inland Revenue
Department for National Savings

DEFENCE

Ministry of Defence

EDUCATION AND SCIENCE

Department of Education and Science

EMPLOYMENT

Department of Employment
Manpower Services Commission
Health and Safety Commission/Executive

ENERGY

Department of Energy

ENVIRONMENT

Department of the Environment (including
Property Services Agency)
Ordnance Survey

FOREIGN AND COMMONWEALTH

Foreign and Commonwealth Office
Overseas Development Administration

HOME

Home Office

INDUSTRY

Department of Industry

LORD CHANCELLOR

Lord Chancellor's Department
Land Registry

LORD PRIVY SEAL

Management and Personnel Office

NORTHERN IRELAND

Northern Ireland Office

PAYMASTER GENERAL

Paymaster General's Office

SCOTLAND

Scottish Office (including DAFS, SDD, SED,
SEPD, SHHD)

SOCIAL SERVICES

Department of Health and Social Security
Office of Population Censuses and Surveys

TRADE

Department of Trade
Export Credits Guarantee Department

TRANSPORT

Department of Transport (including DVLC)

WALES

Welsh Office

MANAGEMENT ACCOUNTING IN GOVERNMENT

Introduction

1. This Annex discusses in general terms the meaning of management accounting, the users of management accounting information and their responsibilities, and relationships with other Government requirements for financial and accounting information.

2. There is no single definition of management accounting that can be held to apply to the varying needs and circumstances of Government departments. At its lowest level management accounting might only be concerned with the analysis of costs - this being the essential starting point. But getting full value from it involves relating those costs to functions, activities and objectives for the purposes of forward planning, budgetary control and decision making. A management accounting system may be part of a family of management information systems, with links to conventional financial systems and to systems which monitor and record non-financial data. Alternatively it may embrace such systems. There can be no hard and fast rules about systems development since Departments will be starting from different positions in developing the arrangements that best meet their needs. What matters is that the systems they develop should take account of the underlying principles discussed below.

What is Management Accounting

3. Management accounting was devised to help industrial managers control the costs of particular activities. It was developed to supplement financial accounts, which tend to concentrate on **inputs**, by relating costs to **outputs**. In its development management accounting has drawn on a wide variety of analytical techniques and control mechanisms. Their common feature is that they are designed to assist all those who incur, control or indeed in any way influence costs to consider options, to formulate plans to meet objectives.

and subsequently to compare actual expenditure against those plans. Thus, management accounting should essentially be forward-looking. Its focus should be on evaluation (costing options and activities), planning (setting objectives), and control (monitoring events quickly and taking timely action where necessary).

4. Two key features distinguish the approach of management accounting from the financial systems generally in current use in Government. The first is in relating inputs to activities, or to outputs. Much existing Government accounting, and in many areas the structure of management, is now designed to assess and control cash expenditure under the Vote system analysed on an input basis. Inputs are important. Most management accounting systems seek to analyse input costs in order to ensure that they are looked at in toto. But the management accounting approach sees their real importance as part of the total makeup of the final cost of outputs or objectives. A more effective system of control will aim to allocate or apportion all such costs, direct and indirect, to outputs or to an organisational unit (the costs of which may equate to or can in turn then be attributed to outputs or objectives). The need to monitor and control the cost of the outputs or objectives is then what shapes the system for controlling expenditure. As a result, individual managers are made more aware of the costs of the activities for which they are responsible, and there is a much more comprehensive picture of where costs are being incurred. Once costs are assembled regularly in this way they provide a basis for review and questioning, for budgeting and for monitoring performance against plan.

5. The second distinguishing feature is the nature of 'cost'. Most financial systems in use in Government departments are only concerned with annual cash-flow. Tight control of cash must remain a dominant feature. Cash is also a sensible basis for Treasury and Parliamentary control. But annual cash-flow rarely gives an adequate measure of the resources being consumed by a particular activity and therefore a proper basis for comparison with outputs. Depending on the context, the cost of activities may include the depreciation of fixed assets and the use of stocks, both of which may have been purchased in a previous financial year. It may also include the costs which do not appear on the department's own Votes, such as allied services and the accruing liabilities for pensions and gratuities; and notional costs such as the updated rental value of buildings. All these represent the use of

resources which should be taken into account when deciding whether to embark on or continue with an activity, whether to employ different means to meet the same objective and whether the achievement has justified the cost.

6. This is not to say that departments ignore these costs. Rather, that they are not collected systematically and used by line managers in their day to day decisions. (Increasingly such information is collected ad hoc for different exercises. That is often time consuming, expensive and inevitably not always reliable.)

7. Existing information systems do not always recognise that the nature of the decisions facing individual managers varies. In providing relevant information a management accounting system should reflect these different decisions and opportunities. In the short term management can often only influence variable costs which change in proportion to output. In the longer term there is more scope for changing full costs by increasing or reducing capacity. The difference can be of great importance to the way managers respond to different situations and in quantifying the effects on costs of changes in activity levels. For example, make or buy decisions require information about the costs that will actually be affected by the decision. Similarly, a manager may need to consider how best to set charges, perhaps to utilise spare capacity in a computer or some other installation. Giving him access to the relevant data should help a manager to optimise his decisions.

8. Relevant data will often include pay and price indices. Changes in the relative price of inputs should raise questions about the optimum mix of inputs to achieve a given objective. For example individual managers should be aware of how the prices for goods and services they are consuming or purchasing compare with those in the market as a whole, both for similar products and for those which could be substituted if they were to change their processes in both the short and long run. This involves monitoring specific and general pay and price indices, as an aid to minimising costs for given levels of output.

The Users and their Responsibilities

9. While individual managers require the information which flows from a well designed management accounting system if they are to control their costs effectively, the control of costs is not the sole objective of management

accounting, nor are line managers its only users. The techniques involved, together with related disciplines, are designed to help both managers and policy makers to see clearly the financial implications of different courses of action and thus to weigh these against other non-financial criteria (eg social objectives). They all contribute to assessing the cost-effectiveness of present and future activities in order to ensure efficient use of available resources and in particular:

- a. to reveal uneconomic activities, under-utilised capacity and wastage and to assist corrective action; and
- b. to ensure that decisions are taken with full knowledge of all relevant financial information.

10. At higher levels, decision-takers will be concerned with broad questions such as whether to embark upon, to maintain, to modify or to discontinue particular activities. They need to be able to define the objectives these activities are designed to serve, and to measure their costs. For these purposes and for regular monitoring of performance they need corresponding information on outputs. The management accounting system should provide the basis for this information. But where outputs are not easily measured, as often happens in non-marketed public services, the need for good cost information is not reduced.

11. At lower levels the emphasis will be on the management of existing activities and getting the most effective output for the lowest cost. Cost information here is usually more detailed; its purpose is to help the manager to assess and monitor the components of his costs, and variations in them. In general, the responsibility for the use of resources should be placed to the greatest extent that is practicable at the point where they are consumed, and this points to the maximum delegation of authority to managers. There must of course be limits to the application of this principle, since Principal Finance and Establishment Officers must continue to maintain department-wide controls over particular types of input (cash-flow, staff numbers and pay and other conditions of service are obvious examples - see paragraph 12 below). But even where controls of inputs have to be exercised by a separate, central authority, the system should be such as positively to encourage the manager

to examine his costs critically and regularly, to change the pattern of his activities in order to optimise his use of resources in relation to the objectives of his unit wherever he can be given the authority to do so, and to draw attention to the misuse of resources and opportunities for improvement where changes need the action of higher authority.

12. This paper does not attempt to tackle in detail the question how and how far managers can be given increased authority to take decisions about the resources they consume by relaxing the controls and checks over their inputs or altering their form. Departments will need to consider how best to make progress in this direction in their own circumstances. It is however inherent in the approach discussed here that the responsibility within a unit both for the consumption of resources and for observing the department's rules for controlling inputs should rest with the managers of that unit (and not with some other person) and that he should be encouraged to regard that responsibility as a major element in his job and one which will be taken fully into account in the assessment of his performance.

13. The monitoring of performance and the handling by managers of the costs of their activities should be a matter of close concern to senior management. But the flow of information should be seen by all levels of management as providing stimulus and opportunity for better judgements and decisions; if it degenerates into a process of mere collection of information at one level and critical comment at a higher level, the system will wither and die. The accurate definition of information needs at each successive level of management is therefore a crucial part of constructing a management accounting system and past experience shows that it needs time and care. Information should not be collected and presented unless it is actually required by someone for assessment and decision.

Relationships with other Financial Information Systems

14. Departments will need to consider the links between management accounting systems and existing financial information systems: the Public Expenditure Survey, Estimates, the FIS Monitoring System and Appropriation Accounts. It is possible to introduce separate management accounting systems to operate alongside the existing systems, but this approach will rarely be fully effective, as experience in some past developments of management accounting within Government has already shown. It is likely to lead to a

situation in which line managers are confused by different sets of data prepared at different times according to different criteria. There is a risk of much time-wasting reconciliation and unnecessary duplication. Even more damagingly, the management accounting information is then often seen as an optional extra. It is unlikely to survive relegation to that status.

15. These problems can be minimised by bearing in mind two important factors, both of which point to integration of management accounting with existing financial systems. The first concerns structure. If the broad structure of the systems can be aligned with each other, and where possible with the organisation and objectives of the department, the nature of the information and its flow along reporting channels is simplified. Secondly, while the search for integration should not be carried to the point at which the system becomes unnecessarily elaborate and inflexible, unnecessary duplication and confusion can be avoided by recognising that annual cash flow, for example, represents a core requirement for management accounting on the one hand and existing financial systems on the other. With modern computer facilities this common-core can be stored within a single system and elaborated and extended according to the needs of the particular application in hand. This process is made easier if the broad structure of the different systems is compatible. This approach should also reduce the burden on departments of providing information for related exercises.

16. Papers which touch on these questions have been circulated in the past to PESC(D) - see for example PESC(D)(81)6 which describes the former CSD's integrated management accounting and information system, and PESC(D)(81)7 which discussed cells and codes in financial systems. These papers illustrate that many detailed problems will arise at the design stage in adopting this approach, but it is perhaps worth drawing attention to four points, two positive and helpful, two marginally constraining, which will apply quite widely:

- a. The requirements of the Public Expenditure Survey, and to some extent of other existing systems, are at a higher level of aggregation than the information required for management accounting systems. In

many cases this gives scope for the development of management accounting systems within departments whose data can be built up into the more aggregated requirements of the other systems.

b. Where this is not so it should not be assumed that the particular data requirements, definitions and structure of the existing systems are incapable of being changed. Public Expenditure Survey material could be improved if its components were related to costs and objectives more closely. Estimates and Appropriation Accounts already contain many variations and, although it will be necessary to seek the agreement of Parliament to any major changes, there is a reasonable presumption, on the evidence of past expressions of opinion by Parliamentary Committees, that Parliament will be prepared to look favourably on changes which would bring the structure of existing systems into a closer relationship with new management accounting systems. Where departments wish to propose such changes they should discuss them with the Treasury.

c. Since the existing systems serve certain requirements of central planning, monitoring and control, it is necessary to retain some compatibility between figures presented for them by different departments. The interests of cross-comparison and economies of scale in design and implementation also suggest that it will be desirable for departments to advance on lines which are broadly similar though not identical. While the functions of departments are very different, and therefore require different presentations of information in the detail of their management accounting systems, at a higher and more aggregated level these systems can be made much more compatible. There is no obvious reason why these considerations should prove to be a serious constraint on the development of satisfactory management accounting systems, provided they are adequately taken into account in the early stages of exploration and design. The Treasury will be ready to offer guidance and arrange for the dissemination of experience in this field.

d. Existing Government accounting concentrates heavily on cash flow, and this must remain an important requirement for the future. By contrast, where costs are not co-terminous with annual cash-flow for the reasons discussed in paragraph 5, a good management accounting system will need to show elements of cost going beyond, or falling short of, particular cash flows. Information in terms of both cash flow and overall cost is, however, a normal feature of most effective management accounting systems and should not be seen as a major constraint.

MANAGEMENT ACCOUNTING SYSTEMS: A SUGGESTED APPROACH TO IMPLEMENTATION**Initial Planning and Development by Departments**

1. The starting point will depend on a number of factors. When was the department's systems last reviewed; how far do these match the existing organisation; how does the existing organisation relate to the department's objectives and to the style of financial management now proposed; are responsibilities clear and lines of accountability distinct?

2. The aim should be to develop a structure of organisation in which identifiable functions and objectives can be assigned to responsibility centres whose responsibilities can be distinguished from those of other parts of the organisation. This entails a management structure in which the lines of reporting and accountability are clear. The processes involved in achieving this aim may in some cases raise fundamental questions about the nature of the department's business and its objectives. Logically, that is the right place to start. But where a Department is satisfied that it starts from a position in which its structure provides a reasonable fit with its objectives, it may prefer to go straight into the process of identifying responsibility centres. It will then be necessary to check as the process continues that the objectives and responsibilities of the groups concerned can indeed be defined and distinguished. When they cannot, this may indicate a need to modify the organisation. Particular points to watch here include the distinctions between the responsibilities of policy and executive units, and between central and local control.

3. Having assigned responsibility to discrete units the next step will be the systematic identification of costs, in sufficient detail to enable those who are responsible for particular activities and objectives to be aware of and, wherever possible, held responsible for the cost of the resources they are consuming. For these purposes it may be desirable to analyse the costs attributable to individual responsibility centres into more detailed cost centres. These may be organisational sub-groups, functions, activities, tasks

and projects. This process leads logically to the setting of budgets and the monitoring of costs against objectives. It also involves setting targets for the overall cost of the output or activity in question. Given budgets and targets for output or activity, comprehensive monitoring can be undertaken of both input costs and output.

4. The precise form and degree of detail in which information is collected and stored and subsequently presented to managers will depend on their needs. In determining these there is a constant need to ask who is going to use the information, for what purposes and what freedom the users have to respond to it. A case in point is the treatment of indirect costs or overheads. In the process of building up a picture of total costs care should be exercised to ensure that systems are not made unnecessarily elaborate in the interests of statistical tidiness.

5. Progress will be made in stages but should preferably be within the framework of an accounting system which covers the entire activities of a department. A universal common factor is the cost of administration - or running costs - on which some progress has already been made in presenting material for the annual scrutinies of departmental running costs. The material produced so far does not generally constitute management accounting information, nor is it in general yet used by line managers in departments. But it does constitute a possible starting-point for further development. It is also an area where many items of expenditure are susceptible to local control. In this connection, departments are recommended to study the Joubert Report recommending the development of management accounting in the Department of the Environment, which was recently circulated to PESC(D) under cover of PESC(D)(81)15.

6. Where a department decides to proceed by establishing a basic responsibility centre structure, aligned with the department's programme objectives, and a management accounting system which starts by covering administrative costs, it will be possible progressively to widen the exercise to bring in other expenditures for which the relevant centres are responsible. Priority should be given to those areas where the benefits are likely to be greatest. Tackling the work in stages also enables departments to read lessons across as they proceed and adapt their systems in the light of experience.

Detailed Design

7. The detailed design of a management accounting system for organisations on the scale of Government departments is a very substantial one, involving considerable professional skill. As far as possible, such design should be undertaken by the department itself to ensure that the system reflects its needs and its detailed knowledge of its business. But some recourse to consultants, or other outside assistance, will often need to be considered. The Treasury is equipped, in its AFA Division, to give some help on the approach to design; and advice on the use of consultants to provide assistance at the various stages of development. But it is not staffed on a scale which will allow the Treasury to provide the detailed design work.

Computerisation

8. Given the scale of likely developments, even within part of an individual department, data collection and distribution will in most cases need to be computerised. Whether computerised or not the management accounting system should ideally be integrated with existing financial information systems for the reasons explained in Annex B. But a new computer system will also have to fit into the department's ADP framework and any existing or planned computerisation of financial systems.

9. Experience with other financial systems shows that it is possible to introduce integrated additions to systems at subsequent stages if sufficient foresight has been given to the initial planning. Careful attention should therefore be given to links between systems to ensure compatibility and avoid duplication of data collection. Much of the cost of systems comes from program development rather than equipment costs. It is therefore important to review the range of alternatives from packaged programs to tailor made systems.

10. PESC(D) has already been taking an interest in developments in financial information in departments, providing exchange of experience and some guidance. This work will be developed and expanded. It is intended that PESC(D) should be the vehicle for monitoring and publicising developments in

management accounting systems. It will also coordinate advice about cost effective ways of computerisation. The Government's reply to the PAC at the end of 1980 to the effect that consideration would be given to removing avoidable differences between departmental financial systems will continue to be relevant to this aspect of PESC(D)'s work.


11. Experience also shows that a better computer system results from very close liaison between the intended users of the system, especially in finance divisions, and the ADP division providing it. It is not advisable to pass on all responsibility for implementation to the latter. Much is gained from close involvement of the user at all stages. Indeed, there are distinct advantages, in terms of bringing together a useful blend of skills and interests, in setting up a small development team which includes experienced line management.

Future Progress

12. Depending on the pace and scale of development, further co-ordinating machinery may be helpful. Meanwhile, it is proposed to arrange periodic meetings of Principal Finance Officers as an opportunity to take stock of progress and of difficulties encountered, to exchange experience and suggestions, and to arrange for more detailed co-ordination as may be necessary.



110
Ref: A09029


CONFIDENTIAL

MR. WHITMORE

The Lord Privy Seal has submitted with her minute of 14th July the latest draft of the reply to the Treasury and Civil Service Committee's Report on Efficiency and Effectiveness.

2. Paragraph 43 bears upon the Prime Minister's responsibilities for senior appointments on which I advise her as Head of the Civil Service. I agree with the proposed response to the Committee's recommendation (xxii) contained in that paragraph; but I thought that I should draw it to the Prime Minister's specific attention.

*Thanks on
see no difficulty
in para 43.
RA*

RA

Robert Armstrong

16th July 1982

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

16 July 1982

The Prime Minister has seen Sir Robert Armstrong's minute to Clive Whitmore of 16 July (ref. A09029) and sees no difficulty with paragraph 43 of the draft reply to the Treasury and Civil Service Report on Efficiency and Effectiveness. As you will see from the letter attached, she has approved the draft as a whole.

TIM FLESHER

David Wright Esq
Cabinet Office.

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10 DOWNING STREET

From the Private Secretary

16 July 1982

Lady Young minuted the Prime Minister on 14 July about the draft response to the report of the Treasury and Civil Service Select Committee on Efficiency and Effectiveness in the Civil Service. The Prime Minister has agreed to Lady Young's proposals as set out in the minute and has approved the draft. She would prefer however that Lady Young should circulate the draft to colleagues making it clear that the Prime Minister has given her endorsement.

I am sending a copy of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office), Adrian Carter (Mr Hayhoe's Office, HMT), David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office) .

TIM FLESHER

Douglas Board, Esq.,
Lord Privy Seal's Office.

From the Private Secretary



Management and Personnel Office

Whitehall London SW1A 2AZ

Telephone 01-273 } 4400
GTN 273 }

16 July 1982

Tim Flesher Esq
10 Downing Street
London SW1

Dear Tim,

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

On Wednesday the Lord Privy Seal minuted the Prime Minister with a draft response which I understand the Prime Minister will be able to look at over the weekend.

Since sending it, the Financial Secretary has suggested some small changes which improve the draft on the subject of the Comptroller and Auditor General and I would be grateful if you, and the others to whom I am copying this note, would be kind enough to substitute the attached pages 16 and 17 which contain amendments.

This also gives me the opportunity to circulate a revised page 14 which we think shows an improvement over the original version in the last sentence of paragraph 25. I would be grateful if you would also substitute that page in your copy.

With apologies for this, I am also sending copies to Peter Jenkins (Treasury), Terry Matthews (Chief Secretary), Harry Bush (Minister of State, Treasury (C)), David Wright in Sir Robert Armstrong's office and to Clive Priestley for Sir Derek Rayner.

*Yours sincerely,
Jim Buckley*

J BUCKLEY

SPECIAL NOTE

Material filmed as supplied,
pagination out of sequence.

32. It is for the C&AG, as an independent officer, to deploy the resources available to him as he thinks fit. But in the Government's view the House of Commons and its Committees should make their own arrangements for monitoring reviews carried out by those Committees, or reported to the House by Ministers.

33. The departmental Select Committees have powers, subject to well-established conventions, to call Ministers to account and to seek information from them about policies and programmes and about the way they are administered. The Government welcomes the role of Select Committees in doing so, but believes that they have sufficient and appropriate powers for that job.

34. The Committee also recommended (Recommendation (ii)) that Ministers should continuously account to Parliament for resources used and results achieved in relation to objectives; and that government should ensure freedom for independent enquiry and money to support independent programme reviews. The Government fully endorses the importance of Ministerial accountability to Parliament, and believes that Select Committees provide a valuable additional instrument for Parliament in carrying out its own role in the review process. Outside bodies too will continue to participate in this process, and the Government will take into account their comments as part of its own reviewing work.

THE ROLE OF THE CENTRAL DEPARTMENTS

35. The Committee made a number of recommendations concerning the role of the central departments (Recommendations (xi) - (xv)). The

The role of other bodies in the review of programmes

29. The Committee recommended that departmental Select Committees should be able, via the PAC, to request the C&AG to review the efficiency and effectiveness of government programmes; that the C&AG should report annually on enquiries into government programmes conducted during the last 10 years, on programmes that have not been reviewed in that time, and on planned reviews; and that departmental Select Committees should be able to table substantive motions requiring information or debate on recommendations relating to improved efficiency and effectiveness (Recommendations (viii) - (x)).

30. The Government cannot accept these recommendations. The C&AG's powers of access to the files of government departments, and to comment on his findings, derive from the Exchequer and Audit Department Act 1866, that is, his access to such papers relates to his audit of departments' accounts.

31. Questions of efficiency and effectiveness which arise out of this audit are already dealt with most effectively by the PAC. The Government does not therefore consider that the resources of the Exchequer and Audit Department should be made available to other Committees for a similar purpose. Furthermore, the departmental Select Committees, unlike the C&AG and PAC, comment also on the merits of government policies and programmes and will no doubt continue to do so. The Government welcomes this but considers that it will be entirely inappropriate for the access to departmental papers granted to the C&AG for the purpose of his audit to be used for such a wider purpose.

as the Committee recommended. The MPO and Treasury intend to encourage departments to disclose as much as possible of the information they derive from their management systems. They attach particular importance to making adequate material relating to the identification of priorities and the allocation of manpower and other resources available to Select Committees and the public, though not all such material can be disclosed, for example if it concerns measures to combat fraud. Guidance on the question of disclosure of information will be provided by the Unit referred to in paragraph 16, and their central report on the financial management initiative will cover it.

Presentation and review of programmes

26. The Committee recommended (Recommendation (iii)) that the annual Public Expenditure White Paper should update and bring together statements about programmes, and that the annual Supply Estimates should offer more detail on targets and outputs. There are limits to the amount of information that can manageably be contained in the White Paper and Estimates, but the maximum relevant information will be made available, and the White Paper and Supply Estimates will continue to reflect improvements in the presentation of expenditure and the measurement of output. The style of the Public Expenditure White Paper has changed considerably over the years to match changing interests, and will continue to do so. The Government will also continue to consult Parliament about changes in Supply Estimates to ensure that developments in financial management do not conflict with Parliamentary needs. Departments will continue to extend the practice of publishing information about their programmes, their objectives and their performance in achieving them. The MOD, for example, publishes an annual Statement on Defence Estimates in two volumes.

27. The Committee recommended (Recommendation (vii)) that departments should work out with the MPO an annual programme of reviews to evaluate their programmes, establish the machinery for conducting



Prime Minister: Lady Young proposes the publication of the attached response to the Select Committee's report: I have flagged the summary of conclusions. Sir Derek Rayner has agreed the draft and the Chancellor and Chief Secretary have approved it.

PRIME MINISTER The draft goes further than Departments would like on the three points mentioned by Lady Young: the draft represents Lady Young's view as the best possible rather than the ideal. Do you agree i) to the publication as the draft and ii) that Lady Young should circulate it with your endorsement rather than

RESPONSE TO THE TREASURY AND CIVIL SERVICE SELECT COMMITTEE'S REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE circulate it yourself.

On 1 April the Select Committee on the Treasury and the Civil Service published a report, prepared by its Sub-Committee under the chairmanship of Dr Bray, on "Efficiency and Effectiveness in the Civil Service". We have the opportunity in replying to draw together into a White Paper all the action we are taking to improve management in the Civil Service. A draft is attached.

TF
15/6

The Government has a good story to tell and the draft deals with the recommendations in the order most convenient for the telling of it (although a key takes the reader to the response to each recommendation). We can extend a wholehearted or qualified welcome to most of the Committee's recommendations - and where we cannot, nearly all the points at issue are under consideration elsewhere.

The draft reply has been prepared after thorough consultation with departments. They have contributed many practical examples that greatly improve the solidity of the evidence. Not surprisingly they do not necessarily see eye to eye with central departments in all respects. There are 3 points in particular on which I believe we must stand firm.

The Select Committee specifically recommended that the prescriptive role of the central departments should be strengthened. Something more than "advice" and "information" from the centre is certainly necessary - the financial management initiative is an example. I think that paragraphs 17 and 18 state the centre's role in suitably forthright terms.

I attach particular importance to disclosure of factual management information to the maximum possible extent. Departments are nervous of this and the draft (paragraph 25) makes clear there are some real difficulties of confidentiality, but I am convinced of the value of openness for the reasons mentioned in the Secretary of State for the Environment's minute to you of 15 March and your Private Secretary's reply of 26 March. Above all, it will bring pressure to bear on departments whose approach falls short of an adequate standard. Paragraph 25 makes clear that the MPO and the Treasury will be pursuing this vigorously.

The Select Committee recommended that all departments should adopt MINIS or a clear equivalent. The line taken in the draft is that each department needs a comprehensive system of management information suited to the kind of businesses they run, not necessarily one identical with MINIS. I know that the Secretary of State for the Environment believes that other departments may not so much "adapt" MINIS as water it down. The key to this lies in the financial management initiative. The central departments must examine very critically the plans put forward by departments, and I see it as crucial that they should publish a report on the exercise to a specific timetable, as promised in paragraph 14.

In sum, I see our response to the Select Committee as an opportunity to take a step forward. I do not have the slightest doubt that this can only be done with your personal backing and I suggest that, if you are content with it, you circulate the draft to Cabinet colleagues for information. Meanwhile, we shall press ahead with arrangements for publication before the Commons rise. If you wish, I should of course be very glad to discuss all this with you.

I am sending copies of this minute and of the draft paper to the Chancellor of the Exchequer, the Chief Secretary, the Minister of State, Treasury (C), Sir Robert Armstrong and Sir Derek Rayner.

Baroness Young

BARONESS YOUNG

14 July 1982

EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

GOVERNMENT OBSERVATIONS ON THE THIRD REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE: SESSION 1981-82, HC236

[Final draft: 14 July 1982]

The Government welcomes the Report of the Treasury and Civil Service Committee on "Efficiency and Effectiveness in the Civil Service" (Third Report from the Committee, Session 1981-82, HC236) as a timely and valuable contribution to promoting greater efficiency and effectiveness in the Civil Service.

2. The Government accepts, totally or with some reservations, 20 of the Committee's 26 recommendations. Of the others, four concern the powers and role of the Comptroller and Auditor General (C & AG), and seek to expand and support recommendations of the Public Accounts Committee (PAC). The Government is considering the PAC's recommendations and its response to Recommendations (xvi) and (xvii) of the Treasury and Civil Service Committee's Report will be made known in due course.

3. The Government's response to the substance of the Committee's recommendations follows. The Committee's recommendations and the nature of the Government's response are summarised in Appendix 1 for ease of reference.

ACHIEVEMENTS SO FAR

4. The Committee concentrated its enquiries upon arrangements to promote efficiency and effectiveness in the Civil Service. It concluded that "there is no clear orientation towards the

achievement of effectiveness and efficiency at the higher levels of the Civil Service or in government generally"; and that, although there is a commendable concern with economy in the use of resources, there are too few attempts to set operational objectives, measure outputs and results, and hence guide the proper use of resources.

The Government's policy for good management

5. The Government has since May 1979 regarded good management throughout the whole of the Civil Service as an aim to be pursued as a matter of policy in its own right. This policy holds the key to securing a general and sustained improvement in efficiency and effectiveness. The Government's objectives have been to review the functions of government, to eliminate those that are unnecessary or are no longer required, to make sure that those that are retained are performed as efficiently and effectively as possible, to build on existing examples of good management practice in departments, and to disseminate such examples more widely. The Government's policy for meeting its aims was described in "Efficiency in the Civil Service" (Cmnd 8293, July 1981).

6. The first part of the Government's policy - which, as the Committee appreciated, shows concern with economy in the use of resources - entails setting a financial framework, with stricter limits on the amount of money and manpower available, to stimulate economy and efficiency. Departments use manpower monitoring systems which exercise close control over staff numbers month by month. Early in its life the Government set a target for the size of the Civil Service of 630,000 by April 1984 - over 100,000 fewer than

when it came to office. Reductions are on course: on 1 April 1982 the size of the Civil Service was 666,400, the smallest number for 16 years. Service-wide some £ $\frac{1}{2}$ billion a year in pay is already being saved. For some departments the 1979 baseline itself represented much lower manpower levels than in the past. In the Ministry of Defence (MOD), for example, civilian staff numbers had been reduced by over 20,000 UK based civilians between 1976 and 1979, and some 30,000 more have gone since then.

7. The second part of the Government's policy - which tackles problems identified by the Committee - has been to secure better value for money. The Government has sought to create and maintain an environment which is conducive to good management and to set and attain particular management targets. This demands critical examination of the continuing need for activities, functions and policies, as well as their costs, and an assessment of whether any should be transferred or contracted out to the private sector. Between 1978-79 and 1980-81 the number of Inland Revenue staff per 10,000 taxpayers has fallen from 24 to 21 (12 $\frac{1}{2}$ %); it is estimated that the relative costs of administering the social security budget will have fallen by 7% between 1978-79 and 1981-82; and savings in MOD manpower have been the major factor in enabling expenditure on equipment - and hence on front-line capability - to be increased from 31% of the Defence Budget in 1974-75 to 46% in 1982-83. Other examples of improvements made by departments include the following:

- a. The Ministry of Agriculture, Fisheries and Food has streamlined its regional organisation and simplified the

arrangements for making grants to farmers for capital equipment, thus saving so far 700 posts worth about £6 million a year.

b. In HM Customs and Excise, operational research techniques have improved the effectiveness of the Department's programme of VAT control visits. The increase in detection of under-declarations resulting from these techniques is estimated at about 20%, worth about £25-30 million a year.

c. The MOD has created a Directorate General of Management Audit, bringing together the functions of central management services, staff inspection and internal audit. This is already beginning to yield results in better co-ordination, more selectivity in coverage, and the development of management audit techniques using mixed discipline teams to examine more complex issues where straightforward inspection or audit alone would not give sufficient assurance of the Department's efficiency.

d. The Department of Health and Social Security (DHSS) has carried out a major study to examine the way business is handled at the various levels of the Social Security organisation, and the traffic in work between headquarters, regional and local offices. The report, published in September 1981, proposed a big reduction in the extent to which local offices are required to refer matters elsewhere for decision. Implementation of these recommendations

*This is
promise,
not performance;
it does not
square with
the other examples
II.*

is expected to lead to a net saving of around 1,000 posts over the next 12-18 months as a result of reducing the number, size and functions of the regional offices.

8. The scrutinies conducted by departments with the help and advice of Sir Derek Rayner provide notable examples: departments will have completed 133 scrutinies by the end of 1982, identifying so far potential annual savings worth £300 million and one-off savings of £37 million. A "Rayner" review of government statistics (Cmd 8236, April 1981) has already reduced by 10% the burden of enquiries on industry and other organisations and saved £10 million (690 posts) a year in government expenditure. A further substantial reduction is expected by 1984 and additional savings of £7 million a year (840 posts) as the remaining recommendations are implemented. A recently completed review of support services for government Research and Development has identified savings and improvements worth about £15 million a year (1500 posts) and about £7 million once and for all savings.

9. The Government has also taken initiatives to secure lasting improvement, affecting both people and systems, in the quality of Civil Service management. On the "people" side the introduction by the Government of a more formal system of centralised succession planning to identify and plan staff moves in crucial posts provides essential support for the principle that people likely to occupy senior management posts - especially those concerned with financial management - should be given suitable experience and training earlier in their careers. On the "systems" side internal audit has been strengthened, and administrative forms have been reviewed (results were announced in

February 1982 (Cmnd 8504)). Further reviews of the management of large, self-contained executive operations, of the control of running costs, and of personnel management are in progress.

10. The Government shares the Committee's view (Recommendation (xxvi)) that efforts to increase efficiency and effectiveness would be hampered by a failure of morale in the Civil Service and has no doubt about the importance of good staff relations. Achievement of the Government's objectives of a smaller and more efficient Service that provides good value to the taxpayer may cause some uncertainties for staff; this is bound to be so when an organisation is reducing in size. The Government is wholly persuaded of the need for good communications and the prompt announcement of decisions to minimise these difficulties, so that the Civil Service can sustain its sense of pride in a job worth doing and well done. It is clearly important for the Government to do everything possible to carry its employees with it in the implementation of policy, to explain the need for its policies and the longer term advantages of a more streamlined and effective Civil Service, and to make clear - as it is happy to do in this Report - that it appreciates and values the work that is done by its civil servants, including their essential contribution to carrying through all the improvements in efficiency and effectiveness that have been made so far and which are in train.

11. For the future, the Government wishes to see staff involved more closely in the development and formulation of the decisions that affect their work, where this will itself enhance their effectiveness in carrying out their tasks. It is considering ways in which staff can gain some benefit from efficiency savings - for example by investing a proportion of such savings to improve output and enhance the working environment. It is seeking to secure

greater co-operation between different departments' offices operating in the same geographical area⁽¹⁾. It is improving management/staff communication: for example, DHSS has recently issued a note to all its local office staff setting out the personnel policies it proposes for the next two years and emphasising the efforts being made to avoid redundancies while nonetheless achieving its manpower targets. The responsibilities of the central departments and their Ministers are recognised in the Early Tasks paper (Appendix 2) published by the Management and Personnel Office (MPO); and two of the MPO's five major objectives for 1982/83 are to promote the motivation and performance of staff and to develop good employment practices throughout the Civil Service.

THE PRESENTATION, MANAGEMENT AND REVIEW OF PROGRAMMES

12. The Committee made a number of recommendations related to the presentation, management and review of programmes (Recommendations (i) to (x)). One particularly important development of the Government's policy, designed to ensure the systematic and comprehensive application of higher standards of financial management, has recently been initiated by the Treasury and the MPO, and is relevant to the Committee's Recommendations (iv), (v) and (vi). It will build on the valuable work that has already

(1) Departments involved are: HM Customs and Excise, Department of Employment (including the Manpower Services Commission and the Health and Safety Executive), Department of Education and Science, Department of Health and Social Security, Home Office, Inland Revenue, Lord Chancellor's Department, Ordnance Survey, and Department of Transport.

been undertaken in various departments to develop better financial management systems.

Financial Management

13. The aim of the financial management initiative is to promote in each department an organisation and system in which managers at all levels have:

- a. a clear view of their objectives and means to assess and, wherever possible, measure outputs or performance in relation to those objectives;
- b. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money; and
- c. the information (particularly about costs), the training and the access to expert advice that they need to exercise their responsibilities effectively.

14. The working document with which the initiative was launched on 17 May is at Appendix 3. Departments are called upon to examine the way they manage all aspects of their programmes and to work out the best pattern of managerial responsibility, financial accounting and control. Keeping in touch throughout with the Treasury and the MPO, each department is to develop and define a plan which on completion will be sent to the Treasury and the MPO (before the end of January 1983); those departments will publish a central report by July 1983.

15. It is expected that every department's plans will include the following points:

- a. there will be an outline plan of development which will cover the whole of the department's activities. The assembly of each plan may proceed in stages, including pilot projects;
- b. there will be an information system that not only provides higher management with aggregated information needed for estimating and control, but managers at successive levels down the line with the information they need to do their job properly;
- c. the responsibilities of managers for the control of the resources they consume and, wherever feasible, the results they achieve will be specified systematically;
- d. the plan will include a system for the budgeting and control of administrative costs;
- e. where practicable, performance indicators and output measures will be developed which can be used to assess success in achievement of objectives. This is no less important than the accurate attribution and monitoring of costs; the question departments will address is "where is the money going and what are we getting for it?".

The full achievement of the aims of the initiative will require a heavy commitment of resources, including the efforts of senior management, and departments will need time. However, some departments were already well ahead. The MOD, for example, has had for some time

cost and management accounts covering expenditure approaching £4½ billion and widespread staff and travel budgets. It had already conducted a major study of financial accountability in the Department and is now developing a system of responsibility budgets for line managers.

16. A small MPO/Treasury Unit comprising both civil servants and management consultants has been set up to help departments in the preparation and review of their plans. It will work mainly in departments, advising senior management in the light of its experience gained from other departments and from the private sector. It will also help to identify Service-wide issues and to point to useful changes in existing practices and rules.

Management of programmes - general

17. The Government supports the principles contained in the Committee's Recommendation (xi) - that whilst there should be greater devolution of management, central departments should adopt a stronger and where necessary more prescriptive role in reviewing the effectiveness and efficiency with which management operates.

18. The Treasury and the MPO seek by prescription and scrutiny to ensure that high standards are reached by all; to compare one departmental programme with another where appropriate; and to ensure that Parliamentary and other requirements are met. It is for the Treasury and the MPO, making full use of the knowledge and

experience of other departments, to establish clear principles, to disseminate information and guidance about how principles can be applied and to check that they are applied in practice. It is with these considerations in mind that the two departments have initiated the drive to improve financial management set out in Appendix 3.

19. The improvement of financial management and the presentation of management information in departments must, however, take account of the fact that the functions and businesses concerned are numerous and diverse, and must recognise that departments themselves are better placed to develop the practical application of centrally defined principles. The Government accepts the suggestion which is commended in Recommendation (i) and set out more fully in paragraphs 50 to 56 of the main Report, that the evaluation of a programme requires the development of an analytical framework. The Government agrees with the Committee's comments that there should be no question of rigidity, and that policies or problems should not be distorted to fit any particular framework but the framework should be adapted and developed to fit the problems.

20. The flexibility that will be needed can be illustrated by reference to the responsibilities of DHSS which extend to five large and separate businesses which vary greatly in type and span of control, accountability and methods of working. These include some 86,000 directly employed staff in the social security system, where expenditure is specifically under the direct control of DHSS Ministers; some 2,700 staff working in the special hospitals which are run directly by DHSS; nearly a million staff employed by

the NHS authorities, who are also responsible for the allocation of money provided by DHSS Ministers for which they remain accountable; and the provision of local authority social services by local authority staff out of local authority resources and the rate support grant, where the DHSS responsibility is limited to guidance and advice. MOD's direct responsibilities are equally diverse, and include defence policy and the oversight of operations, the administration of more than half a million service and civilian personnel, research and development, the production of equipment and munitions, and the large scale procurement of equipment. On the other hand a small department, such as the Department of Energy with no more than 1,100 staff but an extensive policy range, is developing manpower and running cost controls and methods of policy review fitted to very different circumstances. These differences mean that a wide variety of analytical systems will be needed and that those that are developed will have to be sufficiently flexible to cover a wide range of activities.

21. Government initiatives such as that on financial management described above aim to build on the work that has already been done by departments, to systematise it and extend it. Action on the Department of the Environment's Management Information System for Ministers (MINIS) provides a good example. Indeed the Committee recommended (Recommendations (iv) and (v)) that MINIS, or its clear equivalent, should be adopted in all departments, that MINIS-type costings should be capable of reconciliation with departments' conventionally recorded expenditure, and that MINIS-type documents should be made publicly and readily available.

22. The strength of MINIS is that it provides a comprehensive framework which brings together information about activities, costs,

past performance and future plans for each part of the Department of the Environment. It shows how expenditure on staff and non-staff running costs is divided between Directorates, and relates this information to the size of public expenditure programmes being administered. This information enables Ministers and senior management to review all aspects of the Department's work regularly, and to determine priorities and how internal resources are to be allocated between them.

23. All departments similarly require a comprehensive system of management information. The systems developed by departments in response to the financial management initiative should ensure that it is provided. Indeed, they should go further. In following the criteria outlined in paragraphs 13-15 above and detailed in Appendix 3, they should cover not only internal expenditure but expenditure on programmes directly run by departments and should also provide the information needed to discharge responsibility for funds paid out in grants to other agencies which are themselves directly responsible for spending the money.

24. All departments will consider carefully what they can learn from the MINIS system. The precise form of system they adopt will depend upon the nature of the businesses they run, the method of operation preferred by the Minister and his senior staff and the best way of building up management systems that have been already developed. In this way the principles endorsed by the Committee will be adopted and applied generally.

25. The costings used in departments' management information systems will be compatible with their normal methods of recording expenditure,

as the Committee recommended. The MPO and Treasury intend to encourage departments to disclose as much as possible of the information they derive from their management systems. They attach particular importance to making material relating to the identification of priorities and the allocation of manpower and other resources available to Select Committees and the public, though not all such material can be disclosed, for example if it concerns measures to combat fraud. The MPO and the Treasury expect to receive guidance on the question of disclosure of information from the Unit referred to in paragraph 16, and their central report on the financial management initiative will cover it.

Presentation and review of programmes

26. The Committee recommended (Recommendation (iii)) that the annual Public Expenditure White Paper should update and bring together statements about programmes, and that the annual Supply Estimates should offer more detail on targets and outputs. There are limits to the amount of information that can manageably be contained in the White Paper and Estimates, but the maximum relevant information will be made available, and the White Paper and Supply Estimates will continue to reflect improvements in the presentation of expenditure and the measurement of output. The style of the Public Expenditure White Paper has changed considerably over the years to match changing interests, and will continue to do so. The Government will also continue to consult Parliament about changes in Supply Estimates to ensure that developments in financial management do not conflict with Parliamentary needs. Departments will continue to extend the practice of publishing information about their programmes, their objectives and their performance in achieving them. The MOD, for example, publishes an annual Statement on Defence Estimates in two volumes.

27. The Committee recommended (Recommendation (vii)) that departments should work out with the MPO an annual programme of reviews to evaluate their programmes, establish the machinery for conducting

them, and report to MPO (and thence to Parliament) the results of the reviews and decisions taken on them. It also suggested (Recommendation (xiii)) that the Treasury should probe the effectiveness of departmental programmes. It has long been the practice for individual departments to subject programmes and policies to review as the need or opportunity has arisen and it is essential for good administration that they should continue to do so. A further stimulus has been applied in recent years: for example "Rayner" scrutinies have often gone well beyond immediate management questions into the policies that underlie programmes. Moreover, there are already arrangements for systematically following up issues identified by Ministers during the Public Expenditure Survey as requiring more detailed review. The scope for more effective probing by the Treasury will be enlarged by the financial management initiative, with its emphasis on evaluating objectives and output as well as measuring costs; and the Treasury will continue to stimulate reviews of expenditure programmes where it perceives the need. The Government believes that the steady development of existing review activity will be more fruitful than the institution of a highly centralised approach.

28. The Government considers that it should be for individual departmental Ministers, not central departments, to decide whether to publish the results of their reviews and, where appropriate, to announce in advance that they are taking place. Ministers have demonstrated increasing readiness to do so, and this policy will be continued.

The role of other bodies in the review of programmes

29. The Committee recommended that departmental Select Committees should be able, via the PAC, to request the C&AG to review the efficiency and effectiveness of government programmes; that the C&AG should report annually on enquiries into government programmes conducted during the last 10 years, on programmes that have not been reviewed in that time, and on planned reviews; and that departmental Select Committees should be able to table substantive motions requiring information or debate on recommendations relating to improved efficiency and effectiveness (Recommendations (viii) - (x)).

30. With regard to the first of these recommendations, the C&AG's powers to examine the files of Government Departments, and comment on his findings, derive from the Exchequer and Audit Departments Acts. Thus, his access to departmental files relates to his audit of the departments' accounts.

31. His reports on efficiency and effectiveness arising out of his audit are considered by the PAC, the terms of reference of which refer specifically to the accounts. Neither the C&AG nor the PAC, unlike the departmental committees, comment on the merits of Government policies; the C&AG's powers of access should not cover such a purpose. In the view of the Government the existing procedure under which the PAC reports and makes recommendations, having considered the C&AG's report and having taken evidence from Accounting Officers, is very effective. For these reasons the Government do not consider that it would be appropriate for the C&AG to use his powers on behalf of other Select Committees.

32. Recommendation (ix) is addressed to the C&AG who, as an independent Officer, deploys his resources as he thinks fit.

33. The departmental Select Committees have powers, subject to well-established conventions, to call Ministers to account and to seek information from them about policies and programmes and about the way they are administered. The Government welcomes the role of Select Committees in doing so, but believes that they have sufficient and appropriate powers for that job.

34. The Committee also recommended (Recommendation (ii)) that Ministers should continuously account to Parliament for resources used and results achieved in relation to objectives; and that government should ensure freedom for independent enquiry and money to support independent programme reviews. The Government fully endorses the importance of Ministerial accountability to Parliament, and believes that Select Committees provide a valuable additional instrument for Parliament in carrying out its own role in the review process. Outside bodies too will continue to participate in this process, and the Government will take into account their comments as part of its own reviewing work.

THE ROLE OF THE CENTRAL DEPARTMENTS

35. The Committee made a number of recommendations concerning the role of the central departments (Recommendations (xi) - (xv)). The

Government's view on Recommendation (xi) concerning the balance between devolution to departments and central prescription have already been given (paragraphs 17-18 above); and its views on Recommendation (xiii) - the Treasury's role in probing the effectiveness of departmental programmes - are at paragraph 26. The Committee also recommended that the MPO should do more to disseminate examples of good practice from elsewhere, including abroad (Recommendation (xii)); that the Treasury and the MPO should be co-located to assist in necessary collaboration (Recommendation (xiv)); and that the MPO should act with the full support of the Prime Minister (Recommendation (xv)).

36. The Government endorses these recommendations with minor reservations. One of the MPO's main tasks is to build upon the substantial work that has been done already by departments to promote good management systems and practice. The MPO has been working with departments in reviews of a number of common activities, and as a result of this work has drawn up and issued guidelines on good management practice in four of these areas: typing, telecommunications, messenger services and transport. Work in other areas, such as stores, is in hand, and it is proposed that further guidelines will be issued. Already savings in the areas studied amount to £21 million per annum. The lessons from the Administrative Forms Review are being vigorously followed up. The review of support services for government Research and Development, which has just been published, will also give rise to guidance of general application. This year's multi-department

reviews of the control of running costs,⁽¹⁾ of the management of large self-contained executive operations,⁽²⁾ and of personnel work⁽³⁾ should also provide the basis for practical and long-lasting guidance to departments. This will be published.

37. Another example of arrangements for the dissemination of best practice, both from within government and from the private sector, is the establishment of the MPO/Treasury Unit described in paragraph 16 above. However, comparisons with costs of related overseas programmes are usually of limited value because, except at a superficial level, circumstances differ so much. For example, the Inland Revenue has found that revenue bodies in other countries are normally responsible for a different mix of taxes, each of which may be more or less complex, with different levels of taxation, different divisions of work between taxpayer and department (for

Departments taking part in reviews:

- (1) Department of Education and Science; Department of Employment; Department of Energy; Foreign and Commonwealth Office; Management and Personnel Office; Department of Trade.
- (2) Ministry of Defence (Meteorological Office and RAF Support); Department of the Environment (PSA District Works Offices); Home Office and Scottish Office (Prisons); Royal Mint; Department of Trade (Coastguards).
- (3) Ministry of Agriculture, Fisheries and Food; HM Customs and Excise; Department of Employment; Department of Health and Social Security; Home Office; Inland Revenue; Lord Chancellor's Department; Property Services Agency; Scottish Office.

instance, because of self-assessment) and different systems and powers. Likewise, attempts by HM Customs and Excise to compare the cost of VAT collection in the United Kingdom and in other European countries have been made more than once, but have been inconclusive because some countries are unable to identify what it costs them to collect VAT whilst others cannot produce figures on bases comparable with those used in the United Kingdom; there are significant differences both in the tax-collecting organisations and in the scope of the tax itself. While therefore the Government accepts that there is value in those responsible for running particular activities in departments studying the practices adopted in other countries, it does not consider that the probable returns are sufficient to justify substantial studies to compare costs directly.

38. Responsibility for the organisation, management and overall efficiency of the Service, and for policy on recruitment, training and other personnel matters rests with the Prime Minister as Minister for the Civil Service, and is discharged by the MPO. The MPO will continue to act in these matters with the Prime Minister's authority.

39. In April this year the MPO published a paper ("Early Tasks") setting out its major objectives for 1982/83 (Appendix 2). The Treasury and the MPO share many responsibilities for the framework within which government departments operate, making it essential that these two central departments work closely together. MPO and Treasury Ministers, and the Joint Heads of the Home Civil Service,

meet regularly and frequently to consider questions of Civil Service management. There are many formal and informal links below that; for example, the use of "assignment" staff such as Staff Inspectors and O&M experts is now jointly planned. Links between the Treasury and the MPO will be made much easier, as the Committee recognised, by the Government's decision to house the two departments at the Great George Street building. It is expected that the main move, involving as it does other departments, will be completed by Spring 1983.

OTHER PUBLIC SECTOR BODIES

40. The Committee made recommendations concerning audit by the C&AG of public sector bodies (Recommendations (xvi) and (xvii)), and the achievement of efficiency and effectiveness in such bodies (Recommendation (xviii)). The first two of these recommendations follow up views already expressed by the Expenditure, Procedure and Public Accounts Committees of the House of Commons. The Government has undertaken to consider the views expressed in the debate of 30 November 1981 on the role of the C&AG. The Government is considering all the relevant issues, including the Treasury and Civil Service Committee's views.

41. The Government accepts that the standards and methods of approach it wishes to see applied to the management of departments and to the control of their programmes are capable of extension within the public sector, and will expect non-departmental public bodies to take account of the lessons learned in departments. Where appropriate departmental Ministers will oversee the management methods used by the bodies they sponsor. The MPO publication "Non-

Departmental Public Bodies: A Guide for Departments" gives specific guidance to sponsor departments on securing the proper control and accountability of non-departmental public bodies.

PERSONNEL MANAGEMENT AND EFFICIENCY

Definition of responsibilities

42. The Committee recommended that the relative responsibilities of Ministers and their Permanent Secretaries should be more clearly defined, and that newly-appointed Ministers should have the opportunity to replace any Permanent Secretary with whom they cannot work satisfactorily (Recommendation (xxii)). The Government agrees that, as part of the process of strengthening line responsibilities, there is a need for a clear understanding between a Minister and his Permanent Secretary on the way in which the responsibility for managing the department is discharged and the extent to which the Minister delegates authority in management matters to his Permanent Secretary. Any general guidance on the issue would have to accommodate a wide range of differing circumstances and personalities, but the Government is considering whether any useful general guidance can be formulated.

43. The Government sees no need to institute formal arrangements to review the appointment of a Permanent Secretary after the appointment of a new Minister. If a newly-appointed Minister and his Permanent Secretary are not able to establish a mutually acceptable working relationship, that fact will certainly come to the notice of the Prime Minister and the Joint Head of the Civil

Service, and it is for the Prime Minister to decide how best to deal with the matter, with advice from the Joint Head of the Civil Service as appropriate.

44. The Committee recommended further extension of the personal authority of line managers within departments (Recommendation (vi)); the Government agrees. A good deal of recent work has been done to this effect. Departments generally will in future pay for most of the goods and services provided by Her Majesty's Stationery Office, the Central Computer and Telecommunications Agency and, from 1983, the Property Services Agency. Many courses at the Civil Service College will be on repayment from 1983. The requirement to make such payments will enhance awareness of costs, and make it easier for local managers to be given more authority to control the use of resources they consume.

Training and career management

45. Line managers need help in order to discharge these changed duties properly; this underlines the importance of training (as the Committee recognises - Recommendation (xxi)) and of career management. Training has constantly to be adjusted to reflect current priorities. During Information Technology Year 1982 there has been a big increase in the teaching offered by the Civil Service College, and during the last six months over 4,000 civil servants have attended courses on the practical potential of information technology. Training in forms design has been increased following the Administrative Forms Review. The Civil Service College

is now redesigning and expanding courses on financial management skills and a new Senior Finance Course has been introduced for staff expected to fill senior posts with important financial responsibilities. After April 1983 it will normally be required that an officer will have completed this course before being appointed a Principal Finance Officer or will do so without delay after appointment. In order to carry out the Government's intention to double the number of professionally qualified accountants in the Civil Service much is being done to train people to professional standards by using Colleges of Higher and Further Education and also the MOD facilities at Worthy Down (where over the past 4 years an average per year of 28 MOD staff and 17 from other departments have been trained in Cost and Management Accountancy). In addition, for those jobs that do not demand full professional qualifications but do demand aptitude, much effort is being put into training, both in-house at the Civil Service College and in departments, and externally.

46. Objective 3 of the MPO's Early Tasks paper (Appendix 2) concerns the selection, training and career management of staff. The supporting programmes include a review led by the MPO which will assess what training is necessary for staff with potential for senior management, what gaps there are in the considerable training opportunities already available inside and outside the Service, and how best to fill them. In line with the Committee's Recommendation (xx) the review will also consider what extra training provision is needed for those expected to rise to top posts; there will be consultation with people outside the Civil Service as well as within it.

47. The Government fully agrees with the Committee's view (Recommendation (xix)) that a substantial proportion of the most senior posts in the Civil Service should be filled by officers with successful records in financial and general management. It is already the policy that all senior posts should be open to those best fitted to hold them from all groups and classes in the Service and that effective use should be made of people of high potential whatever their current occupational group or class. Improvements have been made in the arrangements for succession planning for senior posts to reflect this policy. The Government's examination of the structure of Civil Service grades (of which the Committee is already aware from Cmnd 8170) may also be relevant, although decisions on this cannot be made until the recommendations of the Megaw Report have been taken into account. Meanwhile one important change of direct relevance to the Committee's current concern has been made. From 1 July 1982 members of the expanded Government Accountancy Service have been included within the Administration Group. This will make it easier to give accountants experience of administration early in their careers, so that they will be fitted for senior posts later on. It will in due course lead to an increase in the number of professionally qualified accountants in the upper reaches of the Service.

Pay and Industrial Relations

48. A Committee of Inquiry chaired by Sir John Megaw was appointed in June 1981 to make recommendations on the future principles and system for determining the pay of the non-industrial Home Civil

Service. Among the topics which the inquiry was asked to consider is the scope for introducing merit pay in the Civil Service (Recommendation (xxiii)). Copies of the Government's evidence on all these issues have been sent to the Select Committee and are publicly available. The Committee reported on 7 July and the Government is now considering its recommendations, taking into account those of the Select Committee on merit payments and on the general principles which should underlie arrangements for determining pay (Recommendation (xxiv)).

49. The Select Committee commented upon the need for proper control over the use of "facility" time for trade union activities (Recommendation (xxv)). The Government agrees; it has renegotiated, with considerable improvements, the agreement dating from October 1974, and the new national agreement came into effect on 30 April 1982. The Government has taken into account the need for greater precision, particularly in relation to the distinctions between "industrial relations duties" and "trade union activities". Departments have been made responsible for agreeing their own arrangements for facilities within the new national framework, which should enable them to exercise better control over the use of facility time.

CONCLUSION

50. The progress made so far in implementing the Government's policies to secure greater efficiency and effectiveness will be further consolidated in the period ahead. There can be no final completion: the task is continuous. However, the efforts made by departments, whether in response to central programmes or on their

own initiative, are very substantial indeed and the returns will continue to increase. The Government is grateful for the further stimulus provided by the Report of the Select Committee.

KEY TO RECOMMENDATIONS

Recommendation		Response	Paragraphs in Government's Observations
i.	A common framework of analysis to be used by departments.	Accepted in part	19
ii.	Responsibility of Ministers and Parliament for the review programme.	Accepted in part	34
iii.	Contents of the Public Expenditure White Paper and Estimates.	Accepted in principle	26
iv.	MINIS and equivalent systems; documents to be made available.	Accepted in principle	25
v.	MINIS costings to be compatible with conventional records of departmental expenditure.	Accepted	25
vi.	Responsibility and accountability of line managers.	Accepted	44
vii.	Annual programme of departmental reviews to be introduced and results published.	Not accepted	27
viii.	Select Committees to commission C & AG to carry out reviews of efficiency and effectiveness of Government programmes.	Not accepted	29-32
ix.	C & AG to publish annual report of reviews carried out in last 10 years.	Not accepted	29-32
x.	Select Committees to table substantive motions for debate and vote in Parliament.	Not accepted	29, 33
xi.	Central departments to move away from guidance to prescription.	Accepted in part	17-18
xii.	MPO to collect and disseminate examples of good practice and to review the advantages of obtaining cost comparisons from abroad.	Accepted in part	36-37
xiii.	Treasury to probe effectiveness of programmes for which it provides funds.	Accepted in part	27

KEY TO RECOMMENDATIONS (Cont'd)

Recommendation		Response	Paragraphs in Government's Observations
xiv.	Close collaboration needed between Treasury and MPO; co-location of the two Departments.	Accepted	39
xv.	MPO to be seen to act with full authority and support of Prime Minister.	Accepted	38
xvi.	C & AG's audit to be concerned with efficiency and effectiveness; C & AG to have access to accounts of public sector bodies.	Under consideration	40
xvii.	C & AG to have access to accounts of all bodies in receipt of "public funds".	Under consideration	40
xviii.	Standards of efficiency and effectiveness to be required in other public sector bodies.	Accepted	41
xix.	Senior posts to be filled by staff with experience in financial and general management.	Accepted	47
xx.	Establishment of a senior staff training course; MPO to set up working party.	Accepted in part	46
xxi.	Review training of line managers in light of Select Committee's recommendations.	Accepted	45
xxii.	Clarification of relationship between Ministers and Permanent Secretaries; new Minister to be able to change Permanent Secretary.	Accepted in part	42
xxiii.	System of merit pay to be considered.	} Accepted as part of the consideration to be given to the Report of the Megaw Inquiry	48
xxiv.	Arrangements for pay to enable unions to accept civil servants continuing to co-operate in improvements in productivity and efficiency without special payment.		
xxv.	Facilities Agreement: need for precise revised provisions and careful control of facility time.	Accepted	49

KEY TO RECOMMENDATIONS (Cont'd)

Recommendation	Response	Paragraphs in Government's Observations
xxvi. Morale: improvement of industrial relations and restoration of morale essential for achievement of efficiency and effectiveness.	Accepted	10-11

THE MANAGEMENT AND PERSONNEL OFFICE: EARLY TASKS**.INTRODUCTION**

1. In the message which the Prime Minister sent to the staff of the Management and Personnel Office (MPO) when it was set up she said -

" . . it is people who make the services provided to and by Government work well. I should like all our services to be excellently run and all civil servants to have the confidence that comes from a job worth doing and well done, and to be proud that they work for the public. I look to the new Office to have as its aims improving methods of work and efficiency in the Civil Service and encouraging and helping people to give of their best".

2. This statement outlines how the MPO is setting about its tasks. It is being underpinned by management action within MPO to assign responsibility for carrying out tasks and meeting objectives on the basis of detailed planning documentation.

THE APPROACH

3. Government Departments, under the direction of Ministers, exist to provide the public with services which must be as good as they can make them within the

constraints of the resources available. Each and every Department affects the lives of individual citizens in diverse ways, some direct and immediate, some more indirect. Each faces its own special and constantly changing problems. Each Department carries the main responsibility for the quality and efficiency of the services it provides; it must therefore be responsible for organising itself, for deploying its resources to best effect and for developing the skills and potential of the civil servants it employs.

4. The public judge the effectiveness and efficiency of government mainly by their experience of doing business with the men and women in the front line of Government Departments all over the country. Their performance is to be reckoned not only in cost but also in the amount and quality of the services provided. It is primarily for Ministers and senior officials in charge of Departments to encourage and help their staff to serve the public well.

5. The MPO has two main functions. The first is to promote the efficiency and effectiveness of Government Departments, a task which involves identifying, supporting and spreading good management systems and practice in Departments and monitoring, questioning and auditing performance in securing them. The second is to maintain a Service-wide framework for the development of personnel policy and practice, and to provide central services to all Departments, notably through the Civil Service Commission (recruitment), the Civil Service College (training) and the Medical Advisory Service (occupational health).

6. The Treasury now has responsibility not only for the management and control of public expenditure in general but also for that of Civil Service pay and manpower in particular. The objective of reducing the size of the Civil Service to 630,000 by 1 April 1984 constitutes a constraint which bears upon the scale of the service to the public, and sets a premium on improving the quality and efficiency of that service.

7. Thus the Treasury and MPO share responsibilities at the centre of Government - over and above the responsibilities which each Department carries in its own sphere - for the framework within which Government Departments and civil servants work, for the efficiency with which Government business is done, for the competence, well-being and morale of the civil servants on whom that depends and for the conduct of relations centrally with the trade unions representing civil servants. It is this shared responsibility which has led the MPO and the Treasury to launch jointly a major initiative to improve financial management and so develop managerial effectiveness in Government Departments - see paragraph 8(2) below.

8. In order to use its resources effectively, the MPO has to be selective in identifying what objectives to pursue. The major objectives for the MPO in 1982-83 will be as follows:

(1) To carry out its part in the programme of efficiency work in 1982 announced by the Chancellor of the Duchy of Lancaster on 9 December 1981. It

will support Sir Derek Rayner with further departmental scrutinies in the programme for which he is responsible to the Prime Minister, and will co-ordinate reviews of the use and control of resources in various executive operations; of projects to help Departments improve their systems of estimating, monitoring and controlling their running costs; and of personnel work in nine Departments covering more than half the Civil Service.

(2) Jointly with the Treasury, and in consultation with other Departments, to launch a major initiative to improve financial management in Government Departments. Departments will be invited to work up practical plans for improving their financial management in the light of guidance issued by the Treasury and the MPO. The initiative will call for a major and systematic effort to clarify the objectives and responsibilities of managers and provide them with the information, training and expert advice that they need. As plans are put into effect there will be a general raising of standards of financial management in Government Departments. The initiative will also assist the MPO and the Treasury to examine any changes in the existing practices and rules of the central Departments which may be needed to promote managerial effectiveness and financial management in Departments; and will help the MPO to develop a

longer-term strategy for promoting efficiency and to define a further practical programme of work for 1983.

(3) To review the central selection, training and career management of staff, in particular with a view to -

(a) ensuring that skills in financial management are brought up fully to the standards necessary for good management;

(b) encouraging more staff early in their careers to deepen their knowledge of relevant disciplines, such as accountancy, ADP, etc;

(c) arranging for more of the younger staff likely in time to carry important management responsibilities to gain first-hand experience of how the work of Government impinges on the outside world, for instance by doing a spell in a local office;

(d) managing the careers of potential senior managers in the first half of their service so as to enable them to gain greater depth of knowledge in particular aspects of departmental work;

(e) as a corollary to (d), broadening in mid-career the skills and experience of staff

expected to reach the highest levels of responsibility so as to give them wider insights on which to draw;

(f) increasing the scope for recruiting staff at senior levels from outside in mid-career, either on short-term exchanges and secondments or on permanent transfer, and for enabling civil servants in mid-career to gain experience in other types of employment relevant to their future work, for example in industry; and

(g) facilitating early retirement for staff wishing to leave the Service voluntarily and for Departments wishing to retire the less efficient.

(4) To promote the motivation and performance of staff by improving the quality of personnel management and the training relevant to it, by conducting projects which involve staff in improving the output and organisation of their work, by promoting understanding of the implications for people of the introduction of new technology, both for the efficiency of their work and for their satisfaction in it, and by raising the effectiveness of occupational health advisory services.

(5) To promote the development of good employment practices throughout the Civil Service in line with

Government policies applying to all employers, in particular in the field of training, and in the employment of women, of members of the ethnic minorities, and of disabled people.

CONCLUSION

9. In selecting major objectives for 1982-83, the intention has been to put together a practical programme with a good pay-off. Its success will lie in the extent to which it helps Government Departments and the men and women who work in them to serve the public well. Towards the end of the period the MPO will assess progress and consider what major objectives should be set for 1983-84.

Management and Personnel Office

April 1982

FINANCIAL MANAGEMENT

Note by the Treasury and MPO

The time has come for a general and co-ordinated drive to improve financial management in Government departments.

2. This paper sets out the objectives, places them in the wider context of management and organisation, and invites the departments listed at Annex A to work up programmes of action and discuss them with the Treasury and MPO.

3. Programmes of action should build upon the work done recently in a number of individual departments, in several cases with help from consultants; and the further work already planned for 1982. Departmental reviews which have pointed the way include the major reviews of financial management in MAFF, the Department of Industry and the Ministry of Defence; the institution of the MINIS system in the DOE; the studies of a budgetary system for the control of administrative costs and of management responsibilities in the network of Social Security offices in DHSS; and the review of support services and R&D establishments in six departments. In 1982, reviews are planned of the arrangements for controlling running costs in the FCO, MPO, Department of Trade, Department of

Employment, Department of Energy and DES; of resource control in certain executive operations in the Home Office, Scottish Office, Ministry of Defence, Department of Trade, PSA and the Royal Mint; and of personnel management practices in nine departments.

4. The need now is:

- to keep in focus the fundamental objectives;
- to sustain the impetus towards them, translating the recommendations of reviews into action fitted to the tasks and priorities of each department;
- to identify and take action on any changes needed in Service-wide arrangements or requirements of central departments;
- to help departments to draw on the lessons of each other's experience.

The Objective

5. The main objective is to promote in each department an organisation and a system in which managers at all levels have

- i. a clear view of their objectives; and assess and wherever possible measure outputs or performance in relation to these objectives;

ii. well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money;

iii. the information (including particularly about costs), training and access to expert advice which they need to exercise their responsibilities effectively.

6. There are obstacles to the application of these principles in the public service. The yardstick of profitability is lacking. Many Government objectives are generalised, and the test of their success is often acceptability rather than a quantified measure of output. In some areas, final measures of output are elusive and only partial indicators of performance can be devised. The task of applying the principles will therefore take time, and complete success in every particular is not to be looked for. Nevertheless, the principles are fundamental to good management and the effective use of resources. They should be applied to the maximum practicable extent.

7. A manager is anybody who has to take managerial decisions, ie decisions about the deployment and use of money and staff. The lowest level at which such decisions are taken varies. In some policy divisions they may normally be taken at Principal or Assistant Secretary level; in some operational areas they may be taken by Higher Executive or even Executive Officers. But the principles set out above apply to all areas of a department's work, whether it is advice on policy, the execution of policy or a specialist or staff function.

8. Good management thus goes wider than the good systems of financial control and the information needed to support them, which are the primary subject of this memorandum. The achievement of the objective requires a managerial structure within which the system of financial management can operate effectively. It will be necessary to consider the implications of financial plans for the management and organisation of each department as a whole and for the allocation of responsibilities within it.

The contribution of management accounting

9. The development and use of management accounting, linked as appropriate to other information systems, can make a central contribution both to the managerial structure and to the management of resources within that structure. It is not the accounting system itself that is crucial, but the discipline of breaking down a department's activity between managers, whose responsibilities can thus be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more clearly assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up and using a management accounting system, if properly planned and carried through, imposes that discipline. A more detailed note on management accounting is at Annex B, and notes on a suggested approach to implementation at Annex C.

10. The wide variety of work in Government departments and the different kinds of expenditure they incur mean,

however, that the approach adopted to pursue the objective in paragraph 5 - and in particular the extent to which a full management accounting system will be apposite - will differ from one area to another. For example:

- a. In some executive operations, like the running of prisons and R&D establishments or the support of the Armed Forces, where the resources are consumed directly by the Government, the costs of procedures and activities can be measured and indicators of performance or measures of output can in principle be devised, the potential of the management accounting approach can and should be fully exploited. Comparisons between establishments, or between alternative means of securing an objective, should then help to improve decisions.

- b. Where the activity involves the procurement of goods and services from other agencies, eg in the building of roads or the procurement of defence equipment, the Treasury has issued fresh guidance in the last year or so both on public purchasing policy and on the use of investment appraisal. The tasks of specifying objectives, assessing alternative means of achieving them (in terms of quantity, quality, cost, time etc) and monitoring results against expenditure will be helped by the application of the management accounting approach and the better information it generates.

- c. In executive operations like the paying of benefits or the collection of taxes, the rates of

taxes and benefits and the rules governing their application are laid down by statute and the final outputs are therefore largely outside the responsibility of the managers who administer them. But the principles of good management summarised above apply to the administration of benefits and taxes, and the information derived from that process should be used not only to control costs and improve efficiency but also to throw light on the effectiveness of the policy decisions made elsewhere in the department. Departmental systems should clarify the respective responsibilities of those who manage the operation and those who formulate the schemes and monitor their effectiveness, and provide the information needed by each.

d. Where a department pays out grants to other agencies which themselves carry the direct responsibility for how the money is spent, the department will require an information system and the appropriate techniques (eg of investment appraisal) which enable it to make a good job of its responsibilities for the funds in question. The nature of the system will vary with the department's relationship with the spending agency. In the case of local authorities, due regard must be paid to their independence and accountability to their own electorates. The department may want to encourage the use of management accounting in the bodies it finances (a good example is DHSS's concern with management accounting by health authorities), partly as a source of information to help both

formulation of policies and priorities and monitoring; and partly to encourage efficiency in the spending agencies. As far as the department's own operations are concerned, its system will focus on the effectiveness and efficiency of the grant-paying process.

e. Where the activity is to provide an internal service, eg finance, establishments, legal advice, Ministers' private offices, outputs are not generally measurable. The same is true of some, but not all, policy work. It is still right, however, that those in charge of them should know their costs and be given as much responsibility as possible for controlling them.

11. Each department should work out its own best pattern of managerial responsibility, financial accounting and control. But the following points apply generally and should be reflected in the plans of all departments:

a. Each department should construct an outline plan of development which will in time cover the whole of its activities. The plan should ensure that the most urgent priorities are tackled first, and that constituent parts of the department's system, as they are constructed, will be compatible.

b. In most cases it will be well to advance in planned stages. These may include pilot projects. In large departments with a wide variety of

functions, the task of filling in the initial outline may take several years and may need modifying if functions and responsibilities are changed.

c. The system should not only meet the needs of higher management for aggregated information for estimating and control, but should also provide managers at successive levels down the line with the information about their resources which, together with information about performance and outputs, will help them to do their job properly. Unless the system meets the second criterion as well as the first, managers will not use it and its accuracy will degenerate.

d. The responsibilities of managers should be specified systematically for the control of the resources they consume and, wherever feasible, the results they achieve. Each department should therefore examine the scope for breaking its structure down into cost-centres or responsibility-centres to which resource costs can be allocated and for which, where appropriate, measures of output can be devised and monitored.

e. Whatever the pattern of their other expenditures, all departments incur the costs of their own administration. All departmental plans should include a system for the budgeting and control of administrative costs. Where outputs are difficult

to assess, the identification of costs will still pose questions of value for money.

f. The management accounting system should be used within the department for the purposes of planning and control. If it is relegated to the status of an optional extra for the display of information only, again the information fed into it will not be accurate and the system will not be used. The Treasury will review with departments, as the need arises, how their management accounting systems and their existing systems for the public expenditure survey, estimates and appropriation accounts can best be related.

g. The development of performance indicators and output measures which can be used to assess success in achieving objectives is no less important than the accurate attribution and monitoring of costs. The question to be addressed is "where is the money going and what are we getting for it?" Systems should be devised to provide answers to both sides of the question wherever and to the extent that it is possible to do so. Relevant information on performance and (where possible) outputs will often be non-financial in character.

h. Attention should be paid to the costs and cost-effectiveness of the proposed system. In principle, costs can be allocated in different ways: to units of the organisation, to programmes

of activity, to objectives. Computerised systems make much elaboration possible, and some of it is necessary. Equally, they can be expensive. In general, therefore, systems should not be more elaborate than the objective essentially requires.

Constraints on Cash and Manpower

12. All activity must continue to be managed within the limit of the total resources allocated annually to each department, both cash and manpower. That discipline can only be maintained effectively if the managers to whom authority is delegated are also subject to it.

13. Good financial management requires, however, that the manager should be concerned with his total costs and not simply with his annual cash flow. Notional costs, such as the accruing liability for superannuation, are relevant to decisions which involve a choice between staff and other resources. In some areas the manager uses resources which include capital items like buildings and stocks acquired in the past, and these can be a major factor in the costs of his operation. Where this applies, the accounting system which provides the information to help him take decisions should be constructed accordingly.

14. Cash control, though essential, has to be complemented by systems and techniques that encourage intelligent reaction to changes in prices and enable departments to assess levels of service or outputs as well as total costs so that optimum use can be made of the cash and manpower available in each period.

Other Constraints

15. Centrally devised rules govern the form of Government accounts and the presentation of information to the Treasury and Parliament. The Treasury will be ready to review departments' needs (see paragraph 11 f above) and where changes in the existing requirements seem desirable, will be ready to make proposals to Parliament accordingly.

16. Similarly, central rules govern the pay, grading and conditions of service of civil servants; many of them are the subject of negotiation and agreement with the Civil Service Trade Unions. Within departments those arrangements limit the extent to which the individual manager can change the pattern of his resources to provide an exact fit with what he perceives as the needs of his particular job from time to time. Such constraints are common in large organisations, both public and private. They will continue to be needed in the Civil Service. But departments are encouraged to make maximum use of the scope for delegation which those constraints allow, coupled with the development of a management information system by which the use of more delegated authority can be monitored. In addition, the Treasury and MPO will be ready to consider and consult about specific proposals from departments which are aimed at introducing greater flexibility in the civil service management regime and at improving the incentives for managers to manage well.

Techniques and Training

17. The main needs are:

a. to spread cost-consciousness and a wider readiness to identify and try to measure costs and results, and to act in the light of this information;

b. to develop and apply techniques of measuring and appraising which the relatively junior managers who take most decisions will recognise as sensible and will use;

c. to assemble and use the specialised skills relevant to the work of each department;

d. to give senior managers sufficient understanding of the relevant disciplines to know when they need specialised advice, and to assess and use the advice given.

18. Action is in hand to increase the supply of qualified accountants, and to improve and expand training in financial management. Training in internal audit is being expanded. A finance course for senior administrators will be mounted in 1982. The Financial Management Co-ordination Group is about to review training in financial management as a whole and will shortly consult departments about further plans.

Appointments of senior staff

19. Crucial to the success of the drive to improve financial management will be the appointment of the right

people to the post of Principal Finance Officer and other posts which involve heavy responsibilities for financial management or financial advice. They will need appropriate training and experience and the right personal qualities for the job. The succession plans which each department draws up every year should pay special attention to these posts. Appointments as Principal Finance Officer already have to be approved by the Treasury, in consultation with the MPO. The Treasury will be discussing this further with departments.

Action

20. In the light of this paper, and taking into account the work already done and in hand, the departments listed at Annex A are invited to develop and define a programme of work for the improvement of financial management, and to discuss their programmes with the Treasury and MPO before the end of January, 1983. For this purpose, departments should regard the relevant Treasury Expenditure Division as the central point of contact. Programmes should be divided into stages as appropriate, with target dates specified.

21. In drawing up their plans, departments are invited to consider:

- a. their arrangements for carrying this work forward, including the allocation of responsibility for first formulating and then carrying out the plan, terms of reference, the deployment of

suitably qualified and experienced staff, and any external help they may require;

b. how far their existing systems, and plans already in hand, will meet their requirements and the criteria set out in this paper; and the size and scope of what remains to be done;

c. whether their existing organisation is compatible with an effective structure of responsibility for management - both of programmes executed outside the department and of departments' own operations; and what changes may be needed;

d. the scope for developing cost and responsibility centres and the creation of budgets for their managers; what additional authority could be delegated to managers; what that implies for any changes in the respective responsibilities of line managers and of finance and establishments divisions; or in requirements now laid down by the Treasury and MPO;

e. what parts of the department's activity, within the outline comprehensive plan, should have priority in the development of management accounting;

f. what work is needed for the development of output measures, what areas should have priority and how those and other indicators of performance can best be built into the management system;

g. how their management accounts, as they develop, can best be related to the Vote accounting system, and any implications for possible changes in the latter;

h. the implications of their plans for staffing and training, both in finance work and in line management;

i. whether computerised systems would be desirable and if so how best to obtain them economically, bearing in mind the large extent to which the same basic needs recur in individual departments;

j. how the management information produced can be used to keep Parliament better informed about the progress of departmental programmes;

k. the costs of introducing and running the systems they propose.

22. Departmental Trade Union Sides have a legitimate interest in the development of departmental systems. Departments will wish to discuss their plans as appropriate with their Trade Union Sides.

23. The Treasury and MPO will keep in touch with departments as their plans develop; inform themselves of the results of the work already in hand (see paragraph 3) with the aim that any general lessons that emerge are made

known through the appropriate machinery; encourage the common use of computerised systems; and circulate any guidance as necessary on central requirements or Service-wide issues generally.

24. In addition to the normal working contacts outlined in paragraph 23, departments may find it helpful to draw on help and advice in tackling the application of the principles in this paper to their particular circumstances. To this end, a small MPO/Treasury unit is being established, which will report to the joint Heads of the Civil Service. This will consist of up to 6 members (both civil servants mainly drawn from the divisions with the relevant experience and knowledge in MPO and Treasury and senior consultants) and will have a limited life (probably twelve months). It will mainly work in departments, responsible to and subject to the direction of the Permanent Secretary concerned, to help the senior management of the department, in the light of the experience of other departments and the private sector, on how best to approach the task and to fit it into the wider context of the organisation and managerial effectiveness of the department as a whole. The unit will pay particular attention to considering with departments how implementation of change can be facilitated, including changes flowing from recommendations of scrutinies, reviews and other studies already complete. The unit will also report on any opportunities or problems which it finds to be common to departments and on any changes in existing practices and rules which it believes would enlarge the opportunities or help to resolve the problems. This should help the Treasury and MPO not only to see how best they can contribute to the working out of

departmental programmes but also in developing their approach to management and efficiency in the longer term.

AGRICULTURE, FISHERIES AND FOOD

Ministry of Agriculture, Fisheries and Food
Intervention Board for Agriculture Produce

CHANCELLOR OF THE EXCHEQUER

Treasury
Central Office of Information
Customs and Excise
Inland Revenue
Department for National Savings

DEFENCE

Ministry of Defence

EDUCATION AND SCIENCE

Department of Education and Science

EMPLOYMENT

Department of Employment
Manpower Services Commission
Health and Safety Commission/Executive

ENERGY

Department of Energy

ENVIRONMENT

Department of the Environment (including
Property Services Agency)
Ordnance Survey

FOREIGN AND COMMONWEALTH

Foreign and Commonwealth Office
Overseas Development Administration

HOME

Home Office

INDUSTRY

Department of Industry

LORD CHANCELLOR

Lord Chancellor's Department
Land Registry

LORD PRIVY SEAL

Management and Personnel Office

NORTHERN IRELAND

Northern Ireland Office

PAYMASTER GENERAL

Paymaster General's Office

SCOTLAND

Scottish Office (including DAFS, SDD, SED,
SEPD, SHHD)

SOCIAL SERVICES

Department of Health and Social Security
Office of Population Censuses and Surveys

TRADE

Department of Trade
Export Credits Guarantee Department

TRANSPORT

Department of Transport (including DVLC)

WALES

Welsh Office

MANAGEMENT ACCOUNTING IN GOVERNMENT

Introduction

1. This Annex discusses in general terms the meaning of management accounting, the users of management accounting information and their responsibilities, and relationships with other Government requirements for financial and accounting information.

2. There is no single definition of management accounting that can be held to apply to the varying needs and circumstances of Government departments. At its lowest level management accounting might only be concerned with the analysis of costs - this being the essential starting point. But getting full value from it involves relating those costs to functions, activities and objectives for the purposes of forward planning, budgetary control and decision making. A management accounting system may be part of a family of management information systems, with links to conventional financial systems and to systems which monitor and record non-financial data. Alternatively it may embrace such systems. There can be no hard and fast rules about systems development since Departments will be starting from different positions in developing the arrangements that best meet their needs. What matters is that the systems they develop should take account of the underlying principles discussed below.

What is Management Accounting

3. Management accounting was devised to help industrial managers control the costs of particular activities. It was developed to supplement financial accounts, which tend to concentrate on inputs, by relating costs to outputs. In its development management accounting has drawn on a wide variety of analytical techniques and control mechanisms. Their common feature is that they are designed to assist all those who incur, control or indeed in any way influence costs to consider options, to formulate plans to meet objectives and subsequently to compare actual expenditure against those plans. Thus, management accounting should essentially be forward-looking. Its focus should be on evaluation (costing options and activities), planning (setting objectives), and control (monitoring events quickly and taking timely action where necessary).

4. Two key features distinguish the approach of management accounting from the financial systems generally in current use in Government. The first is in relating inputs to activities, or to outputs. Much existing Government accounting, and in many areas the structure of management, is now designed to assess and control cash expenditure under the Vote system analysed on an input basis. Inputs are important. Most management accounting systems seek to analyse input costs in order to ensure that they are looked at in toto. But the management accounting approach sees their real importance as part of the total makeup of the final cost of outputs or

objectives. A more effective system of control will aim to allocate or apportion all such costs, direct and indirect, to outputs or to an organisational unit (the costs of which may equate to or can in turn then be attributed to outputs or objectives). The need to monitor and control the cost of the outputs or objectives is then what shapes the system for controlling expenditure. As a result, individual managers are made more aware of the costs of the activities for which they are responsible, and there is a much more comprehensive picture of where costs are being incurred. Once costs are assembled regularly in this way they provide a basis for review and questioning, for budgeting and for monitoring performance against plan.

5. The second distinguishing feature is the nature of 'cost'. Most financial systems in use in Government departments are only concerned with annual cash-flow. Tight control of cash must remain a dominant feature. Cash is also a sensible basis for Treasury and Parliamentary control. But annual cash-flow rarely gives an adequate measure of the resources being consumed by a particular activity and therefore a proper basis for comparison with outputs. Depending on the context, the cost of activities may include the depreciation of fixed assets and the use of stocks, both of which may have been purchased in a previous financial year. It may also include the costs which do not appear on the department's own Votes, such as allied services and the accruing liabilities for pensions and gratuities; and notional costs such as the updated rental value of buildings. All these represent the use of

resources which should be taken into account when deciding whether to embark on or continue with an activity, whether to employ different means to meet the same objective and whether the achievement has justified the cost.

6. This is not to say that departments ignore these costs. Rather, that they are not collected systematically and used by line managers in their day to day decisions. (Increasingly such information is collected ad hoc for different exercises. That is often time consuming, expensive and inevitably not always reliable.)

7. Existing information systems do not always recognise that the nature of the decisions facing individual managers varies. In providing relevant information a management accounting system should reflect these different decisions and opportunities. In the short term management can often only influence variable costs which change in proportion to output. In the longer term there is more scope for changing full costs by increasing or reducing capacity. The difference can be of great importance to the way managers respond to different situations and in quantifying the effects on costs of changes in activity levels. For example, make or buy decisions require information about the costs that will actually be affected by the decision. Similarly, a manager may need to consider how best to set charges, perhaps to utilise spare capacity in a computer or some other installation. Giving him access to the relevant data should help a manager to optimise his decisions.

8. Relevant data will often include pay and price indices. Changes in the relative price of inputs should raise questions about the optimum mix of inputs to achieve a given objective. For example individual managers should be aware of how the prices for goods and services they are consuming or purchasing compare with those in the market as a whole, both for similar products and for those which could be substituted if they were to change their processes in both the short and long run. This involves monitoring specific and general pay and price indices, as an aid to minimising costs for given levels of output.

The Users and their Responsibilities

9. While individual managers require the information which flows from a well designed management accounting system if they are to control their costs effectively, the control of costs is not the sole objective of management accounting, nor are line managers its only users. The techniques involved, together with related disciplines, are designed to help both managers and policy makers to see clearly the financial implications of different courses of action and thus to weigh these against other non-financial criteria (eg social objectives). They all contribute to assessing the cost-effectiveness of present and future activities in order to ensure efficient use of available resources and in particular:

- a. to reveal uneconomic activities, under-utilised capacity and wastage and to assist corrective action; and

b. to ensure that decisions are taken with full knowledge of all relevant financial information.

10. At higher levels, decision-takers will be concerned with broad questions such as whether to embark upon, to maintain, to modify or to discontinue particular activities. They need to be able to define the objectives these activities are designed to serve, and to measure their costs. For these purposes and for regular monitoring of performance they need corresponding information on outputs. The management accounting system should provide the basis for this information. But where outputs are not easily measured, as often happens in non-marketed public services, the need for good cost information is not reduced.

11. At lower levels the emphasis will be on the management of existing activities and getting the most effective output for the lowest cost. Cost information here is usually more detailed; its purpose is to help the manager to assess and monitor the components of his costs, and variations in them. In general, the responsibility for the use of resources should be placed to the greatest extent that is practicable at the point where they are consumed, and this points to the maximum delegation of authority to managers. There must of course be limits to the application of this principle, since Principal Finance and Establishment Officers must continue to maintain department-wide controls over particular types of input (cash-flow, staff numbers and pay and other conditions of service are obvious examples - see paragraph 12 below).

But even where controls of inputs have to be exercised by a separate, central authority, the system should be such as positively to encourage the manager to examine his costs critically and regularly, to change the pattern of his activities in order to optimise his use of resources in relation to the objectives of his unit wherever he can be given the authority to do so, and to draw attention to the misuse of resources and opportunities for improvement where changes need the action of higher authority.

12. This paper does not attempt to tackle in detail the question how and how far managers can be given increased authority to take decisions about the resources they consume by relaxing the controls and checks over their inputs or altering their form. Departments will need to consider how best to make progress in this direction in their own circumstances. It is however inherent in the approach discussed here that the responsibility within a unit both for the consumption of resources and for observing the department's rules for controlling inputs should rest with the managers of that unit (and not with some other person) and that he should be encouraged to regard that responsibility as a major element in his job and one which will be taken fully into account in the assessment of his performance.

13. The monitoring of performance and the handling by managers of the costs of their activities should be a matter of close concern to senior management. But the flow of information should be seen by all levels of management as providing stimulus and opportunity for better

judgements and decisions; if it degenerates into a process of mere collection of information at one level and critical comment at a higher level, the system will wither and die. The accurate definition of information needs at each successive level of management is therefore a crucial part of constructing a management accounting system and past experience shows that it needs time and care. Information should not be collected and presented unless it is actually required by someone for assessment and decision.

Relationships with other Financial Information Systems

14. Departments will need to consider the links between management accounting systems and existing financial information systems: the Public Expenditure Survey, Estimates, the FIS Monitoring System and Appropriation Accounts. It is possible to introduce separate management accounting systems to operate alongside the existing systems, but this approach will rarely be fully effective, as experience in some past developments of management accounting within Government has already shown. It is likely to lead to a situation in which line managers are confused by different sets of data prepared at different times according to different criteria. There is a risk of much time-wasting reconciliation and unnecessary duplication. Even more damagingly, the management accounting information is then often seen as an optional extra. It is unlikely to survive relegation to that status.

15. These problems can be minimised by bearing in mind two important factors, both of which point to integration of management accounting with existing financial systems. The first concerns structure. If the broad structure of the systems can be aligned with each other, and where possible with the organisation and objectives of the department, the nature of the information and its flow along reporting channels is simplified. Secondly, while the search for integration should not be carried to the point at which the system becomes unnecessarily elaborate and inflexible, unnecessary duplication and confusion can be avoided by recognising that annual cash flow, for example, represents a core requirement for management accounting on the one hand and existing financial systems on the other. With modern computer facilities this common-core can be stored within a single system and elaborated and extended according to the needs of the particular application in hand. This process is made easier if the broad structure of the different systems is compatible. This approach should also reduce the burden on departments of providing information for related exercises.

16. Papers which touch on these questions have been circulated in the past to PESC(D) - see for example PESC(D)(81)6 which describes the former CSD's integrated management accounting and information system, and PESC(D)(81)7 which discussed cells and codes in financial systems. These papers illustrate that many detailed problems will arise at the design stage in adopting this approach, but it is perhaps worth drawing attention to

four points, two positive and helpful, two marginally constraining, which will apply quite widely:

a. The requirements of the Public Expenditure Survey, and to some extent of other existing systems, are at a higher level of aggregation than the information required for management accounting systems. In many cases this gives scope for the development of management accounting systems within departments whose data can be built up into the more aggregated requirements of the other systems.

b. Where this is not so it should not be assumed that the particular data requirements, definitions and structure of the existing systems are incapable of being changed. Public Expenditure Survey material could be improved if its components were related to costs and objectives more closely. Estimates and Appropriation Accounts already contain many variations and, although it will be necessary to seek the agreement of Parliament to any major changes, there is a reasonable presumption, on the evidence of past expressions of opinion by Parliamentary Committees, that Parliament will be prepared to look favourably on changes which would bring the structure of existing systems into a closer relationship with new management accounting systems. Where departments wish to propose such changes they should discuss them with the Treasury.

c. Since the existing systems serve certain requirements of central planning, monitoring and control, it is necessary to retain some compatibility between figures presented for them by different departments. The interests of cross-comparison and economies of scale in design and implementation also suggest that it will be desirable for departments to advance on lines which are broadly similar though not identical. While the functions of departments are very different, and therefore require different presentations of information in the detail of their management accounting systems, at a higher and more aggregated level these systems can be made much more compatible. There is no obvious reason why these considerations should prove to be a serious constraint on the development of satisfactory management accounting systems, provided they are adequately taken into account in the early stages of exploration and design. The Treasury will be ready to offer guidance and arrange for the dissemination of experience in this field.

d. Existing Government accounting concentrates heavily on cash flow, and this must remain an important requirement for the future. By contrast, where costs are not co-terminous with annual cash-flow for the reasons discussed in paragraph 5, a good management accounting system will need to show elements of cost going beyond, or falling

short of, particular cash flows. Information in terms of both cash flow and overall cost is, however, a normal feature of most effective management accounting systems and should not be seen as a major constraint.

MANAGEMENT ACCOUNTING SYSTEMS: A SUGGESTED APPROACH TO IMPLEMENTATION

Initial Planning and Development by Departments

1. The starting point will depend on a number of factors. When was the department's systems last reviewed; how far do these match the existing organisation; how does the existing organisation relate to the department's objectives and to the style of financial management now proposed; are responsibilities clear and lines of accountability distinct?

2. The aim should be to develop a structure of organisation in which identifiable functions and objectives can be assigned to responsibility centres whose responsibilities can be distinguished from those of other parts of the organisation. This entails a management structure in which the lines of reporting and accountability are clear. The processes involved in achieving this aim may in some cases raise fundamental questions about the nature of the department's business and its objectives. Logically, that is the right place to start. But where a Department is satisfied that it starts from a position in which its structure provides a reasonable fit with its objectives, it may prefer to go straight into the process of identifying responsibility centres. It will then be necessary to check as the process continues that the objectives and responsibilities of the groups concerned can indeed be defined and distinguished. When they cannot,

this may indicate a need to modify the organisation. Particular points to watch here include the distinctions between the responsibilities of policy and executive units, and between central and local control.

3. Having assigned responsibility to discrete units the next step will be the systematic identification of costs, in sufficient detail to enable those who are responsible for particular activities and objectives to be aware of and, wherever possible, held responsible for the cost of the resources they are consuming. For these purposes it may be desirable to analyse the costs attributable to individual responsibility centres into more detailed cost centres. These may be organisational sub-groups, functions, activities, tasks and projects. This process leads logically to the setting of budgets and the monitoring of costs against objectives. It also involves setting targets for the overall cost of the output or activity in question. Given budgets and targets for output or activity, comprehensive monitoring can be undertaken of both input costs and output.

4. The precise form and degree of detail in which information is collected and stored and subsequently presented to managers will depend on their needs. In determining these there is a constant need to ask who is going to use the information, for what purposes and what freedom the users have to respond to it. A case in point is the treatment of indirect costs or overheads. In the process of building up a picture of total costs care should be exercised to ensure that systems are not made

unnecessarily elaborate in the interests of statistical tidiness.

5. Progress will be made in stages but should preferably be within the framework of an accounting system which covers the entire activities of a department. A universal common factor is the cost of administration - or running costs - on which some progress has already been made in presenting material for the annual scrutinies of departmental running costs. The material produced so far does not generally constitute management accounting information, nor is it in general yet used by line managers in departments. But it does constitute a possible starting-point for further development. It is also an area where many items of expenditure are susceptible to local control. In this connection, departments are recommended to study the Joubert Report recommending the development of management accounting in the Department of the Environment, which was recently circulated to PESC(D) under cover of PESC(D)(81)15.

6. Where a department decides to proceed by establishing a basic responsibility centre structure, aligned with the department's programme objectives, and a management accounting system which starts by covering administrative costs, it will be possible progressively to widen the exercise to bring in other expenditures for which the relevant centres are responsible. Priority should be given to those areas where the benefits are likely to be greatest. Tackling the work in stages also enables departments to read lessons across as they proceed and

adapt their systems in the light of experience.

Detailed Design

7. The detailed design of a management accounting system for organisations on the scale of Government departments is a very substantial one, involving considerable professional skill. As far as possible, such design should be undertaken by the department itself to ensure that the system reflects its needs and its detailed knowledge of its business. But some recourse to consultants, or other outside assistance, will often need to be considered. The Treasury is equipped, in its AFA Division, to give some help on the approach to design; and advice on the use of consultants to provide assistance at the various stages of development. But it is not staffed on a scale which will allow the Treasury to provide the detailed design work.

Computerisation

8. Given the scale of likely developments, even within part of an individual department, data collection and distribution will in most cases need to be computerised. Whether computerised or not the management accounting system should ideally be integrated with existing financial information systems for the reasons explained in Annex B. But a new computer system will also have to fit into the department's ADP framework and any existing or planned computerisation of financial systems.

9. Experience with other financial systems shows that it is possible to introduce integrated additions to systems at subsequent stages if sufficient foresight has been given to the initial planning. Careful attention should therefore be given to links between systems to ensure compatibility and avoid duplication of data collection. Much of the cost of systems comes from program development rather than equipment costs. It is therefore important to review the range of alternatives from packaged programs to tailor made systems.

10. PESC(D) has already been taking an interest in developments in financial information in departments, providing exchange of experience and some guidance. This work will be developed and expanded. It is intended that PESC(D) should be the vehicle for monitoring and publicising developments in management accounting systems. It will also coordinate advice about cost effective ways of computerisation. The Government's reply to the PAC at the end of 1980 to the effect that consideration would be given to removing avoidable differences between departmental financial systems will continue to be relevant to this aspect of PESC(D)'s work.

11. Experience also shows that a better computer system results from very close liaison between the intended users of the system, especially in finance divisions, and the ADP division providing it. It is not advisable to pass on all responsibility for implementation to the latter. Much is gained from close involvement of the user at all stages. Indeed, there are distinct advantages, in terms of

bringing together a useful blend of skills and interests, in setting up a small development team which includes experienced line management.

Future Progress

12. Depending on the pace and scale of development, further co-ordinating machinery may be helpful. Meanwhile, it is proposed to arrange periodic meetings of Principal Finance Officers as an opportunity to take stock of progress and of difficulties encountered, to exchange experience and suggestions, and to arrange for more detailed co-ordination as may be necessary.

4 JUL 1982





The Permanent Secretary
 Sir George Mowley KCB

2 July 1982

J S Cassels Esq CB
 Manpower and Personnel Office
 Old Admiralty Building
 WHITEHALL
 London SW1

2nd PERM SEC.	
ACTION:	Mr J. K. Moore
FOR INFO:	Mr/Sir Robert Armstrong
	Mr Priestley
	Mr Russell
	JSC/JMG

Dear John,

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

I was grateful to you for your note covering the copy of the letter you sent to Ken Stowe on 18 June. Unfortunately because of my own absence on leave I have not been able to discuss the draft with my Secretary of State who, as I think you would expect, has expressed great interest in the terms of the Government's reply. He now has with him both the draft and my comments but I have had no opportunity of getting his reaction. We agreed therefore that I would send you this interim reply and that I would discuss with him your suggestion that he might wish to use this draft as a basis for sending the Lord Privy Seal a letter of comment. Alternatively, or in addition, you were kind enough to say that you would be very ready to come across here to talk to him. I will hope to be in touch with you early next week to let you know his reaction.

Meanwhile the comments which follow are my own and to the extent that they deal with paragraphs 20-24 must obviously be regarded as the minimum likely to meet Mr Heseltine's views.

I think paragraph 20 must not underplay the value of an overall management system for each Department however diverse its activities. In our experience this is an appropriate means of providing consistent across-the-board comparisons of all departmental activities, despite the need for flexibility and the existence of other internal systems for particular purposes. The references to DOE and PSA in this paragraph are indeed misleading as they stand because the Secretary of State has used MINIS successfully in both DOE(C) and PSA.

(H) I suggest therefore an amendment to the last sentence of paragraph 20 as follows:-
 "These differences mean that a wide variety of management systems, and systems sufficiently flexible to cover a wide range of activities should be expected - and the central departments....."

the description of MINIS in paragraph 22 is not quite accurate. I suggest the following amendment:-

"The Government fully agrees that information systems of an equivalent kind to MINIS should be adopted by all Departments. MINIS records the activities, costs and past performance of each directorate of the Department of the Environment, including the Property Services Agency, together with forward plans, objectives and manpower proposals for the year ahead (and will shortly include costs for the year ahead also). It provides an effective

(2 over)

basis on which Ministers and senior management can examine the work of each part of the Department of the Environment with the officials concerned on a regular and comprehensive basis; reviewing the effectiveness of policies as well as the efficient use of resources. The systems developed by other Departments, following upon the financial management initiative, will observe the same principles and serve an equivalent purpose....."

The next sentence, ie the first full sentence on page 11, might better be separated out into a paragraph of its own with due warnings included about the difficulties of measuring value for money in many areas, especially where the expenditure itself is the responsibility of outside agencies. Indeed I share the view of those colleagues who feel that the response, here and elsewhere, seems to take very little account of the discussions we had at the meetings which Douglas Wass held. The claims which appear to be being made for the "financial management initiative" will I think seriously affect the credibility of the document in the eyes of the civil service if there remains insufficient evidence that much of this territory of measuring output is, to say the least, most sketchily charted thus far.

Although paragraph 21 acknowledges that the financial management initiative will build on the existing work of Departments, this point might also be made in a wider context and at an earlier stage - for example in paragraphs 13 or 17: several Departments, including DOE, have made considerable progress on many of the areas referred to - notably on management information, management budgeting and non-staff costs.

I should also like to make the following points on other aspects of the draft

Paragraph 12: while the reference to "negotiations on pay and conditions" might be appropriate in a list for discussion within individual departments, it would be safer to exclude it from this paragraph which will be seen in a wider context.

Paragraph 19: insert after "departmental programme" the words "for the development of management systems".

Paragraph 41: the second sentence could begin "Where appropriate departmental Ministers" to avoid references to "powers" which seems unnecessary in the context of promoting good management.

Paragraph 44: the sentence "Managers are being given more control over such matters as office services and some accommodation costs" should make it clear that this is done in relation to their specific budgets.

I am copying this letter to recipients of yours.

Yours ever

G W Moseley



Sir Peter Casey KCB
Permanent Secretary

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2 July 1982

J S Cassels Esq CB
Management and Personnel Office
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Whitehall
LONDON SW1

2nd PERM SEC.	
ACTION:	Mr J. K. Moore
FOR	PS/Sir Robert Armstrong
INFO	Mr Prestley
	Mr Russell
	Mrs Stoman
	JSC/EMGA

Dear John,

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT ON EFFICIENCY AND EFFECTIVENESS

I am sorry to be late in commenting on the draft response circulated with your letter of 18 June to Ken Stowe; I have been out of the country. But this gives me the benefit of writing in support of some of the points which others have made, particularly Kerr Fraser and Ken Stowe.


I think it is very important to avoid any implication that the Civil Service cared nothing for efficiency before May 1979, and I like Ken Stowe's suggestion for the redrafting of paragraph 5.

I also agree with him and others about the unsatisfactory nature of paragraph 11. The Civil Service will "recover its sense of pride in a job worth doing and well done" when Ministers acknowledge publicly that the tasks which fall to be carried out by a slimmed-down service make an essential contribution to our national well-being, and that the job is being done well. I hope that these points can be built onto Ken Stowe's redraft of this paragraph.

Like others again, I am very unhappy about the reference to the need for a more prescriptive role at the centre. My letter to you of 25 March 1982 had as its theme the need for the centre to avoid a prescriptive role except on matters fundamental to the structure of the Service. If management in Departments is to be given a greater sense of responsibility and learn how to exercise it, what we need is less prescription, not more. The

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role of the centre should be to set strategic objectives, to lay down guiding principles on the basis of which management should operate, and to call management to account on the extent to which it has achieved the objectives and complied with the principles. But management must be given the freedom to manage from day-to-day. I am concerned at a number of recent developments which seem to demonstrate that the centre does not accept this philosophy and wishes to impose more uniform rules on Departments, and I shall be writing to you separately about this.

I think Kerr Fraser is right to express concern about the implications of paragraph 22 and, in the same connection, the need for a qualification to paragraph 16(e).

I recognise that the MINIS documents have already been made public by the Secretary of State for Environment, but I think we need to be very careful about a general commitment to publish, and in any case paragraph 23 seems to go much wider than MINIS, by undertaking to publish "the management documents which Departments use". This appears to place the onus on Departments to justify a decision not to make public its internal management documents, whereas hitherto it has been accepted as a matter of principle that management working documents should be treated as confidential. It is always open to a Secretary of State to make public the broad objectives of his Department, as mine has recently done, and to indicate if he wishes the programme and resources attached to them. There will, however, inevitably be large areas of most Departments' work where there are very good reasons for keeping operational objectives at a detailed level confidential. Paragraph 23 recognises this problem, but in my view the use of this escape clause is bound to give rise to awkwardness in practice, and it will be much better to stand by the principle that management documents of this kind should not be made public.

I am copying this letter to those listed in your Annex.

Yours ever

Peter

Peter Carey



PUS/L/9

Permanent Under Secretary

Mr P J Woodfield CB CBE

J S Cassels Esq CB
Management and Personnel Office
Whitehall

ACTED	Mrs J. R. Moore
FOR	Mrs Priestley
INFO	Mr Russell
	Mrs Stoman
	Miss Bacon
	JSC/ENG

NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

1 July 1982

Dear Sir,

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

1. Thank you for sending me a copy of your letter of 18 June to Ken Stowe about the Government's response to the Treasury and Civil Service Committee's Report on Efficiency and Effectiveness in the Civil Service. I am sorry that, because of my movements between London and Belfast, I have not quite met your deadline.
2. Although, as a very small department, we are on the margin of a good deal of what is said in the draft response enclosed with your letter I have some points which you may find useful.
3. The way in which the section dealing with the general management of programmes (paragraphs 18-24) has come out does not seem to me entirely happy. I would not, for example, accept that "prescription and scrutiny by the Treasury and the MPO are clearly needed to ensure high standards" or "to ensure that Parliamentary and other requirements are met" (paragraph 19). There is a proper role for central departments which it is hardly appropriate for me to spell out, but we should surely not give our support to the argument that without "prescription and scrutiny" from the centre Departments are incapable of doing their jobs or of maintaining "high standards".
4. I think too that the last part of paragraph 20 could convey a wrong impression. The statement that "central departments

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must not relieve other departments of their responsibility to do the jobs for which they are answerable", suggests that central departments could do just this in an effective way if they chose, but ought to refrain. Surely the point is that they could not do it even if it were thought that they should try.

(F)

5. Then what is said about MINIS in paragraph 22 in particular, seems to me to be too sweeping. There is a good deal of 'crisis management' type of work in the NIO - for example the hunger strike last year which for much of its lengthy duration dominated all aspects of our work and had serious financial consequences - which could only be accommodated within a MINIS framework, if at all, in a wholly artificial way.

6. The implications, too, of the simple reference in paragraph 22 to programmes undertaken outside the department are, for us, potentially difficult, affecting as they do bodies in which bitter sectarian conflicts are often delicately balanced. I am far from arguing that we must contract out of proper financial management of our programmes on which we spend large sums. I only suggest that undertakings of what will be done and how should not be too absolute.

7. A final point - a drafting one but carrying important implications - the opening sentence of paragraph 11 which says that "efforts to increase efficiency and effectiveness will be hampered by a failure of morale in the Civil Service" is liable to be taken as accepting that such a failure is or will be a fact. I recognise that this sentence is picking up a specific recommendation, but the succeeding sentences are also rather gloomy in tone.

8. I am sending copies of this letter to the recipients of yours.

Yours ever,
Philips
P J WOODFIELD



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

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R W L Wilding CB
Deputy Secretary

Mr J. K. Moore
Mr P. Butler
Mr Russell
Mr S. Blom
Mr N. E. A. Moore
JSC/EMG

J S Cassels Esq CB
MPO
OAB
Whitehall
SW1

1 July 1982

Dear John

DRAFT REPLY TO THE TCSC ON EFFICIENCY AND EFFECTIVENESS

This is an addition (with due apologies) to my letter of 29 June.

2. I consulted Robin Butler here about the implications of paragraphs 22 and 23 for the Treasury domestically, and attach a copy of his reply. I see that Frank Cooper, Lawrence Airey and Kerr Fraser have taken similar points.

3. I think it would be right slightly to gloss Robin's reference to the Chancellor's own views. The matter has not been re-submitted to the Chancellor since the Committee reported or since the launching of the financial management initiative; and we do not yet know what he will consider to be the best arrangements for his own departments in the light of these recent developments.

(G)
(see also paras 2, 3 & 5 on Mr Butler's minute below)

4. It is however a fair point that paragraphs 22 and 23 go further than the financial management paper in committing departments to something very like MINIS. At the same time, the latter does in my view commit departments to going rather further than Robin implies - or to showing very convincing reasons why not. They have in effect been invited to draw up plans which will incorporate management information systems which will cover at least part of the ground covered by MINIS, and those systems will generate documents. The unavoidable question then is: why should those documents not be made available?

5. I think that the solution may lie in loosening the two paragraphs a bit. The present draft probably goes too far towards implying that departmental documents will cover the same ground as MINIS, differing only in local detail. And it may be necessary to put more departmental discretion into paragraph 23. But you will want to consider this, and perhaps discuss, in the light of the other responses to your letter.

6. I think there is substance in Robin's paragraph 6 (i) and (ii). I have already taken up the point in his 6(iii).

7. Copies to Robin Butler and Peter Mountfield; and to Julian Moore.

Yus *wh*
Richard
R W L Wilding

FROM: F E R BUTLER

DATE: 29 June 1982

MR WILDING

cc Miss Brown (or)
Mr Mountfield

DRAFT REPLY TO THE TC&C REPORT ON EFFICIENCY AND EFFECTIVENESS

Thank you for your minute of 28 June covering a copy of the latest version of the draft reply, which I return herewith.

2. I see substantial difficulties about paragraphs 22 and 23 in their present form. Their implication is that, while Departments may develop systems which vary from MINIS in detail, they will all develop some comprehensive system which will be publishable.
3. I do not think it right to pre-judge departments' response the financial management initiative in this way. As I said to you when I contributed to the briefing for Lady Young's and Mr Hayhoe's appearance before the Select Committee - ^{a copy of} my minute of 3 December 1981 is attached for ease of reference - the Chancellor considered extensively the introduction of a MINIS system and concluded that no such machinery was required for Treasury Ministers to inform themselves of what was being done in the Treasury or ~~his~~ other major departments.
4. In response to the Prime Minister's initiative on financial management, the Treasury, and no doubt the Chancellor's other departments, are considering what proposals we should make for improving financial management over the next three years. But, certainly as far as the Treasury are concerned, these will concentrate on improving the substance, and it is by no means certain that they will take the form of a single publishable document covering the whole Department. Since the Treasury is now the collection of several different sorts of business, I very much doubt whether such a document, or series of documents, will be the result.

5. I fear that the result of the response will be to cause Departments to produce documents entirely for the purposes of publication, which will serve no purpose of real management. If so, that will lead to a lot of work, will damage the interests of financial management by causing people to go through the form rather than the substance, and in the end will have to be dropped. So I would like the response to be more forthright in saying that a MINIS system is not necessary or suitable for all Departments, but that, where in response to the initiative on financial management Departments decide to introduce such systems, they will be encouraged to publish them except when confidentiality precludes this.

6. May I make three other points on the draft response:-

i. Paragraph 9 refers to "the introduction of succession planning": this Government has not introduced succession planning, which most Departments have operated for years. It has introduced a more formal and centralised system of succession planning, and I think that this is what paragraph 9 should say;

ii. A lot of weight is put in the response on the Prime Minister's initiative on financial management. The response should make it clear that this initiative is directed towards the production of plans for improving financial management over a period, and that Parliament should not expect immediately the result to which reference is made. It is all made to sound too easy in this response;

iii. Paragraph 45 refers to PFOs being expected to go on the Senior Finance Course unless they have appropriate professional qualifications: I hope that the word "professional" can be dropped.

F.R.B.

F E R BUTLER

DATE: 3 December 1981

MR. WILDING

to Mr. Little
cc Mr. Littler
Miss Court
Mr. Waller
Mr. Moore (MPO)
Mr. McConnachie (IR)
Mr. Jefferson Smith
(C&E)
Mr. Gilbert (DNS)

TCS SUB-COMMITTEE ON EFFICIENCY: BRIEFING FOR LADY YOUNG'S AND
MR. HAYHOE'S APPEARANCE OF 9 DECEMBER

I welcome the suggestion in your minute of 30 November that I should provide a short speaking note for the Minister of State (C) in case the Committee ask him whether the Chancellor intends to introduce a MINIS system for the Treasury or for his other Departments. It provides an opportunity to make an important point to the Sub-Committee.

The Chancellor did, in fact, consider extensively the introduction of a MINIS system for his Departments, and he had a considerable exchange with the Minister of State (L) and his advisers about it. I could show you or others the papers if you were sufficiently interested.

His conclusion in a nutshell was that the problems which MINIS was addressed to were not his problems in managing his Departments. The reasons are stated very shortly in the attached speaking note. I think it would be useful if the Minister of State could take an opportunity to say something on these lines to counter a misguided inclination I detect in the Sub-Committee proceedings to believe that MINIS is not only wonderful but is fitted to all situations and should be mandatory upon all Departments.

F.E.R.B.

F E R BUTLER

THE CHANCELLOR OF THE EXCHEQUER'S CONSIDERATION
OF THE INTRODUCTION OF A MINIS SYSTEM
IN THE TREASURY

Draft Speaking Note

I understand that the Chancellor of the Exchequer gave extensive consideration to the introduction of a MINIS system in his Departments which include not only the Treasury but, much more important in terms of size, the Revenue Departments and the Department for National Savings.

Of your two witnesses today, one was not a Treasury Minister at the time and one is not now: so any account we can give of his conclusions is secondhand. But I understand that he decided that a MINIS system was not the most appropriate form of help to him in the management of his Departments.

The Chancellor concluded that his Departments presented different problems from those of the Department of the Environment, which contains about 45,000 staff divided into about 60 directorates with very disparate activities. The problem in the Department of the Environment was to obtain information about the tasks being done and to decide what priority they commanded. This MINIS achieved.

By contrast the Treasury - at least at that time before the recent reorganisation - was a small Department, of about 1000 people, divided into about 20 policy groups all with close contact with Treasury Ministers. No such extensive machinery was required for Treasury Ministers to inform themselves of what was being done.

Inland Revenue, Customs and Excise and Department of National Savings are larger but have more uniform functions than the Department of the Environment. For example the functions of the Inland Revenue and Customs at their various locations are similar, namely to collect the taxes allocated to them. The activities of each unit do not have to be separately identified and priorities attached to them.

Perhaps this illustrates an aspect of management information systems which is important for the Committee's consideration. The

Choice of management information system required depends critically on the nature of the organisation and the problems of managing it; and a single model will not cover all situations.

If asked what management information the Chancellor does use

I understand that Treasury Ministers have received monthly returns of staff in post in their Departments and quarterly returns showing progress towards their Departments' staff targets. They receive the annual scrutiny of running costs which enables them to see how various parts of their Departments are developing; and how the costs of activities change. They review periodically management plans for achieving their Departments' manpower numbers, including plans for Rayner studies and for action to be taken as a result of them.



Miss Stoman
Miss Bacon

11/2/82
CIVIL SERVICE
LONDON SW1H 9AT

SIR BRIAN CUBON KCB
PARLIAMENT UNDER SECRETARY OF STATE

30 June 1982

Dear John

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT
ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

You copied to me your letter of 18 June to Ken Stowe asking for comments, within a very tight timetable, on a draft response to the Treasury and Civil Service Committee's Report.

The response appears very much as a peg on which to hang the Government's exposition of its financial management initiative. Might it seem rather odd that the replies to the Committee's particular recommendations appear to be almost incidental and briefly summarised in an Annex?

(E)

But the form is for you, and I see the attractions in seeking to confuse the Committee in this way. I am more concerned with the language of the draft, which reflects this over-emphasis on the financial management initiative, describing it in terms which seem to me to go beyond the carefully revised version issued by the Prime Minister on 18 May. We seem to be reverting to the fallacy that financial management is the totality of management and administration and that it has a close and direct link with the MINIS idea. In paragraph 13 I would alter the second sentence to read:-

"One important development of the Government's policy, designed to ensure the systematic and comprehensive application of higher standards of financial management, has just been initiated by the Treasury and MPO, and is relevant to a number of the Committee's recommendations (eg (iv), (v) and (vi)).

Similarly:-

- (i) I would delete "following the financial management initiative" in paragraph 22,
- (ii) Paragraph 16 (c) has lost the qualifications in paragraph 11(g) of the financial management document. Can we at least start the sub-paragraph with the words "Where practicable,"?

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Elsewhere the response does not, I think, altogether avoid the basic dilemma that on the one hand the Government is seeking to eliminate unnecessary functions and activities (see page 2) and on the other hand to introduce a whole variety of new initiatives. Moreover some of these initiatives are not new at all. I have in mind what is said in paragraph 12 about "developing a more participative managerial style" and "regular meetings of senior and junior staff to explain policy". This sort of thing has been going on for years and was probably easier to achieve in the days when more staff resources were available. It already looks as if one of the outcomes of the personnel management review will be a recommendation for more staff to undertake career development work.

The last sentence of paragraph 20 is very important. We would re-phrase it as follows "the Central Departments must not insist on doing or attempting to do the jobs for which other departments are responsible and answerable".

You draw attention particularly to paragraph 23. We consider that as worded at present it goes too far, and if it were to be retained should be considered by Ministers collectively. If the management documents have got to be disclosed unless they bear a "confidential" classification it will mean that, for example, political opponents of the Government of the day, commercial competitors and trade union interests will be able to see our private working documents. Why not get round this problem by saying that "management information" will normally be made available etc? This would allow us to construct out of our internal private documents a set of papers that would be suitable for publication.

Finally, the last sentence of paragraph 34 seems obscure and slightly patronising. Who are the outside bodies which need to be told by the Government that they are "free" to review these matters? Or have we in mind some special relationship between these bodies and Parliament?

I am copying this letter to those listed in the Annex to your letter.

Y S
B. Dixon

J S Cassels Esq CB.



THE PERMANENT SECRETARY
SIR PETER BALDWIN, KCB

J S Cassels Esq CB
Management and Personnel Office
Whitehall
London
SW1A 2AZ

29 June 1982

Dear John,

Thank you for sending me a copy of your letter of 18 June to Ken Stowe with a copy of the draft response to the Select Committee's report.

I am content with the general structure of the draft and indeed with most of its contents. But some important points and emphases need a bit more attention.

Paragraph 25 accepts recommendation (i) too enthusiastically. It is one thing to devise tools for the proper management and evaluation of programmes and assessment of efficiency. We would all accept that. It is quite another, however, to accept that a "common framework of analysis" can be applied or to raise the expectation that in practice there will be "enough common elements" to make valid comparisons between different programmes. Our experience even within Transport suggests that different types of work - even, to say it again, within the same department - require quite different analyses to yield answers about efficiency and effectiveness. This point emerged strongly in your own paper on the use of output measures circulated with PESC(82)6. I would therefore much prefer your paragraph 25 to be restructured to start with the well-made point about diversity of function - not surprisingly since you are dealing with half the economy and the whole of society - to lead on to the conclusion that a common framework of analysis would suffer from bluntness, and to conclude that varied approaches would yield more effective results. This approach would also, I believe, be more consistent with your commentary on recommendation (xi) in paragraphs 18 and 20.

There is a risk that in offering, at paragraph 22, to apply management accounting to the "objectives, priorities, costs and results of programmes undertaken outside the Department" we may be promising something we cannot quickly deliver, if at all. Perhaps I have misunderstood the thrust of your commentary. What I wish to be quite clear about however is that my Secretary of State is not expected to answer for local authority roads and public transport expenditure simply because we contribute to this activity through non-specific transport supplementary grants. There are big issues of principle and practicality involved here which have not been properly examined - yet, anyway.

The general commitment to publication of "management documents" in paragraph 23 is too sweeping. I recognise the need to respond as positively as we can on publication. But - as you propose, rightly, in paragraph 28 in relation to reviews - this should surely be a matter for individual Ministers to decide and to answer for to Parliament. If it is decided that there must be some general commitment, it should be in terms that all Ministers will make material available but that it will be for them to decide what that material should be. Otherwise we shall reduce the value of the system in improving management because we shall always have an eye to whether what goes into the documents can be made public without embarrassment to Ministers.

Finally, the discussion of the respective roles of central Departments and other Departments in paragraphs 18 and 19 overstates what the centre can or should do. I make this comment, as I expect others will, from experience at both ends. In practice, as I have said, it will be unwise to lead readers to think that there will be much informative comparison of one Departmental programme with another, and I doubt whether comparison of the Treasury and the MPO can show Departments "in practical terms how principle may be applied" (except by borrowing people ^{or otherwise learning} from Departments where they have done it). The essential role of the centre is, as I said in my letter of 6 May,

to ensure that Departments have set up systems appropriate to their own range of circumstances, within very broad general ground rules; and that they work.

Copies go to the recipients of your letter.

Yours ever.

Bob

PETER BALDWIN



Miss Bacon

DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY
 Telephone 01-407 5522 ext 6981
 From the Permanent Secretary
 Sir Kenneth Stowe KCB CVO

2nd	
1st	Mr J.R. Howe
FOR	JSC/ENG
INF	

J S Cassels Esq CB
 Management and Personnel Office
 Whitehall
 LONDON
 SW1A 2AE

29 June, 1982

Dear John.

When we met last week I promised to let you have our detailed comments on the draft response in writing as soon as possible. A certain amount of what follows is based on the general points I made ^{last week} yesterday - where substantial redrafting is required it would be as well if this were done in MPO for the sake of consistency of style.

Para 5 This is a prime example of one of my main points. It implies that nothing was done before May 1979 and that the civil service resists improvements in efficiency ("considerable difficulties still to be overcome"). Could we not say something along the lines of the following: "The Government found some notable examples of good management and efficient operations. Its aim has been to give greater prominence to good management as an essential policy in its own right, as the key to securing greater efficiency and effectiveness. It has instituted reviews of the functions of government, to eliminate those that are unnecessary or are no longer required, and has disseminated examples of good practice more widely".

Para 6 We think mention should be made here of the manpower monitoring systems which DHSS and others such as the MSC have developed over a period of years. DHSS, for example, through its system of monthly monitoring of manpower consumption in terms of both numbers and costs has exercised close and successful control over the number of staff for several years. Incidentally, should we not quote the latest possible civil service manpower figure? DHSS has for instance shed another 630 staff since 1 April 1982.

Para 7 You might like to quote the administrative costs of the social security system here: they have fallen from about five per cent in 1978/79 and 1979/80 to an estimated 4.6 per cent in 1981/82. We think this is a better example than numbers of staff working on family allowances/child benefits, which major policy changes have affected out of all recognition. Experience here suggests that the surveys identified from Rayner scrutinies should be qualified by the word "potential". Only a small proportion have yet been achieved in practice, and the task ahead is lengthy and much more difficult than the Rayner exercises themselves.

28/8

Para 8 We would like to insert "as a result of reducing the number, size and functions of its regional offices" after "over the next 12-18 months".

Para 9 Following up the points made on para 5, the opening two sentences would be better recast as - "There have also been initiatives On the "people" side the introduction by the Government of"

Para 11 If this is not to be criticised by the staff who read the White Paper it needs to strike a much more positive note. I would like to see something on the lines of -

"The Government shares the Committee's view that good morale in the Civil Service is an essential pre-requisite to increasing efficiency and effectiveness and it has no doubt about the importance of sustaining good staff relations. Achievement taxpayer will cause some uncertainties for staff; this is bound to be so when an organisation is reducing in size. The Government is wholly persuaded of the need for good communications and prompt announcement of decisions to minimise these difficulties."

If another example from DHSS would be helpful it would be possible to add:

"For example, DHSS has recently issued a note for communication to all its local office staff setting out the personnel policies it proposes for the next two years and emphasising the efforts being made to avoid redundancy in achieving its manpower targets."

(We know that this note has been generally welcomed by our staff in local offices.)

Para 12 Would it be worthwhile referring to the MPO's initiative in encouraging experiments through the Industrial Society to help improve communications?

Para 15 Do we usually come up with impracticable plans?

Para 16 I think "every Department's plans will include" is dangerously vague - does it mean each and every authority subordinate to the Department (192 DHAs for example)? We need to make clear at the end of this paragraph that many Departments (DHSS for one) have already done much of the groundwork - we have used performance indicators in the social security regional organisation, for example, for the last seven or eight years.

Para 18 and 19 As I mentioned at our talk I am not happy about the references to prescription. They do not accord with the later references to increasing the authority of individual managers and in particular the role of Ministers and Accounting Officers. Could we not say (para 19) that central guidance may be needed on some issues and that the Treasury and MPO "establish" principles and monitor performance, but that any central prescription has to be reconciled with the fact that it is Ministers and Accounting Officers who are finally accountable to Parliament for a department's actions.

20 Another point to which I attach particular importance is that this paragraph should explain not only the central/Departmental relationship but also the Departmental/other bodies and agencies relationship, which frequently affects accountability and the financial and management frameworks needed to establish and control programmes. I suggest, instead of the present second sentence: "For example, the DHSS alone is responsible in different ways for five large and separate businesses which vary greatly in type and span of control, accountability and methods of working. These include for example, some 86,000 directly employed staff in the social security system, where the expenditure is specifically under the direct control of DHSS Ministers; some 2,700 staff working in the special hospitals which are run directly by DHSS; nearly a million staff employed by the NHS authorities, who are also responsible for the allocation of monies provided by DHSS Ministers for which they remain accountable; and the provision of local authority social services by local authority staff out of local authority resources and the rate support grant, where the DHSS responsibility is limited to guidance and advice".

In the final sentence of this paragraph I think we should again refer to Ministers' responsibility. Perhaps simply by inserting "and, indeed, their Ministers" after "they" in the final line.

Para 21 You might care to consider adding a new final sentence:

"Another example is in DHSS which introduced computerised central accounting for its local offices in April 1981. This is being used as the basis for a budgetary control system for DHSS administration costs as a whole, the first implementation stage of which is in April 1983."

Para 22 The fourth sentence might be reworded to read "The systems already developed by other departments and those which will be developed following etc..."

Para 23 As I said, I think this is a particularly sweeping promise. If we were to publish, say, our monthly management information from the regional organisation we would be swamped by PQs, Ministerial correspondence and press comment on the fine detail. The documents could not strictly be regarded as confidential, but if we were forced to publish them we would have to put a great deal of effort into providing explanatory material if we were to avoid a flood of work. At the very least "management documents" need to be defined and limited, because there are hundreds of them.

Para 27 A reference to the DHSS system of "whole benefit reviews" would be a good specific example, to rebut Committees' continuing references to the lack of such policy review programmes.

We also need to point out that, while management review systems are one thing, reviews of whole policies are quite another. It really does need challenging whether it is sensible or realistic to have a programme of monitoring all the thousands of Government policies, especially in many value-laden areas such as are often found in DHSS, Home Office etc.

Para 37 To turn to the point about international comparisons, you may like to have a copy of the attached note which explains what work has been done in the health field and what the difficulties are. We are thinking that this might usefully be made available to Parliament, perhaps by putting it in the library of the House and sending it to our own Select Committee, following an inspired PQ. If our Ministers agree,

Your draft might include a passage at the end of the paragraph on these lines:-

"This does not mean that Departments do not seek to learn from experience in other countries. DHSS has made available to Parliament a short note outlining the work that has been done on international comparisons in the health field. This includes participating in several international studies by bodies such as the World Health Organisation, European Commission, OECD, and the Council of Europe. The UK contribution compares well with that of other major European countries, but there are formidable difficulties in the way of making meaningful comparisons, including lack of comparable data, the cost of obtaining such data and the problems of interpreting such data as there is because of differences in, for example, methods of financing and organising health care as well as economic and social differences. DHSS also keeps in close touch with overseas developments in devising and running social security schemes, particularly in relation to improvements in computer systems."

Para 41 From my comments on para 20 you will see that non-departmental public bodies have a much more important and fundamental part to play in financial and management control than "taking account of the lessons learned in departments".

Para 43 I think 'consulting', in the final sentence, should read 'with advice from'.

Para 50 final sentence: 'careful' implies previous carelessness, (which may be the case). I think "systematic" would be better.

Para 51 Omitting 'now' in the second sentence would reduce the implication that nothing was done in the past.

I am copying this letter to those who received yours.

John ...

Ken

c.c.
HMT
CDL
CS/HMT
CO
Sir Derek Rayner



Civil Service *La*

10 DOWNING STREET

From the Principal Private Secretary

28 June 1982

Dear David,

I have shown the Prime Minister your letter of 18 June 1982, and she was interested to see the figures for the run-down in civilian numbers in the Ministry of Defence and for the increase in the amount being spent on equipment which has been made possible by the reduction in civilian staff and by other measures which your Secretary of State has taken.

I am sending copies of this letter to the recipients of yours.

Yours ever,

Anne Whitmore.

David Omand, Esq.,
Ministry of Defence.

Lo



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PERMANENT UNDER-SECRETARY OF STATE
SIR FRANK COOPER GCB CMG

PUS/82/768
31/5

J S Cassells Esq CB
Management and Personnel Office
Whitehall
SW1

2nd PERM SEC	
Mr Parry	JSJ/ENG ✓

28 June 1982

EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

Thank you for sending me a copy of your letter to Ken Stowe of 18 June. It would have been better to have had more time to respond to a document of this weight and importance - though not as important as other matters some of us have in hand at the moment. I hope we can have the opportunity to follow up some details with your people before publication.

2. Most of my comments reflect certain general impressions which the reader of the document might be excused for gaining:

- a. That the initiative for pursuing efficiency in the Civil Service and for delegating authority to line management dates either from 1979 or much more recently - to put it mildly a terminological inexactitude.
- b. That it will be continued in the main by the "centre" establishing general principles from which specific prescriptions can be derived and laid down for line management to follow - to put it mildly both duplicitious and dubious. Without doubt there has been a welcome intensification of interest in and pressure for efficiency under the present Government, but we do ourselves an injustice if we imply that there are no instances of similar progress before 1979. As for further progress, I am in doubt that the centre - and I include in this term the centre of individual large Departments as much as the Treasury and MPO - can encourage greater efficiency by delegating greater authority to line managers (in spite of the strong political and institutional pressures towards centralisation) but must resist the temptation to prescribe to them how they shall manage. Some of the reasoning behind

this view is set out in EOC(82)4* which I intend to publish soon in suitable form.

3. You ask for examples of improved productivity for Paragraph 7 of your paper. I suggest the following addition to Paragraph 6:

"For some Departments the 1979 baseline already represented much reduced manpower levels: in the Ministry of Defence civilian staff numbers had been reduced by over 20,000 UK based civilians (32%) since 1976, and some 30,000 more have gone since April 1979. Substantial numbers of units have been closed or amalgamated - and more are planned. This represents a major increase in productivity and efficiency; and a cost saving of over £350M since the present Government took office (at today's prices). Some $\frac{2}{3}$ of the increased expenditure on defence equipment since 1974 has been found directly from civilian manpower savings."

4. I attach other suggested amendments to your paper. There are a number of examples of what we have already done in Defence. These are offered simply to illustrate how the paper could be improved by greater emphasis on achievements so far. If others have better examples, I should be happy for ours to be displaced or relegated to footnotes.

5. I am copying this letter to the recipients of yours.

FRANK COOPER

* attached

- to follow.

EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

Government Observations on the Third Report from the Treasury
and Civil Service Committee: Session 1981/82, HC236

MOD Comments

Paragraph 5, Line 3. Delete "pursued" and substitute "intensified the pursuit of".

Paragraph 7, Line 5. Insert "and of whether any can be transferred or contracted out to the private sector".

Paragraph 7, Line 10. Insert a further example:

"Savings in manpower in the Ministry of Defence have been the major factor in enabling expenditure on equipment - and hence on front line capability - to be increased from 31% of the Defence Budget in 1974/75 to 46% in 1982/3".

Insert "by Departments" after "conducted".

Paragraph 8, Line 10. Insert "the introduction of contract cleaning in MOD establishments has already yielded savings of over 4,000 posts and an estimated £7M a year" after "months".

Paragraph 9, Line 3. After "introduction" add "formal".

Paragraph 16. Some Departments are already developing or have already developed plans to achieve the objectives set out in this paragraph, and we should say so. I suggest that we insert at the end of Paragraph 16, at least as far as the Ministry of Defence is concerned, something along the following lines:

"Some Departments are already developing plans to achieve these and related objectives. The MOD, for example, has cost and management accounts covering expenditure approaching £4½ billion and widespread staff and travel budgets. It has already conducted a major study of financial accountability in the Department and is now developing a system of responsibility budgets for line managers".

Paragraph 19, Line 1. Delete "prescription and".

Paragraph 19, Line 6. Delete "prescribe" and substitute "establish clear".

Paragraph 20, Line 4. Insert "and recognise that Departments themselves are better placed to develop the practical applications of the centrally defined principle" after "diverse".

Paragraph 20, Line 11. Delete "large numbers of" and substitute "more than half a million".

Paragraph 22, Line 9. Insert "already underway or" before "following".

Paragraph 22, Lines 16 and 17. Delete the beginning of the sentence and substitute "Departments are developing and will continue to develop systems which differ from MINIS, depending on their kind of business"

Paragraph 22, Line 19. Delete "may".

Paragraph 23. Delete the first part of the paragraph and substitute "Departments are publishing more and more documents on their management systems, and these are normally made available for Parliamentary"

Paragraph 26. It might be worth mentioning in the last sentence that the Ministry of Defence publishes an annual Statement on Defence Estimates in two volumes to meet this need and has, at the last count, published 141 Open Government Documents since 1978.

Paragraph 36, Line 2. Delete "what" and substitute "the substantial work which".

Page 16, Footnote 2. Delete "supporting services" and substitute "Support".

Paragraph 37, Line 6. An example from the defence area would be the different ways in which our NATO allies man their Armed Forces (ie the prevalence of conscription in Europe).

Paragraph 42, Line 11. Delete "or prescriptions".

Paragraph 42, Line 14. Delete "prescriptions" and substitute "guidance".

Paragraph 44. This paragraph does not do justice to the considerable delegation of management authority already achieved in the Ministry of Defence not just of office services and accommodation costs but in respect of the prime functions of, for example, the R&D Establishments, stores, workshops, dockyards and so on for which we have developed sophisticated cost and management accounts, a wide range of delegations of authority and for which we are now developing responsibility budgets. I should like your staff and mine to get together to try to bring this paragraph into line with what is happening.

Paragraph 44, Last Line. Delete "discretion in these matters" and substitute "more authority to control the use of resources they consume".

Paragraph 45, Line 5. Add "There are, of course, already a large number of people with professional qualifications already working in the Civil Service (give numbers). What needs strengthening is training and qualification in specific management and financial skills".

Paragraph 49, Last Line. Insert after "Civil Service": "as well as within it".

Paragraph 50, Line 10. Delete "more careful" and substitute "better".

Paragraph 51, Penultimate Line. Insert "further" before "stimulus".



NEW ST. ANDREWS HOUSE
 ST. JAMES CENTRE + Mrs Stone
 EDINBURGH EH1 3SX Mr Tobias
 Telephone 031-556 8400 Miss Bacc
 Mr N.E.A. Ma

28 June 1982

J S Cassels Esq CB
 Management and Personnel Office
 Old Admiralty Building
 Whitehall
 LONDON SW1A 2AZ

2nd F... C.	
ACTION	Mr Parry
FOR	JS/EMG
BY	

Dear Mr Cassels,

Thank you for the opportunity afforded by your letter of 18 June to Ken Stowe to comment on the draft reply to the Treasury and Civil Service Committee's Report on Effectiveness and Efficiency in the Civil Service. I am content with much of the draft reply; but it is not quite the document I was expecting from your letter of 23 April. In a number of respects I think it goes a good deal further to meet the Committee than you implied in that letter, notably on recommendations (i) and (iv). The paper also advances a number of propositions which are new (to me at any rate) as if they were established government policy; and new features are proposed for a number of developments on which there has already been extensive consultation.

Paragraphs 11 and 12 strike me as an unconvincing attempt to express Minister's appreciation of the work of the Civil Service. The present wording clearly implies that there is a failure of morale in the Service and that it will hamper efforts to increase efficiency and effectiveness. Without clear examples the draft is unlikely to convince staff of the innovation of a more participatory managerial style, whatever that means. It is hard to see paragraph 19 as consistent either with what is said about morale or a more participatory style of management.

106/15

(D)

I am surprised to see that, after all the discussion there has been at Permanent Secretary level about the Treasury/MPO initiative on financial management, the paper should now be seeking to add further elements to the programme of work set out at Appendix 3. It also appears to be attempting to reintroduce ideas which were decisively rejected in earlier discussion. I accept that departments should examine the extent to which it is feasible to develop a system linking operational objectives and expenditure; but the implication of the first part of paragraph 22 taken in conjunction with paragraph 13 (which states that the Treasury/MPO initiative will give practical effect to the recommendation on MINIS) goes a good deal further than I thought we had agreed, since it implies that the financial management exercise will produce a much more direct alignment with the MINIS approach than I suspect many departments will wish to make. A more serious objection to your draft is that paragraph 16(a) inserts a thought which is not present in the document you summarise - "including its responsibility for programmes executed wholly or mainly outside the department as well as its own operations". This is so widely drawn that it would apply to the activities of local authorities and a wide range of outside bodies; and the idea is developed further in paragraph 22 - the sentence beginning "Indeed they should go further:". We debated all this in April when Douglas Wass accepted amendments to the circular on financial management. It was made plain then that the financial management exercise applied to departments' own direct activities and that it was unacceptable to attempt to extend an elaborate and difficult exercise to embrace all the programme expenditure for which departments have policy responsibility.

not time

Paragraphs 25-28 discuss in a broadly acceptable way how departments will carry out thorough and radical reviews of their programmes: but the conclusions clash with those in paragraph 22. The implication of paragraph 22 is that there will be an annual review of objectives, priorities and costs of every programme carried out on a formal basis analogous to MINIS. This proposition has not been formally put to us before. I believe it would lead to a misuse of scarce resources with little practical benefit. Can you not stick to what is said in paragraphs 25-28 and delete the passage I have quoted above in 16(a) and the fourth and fifth sentences of paragraph 22?

Other points on this section of the Report are:-

- (i) Paragraph 16 does not say to what timescale "it is expected" that plans will include the points itemised.
- (ii) Paragraph 16(e) promises more than can be delivered. I thought it was accepted that there are many areas (particularly policy divisions) where it is very unlikely that performance indicators and output measures will ever be developed; this item should start with the words "Where practicable".

It is a bit much that the text of paragraphs 18 and 19 should cite the establishment of the MPO/Treasury Unit as a practical example of a stronger and more prescriptive role in reviewing the effectiveness and efficiency with which management operates. You have justified the establishment of this Unit to us on the basis that it is intended to assist departmental management and to enable lessons learnt in one department to be applied to the benefit of others. Mr Walker's recent letter to the Chief Secretary on ADAS and the Capital Grant Scheme sets out the relationship very succinctly as it should be.

As to paragraph 23, I appreciate the desire to move towards more open government. One or two Ministers have been prepared to make documents freely available in the manner suggested. Their enthusiasm is not universally shared however. I suspect many Ministers, including my own, would want to gain some experience of the products of the new financial management approach before agreeing that they should be published; a commitment to publish might have a very inhibiting effect on the contents of some of our management documents, making them very much less useful to senior management and Ministers. This is surely a field in which we have to advance by stages. The amount of paper involved is likely to be prodigious and costs far from negligible. I would prefer to avoid giving this commitment; but if you regard it as absolutely inescapable can you not at least indicate that it may be some time before it is fully honoured?

In your letter of 23 April you said that you would point out the impracticability of the Committee's recommendation for a common framework of analysis for all programmes. The flavour of paragraph 25 seems to be a wholehearted welcome for the recommendations modified only by the statement "accurately reflecting the character of widely differing programmes". I had understood that you intended to reject the concept of a common framework of analysis, and I still believe that that is the correct answer to make. I have seen no evidence to suggest that a usable common framework can be devised and I very much doubt whether it would be easy to provide "enough common elements.... to enable comparisons to be made". That seems to be promising far more than we can deliver; and it raises some major questions of importance to departmental Ministers. This paragraph needs to be rewritten in order to reflect more faithfully the line put in your letter of 23 April and to remove the reference to comparisons.

On five points of detail, the footnote (a) to paragraph 36 should add "and Scottish Office" after "Home Office"; and since it is hard to see how the work of the Treasury/MPO Unit is an example of anything proven at this stage, it might be wiser to omit the first sentence of paragraph 3. In paragraph 39 we do not understand

What is meant by joint placing for the use of "assignment" staff: since it is not too impressive an instance of joint placing, need it survive? In paragraph 41 in order to avoid unnecessary trouble I should prefer to see line 4 read "and will invite non-departmental public bodies to take account" rather than "will expect to see...." You will have noticed the need to correct the final line of paragraph 43.

On training and career management I suggest you do without the fourth sentence of paragraph 45. I accept that once the new course has proved itself it will be right to expect new PFOs to have completed the course before or soon after appointment or to have acquired equivalent expertise by another route. But I see no need to say in a document published at this stage, before we know whether the new course will be a success, that all existing PFOs need the course. You might also amend the third line of the fifth sentence; the syntax suggests that the reference is to financial management whereas it is clear from a re-reading of the passage that it is information technology the draft has in mind.

Copies go to the recipients of yours.

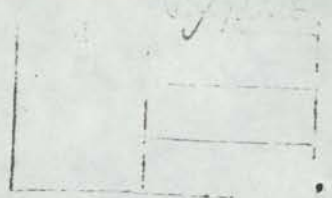
Yours sincerely

Colin M Keewes

for W K FRASER



*In Reply
Miss Bacon*



INLAND REVENUE

THE BOARD ROOM, SOMERSET HOUSE, LONDON WC2R 1LB

TELEPHONE 01-438 7711

FROM THE CHAIRMAN, SIR LAWRENCE AIREY KCB

25 June 1982

J S Cassels Esq CB
Management and Personnel Office
Whitehall
London SW1

Dear John

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S
REPORT ON EFFICIENCY AND EFFECTIVENESS

You copied to me your letter of 18 June to Ken Stowe with the draft response to the Committee's report.

2. Taking first the points specifically for this Department, I was pleased to see international comparisons put in their proper place. I attach a contribution based on our experience which I hope will help to drive home the message.

3. Measures of productivity are more difficult, and the particular one you have chosen is completely misleading for the reasons I explained to you at our meeting on 14 June - briefly that year to year changes in the cost/revenue ratio are mainly the result of factors such as budgetary changes, earnings levels, and the rate of unemployment, which completely swamp such separate movements as are attributable to improved efficiency on our part. As I also told the sub-committee all this in my evidence to them last year, it would be a particularly hazardous example to quote. Finding something better is, however, a problem, because the same factors affect most of our comparisons of performance (this is something I hope your central team will be able to help us on) so most of the alternatives will not stand up to serious scrutiny either. Subject to this, however, you could perhaps use a staff per taxpayer figure, which would show a fall over the last few years from 24 to nearer 20 Inland Revenue staff per 10,000 taxpayers - but without any implication that this is entirely due to improved productivity.

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[Signature]
16

4. You also asked for suggestions for paragraph 8. One which you might consider is the switch next year to allow mortgage interest relief at source. This will save (over 1,000) Revenue staff.

(A) 5. The main comment I have, however, is on the proposed commitment to MINIS or its equivalent. As I said in my letter of 6 May, I am concerned about the implications of this for Ministers, and particularly for the Chancellor, in relation to such politically sensitive areas as the staff-cost of extra tax revenue (the 'black economy') compared, for example, to the staff-cost of savings on social security benefits. This is the sort of information which a published MINIS system would bring prominently into public view. More generally, I have doubts about whether MINIS is the right approach for all Departments, and certainly when the Chancellor last considered this in relation to his own Departments he concluded that it was not - hence the evidence I gave to the TCSC Sub-Committee on this subject, with his approval. So far as I know, he has not changed his view of the matter since then. I am therefore not entirely clear about the meaning of your statement that the draft "has been approved in its present form by ... Treasury Ministers". The Chancellor, as you know, has a dual capacity, both as a 'central' Minister and as a 'Departmental' Minister, and as far as I am concerned he has not yet had advice from his own Departments - principally the two Revenue Departments - on this document. We shall of course, unlike the other Permanent Secretaries on your circulation list, be advising him direct and we shall do this shortly. At this stage, all I can say is that I expect our advice to be similar to that we gave on the previous round.

6. I am copying this letter to those listed in your annex.

Yours wv

Lawrence

Lawrence Airey



Sir B. van Hees, KCB
Permanent Secretary

2nd TERM SEC.	
ACTION	Mr Parry
FOR	18/6/82
INF	

25 June 1982

Dear John,

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

Thank you for sending me a copy of your letter to Ken Stowe of 18 June attaching a draft White Paper responding to the TCSC Report. There are a number of passages on which I should like to make suggestions, and I will deal with these seriatim.

PARAGRAPH 8 You might like to consider adding this sentence: "The Ministry of Agriculture has streamlined its regional organisation and simplified the arrangements for making grants to farmers for capital equipment, thus saving so far 700 posts worth about £6 million per year".

PARAGRAPH 13 Without wishing to detract from the importance of the recent Treasury/MPO initiative, I would have thought that it might have been worth calling attention to the various departmental exercises aiming at developing comprehensive financial management systems. Surely MoD and MSC have been in this field for some time; and DoE, Transport, DHSS, DoI and MAFF are also already working on the problems.

PARAGRAPHS 14 to 17 There is no explicit recognition in these paragraphs of the fact that it will take a considerable time for departments to implement the Treasury/MPO initiative which is described or that this will involve significant resources. Unless something is said on this I feel there is a risk of Parliament assuming that the departmental plans referred to at the beginning of paragraph 16 will be implemented pretty quickly.

PARAGRAPHS 18 to 20 In referring to a more prescriptive role by the central departments I think the quite fundamental point at the end of paragraph 20 - ie that the central departments should not relieve other departments of their

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/....

responsibility to carry out the tasks for which they are answerable - should be brought up into paragraph 19. In that paragraph I think the phrase "show in practical terms" should be replaced by "disseminate information and guidance to illustrate how principle may be applied in practice". And the first half of the last sentence of paragraph 20 could usefully take in the point that only individual departments have the detailed knowledge and information to develop systems which take full account of their particular situations.

(B) PARAGRAPH 22 The comment in this paragraph that information systems of an equivalent kind to MINIS should be adopted by all departments is much more specific than the guidance we have received in the Treasury/MPO paper on financial management and has not been discussed interdepartmentally. I must ask that this wording is modified so that it does not commit departments so specifically to the form of information systems which they may decide to develop within the framework set by the financial management paper.

PARAGRAPH 23 I assume that the management documents referred to in paragraph 23, to which you draw particular attention, would be those containing the management information regularly thrown up by new systems once in operation. Despite the qualification about confidentiality I must say I am unhappy about the wording adopted. It seems to me to be a hostage to fortune to say that this type of document, which is an integral part of the internal management of departments, should "normally" be made available for Parliament and the public. Do we need this paragraph at all?

PARAGRAPH 24 The statement that management costings will accord with normal methods of recording expenditure is surely a little facile. Although we may not be able to introduce such changes at all quickly, we must presumably envisage management accounts which incorporate various concepts which do not appear in vote accounting (eg interest, depreciation, stock change). In addition it is easy to foresee considerable difficulty over the attribution of costs to policies. Obviously in any accounting system it must be possible to reconcile different presentations and to use the same inputs for different purposes, but we should not suggest that existing expenditure records are sufficient for the new systems.

PARAGRAPH 27 It might be worth emphasising more strongly that the responsibility for reviewing policy falls primarily on the managers in question. You may recall

The Coopers and Lybrand criticism of the superstructure of secondary controls and mechanisms developed to assure the central departments and government generally of the rationale behind our spending decisions. The consultants pointed out that besides being costly in staff resources these controls discouraged the development of management skills where they were most needed - in the managers themselves.

PARAGRAPH 41 The use of the word "oversee" in the second sentence of this paragraph gives too simple an impression and does not reflect the considerations which are very well expressed in paragraph 32 of "Non-departmental public bodies". I suggest the word is replaced by the phrase "maintain an appropriate oversight of". This would indicate that the circumstances of different types of fringe bodies vary and hence a varying degree of Ministerial surveillance is called for.

PARAGRAPH 45 The sentence referring to the training of PFOs could be read to imply that there are outside professional qualifications which would completely equip someone for the job of PFO in a Government department. I am sure this was not intended and I think the sentence should be amended accordingly.

Yours ever,

Brian

BRIAN HAYES

J S Cassels Esq CB
Second Permanent Secretary
Management and Personnel Office
Whitehall
London
SW1A 2AZ

Y SWYDDFA GYMREIG
PARC CATHAYS
CAERDYDD CF1 3NQ



WELSH OFFICE
CATHAYS PARK
CARDIFF CF1 3NQ

0222 824215

0222 824215

*Oddi wrth yr Ysgrifennydd
Parhaol*

From the Permanent Secretary

Sir Trevor Hughes KCB

J S Cassels Esq CB
MPO
Whitehall
London SW1 2AZ

25 June 1982

Dear John

RESPONSE TO THE TREASURY AND CIVIL SERVICE
COMMITTEE'S REPORT ON EFFICIENCY AND
EFFECTIVENESS IN THE CIVIL SERVICE

Thank you for sending me a copy of your letter
of 18 June to Ken Stowe, with which you enclosed
the proposed response to the Treasury and Civil
Service Committee's Report.

I have no specific comments to offer and am
content with the draft taken as a whole.

2nd PERM SEC.	
ACTION:	Mr J. K. Moore
FOR INF	JSC/ENG

Yours ever

Trevor

TREVOR HUGHES

$\frac{198}{16}$



DEPARTMENT OF ENERGY
THAMES HOUSE SOUTH
MILLBANK
LONDON SW1P 4QJ

01-211 4391

SIR DONALD MAITLAND GCMG OBE
PERMANENT UNDER SECRETARY OF STATE

25 June 1982

MANAGEMENT IN CONFIDENCE

Dear Sir,

RESPONSE TO THE TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT
ON EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

Thank you for the copy of your 18 June letter about the Government's reply to the Committee's Report.

I think it would be helpful, both to amplify the point about small Departments and to recognise the progress we hope we are making in this Department, to insert the following as the penultimate sentence of paragraph 20 of the Government's reply:

"The Department of Energy is a small (1100 staff) policy-orientated Department which is adapting and developing manpower and running costs controls appropriate to its comparatively small size".

Yours ever,

Donald

J S Cassels Esq CB
Second Permanent Secretary
Management and Personnel Office
Whitehall
LONDON SW1A 2AZ

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17

MANAGEMENT IN CONFIDENCE



Foreign and Commonwealth Office

London SW1A 2AH

24 June 1982

J S Cassels Esq CB
MANAGEMENT AND PERSONNEL OFFICE

2nd PERM SEC.	
NOTICE	Mr Parry
FOR REF	JSC/EMG

Dear Cassels,

TREASURY AND CIVIL SERVICE COMMITTEE'S REPORT ON
EFFICIENCY AND EFFECTIVENESS IN THE CIVIL SERVICE

1. Thank you for sending me a copy of your letter of 18 June to Ken Stowe. I think your draft, if I may say so, deals very well with the Treasury and Civil Service Committee's report, and I have little to add to my letter of 6 May.
2. You refer in paragraph 36 of the draft to the Rayner Scrutiny of the control of running costs. We shall certainly wish to await the report of our scrutineers before deciding how best to draw on the Committee's recommendations and your response to them. It seems likely that this scrutiny will result in quite wide-ranging proposals for improving financial controls and efficiency generally.

Yours ever

Anthony Acland

Anthony Acland

10/5
8



2.
Prime Minister-
TRW
21w

MINISTRY OF DEFENCE
MAIN BUILDING WHITEHALL LONDON SW1
Telephone 01-218 2111/3

MO 2/2/6

18th June 1982

Dear Clive,

The Defence Secretary has just been given figures which show that an important milestone has been reached in cutting back on civilian numbers in the Ministry of Defence. It may seem a slightly odd time to mention the subject but it remains a central theme of defence management.

By 1 April 1982 the total number of UK-based staff had been reduced by 50,000 - roughly 20% of the total - compared with 1 April 1976 when the latest drive began. Most importantly, the pace has quickened, and now over 30,000 have been saved since 1 April 1979 - roughly 14% - and the Government took office. This represents both a major increase in productivity and saving in costs (around £350M in 3 years). The savings in Headquarters strengths has been over 20%.

The Prime Minister may also like to see how these and other measures have enabled more money to be diverted to front line activity. For example, the amounts being spent on equipment have increased dramatically:-

* Estimated

74/75 75/76 76/77 77/78 78/79 79/80 80/81 81/82* 82/83*

Spending
on equip-
ment at
constant
1982

prices £M 4025 4489 4411 4511 4683 4899 5542 5604 6005

Percentage
of defence
budget
devoted to
equipment

 31 34 35 38 40 40 44 44 46

Since a steady 90% of expenditure on equipment is spent in Britain this represents a substantial benefit to British Industry too.

C A Whitmore Esq



4. A copy of this letter goes to the Private Secretaries to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Chief Secretary to the Treasury, Sir Robert Armstrong and Sir Derek Rayner.

Your emv.
[Signature]
(D B OMAND)

CONQUEROR

CONFIDENTIAL



DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215
SWITCHBOARD 01 215 7877

From the
Minister for Trade

The Rt Hon Baroness Young
Lord Privy Seal
Management and Personnel
Office
Whitehall
London SW1A 0AA

7 June 1982

Star Janit

CIVIL SERVICE NATIONALITY RULES

Thank you for the copy of your letter of 6 May to Willie Whitelaw about the changes in these rules which will be necessary when the British Nationality Act 1981 comes into force.

I agree with you that it is right that the general approach should be to seek to preserve the position of all those at present eligible to apply for employment in the Civil Service. I foresee no problems in the proposed new rules with regard to the Department of Trade's interests. The two minor departures from the general approach which you raise in your letter could, however, attract some criticism. I agree with Patrick Jenkins' view that it might be as well to retain the power to make exceptions to the normal requirements but with the exercise of the discretion being left with the Civil Service Commissioners for all recruitment.

I am sending copies of this letter to the recipients of yours.

Peter Rees

PETER REES

CONFIDENTIAL



Civil Service ^{da}

10 DOWNING STREET

From the Private Secretary

3 June 1982

Open Structure Review

The Prime Minister was grateful for the Chief Secretary's minute of 1 June, and for all the hard work that has clearly been put into this review. She is pleased with the results described in the interim report, and is happy to endorse it. She is also content for the remaining steps described in paragraph 16 of the report to be taken. She looks forward to receiving the final report on this operation, and will be particularly interested to see the proposals for the method and frequency of review of open structure posts for the future.

BT
26/6

I am copying this to Jim Buckley (Lord Privy Seal's Office), David Wright (Cabinet Office), and Clive Priestley (Sir Derek Rayner's Office).

W. F. S. RICKETT

S

Terry Mathews, Esq.,
Chief Secretary's Office.

MANAGEMENT IN CONFIDENCE



The proposals put forward by departments would reduce the open structure posts in the Civil Service by 155 or 19.5%.

A similar percentage reduction is envisaged for the FCO, and a 16.5% reduction for the Armed Forces. The details are in the Annexes at A. Some further consultation with departments and the unions is required, and further work on setting a means of reviewing senior posts in the future (paragraph 16).
Content with what is proposed?

ms ✓
PRIME MINISTER

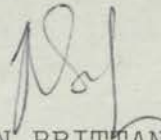
Yes
OPEN STRUCTURE REVIEW

We announced last December the intention to review all civil service posts in the open structure (Under Secretary and above) and equivalent posts in the Diplomatic Service in London and in the Armed Forces. All departments have now carried out this review, and reported to the Treasury. There is more work to do before the result of the operation can be regarded as complete and published. But we have reached a stage where I can send you an interim report. This is attached. WR
2/6

2. Sir Derek Rayner has been kept in touch with the progress of the review and saw and commented on a copy of the draft interim report last week.

3. The main results are summarised in paragraphs 7 and 8 of the report. I endorse what is said there, and the proposal that the remaining steps should be taken as proposed in paragraph 16. I hope you share that view.

4. I am sending copies of this minute and the paper to the Lord Privy Seal, Sir Robert Armstrong and Sir Derek Rayner.


LEON BRITTAN
1 JUNE 1982

Approved by the Chief Secretary
and signed in his absence

MANAGEMENT-IN-CONFIDENCE

OPEN STRUCTURE REVIEW: INTERIM REPORT

This is an interim report on the review of all Civil Service posts in the Open Structure (Under Secretary and above) following the Government's acceptance of the main conclusions and recommendations of the Wardale Review Team announced to Parliament on 1 December 1981 (Annex A).

2. The reviews have been carried out by departments to instructions issued by the Treasury. Senior officers of the Armed Forces have been included in the Ministry of Defence's review; the Foreign and Commonwealth Office have conducted a review of senior Diplomatic Service posts in London.

3. This report brings together the substance of the departmental reports. It is interim because the further steps listed in paragraph 16 below need to be taken before the review can be regarded as completed. In particular there are a number of posts which the Treasury intend to discuss further with the departments concerned. But these are not likely to change the broad outcome of the review. When all has been completed the Treasury will put together a complete and final report which Ministers will probably wish to publish.

The object of the review

4. The object of the review, as stated in the Parliamentary announcement, is to examine how far work at the top of each department could be organised more economically and flexibly, with greater delegation of authority, in order to secure the better use of a smaller number of top staff.

5. Departments have been required to review rigorously all their top posts in the light of the Wardale Report. The Report's conclusions and recommendations are at Annex B. The Wardale Team did not examine

MANAGEMENT-IN-CONFIDENCE

specialist posts (economists, statisticians, lawyers etc) but these posts have also been included.

The departmental reports

6. The departmental reports reflect the conclusions of the Ministers concerned. In all departments the detailed work on the review has been conducted or closely supervised by the Permanent Secretary. It has commonly included questionnaires and interviews to test each post against the Wardale criteria. Treasury officials have kept in close touch and in six departments have taken part in the inspections and interviews. In two departments they have been assisted by outside consultants.

7. The operation has [redacted] produced fruitful results. The proposals put forward by departments would reduce the number of Open Structure posts in the Home Civil Service by 155 compared with the April 1979 baseline. This is a reduction of 19.5% compared with 14% for the Civil Service as a whole when the 630,000 target is achieved. The proposals for the Armed Forces are a reduction of 36 posts (16.5%) and for the Diplomatic Service in London 6 posts (19.4%). Further details are given in Annex C.

8. The systematic scrutiny of the top management structure of each department and of its working practices will itself have brought benefit quite apart from the reductions in posts proposed. The reports confirm that the removal of posts from the present structures will improve efficiency and economy in administration. It should help to check the "grade creep" pervasive in Whitehall for many years, that is, the tendency to do business at a higher level than warranted by its intrinsic importance or difficulty. Greater delegation should not only speed administrative processes, but give more genuine responsibility to middle and junior management, making jobs at these levels potentially more satisfying and fitting well with the current thrust of general management doctrine.

MANAGEMENT-IN-CONFIDENCE

9. The reductions will in the main be completed over the next year or so, the majority by April 1984. The Ministry of Defence have however specified 10 posts for saving in 1985 and 1986.

Methods and Consequences of reducing posts

10. Most of the reductions can be achieved by natural wastage. But some early retirements will be needed. Arrangements have been or will be set in hand under the "structural retirement" rules. It is too early to say how far there may be serious difficulty in certain individual cases.

11. One disadvantageous consequence of the operation must be recognised: the impaired promotion prospects for middle and junior staff. This will have an adverse effect on morale and perhaps retention, balanced only partially by the creation of more responsible and satisfying junior posts and the broader satisfaction of working in a more efficient organisation. The MPO and Treasury are considering whether further action should be taken to extend the concept of structural retirement in order to stimulate more earlier retirements to combat this problem. The MPO is pursuing with Departments the handling of the personnel consequences of the review.

Qualifications

12. Certain qualifications should be mentioned.

13. First, one factor in adding to senior posts has been the wish of certain Ministers, in successive administrations, to deal only with a small circle of very senior staff on all issues. If the restructured arrangements are to work as intended, it will be necessary for Ministers, and senior officials themselves, to be prepared to operate through only one or two grades in a chain of command and on occasion to deal with middle and junior officials, as is already the practice in most departments.

MANAGEMENT-IN-CONFIDENCE

14. Second, the review has been related to work loads as at present or foreseen with certainty. In most departments the proposed new structures are tight. Any large new initiatives which Ministers may wish to pursue will make it necessary to reconsider and perhaps modify the structures now adopted in the departments concerned.

15. The present report does not cover the PSA. Following the arrival of the Chief Executive in January 1982, the beginning of the review was postponed until March. Its findings will contribute to the Chief Executive's study of the future organisation and functions of the PSA to be completed later this year.

Next steps

16. Before submitting a final report on this operation, the Treasury intend to

(a) consult the Heads of the Statistician, Economist and Legal professions about the combined impact of the separate departmental reviews on their professional groups;

(b) discuss further the outstanding cases referred to in paragraph 3;

(c) in accordance with undertakings already given, inform those Civil Service Unions whose members are affected, and give them an opportunity to comment before final decisions are taken;

(d) consider with the MPO what steps may be needed to increase early retirement (paragraph 11);

(e) formulate proposals for the method and frequency of review of Open Structure posts for the future.

Q To ask the Chancellor of the Exchequer whether he will make a statement on the Report by the team led by Sir G Wardale on posts in the Civil Service at Under Secretary level and above.

A I have today arranged for a copy of the Report to be placed in the library.

The review team examined a sample of senior administrative posts. Their Report concludes that all the existing grade-levels are necessary, but that, judged by the principles they have proposed, a number of senior posts can and should be removed. They recommend that there should be no presumption that all grades should be used in any one chain of command; that certain criteria should be met before a management level is justified; and, most important, that there should be regular reviews of senior posts, including examination by the Treasury.

The Government accepts the Report's main conclusions and recommendations. All departments are being asked to undertake a rigorous assessment of their senior Civil Service posts. Treasury officials and outside consultants will assist with the reviews. Sir Derek Rayner will also be associated with them. Decisions will be taken, including the setting of any targets and the period needed for run-down, after the departmental reviews have been completed and assessed in the first half of next year. Thereafter there will be regular reviews as proposed in the Report.

The Foreign and Commonwealth Office are conducting a similar review of senior Diplomatic Service posts in London. Senior officers of the Armed Forces will be included in the review made by the Ministry of Defence.

Many senior civil servants carry a heavy burden of work in the service of the nation. Neither the Report nor this response by the Government call that into question. The issue to be examined is how far the work can be organised more economically and flexibly, with greater delegation of authority, in order to secure the better use of the high abilities of a smaller number in the top ranks of the Service.

WARDALE REPORT
CONCLUSIONS AND RECOMMENDATIONS

- 6.1 There are chains of command in which all existing levels, using all available Open Structure grades, are needed, and where there would be a risk of serious damage if a level was removed. Therefore, no Open Structure grade should be abolished.
- 6.2 There are unnecessary posts. On the basis of what we have seen, a number of Open Structure posts can be removed and should be. It is not possible for us to quantify this. Change will result from the process of defining jobs and testing them against the criteria we set out below, and from the review arrangements we recommend. We note that the Open Structure is already being reduced in size.
- 6.3 There is no regular review of Open Structure posts at present. This should be remedied. All Open Structure posts should be reviewed at least every five years. This should involve a comprehensive examination either of a whole department or a significant part of it. The CSD's control should be reinforced by the examination of work in departments using agents of suitable status and experience.
- 6.4 Line managers in departments at all levels have no incentive, apart from external pressure, to contain and where possible reduce the number of staff below them. Appraisal of performance should take account of how well job holders have used the manpower available to them.
- 6.5 It should not be assumed as a matter of course that all grades should figure in all chains of command. The present practice by which work does not pass through all levels is right, should be extended, and should be reflected in the formal description of the organisation. The onus should be on those who see a need for all available levels to be used to make a case for that.

6.6 Grade and level must be carefully distinguished. The criteria for determining the number of levels are not the same as those for determining what grade the posts should be. We have considered our findings within the framework which we described in Chapter IV. We recommend that the number of levels in a chain of command should be examined with a view to reduction unless all the following conditions are evident:

- i) a clear difference in weight of the jobs done at different levels. The more senior levels should be taking decisions not taken below, thinking and tackling problems over a larger canvas, having an impact on a distinctly bigger area in terms of resources and/or policy significance, and managing more in the sense in which we define the word in this report.
- ii) a difference of substance in purpose of the jobs at different levels. A job at one level should be there for a reason which is distinct from, though logically related to, the reasons for which the jobs above and below are needed. That is, the department should be seeking an identifiably different contribution from it. Each job should have a firm, tangible core of its own. It should be justified by the work it has to do, not on grounds of span of control.
- iii) a demonstrable requirement in the content of the job to integrate the work of the levels below and co-ordinate it with other areas of activity. The first test of this is whether there is some clear affinity between the blocks of work below, rather than an apparently random grouping. (It would follow that where a largely self-contained Under Secretary command has been placed in a Deputy Secretary grouping because "it has to go somewhere", there is likely to be a strong case for having it report direct to the Permanent Secretary. In such a self-contained command, the Under Secretary would be expected to be the last hand on all but the most important issues - which would by definition probably go to the Permanent Secretary anyway.)

- 6.7 Jobs at this level should be active, not passive. Job holders should be seeking to achieve defined ends. They should initiate change and action, not simply respond as required to items which have their name on them. Jobs should not be ill-defined in purpose with their holders left to "carve out" a useful job according to their ability. Jobs should not be undoable because accountability is diffused in such a way as to make progress impossible. Where departments have not already done so, they should as a matter of urgency define Open Structure jobs in terms of their purpose and the continuing results needed from them if that purpose is to be met.
- 6.8 Our terms of reference exclude specialist chains of command, and we have not examined any. But the principles we have formulated and the recommendations we have made are in general applicable also to specialist posts. We therefore recommend that reviews of Open Structure posts should include specialist posts, which should be examined in accordance with what we have proposed for the posts within our remit.
- 6.9 We do not put forward our recommendations simply in order to save salaries and overheads, to set an example to the rest of the Civil Service, to demonstrate to the outside world that top posts are not immune from cuts, or to place greater responsibility on job holders at lower levels. These might be good reasons for change. But they could be outweighed if there was a risk that Ministers would be less well served, that less adequate consideration were given to important matters affecting many citizens, or that some people who already work too hard for not particularly high pay were further pressed. We do not see the choice in these terms. Ministers and the community will be better served if all jobs are real with a challenging but attainable contribution expected from each one. Such clarity should actually reduce the total quantity of work to be done, though not the results achieved from it. It should also create more rewarding and satisfying jobs.

SUMMARY OF DEPARTMENTAL PROPOSALS

	April 1979	January 1982	Proposed	Reductions compared with April 1979
1. Open Structure posts in the Home Civil Service	795	712	640	155(19.5%)
2. Open structure posts in the Foreign & Commonwealth Office in London	31	28	25	6(19.4%)
3. Senior officers (open structure equivalent) of the Armed Forces	217	205	181	36(16.6%)
4. Grades:				
Permanent Secretary	40	38 (3 reductions 1 new post)	37	3(7.5%)
Deputy Secretary	164	145	135	29(17.7%)
Under Secretary	591	529	468	123(20.8%)
5. Specialists posts in the open structure (lawyers, economists, statisticians etc)	302	277	238	64(21.2%)

OPEN STRUCTURE REVIEW - DEPARTMENTAL PROPOSALS

DEPARTMENTS WITH 10 OR MORE OPEN STRUCTURE POSTS AT APRIL 1979

<u>Department</u>	<u>Staff in post</u>		<u>Proposals</u>	<u>% Change- over April 1979</u>
	<u>April 1979</u>	<u>Jan 1982</u>		
Defence	111	103	84	- 24.3%
DISS	75	65	56	- 25.3%
Industry	59½	51½	49½	- 16.8%
Environment	51	42½	37	- 27.5%
Scottish Office	43	41	36	- 16.3%
Employment Group	37	33	29	- 21.6%
MAFF	35	32	30	- 14.3%
Treasury (non CSD posts)	35	31	26)) - 29.5%
Treasury (CSD posts)	9	6	5	
MPO	13½	12	11	- 18.5%
Revenue	30	28	26	- 13.3%
Home Office	30	30	27	- 10.0%
Trade	30	23	22	- 26.7%
DES	24	22	20	- 16.7%
Cabinet Office	22	18	17	- 22.7%
Transport	21	22	18	- 14.3%
Energy	20	18	15	- 25.0%
LCD	16½	16½	15½	- 6.1%
Welsh Office	17	15	13	- 23.5%
Customs	16	14	12	- 25.0%
ODA	14	11	11*	- 21.4%
Parly Counsel	11	9	10	- 9.1%
Sub totals carried forward	720½	643½	570	- 20.9%

* Subject to outcome of further review.

OPEX STRUCTURE REVIEW - DEPARTMENTAL PROPOSALS

DEPARTMENTS WITH LESS THAN 10 OPEX STRUCTURE POSTS AT APRIL 1979

<u>Department</u>	<u>Staff in post</u>		<u>Proposals</u>	
	<u>April 1979</u>	<u>Jan 1982</u>		
Trsy Solicitor	9	9	9	
N Ireland Office	8	8	8	
GCHQ	6	6	6	
ECCD	6	5	6	
OFT	5	4	4	
DPP	4	4	4	
Govt Actuary	4	4	4	
OPCS	3	3	3	
DNS	3	3	2	
Charity Commission	3	2	2	
HMSO	2	1	1	
Land Registry	2	2	2	
Law Officers' Dept	2	2	2	
Lord Advocate's Dept	2	1	2	
Prime Minister's Office	2	2	2	
Public Trustee Office	2	1	1	
Crown Estate Office	2	1	1	
Crown Office/PFS	1	3	3	
Ordnance Survey	1	1	1	
Royal Mint	1	1	1	
COI	1	1	1	
Scot Courts Admin	1	1	1	
IBAP	1	1	1	
Public Record Office	1	1	1	
Reg of Friendly Socs	1	1	1	
Privy Council Office	1	1	1	
Civil Service Pay Research Unit	1	-	-	
				<u>% Change over April 1979</u>
Sub totals	75	69	70	- 6.7%
Sub totals brought forward	720½	643½	570	- 20.9%
GRAND TOTALS	795½	712½	640	- 19.5%



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Red date stamp: "1 JUN 1982".

Red rectangular stamp, partially illegible.

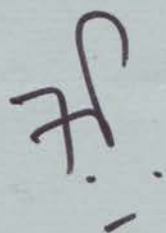


PM/82/41

PRIME MINISTER

Financial Management

1. I am of course happy to comply with the request in your personal minute of 17 May and have given instructions that both Wings of the FCO should devise a programme for the improvement of existing financial management systems and the development of new ones. My Department has already recognised the important role that financial management can play, and a number of useful systems have already been introduced. We are ready to look for improvements.
2. I am sending copies of this minute to the Chief Secretary, the Lord Privy Seal and Sir D Rayner.


(FRANCIS PYM)

FOREIGN AND COMMONWEALTH OFFICE

1 June 1982

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JUN 22 1932

Faint red horizontal line or smudge below the circular postmark.





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Prime Minister 2
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MANAGEMENT AND PERSONNEL OFFICE

WHITEHALL LONDON SW1A 2AZ

Telephone Direct line 01-273 3508
GTN 273
Switchboard 01-273 3000

27 May 1982

The Rt Hon The Baroness Young

John Lane
PAY AND PERFORMANCE

me

Thank you very much for your letter of 29 April about the measures which are in hand for rewarding those who work well and for dealing with those who do not.

2. I am glad that the new premature retirement scheme is making good progress and that you propose to extend it still further. Do you yet have a feel for the scale (by grades and numbers) of the problem which has to be tackled? I see from Christopher Soames's letter of 10 July that the then CSD was planning some work on this.
3. I would also be interested to know whether any figures are available on accelerated promotions and whether last year's reminder to departments has had any noticeable effect. Apart from traditional fast-streamers, I personally cannot recall having come across anyone who had benefited. Whilst a reduction of 500 in "dead wood" is worth having, it might be more than matched by the loss of able staff who find better pay and prospects outside.
4. You are right about the importance of Staff Reporting of course. The existing arrangements are not only complex and expensive, but they also seem to work very poorly. It is possible to provide the right rewards, penalties, training and secondments for staff only if the basic information about people can be relied on. I would look to the current Personnel Management Review to provide a firm platform of factual evidence and reasoned recommendations on which future arrangements can be founded.
5. I am copying this letter to the recipients of yours.

Derek Rayner
Derek Rayner

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03 JUN 1982

SUBJECT



10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. M5/82

MINISTERS IN CHARGE OF DEPARTMENTS

FINANCIAL MANAGEMENT

Useful work has been done over the last three years to improve financial management. Some departments have made good progress. I believe that the time has now come to widen and deepen this drive.

As most departments are aware from consultations between officials, the Treasury and MPO have worked up an initiative for a general campaign. I attach the paper which sets it out. The aim is to follow up the studies already completed and the work already in hand in order to improve financial management across the Civil Service as a whole. Each of the departments listed at Annex A to the paper is accordingly asked to work up a specific programme of work, appropriate to its tasks and circumstances and the progress it has already made in improving financial management, and to discuss it with the Treasury and MPO before the end of January, 1983.

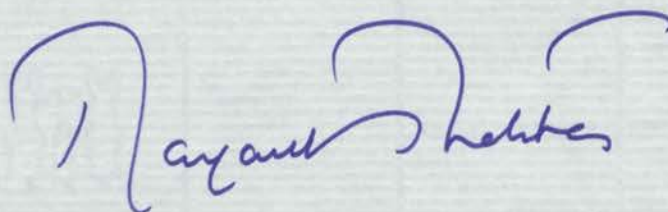
I have asked the Chief Secretary, in consultation with the Lord Privy Seal, to take the lead in this operation. I have also asked Sir Derek Rayner, who has so far given us valuable help, to take an interest in it. I have decided to launch the initiative by circulating the paper myself in order to emphasise the importance I attach to this work and my personal commitment to achieving a good result.

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289

The principles which the paper sets out about paying attention to costs should, of course, apply to the costs of this operation. One objective should be to gain the maximum benefit across government as a whole from the expenditure which has already been incurred in particular studies of individual departments. The present initiative is in part designed to secure that. In general, I am convinced that the kind of cost involved in improving financial management systems will be small in relation to the benefits, and in relation to the costs of failing to do so. You and your officials will wish to make sure that individual applications are economical and cost-effective.

The working up and carrying through of the programmes of work described in the paper will need time and care. They will place additional burdens on staff, especially at senior levels, who are already heavily loaded. But this is the right time to take advantage of what has been done and build on it to achieve a widespread and lasting improvement. I hope that Ministers will take a close interest in the operation. It is an important part of the managerial responsibility which we all share.



Margaret Thatcher

17 May, 1982

FINANCIAL MANAGEMENT

Note by the Treasury and MPO

The time has come for a general and co-ordinated drive to improve financial management in Government departments.

2. This paper sets out the objectives, places them in the wider context of management and organisation, and invites the departments listed at Annex A to work up programmes of action and discuss them with the Treasury and MPO.

3. Programmes of action should build upon the work done recently in a number of individual departments, in several cases with help from consultants; and the further work already planned for 1982. Departmental reviews which have pointed the way include the major reviews of financial management in MAFF, the Department of Industry and the Ministry of Defence; the institution of the MINIS system in the DOE; the studies of a budgetary system for the control of administrative costs and of management responsibilities in the network of Social Security offices in DHSS; and the review of support services in R&D establishments in six departments. In 1982, reviews are planned of the arrangements for controlling running costs in the FCO, MPO, Department of Trade, Department of Employment, Department of Energy and DES; of resource control in certain executive operations in the Home Office, Scottish Office, Ministry of Defence, Department of Trade, PSA and the Royal Mint; and of personnel management practices in nine departments.

4. The need now is:

- to keep in focus the fundamental objectives;
- to sustain the impetus towards them, translating the recommendations of reviews into action fitted to the tasks and priorities of each department;
- to identify and take action on any changes needed in Service-wide arrangements or requirements of central departments;

- to help departments to draw on the lessons of each others' experience.

The Objective

5. The main objective is to promote in each department an organisation and a system in which managers at all levels have

(i) a clear view of their objectives; and assess and wherever possible measure outputs or performance in relation to these objectives;

(ii) well-defined responsibility for making the best use of their resources including a critical scrutiny of output and value for money;

(iii) the information (including particularly about costs), training and access to expert advice which they need to exercise their responsibilities effectively.

6. There are obstacles to the application of these principles in the public service. The yardstick of profitability is lacking. Many Government objectives are generalised, and the test of their success is often acceptability rather than a quantified measure of output. In some areas, final measures of output are elusive and only partial indicators of performance can be devised. The task of applying the principles will therefore take time, and complete success in every particular is not to be looked for. Nevertheless, the principles are fundamental to good management and the effective use of resources. They should be applied to the maximum practicable extent.

7. A manager is anybody who has to take managerial decisions, ie decisions about the deployment and use of money and staff. The lowest level at which such decisions are taken varies. In some policy divisions they may normally be taken at Principal or Assistant Secretary level; in some operational areas they may be taken by Higher Executive or even Executive Officers. But the principles set out above apply to all areas of a department's work, whether it is advice on policy, the execution of policy or a specialist or staff function.

8. Good management thus goes wider than the good systems of financial control and the information needed to support them, which are the primary subject of this memorandum. The achievement of the objective requires a managerial structure within which the system of financial management can operate effectively. It will be necessary to consider the implications of financial plans for the management and organisation of each department as a whole and for the allocation of responsibilities within it.

The contribution of management accounting

9. The development and use of management accounting, linked as appropriate to other information systems, can make a central contribution both to the managerial structure and to the management of resources within that structure. It is not the accounting system itself that is crucial, but the discipline of breaking down a department's activity between managers, whose responsibilities can thus be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more clearly assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up and using a management accounting system, if properly planned and carried through, imposes that discipline. A more detailed note on management accounting is at Annex B, and notes on a suggested approach to implementation at Annex C.

10. The wide variety of work in Government departments and the different kinds of expenditure they incur mean, however, that the approach adopted to pursue the objective in paragraph 5 - and in particular the extent to which a full management accounting system will be apposite - will differ from one area to another. For example:

(a) In some executive operations, like the running of prisons and R&D establishments or the support of the Armed Forces, where the resources are consumed directly by the Government, the costs of procedures and activities can be measured and indicators of performance or measures of output can in

principle be devised, the potential of the management accounting approach can and should be fully exploited. Comparisons between establishments, or between alternative means of securing an objective, should then help to improve decisions.

(b) Where the activity involves the procurement of goods and services from other agencies, eg in the building of roads or the procurement of defence equipment, the Treasury has issued fresh guidance in the last year or so both on public purchasing policy and on the use of investment appraisal. The tasks of specifying objectives, assessing alternative means of achieving them (in terms of quantity, quality, cost, time etc) and monitoring results against expenditure will be helped by the application of the management accounting approach and the better information it generates.

(c) In executive operations like the paying of benefits or the collection of taxes, the rates of taxes and benefits and the rules governing their application are laid down by statute and the final outputs are therefore largely outside the responsibility of the managers who administer them. But the principles of good management summarised above apply to the administration of benefits and taxes, and the information derived from that process should be used not only to control costs and improve efficiency but also to throw light on the effectiveness of the policy decisions made elsewhere in the department. Departmental systems should clarify the respective responsibilities of those who manage the operation and those who formulate the schemes and monitor their effectiveness, and provide the information needed by each.

(d) Where a department pays out grants to other agencies which themselves carry the direct responsibility for how the money is spent, the department will require an information system and the appropriate techniques (eg of investment appraisal) which enable it to make a good job of its responsibilities for the funds in question. The nature of the

system will vary with the department's relationship with the spending agency. In the case of local authorities, due regard must be paid to their independence and accountability to their own electorates. The department may want to encourage the use of management accounting in the bodies it finances (a good example is DHSS's concern with management accounting by health authorities), partly as a source of information to help both formulation of policies and priorities and monitoring; and partly to encourage efficiency in the spending agencies. As far as the department's own operations are concerned, its system will focus on the effectiveness and efficiency of the grant-paying process.

(e) Where the activity is to provide an internal service, eg finance, establishments, legal advice, Ministers' private offices, outputs are not generally measurable. The same is true of some, but not all, policy work. It is still right, however, that those in charge of them should know their costs and be given as much responsibility as possible for controlling them.

11. Each department should work out its own best pattern of managerial responsibility, financial accounting and control. But the following points apply generally and should be reflected in the plans of all departments:

(a) Each department should construct an outline plan of development which will in time cover the whole of its activities. The plan should ensure that the most urgent priorities are tackled first, and that constituent parts of the department's system, as they are constructed, will be compatible.

(b) In most cases it will be well to advance in planned stages. These may include pilot projects. In large departments with a wide variety of functions, the task of filling in the initial outline may take several years and may need modifying if functions and responsibilities are changed.

(c) The system should not only meet the needs of higher management for aggregated information for estimating and control, but should also provide managers at successive levels down the line with the information about their resources which, together with information about performance and outputs, will help them to do their job properly. Unless the system meets the second criterion as well as the first, managers will not use it and its accuracy will degenerate.

(d) The responsibilities of managers should be specified systematically for the control of the resources they consume and, wherever feasible, the results they achieve. Each department should therefore examine the scope for breaking its structure down into cost-centres or responsibility-centres to which resource costs can be allocated and for which, where appropriate, measures of output can be devised and monitored.

(e) Whatever the pattern of their other expenditures, all departments incur the costs of their own administration. All departmental plans should include a system for the budgeting and control of administrative costs. Where outputs are difficult to assess, the identification of costs will still pose questions of value for money.

(f) The management accounting system should be used within the department for the purposes of planning and control. If it is relegated to the status of an optional extra for the display of information only, again the information fed into it will not be accurate and the system will not be used. The Treasury will review with departments, as the need arises, how their management accounting systems and their existing systems for the public expenditure survey, estimates and appropriation accounts can best be related.

(g) The development of performance indicators and output measures which can be used to assess success in achieving objectives is no less important than the accurate attribution and monitoring of costs. The question to be addressed is "where is the money going and what are we getting for it?"

Systems should be devised to provide answers to both sides of the question wherever and to the extent that it is possible to do so. Relevant information on performance and (where possible) outputs will often be non-financial in character.

(h) Attention should be paid to the costs and cost-effectiveness of the proposed system. In principle, costs can be allocated in different ways: to units of the organisation, to programmes of activity, to objectives. Computerised systems make much elaboration possible, and some of it is necessary. Equally, they can be expensive. In general, therefore, systems should not be more elaborate than the objective essentially requires.

Constraints on Cash and Manpower

12. All activity must continue to be managed within the limit of the total resources allocated annually to each department, both cash and manpower. That discipline can only be maintained effectively if the managers to whom authority is delegated are also subject to it.

13. Good financial management requires, however, that the manager should be concerned with his total costs and not simply with his annual cash flow. Notional costs, such as the accruing liability for superannuation, are relevant to decisions which involve a choice between staff and other resources. In some areas the manager uses resources which include capital items like buildings and stocks acquired in the past, and these can be a major factor in the costs of his operation. Where this applies, the accounting system which provides the information to help him take decisions should be constructed accordingly.

14. Cash control, though essential, has to be complemented by systems and techniques that encourage intelligent reaction to changes in prices and enable departments to assess levels of service or outputs as well as total costs so that optimum use can be made of the cash and manpower available in each period.

Other Constraints

15. Centrally devised rules govern the form of Government accounts and the presentation of information to the Treasury and Parliament. The Treasury will be ready to review departments' needs (see para 11 f above) and where changes in the existing requirements seem desirable, will be ready to make proposals to Parliament accordingly.

16. Similarly, central rules govern the pay, grading and conditions of service of civil servants; many of them are the subject of negotiation and agreement with the Civil Service Trade Unions. Within departments those arrangements limit the extent to which the individual manager can change the pattern of his resources to provide an exact fit with what he perceives as the needs of his particular job from time to time. Such constraints are common in large organisations, both public and private. They will continue to be needed in the Civil Service. But departments are encouraged to make maximum use of the scope for delegation which those constraints allow, coupled with the development of a management information system by which the use of more delegated authority can be monitored. In addition, the Treasury and MPO will be ready to consider and consult about specific proposals from departments which are aimed at introducing greater flexibility in the civil service management régime and at improving the incentives for managers to manage well.

Techniques and Training

17. The main needs are:

(a) to spread cost-consciousness and a wider readiness to identify and try to measure costs and results, and to act in the light of this information;

(b) to develop and apply techniques of measuring and appraising which the relatively junior managers who take most decisions will recognise as sensible and will use;

(c) to assemble and use the specialised skills relevant to the work of each department;

(d) to give senior managers sufficient understanding of the relevant disciplines to know when they need specialised advice, and to assess and use the advice given.

18. Action is in hand to increase the supply of qualified accountants, and to improve and expand training in financial management. Training in internal audit is being expanded. A finance course for senior administrators will be mounted in 1982. The Financial Management Co-ordination Group is about to review training in financial management as a whole and will shortly consult departments about further plans.

Appointments of senior staff

19. Crucial to the success of the drive to improve financial management will be the appointment of the right people to the post of Principal Finance Officer and other posts which involve heavy responsibilities for financial management or financial advice. They will need appropriate training and experience and the right personal qualities for the job. The succession plans which each department draws up every year should pay special attention to these posts. Appointments as Principal Finance Officer already have to be approved by the Treasury, in consultation with the MPO. The Treasury will be discussing this further with departments.

Action

20. In the light of this paper, and taking into account the work already done and in hand, the departments listed at Annex A are invited to develop and define a programme of work for the improvement of financial management, and to discuss their programmes with the Treasury and MPO before the end of January, 1983. For this purpose, departments should regard the relevant Treasury Expenditure Division as the central point of contact. Programmes should be divided into stages as appropriate, with target dates specified.

21. In drawing up their plans, departments are invited to consider:

(a) their arrangements for carrying this work forward, including the allocation of responsibility for first formulating and then carrying out the plan, terms of reference, the deployment of suitably qualified and experienced staff, and any external help they may require;

(b) how far their existing systems, and plans already in hand, will meet their requirements and the criteria set out in this paper; and the size and scope of what remains to be done;

(c) whether their existing organisation is compatible with an effective structure of responsibility for management - both of programmes executed outside the department and of departments' own operations; and what changes may be needed;

(d) the scope for developing cost and responsibility centres and the creation of budgets for their managers; what additional authority could be delegated to managers; what that implies for any changes in the respective responsibilities of line managers and of finance and establishments divisions; or in requirements now laid down by the Treasury and MPO;

(e) what parts of the department's activity, within the outline comprehensive plan, should have priority in the development of management accounting;

(f) what work is needed for the development of output measures, what areas should have priority and how those and other indicators of performance can best be built into the management system;

(g) how their management accounts, as they develop, can best be related to the Vote accounting system, and any implications for possible changes in the latter;

(h) the implications of their plans for staffing and training, both in finance work and in line management;

(i) whether computerised systems would be desirable and if so how best to obtain them economically, bearing in mind the large extent to which the same basic needs recur in individual departments;

(j) how the management information produced can be used to keep Parliament better informed about the progress of departmental programmes;

(k) the costs of introducing and running the systems they propose.

22. Departmental Trade Union Sides have a legitimate interest in the development of departmental systems. Departments will wish to discuss their plans as appropriate with their Trade Union Sides.

23. The Treasury and MPO will keep in touch with departments as their plans develop; inform themselves of the results of the work already in hand (see paragraph 3) with the aim that any general lessons that emerge are made known through the appropriate machinery; encourage the common use of computerised systems; and circulate any guidance as necessary on central requirements or service-wide issues generally.

24. In addition to the normal working contacts outlined in paragraph 23, departments may find it helpful to draw on help and advice in tackling the application of the principles in this paper to their particular circumstances. To this end, a small MPO/Treasury unit is being established, which will report to the joint Heads of the Civil Service. This will consist of up to 6 members (both civil servants mainly drawn from the divisions with the relevant experience and knowledge in MPO and Treasury and senior consultants) and will have a limited life (probably twelve months). It will mainly work in departments, responsible to and subject to the direction of the Permanent Secretary concerned, to help the senior management of the department, in the light of the experience of other departments and the private sector, on how best to approach the task and to fit it into the wider context of the organisation and managerial effectiveness of the department as a whole. The unit will pay particular attention to considering with departments how implementation of change can be facilitated, including changes flowing from recommendations of scrutinies, reviews and other studies already complete. The unit will also report on any opportunities or problems which it finds to be common to departments and on any changes in existing practices and rules which it believes would enlarge the opportunities or help to resolve the problems. This should help the Treasury and MPO not only to see how best they can contribute to the working out of departmental programmes but also in developing their approach to management and efficiency in the longer term.

AGRICULTURE, FISHERIES AND FOOD

Ministry of Agriculture, Fisheries and Food
Intervention Board for Agricultural Produce

CHANCELLOR OF THE EXCHEQUER

Treasury
Central Office of Information
Customs and Excise
Inland Revenue
Department for National Savings

DEFENCE

Ministry of Defence

EDUCATION AND SCIENCE

Department of Education and Science

EMPLOYMENT

Department of Employment
Manpower Services Commission
Health and Safety Commission/Executive

ENERGY

Department of Energy

ENVIRONMENT

Department of the Environment (including
Property Services Agency)
Ordnance Survey

FOREIGN AND COMMONWEALTH

Foreign and Commonwealth Office
Overseas Development Administration

HOME

Home Office

INDUSTRY

Department of Industry

LORD CHANCELLOR

Lord Chancellor's Department
Land Registry

LORD PRIVY SEAL

Management and Personnel Office

NORTHERN IRELAND

Northern Ireland Office

PAYMASTER GENERAL

Paymaster General's Office

SCOTLAND

Scottish Office (including DAFS, SDD, SED,
SEPD, SHHD)

SOCIAL SERVICES

Department of Health and Social Security
Office of Population Censuses and Surveys

TRADE

Department of Trade
Export Credits Guarantee Department

TRANSPORT

Department of Transport (including DVLC)

WALES

Welsh Office

MANAGEMENT ACCOUNTING IN GOVERNMENT

Introduction

1. This Annex discusses in general terms the meaning of management accounting, the users of management accounting information and their responsibilities, and relationships with other Government requirements for financial and accounting information.
2. There is no single definition of management accounting that can be held to apply to the varying needs and circumstances of Government departments. At its lowest level management accounting might only be concerned with the analysis of costs - this being the essential starting point. But getting full value from it involves relating those costs to functions, activities and objectives for the purposes of forward planning, budgetary control and decision making. A management accounting system may be part of a family of management information systems, with links to conventional financial systems and to systems which monitor and record non-financial data. Alternatively it may embrace such systems. There can be no hard and fast rules about systems development since Departments will be starting from different positions in developing the arrangements that best meet their needs. What matters is that the systems they develop should take account of the underlying principles discussed below.

What is Management Accounting

3. Management accounting was devised to help industrial managers control the costs of particular activities. It was developed to supplement financial accounts, which tend to concentrate on inputs, by relating costs to outputs. In its development management accounting has drawn on a wide variety of analytical techniques and control mechanisms. Their common feature is that they are designed to assist all those who incur, control or indeed in any way influence costs to consider options, to formulate plans to meet objectives and subsequently to compare actual expenditure against those plans. Thus, management accounting should essentially be forward-looking. Its focus should be on evaluation (costing options and activities), planning (setting objectives), and control (monitoring events quickly and taking timely action where necessary).
4. Two key features distinguish the approach of management accounting from the financial systems generally in current use in Government. The first is in relating inputs to activities, or to outputs. Much existing Government accounting, and in many areas the structure of management, is now designed to assess and control cash expenditure under the Vote system analysed on an input basis. Inputs are important. Most management accounting

systems seek to analyse input costs in order to ensure that they are looked at in toto. But the management accounting approach sees their real importance as part of the total make-up of the final cost of outputs or objectives. A more effective system of control will aim to allocate or apportion all such costs, direct and indirect, to outputs or to an organisational unit (the costs of which may equate to or can in turn then be attributed to outputs or objectives). The need to monitor and control the cost of the outputs or objectives is then what shapes the system for controlling expenditure. As a result, individual managers are made more aware of the costs of the activities for which they are responsible, and there is a much more comprehensive picture of where costs are being incurred. Once costs are assembled regularly in this way they provide a basis for review and questioning, for budgeting and for monitoring performance against plan.

5. The second distinguishing feature is the nature of 'cost'. Most financial systems in use in Government departments are only concerned with annual cash-flow. Tight control of cash must remain a dominant feature. Cash is also a sensible basis for Treasury and Parliamentary control. But annual cash-flow rarely gives an adequate measure of the resources being consumed by a particular activity and therefore a proper basis for comparison with outputs. Depending on the context, the cost of activities may include the depreciation of fixed assets and the use of stocks, both of which may have been purchased in a previous financial year. It may also include the costs which do not appear on the department's own Votes, such as allied services and the accruing liabilities for pensions and gratuities; and notional costs such as the updated rental value of buildings. All these represent the use of resources which should be taken into account when deciding whether to embark on or continue with an activity, whether to employ different means to meet the same objective and whether the achievement has justified the cost.

6. This is not to say that departments ignore these costs. Rather, that they are not collected systematically and used by line managers in their day to day decisions. (Increasingly such information is collected ad hoc for different exercises. That is often time consuming, expensive and inevitably not always reliable.)

7. Existing information systems do not always recognise that the nature of the decisions facing individual managers varies. In providing relevant information a management accounting system should reflect these different decisions and opportunities. In the short term management can often only influence variable costs which change in proportion to output. In the longer term there is more scope for changing full costs by increasing or reducing capacity. The difference can be of great importance to the way managers respond to different situations and in quantifying the effects on costs of changes in activity levels. For example, make or buy decisions require information about the costs that will actually be

affected by the decision. Similarly, a manager may need to consider how best to set charges, perhaps to utilise spare capacity in a computer or some other installation. Giving him access to the relevant data should help a manager to optimise his decisions.

8. Relevant data will often include pay and price indices. Changes in the relative price of inputs should raise questions about the optimum mix of inputs to achieve a given objective. For example individual managers should be aware of how the prices for goods and services they are consuming or purchasing compare with those in the market as a whole, both for similar products and for those which could be substituted if they were to change their processes in both the short and long run. This involves monitoring specific and general pay and price indices, as an aid to minimising costs for given levels of output.

The Users and their Responsibilities

9. While individual managers require the information which flows from a well designed management accounting system if they are to control their costs effectively, the control of costs is not the sole objective of management accounting, nor are line managers its only users. The techniques involved, together with related disciplines, are designed to help both managers and policy makers to see clearly the financial implications of different courses of action and thus to weigh these against other non-financial criteria (e.g social objectives). They all contribute to assessing the cost-effectiveness of present and future activities in order to ensure efficient use of available resources and in particular:

- (a) to reveal uneconomic activities, under-utilised capacity and wastage and to assist corrective action; and
- (b) to ensure that decisions are taken with full knowledge of all relevant financial information.

10. At higher levels, decision-takers will be concerned with broad questions such as whether to embark upon, to maintain, to modify or to discontinue particular activities. They need to be able to define the objectives these activities are designed to serve, and to measure their costs. For these purposes and for regular monitoring of performance they need corresponding information on outputs. The management accounting system should provide the basis for this information. But where outputs are not easily measured, as often happens in non-marketed public services, the need for good cost information is not reduced.

11. At lower levels the emphasis will be on the management of existing activities and getting the most effective output for the lowest cost. Cost information here is usually more detailed; its purpose is to help the manager to assess and monitor the components of his costs, and variations in them. In general, the responsibility for the use of resources should be placed to the greatest extent that is practicable at the point where they are consumed,

and this points to the maximum delegation of authority to managers. There must of course be limits to the application of this principle, since Principal Finance and Establishment Officers must continue to maintain department-wide controls over particular types of input (cash-flow, staff numbers and pay and other conditions of service are obvious examples - see paragraph 12 below). But even where controls of inputs have to be exercised by a separate, central authority, the system should be such as positively to encourage the manager to examine his costs critically and regularly, to change the pattern of his activities in order to optimise his use of resources in relation to the objectives of his unit wherever he can be given the authority to do so, and to draw attention to the misuse of resources and opportunities for improvement where changes need the action of higher authority.

12. This paper does not attempt to tackle in detail the question how and how far managers can be given increased authority to take decisions about the resources they consume by relaxing the controls and checks over their inputs or altering their form. Departments will need to consider how best to make progress in this direction in their own circumstances. It is however inherent in the approach discussed here that the responsibility within a unit both for the consumption of resources and for observing the department's rules for controlling inputs should rest with the managers of that unit (and not with some other person) and that he should be encouraged to regard that responsibility as a major element in his job and one which will be taken fully into account in the assessment of his performance.

13. The monitoring of performance and the handling by managers of the costs of their activities should be a matter of close concern to senior management. But the flow of information should be seen by all levels of management as providing stimulus and opportunity for better judgements and decisions; if it degenerates into a process of mere collection of information at one level and critical comment at a higher level, the system will wither and die. The accurate definition of information needs at each successive level of management is therefore a crucial part of constructing a management accounting system and past experience shows that it needs time and care. Information should not be collected and presented unless it is actually required by someone for assessment and decision.

Relationships with other Financial Information Systems

14. Departments will need to consider the links between management accounting systems and existing financial information systems: the Public Expenditure Survey, Estimates, the FIS Monitoring System and Appropriation Accounts. It is possible to introduce separate management accounting systems to operate alongside the existing systems, but this approach will rarely be fully effective, as experience in some past developments of management accounting within Government has already shown. It is likely to lead to a situation in which line managers are confused by different sets of data prepared at different times according

to different criteria. There is a risk of much time-wasting reconciliation and unnecessary duplication. Even more damagingly, the management accounting information is then often seen as an optional extra. It is unlikely to survive relegation to that status.

15. These problems can be minimised by bearing in mind two important factors, both of which point to integration of management accounting with existing financial systems. The first concerns structure. If the broad structure of the systems can be aligned with each other, and where possible with the organisation and objectives of the department, the nature of the information and its flow along reporting channels is simplified. Secondly, while the search for integration should not be carried to the point at which the system becomes unnecessarily elaborate and inflexible, unnecessary duplication and confusion can be avoided by recognising that annual cash flow, for example, represents a core requirement for management accounting on the one hand and existing financial systems on the other. With modern computer facilities this common-core can be stored within a single system and elaborated and extended according to the needs of the particular application in hand. This process is made easier if the broad structure of the different systems is compatible. This approach should also reduce the burden on departments of providing information for related exercises.

16. Papers which touch on these questions have been circulated in the past to PESC(D) - see for example PESC(D)(81)6 which describes the former CSD's integrated management accounting and information system, and PESC(D)(81)7 which discussed cells and codes in financial systems. These papers illustrate that many detailed problems will arise at the design stage in adopting this approach, but it is perhaps worth drawing attention to four points, two positive and helpful, two marginally constraining, which will apply quite widely:-

- (a) The requirements of the Public Expenditure Survey, and to some extent of other existing systems, are at a higher level of aggregation than the information required for management accounting systems. In many cases this gives scope for the development of management accounting systems within departments whose data can be built up into the more aggregated requirements of the other systems.
- (b) Where this is not so it should not be assumed that the particular data requirements, definitions and structure of the existing systems are incapable of being changed. Public Expenditure Survey material could be improved if its components were related to costs and objectives more closely. Estimates and Appropriation Accounts already contain many variations and, although it will be necessary to seek the agreement of Parliament to any major changes, there is a reasonable presumption, on the evidence of past expressions of opinion by Parliamentary Committees, that Parliament will be prepared to look favourably on changes which would bring the structure of existing systems into a closer

relationship with new management accounting systems. Where departments wish to propose such changes they should discuss them with the Treasury.

- (c) Since the existing systems serve certain requirements of central planning, monitoring and control, it is necessary to retain some compatibility between figures presented for them by different departments. The interests of cross-comparison and economies of scale in design and implementation also suggest that it will be desirable for departments to advance on lines which are broadly similar though not identical. While the functions of departments are very different, and therefore require different presentations of information in the detail of their management accounting systems, at a higher and more aggregated level these systems can be made much more compatible. There is no obvious reason why these considerations should prove to be a serious constraint on the development of satisfactory management accounting systems, provided they are adequately taken into account in the early stages of exploration and design. The Treasury will be ready to offer guidance and arrange for the dissemination of experience in this field.
- (d) Existing Government accounting concentrates heavily on cash flow, and this must remain an important requirement for the future. By contrast, where costs are not co-terminous with annual cash-flow for the reasons discussed in paragraph 5, a good management accounting system will need to show elements of cost going beyond, or falling short of, particular cash flows. Information in terms of both cash flow and overall cost is, however, a normal feature of most effective management accounting systems and should not be seen as a major constraint.

MANAGEMENT ACCOUNTING SYSTEMS: A SUGGESTED APPROACH TO IMPLEMENTATION

Initial Planning and Development by Departments

1. The starting point will depend on a number of factors. When was the department's systems last reviewed; how far do these match the existing organisation; how does the existing organisation relate to the department's objectives and to the style of financial management now proposed; are responsibilities clear and lines of accountability distinct?
2. The aim should be to develop a structure of organisation in which identifiable functions and objectives can be assigned to responsibility centres whose responsibilities can be distinguished from those of other parts of the organisation. This entails a management structure in which the lines of reporting and accountability are clear. The processes involved in achieving this aim may in some cases raise fundamental questions about the nature of the department's business and its objectives. Logically, that is the right place to start. But where a Department is satisfied that it starts from a position in which its structure provides a reasonable fit with its objectives, it may prefer to go straight into the process of identifying responsibility centres. It will then be necessary to check as the process continues that the objectives and responsibilities of the groups concerned can indeed be defined and distinguished. When they cannot, this may indicate a need to modify the organisation. Particular points to watch here include the distinctions between the responsibilities of policy and executive units, and between central and local control.
3. Having assigned responsibility to discrete units the next step will be the systematic identification of costs, in sufficient detail to enable those who are responsible for particular activities and objectives to be aware of and, wherever possible, held responsible for the cost of the resources they are consuming. For these purposes it may be desirable to analyse the costs attributable to individual responsibility centres into more detailed cost centres. These may be organisational sub-groups, functions, activities, tasks and projects. This process leads logically to the setting of budgets and the monitoring of costs against objectives. It also involves setting targets for the overall cost of the output or activity in question. Given budgets and targets for output or activity, comprehensive monitoring can be undertaken of both input costs and output.
4. The precise form and degree of detail in which information is collected and stored and subsequently presented to managers will depend on their needs. In determining these there is a constant need to ask who is going to use the information, for what purposes and what

freedom the users have to respond to it. A case in point is the treatment of indirect costs or overheads. In the process of building up a picture of total costs care should be exercised to ensure that systems are not made unnecessarily elaborate in the interests of statistical tidiness.

5. Progress will be made in stages but should preferably be within the framework of an accounting system which covers the entire activities of a department. A universal common factor is the cost of administration - or running costs - on which some progress has already been made in presenting material for the annual scrutinies of departmental running costs. The material produced so far does not generally constitute management accounting information, nor is it in general yet used by line managers in departments. But it does constitute a possible starting-point for further development. It is also an area where many items of expenditure are susceptible to local control. In this connection, departments are recommended to study the Joubert Report recommending the development of management accounting in the Department of Environment, which was recently circulated to PESC(D) under cover of PESC(D)(81)15.

6. Where a department decides to proceed by establishing a basic responsibility centre structure, aligned with the department's programme objectives, and a management accounting system which starts by covering administrative costs, it will be possible progressively to widen the exercise to bring in other expenditures for which the relevant centres are responsible. Priority should be given to those areas where the benefits are likely to be greatest. Tackling the work in stages also enables departments to read lessons across as they proceed and adapt their systems in the light of experience.

Detailed Design

7. The detailed design of a management accounting system for organisations on the scale of Government departments is a very substantial one, involving considerable professional skill. As far as possible, such design should be undertaken by the department itself to ensure that the system reflects its needs and its detailed knowledge of its business. But some recourse to consultants, or other outside assistance, will often need to be considered. The Treasury is equipped, in its AFA Division, to give some help on the approach to design; and advice on the use of consultants to provide assistance at the various stages of development. But it is not staffed on a scale which will allow the Treasury to provide the detailed design work.

Computerisation

8. Given the scale of likely developments, even within part of an individual department, data collection and distribution will in most cases need to be computerised. Whether

computerised. Whether computerised or not the management accounting system should ideally be integrated with existing financial information systems for the reasons explained in Annex B. But a new computer system will also have to fit into the department's ADP framework and any existing or planned computerisation of financial systems.

9. Experience with other financial systems shows that it is possible to introduce integrated additions to systems at subsequent stages if sufficient foresight has been given to the initial planning. Careful attention should therefore be given to links between systems to ensure compatibility and avoid duplication of data collection. Much of the cost of systems comes from program development rather than equipment costs. It is therefore important to review the range of alternatives from packaged programs to tailor made systems.

10. PESC(D) has already been taking an interest in developments in financial information in departments, providing exchange of experience and some guidance. This work will be developed and expanded. It is intended that PESC(D) should be the vehicle for monitoring and publicising developments in management accounting systems. It will also coordinate advice about cost effective ways of computerisation. The Governments' reply to the PAC at the end of 1980 to the effect that consideration would be given to removing avoidable differences between departmental financial systems will continue to be relevant to this aspect of PESC (D)'s work.

11. Experience also shows that a better computer system results from very close liaison between the intended users of the system, especially in finance divisions, and the ADP division providing it. It is not advisable to pass on all responsibility for implementation to the latter. Much is gained from close involvement of the user at all stages. Indeed, there are distinct advantages, in terms of bringing together a useful blend of skills and interests, in setting up a small development team which includes experienced line management.

Future Progress

12. Depending on the pace and scale of development, further co-ordinating machinery may be helpful. Meanwhile, it is proposed to arrange periodic meetings of Principal Finance Officers as an opportunity to take stock of progress and of difficulties encountered, to exchange experience and suggestions, and to arrange for more detailed co-ordination as may be necessary.



PRIME MINISTER

Prime Minister 3
I have had the draft
minute to ministers in
charge of departments typed
for your signature. It is
attached. It has been agreed
by Sir Derek Rayner.

WR

13/5

FINANCIAL MANAGEMENT

I am grateful for your support in launching this initiative.
... This will be a very great help. I now attach a draft covering
minute to Ministers in charge of departments.

2. Mr Rickett's letter of 7 May made three points. On the
first, the paper now contains a more explicit reference to cost
in paragraph 21(k), but I think the main point is best taken
in your covering minute, and the draft contains a passage on
costs accordingly.

3. The second concerned co-ordination and running costs.
Arrangements for co-ordination are well in hand. I will
certainly keep Sir Derek Rayner in close touch, and we have
arranged for a full exchange of information and suitable working
contacts between the Treasury and the MPO, including Sir Derek's
unit. I will let you have a note on the outstanding questions
about running costs shortly.

4. I entirely agree with your last point about staff. This is
covered by a new paragraph 19 in the main paper. The Treasury
and MPO will follow up with Permanent Secretaries the question
of arrangements to ensure that Principal Finance Officers and
those appointed to other key financial posts have the right
training and experience.

5. I am copying this minute and enclosure to the Lord Privy Seal,
Sir Robert Armstrong, Sir Derek Rayner and Mr Cassels.

L.B.

LEON BRITTAN
12 May 1982

DRAFT MINUTE TO MINISTERS IN CHARGE OF DEPARTMENTS

FINANCIAL MANAGEMENT

good

Useful work has been done over the last 3 years to improve financial management. Some departments have made much progress. ~~[Sir Derek Rayner has given valuable help.]~~ I believe that the time has now come to widen and deepen this drive.

As most departments are aware from consultations between officials, the Treasury and MPO have worked up an initiative for a general campaign. I attach the paper which sets it out. The aim is to follow up the studies already completed and the work already in hand in order to improve financial management across the Civil Service as a whole. Each of the departments listed at Annex A to the paper is accordingly asked to work up a specific programme of work, appropriate to its tasks and circumstances, and to discuss it with the Treasury and MPO before the end of January, 1983.

and the progress it has already made in improving financial management

I have asked the Chief Secretary, in consultation with the Lord Privy Seal, to take the lead in this operation. I have decided to launch the initiative by circulating the paper myself in order to emphasise the importance I attach to this work and my personal commitment to achieving a good result.

I have also asked Sir Derek Rayner, who has so far given us valuable help, to take an interest in it.

The principles which the paper sets out about paying attention to costs should of course apply to the costs of this operation. One objective should be to gain the maximum benefit across government as a whole from the expenditure which has already been incurred in particular studies of individual departments. The present initiative is in part designed to secure that. In general, I am convinced that the kind of cost involved in improving financial management systems will be small in relation to the benefits. You and your officials will wish to make sure that individual applications are economical and cost-effective.

and in relation to the costs of failing to do so

The working up and carrying through of the programmes of work described in the paper will need time and care. They will

place additional burdens on staff, especially at senior levels, who are already heavily loaded. But this is the right time to take advantage of what has been done and build on it to achieve a widespread and lasting improvement. I hope that Ministers will take a close interest in the operation. It is an important part of the managerial responsibility which we all share.

PART 9 ends:-

10.5.82

PART 10 begins:-

12.5.82

