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Clerk
Lawson

ANNEX 1 PART A

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PO -CH /NL/0221



ANN. 1 PT. A

Government

IMPROVING MANAGEMENT IN
GOVERNMENT: THE NEXT
STEPS

PO -CH /NL/0221

ANN. 1 PT. A

Begins: 1/3/87

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13/9/95

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

At your meeting on 22 October 1987, it was agreed that the Government should commit itself wholeheartedly to the "Next Steps" approach, on the lines of the first option in paragraph 28 of Sir Robert Armstrong's note of 15 October 1987, subject to further development of Sir Robin Ibbs's proposals to meet the concerns expressed in discussion.

2. You invited my predecessor to provide a further note on the key outstanding issues which were:

- the scope for privatising some executive functions and for bringing back under closer Ministerial control some functions now carried out by quangos;
- the appointment and terms of service for agency chief executives;
- the legislative implications of the proposals.

You also asked him to suggest a procedure for carrying the work forward.

OUTSTANDING ISSUES

Privatisation and Quangos

3. In determining how best to deliver executive functions, the scope for privatisation should always be considered. Where Ministers decide that such functions are most appropriately carried out within Government, they should consider whether they

should be handled by an executive agency under Ministerial control, on the lines proposed in Sir Robin Ibbs's report. Each case would need to be considered on its merits.

4. Privatising the activity has the great merit that it can subject the management to commercial pressures for efficiency and successful operation without the need to simulate these within the government machine. In cases where this is not possible, the agency approach could provide a rigorous basis for control, while distancing day-to-day operations from Ministers. In some cases this may provide a more appropriate form of organisation for a particular set of functions than a non-departmental public body (quango). The new Employment Services Agency involves this type of change, with the transfer of major functions from the Manpower Services Commission, a non-departmental public body, to a departmental agency under the control of Ministers. There may be scope to bring the functions of other non-departmental public bodies under closer Ministerial control by changing them to agencies. Again, each case would need to be considered on its merits; and specific legislation would generally be required.

5. Whichever of these various approaches is adopted in a particular case, the arrangements will need to provide effective control of spending. Where the discipline of the market does not apply, for example where the agency is delivering a monopoly service, or has a regulatory role, the administrative cost, as well as the total cost of the agency must be properly controlled. This control will be provided by the detailed framework of objectives and resources set for the agency by Ministers and will be supported by the performance targets for the Chief Executive of the agency. Different solutions may be appropriate for different agencies, and each case will need to be examined on its merits. In all cases it will be essential that the agency should be set within a robust and effective policy and resource framework designed to encourage and

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MANAGEMENT IN CONFIDENCE

agencies and were reabsorbed into other departmental duties. In suitable cases there might also be a terminal bonus paid on the achievement of defined and substantial results. The Treasury would need to be consulted about these arrangements, and about similar arrangements for key agency staff other than the Chief Executives.

9. It would need to be made clear to the Chief Executives before appointment that, if he fell significantly short of delivery on the defined objectives, he would be liable to lose the performance-related element in his pay, or to be relieved of that particular job or, in extreme cases, to be asked to leave the Civil Service. For these jobs the present provisions for premature retirement for civil servants who put in "limited performance" might need to be sharpened up. The main purpose of this element in the terms and conditions for Chief Executives would be to ensure that they and their Departments understood that defined and effective personal performance was an essential requirement for the job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

10. It would be essential to establish a satisfactory method of setting and assessing individual performance for the Chief Executive. The individual performance targets should be based on the performance and output indicators which would be set for the agency as a whole as part of the framework. The performance goals would have to be agreed between the Chief Executive and the Department, and would be likely to imply obligations by the Department on (for instance) the stability of policy and the provision of resources for the work of the agency including the terms on which they were provided. Final decisions on the career consequences of a failure to meet performance objectives would have to rest with the Permanent Secretary, consulting the Minister of the Department concerned. They would review his

performance in achieving both personal objectives and the agency objectives set in the framework agreement. All these matters would have to be understood and accepted by the Chief Executive before he took up his appointment.

Legislative Implications of the Proposals

11. The creation of agencies within Departments to handle distinct operational functions will not of itself generally require legislation. Subsequent privatisation or conversion of agencies into non-departmental public bodies (or vice-versa) would do so in most cases. Some of the suggested changes in the Parliamentary financial control regime would need legislation if it were decided to implement them. Whether legislation is needed in each case (or across the board) would be for the responsible Minister to consider in consultation with the Treasury, the OMCS and the project manager and other affected Departments.

12. This paper and the earlier papers for the Ministerial group discuss some of the major issues which need to be considered and resolved as the first agencies are set up. The way in which these issues are resolved in detail is likely to vary from agency to agency, and would fall to be worked out by the project manager as planning and development work on the agencies takes place, together with the Treasury, the OMCS and the Departments directly concerned.

Accountability

13. As the paper for the Ministerial meeting on 22 October recognised, Ministers' formal accountability to Parliament would be unaffected by the implementation of the Next Steps proposals, though their detachment from day-to-day operations would entail changes in the way in which it was discharged. This would mean, for example, that Parliamentary Questions about the operation of

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an agency would always be answered by the responsible Minister, albeit in the light of advice from the agency's Chief Executive. Ministers might choose to encourage MPs to address operational inquiries initially to the agency managers but MPs would retain the right to approach Ministers directly, if they were dissatisfied with the reply.

14. The announcement to the House should make clear that, while the intention is to apply the agency principle extensively throughout Whitehall, each case will be considered on its merits and suitable accountability arrangements devised to meet the circumstances of individual agencies. The public announcements of the establishment of individual agencies would set out any intended changes in the handling of MPs' inquiries.

15. The practical effects of the changes would be felt by Members of Parliament very gradually and in stages. A few agencies should be established in 1988; in the view of the Departments concerned none of them raises difficult problems of accountability. The full programme of establishing agencies to handle executive functions will take several years to complete.

Procedure for Carrying the Work Forward

16. I am minuting separately about the appointment of a "Project Manager".

17. The Treasury's responsibility for securing efficiency savings within public expenditure constraints will be unchanged. Careful handling will be required to ensure that the introductions of different agency solutions does not lead to an

impression of general pay and spending control relaxation. It will be for the "Project Manager" in conjunction with Departments and the Treasury to take forward the agency proposals and to arrange for the resolution of issues as they arise.

18. The "Project Manager's" basic task will be to ensure that all the recommendations of the "Next Steps" report are implemented within an agreed timescale. As a first step the "Project Manager" would be invited to recommend a programme and suggest a timetable for carrying it through. It would be for him to establish that departmental proposals for particular agencies:

- are soundly based and offer well-defined benefits;
- have a robust framework;
- specify what new management flexibilities are needed.

The "Project Manager" would act as a clearing house for dealing with issues for individual agencies which may have repercussions for other parts of the Civil Service, and would ensure that such issues are resolved effectively. An important aspect of his task would be to advise the Prime Minister through the Head of the Home Civil Service on progress with the programme of agencies.

--- 19. At Annex B is a note by the Treasury outlining a procedure for setting up the initial agencies and their subsequent control.

PRESENTATION

20. Subject to the views of members of the Cabinet, the next step would be to make a public announcement of the Government's response to Sir Robin Ibbs's report and of the appointment of

--- the "Project Manager". I attach at Annex A a an announcement to Parliament. This has been Written Answer to an arranged Parliamentary Question. It is believed that that is consistent with the low-profile presentation to Parliament that Ministers have in favour. The Chancellor has, however, suggested that an announcement of this importance should be made in a statement. It will be for individual Departmental staff and the unions which units are proposed for agency treatment. It will be essential that the initial units is not revealed at the time of the announcement or until a reasonable period - of say 48 hours - has elapsed. The Departments concerned to forewarn their staff.

21. As now drafted, the Answer would not commit the Government to implementing the proposals in the report to a date or within a specified period, as recommended in the report.

22. Shortly before the announcement is due to be made, the Government's proposals should be issued to Permanent Secretaries, for them to circulate to their staff at the time of the announcement. A full questionnaire brief would be provided with the central guidance.

23. Also shortly before the announcement it is proposed to meet the Civil Service trade unions to explain the principles of the "Next Steps" approach. There is a need to be further and fuller discussions of the principles with the unions at national level before the announcement. Detailed consultations about the operation of individual agencies would be handled within Departments.

24. Copies of a final draft of the report are to be in the hands of some of the unions and some outside. It is proposed that the report should be published.

an announcement is made. A complementary Press briefing package would also be prepared. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

ROBIN BUTLER

13 January 1988

DRAFT WRITTEN QUESTION TO THE PRIME MINISTERQuestion

To ask the Prime Minister what progress is being made with the Efficiency Unit's scrutiny on Improving Management in Government.

Draft Reply

I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Last year they reported - 'Improving Management in Government: The Next Steps' - and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of this report are available in the Vote Office and are being placed in the Library.

2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period. Many Civil Service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

3. The report includes the following recommendations as a basis for further improvement in effective and responsible management:

- To the greatest possible extent the executive functions of Government, that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies, should be carried out by executive units clearly designated within Departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.
- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.
- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.
- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a 'Project Manager' at a senior level to ensure that the programme of change took place.

The Government accepts these [four] recommendations, which will set the direction for further development in the programme of management reform. In particular, the Government believes that in appropriate cases the setting up of agencies would have advantages both in enabling management objectives to be defined more clearly, and in facilitating more effective and flexible management within a firm policy and resource framework. This will benefit management and staff alike.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various Departments

during the coming months. Each agency will work within a firm framework of policy and resources, which will be set by the appropriate departmental Ministers (in consultation with the Treasury). Each will be accountable to the Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach. The Government will develop a continuing programme for the establishment of agencies, in a way which will make it possible progressively to apply the lessons of the experience as further agencies are established.

5. The Civil Service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual Departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.

6. I have approved the appointment of Mr J Bloggs to a post in the Office of the Minister for the Civil Service with responsibility through the Head of the Home Civil Service to me for managing the process of change needed to implement the recommendations. He will bring forward proposals in consultation with Departments for a continuing programme of development of agencies over the coming years.

Next Steps: Establishing and Administering AgenciesINTRODUCTION

This note sets out the steps to be taken by those responsible for the management of executive functions in Departments in setting up agencies. It describes the arrangements for the establishment of the great majority of agencies which will remain within the Civil Service; modifications will have to be considered case by case for non-Civil Service agencies. The arrangements will be kept under review and modified as necessary in the light of experience. No change affecting expenditure controls or pay controls as they exist at present will be introduced into the operational management of the agencies without the specific agreement of the Treasury. Similarly, changes in recruitment procedures must have the agreement of the Office of the Minister for the Civil Service (OMCS). Both the Treasury and the OMCS will, of course, be ready to give any further advice needed by Departments setting up agencies.

2. These procedures are designed to provide for the Treasury to be involved, where necessary, for the purpose of protecting the control of public expenditure, running costs and pay, at the same time as permitting the exercise of responsibility and the release of energies which it is the purpose of the 'Next Steps' recommendations to achieve.

3. The Project Manager will be responsible for assisting with the process of setting up the new agencies, for promoting the resolution of any difficulties that arise in the course of that process, and for ensuring that the establishment of each agency is successfully completed within whatever time-scale is agreed.

Identification

4. Provisional identification of potential and the responsibility of Departments, or Treasury Divisions. The criteria will develop over time experience with the pilot agencies, but common that the prospective agencies are, or can be

- a. discrete administrative units, sufficient to justify major structural change;
- b. wholly concerned with the delivery of services to the public or the Government;
- c. independently accountable within the Departments.

Areas of work where the day-to-day involvement of the Minister is inevitable, or where policy decisions are inextricably linked, are unlikely to be suitable for agency treatment, at least initially.

Form of Organisation

5. Before further work is done on establishing a parent Department will consider the following

- a. Privatisation

Privatisation provides all the managerial disciplines sought by the agency approach and is normally regarded as the preferred route where there are compelling reasons to the contrary. It is not immediately practicable, but might be, on, the Department will consider whether it is an appropriate transitional measure;

b. Contractorisation

If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;

c. Public Corporations

Large executive operations which already have an arm's length relationship with their parent Departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation;

d. Abolition

Closer examination of particular services as part of the preparation for setting up an agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the Department.

Analysis

6. Once a Department has satisfied itself that the work concerned is prima facie suitable for agency treatment, it will need to carry out a more rigorous analysis. The essential facts to be brought out at this stage are:

- a. the prospective agency's aims and objectives and the functions to be covered;
- b. the adequacy of the agency's internal management and financial systems;
- c. the type of organisation best suited to ensure the desired results;

- d. the benefits sought from the agency
- e. the resources currently employed in covered by the agency;
- f. the outputs/unit costs now achieved and proposed changes;
- g. any new or modified functions to be agency;
- h. existing and planned performance me
- i. the pay and expenditure regime;
- j. the state of industrial relations w
- k. any legislation likely to be requir
- l. the arrangements for answerability individual members.

Provisional Approval

7. Assuming that the analysis is satisfactc suggest that immediate privatisation or some would be a better solution, the Department wi proposals for approval in principle by its ow

First Stage Review

8. The Department will discuss its outline Project Manager. The Treasury will then cons scheme, paying particular attention to the p: cost and public expenditure control arrangeme possible repercussive effects within the pub

economy generally. Other Departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

Preparation of Framework

9. The Department will draw up the key elements of the policy and resources framework for the agency. The framework will set out:

- a. the relationship with the Department, including the circumstances in which the Minister will issue directions to the agency, and the extent to, and the arrangements under, which the agency will contribute to policy formation;
- b. the agency's aims and objectives;
- c. the conventions which the Department would wish to establish regarding answerability to Parliament and individual Members on the activities of the agency;
- d. the nature of the resources to be provided, and of the outputs to be achieved, and how they are to be measured;
- e. the machinery for accounting, audit, monitoring and reporting, both within Government and externally;
- f. the arrangements for setting objectives and financial targets for the agency, where appropriate, and the arrangements for their periodic revision;
- g. the expenditure classification and control mechanisms agreed with the Treasury for the agency when first established and any change which might be proposed subsequently;

- h. arrangements for recruitment, pay, and other personnel management responsibilities and the extent to which these are delegated to the agencies;
- i. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently;
- j. the terms of reference for the Chief Executive;
 - i. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;
 - ii. reporting arrangements for the Chief Executive;
- k. the industrial relations structure.

Approval of Framework

10. The framework, as agreed with the Treasury and the OMCS, will be submitted to the departmental Minister for approval. It will be for the Minister to clear his framework with the Chancellor of the Exchequer, the Minister of State, Privy Council Office, and the Prime Minister.

Staff Interests

11. The Department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation.; the conduct of industrial relations within the agency, including the

establishment of Whitley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.

Legislation

12. Any necessary legislation should if practicable be introduced at this stage. If that would unacceptably delay the implementation timetable the agency may have to be set up with a temporary framework within existing powers. A note on the legislative implications of the "Next Steps" approach in relation to Parliamentary financial control is available; this has been drawn up by the Treasury in consultation with the Treasury Solicitor's Department.

IMPLEMENTATION

Recruitment of Chief Executive and Key Staff

13. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the Department, the Treasury and the OMCS. The Prime Minister will need to be consulted at this stage about the more important appointments. Appointments will be by either:

a. Open competition on fixed contract; existing civil servants would be free to apply, but, if appointed on terms providing substantially higher rewards than normal scales might be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

b. Internal selection:

- i. from within the Department; or
- ii. by Service-wide advertisement.

Those appointed by this method would continue to be subject to Civil Service pay and conditions, including eligibility for performance-related increments, and any agreed bonus arrangements.

All agency staff (including the Chief Executive) will, at any rate initially, be civil servants, the main difference between the two methods of appointment being that method a. will offer high rewards in return for high risks, while method b. will balance lower remuneration against greater security of tenure.

Performance of Chief Executive

14. The essence of the "Next Steps" approach is that the agency's responsibility for delivering the agreed services in accordance with the framework should rest squarely on the Chief Executive. He or she can only be absolved from that responsibility by certain actions of the Department (eg by failing to provide the agreed resources) or by some form of force majeure.

15. The Chief Executive's contract must set out precisely what is expected of him and the circumstances in which performance-related awards will be given and the circumstances in which penalties, including termination of contract, enforced. Experience has shown that drawing up satisfactory contracts of this kind is extremely difficult and the assistance of the Department's legal advisers should be sought from the outset.

16. Chief Executives and other agency staff would be subject to the Civil Service Pay and Conditions of Service Code. Sanctions

against under-performing Chief Executives or key staff on fixed term contracts would include:

- a. Termination of contract. This is unlikely to be a practical remedy except in cases of gross incompetence or impropriety;
- b. non-renewal of contract; and
- c. withholding or reduction of any terminal bonuses.

17. The Prime Minister should be consulted where it is proposed to terminate the contract of a Chief Executive whose original appointment was approved by her.

Assessment of Performance

18. The judgment on whether or not a Chief Executive has met the agreed targets for costs and performance should rest in the first instance with the agency's parent Department. The assessment will be made by the Permanent Secretary after consultation with the departmental Minister. It will be necessary to provide a formal appeal procedure where an adverse assessment leads to termination of contract; possible options, which would be written into the contract and would depend on the status of the Chief Executive concerned, would include appeal to:

- a. the Head of the Home Civil Service;
- b. an independent advisory panel;
- c. the Civil Service Appeal Board.

None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other

legal process, but should reduce the frequency with which that was likely to occur.

Recruitment of Staff

19. The methods of agreeing terms and conditions for the agency's staff will be set out in the framework. Agency staff will be appointed from those already doing the work, or transferred from elsewhere in the Civil Service, or recruited by a special exercise carried out by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the three. There will be a presumption that pay, grading, and superannuation will normally follow Civil Service models unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. Positive performance incentives will be considered in devising such arrangements. In considering requests for special treatment, the Treasury will need to be satisfied that it is essential for the achievement of the agency's target, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other Departments and agencies will be consulted if there is a risk of repercussions elsewhere.

Modification of Framework

20. Shortly before or shortly after the appointment of the Chief Executive, the framework will have to be reviewed by the parent Department in consultation with the Treasury and the OMCS as appropriate to take account of his or her view of what can be delivered. One of the Chief Executive's first tasks will be to supplement the framework with a medium term corporate plan, to be agreed by the departmental Minister after consultation with the Treasury.

Establishment of Agency

21. With the completion of these steps the agency regime would have come into existence.

RUNNING

Annual Planning

22. Each year, the Chief Executive will prepare a draft policy and resources plan in informal consultations with the Department and the Treasury. This will roll forward the corporate plan by a further year, and deal in greater detail with targets for the first year of the revised plan. The first three years of the plan will form the basis of the agency's input to the Department's PES submission.

Approval

23. The plan will be subject to approval by the departmental Minister after consultation with the Treasury.

PES

24. The resources sought in the annual plan will be considered during the Department's PES discussions. They could be negotiated either as part of the Department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.

Running Costs

25. Where activities are classified as running costs now, they will continue to be so classified. Their treatment will be based on the same principles as for resources overall: similarly, the relationship of the agency's running costs to those of the parent Department must be agreed with the Treasury in advance.

26. Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria already agreed by Ministers from time to time.

In-year Adjustments

27. It will be up to Departments to ensure that the framework is sufficiently stable to make the need for in-year adjustments very unlikely. Any increases will have to be met from within departmental programmes, and Departments should not expect to make claims on the Reserve in respect of their agencies.

Reporting

28. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report may be submitted to the Prime Minister after discussion with the Treasury and the Minister and will normally be published.

29. Careful monitoring of the agencies' performance will be essential, particularly while the concept is new, and will call for close consultation between parent Departments and the Treasury.

31 December 1987

CH/EXCHEQUER	
REC.	14 JAN 1988
TO	SIR P. MIDDLETON
FROM	CST PMG
	MR ANSON
	DAME A. MUELLER
	MR KEMP
	MR TONY BULL
	MR RICHARD
	MR HARRIS

Ref. A088/121

MR WICKS

Handwritten notes:
 Must be
 done by
 14/1/88
 Handled to me by
 Mr Harris 13/1/88

Handwritten signature/initials in a circle

Improving Management in Government: The Next Steps

At the meeting of Ministers on 22 October 1987 the Prime Minister commissioned further work from the Head of the Home Civil Service, on the scope for privatising some executive functions, and reclaiming greater Ministerial control of quangos; the risk/reward package for agency Chief Executives and the legislative implications of the proposals; and to suggest a procedure for carrying the work forward.

- 2. I attach a paper by the Head of the Home Civil Service in response to this commission for discussion by Ministers on 28 January.

- 3. I am copying this minute and the paper to the Private Secretaries to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, the Environment, and Trade and Industry, the Minister of Agriculture, Fisheries and Food, the Secretaries of State for Transport and Social Services, the Lord President, the Chief Secretary, Treasury, and the Minister of State, Privy Council Office; and to Sir Robin Ibbs.

Handwritten signature: Trevor Woolley

T A WOOLLEY
 PS/Sir Robin Butler

14 January 1988

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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5. Whichever of these various approaches is adopted in a particular case, the arrangements will need to provide effective control of spending. Where the discipline of the market does not apply, for example where the agency is delivering a monopoly service, or has a regulatory role, the administrative cost, as well as the total cost of the agency must be properly controlled. This control will be provided by the detailed framework of objectives and resources set for the agency by Ministers and will be supported by the performance targets for the Chief Executive of the agency. Different solutions may be appropriate for different agencies, and each case will need to be examined on its merits. In all cases it will be essential that the agency should be set within a robust and effective policy and resource framework designed to encourage and

facilitate improved performance; the extent of management flexibility and the rate of its introduction will depend upon the proven effectiveness of the framework.

Appointments and Terms of Service for Agency Chief Executives

6. It might on occasion be appropriate to recruit a Chief Executive from outside the Civil Service, on a contract with a substantial performance-related element. Recruitment would be on the basis of "fair and open competition" through a public advertisement; civil servants would be eligible to enter into the competition.

7. But in most cases a career civil servant will be the best choice for the Chief Executive of an agency: indeed, it is a main purpose of Sir Robin Ibbs's proposals that there should be interchange between "policy" work in Departments and "management" work in agencies, and that the Civil Service should equip its people with the skills to take on such jobs and provide more executive management.

8. A Civil Service nominee selected on this basis would be appointed for a fixed term, with the possibility of an extension not excluded. This would emphasise the contractual nature of an appointment to a Chief Executive post and that success or failure would have repercussions. He would be paid at the rate appropriate for the relevant grade. In addition there should be a suitable performance-related element linked to defined performance objectives. The main element of this could be performance-related discretionary increments of the kind we have introduced for Grades 2 and 3 and are currently developing for Grades 4 to 7. The increments adopted for use for Chief Executives of agencies would not need to be identical either in number or in amount with those adopted at comparable levels in the Civil Service as a whole; but, if the disparities were too great, that would cause complications when Chief Executives left

agencies and were reabsorbed into other departmental duties. In suitable cases there might also be a terminal bonus paid on the achievement of defined and substantial results. The Treasury would need to be consulted about these arrangements, and about similar arrangements for key agency staff other than the Chief Executives.

9. It would need to be made clear to the Chief Executives before appointment that, if he fell significantly short of delivery on the defined objectives, he would be liable to lose the performance-related element in his pay, or to be relieved of that particular job or, in extreme cases, to be asked to leave the Civil Service. For these jobs the present provisions for premature retirement for civil servants who put in "limited performance" might need to be sharpened up. The main purpose of this element in the terms and conditions for Chief Executives would be to ensure that they and their Departments understood that defined and effective personal performance was an essential requirement for the job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

10. It would be essential to establish a satisfactory method of setting and assessing individual performance for the Chief Executive. The individual performance targets should be based on the performance and output indicators which would be set for the agency as a whole as part of the framework. The performance goals would have to be agreed between the Chief Executive and the Department, and would be likely to imply obligations by the Department on (for instance) the stability of policy and the provision of resources for the work of the agency including the terms on which they were provided. Final decisions on the career consequences of a failure to meet performance objectives would have to rest with the Permanent Secretary, consulting the Minister of the Department concerned. They would review his

performance in achieving both personal objectives and the agency objectives set in the framework agreement. All these matters would have to be understood and accepted by the Chief Executive before he took up his appointment.

Legislative Implications of the Proposals

11. The creation of agencies within Departments to handle distinct operational functions will not of itself generally require legislation. Subsequent privatisation or conversion of agencies into non-departmental public bodies (or vice-versa) would do so in most cases. Some of the suggested changes in the Parliamentary financial control regime would need legislation if it were decided to implement them. Whether legislation is needed in each case (or across the board) would be for the responsible Minister to consider in consultation with the Treasury, the OMCS and the project manager and other affected Departments.

12. This paper and the earlier papers for the Ministerial group discuss some of the major issues which need to be considered and resolved as the first agencies are set up. The way in which these issues are resolved in detail is likely to vary from agency to agency, and would fall to be worked out by the project manager as planning and development work on the agencies takes place, together with the Treasury, the OMCS and the Departments directly concerned.

Accountability

13. As the paper for the Ministerial meeting on 22 October recognised, Ministers' formal accountability to Parliament would be unaffected by the implementation of the Next Steps proposals, though their detachment from day-to-day operations would entail changes in the way in which it was discharged. This would mean, for example, that Parliamentary Questions about the operation of

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an agency would always be answered by the responsible Minister, albeit in the light of advice from the agency's Chief Executive. Ministers might choose to encourage MPs to address operational inquiries initially to the agency managers but MPs would retain the right to approach Ministers directly, if they were dissatisfied with the reply.

14. The announcement to the House should make clear that, while the intention is to apply the agency principle extensively throughout Whitehall, each case will be considered on its merits and suitable accountability arrangements devised to meet the circumstances of individual agencies. The public announcements of the establishment of individual agencies would set out any intended changes in the handling of MPs' inquiries.

15. The practical effects of the changes would be felt by Members of Parliament very gradually and in stages. A few agencies should be established in 1988; in the view of the Departments concerned none of them raises difficult problems of accountability. The full programme of establishing agencies to handle executive functions will take several years to complete.

Procedure for Carrying the Work Forward

16. I am minuting separately about the appointment of a "Project Manager".

17. The Treasury's responsibility for securing efficiency savings within public expenditure constraints will be unchanged. Careful handling will be required to ensure that the introductions of different agency solutions does not lead to an

impression of general pay and spending control relaxation. It will be for the "Project Manager" in conjunction with Departments and the Treasury to take forward the agency proposals and to arrange for the resolution of issues as they arise.

18. The "Project Manager's" basic task will be to ensure that all the recommendations of the "Next Steps" report are implemented within an agreed timescale. As a first step the "Project Manager" would be invited to recommend a programme and suggest a timetable for carrying it through. It would be for him to establish that departmental proposals for particular agencies:

- are soundly based and offer well-defined benefits;
- have a robust framework;
- specify what new management flexibilities are needed.

The "Project Manager" would act as a clearing house for dealing with issues for individual agencies which may have repercussions for other parts of the Civil Service, and would ensure that such issues are resolved effectively. An important aspect of his task would be to advise the Prime Minister through the Head of the Home Civil Service on progress with the programme of agencies.

--- 19. At Annex B is a note by the Treasury outlining a procedure for setting up the initial agencies and their subsequent control.

PRESENTATION

20. Subject to the views of members of the Cabinet, the next step would be to make a public announcement of the Government's response to Sir Robin Ibbs's report and of the appointment of

--- the "Project Manager". I attach at Annex A a
an announcement to Parliament. This has been
Written Answer to an arranged Parliamentary Qu
belief that that is consistent with the low-pr
presentation to Parliament that Ministers have
favour. The Chancellor has, however, suggeste
announcement of this importance should be made
statement. It will be for individual Departme
staff and the unions which units are proposed
agency treatment. It will be essential that t
initial units is not revealed at the time of t
or until a reasonable period - of say 48 hours
the Departments concerned to forewarn their st

21. As now drafted, the Answer would not comm
implementing the proposals in the report to a
or within a specified period, as recommended i

22. Shortly before the announcement is due to
on the Government's proposals should be issue
Permanent Secretaries, for them to circulate t
at the time of the announcement. A full quest
brief would be provided with the central guid

23. Also shortly before the announcement it w
to meet the Civil Service trade unions to exp
principles of the "Next Steps" approach. Ther
need to be further and fuller discussions of t
principles with the unions at national level
announcement. Detailed consultations about th
operation of individual agencies would be han
within Departments.

24. Copies of a final draft of the report are
the hands of some of the unions and some outs
It is proposed that the report should be publ

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an announcement is made. A complementary Press briefing package would also be prepared. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

ROBIN BUTLER

13 January 1988

DRAFT WRITTEN QUESTION TO THE PRIME MINISTERQuestion

To ask the Prime Minister what progress is being made with the Efficiency Unit's scrutiny on Improving Management in Government.

Draft Reply

I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Last year they reported - 'Improving Management in Government: The Next Steps' - and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of this report are available in the Vote Office and are being placed in the Library.

2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period. Many Civil Service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

3. The report includes the following recommendations as a basis for further improvement in effective and responsible management:

- To the greatest possible extent the executive functions of Government, that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies, should be carried out by executive units clearly designated within Departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.
- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.
- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.
- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a 'Project Manager' at a senior level to ensure that the programme of change took place.

The Government accepts these [four] recommendations, which will set the direction for further development in the programme of management reform. In particular, the Government believes that in appropriate cases the setting up of agencies would have advantages both in enabling management objectives to be defined more clearly, and in facilitating more effective and flexible management within a firm policy and resource framework. This will benefit management and staff alike.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various Departments

during the coming months. Each agency will work within a firm framework of policy and resources, which will be set by the appropriate departmental Ministers (in consultation with the Treasury). Each will be accountable to the Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach. The Government will develop a continuing programme for the establishment of agencies, in a way which will make it possible progressively to apply the lessons of the experience as further agencies are established.

5. The Civil Service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual Departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.

6. I have approved the appointment of Mr J Bloggs to a post in the Office of the Minister for the Civil Service with responsibility through the Head of the Home Civil Service to me for managing the process of change needed to implement the recommendations. He will bring forward proposals in consultation with Departments for a continuing programme of development of agencies over the coming years.

Next Steps: Establishing and Administering AgenciesINTRODUCTION

This note sets out the steps to be taken by those responsible for the management of executive functions in Departments in setting up agencies. It describes the arrangements for the establishment of the great majority of agencies which will remain within the Civil Service; modifications will have to be considered case by case for non-Civil Service agencies. The arrangements will be kept under review and modified as necessary in the light of experience. No change affecting expenditure controls or pay controls as they exist at present will be introduced into the operational management of the agencies without the specific agreement of the Treasury. Similarly, changes in recruitment procedures must have the agreement of the Office of the Minister for the Civil Service (OMCS). Both the Treasury and the OMCS will, of course, be ready to give any further advice needed by Departments setting up agencies.

2. These procedures are designed to provide for the Treasury to be involved, where necessary, for the purpose of protecting the control of public expenditure, running costs and pay, at the same time as permitting the exercise of responsibility and the release of energies which it is the purpose of the 'Next Steps' recommendations to achieve.

3. The Project Manager will be responsible for assisting with the process of setting up the new agencies, for promoting the resolution of any difficulties that arise in the course of that process, and for ensuring that the establishment of each agency is successfully completed within whatever time-scale is agreed.

Identification

4. Provisional identification of potential a the responsibility of Departments, or Treasury Divisions. The criteria will develop over time experience with the pilot agencies, but common that the prospective agencies are, or can be

- a. discrete administrative units, sufficient to justify major structural change;
- b. wholly concerned with the delivery of a public or the Government;
- c. independently accountable within the Departments.

Areas of work where the day-to-day involvement of its Minister is inevitable, or where policies are inextricably linked, are unlikely to be suitable for agency treatment, at least initially.

Form of Organisation

5. Before further work is done on establishing a parent Department will consider the following

- a. Privatisation

Privatisation provides all the managerial disciplines sought by the agency approach normally be regarded as the preferred route are compelling reasons to the contrary. Privatisation is not immediately practicable, but might be, on, the Department will consider whether it is an appropriate transitional measure;

b. Contractorisation

If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;

c. Public Corporations

Large executive operations which already have an arm's length relationship with their parent Departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation;

d. Abolition

Closer examination of particular services as part of the preparation for setting up an agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the Department.

Analysis

6. Once a Department has satisfied itself that the work concerned is prima facie suitable for agency treatment, it will need to carry out a more rigorous analysis. The essential facts to be brought out at this stage are:

- a. the prospective agency's aims and objectives and the functions to be covered;
- b. the adequacy of the agency's internal management and financial systems;
- c. the type of organisation best suited to ensure the desired results;

- d. the benefits sought from the agency
- e. the resources currently employed in covered by the agency;
- f. the outputs/unit costs now achieved and proposed changes;
- g. any new or modified functions to be agency;
- h. existing and planned performance me
- i. the pay and expenditure regime;
- j. the state of industrial relations w
- k. any legislation likely to be requir
- l. the arrangements for answerability individual members.

Provisional Approval

7. Assuming that the analysis is satisfact suggest that immediate privatisation or some would be a better solution, the Department wi proposals for approval in principle by its ow

First Stage Review

8. The Department will discuss its outline Project Manager. The Treasury will then cons scheme, paying particular attention to the p: cost and public expenditure control arrangeme possible repercussive effects within the pub

economy generally. Other Departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

Preparation of Framework

9. The Department will draw up the key elements of the policy and resources framework for the agency. The framework will set out:

- a. the relationship with the Department, including the circumstances in which the Minister will issue directions to the agency, and the extent to, and the arrangements under, which the agency will contribute to policy formation;
- b. the agency's aims and objectives;
- c. the conventions which the Department would wish to establish regarding answerability to Parliament and individual Members on the activities of the agency;
- d. the nature of the resources to be provided, and of the outputs to be achieved, and how they are to be measured;
- e. the machinery for accounting, audit, monitoring and reporting, both within Government and externally;
- f. the arrangements for setting objectives and financial targets for the agency, where appropriate, and the arrangements for their periodic revision;
- g. the expenditure classification and control mechanisms agreed with the Treasury for the agency when first established and any change which might be proposed subsequently;

- h. arrangements for recruitment, pay, and other personnel management responsibilities and the extent to which these are delegated to the agencies;
- i. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently;
- j. the terms of reference for the Chief Executive;
 - i. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;
 - ii. reporting arrangements for the Chief Executive;
- k. the industrial relations structure.

Approval of Framework

10. The framework, as agreed with the Treasury and the OMCS, will be submitted to the departmental Minister for approval. It will be for the Minister to clear his framework with the Chancellor of the Exchequer, the Minister of State, Privy Council Office, and the Prime Minister.

Staff Interests

11. The Department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation.; the conduct of industrial relations within the agency, including the

establishment of Whitley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.

Legislation

12. Any necessary legislation should if practicable be introduced at this stage. If that would unacceptably delay the implementation timetable the agency may have to be set up with a temporary framework within existing powers. A note on the legislative implications of the "Next Steps" approach in relation to Parliamentary financial control is available; this has been drawn up by the Treasury in consultation with the Treasury Solicitor's Department.

IMPLEMENTATION

Recruitment of Chief Executive and Key Staff

13. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the Department, the Treasury and the OMCS. The Prime Minister will need to be consulted at this stage about the more important appointments. Appointments will be by either:

a. Open competition on fixed contract; existing civil servants would be free to apply, but, if appointed on terms providing substantially higher rewards than normal scales might be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

b. Internal selection:

- i. from within the Department; or
- ii. by Service-wide advertisement.

Those appointed by this method would continue to be subject to Civil Service pay and conditions, including eligibility for performance-related increments, and any agreed bonus arrangements.

All agency staff (including the Chief Executive) will, at any rate initially, be civil servants, the main difference between the two methods of appointment being that method a. will offer high rewards in return for high risks, while method b. will balance lower remuneration against greater security of tenure.

Performance of Chief Executive

14. The essence of the "Next Steps" approach is that the agency's responsibility for delivering the agreed services in accordance with the framework should rest squarely on the Chief Executive. He or she can only be absolved from that responsibility by certain actions of the Department (eg by failing to provide the agreed resources) or by some form of force majeure.

15. The Chief Executive's contract must set out precisely what is expected of him and the circumstances in which performance-related awards will be given and the circumstances in which penalties, including termination of contract, enforced. Experience has shown that drawing up satisfactory contracts of this kind is extremely difficult and the assistance of the Department's legal advisers should be sought from the outset.

16. Chief Executives and other agency staff would be subject to the Civil Service Pay and Conditions of Service Code. Sanctions

against under-performing Chief Executives or key staff on fixed term contracts would include:

- a. Termination of contract. This is unlikely to be a practical remedy except in cases of gross incompetence or impropriety;
- b. non-renewal of contract; and
- c. withholding or reduction of any terminal bonuses.

17. The Prime Minister should be consulted where it is proposed to terminate the contract of a Chief Executive whose original appointment was approved by her.

Assessment of Performance

18. The judgment on whether or not a Chief Executive has met the agreed targets for costs and performance should rest in the first instance with the agency's parent Department. The assessment will be made by the Permanent Secretary after consultation with the departmental Minister. It will be necessary to provide a formal appeal procedure where an adverse assessment leads to termination of contract; possible options, which would be written into the contract and would depend on the status of the Chief Executive concerned, would include appeal to:

- a. the Head of the Home Civil Service;
- b. an independent advisory panel;
- c. the Civil Service Appeal Board.

None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other

legal process, but should reduce the frequency with which that was likely to occur.

Recruitment of Staff

19. The methods of agreeing terms and conditions for the agency's staff will be set out in the framework. Agency staff will be appointed from those already doing the work, or transferred from elsewhere in the Civil Service, or recruited by a special exercise carried out by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the three. There will be a presumption that pay, grading, and superannuation will normally follow Civil Service models unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. Positive performance incentives will be considered in devising such arrangements. In considering requests for special treatment, the Treasury will need to be satisfied that it is essential for the achievement of the agency's target, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other Departments and agencies will be consulted if there is a risk of repercussions elsewhere.

Modification of Framework

20. Shortly before or shortly after the appointment of the Chief Executive, the framework will have to be reviewed by the parent Department in consultation with the Treasury and the OMCS as appropriate to take account of his or her view of what can be delivered. One of the Chief Executive's first tasks will be to supplement the framework with a medium term corporate plan, to be agreed by the departmental Minister after consultation with the Treasury.

Establishment of Agency

21. With the completion of these steps the agency regime would have come into existence.

RUNNING

Annual Planning

22. Each year, the Chief Executive will prepare a draft policy and resources plan in informal consultations with the Department and the Treasury. This will roll forward the corporate plan by a further year, and deal in greater detail with targets for the first year of the revised plan. The first three years of the plan will form the basis of the agency's input to the Department's PES submission.

Approval

23. The plan will be subject to approval by the departmental Minister after consultation with the Treasury.

PES

24. The resources sought in the annual plan will be considered during the Department's PES discussions. They could be negotiated either as part of the Department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.

Running Costs

25. Where activities are classified as running costs now, they will continue to be so classified. Their treatment will be based on the same principles as for resources overall: similarly, the relationship of the agency's running costs to those of the parent Department must be agreed with the Treasury in advance.

26. Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria already agreed by Ministers from time to time.

In-year Adjustments

27. It will be up to Departments to ensure that the framework is sufficiently stable to make the need for in-year adjustments very unlikely. Any increases will have to be met from within departmental programmes, and Departments should not expect to make claims on the Reserve in respect of their agencies.

Reporting

28. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report may be submitted to the Prime Minister after discussion with the Treasury and the Minister and will normally be published.

29. Careful monitoring of the agencies' performance will be essential, particularly while the concept is new, and will call for close consultation between parent Departments and the Treasury.

31 December 1987

Wiles, Stephen

From: Karen Bathgate [karen.bathgate@ntlworld.com]
Sent: 06 December 2005 23:09
To: Wiles, Stephen
Subject: Re: FOIA REQUEST ON NEXT STEPS AGENCIES

Stephen

I am sorry not to have raised this question earlier, but I have only just had the opportunity to consider the information. Can I confirm the note written by Sir Robert Armstrong is titled as being Annex B (of the Ibbs Report?). This is significantly different to Annex B of the published Ibbs Report (although it does seem to fit the bill of being a concordat). Are there any further 'originals' of the Ibbs Report on file which I could have a copy of. That is, is there a draft main body/ draft annex A/ C?

*Check Be
/ are to double?*

Also - could you please provide the electronic version of Annex B if possible as the copy sent has not been copied in full, pages 2 and 4 are incomplete.

Fine .

The note (page 7) makes reference to the legislative implications of the 'Next Steps' approach in relation to Parliamentary financial control, drawn up by the Treasury in consultation with the Treasury's Solicitor's Department - would it be possible to have a copy of this?

?

With regard to the 'battle of the memos' I am not sure what further information I can provide. If the Ibbs Report was completed by Ibbs in March 1987 the conversation between the Efficiency Unit and the Treasury regarding control of public expenditure and Ministerial Responsibility would have taken place some time after this. I can not be more precise as I do not know when the Treasury was given a copy of the Ibbs Report (in its final draft form). It would be after this date the 'battle' would have taken place. Looking at the note, these issues were resolved by 31st December, 1987.

Is this helpful? If not, could you let me know what further information you require.

~~And, once again thanks for the note written by Sir Robert Armstrong, now that I have time to read it, it is a really interesting note which brings to light the tension between the aim of Next Steps to introduce accountable management/ delegating authority for day-to-day decision-making and the Treasury's concern for controlling public expenditure and the civil service pay bill (this being the Treasury's main concern during that period).~~

Best Wishes,

Karen

From: "Wiles, Stephen" <Stephen.Wiles@hm-treasury.x.gsi.gov.uk>
To: <karen.bathgate@ntlworld.com>
Sent: Monday, October 31, 2005 5:00 PM
Subject: FOIA REQUEST ON NEXT STEPS AGENCIES

Dear Karen,

With apologies for the delay, please find attached a response to your FOI request asking for papers relating to the Next Steps Initiative.

The papers are:

* A covering letter from me to you.

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* The March 1987 Ibbs Report.

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* A note by Sir Robert Armstrong, the outgoing Cabinet Secretary, written on 31 December 1987, which we have interpreted as being the 'concordat'.

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As I said in my phone message, I'd be very happy to put these papers in the post, although I don't at present have your address.

Best wishes,

Stephen

Stephen Wiles
APS / Nick Macpherson
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ
0207 270 5243

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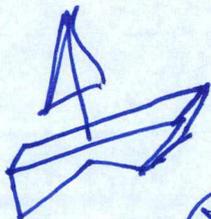
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16th Report

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

A Report to the Prime Minister

March 1987



EFFICIENCY UNIT

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

A Report to the Prime Minister

**Kate Jenkins
Karen Caines
Andrew Jackson**

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

SCRUTINY REPORT

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Efficiency Unit
March 1987

I. INTRODUCTION

1. As a result of initiatives taken since 1979, the management of government business is much improved, especially in those parts of government where there are clear tasks to be performed and services to be delivered. But there is still a long way to go; in particular there is insufficient sense of urgency in the search for better value for money and steadily improving services. There is wide agreement in Departments themselves that substantial further improvement is achievable, but that this depends heavily on changing the cultural attitudes and behaviour of government so that continuous improvement becomes a widespread and in-built feature of it. This report makes recommendations on the structure and management needed for the better delivery of services both to the public and to Ministers, the experience that staff need to be given and how sustained pressure for improvement can be developed. This should bring the changes needed in attitudes and behaviour and with them progressive improvement in performance.

II. FINDINGS

2. As part of this scrutiny we have spent 3 months in discussions with people in the Civil Service throughout the country. We have also reviewed the evidence from other scrutinies in the central programme since 1979 and looked at earlier reports on the management of the Civil Service. The themes which have emerged during the scrutiny have followed a broadly consistent pattern, whether in discussions in a small local benefit office or in a Minister's room. Some are also common themes in earlier scrutinies and in reports on the Civil Service (see Annex 3). There are seven main findings.

3. First, the management and staff concerned with the delivery of government services (some 95% of the Civil Service) are generally convinced that the developments towards more clearly defined and budgeted management are positive and helpful. The manager of a small local office in the north east said that for the first time in 20 years he felt that he could have an effect on the conditions under which his staff worked and therefore on the results they produced. But this kind of enthusiasm is tempered by frustration at constraints. Although there is a general acceptance of the importance of delegating meaningful authority down to the most effective level, diffused responsibility still flourishes, especially in offices away from the sharp end of delivery of services to the public. Middle managers in particular feel that their authority is seriously circumscribed both by unnecessary controls and by the intervention of Ministers and senior officials in relatively minor issues. People who had recently resigned from the Civil Service told us that frustration at the lack of genuine responsibility for achieving results was a significant factor in encouraging them to move to jobs outside.

4. Second, most civil servants are very conscious that senior management is dominated by people whose skills are in policy formulation and who have relatively little experience of managing or working where services are actually being delivered. In any large organisation senior appointments are watched with close attention. For the Civil Service the present signals are, as one senior Grade 2 told us, that "the golden route to the top is through policy not through management". This is reflected in the early experience and training of fast-stream recruits. This kind of signal affects the unwritten priorities of a whole organisation, whatever the formal policy may be.

5. Managing large organisations involves skills which depend a great deal on experience; without experience senior managers lack confidence in their own ability to manage. Although, at the most senior levels, civil servants are responsible for both policy and service delivery, they give a greater priority to policy, not only because it demands immediate attention but because that is the area in which they are on familiar ground and where their skills lie, and where ministerial attention is focused. A proper balance between policy and delivery is hard to achieve within the present framework, even though taxpayers are becoming increasingly conscious of what they should expect from public expenditure on health, education and other services and hold Ministers to blame for their deficiencies.

6. Third, senior civil servants inevitably and rightly respond to the priorities set by their Ministers which tend to be dominated by the demands of Parliament and communicating government policies. In this situation it is easy for the task of improving performance to get overlooked, especially where there is, as we observed, confusion between Ministers and Permanent Secretaries over their respective responsibilities for the management of service delivery. This confusion is made worse when short term pressure becomes acute. Nevertheless the ability of Ministers supported by their senior officials to handle politics and political sensitivities effectively is a crucial part of any government's credibility. Changes in the management process should therefore aim to increase rather than diminish this crucial skill.

7. Fourth, the greater diversity and complexity of work in many Departments, together with demands from Parliament, the media and the public for more information, has added to ministerial overload. Because of other pressures on Ministers, and because for most of them management is not their forte and they don't see it as their function, better management and the achievement of improved performance is something that the Civil Service has to work out largely for itself. It is unrealistic to expect Ministers to do more than give a broad lead. Most Ministers who are worried about overload are of the view that while changes in management that reduced the ministerial load would be welcomed, provided they entailed no major political risks, Ministers themselves do not have the time or the experience needed to develop such changes.

8. Fifth, the pressures on Departments are mainly on expenditure and activities; there is still too little attention paid to the results to be achieved with the resources. The public expenditure system is the most powerful central influence on departmental management. It is still overwhelmingly dominated by the need to keep within the levels of money available rather than by the effectiveness with which they are used.

9. Sixth, there are relatively few external pressures demanding improvement in performance. The Prime Minister has given a valuable lead and holds seminars to discuss value for money in individual Departments. Her Adviser on Efficiency and Effectiveness has annual discussions with Ministers about their priorities for getting better value for money. These are useful but occasional rather than continuous pressures. Pressure from Parliament, the Public Accounts Committee and the media tends to concentrate on alleged impropriety or incompetence and making political points, rather than on demanding evidence of steadily improving efficiency and effectiveness. This encourages a cautious and defensive response which feeds through into management. On the positive side, the Treasury and the NAO are developing work on value for money. But the process of searching for improvement is still neither rigorous nor sustained; it is not yet part of the basic institution of government.

10. Seventh, the Civil Service is too big and too diverse to manage as a single entity. With 600,000 employees it is an enormous organisation compared with any private sector company and most public sector organisations. A single organisation of this size which attempts to provide a detailed structure within which to carry out functions as diverse as driver licensing, fisheries protection, the catching of drug smugglers and the processing of Parliamentary Questions is bound to develop in a way which fits no single operation effectively.

11. At present the freedom of an individual manager to manage effectively and responsibly in the Civil Service is severely circumscribed. There are controls not only on resources and objectives, as there should be in any effective system, but also on the way in which resources can be managed. Recruitment, dismissal, choice of staff, promotion, pay, hours of work, accommodation, grading, organisation of work, the use of IT equipment, are all outside the control of most Civil Service managers at any level. The main decisions on rules and regulations are taken by the centre of the Civil Service. This tends to mean that they are structured to fit everything in general and nothing in particular. The rules are therefore seen primarily as a constraint rather than as a support; and in no sense as a pressure on managers to manage effectively. Moreover, the task of changing the rules is often seen as too great for one unit or one manager or indeed one Department and is therefore assumed to be impossible.

12. In our discussions it was clear that the advantages which a unified Civil Service are intended to bring are seen as outweighed by the practical disadvantages, particularly beyond Whitehall itself. We were told that the advantages of an all-embracing pay structure are breaking down, that the uniformity of grading frequently inhibits effective management and that the concept of a career in a unified Civil Service has little relevance for most civil servants, whose horizons are bounded by their local office or, at most, by their Department.

III. CONCLUSIONS

13. The main themes which have emerged from our discussions in the course of the scrutiny suggest that the changes of the last 7 years have been important in beginning to shift the focus of attention away from process towards results. The development of management systems, particularly those which cover programme as well as administrative areas, forces senior and junior management to define the results they wish to achieve. But this also produces frustrations because of the lack of freedom to vary the factors on which results depend. The new systems are demonstrating how far attitudes and institutions have to change if the real benefits of the management reforms, in the form of improvement in the way government delivers its services, are to come through. It was striking that in our discussions with civil servants at all levels there was a strong sense that radical change in the freedom to manage is needed urgently if substantially better results are to be achieved.

14. Five main issues have emerged from the scrutiny. First, a lack of clear and accountable management responsibility, and the self confidence that goes with it particularly among the higher ranks in Departments. Second, the need for greater precision about the results expected of people and of organisations. Third, a need to focus attention on outputs as well as inputs. Fourth, the handicap of imposing a uniform system in an organisation of the size and diversity of the present Civil Service. Fifth, a need for a sustained pressure for improvement.

15. These are serious problems which need leadership, and commitment to change, from Ministers and the senior Civil Service if they are to be dealt with. Our conclusions are that to begin the process of change three main priorities are necessary:

First: The work of each Department must be organised in a way which focuses on the job to be done; the systems and structures must enhance the effective delivery of policies and services.

Second: The management of each Department must ensure that their staff have the relevant experience and skills needed to do the tasks that are essential to effective government.

Third: There must be a real and sustained pressure on and within each Department for continuous improvement in the value for money obtained in the delivery of policies and services.

These three priorities apply equally to all aspects of government. In our recommendations we apply them to the delivery of services, the tasks of Departments and the centre of Whitehall. Simultaneous action is needed on all three.

16. It is important to recognise that the changes implied by these conclusions, although straightforward, are quite fundamental in the overall impact they will have if carried forward as we suggest. Some fairly radical decisions and a tightly-knit timetable will be required if the necessary momentum for change is to be built up. But the process, although it must be quite rapid to maintain that momentum, will need to be evolutionary so as to gain full advantage from the favourable climate we observed, and to build on moves of the right kind already taking place in some Departments. It will also need to be tightly managed so that the acute problems of transition are properly handled, and so that the drive for more positive management and more freedom for local decision is not undermined by vested interests or lack of confidence.

IV. RECOMMENDATIONS

1. FOCUSING ON THE JOB TO BE DONE

17. Greater priority must be given to organising government so that its service delivery operations function effectively. This must be backed by supporting changes in the attitudes and day-to-day behaviour of Ministers and their officials.

18. Changes of the kind we are proposing are so fundamental that they can be brought about only with the lead and support of Ministers. Without this lead they will falter partly because of the inertia of any very large organisation and a natural tendency for fine details to be discussed at length, but partly because it is Ministers who will have to explain, promote and defend them in Parliament as and when the difficulties are encountered.

a. The Delivery of Services

19. We recommend that 'agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a Department. An 'agency' of this kind may be part of government and the public service, or it may be more effective outside government. We use the term 'agency' not in its technical sense but to describe any executive unit that delivers a service for government. The choice and definition of suitable agencies is primarily for Ministers and senior management in Departments to decide. In some instances very large blocks of work comprising virtually a whole Department will be suitable to be managed in this way. In other instances, where the scale of activity is too small for an entirely separate organisation, it may be better to have one or even several smaller agencies within Departments.

20. These units, large or small, need to be given a well defined framework in which to operate, which sets out the policy, the budget, specific targets and the results to be achieved. It must also specify how politically sensitive issues are to be dealt with and the extent of the delegated authority of management. The management of the agency must be held rigorously to account by their Department for the results they achieve.

21. The framework will need to be set and updated as part of a formal annual review with the responsible Minister based on a long-term plan and an annual report. The main strategic control must lie with the Minister and Permanent Secretary. But once the policy objectives and budgets within the framework are set, the management of the agency should then have as much independence as possible in deciding how those objectives are met. A crucial element in the relationship would be a formal understanding with Ministers about the handling of sensitive issues and the lines of accountability in a crisis. The presumption must be that, provided management is operating within the strategic direction set by Ministers, it must be left as free as possible to manage within that framework. To strengthen operational effectiveness, there must be freedom to recruit, pay, grade and structure in the most effective way as the framework becomes sufficiently robust and there is confidence in the capacity of management to handle the task.

22. Once the framework had been set the head of the agency would be given personal responsibility to achieve the best possible results within it. He or she must be seen to be accountable for doing so. In due course formal accountability, before the Public Accounts Committee for example, might develop so that for significant agencies the Permanent Secretary would normally be accompanied by the head of the agency. The Permanent Secretary's role would be to justify and defend the framework; the manager would have to answer for his or her performance within that framework.

23. Placing responsibility for performance squarely on the shoulders of the manager of an agency also has implications for the way in which Ministers answer to Parliament on operational issues. Clearly Ministers have to be wholly responsible for policy, but it is unrealistic to suppose that they can actually have knowledge in depth on every operational question. The convention that they do is in part the cause of the overload we observed. We believe it is possible for Parliament, through Ministers, to regard managers as directly responsible for operational matters and that there are precedents for this and precisely defined ways in which it can be handled. If management in the Civil Service is truly to be improved this aspect cannot be ignored. In view of its importance it is considered in more detail in Annex 2, where it is suggested that to achieve changes in the arrangements for formal accountability would generally require legislation and that in suitable instances this should be considered.

24. The detailed nature of the relationship between a Department and an agency will vary with the job to be done or the service to be delivered. The agency structure could be used to cover a substantial proportion of the activities of the Civil Service. It is clear from our discussions with Permanent Secretaries that some Departments are already moving towards this concept. What is needed is a substantial acceleration and broadening of this trend through a major initiative. Ultimately some agencies could be in a position where they are no longer inside the Civil Service in the sense they are today. Any decision of this kind should be taken pragmatically - the test must always be adopting the structure which best fits the job to be done.

b. The Tasks for Departments

25. The setting up of agencies has substantial implications for the staff of Departments, for Ministers, and for Parliament. Departments have two main functions - ministerial support including policy development and evaluation, and managing or influencing the delivery of government services. Where the Department is directly responsible for service delivery their task will no longer be the detailed prescription of operational functions: it will be the definition of a rigorous policy and resources framework within which the agency management is set free to manage operations, and is held to account for results.

26. The setting of a policy and resources framework is needed not only for agencies but also in situations where the Department has to proceed by influence rather than by direct control. It applies therefore to the relationship with any organisation which is providing services for which the Department carries some responsibility, whether agency, nationalised industry, local authority, or public body, although the detail and the structure will vary with the precise relationship and the job that has to be done.

27. In any of these relationships the Department's task is to set a framework, tailored to the job to be done, which specifies policies, objectives, the results required, and the resources available. It will also need to ensure that indicators of effective performance are developed and used for regular monitoring. For directly managed agencies Ministers and civil servants must then stand back from operational details and demonstrate their confidence in the competence of their managers and the robustness of the framework by leaving managers free to manage.

28. Although setting a framework is not a new task for government Departments, it is one which has not generally attracted the attention it deserves. To do it successfully requires a balanced expertise in policy, the political environment and service delivery which too few civil servants possess at present. Operational effectiveness and clarity need to be given a higher priority in the interpretation of policy objectives and the thinking of Ministers.

29. We have already emphasised that, for the successful operation of any agency, politically sensitive issues must be handled effectively. Ministers and Departments will have to ensure that this happens if difficulties are to be sorted out without shattering the position and confidence of executive managers. Unless the inevitable political crises are handled well, while safeguarding the effectiveness of the agency, the benefits of giving more independence to management and so getting better performance will not emerge. In some instances, as already mentioned in paragraph 23, legislation may be necessary to establish a framework within which the agency can operate with sufficient independence on behalf of the Secretary of State.

30. In order to direct the tasks of a Department effectively, senior management will need the same kind of flexibility that we consider necessary for agencies. In particular they must have greater freedom about how the Department is staffed and structured to ensure that they are able to give priority to the main tasks for which the Department is responsible.

31. We have concentrated on the role of Departments in relation to their service delivery agencies, but the management of the policy areas of Departments, although on a smaller scale in terms of the staff numbers employed, is no less important than managing the big executive areas. Precision about the results required and the resources involved is crucial when large programme resources are at stake.

c. The Centre of Government

32. The identification of agencies and providing the necessary framework within which they can be managed effectively are essentially tasks for Departments, but the cultural changes implicit in these simple ideas will only take place if a strong lead is given from the centre. Moreover the centre has to have confidence in the new pattern before it can responsibly start relinquishing some of the present constraints on Departments. We are convinced that our recommendations can be implemented successfully only if the centre takes a leading role in managing the change.

33. It is important to distinguish the task of managing change, from the longer term role of the centre when the new situation has been brought about. Once the change has been established we see four continuing tasks for the centre which no-one else can do. First, to allocate resources; second, to ensure there is rigorous external pressure on Departments continually to improve results; third; to ensure that the overall shape of the Civil Service continues to respond to changes in the needs of government and the country; fourth, to set and police essential rules on propriety for the public service in carrying out its essential functions. The centre has to be authoritative, demonstrably efficient and low cost, and a helpful resource to Departments not a handicap. Our specific recommendations are given at paragraphs 40-43.

2. THE RIGHT PEOPLE

34. Our first recommendation - the establishment of agencies for government services - has implications for the functions and organisation of Departments and may need a legislative framework in some instances. Its success depends critically on the people working in Departments and the skills they bring to the task. We recommend that Departments ensure that their staff are properly trained and experienced in the delivery of services whether within or outside central government; the staff will then be in a position to develop and interpret government policy and manage the agencies in a way that can maximise results.

35. Departments must ensure that they have people who have the managerial skills necessary to run agencies. This will mean that experience of managing the delivery of services must be built up at all levels in a Department. It is most important that there should not be two classes of people in Departments - those in agencies and those at the centre. The aim must be to have senior managers who at more junior levels have had substantial experience of the skills and practical reality of management as well as effective experience of the political and policy aspects of work in a Department. They must be prepared to show real qualities of leadership, the ability to back their judgement and to take and defend unpopular decisions. Hitherto relatively few civil servants have had an opportunity to learn or exhibit these skills. A wide range of new arrangements will be needed, including training and secondments to give the required experience, and the promotion of some younger people.

36. One of the benefits that will come as senior managers in Departments obtain greater experience of management is that the policy areas of Departments will also become better managed. There will be an increasing need for these senior managers to have greater freedom about how the Department is structured and staffed to ensure that they can give effective priority at any time to the most important tasks.

3. PRESSURE FOR IMPROVEMENT

37. The aim of our first two recommendations is to ensure that the organisational structure and the skills of the Civil Service are adapted to deliver government services as effectively as possible. The radical changes entailed for Departments will not happen without some pressure external to the organisations directly involved. That pressure must be both for change and for continuous improvement in the delivery of services.

38. The responsibility for setting the management strategy for the Civil Service and ensuring that there is pressure for change and improvement inevitably rests with the Prime Minister and the Head of the Civil Service. They need the commitment of Ministers and of Permanent Secretaries to ensure that the changes are pursued with urgency and are not sacrificed to other priorities. The pressure for change from within the government must also be sustained by understanding and support from Parliament for the long-term benefits which are being sought.

39. For each of these groups - for Parliament, for Ministers and for civil servants - a precise means of ensuring their support needs to be developed. The Civil Service must own the changes as they evolve; it must not feel that ill-considered change is being thrust on it. Ministers must be confident that they can influence political aspects of the changes, and that one of the benefits will be their being able to concentrate more on their main political task. Sir Robert Armstrong and Sir Kenneth Stowe, who have been consulted in the preparation of this report, are considering what arrangements would best ensure that each group plays the right role in directing and sustaining the changes.

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

41. Our recommendations on changes in the way Departments operate are fundamental and radical. They will only be introduced successfully if there is an extremely senior official who has unequivocal personal responsibility for achieving the change. The Head of the Civil Service has to be personally committed to the change; but with his other responsibilities he cannot be expected to devote the time and energy to managing the change that the task demands. We recommend that a full Permanent Secretary should be designated as "Project Manager" as soon as possible to ensure that the change takes place. He will need to work with the authority of the Prime Minister and the Head of the Civil Service, to whom he should report.

42. The Project Manager will be responsible for planning and supervising the process of change. The Prime Minister will regularly receive reports from him, via the Head of the Civil Service, on the progress made by Departments in setting frameworks for their agencies and on the timetable for relaxing the constraints on management. The Project Manager will also have to ensure that Departments have enough flexibility to handle their tasks effectively. To do this, he will have to make certain that obstacles to change are removed and that the totality of the centre is helpful to the management of change. Annex 1 gives an indicative timetable for implementation.

43. The need to have a very high level project manager cannot be overemphasised. A more junior project manager will not carry weight with Departments. The slow rate of progress on so many of the changes since 1979, even with ministerial support and an abundance of small units, is ample evidence of this.

V: THE NEXT STEPS

44. This report is concerned with identifying the fundamental changes needed to achieve a further major step forward in the delivery of services and the management of government. We have avoided detailed prescription because so much depends on the individual tasks of different Departments. Generalised solutions have been the bane of previous attempts at reform and have led to the structural rigidities that are now part of the problem. It will be the job of the Project Manager to check that each Department develops these concepts in the way that best suits its particular needs, and to indicate how far and how fast the changes are progressing.

45. The aim should be within five years to establish a quite different way of conducting the business of government. The central Civil Service should consist of a relatively small core of about 20,000 people engaged in the function of servicing Ministers and managing Departments who will be the 'sponsors' of particular government policies and services. Responding to these Departments will be a range of agencies employing their own staff who may or may not have the status of Crown servants and concentrating on the delivery of their particular service, with clearly defined responsibilities between the Secretary of State and the Permanent Secretary on the one hand and the Chairmen or Chief Executives of the agencies on the other. Both Departments and their agencies should have a more open and simplified structure.

46. The early changes should be in the management tasks at the centre. The first new feature should be a Project Manager working on the planning and early implementation of the service wide changes. As these come about, the management function at the centre will diminish. The Cabinet Secretariat and the expenditure functions of the Treasury will remain and there will still need to be provision at the centre for determining directions, keeping up pressure on Departments, and setting standards. Many of the detailed management functions now carried out at the centre will disappear, though transitional arrangements will be needed. For example the central responsibility for pay and conditions of service, and the associated negotiations with national Trade Unions, will be progressively and substantially reduced, though pay determination will be carried out within running cost controls. The aim will be to pursue as rapidly as possible an evolutionary approach, so that the Project Manager harnesses those developments which are already taking place in some Departments and which are in line with what is now proposed.

47. Within two years at the most, Departments should have completed identifying areas where agencies are the most effective way of managing and should have changed their own internal structures to implement this change. In some cases legislation may be necessary to effect the change. Departments will need to move, train and promote their staff far more flexibly and, where necessary, develop their specialised management skills while reducing the existing establishments and finance functions, as the agencies take full management responsibility.

48. Once these changes have taken place Ministers and senior civil servants should have enough confidence in the system they have set up to be able to concentrate on their proper strategic role of setting the framework and looking ahead to plan policy development. Greater freedom to manage should be delegated progressively to individual agencies, depending on the robustness of the framework and their capacity to put the freedom to good use.

49. It is difficult to put a figure on the benefits which should become available from our recommendations but the potential is obvious. 5% of Civil Service running costs amounts to £630m this year and experience elsewhere certainly indicates that when good management has the opportunity to perform well, percentage improvements larger than this are achieved. Where accountability on the lines we suggest is in place, substantial and quantifiable benefits are coming through. But a primary aim of the recommended changes is to improve the delivery of services both to the public and to Ministers. With total programme expenditure of £128 billion, there is an immense opportunity to go for substantial improvement in outputs, with better delivery of services and reduced delays as an alternative to savings.

50. The recommendations we have made should ensure that authority and responsibility for operations will be clear and Ministers will know who is accountable to them. The confusion we observed about the role of Ministers in management should be substantially resolved. Inevitably and rightly it is open to a Minister to get involved in any part of his or her Department's business, but in a well managed Department this should normally only be necessary by exception.

51. The substantial gain we are aiming for is the release of managerial energy. We want to see managers at all levels in the public service:

- eager to maximise results
- no longer frustrated or absolved from responsibility by central constraints
- working with a sense of urgency to improve their service.

IMPLEMENTATION1. Within 3 Months

- Establish ministerial arrangements for overseeing changes
- Appoint Project Manager
- Complete Action Plan: timetable for implementation

2. Within 6 MonthsAgencies and Departments

- Suitable "pilot" agencies identified
- Departments to have action plan for pilot stage:
 - changes to departmental structure
 - framework: long-term plan, objectives, targets, budget, key performance indicators
 - statement of delegated authority
 - heads of pilot agencies appointed with agreement of Project Manager
- Project Manager sets timetable for some progressive relaxation of controls for pilot agencies

Centre

- Action plan for changes in central Departments

3. Within 12 MonthsAgencies and Departments

- Action plans, with timetables, ready for handling all executive functions
- Action plans ready for consequential changes to departmental structures
- All plans agreed with Project Manager including timetable for progressive relaxation in central controls

Centre

- Mechanism for permanent force for improvement to be in operation
- Changes in central Departments completed

4. Within 1-4 years

Agencies and Departments

- Rolling programme of implementation of agencies
 - changes to departmental structures
 - framework for agencies established: long-term plan, objectives, targets, budget, key performance indicators
 - statement of delegated authority for agencies
 - heads of agencies appointed with agreement of Project Manager

5. By Year 5

- 95% of Civil Service to be working in agencies. Size of Civil Service in policy/supervisory Departments to be about 20,000.
- Substantial interchange of key staff between Departments and agencies
- All agencies free to handle their own management
- All Departments to be operating their own personnel management systems within minimal centrally agreed framework.

ACCOUNTABILITY TO MINISTERS AND PARLIAMENT ON OPERATIONAL MATTERS

1. Evidence we gathered in the scrutiny suggested that when individuals had to answer personally to Parliament, as well as to Ministers, their sense of personal responsibility was strengthened. The accountability of Permanent Secretaries to the Public Accounts Committee, as Accounting Officers, is long established. It includes direct personal accountability for financial propriety. Another instance of officials having specific functions which may require them to answer directly to Parliament (though on behalf of their Minister) is the case of principal officers, and of bodies with independent or delegated authority, answering to the Select Committee on the Parliamentary Commissioner for Administration.
2. In paragraph 23 we point out that if the concept of agencies developed in the report is to succeed, some extension of this pattern of accountability is likely to be necessary. The principal reasons are, first, that the management of an agency is unlikely in practice to be given a realistically specified framework within which there is freedom to manage if a Minister remains immediately answerable for every operational detail that may be questioned; and second, that acceptance of individual responsibility for performance cannot be expected if repeated ministerial intervention is there as a ready-made excuse.
3. The precise form of accountability for each agency would need to be established as part of drawing up the framework for agencies. Any change from present practice in accountability would, of course, have to be acceptable to Ministers and to Parliament. It is axiomatic that Ministers should remain fully and clearly accountable for policy. For agencies which are government Departments or parts of Departments ultimate accountability for operations must also rest with Ministers. What is needed is the establishment of a convention that heads of executive agencies would have delegated authority from their Ministers for operations of the agencies within the framework of policy directives and resource allocations prescribed by Ministers. Heads of agencies would be accountable to Ministers for the operations of their agencies, but could be called - as indeed they can now - to give evidence to Select Committees as to the manner in which their delegated authority had been used and their functions discharged within that authority. In the case of agencies established outside departments, appropriate forms of accountability to Ministers and to Parliament would need to be established according to the particular circumstances.

4. There is nothing new in the suggestion that Ministers should not be held answerable for many day-to-day decisions involving the public and public services. Apart from services delivered by local authorities, there are large numbers of central government functions carried out at arm's length from Ministers. The main categories are:

- decisions on individual cases, where these need to be protected from the risk of political influence, eg tax cases, social security cases
- some management and executive functions, eg in Customs and Excise, Regional and District Health Authorities, Manpower Services Commission (MSC)
- quasi-judicial or regulatory functions, eg Office of Fair Trading, Immigration Appeals
- nationalised industries.

5. A variety of different structures exists to cover these functions, for example:

- Customs and Excise and the Inland Revenue are non-ministerial Departments with Boards which have statutory responsibility for their management.
- The MSC and the other main bodies in the Employment Group (Health and Safety Executive and ACAS) are non-departmental public bodies. The Chairman of the MSC is Accounting Officer for the MSC's expenditure.
- HMSO and some other internal service bodies (eg Crown Suppliers) are established as trading funds and work on a commercial basis.
- the PSA, the Procurement Executive and the NHS Management Board are agencies within Departments.
- a range of quasi-judicial functions is carried out by statutory tribunals (eg Rent Tribunals, Industrial Tribunals).

6. Agencies outside Departments generally operate within a statutory framework which lays down the constitution of the particular agency and the powers of Ministers in relation to it. In answer to Parliamentary questions about matters within the control of the agency Ministers often preface their reply by saying "I am advised by the Chairman of the Board that....". Most operations currently carried out within Departments operate under statute. Where it is necessary to change the arrangements for formal accountability for operations currently carried out within Departments, legislation (normally primary legislation) would generally be required and in instances where this is needed it should be considered. Provided that the objective of better management is clearly explained and understood, and that an appropriate form of accountability to Ministers and to Parliament is retained, the government should be able to present such proposals in a positive light.

7. As regards the Public Accounts Committee, as explained in paragraph 22 of the report, the modification of accountability we propose should not immediately affect accountability to the PAC. This would remain, as now, with the Accounting Officer, who may still be, but need not be, the Permanent Secretary. (Of the 76 Accounting Officers appointed by the Treasury, only 18 are first Permanent Secretaries.) However, the practice might develop of the Accounting Officer being accompanied at a PAC hearing by the manager of the agency. The Accounting Officer would answer questions about the framework within which the agency operated; the manager would answer questions about operations within the framework. This would give the PAC the ability to question in detail the person who had first hand knowledge of the operation in question. It would also in the process put a clear pressure on the agency head to be responsible for his agency and to strive for good value from his spending.

8. In the case of other Select Committees it is existing practice for officials with operational responsibility to give evidence before them. It would be normal in the future for the agency head to give evidence before a Select Committee about operational matters within his or her responsibility.

9. The powers of the Parliamentary Commissioner for Administration could continue to apply to agencies, so there would be a direct form of accountability in matters of maladministration.

10. Quite apart from the issue of improving Civil Service management, there is a good case for trying to reduce the degree of ministerial overload that can arise from questions about operations, as distinct from policy. For example, Social Security Ministers receive about 15,000 letters a year from MPs, many of which are about individual cases. In the future, MPs could be asked to write about operational matters directly to the Chairman of the Board or the local office manager. This should have the advantage of putting the accountability clearly on the agency head or local manager, as well as reducing greatly the amount of correspondence which Ministers have to deal with. Arrangements of this sort could be promulgated by a letter from the relevant Minister or the Leader of the House to all MPs. (In the past the Chancellor of the Exchequer has written to all MPs asking them to refer questions about constituents' tax to local tax offices, and the Secretary of State for Social Services has written similarly about referring social security cases to DHSS local office managers.) If an MP writes to an operational manager about matters which are essentially political, it is already normal practice for the manager to refer the letter to the Minister.

11. It would be part of the framework drawn up between the Department and the agency to have specific targets for promptness in dealing with correspondence with MPs. It should be possible for MPs to get a quicker answer when dealing direct with the responsible person, because the intermediate stage of a Headquarters branch calling for a report from a local manager before drafting a reply for the Minister will have been cut out.

FINDINGS

1. This annex sets out the main findings from our fieldwork.
2. Our terms of reference asked us:
 - to assess progress in improving management
 - to identify successful measures in changing attitudes and practices
 - to identify obstacles to better management and efficiency that remain
 - to report to the Prime Minister on what further measures should be taken

I. SUMMARY OF FINDINGS

3. Our main findings are that:
 - some progress has been made: civil servants are now more cost conscious, and management systems are in place
 - budgeting systems and manpower cuts are the two measures which have been most effective in changing attitudes and practices
 - but substantial obstacles to further progress remain:
 - . there is insufficient focus on the delivery of government services (as opposed to policy and ministerial support), even though 95% of civil servants work in service delivery or executive functions
 - . there is a shortage of management skills and of experience of working in service delivery functions amongst senior civil servants
 - . short-term political priorities tend to squeeze out long-term planning
 - . there is too much emphasis on spending money, and not enough on getting results
 - . the Civil Service is too big and too diverse to manage as a single organisation.
 - while the introduction of systems is a start, real changes in attitudes and institutions are needed to get the full benefits of better management.
4. The findings from our fieldwork about obstacles to progress are consistent with the main themes which come out of earlier scrutinies (Appendix A). They also echo the findings of some earlier reports on the Civil Service, eg the Fulton Report (Appendix B).

II. DETAILED FINDINGS

5. We held extensive discussions with civil servants in London and the regions. A list of those we saw and where we went is in Annex 4.

A. PROGRESS IN IMPROVING MANAGEMENT

6. Everybody we talked to said that there had been progress. Most people were enthusiastic about measures which gave them more responsibility and some control over how they did their job. They welcomed the principles of the Financial Management Initiative, if not always the way the principles were applied.

7. A striking impression we got was that most civil servants now know how much their activities cost. The local office manager has at his fingertips his staffing, accommodation and other costs; the Headquarters policy Assistant Secretary can tell you the cost of his unit.

8. When asked what they meant by progress, most people identified FMI and the systems developed under it (top management systems and budgeting systems) as the main difference. They also commented on changes in personnel management systems, particularly linking open appraisal of performance with the achievement of objectives.

Top Management Systems

9. All Departments now have Top Management Systems. These systems are intended to force management at all levels to take clear decisions about the direction of activities in a Department. Strategic objectives can then be translated down the line to provide individuals with personal objectives.

10. Our evidence suggests that Top Management Systems are seen as having more relevance in executive functions and in the regions, than in Headquarters or policy functions. One good example we saw was the use of MINIS in DOE regional offices. The system is precise and directed towards things which matter in the outside world (not just internal bureaucratic processes). There are good systems of delegation to go with it. The Principal in a regional office handling claims for derelict land grant has a minute from his Permanent Secretary telling him precisely what his delegated authority is. One Principal we talked to said "having a personal minute from the Permanent Secretary really brought it home to me that I was responsible".

11. There was more scepticism in some Headquarters and policy divisions about the value of Top Management Systems as they were being operated. Very few people said to us that setting objectives did not apply to policy work. However, in many Departments it was not clear how far the use of management systems had become an integral part of the work of policy divisions, rather than a one-off form filling exercise. A number of people commented on the weight of paper

surrounding the systems and the number of forms to be filled in - or as one person said "typical Civil Service: management has been bureaucratized". We heard trenchant views in some Departments, especially from Grades 5-7, about the absence of feedback from top management, and the failure of top management to face the decisions which the systems confronted them with.

Budgeting Systems

12. All Departments now have budgeting systems which delegate financial responsibility to specified levels of authority in the hierarchy. This gives managers some control over how they spend the money allocated to them. Over 7,000 line managers now manage budgets which account for about three quarters of the Civil Service's running costs.

13. The range of costs covered and the flexibility allowed within budgets vary from Department to Department. For example, Customs and Excise Collectors have authority over 96% of their running costs and authority to switch money between one item and another. In practice, however, staffing costs amount to about 70% of running costs and the margin in which managers have immediate flexibility is very small. A persistent complaint of budget holders was the inflexibility caused by the annuality rule, and by restrictions on their ability to move money between different items. (These are dealt with in paragraphs 46 and 49 below.)

14. Budgeting has been applied mainly to administrative expenditure (some 13% of total public expenditure). Its spread into programme spending has been slow.

Personnel management systems

15. The main changes in personnel management in the last 5 years have been:

- a. the introduction of an open appraisal system based on reviewing performance against personal objectives
- b. the development of performance related pay
- c. the prospect of a new pay agreement with professional civil servants which offers much greater flexibility
- d. more delegation of clerical recruitment to local office managers
- e. the introduction of unified grading down to Grade 7 (Principal) level

16. Appraisal systems are now based on performance, not on the possession of particular intellectual qualities. Everybody we spoke to welcomed this. Most people like having a clear set of objectives which tells them what they are there to do and having their performance judged against whether they achieved these objectives - not against some hidden agenda in their manager's bottom drawer. Open reporting encourages managers to talk about an individual's performance face-to-face.

17. Two schemes for relating pay to performance have been developed. First, an experimental performance bonus scheme was introduced in 1985. A formal evaluation after the first year showed that while the bonus scheme in its present form had not been successful, 70% of civil servants supported the principle of rewarding good performance with better pay. Second, the Treasury and the MPO are now developing proposals for discretionary pay for staff at all levels.

B. MEASURES EFFECTIVE IN CHANGING ATTITUDES AND PRACTICES

18. The two measures which have had most effect in altering the climate and the way the Civil Service works are manpower cuts and budgeting.

Manpower cuts

19. As a result of government policy, the Civil Service was reduced in size by nearly 15% between 1979 and 1984. It will have been reduced by nearly 20% by 1 April 1987. The cuts were imposed as simple outline targets. Departments then had to decide how to reach the targets. There is evidence that in some Departments top management was forced to take hard decisions about whether to continue particular activities, and to think about different ways of doing things. So the cuts were useful in making some Departments "think the unthinkable". In other Departments, however, cuts were imposed across the board, without regard to the functions affected. A view we heard in a number of Departments was that the manpower cuts had "taken the fat out of the system" and that further large reductions would harm the quality of services delivered by government.

20. Controls on running costs were introduced in 1985/86 on top of manpower controls. We saw a number of examples where the control on staff in post on 1 April together with controls on cash were causing distortions. One local office manager was running down his staffing levels at the end of the year by 12 people to meet his 1 April headcount limit. In early April he planned to recruit another 10 people. He had enough money in his budget to have kept 6/7 people on over the year end.

21. In the course of our scrutiny the Treasury announced that from 1 April 1988 formal controls on manpower would be lifted, and the main control on Departments would be exercised on running cost totals.

Budgeting systems

22. Where budgeting systems are working well there is evidence that they change the way people behave. Specifically they enable budget holders to save money or make better use of money; and encourage forward planning of activities and spending, and setting of priorities.

C. OBSTACLES TO FURTHER PROGRESS

23. The main concern of most people we met was with the obstacles which stood in the way of management improvement.

a) Top management is dominated by the policy and political support tasks

24. The business of top managers in many Departments is still dominated by the policy and political support tasks. However 95% of civil servants (about 570,000, costing some £12 billion a year) are involved in collecting taxes, paying benefits, providing support to the armed forces and other executive functions. Some of the operations are very large. In DHSS, for example, over 80,000 staff are involved in paying benefits. It was made clear to us that these organisations need highly skilled top managers who can devote most of their time to the business of running them. One top manager of a very large executive organisation told us that at present 90% of his time was spent dealing with Ministers and other pressures from the top and only 10% on managing the organisation.

25. The skills of top civil servants are still policy oriented. Promotion to senior jobs is given to those whose main skills and experience are in policy and ministerial support. Very few have had direct experience of management in large executive organisations. This is reflected when senior civil servants are suddenly put in positions which do have management responsibilities. Either they neglect management, because the immediate pressures are to deal with day-to-day ministerial business; or they go about the management task in a way which lacks confidence and conviction. Many people commented to us that too few senior civil servants showed the qualities of leadership which would be expected from top managers in organisations outside the Civil Service.

26. The Top Management Programme, a six week training course, is an attempt to change the balance of skills of those entering the senior ranks of the Civil Service. But it is not a substitute for real experience of running an organisation. At middle levels the Senior Management Development Programme sets out a range of individual "competencies" which should be developed through job experience and training. The first two core competencies are management of resources/organisations and the management of staff. There are few indications so far that the perception that middle ranking civil servants should get management experience has affected the way Departments post their staff.

27. The younger staff we spoke to told us that they wanted to get experience of management. The FDA confirmed that ATs and HEODs were clamouring for management jobs. Departments agreed in principle that younger staff and fast streamers should get management experience, but said that in practice they could not spare their good staff from policy jobs. There is an automatic assumption that fast streamers go into Private Office jobs, but no equivalent assumption that they should also do management jobs. The majority of the next generation of senior civil servants will still not have been tested in or gained experience from working in large service delivery organisations.

b) Responsibilities for management at the top of Departments are unclear

28. Most Ministers told us that they were answerable for both the policy and the management of their Departments. But they said that in practice they were so overloaded that they looked to their Permanent Secretaries to do the management. A few said candidly that they did not have the skills to manage their Departments. The government has accepted the recommendation of the Third Report of the Treasury and Civil Service Select Committee (1982) that the relationship between Ministers and Permanent Secretaries on the management of Departments should be clarified, but has not yet acted on it.

c) The main pressures at the top are short term

29. The main pressures on Ministers stem from Parliament and coping with crises. Together with routine business from Departments this creates an extremely heavy workload. In addition Ministers have Parliamentary and constituency duties. The resulting overload tends to squeeze out the ability to look to the long term. Some Ministers said to us that they would like to be able to spend more of their time dealing with longer-term strategy, but just did not have the time to do so.

30. The pressures on Ministers are reflected onto top civil servants, who may have to spend much of their time giving policy and presentational advice to their Ministers.

31. It was suggested that whilst there were some tasks which Ministers could not delegate to officials, there were others where this could be done. One example was dealing with correspondence from MPs. Correspondence about individual cases could in many cases be dealt with effectively by local office managers.

d) Outputs are neglected

32. Whilst the introduction of management systems has helped make civil servants cost conscious, there is less consciousness about results. Departments regard the major central influence on them as the PES process. However, many people told us that the PES system gave the wrong signals. They felt that the emphasis was on inputs, not outputs or value for money.

33. This is not surprising. The Treasury has two goals with the PES round: to ensure that public spending does not exceed a specified total and to press Departments to achieve maximum output from the resources they are allocated. The two are not mutually exclusive, but as the PES round progresses, attention inevitably focuses on the absolute levels of spending. Furthermore, at the later stages, the debate is about spending at the margin of the total bid. The combination of these two factors - emphasis on inputs and "marginality" - leads Departments to feel that although increased stress is being put on results and outputs, it is inputs which still really matter.

34. There are, however, encouraging signs of change. The 1986 Public Expenditure White Paper included 1200 output measures; the 1987 White Paper cites some 1800 measures of output. The April 1987 guidelines for PES will ask Departments to provide the Treasury with a full statement of output and performance measures to support their baseline expenditure. These will be discussed between the Treasury and Departments. Any proposals for additional resources must be supported by information on what indicators and targets for outputs will be used to evaluate their use.

35. There are also some signs in particular areas of government of an increasing awareness of the importance of outputs. For example, in 1986 the Foreign and Commonwealth Office undertook a scrutiny of existing output measures to see to what extent they could be improved and applied systematically to the full range of work of the FCO at home and overseas.

36. It is apparent that the closer staff are to the sharp end, the more conscious they are of outputs. In many areas staff are strongly motivated by a wish to serve the public. A common source of frustration in many local offices is the inadequacy of the service staff feel they are giving. Our evidence suggests that very few Departments set themselves formal targets for improving the quality of service to the public.

e) There is little support or pressure for value for money

37. Most pressures on government are to spend money, not to get good value from it. Parliament and the media often reinforce this by judging the government on how much money goes in, not what comes out (eg more hospitals, or better education). The National Audit Office (NAO) now has a specific remit to do value for money investigations. For example, it has looked at value for money in the National Health Service. However, the response of Departments to the NAO and the Public Accounts Committee tends to be cautious and defensive, probably because the main role of these bodies is seen as being to find fault with what has happened in the past rather than to apply pressure for improvement for the future.

f) The organisation at the centre of government is fragmented

38. Many of those to whom we spoke, particularly Permanent Secretaries, told us that the centre of government was fragmented. They complained that the centre, either the Treasury, the MPO, or the various central units, pursued their own initiatives without regard to Departments' own priorities; and that sometimes the messages from the centre conflicted. There was no single voice of authority.

39. At the same time the centre created little effective pressure on Departments to deliver better results. Some people suggested to us that the centre's reliance on detailed control of the way Departments organised and managed themselves was totally at odds with the principles of good delegated management as set out in the FMI.

g) The Civil Service is too big and too diverse to be run as a single rigid organisation

40. The Civil Service is vast (600,000 people) and the diversity of activities which civil servants perform is immense. Yet it is run as one organisation with common rules for financial management and personnel management. A list of the main central rules is at Appendix C.

41. One problem inherent in trying to bind a very large and diverse organisation in one set of central rules is that the rules fit no particular part of the organisation. For example, a service wide pay agreement to give certain computer specialists an extra allowance may be what one Department needs to retain those specialists, but simply an unwelcome addition to running costs for another which has no difficulty at all in keeping them.

42. Civil Service wide grading and promotion structures create problems for some Departments. For example, there is no direct recruitment above EO level. The structural needs of some Departments are to take staff in at a higher level.

43. All recruitment above clerical level is conducted centrally by the Civil Service Commission (with the exception of some limited experiments in direct recruitment of Executive Officers by Departments). The personal qualities which DHSS requires for its Executive Officers, who may be dealing with the public in a local office or investigating benefit fraud, are very different from the qualities required of an EO for a Whitehall policy job. Some Departments told us that central recruitment prevented them from getting the staff they wanted, though the Civil Service Commission is now attempting to distinguish the different types of quality needed amongst recruits at EO level.

44. The justification for service wide terms and conditions has traditionally been in terms of ensuring fairness between different groups of people doing the same work, and making it possible for people to move easily between Departments. Evidence we gathered suggests that many groups of staff in the Civil Service are doing very different types of work; and that most staff spend their career within their own Department.

h) Central rules take away the flexibility managers need to manage

45. Many managers told us that central rules were acting as a constraint on good management and taking away their scope to do things which would be sensible in terms of their own organisation.

46. One example of a rule constraining good management which was mentioned to us by nearly all budget holders we met was annuality - the lack of flexibility at the end of the financial year to carry unspent money over or to anticipate next year's spending. This has two effects. First, there is often a major effort to spend money in the final months of the year so as not to be underspent. Last minute spending often means spending on things which are useful, but not a top priority. Second, a huge management effort goes into coming in on budget. In 1985/86 Customs and Excise underspent a budget of £400m by only £40,000.

47. Most people accept that controls on Departments' running costs are effective and necessary. However, the reliance on gross running cost controls has caused problems for some fee-earning businesses: when demand has grown for their services, they have been prevented from taking on more staff to cope with demand, even though the extra cost would have been met from increased fee revenue. This is an area where it has been shown possible to change the controls. For example, from 1 April 1987 the Driver Testing and Training Organisation of the Department of Transport will be moved to a new financial regime which will enable the Department to recruit more examiners to cope with the increased demand. One effect in the past of being unable to take on extra staff to meet increased demand was queues for driving tests of six months or more in some areas.

48. A further problem mentioned to us was that of hidden controls. The best example is the use by the Treasury of an inadequate assumption for pay increases when setting running cost totals. In the last six years the Treasury has reached the pay settlement after the start of the financial year, and in each year the actual settlement has been at least 1.3% higher than the pay assumption. Departments have had to fund the difference.

49. Sometimes the "central" rules about which managers complained to us are rules imposed by the centre of their own Departments (eg Finance Branches), not rules imposed by the Treasury or MPO. For example, there are marked differences in the flexibility which budget holders in different Departments have to move money from one item to another. The main rule imposed by the Treasury is that there should be no movement of money from non-running costs to running costs. Rules about moving money between different running costs items are generally imposed by Departments themselves.

i) Delegation is not always happening

50. Most people we met welcomed delegation where it was happening. However, many pointed out to us the strong pressures which acted against effective delegation:

- the public accountabilities of Departments through Ministers to Parliament tend to suck up decisions on matters of detail
- central controls, whether from the centre of the Civil Service or the centre of Departments, restrict people's ability to operate (eg a manager may have money in his budget to buy a photocopier, but a central branch in his Department has laid down rules which prevent him from having the machine)
- civil servants are generally reluctant to risk delegating and do not understand that interference in detail destroys effective delegation. We saw examples in the budgetary field, where at the first sign of trouble in a particular area the reaction of the centre of the Department had been to draw back responsibility from all budget holders instead of getting the difficulties of the individual area sorted out.

j) The culture of the Civil Service is cautious and works against personal responsibility

51. The culture of the Civil Service puts a premium on a "safe pair of hands", not on enterprise. It does not reward the person who says "I have saved money". It does not penalise the person who ignores the opportunity to get better value.

52. There will always be limits on individual ownership when civil servants are fulfilling their ministerial support function. However, more could be done within the existing framework to encourage personal responsibility. The group of people who had left the Civil Service all told us that while pay was an important reason for leaving, as important was the fact that they had had little personal responsibility, and saw little prospect of getting more as they rose through the hierarchy.

k) Working and career patterns have changed relatively little

53. The working patterns of Departments have changed relatively little in the last seven years. Chains of command still tend to be long; little use is made of special task forces to cut across hierarchies and to take policies forward in a given timescale; the emphasis on consultation across various interests in a Department is always time consuming and often leads to compromise decisions; the system is still paper dominated; there is insufficient awareness of the possibilities of information technology in Whitehall Departments.

54. Departments have paid insufficient attention to managing relationships with organisations who are delivering services. In some cases the relationship is direct; in other cases indirect (as with local authorities). In both cases Departments have the ability to control or influence the delivery of services. A number of Departments are beginning to take this task more seriously. In the DHSS a Division, headed by an Under Secretary, is responsible for managing the relationship with the National Health Service. This includes, for example, performance reviews with Regional Health Authorities.

55. The career pattern of civil servants is relatively predictable through the hierarchy. In practice seniority is usually a requirement for promotion at certain levels (for example, very few people are promoted to Grade 5 under the age of 35). It is almost unheard of for people of that age to be promoted to the top grades in the Civil Service. One Permanent Secretary argued to us that the Service should have the courage and the flexibility to promote the occasional outstanding young person very fast.

III. CONCLUSIONS

56. The changes which civil servants are most aware of are the introduction of systems. There is enthusiasm for the benefits the systems can bring in terms of greater flexibility, more personal responsibility, and more precision about what the job is they are there to do. At the same time many civil servants question whether the underlying assumptions which mould the way in which government does its business have changed sufficiently to realise the benefits. The key themes which emerge as obstacles in the way of real change are:

- (i) the lack of focus of top management on the service delivery and executive functions of government
- (ii) the effects of treating the Civil Service as a single organisation
- (iii) the lack of effective pressure to get better results.

MAIN THEMES FROM EARLIER SCRUTINIES

1. The Efficiency Unit (and its predecessor the Rayner Unit) have been involved in over 300 scrutinies and multi-departmental reviews since 1979. We have examined a sample of 50 scrutinies to identify some major themes which emerge from scrutinies.

Changes

2. Top management in Departments is now taking a more managerial approach to selecting scrutiny topics, and using scrutinies as part of their overall plans to improve value. More recent scrutinies have been concerned with looking at the underlying objectives of government activity and with the policy behind them. Early scrutinies were almost exclusively about administrative procedures and eliminating waste.

3. A major improvement is that more information about the cost of activities being reviewed is generally available in the mid '80s. In the early scrutinies examining officers often had to devote considerable effort to finding out how much a particular activity costed; often recommendations would include setting up systems to monitor future costs.

4. Action and implementation of scrutinies still cause difficulty. The Efficiency Unit's report "Making Things Happen" (1985) drew attention to delays in coming to decisions on recommendations and then in implementing decisions. The report showed that if decisions had been made within six months of scrutiny reports, the total cumulative saving to the taxpayer would have been a further £300m.

5. A number of factors constraining good management emerge consistently from scrutiny reports.

a) Lack of clear responsibilities

Confused views of responsibility and the lack of personal responsibility came out as consistent themes, for example

Agency Benefits (DHSS, 1985) - recommended that budgetary responsibility should go with policy responsibility.

Radio Investigation Service (DTI, 1984) - no one person had overall responsibility for policy/strategy/resource allocation

b) Lack of clear objectives

Later scrutinies have examined underlying objectives and often found confusion or conflict, eg

Urban Programme (DOE, 1984) - led to clarification of the government's overall objectives for urban policy, and helped engage activities of other Departments in a more systematic way.

c) The need for delegation

The scope for greater delegation of responsibilities and decision taking has been a consistent theme of scrutinies. For example,

Administration of the Regional Development Grant Scheme (DTI 1980) - recommended giving greater delegation of write-off powers.

Open University (DES 1984) - recommended that responsibility for budgetary bids and control should be delegated to individual units.

d) Lack of emphasis on results

Later scrutinies emphasise the importance of information about outputs and results. For example,

Community Programme (DE 1985) - recommended that at the start of each project there should be a clear statement of results wanted, and at the end an evaluation of the project.

Balance of Health Care (Northern Ireland 1985) - recommended that means should be developed to measure the effectiveness of community care.

PREVIOUS REPORTS ON THE CIVIL SERVICE

General

1. The Northcote-Trevelyan report (1854) identified for the first time some of the principles which underlie the development of the modern Civil Service. Its main recommendations fell into four categories:

- a. recruitment by competitive examination rather than patronage
- b. a division between intellectual and mechanical work
- c. promotion by merit
- d. measures to unify the Civil Service, including a common basis of recruiting across Departments

2. It took nearly 20 years to implement open competition. The other principles of the Report were not fully developed and applied until the 1920s. Commissions after Northcote-Trevelyan up to 1931* and the Reconstruction Period immediately following the First World War established the basis of the Civil Service for the next 45 years. These developments included uniform systems of recruitment; the class division of officials; Whitley machinery; and the central power of the Treasury over the Civil Service.

3. From 1931 until the establishment of the Fulton Committee in 1966, there was no major Commission on the Civil Service as a whole (the Priestley Commission in 1953/55 was largely concerned with pay).

4. The Fulton Report (1968) recognised the need for the Civil Service to change in line with the changed external world. Its opening words were: "The Home Civil Service today is still fundamentally the product of the nineteenth-century philosophy of the Northcote-Trevelyan Report. The tasks it faces today are those of the second half of the twentieth century".

5. The Committee noted six main deficiencies which it attributed to the fact that the structures and practices of the Civil Service had not kept up with changing tasks:

- the Service was based on the philosophy of the amateur
- the division into classes made for a cumbersome structure
- specialists had no authority
- too few civil servants were skilled managers
- Whitehall had too little contact with the outside world
- there were deficiencies in personnel management.

* The Playfair Commission (1874-1875), The Ridley Commission (1886-1890); The MacDonnell Commission (1912-1915), The Tomlin Commission (1929-1931)

6. The Report set down one basic principle, which was intended to ensure that the Civil Service should keep up with the changing world:

"One basic guiding principle should in our view govern the future development of the Civil Service. It applies to any organisation and is simple to the point of banality, but the root of much of our criticism is that it has not been observed. The principle is: look at the job first. The Civil Service must continuously review the tasks it is called upon to perform and the possible ways in which it might perform them; it should then think out what new skills and kinds of men are needed, and how these men can be found, trained and deployed. The Service must avoid a static view of a new ideal man and structure which in its turn could become as much of an obstacle to change as the present inheritance."

7. Fulton recommended that the principles of accountable management should be introduced into the Civil Service, and recommended further study of "hiving off" functions as a means to ensuring accountable management. In the meanwhile the report made proposals

"a. to distinguish those within Departments whose primary responsibility is planning for the future, from those whose main concern is the operation of existing policies or the provision of services;

"b. to establish in Departments forms of organisation and principles of accountable management, by which individuals and branches can be held responsible for objectively measured performance."

8. Other significant Fulton recommendations were for the creation of a Civil Service Department and the Civil Service College; and unified grading between administrators and professional groups.

9. The major reports on the management of the Civil Service after Fulton were the Eleventh Report for the Expenditure Committee (1977) and the Third Report of the Treasury and Civil Service Select Committee "Efficiency and Effectiveness in the Civil Service" (1982). Lack of accountable management was as a common theme of both these reports.

MAIN CENTRAL CONTROLS ON DEPARTMENTS

1. The main central controls affecting the management of Departments are on financial management, personnel management and information technology.
2. The information below is a snapshot of the position in March 1987; the picture is constantly changing. On the financial side, controls tightened between 1980 and the present with the introduction of manpower ceilings and running cost cash limits. There are now signs of some relaxation, with the removal of manpower ceilings in 1988 and more flexibility on gross running costs.
 - A. TREASURY CONTROLS
 3. Manpower
 - since May 1980 each Department has had to meet an annual ceiling on the numbers of staff in post at 1 April each year.
 - from 1 April 1988 there will be no overall targets for manpower. But the Public Expenditure White Paper will give manpower plans for the forward years of the Survey and any increase will have to be agreed with the Treasury.
 4. Running Costs
 - there are cash limits on running costs, covering pay, other staff costs and general administrative expenditure (eg travel and subsistence).
 - there is no flexibility to switch from non-running costs (including capital) to running costs.
 - there is no flexibility to switch between programme and administrative expenditure.
 5. Annuality
 - there is no flexibility to carry forward or anticipate current expenditure.
 - flexibility on capital expenditure is limited to 5% carry forward (except in the Procurement Executive of the Ministry of Defence where it is 10%).
 6. Gross Running Costs
 - since their introduction in 1985/86 running cost limits have been set on a gross basis with no account taken of the level of receipts generated. New guidelines issued in December 1986 give greater flexibility but there are still strict criteria to be met.

7. Pay

- all pay is centrally negotiated and the settlement has traditionally not been agreed until after the start of the financial year (in 1984 not until September).
- in the last six years the settlement reached has been at least 1.3% higher than the central pay assumption made in setting running costs totals (or, under the new system, the increase allowed in running cost bids).
- awards are universal across Departments who have minimal flexibility to deal with their particular circumstances. Current developments may give Departments greater flexibility, eg the proposals for a more flexible pay system put to the IPCS and other unions which were announced on 3 March 1987.

8. Grading

- the grading structure is standard, but not universal across Departments. It is enforced by 32 volumes of Grading Guidance and some 35 Treasury Staff Inspectors, plus about 400 Staff Inspectors in Departments.

B. MPO

9. Recruitment

- all non-industrial recruitment above clerical level, with very limited exceptions, is done by the Civil Service Commission.
- recruitment is not normally possible above E0 level in the Administration Group.

10. Reinstatement

- staff who have left are allowed to return only at the same or lower grade.

11. Promotion

- standard seniority fields for promotion are agreed centrally and MPO's permission is needed to vary them.
- departmental promotion machinery must conform to rules laid down by the MPO.

12. Management of the Senior Open Structure

- Departments must have MPO's written approval for promotions to Grade 3. Appointments and promotions to Grade 1 and 2 posts must be approved centrally on the advice of the Senior Appointments Selection Committee.
- Departments must provide MPO annually with detailed succession plans for all Grade 2 posts and key Grade 3 posts.

13. Retirement

- Departments must consult MPO about any proposal to retire staff on structure grounds or staff at Grade 3 and above on limited efficiency grounds.
- central procedures are laid down for premature retirement on grounds of limited efficiency or inefficiency.

14. Performance Pay

- Departments are currently required to participate in an experiment in awarding performance bonuses to Grades 3-7 for outstanding performance against specified objectives.

C. IT PROJECTS

15. Since 1984 more responsibility has been passed to Departments and the financial approval role has been transferred from CCTA to Treasury Expenditure Divisions. Broadly the current procedures are:

- Departments must seek approval from the relevant Treasury Expenditure Division before incurring expenditure on IT above certain delegated limits. These limits currently range between £100,000 and £3m. Different limits apply to different Departments depending on factors such as the Department's skills and experience in IT and its control systems. The limits are under review at the moment.
- the Treasury may call in for further scrutiny projects of special concern. For example, in November and December 1986 DHSS were required to put forward 12 submissions for Treasury approval of particular aspects of the Operational Strategy.

TERMS OF REFERENCE AND WORKING METHOD

Terms of reference

1. The terms of reference for the scrutiny were:

- to assess the progress achieved in improving management in the Civil Service;
- to identify what measures have been successful in changing attitudes and practices;
- to identify the institutional, administrative, political and attitudinal obstacles to better management and efficiency that still remain; and
- to report to the Prime Minister on what further measures should be taken.

2. The scrutiny was carried out under the supervision of Sir Robin Ibbs by three members of the Efficiency Unit (Kate Jenkins, Karen Caines and Andrew Jackson). Other members of the Unit (Graham Cawsey, David Tune and Richard Hirst) joined in the fieldwork and specific studies.

3. The Action Manager for the scrutiny is Sir Robert Armstrong.

Timetable

4. The scrutiny started on 3 November 1986 and was completed on 20 March 1987 (90 working days).

Method of working

5. The evidence on which the report is based is derived from:

- interviews with Ministers and a wide range of officials
- field visits to regional and local offices, and some major installations outside London
- a cross section of past scrutinies undertaken with the help of the Efficiency Unit
- studies of three organisations outside government and discussions with a number of outside observers of Whitehall

Interviews

6. We conducted over 150 individual interviews with Ministers and officials in Whitehall, including:

- . 21 Ministers
- . 26 Permanent Secretaries (or equivalent), including all Permanent Secretary heads of major Departments
- . 26 Grade 2s (1 or 2 in most Departments)

7. In addition we held a number of group discussions:

- . 5 for grade 3s (involving 35 people)
- . 7 for grades 5 - 7 (involving over 50 people)
- . 1 for Heads of Treasury Expenditure Groups

8. We talked to a group of people who had left the Civil Service recently.

Field trips to regional and other offices

9. We talked to meetings of Regional Directors of the following Departments:

Departments of Environment and Transport
Property Services Agency
Department of Employment
Manpower Services Commission
Department of Health and Social Security
Department of Trade and Industry
Inland Revenue

10. Members of the Efficiency Unit made a series of visits to regional and local offices in Birmingham, Manchester and Leeds.

11. In our visits to Birmingham and Manchester we talked to staff at various levels in the regional offices of the following Departments:

Departments of Environment and Transport (Manchester)
Property Services Agency (Birmingham)
Department of Employment (Birmingham)
Department of Health and Social Security (Birmingham)
Customs and Excise (Manchester)

12. In Leeds we talked to the Regional Directors of Departments to get a view of the links between Departments. We visited the following offices:

Departments of the Environment and Transport
Property Services Agency
Department of Employment
Manpower Services Commission
Department of Health and Social Security
Department of Trade and Industry
Lord Chancellor's Department
Ministry of Agriculture, Fisheries and Food
Export Credits Guarantee Department

13. We visited the following local offices and talked widely with staff:

DHSS ILO (Erdington)
Inland Revenue (Birmingham, Newcastle)
DE Unemployment Benefit Office (Birmingham, Newcastle)
Customs and Excise (Birmingham Airport)
Manpower Services Commission (Birmingham)

14. We visited the following large installations outside London and talked to staff at all levels:

Inland Revenue, Telford Development Centre
DHSS North Fylde Central Office
DHSS Newcastle Central Office
RAF Support Command Headquarters (RAF Brampton)

Scrutinies

15. Over 300 scrutinies have been conducted since 1979. Their reports provide valuable evidence about change in the Civil Service over the last 7 years and a detailed view of some of the workings of particular aspects of individual Departments. A special survey of a cross section of 50 scrutinies was undertaken to draw out the lessons for this scrutiny.

Organisations outside Government

16. Members of the Unit visited the following organisations to look at major management changes which had been brought about in the last few years. Each organisation is essentially a career organisation:

British Rail (Network SouthEast)
Halifax Building Society
ICI Fibres Division

Central Reports

17. The Unit has kept closely in touch with developments in the Treasury and Cabinet Office (MPO), in particular over progress on personnel management changes and the implementation of the Wilson report on Budgeting. We have also examined previous reports on the management of the Civil Service.

Trade Unions

18. We held two formal meetings with the Council of Civil Service Unions.

Cost of the scrutiny

19. The estimated cost of the scrutiny was £50,000.

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EFFICIENCY UNIT

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

Outline schemes for possible agencies

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ANNEX A

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

DEPARTMENTAL PROPOSALS FOR AGENCIES

These proposals have been discussed with the Treasury, the MPO/OMCS and the Efficiency Unit. More work needs to be done on most of the proposals before Departmental Ministers can be asked to take a decision in consultation with the Treasury to proceed with an individual agency. Where possible specific issues for further discussion have been highlighted in the proposal summary.

The proposed agencies are :

MAFF: Agricultural Development and Advisory Service (ADAS)
MOD: Meteorological Office
Defence Non-Nuclear Research Establishments
DE: Employment Services
DOE: Royal Palaces
PSA: The Queen Elizabeth II Conference Centre
DHSS: Resettlement Units
DTI: Companies Registration Office (CRO)
DTp: Driver & Vehicle Licensing Directorate (DVLD)
Vehicle Inspectorate
HO: Passport Office
Chancellor's Dept: Her Majesty's Stationery Office (HMSO)

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KEY DETAILS OF POSSIBLE AGENCIES

DEPARTMENT	AGENCY	RUNNING COSTS	PROGRAMME SPEND	STAFF
MAFF	ADAS and Regional Organisation	£114m	£154m	7000
MOD	Meteorological Office	Gross £74m Income £23m		2560
	Non-nuclear research establishments	£450m Income £50m		15000
DE	Employment services	£500-550m Income £12-18m	£300-350m	40-45000
DoE	Royal Palaces	£12.5m Income £8.4m	£2.1m	300
PSA	Queen Elizabeth II Conference Centre	£5.3m Income £1.5m		60
DHSS	Resettlement units	£12.1m Income £3.7m	£4.8m	590
DTI	Companies Registration Office	£19m Income £28m		1100
DTp	Driver & Vehicle Licensing Directorate	£111m Income £9.6m	£14.1m	5400
	Vehicle Inspectorate	£31m Income £32m	£3.9m	1500
HO	Passport Department	£26.5m Income £31m (net of payment to FCO)	£0.15m	989
Chancellor's	HMSO	Turnover £320m		3350

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MAFF EXECUTIVE AGENCY

The Agency

1. The Agricultural Development and Advisory Service (ADAS) together with the whole of the department's regional organisation would comprise the Agency. It would employ some 7,000 staff, with running costs of about £114 million and programme expenditure of about £154 million.

2. The agency would act as the Ministry's main link on local business with all interests such as the farming and food industries, Local Authorities etc. Its tasks would include advising ministers on the condition of the industry and on means of improving it; working to improve efficiency by appropriate advice; to survey and control animal and plant diseases; to provide various analytical tests; to promote conservation and animal welfare; to administer grant and subsidy schemes; to ensure the enforcement of statutory requirements under relevant legislation; to service various tribunals; and make preparations for defence and civil emergencies and act during the latter.

Relationship with the Department

3. The Agency would be an internal one, ie part of the department and fully responsible to the Minister. A framework plan with annual updates would set out the Agency's tasks and specify the resources provided to do them. The Agency would receive its formal instructions from the Permanent Secretary. There would probably also need to be some more junior formal point of contact within the Department, possibly in Establishment or Finance groups. Much contact between individual officers in policy divisions and appropriate counterparts in the agencies would also be necessary for the department and the agency to fulfil their tasks.

Benefits of the Agency Approach

4. The objective would be to perform the relevant tasks more efficiently, that is by increasing outputs in relation to inputs. In MAFF's view this could be achieved by the Agency's being granted a significant extra degree of financial and personnel flexibility compared to existing arrangements. Without such extra flexibility the Agency is not worth pursuing. The flexibility is especially desirable because ADAS is now on a part - commercial basis and experience has shown the need to respond more quickly and flexibly to developments than is possible with existing constraints. The balance of advantage would clearly need to take full account of all costs of establishing and maintaining the Agency.

Changes Sought

5. The Agency needs to operate under disciplines based upon business accounting practices so that it is not constrained by gross running costs or annual cash accounting. A grant-in-aid for its publicly-funded functions might give the best link with vote accounting. Additional flexibility is also needed in such areas as pay (both to pay above and below standard civil service rates) and deployment.

Accountability

6. The department foresees no great problems on accountability since Ministers receive few representations about the agency's actions. Accordingly there should be no major problem in referring complaints to the agency's own management, but for those who wished to pursue complaints further the possibility of appeal to Ministers would be retained. The Permanent Secretary would remain Accounting Officer, although the Director General of the agency could appear with him before the PAC.

Outstanding Issues

7. The Treasury reserves its position on the suggestion that the proposed agency be exempted from gross running costs control until it can be demonstrated it meets present criteria. They consider it would not be possible to abandon cash accounting or to move to a grant-in-aid for an internal agency. They would wish to gain further experience of pay flexibility before becoming committed in this case. They would oppose higher relocation benefits which must be repercussive elsewhere.

Timing

8. If planning started now the Agency could not realistically expect to be in place before April 1989 at the earliest. Since a series of profound management changes for the components of the proposed agency only take full effect on 1 October 1987 there is a case for holding back further change for a period (though there are counter arguments). Only the Minister of Agriculture, Fisheries and Food could decide on this point.

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THE METEOROLOGICAL OFFICE

The Agency

1. The Met Office staff total some 2,560, rather more than half being at the HQ in Bracknell. The Met Office obtains some income from its non-MOD customers: in 1985/6 expenditure was £74m and income £22m; the net cost is borne by the Defence Budget.

2. The task of the Meteorological Office is to provide meteorological services for defence (40% of its activity in terms of cost); for international obligations and public services in the UK (25%); for civil aviation (25%); and for shipping, other government departments, public bodies, media, industry and commerce (10%).

Relationship with the Department

3. Following a review put to Ministers in June 1986, it was agreed that the Met Office should remain part of the MOD, but that there needed to be more independence for management and greater accountability. As a first step the Met Office will by 1 April 1988 have an Executive Responsibility Budget, under which Met Office management will run the organisation within an overall resource allocation monitored by a Board of Directors including external appointees with appropriate business experience. This will not however go far enough.

Benefits of the Agency Approach

4. It is clear that there must be a national meteorological capability for defence purposes. For this reason, and in order to continue the established arrangements for international cooperation, the activity must remain within government and indeed within the MOD. It cannot be operated primarily or predominantly on a commercial basis. But it is important that the Office should be motivated to compete for marginal business, and to maximise its revenue in this area in competition with 'free-loading' firms which make use of the meteorological information which is provided as a free public service. Some relief from the established policy and practices on government fees and charges is therefore necessary. There is also a need for some freedom from constraints on numbers and greater flexibility over pay, for mathematicians and ADP personnel in particular, to secure maximum efficiency. That is to say, the Office needs to be more responsive to customers or business other than the MOD, whilst remaining under MOD control to ensure satisfaction of the defence interest.

Accountability

5. No changes are proposed to the current arrangements whereby the Director General is appointed by the Secretary of State and reports to the Permanent Secretary and Ministers. It is not the intention at this stage that he should become Accounting Officer. Parliamentary and other business will be handled as it is at present.

Outstanding Issues and Timing

6. A grant aided body, as now defined, would not meet the needs, partly because it would be too independent of and separate from the MOD and partly because it would not necessarily operate under a sufficiently commercial stimulus.

7. It is envisaged that a Met Office Agency developed from the ERB, could be in place by 1 April 1990 operating under a management or regulatory Board, developed from the Management Board established for the ERB. This Board would approve a Corporate Plan, and the necessary resources to carry it out, and monitor performance against agreed performance indicators, although in this area the assessment of performance would, in part at least, be qualitative as well as quantitative.

8. The Treasury does not consider a case has so far been made for an agency in this area. There appears to be scope to secure the improvements in efficiency and effectiveness within the existing arrangements.

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THE DEFENCE NON-NUCLEAR RESEARCH ESTABLISHMENTS

The Agency

1. The MOD non-nuclear research establishments (REs) operate from over 50 manned sites and about an equal number of unmanned ones, employ nearly 15000 civil servants and have extensive industrial-type capital facilities. The annual defence budget of the REs is some £400m, and in addition some £50m worth of work is carried out on repayment.

2. The primary role of the REs is to conduct defence research and to provide technical support to the Armed Services in order to provide the MOD with an 'intelligent customer' capability in the procurement of weapons and equipment.

The Benefits of the Agency Approach

3. The REs are finding it increasingly difficult to recruit and retain the scientists and engineers they need to do the job. To prevent progressive erosion of skills and be able to respond to fluctuations in demand from customers and rapid changes in technology, the REs need freedom to compete in the market-place for key staff and flexibility in the terms and periods of service for all staff, including particularly the ability to offer short term contracts and no job guarantee to age 60.

4. The REs have no real financial incentive to promote the disposal of surplus assets. To achieve more rational and cost-effective capital investment, a commercial approach is required to apply receipts from disposals to the provision of new facilities and site rationalisation, and to be able to borrow.

5. The REs are suppliers of services. In order to create greater pressure and financial incentive for improvement in performance and a reduction in costs, the REs need to be able to operate on a contractual basis with their customers. This change would also focus the minds of customers more sharply in determining what they require from the REs.

6. Utilisation of the expensive capital facilities is severely constrained by limits on manpower numbers; even without this constraint, gross running cost controls would still constitute an impediment. A commercial approach and the marketing of the RE's services for non-defence work would bring additional revenue and reduce the overhead costs for defence work.

Changes Sought

7. The proposal is to move the REs to an 'arms length' position vis-a-vis government in the form of a Defence Research Agency (DRA).

8. The DRA would operate on a contractual customer/supplier basis. The government customers would include provision in their annual estimates and Long Term Costing bids for DRA services as for those of any other supplier. The provision for defence research funds would be tailored to fit within the allocation made by the MOD's Office of Management and Budget. The extent to which the customers would be free to go to the open market needs to be considered and will depend upon MOD defining what is essential for the DRA to provide.

9. To operate in this way there are two criteria which must be met. On the one hand the DRA must have freedom over such matters as pay and conditions of service, capital investment and exploitation of its capabilities in the national interest. On the other hand it must be sufficiently close to government to preserve the defence links the REs have with UK industry and with overseas governments and research organisations.

10. The precise status of the DRA needs to be defined through considering a range of models. To meet the required changes and conditions the most likely solution is a Government owned plc with the Secretary of State as sole shareholder.

11. A number of activities in the REs could be moved further away from government than the agency itself by placing them under commercial management along the same lines as the recent dockyards commercialisation schemes and on terms which would bring revenue into the agency and reduce overheads for defence work.

12. Under the above proposals all 15000 of the RE staff would be moved outside the civil service.

Accountability

13. Changing the status of the REs would clearly effect the nature of the accountability of the organisation. However, they would still remain responsible to Ministers eg through the Government owned plc model.

Outstanding Issues and Timing

14. There are many issues to be considered and resolved before a firm decision can be taken to proceed. Given approval of the proposals by Ministers, the next step should be an in-depth feasibility study, conducted in the open, to explore the issues and to prepare a report as a basis for a final decision.

15. It is recommended that the proposal be announced to the staff and trades unions under the normal consultation procedures. The

deployment of a full-time study team is proposed with a view to completing the study in early 1988. Given approval to proceed, there would then be an implementation phase, including the passage of legislation, with a target vesting day for the DRA of April 1990.

16. The Treasury considers a range of important issues need to be considered before a decision could be taken on whether or not to establish an Agency. These include the resources and policy framework for a DRA and the arrangements for dealing with its monopoly position. The Treasury does not consider the normal public expenditure controls on capital expenditure and borrowing could be set aside.

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EMPLOYMENT SERVICE

The Agency

1. The Employment Service will combine the benefit payment and job placement services currently provided by unemployment benefit offices and public employment service jobcentres. The ES will have between 40 and 45,000 staff with running costs of more than £500 million and programme expenditure of more than £300 million.

2. The task of the Employment Service will be to provide a more coherent and effective service for unemployed people, particularly the long-term unemployed, building on initiatives like Restart.

Relationship to the Department of Employment

3. The ES will be a Departmental agency. It will be headed by a Chief Executive who will report to a Grade 2, and through him and the Permanent Secretary to Ministers. The Department will provide the ES with a clear policy statement of the task it is to undertake, the results it is to achieve and the resources framework within which it is to operate. These will need to be tightly set. The ES will be expected to deliver to specification and its performance will need to be carefully monitored accordingly. For its part, the ES will require the managerial freedoms to deliver what is required of it and it will be the Department's responsibility to ensure that it has them.

Benefits of the Agency Approach

4. The agency will combine the benefit payment and job placement services currently provided by two, separate organisations. Through combination the new organisation will be able to place much more emphasis on getting the unemployed back into work. It is hoped that these benefits, which should flow partly from the very fact of merger, will be reinforced by the establishment of a clear, contractual relationship between the Department and the agency which, by making specific the key priorities of the new organisation and the resources available, will help it to concentrate more single-mindedly on its prime objective.

Changes Sought

5. The following are the key changes sought.

Running Cost Controls: Restart, Availability Testing, Fraud Staff and Claimant Advisers are cost-effective ways of reducing unemployment. But they involve deploying more staff rather than more programme money. A way is sought whereby the constraints imposed by running cost and manpower control systems on such approaches can be

eased where it can be shown that they yield considerable net public expenditure savings. The Treasury notes that present arrangements have not excluded the possibility of switches from programme expenditure to running costs in appropriate cases.

Annuality: There is a considerable time lag between the conclusion of the PES round, which determines the ceiling for running costs in the following year, and that year when much may happen; eg slippage in a major computer programme and in associated staff training. The Employment Service considers it would be helpful to allow an adjustment of the running cost ceiling or, if the Estimates have been printed, in a Summer Supplementary in such situations. The Treasury has serious reservations about such an approach, but notes that the forthcoming review of the EYF scheme will take into account the request for its extension to running costs.

Pay Rates: UBS and Jobcentre staff are paid above the going rate in some parts of the country and below it in central London (where there is high staff turnover) because of national pay scales. The ES could significantly improve productivity without any increase in its total pay bill if given greater flexibility. The Treasury believes that the scheme of Local Pay Additions announced last month will go a long way towards providing the flexibility sought, and that any special treatment for the Employment Service would be repercussive unless it could be shown that the position of the Employment Service differed significantly from the general run of civil service activities.

6. The following miscellaneous items are also being discussed:

early retirement, staff relocation, recruitment, property control and ownership and delegated authority, which the ES will be pursuing separately with the centre.

Accountability

7. Accountability for the new Employment Service will be the same as currently applies to the Unemployment Benefit Service. There will be no change of Accounting Officer.

Timing

8. The new Employment Service comes into existence on October 26th.

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Benefits of the Agency Approach

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Timing

8. The new Employment Service comes into existence on October 26th.

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ROYAL PALACES

The Agency

1. The Royal Palaces agency would employ some 300 people and have annual expenditure of £15-16m and income from admissions and trading of £10m.

2. The agency would take over the general management and opening to the public of the Tower of London, Hampton Court, Kew Palace and the other unoccupied Royal Palaces which are managed and financed by the Secretary of State for the Environment.

Relationship with the Department

3. The Director of the agency would be responsible to the Secretary of State and the Royal Household for the agency's overall performance. The main machinery for control and direction of the agency's work would be 5 year business plans prepared for the agency as a whole and for each Palace group. The plans would form the basis for agreeing the coming financial year's budget and targets and the provisional budget for the next four years. There would be a clear financial objective, such as an overall rate of return, as well as detailed performance targets.

Benefits of the Agency Approach

4. The setting up of an agency would provide a clear focus of management responsibility. In order to operate in a highly competitive environment, to minimise costs and maximise income, management need authority in financial and staffing matters. Agency status provides a way of ring-fencing such changes from the rest of DOE.

Changes Sought

5. The agency has two main functions - the care and maintenance of the historic fabric of the Palaces and the running of them as a tourist attraction. To bring about the benefits sought the agency would need to be able to carry out the latter on a more commercial basis. This might be achieved by funding the agency through a grant in aid. The agency would receive a specific grant for its non-commercial activities (rather than a residual deficit grant). It would then be dependent on its own commercial performance for the rest of its income, providing management with clear incentives.

6. The detailed financial authorities required include: the ability to use extra receipts to develop the business, to plan and carry out capital expenditure over, say, a three year period and freedom from

normal running cost controls. On the staffing side the agency will need ability to recruit specialist staff, such as marketing and retail managers, directly, probably on contract, and to relate pay levels to the outside market and linked to performance.

Accountability

7. The establishment of the agency would make no formal change in the Secretary of State's accountability for the running of the Palaces. He would remain fully answerable to Parliament and The Queen. But MPs would be encouraged to go direct to the agency with questions about particular operations and Ministers might deal with most letters from MPs by a short letter enclosing a reply from the agency Director.

8. Initially at least the Permanent Secretary of DOE would remain Accounting Officer for the departmental funding of the agency. In the longer term there is a case for the Director to become Accounting Officer for the general operation of the agency.

Outstanding Issues

9. All the changes outlined above require agreement from central departments. The department is considering with the Treasury the extent to which the agency's required freedom can be accommodated within present arrangements - eg for exemption from gross running cost control and for end year flexibility. The department is also considering offering the agency increased flexibility within its own control totals.

10. If it were proposed to remove the agency from normal Vote accounting rules and pay grant-in-aid while it was still part of the department, such a change would break new ground for which Parliamentary approval would have to be sought. As regards pay and recruitment the Treasury would be prepared to discuss with DOE the possibility of more flexible arrangements to meet the needs of the Royal Palaces, whether or not an agency is established.

11. Under current doctrine Accounting Officer status could not be devolved to the head of the agency and Parliamentary approval would be required for any change.

Timing

12. The agency could be in operation in provisional form by 1st April 1989.

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THE QUEEN ELIZABETH II CONFERENCE CENTRE

The Agency

1. The QE2 Conference Centre has a staff of 60 civil servants. The running costs of the Centre are about £5.3 million and the income currently £1.5 million but this is planned to rise to £2.9 million in 1989/90.

2. Ministers have agreed that the Centre would discharge a dual role; by providing highly secure and exclusive areas for government to host top level international meetings while encouraging full use by the private sector in order to minimise the operating deficit.

Relationship with the Department

3. A General Manager (Grade 5) is responsible for the efficient operation of the Centre and meeting the financial targets set out in the original Business Plan endorsed by the Treasury and Ministers. A Board of Management, chaired by the Director London Region (the General Managers line manager) and including an experienced outside advisor, reviews progress of business against set targets, gives guidance to the Executive Management and considers future trends and developments in the conference world.

Benefits of the Agency Approach

4. The benefits of organising the Conference Centre as an Executive Agency are to allow it to operate commercially and hence minimise the operating deficit and the call on Exchequer funds.

Changes Sought

5. Staffing - The General Manager needs to tailor his organisation and posts within it to match the demands of the business rather than the requirements of civil service structure and gradings. Of the Centres existing management staff of 50 it is estimated that about half should be recruited directly on contract terms from the conference and hotel industry since this would be the most effective way of providing the requisite levels of skill and experience. Resulting staff savings should offset increases in wages. The Treasury accepts that the Centre should be able to attract suitably qualified staff in order to achieve maximum private sector income. It considers that this should be possible by using the flexibility already available in present procedures.

6. Financial - The Centre needs its own self-contained commercial account with cash generated from conference business being retained and with the flexibility to "roll over" its funding needs within an accountable time frame of say 3 to 5 years. In addition an annual capital grant would be needed to finance the costs of providing and maintaining those stringent security standards needed for government (the *raison d'etre* of the Centre). The Treasury accepts there are advantages in a separate commercial account for the Centre and for deficit funding to be limited for some years in advance. The Treasury

considers this could be met through the present supply arrangements within the total resources available to PSA.

Accountability

7. There would be no change in the present arrangements whereby the general manager of the Centre is responsible up the line management chain to the Permanent Secretary and Ministers. The Permanent Secretary would remain Accounting Officer.

Timing

8. Given the need to improve the Centre's accounting arrangements, and to allow time to determine the various financial targets and subventions, the earliest practical date for implementation would appear to be April 1989. Meanwhile, implementation could in principle begin now on more flexible staffing arrangements, which are the more pressing.

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DHSS RESETTLEMENT AGENCY

The Agency

1. The DHSS Resettlement Executive Agency will be responsible for running and phasing out the 22 DHSS-run resettlement units for the single homeless and replacing them with grant-aided facilities provided by the voluntary and local authority sectors. The agency will have a budget of about £14 million a year and, initially, about 600 staff, although this number will be substantially reduced as the units close.

2. When the units are closed the residual functions of the agency (which will then become a non-government body) will be to administer the grants and monitor the standards of the replacement projects.

Relationship with the Department

3. The agency will be completely subordinate to the Department as far as policy is concerned. Responsibility for implementation of the policy - the management of the units and the form of the replacement provision - will be devolved to the agency.

Benefits of the Agency Approach

4. The creation of the agency will

- end the involvement of Ministers in what are essentially operational matters such as the dates of closure of the resettlement units and the form of the replacement facilities.
- allow more flexibility in the planning of the replacement programme by removing the constraints of Departmental organisation and (subject to central Departments' agreement) budget annuality.
- (eventually) reduce the number of civil servants.

These achievements will in themselves increase efficiency and speed the progress of the resettlement unit closure programme.

Changes Sought

5. No legislation will be needed but the following changes will be necessary

- although most of the agency's staff will be found from within the Department, there will be some direct recruitment

- the agency will set up its own industrial relations framework
- there will need to be some devolution of responsibility for the agency's resources to the Chief Executive
- the agency will (in DHSS's view) need to be given more budgetary flexibility than at present, in particular, the freedom to carry forward end-of-year surpluses.

Accountability

6. The Department will remain responsible for answering enquiries about policy matters. Questions on implementation of the policy will normally be handled by the agency. At least initially the Permanent Secretary will remain the Accounting Officer but if grant-in-aid status was agreed the Chief Executive might become an independent Accounting Officer.

Outstanding issues

7. The last two changes above - to accountability and the limits of budgetary freedom (including the extent to which it is sensible for the agency to continue to make use of the Department's services) - have yet to be agreed with the central departments. In particular, the Treasury have reservations about whether the changes - such as to the annuality rule which is a Parliamentary requirement - are needed to achieve the benefits set out above.

Timing

8. If the outstanding issues can be resolved quickly, the agency could come into being in April 1988.

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COMPANIES REGISTRATION OFFICE (CRO)

The Agency

1. The CRO is an executive unit operating within the DTI, administering a number of aspects of company law. 1,100 staff are employed at three locations - Cardiff (850), London (200) and Edinburgh (50). The cost of undertaking these tasks is fully covered by income from fees.

2. The head of the CRO, a grade 5 Civil Servant, is the Registrar of Companies in England and Wales, a statutory person separate from the Secretary of State of Trade and Industry but appointed by him. The CRO's main tasks, laid down by statute, are to incorporate new companies' to maintain a register of companies; to file registered companies' annual returns and other documents; and to make these documents available for public inspection. Associated tasks include ensuring that companies comply with filing requirements.

3. From 1 April 1988 CRO will be exempt from gross running cost controls.

Benefits of the Agency Approach

4. For the office to do its job efficiently and effectively, it needs to be able to respond to changing demands. It also needs to have a clear picture of its role so that management fully understand the task expected of them. In the early 1980s manpower controls prevented an increase in CRO resources commensurate with the rise in demand, while the staff of the office did not feel that they received a clear signal of where their priorities should lie. The consequential fall in the quality of information on the companies register was severely criticised by the Public Accounts Committee in 1984.

5. Experience since the PAC 1984 criticism has demonstrated the gains which can be made by giving local management greater freedom to manage within a proper framework of accountability. The key controls of corporate planning with agreed objectives and targets, a supervisory board, and management accounting system are now in place. But more needs to be done to consolidate and increase the improvements made so far. This required investment in manpower and money. It can be covered by fees but creates tensions within overall DTI priorities. If CRO was itself able to determine matters which relate directly to its efficiency such as how it responds to demand, its capital investment, and the achievement of the correct level of properly motivated staff, this would further improve the office's performance. Formal recognition of an agency status for the CRO would clarify the office's role, its lines of accountability, and the management task.

6. Because the Registrar is a "statutory person" he already answers directly for his actions not only to members of the public but also to MPs who write to him direct. Appeal against his decisions is to the Courts rather than the Secretary of State. On certain other matters he acts in the name of the Secretary of State, who may be asked to review decisions taken on his behalf. Because of the existing statutory independence of the Registrar it should be possible to lead Parliamentary opinion further in the direction of a separation of responsibilities between the Secretary of State and the Registrar for policy and executive matters respectively.

Changes Sought

7. The Office wishes, by 1 April 1989, to:

- have introduced a planning approach to capital expenditure more geared to its own priorities;
- have established a formal framework within which CRO works and which will reduce the involvement of Ministers and officials outside CRO in day to day issues (agency status should not lead to appreciable problems of Parliamentary accountability);
- have considerable freedom to hire, fire and discipline non-management staff (up to administrative officers and their equivalent in other classes) and locally promote to SEO level.

8. Beyond this date, the office would wish to consider:

- introducing performance related pay specifically designed to motivate CRO staff and reduce unit costs;
- reducing the number of classes of junior staff it employs, to reduce demarcation disputes and increase efficiency;
- borrowing up to 5 per cent of annual income to finance capital expenditure so that CRO can pay back out of the benefits from the investment;
- transferring the company names provisions to the Registrar from the Secretary of State (this would involve non-controversial legislation). In addition, transferring to the Registrar from the Secretary of State some of the power to appoint staff, fix their remuneration and regulate their duties;

Accountability

9. The autonomous role of the Registrar is already reflected in the way that Minister's cases concerning the operational functions of the CRO are handled ("the Registrar tells me that ..."). In future they would be passed to the Registrar for official reply. Policy questions would continue to be handled by the department.

Outstanding Issues

10. There is no reason why the benefits that would flow from CRO becoming an Executive Agency should not be realised within the Civil Service. Only in the event that this does not prove possible should consideration be given to other arrangements, for example converting the office into a non-departmental public body.

11. The Treasury considers that the greater freedom in relation to the planning and management of CRO's capital programmes requested by the DTI could be achieved within broadly the existing public expenditure framework (perhaps subject to some easement in the end year flexibility scheme which is currently under review). However, the Treasury sees no case for allowing CRO to borrow, which would have major repercussive implications for current public expenditure control mechanisms. On the proposed changes for pay and grading, the Treasury notes that these are consistent with the general thrust of changes currently being considered for the Service as a whole. These changes are therefore acceptable in principle, subject to scrutiny of the possible costs and repercussive effects of removing existing pay and grading rigidities.

CONFIDENTIAL

DRIVER AND VEHICLE LICENSING DIRECTORATE

The agency

1. The Driver and Vehicle Licensing Centre at Swansea together with 53 local offices is responsible for the registration and licensing of drivers and vehicles in Great Britain, and the collection of Vehicle Excise Duty. DVLD employs 5400 staff and last year cost £113 million.

2. The information DVLD supplies to the Police on vehicle registration marks, including a daily copy of the register, is of great importance to law enforcement.

Relationship with the Department

3. The Agency would be supervised by a Directing Board appointed by the Permanent Secretary and including representatives of its major customers (the Department, Treasury (for VED) and Home Office (on behalf of the Police)). The Board would retain decisions powers on major capital investment, the annual budget, the Corporate Plan, and other strategic decisions within a financial framework agreed with the Department and approved by Ministers. The framework would prescribe standards of service, unit cost targets and the level of VED enforcement. The Chief Executive would be responsible for managing the agency, reporting through the Deputy Secretary (Chairman of the Directing Board) to Ministers.

Benefits of the Agency Approach

4. The objective is to enable DVLD to continue to increase in effectiveness and efficiency. To improve the standard of service to the public and to Government Departments (including the Police) by achieving sustained improvements in productivity greater than those likely to be possible within the existing Civil Service regulations. The aim would be a net gain of 2% productivity over 5 years, in addition to that otherwise achievable.

Changes sought

5. The changes needed to achieve the benefits sought are:
- (a) a financial structure which would focus and motivate management to improve the return on assets and the cost-effective use of resources. This would include the adoption of accrual accounting, capital reserves and funding of capital investment from income or borrowing from HMG, the introduction of a fee for vehicle registration; also 'fees' to the Agency from central funds on an agreed basis for VED collection

and enforcement;

- (b) increased delegation to the Agency of such matters as dismissal, grievance procedures, and some freedom from Civil Service grading and annual reporting procedures; authority to establish incentive payment schemes to reward excellent performance;
- (c) the Chief Executive of the Agency to have authority to negotiate with the Trade Unions on all matters delegated to the Agency.

Accountability

6. Ministerial responsibility for policy will remain unchanged. Ministers would be able to delegate responsibility for responding in the first instance to correspondence from MPs and others on individual cases which do not involve policy. The responsibilities of the Accounting Officer will remain unchanged.

Outstanding issues

7. The nature of the financial structure, the adequacy of the policy and resources framework, the position of the agency within vote accounting, and the degree of delegation of personnel management and industrial relations all require further discussion between the Treasury and the Department. DTp and the Treasury recognise that the introduction of a fee for VED collection and enforcement is a particularly difficult issue, and its implications need to be fully examined.

Timing

8. 1 April 1989.

CONFIDENTIAL

VEHICLE INSPECTION AGENCY

The Agency

1. The Vehicle Inspectorate checks the roadworthiness of Britain's 20 million road vehicles through annual testing, spot-checks, accident investigation and inspection of operators' premises. It is mainly demand-led with an annual turnover of £32m (97% covered by fees); 1,500 staff and 91 testing-stations throughout Great Britain.

Relationship with the Department

2. The Department as "customer" will define precisely the level and type of vehicle safety activity required. Ministers will set requirements and targets. The agency will be managed by a small Directing Board with some outside members and decision powers on major capital investment, the annual budget, preparation of the Corporate Plan and other major strategic decisions within a financial framework set by Ministers. Financial structure similar to a nationalised industry with capital debt, an EFL and performance indicators.

3. Management of the agency delegated to the Chief Executive who will report through the Deputy Secretary (as Chairman of the Directing Board) to departmental Ministers.

Benefits of the Agency Approach

4. To maintain and further develop cost-effectiveness and in particular add to present efficiency savings by a further 2% over 5 years. Thereby to meet Ministers' targets to improve vehicle safety, to minimise fee increases and to respond to customers requirements for speed and ease of testing.

Changes Sought

5. More appropriate planning, manpower and investment framework needed. Move from gross running costs to unit cost control in April 1988 as first step. Thereafter incorporate as a trading fund in April 1989 with accrual accounting, capital reserves and funding of capital investment from internal resources or borrowing from HMG, and establishment of arrangements including incentive payment schemes designed to reward excellent performance.

Accountability

6. Ministers will continue to be accountable to Parliament for the agency. MPs will be encouraged to deal direct with the agency on individual cases and Parliamentary Answers will make clear the management accountability of the Chief Executive.

Outstanding Issues

7. A firm decision is needed on trading fund status. The nature of financial arrangements to reward good performance by the agency and its staff, the appropriate flexibility over recruitment, grading, pay and dismissal of staff, and the change in responsibility for industrial relations require further discussions between Treasury and the Department. Ministers will need to settle the scope of, and control over, the freedom to take on new business to spread overheads.

Timing

8. Move outside gross running costs April 1988. Move to trading fund financial and organisational arrangements by April 1989. Incremental development of manpower arrangements.

CONFIDENTIAL

THE PASSPORT OFFICE

The Agency

1. The Passport Department has a staff of just under 1,000 with running costs of about £27 million and programme expenditure of some £150 thousand. The income net of payment to the FCO is about £31 million.

2. The objectives of the agency are to provide travel document facilities in the UK under the Prerogative to all qualifying British nationals either direct or by Post Office agency agreement and, from fee income, to defray issue costs and contribute to non-fee bearing FCO consular operations abroad.

Relationship with the Department

3. A chief executive would be accountable for the execution of an annual contract within a rolling 5 year plan. The Home Office would retain responsibility for budget setting, productivity targets, standards of service and product format/content. The chief executive would, within budget, fix complements; exercise all personnel responsibilities (including for dismissal) in respect of clerical grades; determine productivity bonuses (within Treasury rules); negotiate local pay addition schemes directly with Treasury; and have autonomy over accommodation. He would be accountable for achieving his planned targets and would be answerable publicly (including directly to MPs and by means of a published annual report) for his responsibilities. Ministers would be accountable for the budget and targets etc. only, and would not be answerable for ordinary operations. Supervision would be exercised by a Grade 3 in the Home Office Immigration and Nationality Department who would lead the annual contract negotiations and act as policy adviser to Ministers.

Benefits of the Agency Approach

4. To establish an autonomous operational agency with clearer managerial targeting and accountability as the best way of improving customer service.

Changes Sought

5. There would be two: relaxation of current rules on use of fee income to respond to unbudgeted demand by self-financed measures (at present fees go straight to Consolidated Fund); and revision of accounting officer conventions so far as budget execution concerned.

Accountability

6. Ministers would be accountable for policy issues, budgets and targets but the chief executive would be answerable for operational matters. This would include dealing directly with MPs. The Permanent Secretary would remain Accounting Officer.

Outstanding issues

7. Treasury would need to agree changes in rules on treatment of fee income, and changes would also require formal Parliamentary approval. So long as the agency remained within the department, normal vote accounting would mean that any increase in total voted expenditure would need to be approved by Parliament.

8. Union resistance likely to sharper management accountability with more direct powers. Volatile industrial relations could jeopardise smooth transition and put £8m computerisation scheme (1988-1990) at risk.

Timing

9. For progressive introduction with completion 1 April 1991.

CONFIDENTIAL

HER MAJESTY'S STATIONERY OFFICE

The Agency

1. HMSO is already an executive agency by virtue of its Trading Fund status. It exists to meet the printing, publishing, stationery and office machinery requirements of Government, Parliament and other public sector bodies. It employs 3350 staff and has an annual turnover of £320m.

Relationship with the Department

2. HMSO is a free-standing department. The Controller reports direct to the Paymaster General and is the Accounting Officer. Each year HMSO produces a 5-year Forward Plan which sets out the corporate financial strategy and the assumptions about external factors on which it is based. This plan is agreed by Ministers and the Treasury.

3. Because HMSO is not part of a larger department the question of division of responsibilities between the agency and the department takes a different form from most agencies. It is a question of developing the accountability inherent in present arrangements whereby the Treasury's annual review of the Forward Plan enables it to offer the Paymaster General independent advice on the policy framework of the Trading Fund.

Benefits of the Agency Approach

4. HMSO has already reaped considerable benefits from moving to Trading Fund status. It has met its financial targets every year, whilst reducing its manpower and improving value for money to the taxpayer. Manpower has reduced from 6300 and productivity per employee has risen from £43000 to £95000 since 1980. HMSO is convinced that with greater managerial freedoms it will be able to make further substantial progress in improving efficiency and effectiveness, including possibly a further 15-20% reduction in manpower costs over the next 5 years.

Changes Sought

5. HMSO wishes to put forward an alternative pay structure more suited to its commercial orientation. The aim would be to make career progression and remuneration more closely related to specific job performance. This might include a pay spine similar to that agreed with the IPCS, with the emphasis being on jobs rather than grades and with flexibility to adjust job values according to the incumbent. Annual uprating of the pay spine would be linked to HMSO achieving its budgeted objectives.

Accountability

6. No changes are proposed to the existing arrangements. The Chief Executive is directly answerable for the management of the Trading Fund and the small residual Votes. The Paymaster General is responsible for the small number of PQs and Minister's cases.

Outstanding Issues

7. The extent of Treasury involvement in advising on policy issues needs clarification. The Treasury is ready to discuss with HMSO the possibility of moving to more flexible pay arrangements regardless of whether the Next Steps exercise proceeds.

Timing

8. Since no legislative, constitutional or financial changes are necessary the new regime could be introduced during 1988, subject to resolving the points in paragraph 6 above.

Return to
CHx's office

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NEXT STEPS

PROJECT MANAGER'S SUMMER REPORT

- Report - Pages 1-6
- Annex 1 - Prime Minister's statement of 18 February 1988
- Annex 2 - Agency Candidates currently named
- Annex 3 - Across the Board Issues
- Annex 4 - Summary of Training Action Plan

JULY 1988

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NEXT STEPS

PROJECT MANAGER'S SUMMER REPORT

Introduction

The Efficiency Unit report "Improving Management in Government: The Next Steps" was published on 18 February 1988, and accompanied by an announcement by the Prime Minister accepting four recommendations based on the report. A copy of the Prime Minister's statement is at Annex 1. I was appointed Project Manager on 18 February, and this report covers the work of myself as Project Manager and my team in OMCS working in close conjunction with the Treasury and other Departments, over the first four months of implementation.

General conclusions

2. It is clear to me from work so far done that the Next Steps approach, combined with the other far reaching reforms already underway, holds out an immense opportunity for change for the better in the Civil Service for those activities where contracting out or privatisation have been considered and found inappropriate. There will be benefits for the recipients of Government service, staff and taxpayers in both the shorter and longer term. But improved systems alone will not be enough. The full benefits in terms of improved services and reductions in cost will be realised only by encouraging the exercise of responsibility and the release of managerial energies which it is the purpose of the changes to achieve.

3. The Next Steps report has been represented publicly as being concerned almost exclusively with the setting up of "Agencies" - discrete accountable units of management. In fact Next Steps is about more than that. It is about the wider improvement of management throughout the whole of Government. However experience in the first four months of the implementation has shown that Ministers were right to identify the establishment of Executive Agencies, with clearly identified tasks and managers given devolved responsibilities and necessary freedoms and held accountable for results, as the principal means by which these improvements would be brought about. The need is to become less monolithic.

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Agencies

4. "Agencies" will come in many different forms. The concept is one of a new approach, not of some new and standard piece of machinery. While there will necessarily be some common features, there is no question of trying to impose any kind of common formula or framework. Indeed the reverse is true; the thrust of the changes stems from recognising the enormous variety of activities which the Civil Service does and the hindrances and inefficiencies which arise from trying to encompass these within some kind of uniform system, whether financial, pay and personnel, or otherwise. The Next Steps Agencies must each be specifically tailored to the particular tasks they have to do. The resulting pattern should be very varied. By the same token establishment of Agencies may not always be a quick process; the characteristics of each activity need to be identified, including the "mix" of policy and executive work, and suitable output and performance measures, sound budgeting and other managerial apparatus must be in place or in prospect. In some cases this will take time, but it is necessary if Agencies are to be established on a sound and durable basis.

5. When decisions on Next Steps were announced in February, an initial 12 activities were announced as candidates for agency status. Since then work has been directed at preparing the way to set up these named 12 candidates as Agencies, and identifying further candidates, whether in the near or distant future. A further 17 candidates have been or will shortly be publicly named making 29 in all. These, and a timetable, are at Annex 2. One of them, the Vehicle Inspectorate within the Department of Transport, is to be established as an Executive Agency as from 1 August 1988.

6. The Vehicle Inspectorate may attract some attention as the first of many. The framework document, which is to be published, will give a good deal of detail. It will devolve responsibility for management to the Chief Executive who will be given firm targets for improved results. Initial targets have been set. It is made

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clear that further flexibilities are likely to develop over time, with experience; and it has been agreed that some form of revolving fund, so as to give flexibilities analogous to those currently available under the Government Trading Fund Act 1973, should be established for the VI as soon as possible.

7. More widely than these first 29 candidates, which cover over 170,000 staff or more than a quarter of the total Civil Service, we have examined with Departments the longer-term potential. So far some 37 further potential Agencies have been identified and are under current examination, covering some 50,000 staff. The total so far is thus 66 Agencies, covering about 220,000 staff, or about 37 per cent of the Service, with more to come. The position to date is shown below :-

		<u>Total</u>	<u>Depts with under 50,000 staff</u>	<u>Depts with over* 50,000 staff</u>
Number of staff**		593,000	188,000	405,000
First 29 Candidates	Agencies	29	24	5
	Staff	170,000	24,000	146,000
Under current examination	Agencies	37	35	2
	Staff	50,000	34,000	16,000
Total so far	Agencies	66	59	7
	Staff	220,000	58,000	162,000
		3.		

* MOD, DHSS, the Revenue Departments, and DEu which together comprise 405,000 people or about 68 per cent of the whole Civil Service.

** Figures are 1 April 1988 target manpower figures as published in "The Government's Expenditure Plans 1988-89 to 1990-91", January 1988. The table excludes the Northern Ireland Civil Service (about 28,000 people). The NICS has a number of possibilities under review. All manpower figures are rounded.

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8. I shall be examining all these further possibilities, and Departments' remaining activities, in more detail during the next 6 months and will discuss the position in my next report. Some activities, including those within 3 of the biggest Departments (MOD, Inland Revenue and Customs and Excise who together come to nearly 250,000 people) present some special considerations. But the Agency approach is essentially flexible and adaptable and part of the work of the next 6 months will be to see whether and how so far unexplored areas could benefit from it.

9. All in all I see considerable scope for reorganising a good deal of the Civil Service into more discrete, and more effective and usually smaller units of management. It is not possible to give a firm promise of what the final outcome might be but at this stage I see no reason to revise the personal prediction I made in front of the TCSC in May, to the effect that over 10 years I would expect around three quarters of the Civil Service to be operated through Agencies. This might prove an underestimate. The number of Agencies resulting is equally difficult to predict, but it will be over a hundred.

Issues under consideration

10. Paving the way for the changes has involved addressing a number of important issues. Some of these, and the way they are being handled, are described briefly in Annex 3. Key issues are accountability, setting and reviewing and evaluating performance and output targets, financial regimes, and increased pay and personnel flexibilities.

Training and Career Management

11. Apart from Agencies, one of the other main recommendations accepted by the Government was that staff should be properly trained and experienced in the management and delivery of services. There is a need to reorient training and career management to achieve this and to ensure that management experience plays its full part in equipping people for higher responsibilities. An agreed programme of work to this end is summarised at Annex 4. Key features are

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the emphasis on each Department's or Agency's responsibility for the proper training and preparation of its own staff; the integration of training and career management with the main stream of personnel work; a specific review by each Department or agency with an emphasis on quality and results; and the further reorientation of Civil Service College training towards management and the delivery of services. This is a programme to improve training and career management throughout the Civil Service, whether in Agencies or otherwise.

The broader future

12. Against this background it is possible to see a picture of the Civil Service in the 1990's if the Next Steps approach develops satisfactorily alongside a continuation of the other initiatives designed to improve the effectiveness of management in the public service. The Government's policy of privatisation and market testing of services will continue. But a large residual Civil Service will remain. This will essentially fall into three parts; Executive Agencies of the sort discussed in this report; the remainder of Departments comprising a small core, mainly policy makers, though with some managerial and executive functions unsuitable to shift into agencies; and a slimmed down Centre. The Next Steps approach is the key to this.

Public interest

13. There has been considerable public interest in Next Steps. Many have grasped the basic concept and see it as a real prospect for making possible a break through into better and more modern management in the Civil Service. This is borne out by eg evidence to the TCSC, questions in the House, and Press comment. This interest needs to be kept up, and the expectations fulfilled. The TCSC's report, likely to be published before the Recess and expected to be generally supportive, will further stimulate debate.

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On-going work

14. I expect a good deal of progress in the next six months. I would propose to make another report by the end of the year, which will include expanding and firming up on the tentative programme for establishment of Agencies, and setting a more detailed timetable for this. In the longer term, I expect by this time next year to have across the board issues settled and the improved training programme well under way. A complete review by Departments will have been completed and firm timetables set for the establishment of Agencies for all suitable activities. More than a dozen Agencies will I hope have been established by then, with many more in the pipeline.

E P KEMP

NEXT STEPS PROJECT MANAGER

JULY 1988

18 February 1988

Civil Service Management

3.30 pm.

The Prime Minister (Mrs. Margaret Thatcher): With permission, Mr. Speaker, I should like to make a statement on management in the Civil Service.

I asked the efficiency unit to report to me on the progress of management reforms in the Civil Service. It has produced a report, "Improving Management in Government: The Next Steps". The report finds that many Civil Service managers want to see further changes to give more room and flexibility for the exercise of personal responsibility. The report recommends, first, that to the greatest extent practicable the executive functions of Government, as distinct from policy advice, should be carried out by units clearly designated within Departments, referred to in the report as "agencies". Responsibility for the day-to-day operations of each agency should be delegated to a chief executive. He would be responsible for management within a framework of policy objectives and resources set by the responsible Minister, in consultation with the Treasury; it recommends, second, that the Government should commit themselves to a progressive programme for attaining this objective; third, that staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government; and, fourth, that a "project manager" at a senior level should ensure that the programme of change takes place.

The Government have accepted these four recommendations, which will set the direction for further development of management reform in the Civil Service. Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. The Government will develop a continuing programme for establishing agencies, applying progressively the lessons of the experience gained.

The Civil Service unions will be consulted about the setting up of particular agencies. They will also be consulted if any change in terms and conditions of civil servants is contemplated.

The centre of the Civil Service must be organised in a way which is helpful to bringing about change. A permanent secretary in the Office of the Minister for the Civil Service will be responsible, through the Head of the Home Civil Service, to see for managing the process of change needed to implement the recommendations.

I have placed copies of the efficiency unit's report, together with a list of executive functions that appear to be promising candidates as initial agencies, in the Library and copies are available in the Vote Office.

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ANNEX 2

EXECUTIVE AGENCY CANDIDATES AS AT 14 JULY 1988

		Nos.	Target dates
DTP	Vehicle Inspectorate*	1,600	agency status 1 August 1988
DTI	Companies Registration Office*	1,100	3 October 1988
DHSS	Resettlement Units*	600	October 1988
DE	Employment Service*	41,190	end 1988
DOE	Historic Royal Palaces*	300	1 April 1989
PSA	QEII Conference Centre*	65	1 April 1989
CO -			
OMCS	Civil Service College#	200	1 April 1989
CO -			
OMCS	Occupational Health Service#	160	1 April 1989
DTP	Driver and Vehicle Licensing Directorate*	5,400	1 April 1989
DTI	National Physical Laboratory~	820	April 1989
DTI	Laboratory of Government Chemist~	350	April 1989

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		Nos	Target dates
DTI	Warren Springs Laboratory~	320	April 1989
DTI	National Weights and Measures Laboratory~	50	April 1989
DTI	Radiocommunications Division£	500	April 1989
DTI	Export services£	700	April 1989
DTI	Insolvency services£	1500	Mid 1989
DTI	Patent Office£	1150	Mid 1989
DTI	Business Statistics Office£	680	by Sept 1989
MOD	Meteorological Office*	2,600	1 April 1990
DOE	Royal Parks*	600	April 1990
DTP	Vehicle Component Approval Division@	70	April 1990
DTp	Driver Testing and Training@	2020	April 1990
DTI	Regional offices£	1065	April 1990
DHSS	Social security operations**	87,000	April 1991

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		Nos	Target dates
HO	Passport Department*	1,000	1 April 1992
MOD	Defence non-nuclear research establishments*	15,000	result of efficiency scrutiny to determine status due end July 1988
HMT	HMSO*	3,245	under review
SO	Department of Registers for Scotland+	910	to be decided
SO	Historic Buildings and Monuments Directorate+	635	to be decided
	<u>TOTAL</u>	<u>170,830</u>	

* Announced on 18 February 1988

Named in the House on 9 May 1988

+ Named in Scotland on 29 April 1988 and in written evidence to TCSC

~ Announced to the House on 7 June 1988

£ Announced to the House on 13 July 1988

** Expected to be announced to the House on 20 July 1988

@ Expected to be announced to the House on 25 July 1988

Across the board issues

In the course of the first four months work a number of across the board issues have arisen which have been the subject of a good deal of work. They will all need further development as the Next Steps policies, and in particular the establishment and development of Agencies, proceed. Some of them are discussed below.

Accountability

2. The position. The TCSC and others have paid a good deal of attention to issues of accountability. In response to questions in the House on 18 February, the Prime Minister said that there would be no change in the arrangements for accountability. Ministers will continue to account to Parliament for all the work of their Departments, including Agencies. The powers and responsibilities of Departmental Select Committees, the Parliamentary Commissioner for Administration and the Public Accounts Committee will not be affected. This position has been re-emphasised to the TCSC.

3. Action. We expect the TCSC report to discuss this issue and their views will have to be considered. The first framework document (for the Vehicle Inspectorate) follows the line on accountability adopted in the Prime Minister's statement, but encourages MPs to write direct to the Agency on appropriate operational matters while retaining the possibility of recourse to Ministers if the Member is dissatisfied with the reply received. We expect that other frameworks will include similar provisions.

Setting objectives and monitoring results; management systems

4. The position. At the heart of Next Steps is the emphasis on results, to be achieved by setting objectives for Agencies, including

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outputs to be achieved, and by monitoring their performance. The issues are how objectives should be set, and by whom; how monitored; and how (if need be) revised.

5. Action. Agencies will begin from the management improvements deriving from the FMI and other initiatives of recent years. The framework document, which will have a certain permanence, will set out amongst other things the Agency's broad objectives and how the Minister will set and monitor these and the Agency account for their delivery. Quantified outputs and targets, which will be reviewed regularly and more often, will be set separately. Regular reports, including reports of results against targets set will be required. In accordance with the general policy, arrangements will be made to evaluate the Next Steps initiative, and the performance of individual Agencies, as these develop.

Financial Regimes

6. The position. The present system is designed for the proper exercise of Ministerial and Parliamentary control of expenditure. It has in it some important flexibilities already. But work so far on Agencies raises the question of whether these are adequate, against the managerial and other requirements of Agencies if these are to deliver their full potential. As the Management Brief of 18 February 1988 said, the Treasury have agreed that they can forego some of their existing controls in the interests of greater efficiency, and need to retain only those controls which are essential for the management of public finances and the achievement of the Government's macro economic objectives.

7. Action. The Project Manager and the Treasury are discussing the way forward. Agencies and their needs will vary and often it

MANAGEMENT IN CONFIDENCE

will be the case that the existing arrangements can be effectively adopted. The Treasury is willing to consider on their merits cases for additional flexibility where this can be justified on efficiency/effectiveness grounds. The possibilities of developing alternative regimes based in all suitable cases on net resources required ("agency financial limit") or analogous to trading funds ("agency fund") (which would require legislation), and of establishing commercial type accounts are being examined. It has been agreed that the first agency (the Vehicle Inspectorate) should be given some form of revolving fund as soon as practicable.

Pay and Personnel Regimes

8. The position. It has been the policy of central Departments for some time to make the pay and personal regime more flexible and to look for more delegation both to Departments and to lower levels of management within Departments. Pressing this forward is essential to the Next Steps changes. Consistent with essential safeguards, central Departments are ready to consider further moves in this direction; a process which is likely to develop as Agencies are set up and alternative procedures are developed and tested.

9. Action. Cases are being considered as they come forward, although so far relatively few proposals have come to the central Departments. An issue affecting all Agencies is the decision that performance-related pay schemes suitable to the Agency in question should be considered for all staff, and this is being looked at. Another issue affecting all Agencies is the encouragement being given to the development of pay and personnel regimes which are more specific and appropriate to the circumstances of particular Agencies than the present largely Service-wide regimes, working where possible within the new flexible pay regimes now being established. Devolvement and delegation to Chief Executives and managers in Agencies is essential, and is being developed. It should be noted that delegation is not just a matter of passing decision-making power

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from central Departments to the centre of other Departments; crucially it is passing it from the centre of operational Departments as far as possible down the line to the actual operators. Much more needs to be done in this direction and Departments are being so encouraged; this is raising questions of internal accountability and responsibilities within Departments.

Chief Executives and key staff

10. The position. Chief Executives and key staff may be appointed either by open competition on fixed contracts with civil servants free to apply, or by internal selection either from within the Department or by Service-wide advertisement. The first would offer high rewards in return for high risks (a successful civil servant might be required to resign from the career Civil Service if he got the job) and the second would balance lower remuneration against greater security of tenure. Either way a performance-related element should be included in the terms. These are to be agreed between the Department the Treasury and the OMCS and the Prime Minister is to be consulted about the more important appointments.

11. Action. A number of important questions are under examination here. But it seems likely that at the end of the day cases will have to be decided on an individual basis, eg as to whether there should be open competition or an insider should be appointed, what sort of terms would be appropriate, and so on. Arguments for appointing an insider include the desirability of using existing talent where it exists, and paving the way for senior people of the future to gain real managerial experience. Arguments for an outsider include the need to get in particular skills where these are not available, and more generally the desirability of exposing Agencies to the private sector culture and approach. This is something the TCSC will no doubt comment on. And in any case special consideration has to be given to the position as an activity is being turned into an Agency as to whether the "sitting tenant" should be retained and if so for how long.

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Privatisation and testing the market

12. The position. The Government's privatisation policy continues alongside Next Steps, as does the policy of "testing the market".

13. Action. The Guidance Notes on the setting up of Agencies makes it clear that among the alternatives to be considered before deciding to set up an Agency is the possibility of privatising the activity. It is recognised that even if this is not currently possible, it might be that in due course the Agency could become suitable for privatisation. So far as testing the market goes, this policy is to continue to apply to Agencies after they are set up so as to ensure that all parts of the Agency's activities continue to be subject to competitive pressures and opportunities to contract out are not missed.

Treatment of other general issues

14. The position. Agencies and their staff will generally be within the Civil Service, and where they are they will of course be subject to many across the board rules etc (eg staff will be subject to rules about propriety, and Agencies employment policy will continue to have regard to equal opportunity policies). Not all Service-wide initiatives will, however, necessarily always apply to every Agency; again cases will vary but there may be some initiatives which are not mandatory or which should not be pressed if they were unsuitable for the Agency in question.

15. Action. Examples of immediate across the board initiatives, which Agencies are to be asked to adopt are relocation, for which setting up an Agency may be a particularly good opportunity; and the policy of encouraging a better understanding between Government and business, currently under consideration by Ministers.

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ANNEX 4

SUMMARY OF AGREED ACTION PLAN FOR NEXT STEPS AND TRAINING

The Next Steps initiative underlines the importance of effective training and preparation for the delivery of services, and for managing the delivery of services. This covers experience as well as training, and the delivery of all government services whether through agencies or otherwise. The responsibility for equipping staff by training and experience to do their work effectively rests with the Agency or Department, drawing on support from OMCS and the Civil Service College. The Next Steps initiative calls for a new impetus in training and career management, with particular attention to service delivery, to management experience and to the development of commercial awareness and businesslike and entrepreneurial management skills. Departments, OMCS and the College will take this initiative forward as follows:

By end of July 1988

OMCS to issue revised succession and career planning documents.

Civil Service College to review fast stream induction training.

By end of September 1988

OMCS to consider how to make Senior Management Development Programme (SMDP) paperwork more effective, and whether more SMDP competences are required; to report on best current practice in the quality of control of training and development; to consider whether to mount a "junior Node" at Grade 7.

Civil Service College to review existing courses, including SMDP training, to consider what new courses are necessary, and to publish brochure.

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Each Department/Agency to examine the cost-effectiveness of its arrangements for resourcing development training.

By end of December 1988

OMCS to produce a new brochure on management development programmes and a guide to good practice in the validation and evaluation of training; to improve training statistics; to recommend developmental arrangements for the Senior Open Structure; and to help Departments to identify issues of training to improve service to customers.

Civil Service College to complete preparations for its own agency status; and to introduce an SMDP "introductory course" for Grade 7s.

Each Department/Agency to establish its own further action plans to review and improve the training and development of their staff in the light of the Next Steps initiative. The detailed content of these plans will differ from Department to Department to meet the needs and circumstances of each. The common spirit in which they will be approached will be to integrate training and development with systems for staff reporting, postings and promotion; to focus in the reviews on quality and results with the help of independent training expertise; and to establish targets for improvement, including annual, progressive targets for the career development of managers by training and experience to be made known to staff as part of a long-term plan for improving management development.