

PO-CH/NL/0221 PT A

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PART A

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PO -CH /NL/0221



PART A

Papers on Next Steps Agencies

CHANCELLOR'S PAPERS ON
NEXT STEPS AGENCIES

PO -CH /NL/0221
PART A

Begin: 4/2/87

DD: 25 years

Ends: 12/10/87 (CONTINUED)

12/9/95

FROM: P N SEDGWICK
DATE: 4 FEBRUARY 1987

MR ALLAN

12/2

*Thank you
I hope you
6/7*

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr Bottrill
Mr Owen

MANUFACTURING/SERVICES

If he has not done so already the Chancellor might like to see the remarks that Mr Trippier made in the House of Commons yesterday. They are very similar to earlier claims by Mr Butcher at DTI.

2. The current position with the study by DTI and Treasury officials of the relative importance of manufacturing and services in international trade is that a revised DTI draft of a report for Ministers is supposed to be with us any day now. This will take account of the discussion at a meeting with both DTI and Treasury officials chaired by Sir T Burns at the beginning of December. This latest draft should go some way to meeting our misgivings about earlier versions, though I very much doubt whether it will satisfy us entirely. Even if it does not I think that we will have to conclude this particular exercise, which has been going on for almost a year. If there are some issues on which we cannot agree with DTI officials little purpose will be served by further efforts to find a consensus. We will of course let the Chancellor have the final version of the report, and our comments on it, as soon as it is available.

P.N.S.
P N SEDGWICK

Mr Sedgwick

Mr. Brandon-Bravo: Is my right hon. and learned friend aware that in my constituency duplicated leaflets, the printing of which is unattributable, have been distributed by pressure groups instructing people how to fill in—or not to fill in, as the case may be—the forms in question. They have also been used to instruct people in or to discourage them from filling in necessary information with regard to equal opportunities. Would my right hon. and learned friend care to comment on that?

Mr. Clarke: I disapprove of people giving set answers. The implication of set answers is to tell the claimant, "Never mind telling the truth about your claim. If you give these answers regardless of the truth, you will get benefit." [Interruption.] My hon. friend will notice that that was cheered by large numbers of Labour Members. The Labour party appears to have moved to the extraordinary position of saying that anyone is entitled to benefit, if he asks for it, without having to demonstrate that he is entitled to it. No doubt, as the Labour party has a very Left-wing candidate in Greenwich, it will campaign on that basis in the area in the near future. I do not think that it will get the electorate's support.

Mr. Evans: Will the Paymaster General admit that the leaflets that have been circulated are not "How to claim benefit if you are not entitled to it" but "How not to be tricked by the trick questions framed by the Department of Employment"? Is the right hon. Gentleman aware that one of my constituents, who is typical of many, who has been unemployed for three years, who was offered three interviews more than 25 miles away from where he lived and who has no means of transport to those jobs, has had his benefit stopped? That is treating the unemployed with contempt.

Mr. Clarke: The questions on our form are not trick questions. They are remarkably similar to the questions that have always been asked and are wholly consistent with the rules that Parliament has laid down for entitlement to benefit. A Labour Act of Parliament—the last of such legislation—laid down availability for work as a condition of benefit. I am not clear from what the hon. Gentleman said whether he agrees that standard answers should be given. If, like his hon. Friends, he says that standard answers should be given, based on the suggestions of the Claimants' Union or others, he is advocating that people should claim benefit whether or not the claim is genuine and truthful, and that is a remarkable change of policy by the Labour party.

Labour Statistics

7. Mr. Knox asked the Paymaster General how many people were out of work in the Staffordshire, Moorlands parliamentary constituency at the most recent count.

Mr. Lee: On 11 December 1986 the number of unemployed claimants in the Staffordshire, Moorlands parliamentary constituency was 3,414.

Mr. Knox: Is my hon. friend aware that unemployment in my constituency, although lower than in most constituencies, has risen substantially under Labour and Conservative Governments over the past 13 years? How does he explain that in an area where wages and salaries are low, productivity is high and labour relations are excellent?

Mr. Lee: I know of my hon. friend's genuine and deep concern about the problems of unemployment generally in his constituency. The position is improving, even in his constituency. The number of unfilled vacancies is increasing and unemployment is slowly falling. Two job clubs will open soon—at Leek in March and at Cheadle later in the summer. I hope that my hon. friend agrees that there is an increasing skill shortage in his textile industry, just as there is in Lancashire. There is also a shortage of industrial land in his constituency on which firms can expand. I believe that the local authority is addressing its mind to that problem.

Skill Shortages

8. Mr. Jim Callaghan asked the Paymaster General whether he will make a statement on skill shortages in British industry.

Mr. Trippier: My right hon. and learned friend announced in the House last week a major new initiative for re-skilling Britain. The job training scheme will help unemployed people gain the skills now needed by employers in our expanding economy.

Mr. Callaghan: I thank the hon. Gentleman for his answer but may I point out that, over the past 10 years, in the engineering and construction industries, training for apprentices has almost collapsed, that in two other major key industries the number of trainee schemes has fallen by half and that the Government's schemes, such as those operated by the MSC and YTS, cannot cope with this problem? What will the hon. Gentleman do in the immediate future to rectify this problem?

Mr. Trippier: I think that the hon. Gentleman is guilty of massive exaggeration. No one would seek to deny at the Dispatch Box that there is a skill shortage. I would not even attempt to do so. But the figures show that fewer than 15 per cent. of firms currently expect output to be constrained by a shortage of skilled labour. That compares with 25 per cent. at a comparable point in the previous economic cycle in 1978-79 and with 50 per cent. during the last time the Labour party was in Government.

Mr. Lawler: Does my hon. friend agree that it is slightly ironic that the more that the Government do to increase the number of people in training to fill skill shortages, the more the Opposition seem to protest?

Mr. Trippier: I could not agree more. The Opposition are in a dilemma. They complain, as the hon. Member for Heywood and Middleton (Mr. Callaghan) has done, that we need skills training. When we introduced new programmes, as we did last week, they complained. They cannot have it both ways.

Mr. Meadowcroft: Has the Minister seen the interview with the Secretary of State in today's edition of the *Yorkshire Post* in which he said that he would advise young unemployed persons to seek employment in the service sector or in tourism? If that is the case, is it any wonder that we have skill shortages in our manufacturing industry?

Mr. Trippier: I have heard my right hon. friend say similar things in the past, which I must agree, in the sense that although we all recognise—somebody must say it from the Dispatch Box—that the manufacturing industry is the most important sector of the British

economy—it will be the wealth creator—we cannot see in Yorkshire, Lancashire or elsewhere in the United Kingdom that it will be a job creator in the future. Because of higher productivity per man and modern technology, manufacturing industry is more likely to shed labour, even though it is increasing its profitability.

Mr. Forman: Notwithstanding the £1.5 million that I think the Government have allocated on an annual basis to various relevant training programmes during their period in office, does my hon. Friend accept the fact that there is room for improvement in private sector training? Will he consider recommending to his right hon. Friend the Chancellor either further tax relief for private sector training or, possibly, adult training allowances of some kind?

Mr. Trippier: I am happy to draw what my hon. Friend has said to the attention of my right hon. Friend the Chancellor. My hon. Friend is absolutely right about the earlier point that he made. It is important for us to recognise what the private sector is doing in training. Recently, I was greatly impressed by the work that it has been doing, particularly in distance learning. We now see a new module coming off the stocks approximately on a weekly basis.

Mr. Sheerman: Will the Minister accept that the Opposition have never been against youth training and that we are not against but are in favour of quality training? We do not believe that a scheme such as the job training scheme, that offers three weeks' training in six months of experience, matches up to the desperate skill shortages that were reported in the engineering, construction, and information and technology industries. Is it not a fact that the Government have destabilised and destroyed skills training and put nothing in its place and that it is about time that the Government started to train people to compete?

Mr. Trippier: The hon. Gentleman must admit that if the JTS leads to a recognised qualification or part thereof that is respected by employers it is a move in the direction that he wishes to see. I am well aware of the first point that he made. Her Majesty's Opposition did not oppose the introduction of the MSC scheme or the youth training scheme. Nonetheless, they spend an inordinate length of time trying to rubbish it on every conceivable occasion.

Unemployment Centres

9. **Mr. Hayes** asked the Paymaster General what representations he has received regarding the funding of unemployed centres; and if he will make a statement.

Mr. Lee: We have received a number of representations from hon. Members and others about the value of funding centres for the unemployed under the community programme.

Mr. Hayes: I am sure that my hon. Friend is as dismayed as I am that he has been unable to receive a categorical assurance that the small minority of left-wing activists who have wrecked the Harlow unemployed centre will not be involved in the management of it. Will he reassure unemployed people—that is the vulnerable people in Harlow who have been cynically manipulated—that there will be help from the MSC in other ways?

Mr. Lee: The centre in Harlow was given repeated warnings not to display political literature and was given

every opportunity to put its house in order. According to the Wednesday 28 January edition of the *Morning Star*, a certain Danny Purton of the management committee said:

"We are not prepared to censure posters put up by the unemployed, unless racist or sexist."

In other words, anything of a political nature is acceptable to him. Therefore, the centre will cease to operate because funding will be withdrawn. My hon. Friend asked about the innocent people who will suffer because of the mindless minority. We shall do everything that we can, via the MSC and existing programmes, to be helpful and sympathetic.

Ms. Richardson: I understand that the Harlow unemployed centre was closed down very largely because of literature that was placed there by the campaign for action for benefits, a worthy organisation that is drawing attention to people who need benefits. Will the Minister ensure that, generally speaking, there is sufficient funding for unemployment centres to ensure that women who have either lost their chance of training in non-traditional skills, or who will never have a chance because of the closure of manual skill courses for women at skill centres, can be provided with advice?

Mr. Lee: The hon. Lady's question goes somewhat wider than the question on the Order Paper. Via the MSC, we are continuing to fund 83 unemployment centres at a cost of around £3.5 million per annum. There are about 670 places and they are equally available to women as they are to men.

Job Creation

10. **Mr. Yeo** asked the Paymaster General how many new jobs have been created since 1983.

Mr. Kenneth Clarke: There were about 1,119,000 more people in work in September 1986 than there were in March 1983.

Mr. Yeo: I congratulate my right hon. and learned Friend and, indeed, the whole Government on that achievement. As the labour force is likely to grow very much more slowly in the next five or six years than it has grown since 1983, even if the present trend of job creation is merely maintained is it not right that we can look forward to a significant reduction in unemployment?

Mr. Clarke: I agree with my hon. Friend. There have been more people in work in every quarter since 1983, and the growth in new jobs is now outstripping the number of school leavers and women who are entering the market for the first time. That is giving rise to this extremely encouraging downward trend in unemployment, and there is every prospect that that trend will be maintained.

Mr. James Hamilton: Is the Minister aware that instead of creating jobs in my constituency there has been a demolition job, with the ruthless closure of the Caterpillar Tractor Company, without any consultation with the union, and that 1,221 jobs are involved? If the Minister obtains all the information from the Secretary of State for Scotland, he will find that the Department was taken for a buggy ride as well as myself. I notice that there was a £62.5 million development programme, yet at the end of the day the plant was ruthlessly closed. Will the Minister take that on board now and do something about it?

Mr. Clarke: I have been following the case. I agree entirely with all the comments of my right hon. and

FROM: F. E. R. BUTLER
19th February, 1987.

CHIEF SECRETARY

c.c. Chancellor
Minister of State
Sir Peter Middleton
Mr. Anson
Mr. A. Wilson
Mr. Kemp
Mrs. Strachan
Mr. Turnbull
Mr. Scholar
Mr. T. Luce
Mr. Spackman
HEGs
Mr. Willis
Mr. M. L. Taylor
Mr. St. Clair
Mr. Jamieson
Mr. Morris
Mr. Robinson

PROGRESS REPORT ON BUDGETING

You asked what objectives the Treasury is setting itself for the further work, mentioned in the report on budgeting, on removing unnecessary central rules and controls.

2. Our general objective is to get rid of central rules which are no longer essential for central knowledge and control but which stop departments from taking full responsibility - or give departments an excuse for not taking responsibility. We take the same approach when setting up new regimes. The two sides to this are (i) to enable and encourage departments to give individual managers more flexibility and make them more accountable for their outputs and performance, and in return (ii) to press for better information about departments' plans and performance, and the means to identify potential economies.

3. Removing unnecessary controls may also bring some savings in Treasury casework, although on the expenditure side the opportunities for this are now small.

4. Specific objectives for 1987 fall into three main areas: expenditure control, running costs and manpower, and pay.

RESTRICTED

Expenditure control

5. Expenditure groups delegate authorities to departments for specific programmes - eg by defining the conditions which have to be met for grants, or the investment appraisals which have to be undertaken before a capital project. Individual cases have to be approved by the Treasury unless they are within the department's delegated authority, and even below the financial limits set in delegated authorities departments have normally to refer to the Treasury smaller projects which are novel or contentious.

6. There is not much scope now for reducing the time we spend on these programmes because knowledge of how the department manages the spending is essential for the Survey, Estimates and in-year control. But we can continue to change the nature of our involvement so we put more responsibility on departments for policing individual decisions, leaving Expenditure Groups more time to check that the department is applying the right tests. Some examples from recent years are DTI's industrial support expenditure, ODA, and the new arrangements being introduced for the Research Councils. A slightly different sort of example is the roads programme, where the delegated authority is now related to net present value rather than the cost of the contract.

7. The best opportunities for us to remove controls are when the department can show it has improved its control and information, or in the course of a policy review which sets up new criteria and controls. But specific work already planned for 1987 includes:

- a complete review of delegated authorities for the Department of Employment Group (although given the pressure from Lord Young for a block budget IAE is intending to proceed carefully)

- LG reviewing some delegations to the Cabinet Office, Treasury, and HMSO, and the possibility of PSA becoming a trading fund
- a review of delegated authorities for the Home Office (including prisons)
- a review by CCTA of the authority delegated to departments for computer expenditure.

8. The moves towards untying departments from COI and PSA will give all departments more flexibility, and less scope for shrugging off responsibility.

Running Costs and Manpower

9. Our main objective here was to move from a separate manpower ceiling to rely on running costs and budgets as the primary means of control. You announced this in the debate on the Public Expenditure White Paper.

10. We have also set out the criteria for considering a move from gross to net running cost control. We will be considering further requests from fee-earning activities (eg Land Registry). In addition we will begin to see the effect of moving driver testing to trading body status.

Pay and allowances

11. Controls over pay are rather different from those over individual spending programmes. The Civil Service is a unified Civil Service and, with a few exceptions, the same terms and conditions apply to all departments. The power to vary those terms and conditions is vested in the Treasury through Order in Council. Although we are contemplating a more flexible pay structure and it is our longer-term aim to give departments more budgetary freedom in this area too, we shall need to continue to keep a strong central control over it for some time yet,

until we are satisfied that the system will be effective in stopping flexibility turning into drift. There may be more scope for delegating a number of detailed controls in the area of allowances. The pay divisions are reviewing the scope for delegation in compensatory allowances, fees and other special payments.

Progress reports

12. The JMU were proposing to report progress in the further report on budgeting in December. Between now and then I suggest we let you have in the Summer an interim report on the progress of expenditure divisions' reviews. RCM and Pay will let you know of progress in the Survey and at the end of the 1987 pay round respectively.

F.R.S.

F. E. R. BUTLER

cc PS/CST

PS/FST
PS/PMG

Sir P Middleton
Mr FER Butler

Mr Anson
Mr Battishill - IR
Sir A Fraser - CoE

Ref. A087/1964
MR WICKS

*Paul R B
a subcl Unit?
pilot project?*

*each case
was a
look @ PS
units*

Improving Management in Government: The Next Steps

Ministers attending the Prime Minister's meeting on 9 July 1987 have already had copies of the report of Sir Robin Ibb's report to the Prime Minister under this title ("The Yellow Book").

2. I now attach a note which I have prepared, after consultation with Permanent Secretaries whose Ministers are attending the meeting and with Sir Robin Ibb, as a contribution to the discussion. I also attach a summary of Sir Robin Ibb's report.

3. I am sending copies of this note and the attachments to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, the Environment, Employment and Social Services, the Lord Privy Seal, the Chief Secretary, Treasury and the Minister of State, Privy Council Office.

*AK unbrd
P.S. (x position) done*

RA

ROBERT ARMSTRONG

3 July 1987

*Academy
Station
analogy*
*COE lawyers
Sh...*
W...

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

Note by the Secretary of the Cabinet and
Head of the Home Civil Service

The Government has, since 1979, developed a programme of major reform of management in Government Departments. The number of civil servants has been reduced by nearly 20 per cent, half through greater efficiency. The Financial Management Initiative (particularly top management systems and budgeting) has been established. Personnel management has developed, with eg a new staff appraisal system, greater attention to management development and training, and more delegation of clerical recruitment. A start has been made on the introduction of more flexible pay arrangements, with potential for differentiation by skill, performance, and geography. But there are still opportunities for further improvement in efficiency.

2. Last November, the Prime Minister asked Sir Robin Ibbs and the Efficiency Unit to review what had been achieved and to consider what the way forward might be. Sir Robin Ibbs's report has been submitted, under the title Improving Management in Government: The Next Steps. Copies have been sent to Ministers attending the Prime Minister's meeting on 9 July 1987.

V. Jones

3. Sir Robin Ibbs believes that further progress in the improvement of efficiency in management is held back by the emphasis in the present arrangements on control of inputs - in other words on the allocation of resources - rather than on the maximisation of outputs - the achievement of the best possible value for money from each pound spent. He considers that in order to redress this balance, to inculcate a greater sense of responsibility for the achievement of value for money, and to bring about a release of greater management energy to this end, it is important that those whose duty it is to manage the delivery of the services which Government provides should both

feel and be seen to be able to exercise a greater sense of personal responsibility for the achievement of value for money in the delivery of those services, and should be given a greater degree of freedom to manage the units that deliver services, within policy objectives and allocations of resources laid down by Ministers. His proposals are designed specifically to give the managers of delivery of services freedom to take their own decisions, within a total allocation of resources, on such matters as numbers, recruitment, pay and grading of staff; and, while preserving their accountability to Ministers for the realisation of the policy objectives laid down for them and for the efficient and economical use of the resources allocated to them, to leave them free to take decisions without reference to Ministers or to senior policy advisers on questions of day to day management.

4. Sir Robin Ibbs accordingly recommends that:

- the executive functions of Government - the functions described as the delivery of services - should be organised in distinct units within a framework setting the policy objectives, resources allocated and results expected;
- public servants at every level should be trained and experienced in the delivery of services and not just in the development of policy;
- in relation to the management of these units, senior management, Ministerial and official, should manage strategically and keep out of day-to-day detail, concentrating instead on developing a policy and resources framework for delegated but accountable services.

5. There is no hard and fast prescription as to the form which these distinct units, or "executive agencies", might take. Indeed, what is proposed can be seen as a further development of

what to some extent already happens. Existing arrangements suggest a variety of possible forms of "executive agency", ranging from the "contractorisation" of the management of a service (eg the Royal Dockyards), through vote-financed public authorities (eg the National Health Service), the quango (eg the Countryside Commission), the separate department (eg Customs and Excise) and the subordinate department (eg the Royal Mint or Export Credits Guarantee Department) to the separate unit or activity within a department (eg the Civil Service Catering Organisation in the Treasury). New forms would also probably need to be devised. Which form of agency was to be chosen would depend on the circumstances in each particular case.

6. Whichever form of agency was chosen, the objectives would be the same: to give those responsible for management the greatest possible degree and sense of responsibility for the efficiency and effectiveness of the agency in delivering the services with which it was concerned, and for that purpose the greatest possible degree of freedom to take management decisions.

7. In his Report, Sir Robin Ibbs lays great emphasis on the need for a firm framework within which an agency would have to operate. That framework would cover policy objectives, the result required, the resources to be provided and the handling of sensitive issues. It would be this framework which would provide the operating link between Ministers and their agencies and would enable Ministers to feel that agencies were under proper control.

8. There would be a transitional period, during which management units would be identified as candidates for "agency treatment" and prepared and adapted for the new relationship. Developing the necessary systems to make the framework of accountability effective would take time (probably quite a lot of time) and high level effort. In some cases legislation would

be required to bring about the necessary changes. Sir Robin Ibbs suggests that the aim should be to complete the process in five years. The time which it actually took would depend on how quickly agencies could be developed with the ability to exercise the new responsibilities which would be devolved upon them within a policy and resources framework. It would also depend on the amount of resources which Ministers were able to allocate to managing the change within their departments, (opinions differ as to the amount of additional resources that would be required, which would no doubt vary from case to case), on the availability of room in the legislative programme where necessary, and on the willingness of Parliament to adapt to the change.

9. The extent of the change involved and of its implications would be considerable. What is proposed is a much more "arms length", even "hands-off" relationship between Ministers (together with their senior policy advisers) and those responsible for the management of executive agencies delivering services. Ministers would be answerable to Parliament for the framework of policy objectives and resource allocations within which agencies operated; the managers of the agencies would be accountable to Ministers for the effective performance of their agencies in delivering services within those objectives and allocations. But Ministers would be much less involved in day-to-day management of the agencies and delivery of the services, and in answering questions in Parliament on these matters. Within the prescribed policy objectives and resource allocations, the manager would be on his own to the greatest practicable extent. He would not feel, or be seen to have, the degree and sense of responsibility which these proposals postulate as necessary, if his decisions on numbers, pay and grading were subject to Treasury control or his day-to-day management decisions were subject to endorsement or intervention by Ministers or senior policy advisers.

*Shut-down
contracts
line of fire*

10. The degree of freedom that could be given would vary from case to case; and the extension of freedom would be progressive, as the structure and performance of the agency proved its capacity to exercise responsibility within the overall policy objectives and resource allocations laid down for it.

11. Two major changes would follow from all this:

- To a much greater extent than at present, the achievement of the Government's objectives on civil service pay would increasingly be determined not by a pay strategy centrally formulated and managed by the Treasury but by the decisions of managers deciding what was best for the effectiveness of their agencies within available resources. It would not be easy to manage the process of change from the existing system of pay management to the new one without incurring risks of loss of control, and no detailed work has been done on how that might be achieved; it would be advisable not to relax present controls until the implications had been carefully thought through and arrangements made to ensure that repercussions that might be damaging could be contained. A great deal would depend on the robustness of controls of running costs and other inputs.

*Customs
ship security*

- Ministers would normally avoid answering directly in Parliament, or in letters to Members of Parliament, on matters of day-to-day management of the agencies. They would either refuse to answer such questions and direct them to the managers, or reply to the effect, "I am informed that ...", with a formula which made it clear that the decision or action questioned was a matter of executive management and not of Ministerial policy. This is not a new concept: Ministers have always declined to answer questions about the day-to-day management of nationalised industries, and have encouraged Members of Parliament to approach local offices of Government departments direct on

individual social security cases. What is proposed would be a major extension of this sort of concept. But Parliament would need to be persuaded to accept that extension, which some members might see as a curb on their ability to probe the activities of the executive.

*You: how to
insert & strike
policy
(eg work hours
allowance)*

12. The changes would affect the conditions of service of the civil servants working in the units chosen for "agency treatment". The Government would therefore have to consult the Civil Service unions. They could be expected to object, since the proposals would imply an intensification of the process of decentralising management decision-taking: many matters now negotiated with the unions centrally or departmentally would be dealt with at agency level, with corresponding loss of standing and power for central union officials. But many civil servants in senior and middle management would welcome the proposals, if they saw in them the prospect of greater responsibility and freedom in management. The much larger numbers of junior staff might also be supportive, if the effects on them were carefully thought through and planned so as not to worsen their conditions of service, and were then presented accordingly. All that said, the handling of the proposals might prove tricky with the Civil Service in the wake of the recent dispute.

*John Hsu
believes
As
sees Under
Secretaries
as "middle
management"*

13. Though it would be for Ministers and their departments to decide what units should be given "agency treatment" and what arrangements should be made in each case, Sir Robin Ibbs proposes, and I agree, that it would be necessary, during the period while the proposals were being put into effect, to have a capacity at the centre responsible for driving the change through, for identifying and foreseeing difficulties and helping to bring about their resolution, and for ensuring that arrangements proposed for or decisions made by one agency did not give rise to problems for others. For this purpose, Sir Robin Ibbs proposes that a senior official (described for the purposes of his report as a "project manager", though this seems

*What
has
HCS?
with
John
6*

to me to be a misnomer) should be appointed and should be made directly accountable to the Head of the Home Civil Service and through him to the Prime Minister.

14. Sir Robin Ibbs and I have discussed these proposals with Permanent Secretaries. They might not all accept the whole of the report's analysis of the obstacles to further progress in management efficiency. But most of them would agree with most of it, and they support in principle the approach proposed, namely that the delivery of government services should be managed to the greatest possible extent by "agencies" operating with a high degree of day-to-day autonomy within a framework of policy objectives and resource allocations set by Ministers, the heads of such agencies being accountable to Ministers for the attainment of the objectives and the use of the resources. They recognise that the changes proposed would be profound and substantial, would entail Ministers in withdrawing from involvement in management issues in their "agencies" and would be liable to criticism in Parliament as reducing accountability. But the potential benefits to be added to the continuing programme of management reform are attractive in terms of effective service to the public, and some of the problems could be reduced by variations in the form of agency and the degree of Ministerial control and accountability according to the political sensitivity of the agency's responsibilities. They (in particular the Treasury) see a danger that less detailed central control over costs and greater fragmentation in dealing with unions could lead to an escalation of total costs; and they agree with Sir Robin Ibbs that delegation of responsibility should take place only as the agencies' performance justified confidence in their ability to manage this responsibility and to control their expenditure on programmes and running costs efficiently within a policy and resources framework of the kind described. But they believe that, if Ministers and Parliament were prepared to accept less involvement in and answerability

for detail the changes should enable Ministers and senior officials to concentrate on the formulation and management of policy, and spend less time on matters of detailed management and administration; and should result in better outputs and results from available resources from progressively more skilled, experienced and accountable managers. Continuing effort would be required to ensure that policy managers and operational managers did not lose touch with each other.

15. If Ministers agree in principle with the analysis and recommendations in Sir Robin Ibbs's report and this note, the next steps will be:

- i. consideration and decision in principle by the Cabinet;
- ii. the appointment of the "project manager" referred to in paragraph 13;
- iii. presentation to civil servants and consultation with Civil Service unions;
- iv. at some stage (perhaps at the same time as iii) presentation to Parliament, probably through the Treasury and Civil Service Committee;
- v. identification of those executive or service delivery functions which should be the first to which "agency treatment" is applied.

16. For the purposes of presentation and consultation, a consultation document will be required. A draft of such a document will be prepared in the light of the discussion of this note and circulated to the Cabinet when they consider the proposals.

Robert Armstrong
ROBERT ARMSTRONG

Cabinet Office
3 July 1987

SUMMARY OF SCRUTINY OF IMPROVING MANAGEMENT IN GOVERNMENT

1. In November 1986 the Prime Minister asked the Efficiency Unit to conduct a scrutiny under the supervision of Sir Robin Ibbs
 - to assess the progress achieved in improving management
 - to identify measures which had been successful in changing attitudes and practices
 - to identify the obstacles to better management which remain
 - to report on what further measures should be taken.
2. This report summarises our findings and conclusions.

I INTRODUCTION

3. The management of government business is much improved since 1979, but there is wide agreement in departments that substantial further improvement is possible.

II FINDINGS

4. The themes which emerged from our scrutiny are as follows:
 5. Most civil servants involved in the delivery of services think that the developments of the last 7 years have had a positive effect on the way they go about their business. The main changes they identify are the various FMI systems, particularly Top Management Systems and budgeting systems. Managers want the delegation of responsibility which these systems should bring, and in a few areas managers do feel that they can now affect significantly the way their office works. Many people welcome the reforms in personnel management, especially open appraisal based on the achievement of specific personal objectives.
 6. Many local managers we spoke to are enthusiastic about the changes so far. But they also feel frustrated at the constraints which inhibit them from managing effectively. We identified three main areas which stand in the way of further improvement.
 - i. Management is neglected, in favour of policy formulation and political support.
7. The main pressures on Ministers are in responding to Parliament and communicating government policy. Many Ministers are fully extended and have to leave it to their civil servants to achieve better management and improved performance. Senior civil servants inevitably respond to the pressures on Ministers, which tends to concentrate their activities on policy making and ministerial support. The task of improving performance in the service delivery functions of government tends to get overlooked. Many people working in executive functions

pointed to the fact that the majority of civil servants at the top of departments and those being groomed for the top have had little or no experience of working in service delivery organisations. The effects of this lack of balance between policy and delivery show in many areas of activity.

ii. There is no effective pressure for results

8. Most of the pressures on departments are to spend money, not to get good value from their spending. In Parliament and the press the government's record is judged by how much money is going in. Departments see the PES process itself as being conducted primarily in terms of input (though there are signs of a growing emphasis on results, eg the increasing amount of information in the Public Expenditure White Paper about outputs). There are few systematic external pressures on departments to get improvement, although the seminars the Prime Minister has held to discuss value for money in several Departments have been valuable. The National Audit Office and the Public Accounts Committee are generally perceived to be concerned with pointing up impropriety or incompetence, rather than with sustaining pressure for management improvement.

iii. The Civil Service is too diverse and too big to run as a single rigid organisation.

9. There are nearly 600,000 civil servants engaged in very diverse activities - from driver licensing to catching drug smugglers, from fisheries protection to handling Parliamentary Questions. Yet all 600,000 are subject to common structures for pay, grading, recruitment and other management areas. This has two effects. First, many of the structures have developed in a way which fits the needs of no single organisation. Second, the freedom of any manager to manage is severely circumscribed.

III CONCLUSIONS

10. The management reforms of the last 7 years show how far attitudes and institutions have to change if the real benefits are to be achieved. Three main priorities are necessary to achieve a further step change in the rate of improvement:

First, the work of departments must be organised to focus 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 real and sustained pressure on and within each Department for continuous improvement in value for money obtained in the delivery of policies and services.

11. In our recommendations we apply these principles to the delivery of services, the functions of departments, and the centre of Whitehall. The changes will require the full commitment of Ministers and senior civil servants. The changes will have to be managed so as to build on developments already happening in departments.

IV RECOMMENDATIONS

1. FOCUSING ON THE JOB TO BE DONE

a. The Delivery of Services

12. 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.

13. Ministers and senior management will have to choose and define agencies. Some will be very big, comprising a whole department or a large part of a department; others may be very small. Agencies will operate within a framework of policy, targets, results to be achieved, and a budget. This framework will be set and updated as part of a rigorous annual review with the responsible Minister. The review should be based on a long term plan and an annual report. A crucial feature of the framework would be agreement with Ministers about the handling of sensitive issues and lines of accountability in a crisis. The presumption should be that within the framework of policy and resources set for it, the agency should have as much independence as possible in how it achieves its objectives. To strengthen operational effectiveness agencies should be given progressively greater freedom to recruit, pay, grade and structure in the most effective way for their business.

14. The head of the agency should have clear personal responsibility to deliver results within the framework set by the department and must be accountable for doing so. In due course arrangements for formal accountability might develop so that the head of the agency normally accompanies the Permanent Secretary to the Public Accounts Committee and answers before the PAC for his performance within the framework.

15. Placing more responsibility for performance on the agency heads has implications for the accountability of Ministers to Parliament. We believe that it should be possible for Parliament, through Ministers, to regard managers as directly responsible for operational issues. The arrangements for accountability would be an important part of the initial framework for each agency, and would need to be devised according to the specific needs of each particular activity. At present there are executive functions funded by central government where Ministers do not answer directly for detailed operational matters. In the case of agencies put outside Departments, consideration would need to be given to changes of this kind in formal accountability (which would generally require legislation). In the case of agencies which were whole Departments or parts of Departments, what is needed is the establishment of a convention that heads of agencies would have delegated authority from their Ministers for operations within the framework of policy and resources.

b. The Task for Departments

16. Setting up agencies has considerable implications for Departments. Departments have two main functions now: Ministerial support (including policy work) and managing or influencing the delivery of services. The change will be that where a Department is now directly responsible for the management of service delivery, in

future it will be responsible for the rigorous management of the framework within which a separate agency operates.

17. This will involve defining the policy and resources framework, monitoring the performance of the agency through key indicators, and holding the agency management to account for results. Although this is not a new task it is one which has not received the attention it deserves: the skills it requires from civil servants require a balance between policy, politics and service delivery. Operational effectiveness needs to be given a higher priority in the interpretation of policy and the thinking of Ministers. Ministers, with the support of civil servants in departments, must be able to handle political crises without compromising the independence of the agencies.

c. The Centre of Government

18. The centre of government has to take a lead role in ensuring that the changes to departments and agencies take place. When the change has taken place, the long term tasks of the centre will be: (a) to allocate resources; (b) to ensure a rigorous external pressure on departments for continuous improvement of results; (c) to ensure that the shape of the Civil Service continues to respond to changes in the needs of government; and (d) to set and police any essential rules on propriety. The centre has to be authoritative, demonstrably efficient and low cost, and a helpful resource to Departments, not a handicap.

2. THE RIGHT PEOPLE

19. The success of Departments and agencies will depend on the skills of their people. We recommend that Departments ensure that their staff are properly trained and experienced in the delivery of services whether within or without central government; the staff will then be in a position to develop and interpret government policy and manage the agencies in a way which can maximise results.

20. Experience of managing the delivery of services must be built up at all levels in departments. Senior managers must have spent time in an agency at more junior levels. There should not be two classes of people - those in agencies and those in departments. A wide range of arrangements, eg secondments, training and promoting some younger people, will be needed.

3. PRESSURE FOR IMPROVEMENT

21. Changes in organisational structures and the skills of people will not alone bring about radical change. Pressure for continuous improvement external to the organisations directly concerned is also needed. The Prime Minister and the Head of the Civil Service are responsible for setting the management strategy of the Civil Service. They need the commitment of Ministers and Permanent Secretaries to ensure that changes are pursued with urgency. The pressure for change must also be supported by Parliament.

22. Implementation of these recommendations will need the undivided attention of an extremely senior official who has personal responsibility for achieving the change. We recommend that a full Permanent Secretary should be designated as "Project Manager" as soon as possible to ensure that change takes place. He will need to work with the full authority of the Prime Minister and the Head of the Civil

Service, to whom he should report. The Project Manager will be responsible for planning and supervising the process of change, including the progress made by Departments in setting frameworks for their agencies and ensuring that Departments progressively obtain managerial freedoms to carry out their tasks effectively.

23. As these changes come about, the management functions of the centre of government will change. The Cabinet Secretariat and the expenditure functions of the Treasury will remain. There will need to be provision at the centre for determining direction, keeping up pressure on departments and setting standards.

V THE NEXT STEPS

24. The report has identified the 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 and because generalised solutions in the past have failed. The job of the Project Manager will be to ensure that each Department develops these concepts in a way that best suits its particular needs.

25. The aim should be to conduct government business in a substantially different way within five years. There should be a small core of "headquarters" staff servicing Ministers and acting as sponsors of particular government policies and services. The majority of the staff - not all necessarily civil servants - will be in agencies responsible for the delivery of services. There should be clearly defined responsibilities between the Secretary of State and the Permanent Secretary on the one hand, and the agency head on the other. Departments and agencies should have a more open and simplified structure.

26. The first task for the Project Manager will be to oversee plans to establish initial agencies. As the initial agencies come into operation, Departments should work up their plans for more widespread changes and a timetable for implementing the changes over four years. One result should be increasing confidence in the ability of agencies to deliver services, thus allowing Ministers to concentrate on their strategic role of setting the framework and planning policy development. As confidence increases in the robustness of the management framework, so greater freedom to manage should be progressively delegated.

27. The potential benefits which should come from these recommendations are substantial. Each 1% of running costs represents £125m. Experience elsewhere indicates that significant percentage improvements can be achieved when good management has freedom to deliver. There are enormous improvements to go for on programme spending; these could come in the form of better services to the public and reduced delays as well as savings.

28. The recommendations should ensure that clear lines of authority and accountability for management are devised, and that the involvement of Ministers in detail becomes the exception. We want to see managers

throughout the Civil Service eager to maximise results; no longer frustrated by central constraints and able to push the blame for failures onto them; and working with a sense of urgency to improve their service.

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FROM: SIR P MIDDLETON

DATE: 3 July 1987

CHANCELLOR

cc Chief Secretary
Mr F E R Butler
Mr Anson

NEXT STEPS

I promised a few thoughts on how to play the meeting. I think it should be possible to make it go as follows.

- (a) The political issues. These naturally come first in a ministerial meeting. They are also the area in which we can make common cause with other ministers;
 - (i) do Ministers want to give up control over large parts of the Civil Service;
 - (ii) do Ministers want to enforce a sharp separation between operational and policy areas;
 - (iii) how will the public take this;
 - (iv) how will Parliament take this
 - (v) will the agencies become a semi-independent pressure group;
 - (vi) do you really want this to be a big constitutional change.

- (b) Pay next because there is a common interest (I hope) in continued restraint;
 - (i) explain the present strategy (see the Kemp annex to the Anson minute of 7 July);
 - (ii) say there is no way of stopping knock on effects;
 - (iii) a new issue of this sort at this stage would make a difficult situation with the unions worse;
 - (iv) how could we have won the present dispute with the Ibbs arrangements in place.

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(c) Public expenditure, though our main interest, comes last in this sort of meeting. But you need to convince your colleagues, I hope with the backing of the Prime Minister that

- (i) there will be no relaxation of control of cash public expenditure inputs;
- (ii) we shall need efficiency savings to keep expenditure down. This is not a way of just transferring them to departments;
- (iii) any relaxation on pay will require a corresponding toughening of our position on running costs.

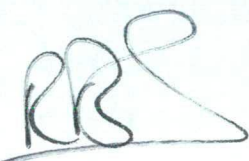
These are all important points to secure, and ones where your colleagues' narrow departmental interest will be to secure relaxations seizing the opportunity presented by Ibbs.

(d) Timing. Ibbs' timetable is clearly absurd. The Prime Minister may still wish to make a big splash. I suggest that here you suggest;

(i) that we should have one fully worked out example in all its aspects:

- legislative
- structure
- responsibilities of Ministers
- relationship with Parliament
- public expenditure provision
- running costs
- ability to determine pay
- penalties for failing to deliver output or stay within inputs
- output measure
- freedom on pay

(ii) you may be asked to volunteer Customs for this, but I hope we could be spared all the work involved. FP have no spare resources. So we need another example which covers all these aspects. Of the ones suggested so far the Passport Office and DVLC are probably the best.



P E MIDDLETON

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Lawyers

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FROM: A M FRASER
DATE: 6 JULY 1987

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary
PMG
Sir Peter Middleton
Mr F E R Butler
Mr Battishill (IR)

IMPROVING MANAGEMENT IN THE CIVIL SERVICE: NEXT STEPS

1. The official Treasury will be briefing generally on the report commissioned from Robin Ibbs by the Prime Minister. It may be helpful to you to have some observations on the implications for Customs and Excise.

2. I attach an aide-memoire setting out how Customs and Excise can best fit in with the concept of an executive agency which Robin Ibbs proposes. You will see that - because of the way the Department has been developing anyway - I do not believe that the Ibbs report will call for any material change to the organisation and status of this Department or to the relationships between Treasury Ministers and the Department. In particular the note underlines the importance of handling policy issues much as we do now. Policy advice and review in the Customs and Excise field must obviously be integrated with policy development over the whole economic and fiscal area: at the same time, it must also link closely with the implementation of policies within the Department.

In short I believe that the Ibbs report reinforces the path we have been following in the last few years in Customs and Excise - the establishment of clear accountability from the Board downwards for the achievement of defined objectives and value for money targets in accordance with policies and priorities set by Treasury Ministers. We are delivering good results, especially in the two key areas of VAT Control and prevention of drug smuggling. For example, we have achieved marked increases in real terms in the yield from VAT under-declarations discovered by our Control Officers. I believe that if we take further modest steps, within firm overall expenditure control, to increase managerial authority along the lines suggested in my note the Department would be able to secure even better results.

4. There are two other points on this. First, I do not believe that the line of development we are suggesting is an easy option. On the contrary, the fact that we have been greatly sharpening our information on the relationship between our inputs and outputs means that the Treasury have a more effective basis to challenge our assumptions in PES. In particular we expect to have to justify our expenditure very precisely in relation to work loads and outputs. These pressures are felt throughout the department. The increase in the VAT control cost/yield from 1:5.1 in 1982-83 to 1:7.5 last year has not been secured without a considerable investment of skill and effort on the part of management and staff. Likewise the achievement of the further improvement in the ratio to 1:8.7 by 1990 which we have built into our current PES submission constitutes a very demanding target.

5. Secondly, the further developments we seek do not flow from the Ibbs Report. We would be proposing them anyway because they reflect the logic of the management requirements in this Department if we are to continue to secure greater value for money. In an increasingly competitive market for the skills and quality of staff we require, we need some discretion - at least at the margins - to adjust terms and conditions of staff within our running costs allocation so that we can respond quickly and flexibly to our particular requirements.

If you are content with the broad lines of this approach, we would want to discuss detailed proposals with Treasury officials so that we might offer concerted advice to you on the way forward for Customs and Excise in the light of whatever decisions Ministers might take on the generality of the Ibbs recommendations.

And.

A M FRASER

PROVING MANAGEMENT IN THE CIVIL SERVICE : PROPOSED CUSTOMS AND EXCISE PILOT PROJECT

1. **Proposal.** The proposal is that Customs and Excise in its entirety should operate as an "Agency" in the terms of the Ibbs report from April 1988. A more appropriate term might be Commission. That would more accurately reflect the constitutional and legal position.
2. **Constitutional and Legal position.** This is governed by the Customs and Excise Management Act 1979 (especially Section 6). This confers wide powers of managing the Customs and Excise functions on Commissioners under the general direction of Treasury Ministers. It also vests in the Commissioners powers to appoint and remunerate staff and set their terms and conditions with the sanction of the Minister for the Civil Service. The constitutional and legal framework envisaged in the Ibbs report therefore presents no problems and can be adopted without new legislation. On the other hand it follows that any division of the Commission into constitutionally separate agencies would require primary legislation and very considerable constitutional and legal changes.
3. **Organisational Framework.** Customs and Excise is also organised in a way which is conducive to meeting all of the requirements for effective and efficient executive action indicated in the Ibbs report. Building on developing practice in recent years, two main levels of accountability for performance have been clearly established. First, there is the external accountability of the Chairman, supported by the Board (comprising all Commissioners), to Treasury Ministers. The second level is the accountability of each individual Director (Board member, in his capacity as senior line manager) to the Chairman for the delivery of agreed plans and targets. This two-tier accountability reflects the

extent to which, though the three main functions of the Department - VAT, Excise and Customs - can be separately defined, there is very considerable interaction between them. Annex 1 briefly illustrates the nature of this interaction and the importance of corporate activities for securing value for money across all the main functions.

4. **Relationships with Treasury Ministers.** These would develop along lines already clearly established. Treasury Ministers would continue to give broad policy direction and establish the main priorities for the Commission. In the important fiscal area, Ministers would be supported as now by Treasury and Customs and Excise officials working in close conjunction. The conventions which have developed for the handling of political crises, PQs, Ministerial correspondence and so on are broadly in line with those recommended in the report but they may need to be restated more formally.

5. Within that framework, the Commission would bid for resources over the PES period against a forward look which would assess the main factors likely to affect the discharge of its functions, indicate in broad terms the expected levels of performance and propose a strategy for pay and other conditions of service, structure and organisation. These proposals would be subjected to Treasury scrutiny and challenge in PES. In the light of Ministerial decisions on PES and the forward look and in particular on the limit for running costs, the Commission would prepare a plan for the year ahead indicating specific objectives and performance targets and the allocation of resources within agreed running cost limits for each of the main functional areas and for support services with particular attention to key results and value for money targets. The plan would be submitted for approval by the Paymaster General. Thereafter during the year regular reports on progress in implementing the plan would be sent to the Paymaster General. These would take account of any changes in circumstances since the plan was prepared. As now, these formal processes would be very substantially supplemented by more informal discussions and

briefing. It is through directions on policy and through the challenge and approval of the Board's proposed plan for performance that Ministers exert continuing pressure for sustained improvement in value for money.

6. **The Role of the Board.** The accountability to Treasury Ministers for the performance of the Commission within the framework they had set would rest with the Chairman, who would be supported in this by the Board comprising all the Commissioners. Building on developing practice in recent years, the Board would have a key role in determining priorities and performance targets and allocating resources within the framework agreed with Treasury Ministers. The main formal vehicle for this would continue to be the Board's Management Plan, which now consists of plans for each of the three main functional areas and for each of the main support services. During the year the Board would monitor progress of performance and resource use and make any necessary broad adjustments. It will remain essential that these high level responsibilities for providing direction on performance and allocating and controlling the use of resources should be discharged in a corporate way by the Board. Only in that way can policy and implementation issues be brought together effectively, including the substantial number involving interaction between the functional areas. The pilot project offers the opportunity for the Board to take further its efforts to ensure that implementation questions are reflected in policy formulation and advice to Ministers, and conversely that policy directions are accurately and sharply reflected in performance targets and standards for implementation. This is a most important factor in strengthening the Management Plan.

7. It is also at the level of the Board, which brings together Directors with responsibilities in the various functional areas, that important corporate strategies can be developed to follow through the additional authority under the pilot

project. There will be a need to enhance this strategic thinking in the areas of pay, personnel and structure, to ensure that there is a coherent Departmental approach.

8. **Line Managers.** The Board's Management Plan provides a clear framework within which the accountabilities for performance and resource management can be set for each line manager at each level from Director (Board member) downwards. The responsibilities and accountabilities for individual Directors were recently clarified and restated in a memorandum by the Board. The pilot project provides the opportunity to extend further the process of delegating authority from the Board to individual line managers, especially in the personnel field. This will complement delegations already given for resource management and therefore enable the accountability of managers for the performance of their unit to be made much more meaningful.
9. **Relaxation of controls.** It is proposed that there should be a programme of progressive relaxation of certain aspects of central management of pay and other terms and conditions and in the personnel area, within running costs controls.
10. **Pay etc.** We envisage that in year one (1988-89) basic pay rates and any mandatory supplementary pay allowances etc negotiated by the Treasury would apply to staff of the Customs and Excise "Commission" but that the Commission would have authority within running costs limits to negotiate separately discretionary pay measures in certain cases of the kind referred to in para 13(b) below. We propose also that the Commission, again within running costs, would have authority to determine the structure and rates of overtime, SDAs and T&S but would state as a matter of policy that they would be sticking closely to the main structures and rates in 1988-89 and negotiating only marginal adjustments to secure specific managerial objectives. (The recent Departmental scrutiny on attendance patterns calls in any case for experimentation in this field.) We envisage that decisions to extend these

authorities in 1989-90 and 90-91 would be taken during the course of 1988 in the light inter alia of the direction taken in national pay structures in the 1988 pay round. It might be that that would in any event enhance the degree of flexibility available to the Customs and Excise Commission.

11. Personnel. Members of the Department would, of course, continue to be Civil Servants, and personnel management in Customs and Excise would therefore be conducted within the framework set by the Civil Service Order in Council and those parts of the Civil Service Pay and Conditions Code which create contractual obligations. Within that framework, the Department will increasingly look to adapt centrally prescribed criteria in such areas as discipline, management development and staff appraisal to fit our particular circumstances. This will be a natural development of the Management and Personnel Office's current policy of setting out central guidance wherever possible in discretionary rather than mandatory terms.

12. In the key area of EO recruitment, we are reasonably content with the standard of recruit provided by the Civil Service Commission, and we would expect to continue to use the Commission for this purpose for the foreseeable future. We would continue to be looking for staff potentially capable of serving in any of the Department's work disciplines, and whose career path might take them to any part of Customs and Excise. We would, however, like to see the Commission operating on an agency basis by mounting more special exercises for the Department on the lines already successfully conducted for our Reading and London Collections. We would, in effect, write the specification for the potential recruits and place the advertisements, but rely on the Commission, with the help of seconded Departmental interviewers, to look after the other processes of recruitment and ensure the application of the agreed standards.

Clerical recruitment is already delegated to Departments and we envisage no immediate change in the present arrangements.

13. Running Costs. The Commission would continue to operate within a gross running cost-ceiling. As now, this would cover virtually all the expenditure of Customs and Excise except small amounts of capital and one or two miscellaneous items which would be covered within the overall cash limit. But we believe some key modifications would greatly facilitate further marked improvements in value for money:-

- (a) There will be a need for a realistic pay assumption in PES. The report refers to the "hidden" cut in each of the last three PES rounds through the assumption of a much lower pay increase than was actually awarded. This is very damaging to the credibility of the system which envisages that the executive authority is contracted to deliver a certain level of performance for a given amount of resource.
- (b) To reinforce the key messages in the Ibbs report, it will be important that running costs include some modest scope for providing for specific measures in the field of discretionary pay terms and conditions designed directly to secure improved performance. We believe that in the VAT and Excise fields a number of such measures would produce a commensurately large revenue yield.
- (c) If, rightly, increased pressure to deliver value for money is to be exerted, it would greatly help if some modest flexibility on the end-year running costs limit is offered - perhaps on an experimental basis. We have submitted a proposal of that kind to the Treasury which we believe would completely safeguard the disciplines of running costs controls.

(d) Some very small provision for the administrative efforts in setting up and running the pilot in the first year.

14. In the longer term, we should look at possibilities for introducing more directly output-related factors into running costs control.

ILLUSTRATIONS OF THE NEED FOR A CORPORATE APPROACH IN CUSTOMS AND EXCISE

Paragraph 3 of the main text points out that though the three main functions of the Department - VAT, Excise and Customs - can be separately defined, there is very considerable interaction between them. For example, about half of VAT is collected at import through the customs machinery. Controls at warehouses involve both Customs and Excise functions which are sensibly implemented in an integrated way. Excise officers spend much of their time looking after part of the Customs control (eg CAP goods; inward processing relief). Moreover a number of Outfield staff fluctuate between VAT and Customs work according to the season so as to even out seasonal surges. It would be highly wasteful to try to unscramble these interrelationships.

In the support field, the Department has important corporate infrastructure which supports all three main operational functions in the most efficient and effective manner - for example an integrated revenue accounting system (just modernised) and to an increasing extent information technology where the Department's strategy envisages not only the continuing development on a corporate basis of mainframe capacity, operating systems and networks but also a move to much more inter-functional use of computerised data banks which will increasingly be regarded as corporate assets. Already the Criminal Intelligence data base and the Fraud Investigation machinery cover Customs, VAT and Excise fraud and smuggling across the board.

Organisationally, several of the Directors (Commissioners) necessarily have responsibilities ranging over all the operational functions (this applies to Directors Outfield, Personnel and Organisation).

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**From: J Anson
Date: 7 July 1987**

CHANCELLOR

cc

Chief Secretary
Sir Peter Middleton
Mr F E R Butler
Mr Kemp
Mr C D Butler
Mr Luce
Mrs Strachan

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

You and the Chief Secretary are attending a meeting on Thursday, 9 July, to discuss Sir Robin Ibbs report on this subject and the paper dated 3 July which Sir Robert Armstrong has now circulated. The principal purpose of this small meeting is to decide whether the papers should be put to the full Cabinet, and to have a second reading debate of the main issues.

Background

2. The background to this, with a suggested Treasury approach, was set out in Sir Peter Middleton's minute of 18 June, and you will want to look at that again as part of the briefing for this meeting. Sir Peter Middleton's minute of 30 June covering the recommendations of Sir Robert Armstrong and Sir Kenneth Stowe on organisation at the centre, is also relevant.

Issues for Ministers

3. Sir Robert Armstrong's paper of 3 July is new. It has been prepared after discussion with Permanent Secretaries of Ministers attending the meeting, and brings out (much more clearly than the original report) what are the key issues for Ministers in the so-called "agency" approach. In particular, it highlights two points:

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(i) The change in the relationship between Ministers and executive work, and in the way in which questions from Parliament and the media would be handled (see paragraph 9 and the second indent of paragraph 11);

(ii) The decentralisation of decisions on pay, and the resulting risks of loss of control particularly in the transition (see first indent of paragraph 11).

4. From the Treasury standpoint, the key issues are:

(a) Public expenditure control. In theory, this is covered in the report by the requirement that each agency would be given a "policy and resources framework". So far, so good. But each of these will have to be devised in a way which allows effective control over inputs as well as improved performance. Paragraph 3 of the paper (first sentence) makes it clear that Sir Robin Ibbs has been mainly concerned to maximise output rather than minimise input. Both are important and we support in principle the emphasis on greater responsibility and accountability. But unbalanced emphasis on output is dangerous for the Treasury. And one cannot control the expenditure or running costs of an agency as though it is a kind of black box into whose inner workings one is not allowed to look.

There would need to be a much better standard of measuring and reporting the progress of outputs, inputs, and performance if the framework is to function properly. And at present, the overall control is bolstered by the degree of central control over pay and grading. If that is to be increasingly delegated to departments, and by them to agencies, the other control mechanisms need to be all the

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more effective. The report says that the management benefits may result in cost savings or better services. But there is a risk of a third alternative, which is that they will disappear in higher pay. This issue therefore leads on to-

(b) **Pay.** Paragraph 11 could give the impression that the only Treasury objective in this area is to control civil service pay in order to avoid leap-frogging, etc. But the Government also has a strategy for pay in the civil service (see the attached Annex A by Mr Kemp), and indeed in the rest of the public sector and economy generally. This is very important for public expenditure control. The example set in areas where the Government is employer influences others in the public and private sectors. This is not only a question of the level of pay settlements, but also of standing firm where necessary in the face of industrial action. Agencies would have little incentive to do this, especially if it would be harmful to their running costs in the short term. We are already making moves designed to facilitate some greater pay flexibility in the interests of management efficiency without incurring excessive costs. But the report implies moving at a much more rapid pace than this, without any clear picture of how the Government could exert effective overall control, as it would still need to, over the general level of pay settlements and costs (including drift).

(c) **Industrial relations.** The publication of these proposals (which were not trailed in the Manifesto beyond a general commitment to long-term management reforms to improve public services and reduce their cost) would be seen against the background of the civil service dispute,

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which is now virtually over but leaving behind a lot of bitterness. This will affect when and how they should be put to the staff and unions.

It would clearly help if they could be put in a positive context as a way towards better industrial relations, and greater efficiency, and as a natural evolution from the work already done on civil service management over the past 8 years. Change at any time needs staff cooperation or at least acquiescence. The fear must be that if the industrial relations side is handled wrongly, progress would at best be slow and unsatisfactory. At worst industrial action might result. But handled right, there is a good chance of pulling the change off. From the start, tone of voice will be important.

(d) **Financial Management.** We would not want the emphasis on a new initiative to imply that the existing FMI initiatives (on which PAC will be publishing a report this week) no longer mattered. Some of these, eg budgeting, are anyway a prerequisite of what is now proposed. The presentation suggested at the end of (c) above would help with this too.

(e) **Relations with Parliament, etc.** As the paper clearly brings out, the effective implementation of the Ibbs proposals depends on Ministerial and Parliamentary acceptance of the new relationship. Select Committees and MPs will require a lot of persuasion before they can be brought to accept what they will see at first blush as simply a restriction of their right to ask questions directly to Ministers. It would have to be put to them on the basis that it is in their constituents' interest to get the greater efficiency which the proposals would make

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possible. But although previous attempts by Ministers to divert correspondence for handling by local offices have achieved a little, they have not been conspicuously successful, given that **MPs like to be able to show that they have taken the matter to the highest level.**

I attach an interesting note by DHSS on this subject (Annex B). Our inquiries of Customs indicate that no more than 5% of MPs' letters go to local Collectors. The Prime Minister's meeting will want to consider how far such initiatives are likely to be successful, given that the success of the Ibbs proposal turns heavily upon this point. **In the longer term, there is also the question whether it could facilitate a reduction in the number of Ministers.**

copy in case

(f) **Timing** All these points affect the speed with which the Ibbs proposals could be published and implemented. The report suggested that within 12 months departments should have action plans for turning 95% of their staff into executive agencies within 5 years. The 95% was anyway only a "ball-park" figure by the Efficiency Unit for the eventual scope of the proposal. The Unit are now seeking to play down this timetable and it is not in the summary attached to Sir Robert Armstrong's paper. If Treasury control interests are to be safeguarded, it is important that Ministers reaffirm the principle (see paragraph 14) that responsibility should only be delegated to agencies so fast as their performance justifies confidence in their ability to manage that responsibility. As regards publication, given the difficulty of winning early support from the unions, it will be important to secure as much support as possible from Parliament. This is an argument for holding over the issue of the consultation document until Parliament has returned in the autumn.

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5. The Armstrong paper mentions that if the general principles are agreed, one of the next steps is to identify the first batch of executive activities to which the agency treatment should be applied. It is not intended that individual cases should be considered at this preliminary Ministerial meeting. You have already seen Sir Angus Fraser's ideas. In the light of the meeting you will want to consider, with Sir Peter Middleton and the heads of the other Chancellor's departments, what areas you might propose as possible candidates for this treatment.

Key Points

6. The key points to bring out at the meeting, drawing on the above are;

(1) Need to pursue twin objectives: controlling public spending and getting better value for money from it. Analysis in report is defective in neglecting the former through its concentration on the latter.


(2) We are already pursuing a cautious strategy of delegating control over pay, and will be developing this further. But risks to public expenditure control considerable if each agency goes its own way. Delegation must thus be in context of effective control of annual budgets for expenditure and running costs, including arrangements for planning, monitoring and achieving greater efficiency. Government collectively will anyway be concerned about any significant pay settlements.

(3) Ministers will never be able to abdicate all responsibility for execution of policy. Advantage in trying to reduce volume of correspondence handled centrally. But report assumes too clear-cut a distinction between policy and execution.

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(4) Each proposal for an agency should be considered on its individual merits. No single model right for all cases. Progress will depend on development of good performance measures and monitoring arrangements to back the policy and resources framework (on which Treasury should be consulted). No commitment yet to the proportion of departmental activity to which agency concept can be applied, until the first set of pilot projects can be evaluated.

(5) Handling and timing of proposals to unions and staff, and publication, must take account of need to rebuild industrial relations after recent dispute. Handled skilfully, there is a good chance of pulling this off; but otherwise progress would be slow and unsatisfactory. Important that Parliament should be brought to support the proposals and not to react adversely on first publication. Questionable therefore whether it is sensible to go public before the end of the Recess. Tone of voice (eg stressing natural evolution of changes already made) will be important for all these audiences.


J ANSON

SPEAKING NOTE ON PAY

Essential that changes do not let costs, including paybill costs get out of control. This and risks of repercussions from one organisation to another means centre will have to keep close watch on pay, especially in early years. And as well as internal repercussions, need to keep an eye on external effects. Civil Service pay is always in the limelight and seen as an example to others. Subject to that, also require flexibility within the overall constraint so that pay can adapt to needs which may vary from one organisation to another.

Recent developments on civil service pay have taken us some way down this road; and are taking us further. Briefly, we have pursued a policy of seeking greater flexibility while containing cost. These flexibilities are aimed at greater differentiation of pay between and within different parts of the civil service; and are very much in the spirit of, and compatible with (though they do not require) sort of changes we are discussing today.

Many examples, but major instances are

- the flexible pay deal with the IPCS and progress towards similar deals with other unions;
- the introduction of special pay additions to meet particular problems of skill or location;
- the experiments (not always successful, but always instructive) with giving departments discretion over some elements of pay;
- increased signs of new union willingness to talk about more cooperation with new technology, FMI, etc;
- the move away from across-the-board increases towards a more selective approach both as between unions and for different groups within the same unions;
- moves to reform the pay determination system itself, along Megaw lines.

These developments are worthwhile in their own right and will be built on whether we make the machinery of government changes or not. But they go very well with the grain of what we are now discussing.

Note however need to move cautiously. Change always difficult, and especially so when we are doing it within tight cost constraints and with a work force which feels itself discontented (witness current industrial action). So important to present change as evolutionary, building on momentum accepted (if not always welcomed) by staff.

From A M W BATTISHILL



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

Ch

This is a well-written thoughtful
piece (much better than Angus
Fraser's rather laconic one).

7 July 1987

AA

CHANCELLOR OF THE EXCHEQUER

IMPROVING MANAGEMENT IN GOVERNMENT : THE NEXT STEPS

Ministers will be discussing the Ibbs Report and Sir Robert Armstrong's paper on 9 July. I thought I should offer you these personal thoughts on them before we meet on Wednesday.

2. There is no doubt in my mind that Sir Robin Ibbs has put his finger on a real problem. The principles of FMI, with accountable management and devolved budgeting, are increasingly accepted as necessary and worthwhile. But there is also some genuine frustration that their application is hampered by too much central involvement and an absence of genuine flexibility to respond to management situations, particularly where pay and conditions are involved.

cc Chief Secretary
Financial Secretary
Sir Peter Middleton
Mr F E R Butler
Sir Angus Fraser (Customs & Excise)
Mr Anson

3. Nor can I disagree with the Ibbs' conclusion that the Civil Service is too diverse and too big to run as a single rigid organisation, with common structures for pay, grading, recruitment and so on. The increasing difficulty in resisting market pressures to poach good tax inspectors and valuers, and in staffing London and the South East, are two illustrations. Many of us think that the present half-way house is unlikely to be sustainable in the longer run. Pressures are growing on Departments and their operational units to manage and deliver. And that is healthy provided they are fully equipped to do so, and then held fully accountable for the results.

4. Whether that final step requires a move to agencies is difficult to judge. We have already come a long way within the Departmental structure; and no doubt more could be done. But only, I believe, if the present limitations are better understood and tackled in some way. The underlying objectives of the Ibbs Report seem to me to be right.

In more detail

5. There are perhaps three questions:

a. do Ministers wish to go down the agency road, not just for fringe activities but for substantial blocks of mainline executive functions;

b. if so, should the Revenue be included;

c. again, if so, on what basis?

I will try to deal briefly with each.

Agencies or not?

6. As I see it, the essence of the agency basis is proper responsibility, and full accountability for the efficient delivery of the service. The aims and objectives of an agency would, as now with Departments, be agreed in advance with Ministers. So would the broad standard of service to be attained. Budgets would be agreed in advance, as now. And new tasks (eg Budget changes) would be undertaken, with or without financial adjustment, as now. None of this would be new.

7. What would be different is the degree of freedom for the agency - within an agreed budget - to run its affairs to attain those objectives the way it judged best. Within an agreed framework the agency would need to be free not just to vary numbers and types of staff, but recruit those whom it needed, negotiate their pay (or at least have freedom to vary centrally negotiated rates and allowances), and (possibly) have some discretion to vary conditions of service to meet particular management situations. And, within the framework, to vary its effort and emphasis according to available resources. And to do so mainly on its own judgment.

8. The keynote to the Ibbs approach, as I see it, is extra flexibility within a pre-determined financial framework: especially on pay, allowances and conditions at present centrally prescribed on the basis of service-wide criteria. Ministers would still determine direction and broad priorities. But, if it is to make any real difference, it has to mean less central involvement in detail, both by Ministers and officials. In return, it carries an obligation of full accountability on the agencies for performance and delivery.

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15/2/72

*IR model OK -
but don't forget compliance!*

What about the Revenue?

9. I believe Sir Robin Ibbs and the Efficiency Unit were influenced by the position of the Revenue Departments. We already exhibit features of their agency model. We have statutory responsibility for administering our respective taxes under the general direction of the Treasury. In the Revenue's case, for the "care and maintenance of the income tax". From this derives the conventions that Ministers do not involve themselves normally in individual tax cases; that we take our own decisions on tax settlements and prosecutions; and that, for the most part, we are left free to run the tax assessment and collection machine within broad guidelines agreed with Treasury Ministers. More than three-quarters of our staff are covered by Departmental rather than general Service unions - the IRSF, AIT, AVOV. And we have a number of separate Departmental grades.

10. Other things follow:

a. Unlike most Permanent Secretaries (according to Sir Robin Ibbs) the largest part of my time (and that of my predecessors) as Chairman is spent managing the Department, rather than on matters of tax policy (except in the three months before the Budget).

b. We also have a corporate management structure, both in respect of the formal responsibilities vested in the Board, and also less formally. Board meetings are frequent. As well as their specific responsibilities Board members share in the overall management of the Department.

c. Parliament and the public recognise that we are constitutionally a little different. For example, a large number of Members write direct to the Chairman on operational complaints rather than to Treasury Ministers; we receive close interest every year from the PAC and the PCA Committees; and the representative and professional bodies look to the Board for regular contacts on matters of tax administration, and do not normally trouble Ministers with questions of this sort.

11. This suggests that, if Ministers were persuaded by the Ibbs Report, the Revenue might be a strong candidate for agency status. Of our nearly 70,000 staff, all but (at most) a few hundred are engaged in executive functions - the business of tax assessment and collection, or the provision of valuation services to the public sector, or direct support of those activities through specialist personnel, finance, legal, etc, functions.

12. The question of the Revenue's policy functions raises more complex issues which I come to later.

How would it work?

13. What follows represents no more than preliminary first thoughts. A good deal of detailed work would be needed before embarking on a change of this kind.

14. But one can conceive of a number of different models which illustrate both the possibilities and the problems:

- a. a multi-agency basis;
- b. a two-agency basis; and

What does this mean?

- c. the Revenue as a single agency.

Multi-agency basis

15. This would build an agency structure on the existing organisation of the operational arms of the Department.

16. The two prime candidates would be:

a. the Taxes and Collection service: the 56,000 or so staff which make up our present Operations Division, plus one or two separate specialist units (like Claims), reinforced by staff from specialist functions (see below);

b. the Valuation Office: the 5,500 or so professional and non-professional staff engaged on valuation work (dropping to 4,000 with the end of domestic rating), perhaps also with some reinforcement of specialist staff;

plus on a much smaller scale:

c. the separate Capital Taxes offices for England and Wales (720) and Scotland (100);

d. the separate Stamp Offices for England and Wales (280) and Scotland (40); and

e. (just possibly) the Oil Taxation Office (30).

17. To create effective agencies, the 1,800 other staff on centralised functions like personnel, recruitment, manpower, training and finance would probably need to be dispersed to the operational agencies, at least in part. Other staff

might still be held at the centre of the Department; lawyers, statisticians, those engaged on CIR functions, internal audit, and so on. There might need to be internal charging arrangements for central functions used by the agencies.

18. The role of our Information Technology Division (1,750) would need separate consideration: again there are a range of options. So, too, would the extent and nature of the Board's role - if one remained.

19. In some ways this would be a step back towards the organisation of the Revenue into semi-autonomous branches as it was before the Price review ten or twelve years ago. In fact, the lines of responsibility and accountability would need to be much clearer than the pre-Price organisation (a main reason why the change to the present structure was essential). Whilst this possibility would need to be examined, I do not believe it offers an economical or efficient way forward.

A two-agency basis

20. An obvious objection would be the small scope and size of the smaller agencies. Neither is necessarily inconsistent with the Ibbs Report. But such a degree of imbalance raises obvious questions.

21. A simpler agency structure would divide the Revenue's operational activities into two: the Valuation Office and a Taxes agency. The latter would assume responsibility for assessing and collecting all direct taxes, including capital taxes and stamp duties. But the question of what to do about the various centralised functions would still remain.

And the Board's own position would need to be considered. One possibility would be for the Chief Valuer to be made wholly responsible for the Valuation Office, with the Board left to run all the taxation work.

A single agency

22. The third model would turn the Revenue as a whole into one single agency responsible for assessing and collecting the various taxes and for a range of valuation services to the public sector.

23. The agency would be managed by the Board, and the Chairman would be accountable to Ministers and to Parliament for all aspects of performance on the services remitted to it. The internal organisation could remain broadly as now or there could be changes. Resources would be determined as now as part of the PES process. The policy and operational framework would be set by Treasury Ministers in the context of our annual SMS Report, the new Departmental Statement of aims and objectives and the Departmental Development Plan. These, and the annual Board's Report, would provide the basis for an annual review of performance.

24. Ministers would, of course, still answer to Parliament for the agency's strategic and financial framework; but less so (if at all) for day-to-day performance. Ministerial correspondence with Members on individual tax complaints would pass to the Agency, except where questions of tax policy or (perhaps) the performance of top management was involved. This would build on the 500 or so letters a year from Members I deal with directly now. Parliamentary control would continue to be based on supply procedures, scrutiny by the Public Accounts Committee, and the work of

the Parliamentary Commissioner and PCA Committee.

Policy work

25. This raises some tricky issues.

26. The Ibbs proposals rest on a rigid separation of policy and Ministerial work from the business of delivering services: between pure "policy" and "execution of policy". In areas of reasonably settled policy this distinction may be a viable one. But where, as in direct taxation, there are significant annual changes in law and system, and the law evolves to an extent through decisions on individual cases, this distinction seems less appropriate or helpful.

27. This is well illustrated by the work of our Policy (135) and Technical (100) Divisions* in Somerset House. The specialist Inspectors of Taxes who make up the Technical Division have a dual function: to advise Policy Divisions and Ministers on technical aspects of tax policy and Finance Bill drafting; and to give expert advice to tax offices on complex cases, difficult technical or legal points, or specialist areas of activity (banking, insurance, farming, etc). Similarly, Policy Division staff divide their time between Ministerial support work on the one hand (considering policy changes, preparing papers, instructing Parliamentary Counsel, Finance Bill support, Parliamentary Questions, and so on); and on the other, on a range of

*(The second Technical Division (500) is concerned almost wholly with counter-avoidance and evasion work and would fit fairly easily into an agency structure.)

functions aimed at ensuring policy is implemented consistently and equitably on the ground (resolving "policy" points on individual cases; exploring new or novel issues with the professions and representative bodies; dealing with concessions; and giving practical expression to the Board's statutory "care and maintenance" responsibilities).

28. In both cases, the second groups of function are really part and parcel of an overall Head Office presence. They go with the Department's operational role. On any of the three bases in paragraphs 14 to 22 above those functions, and some of the people, would have to go to the agency or agencies. But the policy advice function could (and on the Ibbs model should) be at arm's length from the executive functions - either in a separate Revenue policy secretariat or perhaps as part of the Treasury.

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29. In my view, the nature of the work argues strongly for the former. Much of what Policy Divisions do is either concerned with fairly technical stuff or with changes which have significant implications for the way the tax system works (eg for PAYE). Policy advice to Ministers has to be based upon a full understanding of those technicalities and of the operational implications on the ground (whether in tax or collection offices, or the Capital Taxes Office, or whatever). The policy people work cheek by jowl with their technical advisers, and are in day-to-day contact with the Divisions responsible for operating the network of local offices and with those concerned with information technology. Their job is to synthesise a wide range of views and give Ministers advice fully informed by operational considerations. They are able to do it quickly and effectively because they are part of one organisation, and not separate from it. If the functions were separate I

am sure we should quickly need to replicate the existing links in some other way - or move to a much slower and less predictable regime for change. Experience in the United States and Canada only confirms this.

Conclusions

30. It must be for Ministers to consider first whether the idea of public service agencies offers a fruitful way forward. It pre-supposes that they are prepared to stand back from the details of administration - and in some politically sensitive areas - much more than at present and that Parliament will allow them to do so. And that the centre is willing to devolve even more freedom to the periphery. This seems to me to be the crucial issue. A fudge - conceding the form without the substance - would be worse than no change at all.

31. For the Revenue Departments the potential gain lies in greater flexibility and opportunity to make the FMI a reality - in return for accepting full accountability for their actions and for performance. Indeed, I detect, certainly in the Revenue, a growing enthusiasm for as much accountability as possible provided it is matched by real freedom to manage. If the future lies in this direction, then I think Ministers should seriously consider whether the Revenue should not be part of it. There are different models to consider; but a lot of detailed work will be needed and fences should not be rushed.

32. I do not see, in our particular case, that a separation of policy advice from the rest is either necessary or sensible.

amb

(A M W BATTISHILL)



NOTE OF A MEETING AT NO.11 DOWNING STREET
AT 10.15 AM ON WEDNESDAY 8 JULY

Present: Chancellor
Chief Secretary
Sir P Middleton
Mr F E R Butler
Mr Anson

IMPROVING MANAGEMENT IN GOVERNMENT

Sir P Middleton said that Sir Robert Armstrong's paper set out the issues. Ministerial colleagues at the meeting would have seen the Ibbs report itself but not the separate paper by Sir Kenneth Stowe, though that was clearly relevant background. He thought the main issues were

- (i) If Ministers did decide to follow the Ibbs route, it must be done wholeheartedly; a half-way house would be likely to be much worse than either the present system or the full Ibbs solution.
- (ii) A critical issue was the new relationship between Ministers and Parliament which would follow from the Ibbs proposals.
- (iii) We should need to have a much tougher running costs regime if, as proposed, the Treasury lost central control of pay.

Although there were great dangers in the proposals, many of the objectives of the report were ones the Treasury shared and was progressing towards anyway: we were for example trying to give some more responsibility to Departments, including pay flexibility. But it was essential to do this in a managed way.



2. Mr Butler thought the Prime Minister was impatient that after eight years work on improving efficiency and management there was not enough concrete to show for it; the Nimrod affair and the issue of hospital waiting lists had both stimulated her interest in more radical options. He too thought that some elements of the report made considerable sense: if we could release departments' sense of responsibility, that would be wholly desirable. But it was wrong to take a simple model for the whole of the Civil Service and implement it hastily: that would tend to produce either disaster or disappointment.

3. The principle of allocating a block of money to a department and expecting it to manage within it was not new: it was essentially how we operated the defence budget. But the Treasury always found that these sorts of arrangements did not work for ever: in time, the department came back for more and the Treasury needed to know enough about the detail to be able to argue the case.

4. The Chancellor said he was very concerned about the proposals. He thought there were two difficulties in particular: on public expenditure control; and on relations with Parliament. On public expenditure control, he thought that many of the problems arose because Ibbs himself wanted to see higher spending. And our experience in giving departments greater flexibility had not been a success at all; for example the way Customs had misused the flexibility to pay lawyers more.

5. He felt the report was seriously flawed in staying at such a high level of generality. It was only possible to assess the proposals by considering one or more specific examples and asking in detail how they would work. This was critical not just for public expenditure control, but also for analysing relations with Parliament. Instead of setting up a structure to be imposed on all Departments at once, it would be greatly preferable to choose one or two areas as pilot projects.



6. The Chancellor said he did not see the case for a full time project manager. Sir P Middleton agreed: it would create a difficult precedent for our general policy on the open structure; and it was completely wrong to give this post a grading higher than the Treasury Permanent Secretary in charge of all public expenditure.

7. Mr Butler very much agreed that experiments so far on giving departments greater flexibility had not been reassuring: apart from the Customs lawyers, there were the ADP allowances at Reading where DEM and DHSS had eventually been forced to pay higher allowances to all staff; and the proficiency allowances for typists, which were in practice now paid to all.

A C S ALLAN

Distribution

Those present



10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONGIMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister held a meeting today to discuss the report, Improving Management In Government: The Next Steps, prepared by Sir Robin Ibbes. The meeting also had before it your minute of 3 July. There were present: the Lord President, the Chancellor of the Exchequer, the Secretaries of State for the Home Department, Environment, Employment, Social Services and Defence, the Lord Privy Seal, the Chief Secretary, the Minister of State, Privy Council Office, Sir Robin Ibbes, the Head of the No 10 Policy Unit (Professor Brian Griffiths) and yourself.

Opening the discussion, the Prime Minister said that, there had been great improvements in Civil Service management and efficiency during the last eight years. But she was convinced that there was still much more to do. So she had asked Sir Robin Ibbes to prepare his report.

Sir Robin Ibbes then gave a slide presentation, the main points of which are summarised in the document attached. Other points made by Sir Robin in his presentation included:

- i) His report's recommendations were focused on the need to alter attitudes and behaviour, which were inhibiting effective change. In a well-managed organisation, managers, at all levels, were clear about their tasks and responsibilities and the constraints in which they operated. They cared about meeting those objectives and had clear lines of responsibility. The Civil Service still lacked this.
- ii) The "hands off" approach referred to in the third slide did not indicate a "hoping for the best" attitude. The essential point was to create a framework in which managers were given tasks, were left alone to accomplish them, and had their progress monitored.
- iii) The pressures for improvement in managerial efficiency within the Civil Service, were neither institutionalised, continuous nor steady. Such an environment needed to be created.

CH/EXCHEQUER	
REC.	10/10/1987
ACTION	Mr Anson
FORWARDED TO	PS/CST Sir P Middleton Mr FER Butler PS/FST PS/PMG Sir A Fraser C&F Mr Battishill IR

- iv) The Civil Service had for too long given priority to ministerial support and policy development to the neglect of the management to the delivery of services. Senior managers at all levels in the Service should have some experience in the management of delivering services.
- v) The support of the Head of the Civil Service was essential for the success of the recommendations. He would need the support, on a day to day basis, of a senior official, termed in his report "The Project Manager". The Project Manager would play a vital part in avoiding the dangers described in slide eight, and in presenting the new approach to Parliament, the Unions and the Service's own middle managers.
- vi) Perhaps the biggest danger for his proposals was the lack of good managers in the Service. To that extent, the implementation of the changes he proposed would be an act of faith, though good managers could only be produced through the implementation of the approach described in his report. Senior managers running the agencies would need to be chosen with great care, perhaps promoting, in some cases, much younger people than hitherto.
- vii) The crucial issue was to persuade Parliament, in particular, of the benefits of the approach.

Summing up his presentation, Sir Robin repeated that changes in the Civil Service attitudes and behaviour were vital. Departments could devise their own forms of agency with the help of the Project Manager. Good foundations had been laid over the last eight years and he believed that there was an explosion of energy in the Service waiting to be tapped. His aim was to provide a means for now going further and faster.

You emphasised that the approach in Sir Robin Ibbs' report built on developments already in train. The Civil Service had to be prepared and trained if the full advantages of the new approach were to be achieved. Changes in attitudes were vital, but the Civil Service were capable of responding. The selection and training of managers was vital. You believed that the explosion of energy, referred to by Sir Robin, could be brought about. One advantage of the approach was that it could reduce the burden and pressures on busy Ministers.

You doubted whether there was only one model for the agencies: several models could be envisaged - sub-departments, privatised bodies, quangos, etc. The first step was to trawl Departments to identify work which could be put into an agency. It would be sensible not to choose for the first agencies the more difficult or sensitive operations. Examples of work which might be put in an agency included: the Employment Service in the Department of Employment, non-nuclear research in development establishments in MoD, the Disablement Service in DHSS, HMSO, the Patent Office, the Civil Service Catering Organisation, Customs and Excise and

and the Department for National Savings. If Ministers approved Sir Robin's proposals, they might be followed up on the following time scale:

Cabinet	23 July
Consultation Paper to staff, unions and Parliament	end July
Consultation	September
Action Plan identifying agencies for first round	October
?White Paper	
Implementation progressive from	1 December

You concluded your remarks by emphasising that you would not recommend pursuing Sir Robin's proposals unless Ministers were ready to give them their full commitment.

The following points were made in discussion:

1. There would be considerable advantage in proceeding in the direction Sir Robin Ibbs indicated, for all the reasons his report described. It would provide a way for harnessing the enthusiasm of managers in the Civil Service. The approach could reduce the burden on Ministers and Departments in persuading and explaining details of their Departments' operations. However, it would not, work unless Parliament could be persuaded to accept replies and explanations from Heads of Agencies without insisting on access to Ministers on details. Without such a fundamental change in MPs' relations with Departments, the approach in the Ibbs report could not work.
2. There would be great resistance from MPs to any such approach. Many would argue that Parliament had a responsibility first to see that Ministers accounted in detail for their use of public money and second to act to defend the rights of individual citizens if they were adversely affected by Departmental actions. Ministers would be wasting their energies if they tried to persuade MPs to reduce their efforts in this area. Indeed Parliament, with the growth of full time Members of Parliament, Select Committees and more assertive Clerks, was pressing to take greater interest in the details of Departments' business. The likelihood was that this process would continue. It would be a mistake to try to tackle Parliament head on, or too quickly. A relevant factor on the immediate timetable was that the Departmental Select Committees had yet to be established for this Parliament. Parliament would react adversely if they thought that radical proposals were being bounced through them.

3. It was argued strongly that though the limited flexibility introduced by the Treasury was yielding good results, the present central controls on pay, grading, etc. inhibited efficiency. The Centre put too much emphasis on detailed monitoring. It was unclear why the Treasury could not rely, like a business, on an overall resource constraint for each Department, leaving the Department flexibility to operate within that constraint. Against that, it was argued equally strongly that the agency approach could be a recipe for a complete loss of control of public expenditure and an explosion in pay and public sector numbers. An overall resource constraint was not effective. The agency approach was best suited to those Government functions where a specified amount of money could be allocated to operations with definable and measurable output. Without such a firm framework of control, the agencies would be no more than pressure groups for more money. The examples of agency-type bodies already established within Government did not give much confidence, such as the National Health Service, the Arts Council, Sports Council, the British Council, Royal Ordnance Factories and the UGC.
4. If agencies were to be established, it would be important that senior managers in the agencies were employed on short-term or rolling contracts enjoyed by private sector managers. There was probably insufficient managerial expertise within the Service to operate agencies: outsiders would have to be recruited.

Summing up the discussion, the Prime Minister asked Sir Robin Ibbes and yourself, after reflecting on the discussion, to prepare a further paper for this group of Ministers and the Secretaries of State for Trade and Industry and Transport, for discussion in September. Before coming to decisions, Ministers wanted to see how Sir Robin Ibb's proposals could be applied in practice in particular instances. To that end, the Departments concerned should be asked to identify possible candidates for the agency approach, which could take various forms. Further thought needed to be given to the presentation of the approach to Parliament. It would be better if developments were presented without drama. The approach should be to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies becoming pressure groups for more expenditure.

I am copying this minute to the Private Secretaries to the Lord President, Chancellor of the Exchequer, Secretaries of State for the Home Department, Environment, Employment, Social Services and Defence, the Lord Privy Seal, Chief Secretary, Minister of State (Privy Council Office) and to Sir Robin Ibbes and Professor Griffiths.

N. L. W.

N. L. WICKS
9 July 1987

psj



FROM: MISS J LONG
DATE: 17 August 1987

MR ANSON

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

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

As you know a meeting on Improving Management in Government: The Next Steps has been arranged for Thursday, 22 October.

2. I would be grateful if your briefing could reach this office by close of play on Tuesday, 20 October.

Julie Long

JULIE LONG

CONFIDENTIAL

Draft of 9 October 1987

IMPROVING MANAGEMENT IN GOVERNMENT -

THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

The main recommendations of the Next Steps report, which Ministers discussed at the last meeting of the group on 9 July, were as follows:

- To the greatest possible extent the executive functions of Government (essentially those responsible for delivering services) should be carried out by 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. This would entail a greater distancing of Ministers from day to day operational management, and a change in the way in which accountability to Parliament in respect of the agencies was discharged.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective

progressively, agency by agency, over a definite and limited period (say, five years).

- 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 a "project manager" at a senior level to ensure that the programme of change took place.

2. At their meeting on 9 July, Ministers ^{before coming to decisions} asked for individual examples of agencies to be developed by each of the departments concerned, to illustrate how the Next Steps proposals could be applied in practice, ~~[and to be the basis for an experimental start to a "Next Steps" programme]~~. They were concerned about the possible reaction of Parliament to the changes in accountability which were inherent in the proposals, and which would be seen as diminishing the scope for and effectiveness of Parliamentary scrutiny. Ministers asked for further thought to be given to the presentation of

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the approach to Parliament: it would be desirable to present developments without drama, and to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies from becoming pressure groups for more expenditure.

3. Work has gone ahead on the development of agency proposals by departments. Each of the departments represented at the last Ministerial meeting, with the addition of the Department of Trade and Industry, Department of Transport and the Ministry of Agriculture, Fisheries and Food, has nominated at least one area of the department to be looked at for development as a potential agency. Each department has worked with the Efficiency Unit on the details of its agency structures and has had consultations with the Treasury and the MPO/OMCS.

~~The new Employment Service will start to function as a distinct part of the Department of Employment from 26 October 1987, though other changes will need to take place before it can be described as an "agency" in the sense of the "Next Steps" report.~~
In most [other] cases more work will need to be done before the responsible Ministers can take a decision, in agreement with the Treasury, whether

~~X~~ to proceed with individual agencies. A Working Group under my chairmanship has been considering the implications of the departments' proposals for the central management of the Civil Service and for the control of public expenditure.

The Proposed Agencies

4. The areas proposed and studied for development as agencies are:

MAFF:	Agricultural Development and
<i>X</i> <i>+</i> <i>regional organisations</i>	<i>^</i> Advisory Service (ADAS);
MOD:	Meteorological Office
	Defence Non-nuclear Research
	Establishments
DE:	Employment Service
DOE:	Royal Palaces
PSA:	The Queen Elizabeth II
	Conference Centre
DHSS:	Resettlement Units
DTI:	Companies Registration Office
	(CRO)
DTp:	Driver and Vehicle Licensing
	Directorate (DVLD)
	Vehicle Inspectorate
HO:	Passport Office

Chancellor's Dept: Her Majesty's Stationery
Office (HMSO)

q
The details of each agency are being circulated separately. It is envisaged that these agencies would all remain within the Civil Service, at least initially (in a few cases, the possibility of moving an agency outside the Civil Service is raised as an option for later, but no decisions of this kind are required now). This should help to minimise the risk of the agencies becoming pressure groups for more expenditure, since the policy and resources framework would remain firmly the responsibility of departments and their Ministers. A civil servant head of an agency would not be able to encourage public pressure for additional resources for the work of the agency.

*v. Smith
Proposed*

redrafted

5. Special legislation would not be needed for setting up these agencies, because their employees would remain civil servants. Legislation for other reasons might in some instances be necessary: for example, creation of the Employment Services agency is the subject of legislation this Session. Legislation might also be required at some stage for some types of modifications to the structure of

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Treasury financial controls, if changes in this area are agreed. But it should be possible to embark on an initial programme of agency creation on the basis of these proposals, without the need for legislation.]

At this preliminary stage, some

6. Specific benefits to come from the agency approach have already been identified. [For example, the Department of Transport consider that a new financial structure and greater authority on personnel matters for the DVLD would lead to a net gain of two per cent productivity over five years. HMSO believe that flexibility on pay and grading for administration grade staff would enable them to increase their efficiency savings by a factor of three.] The Department of Employment consider that flexibility to pay differential rates within their existing pay bill will enable them to deal with endemic staff shortages. In most cases departments believe that changes in the forms of departmental and Treasury control, together with a diminution in Ministerial involvement in day to day operations, will give agency management the opportunity to improve the efficiency of their operations, though some departments consider that the scope for improvement will be limited and the advantages will

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be insufficient to justify change, unless Parliament accepts the need for a significant reduction in the burden of parliamentary scrutiny and unless there can be greater flexibility in pay and financial controls than they ^{understand} believe the Treasury to be ready at this stage to contemplate.

Departmental management would concentrate on the broad framework of policy, the annual allocation of resources and the setting of performance targets to be met by the agency; the agency management would be responsible for the job to be done within this policy and resource framework. Each agency would have to be an individual structure with controls and delegated authorities designed specifically for it, and conditional on the establishment of a rigorous and effective management framework, and the effective containment of any repercussions.

Redrafted
7. *There are risks in adopting the agency approach.* Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual agency could create serious

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problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. We have been unable to identify any certain ways of preventing the new agencies from becoming pressure groups for more expenditure - either through pressure to increase pay or pressure to maintain and expand existing operations. The more rapid and publicised the move, the greater the risks. The best chance of minimising these risks would lie in tight definition of objectives, a firmer control over running costs, care with senior appointments - and a declared determination to remove agency heads who failed to deliver targeted efficiency improvements.

But on industrial relations

Accountability

8. The "Next Steps" approach depends upon effective control of the delivery of services through a framework of policy, resources and results required, set for an agency by the responsible Minister. As Ministers recognised at the meeting on 9 July, this has implications for Ministerial accountability to Parliament generally, for the handling of correspondence and Parliamentary Questions from MPs, and for the flow of information to MPs and the public.

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9. Ministers' formal accountability to Parliament would be unaffected. Ministers would remain fully answerable for policy objectives and for resource allocation. But once the executive task had been delegated, as a general rule Ministers would not expect or be expected to get involved in operational issues. [This position would be easier to maintain if a public statement could be made of the framework within which responsibility has been delegated to the head of the agency.] The detachment of Ministers from day-to-day operations would entail changes in the way in which accountability to Parliament was discharged, which Parliament might well see as a reduction in the extent of their ability to scrutinise the work of the agencies. [When an individual agency was established, the Minister concerned might want to announce publicly] the extent to which day to day operational matters were being delegated to the agency management, together with some indication of the policy framework being set.

10. If Ministers were to be seen to be more detached from day to day operations than at present - which is an essential feature of the "Next Steps" approach - this would have to be reflected in the

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handling of MPs' cases and questions on such matters:

- As a minimum, Ministers would need to reply to MPs in terms of, "I am informed that ...", together with a report from the agency and a formula explanation that the matter was for agency executive management within the Ministerial policy framework (unless of course the case provoked a change in the management or a review of the framework itself).
- In addition, Ministers could choose to encourage MPs to approach agency managers ~~direct~~ as part of the public announcement of the establishment of the agency. MPs who insisted on a Ministerial reply on an operational matter would receive one along the lines indicated above.
- If a case raised doubts about the fulfilment of the policy objectives set by Ministers, the Minister would need to take a view based on a report from the agency management; if he was dissatisfied, his recourse should be via management change or review of the framework,

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but not through a direction to agency management to change the way a specific operational case within the framework of delegation should be handled.

This approach would build on current practice whereby in some areas MPs as well as the public approach, and are encouraged to approach, the officials directly responsible on operational matters in the first instance. Ministers will need to judge whether that would be acceptable to Members of Parliament.

11. The presentation of these changes to Parliament would need careful handling, both initially and for each agency individually. The overall approach could be presented as improving the flow of information, by virtue of published statements on policy frameworks which would give more information than before at the strategic level, and direct access to agency management which would give a speedier response on day to day operations.

12. The permanent head of department as Accounting Officer would continue to be answerable to the

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Public Accounts Committee (PAC). The Chief Executive of an agency would normally also attend the PAC with the Accounting Officer, so that he could answer questions about the exercise of his own responsibilities. Departmental Select Committees would be encouraged to look to agency Chief Executives for evidence on matters within their delegated responsibility, and to Ministers and senior departmental officials for evidence on the policy and resources framework.

13. The description of each scheme for the agency incorporates a brief account of the specific accountability implications. It would be necessary for departmental Ministers to agree detailed procedures and allocations of responsibility before individual agencies were set up. Public announcements of the establishment of individual agencies would need to make clear any changes intended by Ministers for the handling of MPs cases and questions (along the lines indicated in para 10 above).

The Management Framework

14. The preliminary work on the pilot scheme has shown the extent to which more work will be

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necessary before they are ready to be fully fledged agencies. In some cases the proposed agencies are already distinct organisations with their own management style and structure, notably DVLC, CRO and HMSO. In other cases, for example the Employment Service or the Research Establishments, a new organisation is being constructed, building on the existing organisation but with a great deal of planning and development to do.

15. Work has been done on the main areas where departments consider greater delegated authority is necessary to give the management of an agency real responsibility. There is considerable confusion and even ignorance about the precise details of possible delegation under existing rules within departments and between departments and the Treasury. It may be possible for departments to agree with the Treasury on additional delegations to agencies within the existing Treasury rules. But there are a number of cases where departments consider that delegations which go beyond the limits of existing Treasury ^{+ Parliamentary} rules are essential if they are to make a reality of the benefits in improved management and efficiency which would come with agency status.

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16. On pay and management it is already the Treasury's strategy to develop from the previous Service-wide approach to a more flexible and better-oriented system. This is described in Appendix 1. Substantial progress has been made in recent years: Special Pay Additions, the IPCS Agreement, the development of performance pay and the newly-announced Local Pay Additions are all examples. The objects of the strategy are:

- to keep control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control, and
- to maintain the coherence of the pay system,
- while at the same time moving to meet more closely the different needs of different parts of the Service where that can be done without prejudice to the remainder.

Provided that controls over running costs and the pay bill can be maintained (and if possible strengthened) the Treasury is keen to increase the flexibility of the pay system further, bearing in

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mind always its responsibility for controlling the pay and conditions of the Civil Service.

17. It has been suggested that there would still be too many constraints on an agency Chief Executive who would lack the same scope as his private sector counterpart to reward increased productivity, balance pay rates against manpower numbers within his overall pay bill and compete in the market for scarce labour resources. ^{The Treasury consider...} There are, however, reasons why each proposal for a change in the pay regime needs to be considered by the centre:

- i. pay policy has macro-economic implications, not least because of the example effect on the private sector;
- ii. pay is an important element of public expenditure (and of running costs) and one where increases are hard to reverse;
- iii. even if higher pay can be offset by productivity gains in some agencies, there is the danger that higher costs will consequently spread to the rest of the Civil Service and

add to total expenditure;

How to stop this?!

iv. agencies cannot be allowed to solve their personnel problems by exporting them to the rest of the Civil Service (eg by poaching scarce skills from other departments);

v. questions of propriety may come up, such as the use of tax-efficient remuneration; and

vi. the industrial relations implications of the proposed changes could be wide-ranging. The attitudes of unions and of staff would not necessarily be hostile but certainly could be, given the mood the Service is in.

*The answer is
put it down*

The Treasury consider that

18. There is a crucial judgment to be made as to whether the agencies would be better able to resist union pressure than the Treasury, with its concentrated bargaining power. There would be a danger that it would be more difficult for the Government to resist the sort of pressures that would come from unions seeking to play one agency off against another. In general the more specific to an organisation is the work of its staff, the easier the jobs will be to ring-fence and the

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stronger will be the case for the delegation of detailed pay controls. Smaller blocks of staff will be easier to ring-fence than large blocks. Subject to these considerations the Treasury is ready to discuss with departments the pay regime and grading structures which they would like to see introduced.

Senior Appointments

19. All Chief Executive appointments at Grade 3 or above would be made under the present procedures for Grades 1 and 2, which require the approval of the Prime Minister on the recommendation of the Head of the Home Civil Service (after discussion with Senior Appointments Selection Committee and consultation with the departmental Minister concerned). Where non-civil servants were appointed to senior posts, it would be possible to use fixed term contracts as Ministers envisaged at the last meeting, though higher salaries would probably be needed to compensate managers for the risks involved. Existing civil servants could also be appointed for fixed terms. Under present rules this would have to be on the basis that the individuals concerned would be reabsorbed by their

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X | department; it would be necessary to develop
surrogates for the risk/reward nature of fixed term
contracts within Civil Service pay and conditions
structure.

Financial Flexibilities

20. Most of the agency proposals seek some freedom from the present controls over public expenditure and running costs, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts; to pursue investment plans outside normal expenditure control; or to be exempt from running cost controls. Some departments feel that, in particular cases, the decision whether it is worth proceeding with an agency will depend on the availability of such freedoms.

21. The present controls are in place in order to deliver Ministers' objectives for the control of public expenditure (including the Government's own running costs) and to meet Parliament's own requirements for the control of spending by the Executive. Considerable flexibility is possible within them: details are at Appendix 2. Particularly where the agency is trading, these

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offer considerable scope for meeting departments' requirements.

22. The Treasury is willing to examine the scope for extending this flexibility if departments can show that - coupled with the policy and resource framework for the agency - this would make for greater efficiency and effective overall control. This can be pursued both in the forthcoming review of end-year flexibility and in looking at particular cases for exemption from gross running costs control. It would however be premature to lift existing controls until other equally effective disciplines can be put in place. While some specially tailored arrangement might be thought appropriate in the circumstances of a particular agency, any irrevocable step to make it more extensively available would need careful examination. It would be necessary to ensure that any wider freedom to carry money forward did not jeopardise the Government's ability to control aggregate annual expenditure; and that further exemptions from running costs controls (or freedom to increase expenditure to match receipts) did not start to reverse the reduction in the size of the Civil Service. And whatever arrangements are made

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for operational flexibility, the costs of all Government activities will still need to be brought together in the public expenditure plans so that Ministers can decide priorities between them.

23. Any significant new flexibility, including any variation in normal Parliamentary vote accounting (like the suggestion that parts of departments should be financed by non-surrenderable grant-in-aid) would require the agreement of Parliament. In presenting any such proposals, Ministers would want to be satisfied that they did not appear to be undermining the Government's or Parliament's control of spending.

Conclusion

24. The essential elements of the "Next Steps" approach are:

- commitment to a positive, deliberate, and rapid programme of developing the executive areas of government - those which essentially deliver services - as agencies;

- increased delegation of authority by

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Ministers, and changes (which would be seen as diminutions) of accountability to Parliament for the operations of agencies;

- increased flexibility in relation to Treasury controls of pay and expenditure;

- management training and career planning to develop staff to manage agencies;

- a central capacity (the "project manager") answerable through the Head of the Home Civil Service to the Prime Minister for co-ordinating, steering and driving forward the process of change.

The approach would build on what has already been achieved in improving management efficiency, but would be, and would be intended for presentation as, a coherent and interlinked package of improvements and a step change.

- X 25. The proposals ^{by Department} ~~in this note~~ for developing twelve areas of executive government as agencies ~~are, we believe, feasible without legislation.~~
- A ~~Because~~ the agencies would be in effect discrete

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parts of departments, their staffs would continue to be civil servants, and changes in accountability would not be very substantial or conspicuous. The implementation of these proposals might ~~therefore~~ reassure Parliament about the "Next Steps" approach rather than raise alarm about it, and thus provide a basis from which to carry forward the programme and develop further agencies.

26. The proposals could be seen and presented as the first fruits of a decision to implement the "Next Steps" approach, with the appointment of a project manager to provide the expression and guarantee of an intention to pursue the approach with determination and to be ready to accept risks in order to achieve results.

27. On the other hand the proposals have been selected and devised so that they can be presented without drama. Because of this they would by themselves be unlikely to yield or demonstrate the full benefits or to confront all the risks and problems of the full-blown "Next Steps" approach. They could thus be described, more modestly, as an evolution of existing management trends in the direction of the "Next Steps" approach, rather than

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as the first phase in the implementation of that approach. In that case, though there would probably need to be some capacity in the Office of the Minister of the Civil Service for co-ordinating and monitoring the development of these and any future agencies, it would be difficult to justify the creation of a "project manager" at Permanent Secretary level.

28. This seems to me to be the political choice which Ministers now need to make. The existence and nature of the "Next Steps" report is unofficially known to the Civil Service unions, and to some extent to the media. Against that background, and the detailed proposals for agencies now put forward, Ministers can either -

- commit the Government wholeheartedly to the "Next Steps" approach, announce the detailed proposals as the first stage in implementing it, accept the potential risks as the price of achieving results, and proceed to the appointment of a project manager as the expression and guarantee of their determination to press forward with the approach; or

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X - announce ~~the detailed proposals~~ as an evolution of existing management trends in the direction of the "Next Steps" approach, ^{broad} but ~~but~~ indicate that they propose to reserve a decision on whether to commit themselves to the definite and comprehensive adoption of the "Next Steps" approach until they have had experience of the working of the agencies now proposed, and not in the meantime to appoint a "project manager".

29. The first course would be seen and could be presented as a firm decision to accept the logic and challenge of the "Next Steps" approach and to pursue it to its conclusion, facing and being ready to confront the risks of Parliamentary suspicion and hostility and taking (while seeking to avoid) the risks of loss of effectiveness of controls over pay and expenditure. The second course would minimise the risks of arousing Parliamentary hostility at this stage (and thus offer the prospect of outflanking rather than confronting Parliamentary objections) and would reduce the risks of loss of effectiveness of controls over pay and expenditure; but it would be in danger of being

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method
the substance

seen as missing an opportunity and shirking a challenge; as in effect a decision to shelve the "Next Steps" approach, since without the degree of commitment implicit in the first course there would probably be insufficient impetus to overcome the forces of inertia.

30. On the choice which Ministers make between these two courses will depend the direction of further work and the nature of an announcement. I will make proposals for further work and suggest a draft announcement in the light of Ministers' decisions.

Cabinet Office

October 1987

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IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPSPAY AND PERSONNEL ISSUES

This note discusses the arrangements for pay and personnel policies in agencies set up to carry out certain executive functions presently carried out by Departments. These policies include staff grading and remuneration, other terms and conditions of service, superannuation, and hiring and firing.

2. It is not the purpose of this note to go in detail into what changes might be appropriate in respect of particular agencies. Almost by definition these will be many and varied, and the needs of different agencies will clearly differ. This note discusses some general considerations, and then certain specific areas. It is prepared on the assumption that agencies to be set up, at least in the first place, are Departmental and the workforces are civil servants.

General considerations

3. The proposals under consideration have to be grafted onto a well-developed, and so far a successful, strategy which is already in operation for moving where appropriate from the previous Service-wide approach to many aspects of personnel management, most notably pay, to a more flexible and better oriented system. The object of this strategy are to retain control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control and running cost control; while at the same time moving to meet more closely the different needs of different parts of the Service. This is necessarily an across the board strategy, aiming to retain the necessary Service-wide disciplines while giving local flexibilities where appropriate. It is exemplified, for instance, by the recent agreement with the IPCS (which it is hoped to extend more widely) over pay and personnel

arrangements, for the grades they represent, and the Local Pay Additions (LPA) proposals now under consideration. These kind of arrangements should give the sort of flexibilities required by agencies in a structured and disciplined manner which is likely to be more cost-effective both across the board and for individual agencies, and more easy to implement, than the pursuit of flexibilities in random and ad hoc manners on behalf of or by individual agencies.

4. This leads into the need to control running costs, both so far as any particular agency is concerned and so far as other agencies and Departments, and the Civil Service taken overall, is concerned. Pay and related items amounts to nearly 60 per cent of all running costs, and to a much greater extent than other sorts of administrative expenditure pay increases once agreed tend to be irreversible. So far as any individual agency goes, provided there is suitably robust budget setting and control and provided a suitable degree of expertise in pay etc matters and pay negotiations has been developed and is in itself cost effective, cost control should be achievable fairly quickly. But the bigger problem is the effect which the decisions of any particular individual agency could have on other agencies, or on Departments more widely, or indeed - Civil Service pay being so overt and seen as important by other pay negotiators, public and private - on the rest of the economy. It is not sufficient for individual agencies to have disciplines and skills; it is the effect that their decisions may have on others which needs to be watched, as the recent experience with ADP allowances and lawyers showed. Hence the importance of a structured approach.

5. Developed from this, there is the need for drawing a distinction between on the one hand actual variations in pay and other conditions as to between one agency and other agencies and Departments as a whole, and on the other the negotiation and ultimate decision-making power in respect of such variations. It is possible to have many aspects of terms and conditions, and in particular the pay etc regime, tailored to the needs and circumstances of individual agencies while at the same time the centre retaining the negotiation or at least the ultimate power

of control in these matters to guard against the risks just referred to. And of course the position is not black and white; there are degrees of freedom for instance freedom to negotiate and settle payments within limits given.

6. Finally, agencies are not starting from scratch with a new workforce; they are taking over existing individuals with established entitlements to established terms and conditions. This is not to say that the terms and conditions of existing individuals cannot be changed; of course they can. But care has to be taken in changing such terms, and this usually ends up with a "buying out" process - which not only may be expensive, even if cost effective in the long run, but which has to be carefully handled. With new individuals, or with existing individuals whose existing rights have been "bought out" or otherwise satisfactorily disposed of, there is very much more freedom. There can be problems of "new" and "old" individuals working side by side on different terms and conditions; and important issues of mobility and transfer of staff from one agency to another agency or Department would have to be examined. But subject to these considerations, if individual agencies could be sufficiently clearly differentiated from the rest of the Civil Service (eg by function and nature of the workforce), and in the light of that chose to set up for "new" people their own pay and grading structures and their own terms and conditions a good deal of flexibility could be achieved, not only within the new terms and conditions but also by way of helping to insulate these from the rest of the machine and minimise repercussions.

Individual areas

7. Annex A discusses briefly each of the main areas where the issue of variation in terms and conditions might arise. This must be read in each case against the background of the general issues and considerations set out above.

Industrial relations

8. The Civil Service trades unions can of course be expected to take a considerable interest in the development of agencies and in proposals which might change the terms and conditions of their members. Some unions may see potential advantage in them. There will be a good deal of emphasis on the existing negotiating frameworks and the need to maintain the concept of a unified Civil Service. But provided changes are handled carefully, any difficulties here should be overcome, though as individual agencies are set up a "price" is likely to be sought, one way or another, sooner or later. Presentation will be very important - for instance pay flexibilities as such are easier achieved if not overtly labelled "performance" or "merit", even if this is one of the aims of the flexibilities.

9. In the event of a dispute leading to industrial action, it seems likely (though legal advice would need to be sought) that a union could call on its members in other agencies or in Departments to support a dispute in one particular agency, without losing its immunities; that is to say, the action other than in the agency in dispute would count as primary rather than secondary industrial action. This adds to the risk of costly read across and the need for a degree of centralisation, at least in the early and riddling stages, where changes in terms and conditions are concerned; and a fortiori to a need for centralised monitoring and control of the official side's position in dispute if and when these arise. Experience in the 1987 pay dispute shows how vitally important it is for the official side to operate as a single unit in these circumstances.

Summary

10. The present strategy on pay and other controls is important. We wish to continue with it. Adherence to a central framework will continue to be needed. But within this there are many other areas where under the right conditions flexibility is desirable and can be provided, while staff remain civil servants and agencies remain part of the Civil Service. This is the direction in which the system is going. The Civil Service

pay etc regime had been made more adaptable. But this has been done bearing in mind the need to contain the costs of running the Civil Service overall, and to avoid escalating claims resulting from the effect of knock-on, repercussions, and example. But provided

- i. it is recognised that central rules must remain;
- ii. robust budgeting and meaningful control and monitoring and the necessary management skills in the agencies have to be clearly in place;
- iii pay bargaining skills can be developed in the agencies; and
- iv changes are pursued in a sensible way and at a sensible pace,

then there seems no reason why the agencies should not be able to do all they reasonably need to do in the pay and personnel field to carry out their given functions.

ANNEX A

SOME PARTICULAR AREAS

1. The essential central framework. Annex B discusses a number of essential central areas where, so long as agency staff are civil servants, there is little or no room for variation. These include conduct and discipline, security, political activities etc.
2. Pay and grading. This is conceptually the easiest area, but at the same time the area where the consideration of cost, repercussions and existing rights are most important. Subject to these flexibility is possible building on the current work already in hand to distinguish pay more finely by skill, merit and geography. This is particularly so in smaller agencies where the function and workforce are more specialised; larger groups who at any rate initially look like and are like large groupings being left outside the agency will be more difficult.
3. Hours and leave. To some extent these go with pay, but for the immediate future there could be more difficulty, given the wider repercussions which eg shorter working hours or more leave can have in the economy generally.
4. Other allowances. These might include allowances which now exist such as motor mileage, day and night subsistence, and so on, or other schemes or quasi "perks" such as removal assistance, and so on. Some of the considerations relating to pay etc and to hours and leave apply here, but not to such a great extent. Quite a lot of variation would be possible, though there would be a need to continue to look at the repercussions elsewhere, as well of course as at the cost effectiveness of any change.
5. Superannuation. It is unlikely that the creation of agencies would give rise to any particular superannuation problems. It is recommended

that agencies stay with the Principal Civil Service Pension Scheme. This would not inhibit flexibility on pay, but would ease for management and staff the transition to the new employment arrangements, and avoid the additional administrative costs that would be encountered if agencies were to develop and run their own pension schemes. Revised arrangements for early retirement were introduced earlier this year. These are considered to be sufficiently flexible to meet and adapt to current and perceived needs. Under the Government's increased flexibility in pensions provision, it will shortly be open to all members of occupational pension schemes to opt out of their employer's scheme and instead effect a personal pension arrangement. This option will be available to civil servants, including staff of the agencies.

6. Tenure of appointment. There is already considerable flexibility so far as short-term appointments etc go, and in addition the Treasury are currently developing a regime for short-term contracts, initially and on an experimental basis for certain scientific grades but in a way which is capable of extension more widely if it is successful. Such contracts would make provision for pay flexibility, including terminal bonuses at least in part performance related, and capable of being tailored to the needs of the employing entity. Appointments on these terms could be offered at any level, whether the most senior or more run of the mill.

7. Recruitment. At present recruitment at Executive Officer and above is carried out by the Civil Service Commission, and below that level is delegated to Departments (who could then presumably delegate on to agencies) within a framework of rules and guidelines. It would be possible to delegate recruitment at more senior levels, but if only for the maintenance of public confidence in the system it would be necessary to establish and stick to a regime of fair competition and honest recruitment on merit. The Civil Service Commission would be the obvious body to lay down such rules and monitor their application. (Separate and more direct control will remain with Ministers and/or parent Departments over appointments to the most senior management in agencies.)

8. Termination of appointment. For existing civil servants there are certain acquired rights here under the PCSPS, though these have very recently been made more flexible with greater ability to get rid of people who are poor performers. For existing staff it would be necessary either to "buy out" these rules or to abide by them (or, if an agency wished to break them, to take the financial risk of being brought before an industrial tribunal and losing); for new staff it would be possible to conceive of different arrangements.

9. Manpower numbers. Detailed control over staff numbers in individual agencies seems unnecessary, but some measures will be needed to ensure that agency numbers are not bigger than they need to be, and that the Government's aim of controlling and reducing the size of the public sector is respected. This is best done through a combination of forward planning to be approved centrally, and budgetary controls.

10. Appeals etc. Existing staff have a right of appeal to the head of their Department in certain matters and in other matters to the Civil Service Appeals Board (CSAB). It is conceivable that a new regime could make different provision, but clearly if only in terms of reasonable industrial relations some kind of appeal procedure will always be necessary. (It should be borne in mind in this context, and indeed more generally, that whatever the advantages and disadvantages of the immediate Civil Service employment regime, civil servants are covered by the general employment law and benefit from all the rights and protections etc which this gives employees generally. Even if individual agencies chose to get away from the current generally applicable Civil Service regime they would still of course have to respect the law of the land).

(Note provided by Principal Private Secretary at DHSS) 15/10/77

(Note provided by the Principal Private Secretary at DHSS)

MR MAYNE

cc Mr Elms

MINISTERIAL CORRESPONDENCE

1. Thank you for your minute of 1 June seeking an account of efforts to delegate the signing of correspondence in reply to MPs and members of the public to lower levels. I hope what follows will meet your requirements and I am much indebted to Tim Elms for the historical research.
2. The first evidence we have of Ministers encouraging MPs to raise, at least initially, the problems of their constituents at local level was on 20 May 1977 when the Chancellor of the Exchequer and the Secretaries of State for Social Services and Employment wrote jointly to all MPs. When Mr Jenkin became Secretary of State in 1979 he wrote to the Chancellor of the Duchy of Lancaster to seek support for a concerted approach to try to reduce the burden of correspondence. Caution was, however, recommended and it was suggested that Departments should take initiatives individually. Patrick Jenkin wrote to all MPs on 4 December 1980 suggesting the local approach and enclosing a list of local health authority contact points. Many MPs responded to say how sensible they thought this approach was and how helpful they found the list. Whether the letter to MPs had any effect on the number of letters subsequently received is difficult to tell.
3. The matter was raised again in 1984 when the present Secretary of State agreed that another letter should go to all MPs. Lists were prepared for each MP giving the local social security office(s), DHA and FPC. However, the Secretary of State did not sign the letter and the matter was eventually dropped. Efforts have been made to resurrect the idea since, but mainly in the context of social security cases. We refer letters on local health issues to Health Authority Chairmen but cannot delegate social security matters. Mr Whitney, when PS(SS), did agree to write to MPs recommending the local approach. However, he was then succeeded by Mr Major who was reluctant to proceed, since it might mean that one of his first Ministerial acts would be to infuriate backbenchers at a time when their support was needed over the new social security legislation. Another approach has been made to Mr Major since he became MS(SS). Mr Major was anxious to clear the way first with the Chairmen of the 1922 Committee and the Parliamentary Labour Party but, as it then became clear that we were approaching the end of this Parliament, no further action was taken.
5. For the future there clearly may be merit in seeking to repeat the 1980 initiative at the beginning of a new Parliament, not least as there may be many newly elected MPs who would appreciate guidance. As we discussed previously, there are however pitfalls in this approach. In particular, we have to be sure that those to whom correspondence is delegated for reply appreciate the need for

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replies within a reasonable timescale and in a form which will not cause subsequent political embarrassment. If either of these conditions fails to be fulfilled, the outcome is likely to cause more problems for Ministers than if the letters in question had come for their personal signature after Departmental vetting.



4 June 1987

G J F Podger
D712 AFH
Ext 7600

ANNEX B

A CENTRAL FRAMEWORK

GENERAL CONSIDERATIONS

The primary Government requirement of the agencies, apart from efficiency in delivering goods and services to their customers, is that they should guard against actions which would bring discredit to the agency and embarrass the Government if made public. In the case of personnel management, the potential evil to be guarded against here is that an agency might adopt inefficient, unfair or unreasonable practices which would be difficult if not impossible to defend. To guard against this, it is assumed that all agencies are to conduct their personnel management in a way which bears comparison with good private sector practice.

2. Against this background, it is possible to identify those areas in which a general set of rules and conditions applicable to all agencies would continue to be essential and where freedom to vary them, beyond that currently allowed within departmental discretion, would not be possible. In some of these areas the rules and conditions would be governed by statutory requirements (such as those arising from the Official Secrets Acts or the Employment Protection Act 1987) either because the particular Act applies directly to civil servants or because the Government has undertaken that its provisions should be observed in respect of its employees. Outside the core of "essential" rules, it would be in the Government's interest to maintain "models of good practice" for the guidance of agencies.

ESSENTIAL RULES AND CONDITIONS

3. These include the following :-

1.

- a. Recruitment and promotion merit. Recruitment is dealt with separately in a paper by the Civil Service Commission but some aspects relating to long-term potential are referred to below. The mechanics of promotion are also dealt with later in this paper.
- b. Conduct and discipline. All the present requirements about the conduct of civil servants eg with regard to the acceptance of gifts and rewards, disclosure of official information, etc should remain. The present disciplinary arrangements, including the range of penalties available and an appropriate grievance procedure should continue to apply.
- c. Equal opportunities and discrimination. Personnel management practices and procedures must continue to meet the requirements of the Sex Discrimination Act and the Race Relations Act.
- d. The requirements of the Health and Safety at Work etc Act 1974 must continue to be met.
- e. Security procedures, including the provisions of the Official Secrets Acts and arrangements in a civil emergency or war (due functioning) must continue.
- f. The Parliamentary Commissioner for Administration must continue to be able to investigate complaints from the public of injustice arising from maladministration and the present arrangements for handling an investigation must remain.
- g. The Political Activities Rules and
- h. Business Appointment Rules seem to be essential features of any framework within which agencies should be expected to operate.

1. There should be adequate procedures for the long-term development of senior and top managers and evaluation systems as necessary to back up Service-wide standards in eg the pay and grading fields.

j. Personal records for security and superannuation purposes must be maintained for an appropriate length of time.

AREAS IN WHICH CHANGE MIGHT BE ALLOWED

4. There are several areas in which it might be possible to agree some relaxation, particularly in the detailed application of general rules and conditions. For example, on staff appraisal we would wish agencies to carry out staff appraisal and to observe the mandatory central principles (within which departments have a good deal of discretion) but would be prepared to agree that, for example, annual appraisals might be dispensed with below the Grade of AA. On promotion departments already have a good deal of discretion (on eg paper boards and interviews) but we would not necessarily object to eg a proposal to vary seniority fields provided the merit principle continued to apply.

5. On mobility, the agencies might be allowed to impose a mobility obligation in accordance with the needs of the job rather than by the grade of the post involved. Periods of notice could be similarly adjusted to meet particular agency requirements; much longer periods than are now customary for specialist staff in short supply who could not be easily replaced for example. The recently introduced early retirement package of measures could, similarly, be adjusted to suit an agency's needs as could the current redundancy agreement.

6. Needless to say any attempt to change terms and conditions agreed with the trade unions or to introduce changes which might reasonably be seen as being to the detriment of the staff would need to be very carefully handled and almost certainly require their co-operation (which would most likely need to be "bought" in some way).

Financial Control

Some departments have suggested that greater managerial efficiency would be helped by various relaxations of financial control, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts; or to pursue investment plans outside the normal expenditure control.

Such proposals will need to be seen in the context of the Government's policy to keep a strict control of public expenditure and reduce it as a proportion of GDP. Ministers will need to be assured that any new arrangements will provide no less effective control, and that there will be a clear framework to ensure, and monitor, the agency's efficiency. Parliament will also want to be convinced that its own control of Government spending will not be weakened. The essence of Parliamentary control of the executive is that Ministers cannot spend money without Parliament's approval, normally given through annual appropriations.

Some forms of flexibility have however already been accepted by Parliament. For trading activities which can break even, it is possible to establish public corporations, or trading funds (under the Trading Funds Act 1973) where the necessary criteria are met. For non-trading activities, where there is benefit to be gained in some measure of independence from day-to-day Ministerial control it is possible to establish a non-departmental body and finance it by grant-in-aid. This means, for example, that the body can spend extra receipts and carry over unspent balances, although the understanding is that the grant is not issued in advance of need, so that balances are in practice usually limited to 2 per cent of budgets.

Within government departments, carry over can be obtained by asking Parliament to revote unspent funds through Supplementary Estimates. This is the basis of the end-year flexibility (EYF) scheme, accepted by the PAC and TCSC, under which departments can carry forward up to 5 per cent of their capital provision. This scheme is due to be reviewed at the end of this year. There is an obvious trade-off between the amount of freedom permitted and the uncertainty it introduces into the control of aggregate public expenditure. But the

Points made by departments can be examined during the review and any agreed modifications reported to the Parliamentary Committees in the New year, in order to give departments a clear basis for planning and managing any agencies which may be approved.

In one or two cases, it has also been suggested that an agency should be allowed to pursue investment plans on the basis that provided these will show an adequate return they will not then be at risk from the competing needs of other claimants for public expenditure. However, although agencies, like other government activities, ought to plan investment ahead, it is for the departmental Minister to say whether those plans merit priority over other departmental needs, including other worthwhile investment. The money spent by agencies still needs to be financed at the time by taxes or government borrowing, and Ministers will thus still need to weigh their claims against those of other programmes. The arrangements for end-year flexibility should help to ease the problems of planning and implementing such investment.

Arrangements thus already exist to give some managerial freedom while preserving the essential control of public expenditure by Ministers and Parliament. Any particular proposals for greater flexibility need to be examined first to see whether existing arrangements can meet the need, and whether there is a satisfactory framework for ensuring and monitoring efficiency. If it is agreed that a more flexible financial regime would be more appropriate in a particular case, legislation may be required, and Parliament would need to be consulted on any significant variation in current Parliamentary conventions. The forthcoming review of the EYF scheme will be a convenient vehicle for seeking Parliamentary endorsement of any general changes in the scheme which may be found appropriate.

Running Costs.

Some departments have suggested that the running costs control on their agencies should be modified to exclude expenses covered by additional receipts. The running costs control (like the earlier civil service manpower targets) is intended to implement the Government's policy of reducing the size of the public sector, by keeping the Government's own administrative machinery to the minimum

ded, and maintaining pressure on it for greater efficiency. For that reason the control generally applies to the gross costs. In cases where this inhibits a department's ability to respond to increased demand, Ministers have agreed that a service can be exempted from gross running costs control provided that there are other equally effective pressures for increased efficiency; that the activity is self-financing; and that there is no threat to the government's plans for the overall size of the civil service. Netting off receipts in other areas might help to encourage managers to generate more receipts, but would increase the risk that the size of the civil service would start to creep up again.

Accounting to Parliament

So long as an agency remains part of a Government department, the permanent head of that department will retain responsibility as Accounting Officer, since he will be answerable for setting the resource framework for the agency, just as he is for allocating all the staff and other resources throughout the department generally and ensuring that there are satisfactory arrangements for efficient management. The PAC in any case normally expects the permanent head of a department (or exceptionally a Second Permanent Secretary) to act as Accounting Officer for that reason. Although the head of the agency will have his own budget, objectives and performance indicators, he will be accountable to the senior management of the department, and not directly to Parliament. However, if the affairs of the agency were under examination at a PAC hearing, the Accounting Officer would normally be accompanied by the head of the agency so that he could answer questions about the exercise of his own responsibilities.

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From: J Anson
Date: 14 October 1987

CHANCELLOR

cc

- Chief Secretary
- Paymaster General
- Financial Secretary
- Economic Secretary
- Sir Peter Middleton
- Mr F E R Butler
- Mr Kemp
- Mr C D Butler
- Mr Luce
- Mr Harris
- Mr Scholar
- Mr Chivers
- Mr Pratt
- Mr Welsh
- Mr Tyrie
- Mr Call

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NEXT STEPS IN CIVIL SERVICE MANAGEMENT

A further meeting is being held at No 10 on Thursday 22 October to resume discussion of the Efficiency Unit's report on "Next Steps" in civil service management. The papers for that meeting are likely to be circulated late on Friday or on Monday. I am therefore submitting a general brief so that you can consider the issues over the weekend.

Background

2. At the last meeting on 9 July, Ministers asked, before they took decisions, for some examples of how the Ibbs proposals would work in practice, particularly as regards the suggestion that MPs should be expected to direct their inquiries on operational matters to the executive "agencies" rather than to Ministers. Since then, departments have put forward 12 examples Sir Robert Armstrong will be circulating a general policy paper, and also a separate paper covering summaries of the 12 proposed agencies.

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3. This brief is based on the latest draft of the general paper, which is unlikely to be very substantially changed (a copy is attached for the Chancellor and the Chief Secretary). We will submit supplementary briefing next week, including separate briefing on the 12 potential agencies.

4. In working up the 12 examples, departments, with some support from the Efficiency Unit, have made a number of proposals to give managers greater flexibility from pay and expenditure controls. I attach at Annexes A and B summaries by Mr Chivers and Mr Pratt of the main proposals in this regard, with brief comments by the pay and expenditure groups.

5. The paper by Sir Robert Armstrong brings out the importance of these issues and contains (in paragraphs 16-18 and 20-23 of the attached draft) statements of the Treasury position on each of them. It concludes by posing a clear choice between two courses. The first would be to accept the Ibbs proposals as they stand, with the aim of pressing forward and converting all the significant executive operations into agencies within 5 years. The second would be a pragmatic step-by-step approach, stressing the continuity with existing management trends, but with no commitment to comprehensive coverage by a pre-determined date.

Comment

6. In the discussion you will want to focus particularly on the pay and expenditure issues. But it is important also to recognise the positive elements in the proposals. There is a strong general case for organising executive work in units with a well-defined work programme, a budget, and good performance and output indicators and targets. That is completely consistent with what we have been seeking to do through the FMI for several years.

7. On the other hand, the benefits to public expenditure are at best likely to be two-edged. The Efficiency Unit claim that if the whole package is introduced (including the pay and financial flexibilities) managers will be motivated to find ways of working more efficiently. But they also tend to argue that to

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get this motivation, the managers should get the benefit of the efficiency savings by redeploying them within the service. In the short run, the benefits are therefore likely to be seen in better services rather than lower expenditure. It is uncertain how far this would help to reduce the pressures for more spending in the longer run.

8. The main issues for discussion are:-

- a. how far answerability to MPs and others on operational matters can in practice be pushed down from Ministers to agency heads (the point which was most discussed last time);
- b. how much flexibility can be introduced on pay and grading, and who decides it;
- c. how much flexibility could be introduced into the financial control regime for each agency;
- d. whether the Government should commit itself, in advance of experience of the pilot agencies, to universal coverage (the original Ibbs report suggested 95% of the civil service) within, say, 5 years; or alternatively to adopt a more pragmatic and selective approach.

Ministerial answerability

9. This is dealt with in paragraphs 8-13 of the draft paper. You may be able to leave other Ministers to make the running on this aspect. The Efficiency Unit, since the July meeting, have been playing down its importance. There may be a case, eg in the social security field, for giving a push in the direction of delegating correspondence to agency headquarters or the local level. But Ministers will recognise the practical limits on the extent to which MPs will be prepared to give up their rights to quiz Ministers, even on operational matters. And if an MP really wants to get a reply from a Minister he can always

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turn the inquiry into a policy one, using the operational case as an example.

Pay

10. Paragraphs 16-18 of the draft paper summarise the Treasury's position and Appendix 1 sets it out more fully. Essentially we have a strategy for increasing the flexibility of the pay system to attune it better to differences of merit, skills, functions and geography. We would want to continue to make progress in this direction with or without Ibbs. So long as the staff remain civil servants, the strategy would be the same whether or not they are brigaded in agencies. The objective facts of recruitment, retention, bargaining power and repercussions elsewhere in the Service (and example more widely) would remain the same.

11. Our concern is that all these developments should proceed in a managed way, that the pay bill should be tightly controlled and that Departments should not use the flexibilities which are on offer to create problems for one another. Increased flexibility is fully compatible with strong central control, which enables the bargaining power of the Treasury to be brought to bear on the unions. Central control is also necessary because of the need to restrain pay in the economy generally, both in the public sector outside the civil service and in the private sector. Civil service pay (and behaviour as an employer more generally) is seen as an example elsewhere and with few enough weapons to restrain pay generally the Government should not risk this one.

12. Industrial relations are an important dimension of these changes. The unions will not necessarily be hostile - precisely because some of them will see the possibility of exploiting weak local management. But there could be strong reactions in some quarters, like the Passport Office where the mood of staff is anyway difficult, as this Summer's industrial action showed. Each case need to be assessed individually from this point of view; and in addition a central capacity to deal with industrial action, etc, will be needed if agencies are not to be picked off one by one.

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Expenditure Control

13. This issue is set out in paragraphs 20-23 of the paper. The Efficiency Unit's approach focuses narrowly on the interests of those managing the service, and fails to recognise the importance of expenditure control as one of the pillars of the Government's economic success. The presentation of the results of the Survey in a way that convinces Parliament, public and the markets that the expenditure strategy is on course will need quite enough care without giving the impression that the Government is letting up on the annual control of spending. The Efficiency Unit have told us that they would like to liberate managers from undue concern with keeping spending precisely to budget, so that they can concentrate on ways of improving efficiency. But it is inevitable that managers in the public service, relying for funds on taxation or government borrowing, should find that a close interest is taken in annual outturn. And it is not in the least clear that the expenditure and pay flexibilities available in other public services (e.g local government and to a lesser extent the NHS) should encourage anyone to think that better management necessarily ensues.

14. Where a modified regime is needed for genuine reasons, eg for trading funds, or to allow for slippage in capital projects, then we have been able with Parliamentary approval to make special provision for it. We can continue to deal with any well-argued cases in that kind of way, eg in the forthcoming review of end-year flexibility or in developing the running costs control system. But Ministers and Parliament will still need the basic annual control framework if they are to decide priorities between different activities and ensure that those decisions are given practical effect.

15. A specific suggestion which is being pressed by the Unit and some departments is the idea that activities within a department should be financed by non-surrenderable grant-in-aid. The idea behind this is firstly that it would give more flexibility to activities which are, for example, partly financed

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by receipts; and, secondly, that it would extend end-year flexibility. Grant-in-aid is a technique which is quite commonly used for activities at arm's length, eg for a quango or bodies like the MSC or the Forestry Commission. But any extension to mainstream departmental activities would need legislation, since it would absolve departments from the normal end-year surrender of unspent balances to the Consolidated Fund which has traditionally been a key aspect of Parliament's control of expenditure. For that reason the PAC is also likely to be rather suspicious of it, and it would probably be better to build on the present end-year flexibility scheme rather than create a further new device.

16. Ministers may possibly raise the question (paragraph 15 of the draft paper) whether the expenditure delegations given to departments by the Treasury could be clarified (or increased). We are always willing to review particular delegations if departments can make a good case for changing them, and we are about to give the Chief Secretary a report on recent work in this area. And we see no difficulty in arranging for the delegations to be codified more clearly. If any such issues are raised it would be better to offer, without commitment, to have them looked at outside the meeting.

Other points

17. At the last meeting, Ministers were anxious that agency head should not become a new set of pressure groups. This risk does seem inherent in any step which places a lot of emphasis on the "chief executive" of the agency, and there is no totally effective way of guarding against it, other than limiting the tenure of agency heads, and in the last resort being prepared to remove them.

18. The paper suggests that the problem should be minimised if the agency heads remain civil servants. But Ministers also wanted more heads of executive agencies to be recruited from outside. This can already be done in suitable cases, by filling posts through open competition. A balance would have to be struck

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The risk is
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between the managerial advantages of bringing in outside talent and the risk of creating new pressure groups.

19. The Ibbs report also recommended that a project manager should be appointed (at full permanent secretary level) to take charge of this exercise and drive it forward to cover all executive areas as rapidly as possible. But a separate project manager for this one exercise would be unsatisfactory if it meant someone at the centre pulling against Treasury objectives on pay and expenditure control. The job in any case does not seem to justify permanent secretary rank.

The way forward

20. The paper poses a clear political choice between the two courses in paragraph 28 of the draft paper. One of the key differences is whether the Government is committed at this stage to comprehensive coverage. You will want to bear in mind that this would mean an extension, inter alia, to the executive activities of your own departments.

21. Our own feeling is that the first course involves too much risk to key Government and the Treasury objectives in the area of pay and expenditure control. The 5-year timetable anyway seems quite unrealistic, given the amount of work involved in setting up each agency with an adequate "policy and resource framework" and performance targets. It also means that the commitment would be made without any experience of the pilot agencies.

22. It was agreed in July that the presentation should be "without drama". This would be consistent with a low-key statement saying simply that as part of the next phase of work on financial management, the Government proposed to pay particular attention to the management of executive functions, especially in clarifying the policy and resource framework in which they are to work, and in monitoring their performance and setting demanding efficiency targets.

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23. Such a statement need not commit the Government to a particular timetable or to applying the same techniques to all activities. On pay, it could reiterate the present strategy of controlled flexibility. On expenditure control, it should not commit the Government in advance to general relaxations in control, although it might add that the Government will be considering in the next review of the end-year flexibility scheme whether any changes will be needed to facilitate this new phase of the FMI work. It would not require a commitment to appointing a project manager at permanent secretary level.

24. Whatever decision is taken on the basic choice, it is clear that the departmental proposals for relaxation of financial controls are not acceptable in the form in which they appear in the Cabinet Office paper. It will be important to get it recorded that each individual proposal for an agency will need proper consideration by the Treasury and by Ministers. The draft paper admits this (paragraph 3). Each case will have to be considered on its merits in the light of the considerations set out above. Further consideration will also need to be given by Ministers to the content and occasion of any public statement of their conclusions on the report.

Key points to make

- a. Support general principle that executive functions should be organised within clear policy and resource framework and with clear indicators and targets for performance. This is building on existing thrust of FMI.
- b. On pay and conditions, keep to existing strategy. Plenty of scope for flexibility in suitable cases, but must be centrally managed to retain benefit of Treasury bargaining power; to prevent agencies and departments bidding up against one another for scarce manpower; and because of risk to pay in the economy generally. Industrial relations dimension needs continuing attention

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both initially and later, given the general mood of staff.

- c. Expenditure control is key element of economic strategy. Already some provision for flexibility. Can look at cases for flexibility if merited in particular cases, eg in review of end-year flexibility. But any relaxation would need to be justified to Parliament. Problem of presenting this alongside Survey outcome.
- d. Support the second course in paragraph 28. Present this "without drama". Low-key statement, indicating emphasis on management of executive functions as next phase of FMI. No commitment to timetable for comprehensive application. No need for appointment of separate project manager. Treasury should be involved in working up each agency proposal.

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JA.

(J. ANSON)

Department	Agency	Flexibilities Sought	Pay Group comments
MAFF	ADAS	delegation of flexible pay	- Treasury ready to consider proposals for pay adjustments under IPCS Agreement, but not yet ready to delegate control of such movements to Depts.
		higher relocation benefits	- No these would be repercussive: it is not an agency-specific problem.
		short-term contracts personnel management	- possible: Treasury ready to discuss requirements - already largely delegated to the Ministry.
MOD	Research Establishments	radical pay flexibilities	- requirement can probably be met to a large extent under the IPCS Agreement. But the degree of independence sought would not be acceptable so long as it stayed in the Civil Service. If the DRA became a Plc there would be no problem.
	Meteorological Office	pay flexibility for specialists	- should be possible under the IPCS Agreement. MOD should explore with Treasury.
DE	Employment Service	detached duty/relocation	- No, these would be repercussive. Large numbers of staff involved, and hard to ring-fence
		early retirement local pay	- Discuss with Treasury's Superannuation Division what is possible. - requirement should be met substantially by the recently-announced LPA scheme
		local recruitment	- possible under Civil Service Commission oversight.
DOE	Royal Palaces	local recruitment market rates of pay	- possible under Civil Service Commission oversight - Treasury ready to discuss pay requirements whether or not it becomes an agency.
	QE Conference Centre	Departmental grading local recruitment	- Treasury ready to discuss pay and grading needs whether or not it becomes an agency - possible under Civil Service Commission oversight.
DHSS	Resettlement Units	existing pay etc	- there are no proposals for variation of pay and conditions
DTI	CRO	performance-related pay rationalise grades	- Treasury would be ready to discuss the possibility of such a scheme - Treasury would be ready to discuss the possibility of establishing suitable Departmental grades.
		personnel management short-term contracts	- already largely delegated to the Department of Trade and Industry. - possible: Treasury ready to discuss requirements.
Dept of Transport	VI	local recruitment local pay productivity bonuses	- possible under Civil Service Commission oversight. - possible under the recently-announced LPA scheme. - Treasury ready to discuss a possible scheme of performance pay to meet this requirement
		personnel management grading freedom	- already largely delegated to DTp - Departments have delegated powers, but must operate to common Treasury standards.
Home Office	Passport Office	pay of Chief Executive	- No, must remain subject to Treasury control as a senior public appointment.
		productivity bonuses	- Treasury is ready to discuss a possible scheme of performance pay which would meet this objective.
		local pay additions	- these are possible under the recently-announced scheme. But coordination with other Departments will be necessary.
		personnel management	- already largely delegated to the Home Office.
HM Treasury	HMSO	local flexible pay	- no problem if a local agreement can be reached with the unions on the lines of the IPCS agreement.
		Departmental grading	- Treasury is ready to discuss an appropriate grading structure whether or not it moves to agency status
		fluid grading	- would have to be done under Treasury supervision
		local recruitment	- possible under Civil Service Commission oversight.

AGENCY	TURNOVER	FLEXIBILITIES SOUGHT	ALTERNATIVE DISCIPLINES TO APPLY	BENEFITS CLAIMED	COMMENT
MAFF - ADAS	£110m running costs £154m programme (receipts £22m)	Net running costs Accrual accounting instead of cash. Increased expenditure to match receipts; Carryover of unspent capital provision	Framework plan, specifying tasks and resources Grant in aid paid to ADAS within department	Greater efficiency. Quick response to market demand	Grant in aid within dept and abandonment of cash accounts inconsistent with normal vote accounting EYF already exists for investment slippage
MOD - Met Office	£74m (receipts £22m)	Unspecified freedom from rules on fees and charges (? ability to spend extra receipts)	Corporate Plan Performance indicators	Maximise revenue from private sector by increasing business	Case for flexibilities not yet made. Met Office has considerable monopoly power and no real market disciplines Substantially self tasking. Lacks performance indicators and has poor management.
Defence Research Agency	£450m	Increased expenditure to match increased receipts. Borrow to fund capital investment unconstrained by PES	Customer/contractor relationship with MOD. Corporate plan; review of costs and profits by MOD. Govt owned plc.	Marketing services, improving use of facilities. Reduction in costs. Improved service. to MOD. More asset sales surplus assets	Inadequate policy or resources framework. Borrowing and requested freedom for capital investment inconsistent with annual public expenditure control. DRA would have substantial monopoly power and MoD have not identified any systems of regulation to prevent abuse.
D. Em Employment Service	£500m running costs £6,000m programme	Running cost controls to be kept but subordinated to 'cost effective delivery of services' EYF for running costs. More delegation	Resources framework Evaluation by Dept of progress towards objectives	Greater focus on priorities and resources	EYF for running costs can be considered in EYF review. Delegated authorities negotiable with HMS RC control can be kept but total can be changed by agreement if appropriate.
DOE - Royal Palaces	£15-£16m (receipt £10m)	Increased expenditure to match receipts. Exemption from running costs. Plan capital expenditure over three years. Finance investment by borrowing. Carryforward unspent receipts or unspent investment provision	5 year Business Plan with over-all rate of return. Detailed performance targets. Competition from comparable tourist attractions. Grant in aid paid while still in department.	Ability to act more commercially in competitive market.	Royal Palaces are trading in a competitive market. Some independence from DoE makes commercial sense but full independence incompatible with responsibilities of S of S to Sovereign. Trading Fund model probably impracticable because of constraints on treatment of assets. Exemption from gross running costs depends on ability to meet criteria. Grant in aid paid while Palaces within department incompatible with vote accounting. Borrowing not possible if part of DoE. EYF already exists for investment slippage. Carryover of some unspent receipts achievable by internal arrangement with rest of DoE.
PSA - QEII Conference Centre	£5-6m (receipts £2m-3m)	Plan investment over 5 years Ability to borrow against future receipts. Increased expenditure to match receipts	Competitive market. Specific fixed grant to cover deficit. Business Plan.	Ability to act more commercially in a competitive market	Conference centre trading in a competitive market but high level of subsidy makes Trading Fund status unlikely. Specific fixed subsidy is acceptable. If agency is in department carryover of expenditure to match receipts must be voted. Borrowing not possible if part of PSA. Some carryover of receipts achievable by internal arrangement with rest of PSA.

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AGENCY	TURNOVER	FLEXIBILITIES SOUGHT	ALTERNATIVE DISCIPLINES TO APPLY	BENEFITS CLAIMED	COMMENT
DHSS - Resettlement Units	£14m.	Freedom to carryover unused provision	None specified	End involvement of Ministers.	Not a suitable activity for agency, since Ministers will remain closely associated with policy, and activity declining. EYF not appropriate to deal with difference in expenditure profile as units closed and grants paid to local authorities. Should seek change in provision.
DTI - Companies Registration Office	Unspecified (costs covered by fees)	Plan capital expenditure not subordinated to departmental priorities. Borrow up to 5 per cent of income. Increased expenditure to match receipts	Corporate Plan with financial targets	Improved existing service. Developing new service	Exemption from gross running costs control now agreed, should help avoid queues for services. Further changes imply marketing and extension of CRO activities covered by fee income. CRO not trading; not clear that expansion of activity is justified. Relative priority of DTI or CRO capital expenditure is a matter for department. Borrowing impossible; part of department. EYF already exists for investment slippage. Increased expenditure to match increased receipts must be voted.
DTP Drivers & Vehicle Licensing	£113m	Accrual accounting Receipts to be payment for vehicle registration and for VED collection	Corporate Plans Suggested structure "like a Nationalised Industry but within Dept" Fee control. Efficiency targets	Increased efficiency (2% extra productivity gain over 5 years) Improved service to depts, Police and public	If DVLD remains in department normal vote accounting applies - ie cash accounts, and any increases in expenditure must be voted. Net running costs control only possible if Treasury treated as paying customer for DVL tax collection service. Major implications extending to IR and CE.
DTP - Vehicle Inspection	£32m	Exemption from gross running costs control. Accrual accounting. Funding of capital investment by borrowing. Some use of surpluses to fund bonus scheme.	Ministers set objectives and targets in Corporate Plan. Trading Fund model. Fee control.	Increased efficiency (2% extra productivity gain over 5 years) improved services	Sensible and realistic proposal for a Trading Fund. (Has been extensively discussed with Treasury) Proposal to expand services would need close Ministerial control.
Home Office - Passport Office	£50m in expenditure £50m receipts	Increased expenditure to meet increased receipts, retention of of in year efficiency savings. Exemption from running costs control	Budget, objectives productivity targets and service standards set by Home Office. Memorandum Trading Account	Improved services.	Passport Office receipts currently classified as tax, so cannot be offset against expenditure If Office remains in department, increased expenditure will require supplementary Estimates Exemption from running costs depends on ability to meet criteria.
HMT- HMSO	£320m	No further financial flexibilities sought	-	-	HMSO already a Trading Fund

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MR WICKS

Improving Management in Government -
The Next Steps

--- I attach a note by Sir Robert Armstrong on Improving
--- Management in Government: The Next Steps, together with an Annex containing outline schemes of the areas proposed and studied for development as agencies. These papers will form the basis for discussion at the meeting of Ministers arranged for 22 October.

2. I am copying this minute and its attachments to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, the Environment, Trade and Industry, Transport and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord Privy Seal, the Chief Secretary, Treasury and the Minister of State, Privy Council Office.

T A Woolley

T A WOOLLEY
(PS/Sir Robert Armstrong)

15 October 1987

Ch
Annoyingly this has been redrafted a bit. I have transcribed your comments onto this version, & we have marked changes on a draft version you saw earlier.

One bit of substance has gone - see page X.

AT

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

The main recommendations of the Next Steps report, which Ministers discussed at the last meeting of the group on 9 July, were as follows:

- To the greatest possible extent the executive functions of Government (essentially those responsible for delivering services) should be carried out by 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. This would entail a greater distancing of Ministers from day to day operational management, and a change in the way in which accountability to Parliament in respect of the agencies was discharged.
- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency, over a definite and limited period (say, five years).
- 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.

2. At their meeting on 9 July, Ministers said that before coming to decisions they wanted to see individual examples of agencies to be developed by each of the Departments concerned, to illustrate how the Next Steps proposals could be applied in practice. They were concerned about the possible reaction of Parliament to the changes in accountability which were inherent in the proposals, and which would be seen as diminishing the scope for and effectiveness of Parliamentary scrutiny. Ministers asked for further thought to be given to the presentation of the approach to Parliament: it would be desirable to present developments without drama, and to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies from becoming pressure groups for more expenditure.

3. Work has gone ahead on the development of agency proposals by Departments. Each of the Departments represented at the last Ministerial meeting, with the addition of the Department of Trade and Industry, Department of Transport and the Ministry of Agriculture, Fisheries and Food, has nominated at least one area of the Department to be looked at as a potential agency. Each Department has worked with the Efficiency Unit on the details of its agency structures and has had consultations with the Treasury and the MPO/OMCS. In most cases more work will need to be done before the responsible Minister can take a decision, in agreement with the Treasury, to proceed with individual agencies. A Working Group under my chairmanship has been considering the implications of the Departments' proposals for the central management of the Civil Service and for the control of public expenditure.

The Proposed Agencies

4. The areas proposed and studied for development as agencies are:

MAFF:	Agricultural Development and Advisory Service (ADAS), together with the Departments' regional organisation
MOD:	<u>Meteorological Office</u> Defence Non-nuclear Research Establishments
DE:	Employment Service
DOE:	Royal Palaces
PSA:	<u>The Queen Elizabeth II Conference Centre</u>
DHSS:	Resettlement Units
DTI:	Companies Registration Office (CRO)
DTp:	Driver and Vehicle Licensing Directorate (DVLD) Vehicle Inspectorate
HO:	Passport Office
Chancellor's Dept:	Her Majesty's Stationery Office (HMSO)

The details of each agency are enclosed. It is envisaged that these agencies would all remain within the Civil Service, at

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least initially. In a few cases, the possibility of moving an agency outside the Civil Service is raised as an option for later, but no decisions of this kind are required now. This should help to minimise the risk of the agencies becoming pressure groups for more expenditure, since the policy and resources framework would remain firmly the responsibility of departments and their Ministers. A civil servant head of an agency would not be able to encourage public pressure for additional resources for the work of the agency.

A v
doubtful
proposition

5. The constitution of existing departmental activities as distinct units within the Departments would not of itself require legislation. Some of the proposals in the Annexes and some of the suggested changes in the Parliamentary financial regime would require legislation, but the nature and extent would depend on the decisions taken on the specific aspects of each of the agency proposals. Those proposals which involved financing other than through Parliament's normal voting of Supply, or which involved a formal transfer of responsibility from the Treasury for decisions on pay and grading, could only be achieved with Parliament's approval. But it should be possible to make a start on an initial programme of agency creation on the basis of these proposals, without the need for legislation in the first instance.

6. At this preliminary stage some specific benefits to come from the agency approach have already been identified. For example, HMSO believe that flexibility on pay and grading would enable them to increase their planned efficiency savings of 5 per cent to at least 15 per cent. The Department of Employment consider that flexibility to pay differential rates within their existing pay bill would enable them to deal with endemic staff shortages. In most cases Departments believe that changes in the forms of departmental and Treasury control, together with a

diminution in Ministerial involvement in day to day operations, would give agency management the opportunity to improve the efficiency of their operations. Some Departments consider that the scope for improvement would be limited and the advantages would be insufficient to justify change, unless Parliament accepts the need for a significant reduction in the burden of Parliamentary scrutiny and unless there can be greater flexibility in pay and financial controls than they understand the Treasury to be ready at this stage to contemplate.

Departmental management would concentrate on the broad framework of policy, the annual allocation of resources and the setting of performance targets to be met by the agency; the agency management would be responsible for the job to be done within this policy and resource framework. Each agency would have to be an individual structure with controls and delegated authorities designed specifically for it, and conditional on the establishment of a rigorous and effective management framework, and the effective containment of any repercussions.

7. On the other hand, whatever benefits there may be to individual agencies, there are risks in adopting the full Next Steps approach to setting up agencies. Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual agency could create serious problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. The introduction of net control of running costs in any agency would imply readiness to accept some increase in numbers where justified by an expansion of demand. The best chance of minimising these risks lies in tight definition of objectives, a firm control over running costs, care with senior appointments - and a declared

X | determination to remove agency heads who failed to deliver targeted efficiency improvements without good reason coupled with arrangements for rewards for signal successes. There are also industrial relations risks. It is not certain how the staff and the staff associations will react. For example, the introduction of the Home Office agency, the Passport Department, will need careful management in the context of the Government's overall approach. The Passport Department has a history of disruption, and there is currently a major computerisation programme which should not be put in jeopardy.

Accountability

8. The "Next Steps" approach depends upon effective control of the delivery of services through a framework of policy, resources and results required, set for an agency by or on behalf of the responsible Minister. As Ministers recognised at the meeting on 9 July, the Next Steps approach has implications for Ministerial accountability to Parliament generally, for the handling of correspondence and Parliamentary Questions from MPs, and for the flow of information to MPs and the public.

9. Ministers' formal accountability to Parliament would be unaffected. A Minister would be accountable for the totality of the framework set for the agency. This would mean that he remained fully answerable for policy objectives including target levels of efficiency and service delivery and for resource allocation. Once the agency was fully developed and the executive task had been delegated, as a general rule Ministers would not expect or be expected to get involved in operational issues. Exceptions could of course arise in the event of an emergency or a major industrial dispute. The detachment of Ministers from day-to-day operations would entail changes in the way in which accountability to Parliament was discharged, which

Parliament might well see as a reduction in the extent of their ability to scrutinise the work of the agencies. The delegated approach would be easier to maintain if a public statement could be made of the extent to which operational matters were being delegated to the agency management, together with some indication of the policy framework being set.

10. If Ministers were to be seen to be more detached from day to day operations than at present - which is an essential feature of the "Next Steps" approach - this would have to be reflected in the handling of MPs' cases and questions on such matters:

- As a minimum, Ministers would need to reply to MPs in terms of, "I am informed that ...", together with a report from the agency and a formula explanation that the matter was for agency executive management within the Ministerial policy framework (unless of course the case provoked a change in the management or a review of the framework itself).
- In addition, Ministers could choose to encourage MPs to approach agency managers directly as part of the public announcement of the establishment of the agency. MPs who insisted on a Ministerial reply on an operational matter would receive one along the lines indicated above.
- If a case raised doubts about the fulfilment of the policy objectives set by Ministers, the Minister would need to take a view based on a report from the agency management; if he was dissatisfied, his recourse should be via management change or review of the framework, but not through a direction to agency management to change the way a specific operational case within the framework of delegation should be handled.

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This approach would build on current practice whereby in some areas MPs as well as the public approach, and are encouraged to approach, the officials directly responsible on operational matters in the first instance. Ministers will need to judge whether that would be acceptable to Members of Parliament.

11. The presentation of these changes to Parliament would need careful handling, both initially and for each agency individually. The overall approach could be presented as improving the flow of information, by virtue of published statements on policy frameworks which would give more information than before at the strategic level, and direct access to agency management which would give a speedier response on day to day operations.

12. The Permanent Head of Department as Accounting Officer would continue to be answerable to the Public Accounts Committee (PAC). The Chief Executive of an agency would normally also attend the PAC with the Accounting Officer, so that he could answer questions about the exercise of his own responsibilities. Departmental Select Committees would be encouraged to look to agency Chief Executives for evidence on matters within their delegated responsibility, and to Ministers and senior departmental officials for evidence on the policy and resources framework.

13. The description of each scheme for the agency incorporates a brief account of the specific accountability implications. It would be necessary for departmental Ministers to agree detailed procedures and allocations of responsibility before individual agencies were set up. Public announcements of the establishment of individual agencies would need to make clear any changes intended by Ministers for the handling of MPs cases and questions (along the lines indicated in para 10 above).

The Management Framework

14. The preliminary work on the pilot scheme has shown the extent to which more work will be necessary before they are ready to be fully fledged agencies. In some cases the proposed agencies are already distinct organisations with their own management style and structure, notably DVLC, CRO and HMSO. In other cases, for example the Employment Service or the Research Establishments, a new organisation is being constructed, building on the existing organisation but with a great deal of planning and development to do.

15. Work has been done on the main areas where Departments consider greater delegated authority is necessary to give the management of an agency real responsibility. There is considerable confusion and even ignorance about the precise details of possible delegation under existing rules within Departments and between Departments and the Treasury. It may be possible for Departments to agree with the Treasury on additional delegations to agencies within the existing Treasury rules. But there are a number of cases where Departments consider that delegations which go beyond the limits of existing Treasury and Parliamentary rules are essential if they are to make a reality of the benefits in improved management and efficiency which would come with agency status.

Pay and Management

16. On pay and management it is already the Treasury's strategy to develop from the previous Service-wide approach to a more flexible and better-oriented system. This is described in Appendix 1. Substantial progress has been made in recent years: Special Pay Additions, the IPCS Agreement, the development of performance pay and the newly-announced Local Pay Additions are all examples. The objects of the strategy are:

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- to keep control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control, and
- to maintain the coherence of the pay system,
- while at the same time moving to meet more closely the different needs of different parts of the Service where that can be done without prejudice to the remainder.

Provided that controls over running costs and the pay bill can be maintained (and if possible strengthened) the Treasury is keen to increase the flexibility of the pay system further, bearing in mind always its responsibility for controlling the pay and conditions of the Civil Service.

17. It has been suggested that there would still be too many constraints on an agency Chief Executive who would lack the same scope as his private sector counterpart to reward increased productivity, balance pay rates against manpower numbers within his overall pay bill and compete in the market for scarce labour resources. The Treasury consider that there are, however, reasons why each proposal for a change in the pay regime needs to be considered by the centre:

- i. pay policy has macro-economic implications, not least because of the example effect on the private sector;
- ii. pay is an important element of public expenditure (and of running costs) and one where increases are hard to reverse;
- iii. even if higher pay can be offset by productivity gains in some agencies, there is the danger that higher costs will consequently spread to the rest of the Civil Service and add to total expenditure;

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*How do
you stop
them?!*

- iv. agencies cannot be allowed to solve their personnel problems by exporting them to the rest of the Civil Service (eg by poaching scarce skills from other Departments);
- v. questions of propriety may come up, such as the use of tax-efficient remuneration; and
- vi. the industrial relations implications of the proposed changes could be wide-ranging. The attitudes of unions and of staff would not necessarily be hostile but certainly could be, given the mood the Service is in.

*The answer
is pretty
clear*

18. The Treasury consider that there is a crucial judgment to be made as to whether the agencies would be better able to resist union pressure than the Treasury, with its concentrated bargaining power. On the one hand there would be a danger that it would be more difficult for the Government to resist the sort of pressures that would come from unions seeking to play one agency off against another. On the other hand experience shows that the unions themselves dislike the kind of local negotiation that would go with the creation of agencies, because it would weaken the power of union headquarters and of full-time officials and fragment the monolithic structure of the unions. In general the more specific to an organisation is the work of its staff, the easier the jobs will be to ring-fence and the stronger will be the case for the delegation of detailed pay controls. Smaller blocks of staff will be easier to ring-fence than large blocks. Subject to these considerations the Treasury is ready to discuss with Departments the pay regime and grading structures which they would like to see introduced.

Senior Appointments

19. All Chief Executive appointments at Grade 3 or above would be made under the present procedures for Grades 1 and 2, which require the approval of the Prime Minister on the recommendation

Y } of the Head of the Home Civil Service (after discussion with Senior Appointments Selection Committee and consultation with the departmental Minister concerned whose view would be crucial because it would be to him that the Chief Executive would be responsible). Where non-civil servants were appointed to senior posts, it would be possible to use fixed term contracts as Ministers envisaged at the last meeting, though higher salaries would probably be needed to compensate managers for the risks involved. Existing civil servants could also be appointed for fixed terms. Under present rules this would have to be on the basis that the individuals concerned would be reabsorbed by their Department; it would be necessary to develop surrogates for the risk/reward nature of fixed term contracts within Civil Service pay and conditions structure.

Financial Flexibilities

20. Most of the agency proposals seek some freedom from the present controls over public expenditure and running costs in order to be able to take measures to improve efficiency, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts for example in order to fund spend to save projects; to pursue investment plans outside normal expenditure control; or to be exempt from running cost controls. Some Departments feel that, in particular cases, the decision whether it is worth proceeding with an agency will depend on the availability of such freedoms.

21. The present controls are in place in order to deliver Ministers' objectives for the control of public expenditure (including the Government's own running costs) and to meet Parliament's own requirements for the control of spending by the Executive. Considerable flexibility is possible within them: details are at Appendix 2. Particularly where the agency is trading, these offer considerable scope for meeting Departments' requirements.

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22. The Treasury is willing to examine the scope for extending this flexibility if Departments can show that - coupled with the policy and resource framework for the agency - this would make for greater efficiency and effective overall control. This can be pursued both in the forthcoming review of end-year flexibility and in looking at particular cases for exemption from gross running costs control. It would however be premature to lift existing controls until other equally effective disciplines can be put in place. While some specially tailored arrangement might be thought appropriate in the circumstances of a particular agency, any irrevocable step to make it more extensively available would need careful examination. It would be necessary to ensure that any wider freedom to carry money forward did not jeopardise the Government's ability to control aggregate annual expenditure; and that further exemptions from running costs controls (or freedom to increase expenditure to match receipts) did not have an unacceptable effect on the size of the Civil Service. And whatever arrangements are made for operational flexibility, the costs of all Government activities will still need to be brought together in the public expenditure plans so that Ministers can decide priorities between them.

It would

23. Any significant new flexibility, including any variation in normal Parliamentary vote accounting (like the suggestion that parts of Departments should be financed by non-surrenderable grant-in-aid) would require the agreement of Parliament. In presenting any such proposals, Ministers would want to be satisfied that they did not appear to be undermining the Government's or Parliament's control of spending.

Conclusion

24. The key elements of the "Next Steps" approach are:

- commitment to a positive, deliberate, and rapid programme of developing the executive areas of government - those which essentially deliver services - as agencies;
- increased delegation of authority by Ministers, and changes (which might be seen as diminutions) of accountability to Parliament for the operations of agencies;
- increased flexibility in relation to Treasury controls of pay and expenditure;
- management training and career planning to develop staff to manage agencies;
- a central capacity (the "project manager") answerable through the Head of the Home Civil Service to the Prime Minister for co-ordinating, steering and driving forward the process of change.

The approach would build on what has already been achieved in improving management efficiency, but would be, and would be intended for presentation as, a coherent and interlinked package of improvements and a step change.

25. The proposals by Departments for developing 12 areas of executive government as agencies would require legislation in some cases, although the need for this might be avoided if some of the detailed proposals were modified. So long as the agencies were in effect discrete parts of Departments, their staffs would

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continue to be civil servants and changes in accountability need not be very substantial or conspicuous. Provided that the changes were presented as not weakening Parliament's or the Government's control over expenditure, the implementation of the proposals might reassure Parliament about the Next Steps approach rather than raise alarm about it, and thus provide a basis from which to carry forward the programme and develop further agencies.

26. The proposals could be seen and presented as the first fruits of a decision to implement the "Next Steps" approach, with the appointment of a project manager to provide the expression and guarantee of an intention to pursue the approach with determination and to be ready to accept risks in order to achieve results.

27. On the other hand the proposals have been selected and devised so that they can be presented without drama. Because of this they would by themselves be unlikely to yield or demonstrate the full benefits or to confront all the risks and problems of the full-blown "Next Steps" approach. They could thus be described, more modestly, as an evolution of existing management trends in the direction of the "Next Steps" approach, rather than as the first phase in the implementation of that approach. In that case, though there would probably need to be some capacity in the Office of the Minister of the Civil Service for co-ordinating and monitoring the development of these and any future agencies, it would be difficult to justify the creation of a "project manager" at Permanent Secretary level.

28. This seems to me to be the political choice which Ministers now need to make. The existence and nature of the "Next Steps" report is unofficially known to the Civil Service unions, and to some extent to the media. Against that background, and the detailed proposals for agencies now put forward, Ministers can either:

- commit the Government wholeheartedly to the "Next Steps" approach, announce as many of the detailed proposals as possible as the first stage in implementing it, accept the potential risks as the price of achieving results, and proceed to the appointment of a project manager as the expression and guarantee of their determination to press forward with the approach; or
- announce individual agency proposals as and when they are agreed, present this as an evolution of existing management trends in the broad direction of the "Next Steps" approach, perhaps with an indication that the process will continue but without committing themselves to the comprehensive application or the timetable recommended in the report at least until they have had experience of the working of the agencies now proposed, and not in the meantime appoint a project manager at Permanent Secretary level.

29. The first course would be seen and could be presented as a firm decision to accept the logic and challenge of the "Next Steps" approach and to pursue it to its conclusion, facing and being ready to confront the risks of Parliamentary suspicion and hostility and taking (while seeking to avoid) the risks of loss of effectiveness of controls over pay and expenditure in order to achieve improved efficiency in the provision of services. The second course would minimise the risks of arousing Parliamentary hostility at this stage (and thus offer the prospect of outflanking rather than confronting Parliamentary objections) and would reduce the risks of loss of effectiveness of controls over pay and expenditure; but it would plainly fall well short of the Next Steps proposals and would be in danger of being seen as missing an opportunity and shirking a challenge; as in effect a decision to shelve the "Next Steps" approach, since without the

rubbish |

tendent degree of commitment implicit in the first course there would probably be insufficient impetus to overcome the forces of inertia.

30. On the choice which Ministers make between these two courses will depend the direction of further work and the nature of an announcement. I will make proposals for further work and suggest a draft announcement in the light of Ministers' decisions.

Cabinet Office

16 October 1987

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPSPAY AND PERSONNEL ISSUES

This note discusses the arrangements for pay and personnel policies in agencies set up to carry out certain executive functions presently carried out by Departments. These policies include staff grading and remuneration, other terms and conditions of service, superannuation, and hiring and firing.

2. It is not the purpose of this note to go in detail into what changes might be appropriate in respect of particular agencies. Almost by definition these will be many and varied, and the needs of different agencies will clearly differ. This note discusses some general considerations, and then certain specific areas. It is prepared on the assumption that agencies to be set up, at least in the first place, are Departmental and the workforces are civil servants.

General considerations

3. The proposals under consideration have to be grafted onto a well developed, and so far a successful, strategy which is already in operation for moving where appropriate from the previous Service-wide approach to many aspects of personnel management, most notably pay, to a more flexible and better oriented system. The object of this strategy are to retain control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control and running cost control; while at the same time moving to meet more closely the different needs of different parts of the Service. This is necessarily an across the board strategy, aiming to retain the necessary Service-wide disciplines while giving local flexibilities where appropriate. It is exemplified, for instance, by the recent agreement with the IPCS (which it is hoped to extend more widely) over pay and personnel

arrangements, for the grades they represent, and the Local Pay Additions (LPA) proposals now under consideration. These kind of arrangements should give the sort of flexibilities required by agencies in a structured and disciplined manner which is likely to be more cost-effective both across the board and for individual agencies, and more easy to implement, than the pursuit of flexibilities in random and ad hoc manners on behalf of or by individual agencies.

4. This leads into the need to control running costs, both so far as any particular agency is concerned and so far as other agencies and Departments, and the Civil Service taken overall, is concerned. Pay and related items amounts to nearly 60 per cent of all running costs, and to a much greater extent than other sorts of administrative expenditure pay increases once agreed tend to be irreversible. So far as any individual agency goes, provided there is suitably robust budget setting and control and provided a suitable degree of expertise in pay etc matters and pay negotiations has been developed and is in itself cost effective, cost control should be achievable fairly quickly. But the bigger problem is the effect which the decisions of any particular individual agency could have on other agencies, or on Departments more widely, or indeed - Civil Service pay being so overt and seen as important by other pay negotiators, public and private - on the rest of the economy. It is not sufficient for individual agencies to have disciplines and skills; it is the effect that their decisions may have on others which needs to be watched, as the recent experience with ADP allowances and lawyers showed. Hence the importance of a structured approach.

5. Developed from this, there is the need for drawing a distinction between on the one hand actual variations in pay and other conditions as to between one agency and other agencies and Departments as a whole, and on the other the negotiation and ultimate decision-making power in respect of such variations. It is possible to have many aspects of terms and conditions, and in particular the pay etc regime, tailored to the needs and circumstances of individual agencies while at the same time the centre retaining the negotiation or at least the ultimate power

of control in these matters to guard against the risks just referred to. And of course the position is not black and white; there are degrees of freedom for instance freedom to negotiate and settle payments within limits given.

6. Finally, agencies are not starting from scratch with a new workforce; they are taking over existing individuals with established entitlements to established terms and conditions. This is not to say that the terms and conditions of existing individuals cannot be changed; of course they can. But care has to be taken in changing such terms, and this usually ends up with a "buying out" process - which not only may be expensive, even if cost effective in the long run, but which has to be carefully handled. With new individuals, or with existing individuals whose existing rights have been "bought out" or otherwise satisfactorily disposed of, there is very much more freedom. There can be problems of "new" and "old" individuals working side by side on different terms and conditions; and important issues of mobility and transfer of staff from one agency to another agency or Department would have to be examined. But subject to these considerations, if individual agencies could be sufficiently clearly differentiated from the rest of the Civil Service (eg by function and nature of the workforce), and in the light of that chose to set up for "new" people their own pay and grading structures and their own terms and conditions a good deal of flexibility could be achieved, not only within the new terms and conditions but also by way of helping to insulate these from the rest of the machine and minimise repercussions.

Individual areas

7. Annex A discusses briefly each of the main areas where the issue of variation in terms and conditions might arise. This must be read in each case against the background of the general issues and considerations set out above.

Industrial relations

8. The Civil Service trades unions can of course be expected to take a considerable interest in the development of agencies and in proposals which might change the terms and conditions of their members. Some unions may see potential advantage in them. There will be a good deal of emphasis on the existing negotiating frameworks and the need to maintain the concept of a unified Civil Service. But provided changes are handled carefully, any difficulties here should be overcome, though as individual agencies are set up a "price" is likely to be sought, one way or another, sooner or later. Presentation will be very important - for instance pay flexibilities as such are easier achieved if not overtly labelled "performance" or "merit", even if this is one of the aims of the flexibilities.

9. In the event of a dispute leading to industrial action, it seems likely (though legal advice would need to be sought) that a union could call on its members in other agencies or in Departments to support a dispute in one particular agency, without losing its immunities; that is to say, the action other than in the agency in dispute would count as primary rather than secondary industrial action. This adds to the risk of costly read across and the need for a degree of centralisation, at least in the early and middling stages, where changes in terms and conditions are concerned; and a fortiori to a need for centralised monitoring and control of the official side's position in dispute if and when these arise. Experience in the 1987 pay dispute shows how vitally important it is for the official side to operate as a single unit in these circumstances.

Summary

10. The present strategy on pay and other controls is important. We wish to continue with it. Adherence to a central framework will continue to be needed. But within this there are many other areas where under the right conditions flexibility is desirable and can be provided, while staff remain civil servants and agencies remain part of the Civil Service. This is the direction in which the system is going. The Civil Service

pay etc regime had been made more adaptable. But this has been done bearing mind the need to contain the costs of running the Civil Service overall, and to avoid escalating claims resulting from the effect of knock-on, repercussions, and example. But provided

- i. it is recognised that central rules must remain;
- ii. robust budgeting and meaningful control and monitoring and the necessary management skills in the agencies have to be clearly in place;
- iii. pay bargaining skills can be developed in the agencies; and
- iv. changes are pursued in a sensible way and at a sensible pace,

then there seems no reason why the agencies should not be able to do all they reasonably need to do in the pay and personnel field to carry out their given functions.

HM Treasury

October 1987

ANNEX A

SOME PARTICULAR AREAS

1. The essential central framework. Annex B discusses a number of essential central areas where, so long as agency staff are civil servants, there is little or no room for variation. These include conduct and discipline, security, political activities etc.
2. Pay and grading. This is conceptually the easiest area, but at the same time the area where the consideration of cost, repercussions and existing rights are most important. Subject to these flexibility is possible building on the current work already in hand to distinguish pay more finely by skill, merit and geography. This is particularly so in smaller agencies where the function and workforce are more specialised; larger groups who at any rate initially look like and are like large groupings being left outside the agency will be more difficult.
3. Hours and leave. To some extent these go with pay, but for the immediate future there could be more difficulty, given the wider repercussions which eg shorter working hours or more leave can have in the economy generally.
4. Other allowances. These might include allowances which now exist such as motor mileage, day and night subsistence, and so on, or other schemes or quasi "perks" such as removal assistance, and so on. Some of the considerations relating to pay etc and to hours and leave apply here, but not to such a great extent. Quite a lot of variation would be possible, though there would be a need to continue to look at the repercussions elsewhere, as well of course as at the cost effectiveness of any change.
5. Superannuation. It is unlikely that the creation of agencies would give rise to any particular superannuation problems. It is recommended

that agencies stay with the Principal Civil Service Pension Scheme. This would not inhibit flexibility on pay, but would ease for management and staff the transition to the new employment arrangements, and avoid the additional administrative costs that would be encountered if agencies were to develop and run their own pension schemes. Revised arrangements for early retirement were introduced earlier this year. These are considered to be sufficiently flexible to meet and adapt to current and perceived needs. Agency staff will of course have the same freedom as other civil servants to opt for personal pensions outside the PCSPS if, as individuals, they so choose.

6. Tenure of appointment. There is already considerable flexibility so far as short-term appointments etc go, and in addition the Treasury are currently developing a regime for short-term contracts, initially and on an experimental basis for certain scientific grades but in a way which is capable of extension more widely if it is successful. Such contracts would make provision for pay flexibility, including terminal bonuses at least in part performance related, and capable of being tailored to the needs of the employing entity. Appointments on these terms could be offered at any level, whether the most senior or more run of the mill.

7. Recruitment. At present recruitment at Executive Officer and above is carried out by the Civil Service Commission, and below that level is delegated to Departments (who could then presumably delegate on to agencies) within a framework of rules and guidelines. It would be possible to delegate recruitment at more senior levels, but if only for the maintenance of public confidence in the system it would be necessary to establish and stick to a regime of fair competition and honest recruitment on merit. The Civil Service Commission would be the obvious body to lay down such rules and monitor their application. (Separate and more direct control will remain with Ministers and/or parent Departments over appointments to the most senior management in agencies.)

8. Termination of appointment. For existing civil servants there are certain acquired rights here under the PCSPS, though these have very recently been made more flexible with greater ability to get rid of people who are poor performers. For existing staff it would be necessary either to "buy out" these rules or to abide by them (or, if an agency wished to break them, to take the financial risk of being brought before an industrial tribunal and losing); for new staff it would be possible to conceive of different arrangements.

9. Manpower numbers. Detailed control over staff numbers in individual agencies seems unnecessary, but some measures will be needed to ensure that agency numbers are not bigger than they need to be, and that the Government's aim of controlling and reducing the size of the public sector is respected. This is best done through a combination of forward planning to be approved centrally, and budgetary controls.

10. Appeals etc. Existing staff have a right of appeal to the head of their Department in certain matters and in other matters to the Civil Service Appeals Board (CSAB). It is conceivable that a new regime could make different provision, but clearly if only in terms of reasonable industrial relations some kind of appeal procedure will always be necessary. (It should be borne in mind in this context, and indeed more generally, that whatever the advantages and disadvantages of the immediate Civil Service employment regime, civil servants are covered by the general employment law and benefit from all the rights and protections etc which this gives employees generally. Even if individual agencies chose to get away from the current generally applicable Civil Service regime they would still of course have to respect the law of the land).

ANNEX B

A CENTRAL FRAMEWORK

GENERAL CONSIDERATIONS

The primary Government requirement of the agencies, apart from efficiency in delivering goods and services to their customers, is that they should guard against actions which would bring discredit to the agency and embarrass the Government if made public. In the case of personnel management, the potential evil to be guarded against here is that an agency might adopt inefficient, unfair or unreasonable practices which would be difficult if not impossible to defend. To guard against this, it is assumed that all agencies are to conduct their personnel management in a way which bears comparison with good private sector practice.

2. Against this background, it is possible to identify those areas in which a general set of rules and conditions applicable to all agencies would continue to be essential and where freedom to vary them, beyond that currently allowed within departmental discretion, would not be possible. In some of these areas the rules and conditions would be governed by statutory requirements (such as those arising from the Official Secrets Acts or the Employment Protection Act 1987) either because the particular Act applies directly to civil servants or because the Government has undertaken that its provisions should be observed in respect of its employees. Outside the core of "essential" rules, it would be in the Government's interest to maintain "models of good practice" for the guidance of agencies.

ESSENTIAL RULES AND CONDITIONS

3. These include the following :-

1.

- a. Recruitment and promotion by merit. The Civil Service Commission oversees recruitment to ensure that standards of fairness and openness are maintained. Promotion must also be by merit.
- b. Conduct and discipline. All the present requirements about the conduct of civil servants eg with regard to the acceptance of gifts and rewards, disclosure of official information, etc should remain. The present disciplinary arrangements, including the range of penalties available and an appropriate grievance procedure should continue to apply.
- c. Equal opportunities and discrimination. Personnel management practices and procedures must continue to meet the requirements of the Sex Discrimination Act and the Race Relations Act.
- d. The requirements of the Health and Safety at Work etc Act 1974 must continue to be met.
- e. Security procedures, including the provisions of the Official Secrets Acts and arrangements in a civil emergency or war (due functioning) must continue.
- f. The Parliamentary Commissioner for Administration must continue to be able to investigate complaints from the public of injustice arising from maladministration and the present arrangements for handling an investigation must remain.
- g. The Political Activities Rules and
- h. Business Appointment Rules seem to be essential features of any framework within which agencies should be expected to operate.

1. There should be adequate procedures for the long-term development of senior and top managers and evaluation systems as necessary to back up Service-wide standards in eg the pay and grading fields.

j. Personal records for security and superannuation purposes must be maintained for an appropriate length of time.

AREAS IN WHICH CHANGE MIGHT BE ALLOWED

4. There are several areas in which it might be possible to agree some relaxation, particularly in the detailed application of general rules and conditions. For example, on staff appraisal we would wish agencies to carry out staff appraisal and to observe the mandatory central principles (within which departments have a good deal of discretion) but would be prepared to agree that, for example, annual appraisals might be dispensed with below the Grade of AA. On promotion departments already have a good deal of discretion (on eg paper boards and interviews) but we would not necessarily object to eg a proposal to vary seniority fields provided the merit principle continued to apply.

5. On mobility, the agencies might be allowed to impose a mobility obligation in accordance with the needs of the job rather than by the grade of the post involved. Periods of notice could be similarly adjusted to meet particular agency requirements; much longer periods than are now customary for specialist staff in short supply who could not be easily replaced for example. The recently introduced early retirement package of measures could, similarly, be adjusted to suit an agency's needs as could the current redundancy agreement.

6. Needless to say any attempt to change terms and conditions agreed with the trade unions or to introduce changes which might reasonably be seen as being to the detriment of the staff would need to be very carefully handled and almost certainly require their co-operation (which would most likely need to be "bought" in some way).

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPSFinancial Control

Some departments have suggested that greater managerial efficiency would be helped by various relaxations of financial control, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts; or, to pursue investment plans outside the normal expenditure control.

Such proposals will need to be seen in the context of the Government's policy to keep a strict control of public expenditure and reduce it as a proportion of GDP. Ministers will need to be assured that any new arrangements will provide no less effective control, and that there will be a clear framework to ensure, and monitor, the agency's's efficiency. Parliament will also want to be convinced that its own control of Government spending will not be weakened. The essence of Parliamentary control of the executive is that Ministers cannot spend money without Parliament's approval, normally given through annual appropriations.

Some forms of flexibility have however already been accepted by Parliament. For trading activities which can break even, it is possible to establish public corporations, or trading funds (under the Trading Funds Act 1973) where the necessary criteria are met. For non-trading activities, where there is benefit to be gained in some measure of independence from day-to-day Ministerial control it is possible to establish a non-departmental body and finance it by grant-in-aid. This means, for example, that the body can spend extra receipts and carry over unspent balances, although the understanding is that the grant is not issued in advance of need, so that balances are in practice usually limited to 2 per cent of budgets.

Within government departments, carry over can be obtained by asking Parliament to revoke unspent funds through Supplementary Estimates. This is the basis of the end-year flexibility (EYF) scheme, accepted by the PAC and TCSC, under which departments can carry forward up to 5 per cent of their capital provision. This scheme is due to be reviewed at the end of this year. There is an obvious trade-off between the amount of freedom permitted and the uncertainty it introduces into the control of aggregate public expenditure. But the

points made by departments can be examined during the review and any agreed modifications reported to the Parliamentary Committees in the New year, in order to give departments a clear basis for planning and managing any agencies which may be approved.

In one or two cases, it has also been suggested that an agency should be allowed to pursue investment plans on the basis that provided these will show an adequate return they will not then be at risk from the competing needs of other claimants for public expenditure. However, although agencies, like other government activities, ought to plan investment ahead, it is for the departmental Minister to say whether those plans merit priority over other departmental needs, including other worthwhile investment. The money spent by agencies still needs to be financed at the time by taxes or government borrowing, and Ministers will thus still need to weigh their claims against those of other programmes. The arrangements for end-year flexibility should help to ease the problems of planning and implementing such investment.

Arrangements thus already exist to give some managerial freedom while preserving the essential control of public expenditure by Ministers and Parliament. Any particular proposals for greater flexibility need to be examined first to see whether existing arrangements can meet the need, and whether there is a satisfactory framework for ensuring and monitoring efficiency. If it is agreed that a more flexible financial regime would be more appropriate in a particular case, legislation may be required, and Parliament would need to be consulted on any significant variation in current Parliamentary conventions. The forthcoming review of the EYF scheme will be a convenient vehicle for seeking Parliamentary endorsement of any general changes in the scheme which may be found appropriate.

Running Costs.

Some departments have suggested that the running costs control on their agencies should be modified to exclude expenses covered by additional receipts. The running costs control (like the earlier civil service manpower targets) is intended to implement the Government's policy of reducing the size of the public sector, by keeping the Government's own administrative machinery to the minimum.

needed, and maintaining pressure on it for greater efficiency. For that reason the control generally applies to the gross costs. In cases where this inhibits a department's ability to respond to increased demand, Ministers have agreed that a service can be exempted from gross running costs control provided that there are other equally effective pressures for increased efficiency; that the activity is self-financing; and that there is no threat to the government's plans for the overall size of the civil service. Netting off receipts in other areas might help to encourage managers to generate more receipts, but would increase the risk that the size of the civil service would start to creep up again.

Accounting to Parliament

So long as an agency remains part of a Government department, the permanent head of that department will retain responsibility as Accounting Officer, since he will be answerable for setting the resource framework for the agency, just as he is for allocating all the staff and other resources throughout the department generally and ensuring that there are satisfactory arrangements for efficient management. The PAC in any case normally expects the permanent head of a department (or exceptionally a Second Permanent Secretary) to act as Accounting Officer for that reason. Although the head of the agency will have his own budget, objectives and performance indicators, he will be accountable to the senior management of the department, and not directly to Parliament. However, if the affairs of the agency were under examination at a PAC hearing, the Accounting Officer would normally be accompanied by the head of the agency so that he could answer questions about the exercise of his own responsibilities.

22/10



GM below

MANAGEMENT IN CONFIDENCE

CH/EXCHEQUER	
REC.	15/10/87
ACTION	Mr Anson
COPIES TO	PS/CST
	Sir P Middleton
	Mr FER Butler

PRIME MINISTER

Ch Anson met below

AA (v unhelpful)

THE NEXT STEPS

Unfortunately I shall be in China for our next meeting on The Next Steps but I wanted to let you have my reactions to Robert Armstrong's paper.

2 We have already secured important changes in the Civil Service but we now need to bring about a step change in improving management in Government. This must include increasing the sense of personal responsibility which individual managers have for the delivery of services. I believe that Robin Ibbs' report shows how to do this and that we must now take the decision to move forward.

3 Obviously, we must be sensitive in our handling of the accountability issues and presentation to Parliament but this should not prevent us from acting decisively to change the management style to give individual managers greater freedom to operate, albeit within firmly controlled budgets. Rigorous targets and budgets will be needed, together with better training and more appropriate job experience, in order to ensure this greater sense of personal responsibility. Nor should we allow fears about possible repercussions on pay, grading and so on elsewhere in the Service, as a result of giving individual managers greater freedom to manage, to deter us from this reform. Such repercussions can be controlled if we have the will to do so. It would be quite



MANAGEMENT IN CONFIDENCE

wrong to allow apprehensions of this kind to continue to dictate a rigid and stifling uniformity of practice across the Service.

4 We can only secure change on the scale and with the speed that the situation demands by having a powerful project manager in the centre who can make clear our determination to apply these changes in due course to the delivery of all Government services. I believe this points to a manager at Permanent Secretary level responsible to you through the Head of the Civil Service. This would send a clear signal about our intentions, and our determination to realise them.

5 Above all we must not have a half-hearted experiment involving only a token number of agencies. The Next Steps report has provided us a real opportunity for securing the changes in the Civil Service which we all want. We must not waste it.

6 I am copying this minute to the Lord President, Chancellor of the Exchequer, Home Secretary, Secretaries of State for Defence, Employment, Environment, Social Services and Transport, the Minister of Agriculture, the Lord Privy Seal, the Minister for the Arts, Sir Robin Ibbs and Sir Robert Armstrong.

D Y
15 October 1987

MANAGEMENT-IN-CONFIDENCE

HMSO MANPOWER SAVINGS

1. HMSO permanent Staff in Post has fallen from around 6,300 in 1980 when trading fund status and repayment was introduced to 3,350 in 1987.

2. HMSO attributes this to their having given managers freedom to manage within a Trading fund framework of clear objectives, tight budgetary control and structured measurement of performance. The process has been much assisted by the pressure of market forces, since Government Departments have been untied since 1982, and HMSO has had to convince them of continually improving value for money in order to retain their business.

3. Analysis of the manpower reductions gives the following breakdown:

Rationalisation of functions	- 30%
Contracting out	- 10%
Adjustments in workload	- 15%
General improvements in efficiency	- 45%

4. Continuing improvements are forecast, but the pace of change is slowing down now that these major changes have taken place. HMSO is currently planning a further 5% cut in manpower costs by 1991. If managerial freedom in matters of pay and grading for non-industrial staff could be added to the existing freedom in financial matters, the planned savings could be improved to at least 15%. This implies a reduction from 3,350 as at 31.3.87 to around 2,850. The estimate takes account of HMSO's experience in operating incentive and productivity schemes for industrial staff.

DEPARTMENT: Ministry of Agriculture, Fisheries and Food

NAME OF AGENCY: Agricultural Development and Advisory Service plus Department's regional organisation

ACTIVITY: Provision of technical advice, to farmers, checking compliance with statutory regulations, R and D, veterinary investigations, administration of grant and subsidy schemes.

1987-88

EXPENDITURE: £130 million (ow £114m running costs)

RECEIPTS: £22 million

MANPOWER: 7200

CHANGES SOUGHT

COMMENT

Pay

Delegation of flexible pay

Treasury ready to consider proposals for pay adjustment under IPCS Agreement, but not yet ready to delegate control of such movements to Departments.

Higher relocation benefits

No. These would be repercussive

Short term contracts

Possible. Treasury ready to discuss

Personnel Management

Already largely delegated to MAFF

Financial controls

Net running costs control

Present criteria for net running costs control not met and self financing requirements unlikely to be achieved.

Adoption of accruals accounting system with carry forward of unspent balances.

Not possible to abandon cash accounting for agency which remains part of Department and subject to Parliamentary vote accounting.

Funding through grant in aid

Grant-in-aid not appropriate to finance part of a Department. Would require legislation.

POLICY AND RESOURCES FRAMEWORK PROPOSED

Ministers accountable for agency's function and operations. Would lay down, in a framework agreement, financial and other targets/requirements, and set total budget. Director General ADAS and Regional Org. reporting to Permanent Secretary, would be responsible for managing the agency and meeting its targets.

INDUSTRIAL RELATIONS IMPLICATIONS

Sensitive if pay rates in the agency and the core Department diverge. Movement of staff between agency and Department could also become more difficult.

OTHER COMMENT

MAFF envisage that agency's functions to include advising Ministers on the condition of the agricultural industry and on means of improving it. It would be unusual for an agency to have primary responsibility for policy advice in addition to its main executive role. In addition the Director General of ADAS is also MAFF's Chief Scientific Adviser; having his functions split between the agency and the core Department may not be entirely satisfactory. These issues will require further consideration.

PROPOSED AGENCY MOD: Metrological Office

Activity: provision of weather forecasts for Armed Forces, public service, civil aviation and certain other users.

Expenditure : gross £74 million p.a. Receipts (mostly from civil aviation) £22 million p.a.

Manpower: 2560

Changes sought

Comment

Pay

Some freedom from constraints" on manpower numbers and "greater flexibility" over pay for certain grades.

Met Office represents under 2% of MOD's civilian manpower and about 1/4% of MOD expenditure. If higher manpower numbers are justified in the Met Office, MOD has plenty of scope for redeployment. On pay, Met Office management has said the IPCS deal probably gives them all they need, MOD should explore this with the Treasury.

Financial controls

Some relief from established policy on fees and charges.

Hard to understand. Fees and charges policy already seems to give all the flexibility the Met Office wants.

Policy and resources framework proposed

None yet proposed. A major unresolved issue. At present Met Office not tasked by MOD with any clarity and is in part self-tasking. This is no basis for an agency - which should have clear separation of tasking and execution.

Industrial relations implications

None as yet.

Other comment

A hopelessly ill prepared proposal. Met Office feels under pressure from private sector entrepreneurs who, using in part US data available under the US Freedom of Information Act, are encroaching on its traditional territory. The Met Office wants to shut them out and hopes, in some ill defined way, that an Agency would help. There are undoubtedly gains to be had in better tasking of the Met Office and in introducing effective internal management (at present the Met Office is run by financially illiterate scientists). But this does not require an Agency - just MOD taking a grip. No case yet made for an Agency.

PROPOSED AGENCY Defence Non-Nuclear Research Establishments

Activity: defence research and support to make MOD an "intelligent customer" in procurement of equipment.

Expenditure: £400 million p.a.

Manpower: nearly 15,000

Changes sought**Comment**Pay

freedom over pay and conditions of services. Recruitment of a significant proportion of staff on short term contracts.

The IPCS deal can go some way to meet MOD's ambitions but, as MOD are talking of paying up to £10,000 over civil service rates, not all the way. MOD's ambitions could not be met if the staff remained civil servants (the introduction of a Government owned plc in this area would get round this). Arrangements for short term contracts already being discussed with MOD.

Financial controls

Freedom on capital investment and ability to borrow from market, relaxation on manpower and running costs and freedom to spend receipts from disposals.

Freedom on investment and borrowing are inconsistent with public expenditure control. MOD already has plenty of internal flexibility on manpower; these establishments account for only 10% of MOD civilian manpower. MOD already have freedom to spend receipts; it could, if it wanted, delegate this freedom to these establishment.

Policy and resources forecast

MOD are at present slowly moving to a customer - contractor relationship with these establishments. MOD rightly identify that greater clarity and precision is still needed in this relationship. At present the establishments often tell the customer what tasks to give them. MOD want to set up a Government owned plc so that MOD could sue for contractual failures but as this would involve the Defence Secretary suing his own company, it is rather unreal to see this as a practical discipline. A further problem - which MOD have yet to face up to - is the monopoly power of these establishments; in many areas, there is no alternative for the MOD customer.

Industrial relation implications

These could be major. MOD have ambitions to take these 15,000 out of the civil service into a Government owned plc with substantial implications for terms and conditions of service. The sort of pay increases they want would have ramifications beyond these establishments.

Other comments

Change is needed in this area - particularly in the resourcing and tasking of these establishments and in their internal management. More work is needed on these issues, on the pay proposals and on the monopoly aspects before any decision should be taken. It is not clear that an Agency is the right way forward.

BRIEFING ON DEPARTMENTAL AGENCY PROPOSALS: DEPARTMENT OF EMPLOYMENT

Name of Agency: The Employment Service

Description of activities: assisting unemployed back to work and paying benefit

Financial/manpower details:

- total expenditure £900 million of which running costs £600m. (In addition agency staff disburse £5,000 million in benefit payments which fall on the DHSS programme).
- total receipts £330 million
- manpower levels 40,000

Changes Sought**Comment**Pay and conditions:

Flexible regional pay

Local pay additions already allowed within general framework

Flexible relocation terms (eg waive maximum advance of salary limit of

No special concession on detached duty/relocation. Large numbers of staff; hard

£10,500 in London) and use of relocation companies.

to ring fence. Already some freedom on on detached duty terms.

More flexible early retirement terms.

Discuss with Treasury superannuation Division what is possible.

Financial controls:

Freedom to switch from programme to running costs.

Some switching already allowed ad hoc with Treasury consent where a compelling case is made but great risk in giving any general freedom here.

End-year flexibility on Running Costs.

Being considered in EYF review but IAE3 advise against; no reason why RC cash needs can't be forecast.

Delegated authorities: various increased limits sought.

Action already in hand to increase delegated limits in areas of concern.

Policy and Resources framework proposed

The agency is to provide a unified service to unemployed people: helping them back to work and assessing their need for financial support while unemployed. The Chief Executive will be responsible through the Permanent Secretary to DE Ministers for policy on reducing unemployment and for control of administrative expenditure. Policy on levels of unemployment benefit remain with DHSS.

Industrial Relations implications

Sensitive. Staff interests fear the new organisation will bring reductions in civil service posts and attacks on the unemployed. They are also opposed to regional pay variations.

Other Comment

STANDARD FORMAT FOR BRIEFING ON DEPARTMENTAL AGENCY PROPOSALS

<u>Proposed Agency</u>	- Department and name of agency Department of the Environment - Royal Palaces
	- Description of activity Management of unoccupied Royal Palaces
	- Financial/manpower details
	- total expenditure £15-16m
	ow running costs
	- total receipts £10m £9-10m
	- manpower levels 300 staff

Changes Sought

Pay Direct recruitment of specialist staff, probably on contract.
Ability to relate pay levels to outside market, with pay linked to performance.

Financial controls Specific grant for non-commercial activities fixed in advance (perhaps through grant-in-aid) with rest of income dependent on commercial performance.

Ability to use extra receipts to develop business through carry-over between financial years.

Freedom from normal running cost controls.

Director eventually to become Accounting Officer.

Comment

) Local recruitment possible under Civil Service
) Commission oversight.
) Treasury ready to discuss pay requirements
) whether or not it becomes an agency.

) Department is considering with Treasury extent
) to which changes sought can be met within
) existing arrangements. To a large extent we
) think they could be especially if DOE offers
) the agency the increased flexibility from
) within its own control totals.

)
) A formal move to grant-in-aid and change in
) Accounting Officer responsibility would need
) Parliamentary approval and be out of line with
_____ current practice.

Policy and Resources framework proposed

Director of agency responsible to Secretary of State for agency's overall performance (how Secretary of State advised on this from outside agency needs further consideration). Objectives and targets to be set through business plan.

Industrial Relations implications

None identified.

Other Comment

This seems a very suitable candidate for an agency: proposals could well lead to a more commercial approach by DOE, which would be welcome. Detailed pay and financial arrangements need further consideration; but a good deal of scope from within existing rules.

STANDARD FORMAT FOR BRIEFING ON DEPARTMENTAL AGENCY PROPOSALSProposed Agency

- Department and name of agency Property Services Agency
- Description of activity Operation of QEII Conference Centre
- Financial/manpower details
 - total expenditure Annual operating cost £5.3m (approx) (most of which is running costs.)
 - total receipts £1.5m (1986-87) rising by 1989-90 to £3.0m (approx).
 - manpower levels 60 (catering and some other services contracted out)

Changes Sought

Pay

Departmental grading and flexible pay.

Local recruitment.

Financial controls

Own self contained commercial account.

End-year flexibility with ability to "roll over" funding needs and to borrow funds.

Comment

Treasury ready to discuss pay and grading needs, considers that Department's aims should be capable of being met by flexibility already available in present procedures.

Possible under CS Commission oversight.

Trading fund which should give most of these unlikely to be a starter. Therefore so long as Centre remains in PSA will be subject to normal Vote accounting rules. But Treasury believes flexibilities sought could be met through the present supply arrangements within total resources available to PSA.

Policy and Resources framework proposed

Generally satisfactory. General manager already set policy and resource objectives by Board of Management. Main question to be resolved is whether the Board of Management should be part of the agency or the Department.

Industrial Relations implications

Ideas not yet discussed with TU side. Department considers that TU side likely to be concerned about influx of directly recruited staff from outside. But Department has forecast no major difficulties.

Other Comment

Is not the most obvious of candidates. But no overriding reason why it should not be considered. But agency stations per se would not give the sort of financial flexibilities which the Centre is seeking.

PROPOSED AGENCY DHSS: Resettlement Agency

Activity: initially to run 22 DHSS resettlement units for single homeless; to carry out agreed policy (already begun) of replacing units with grant-aided facilities provided by voluntary bodies and local authorities; and subsequently to administer grants and monitor standards of replacement facilities.

Finance/Manpower: (i) gross costs of £17m pa: initially £12m running costs, £5m grant; eventually say £1m running costs, £16m grant;
 (ii) receipts £3m pa from residents (paid from social security benefits);
 (iii) manpower: initially 600 staff, reducing to 30-40 as DHSS units close.

Changes sought

Pay None

Comment

-

Financial controls

- | | | |
|-------|---|---|
| (i) | Removal of
annuality controls | Undesirable and unnecessary (DHSS could easily accommodate variations in agency's budget within their total administration budget of £2 billion). |
| (ii) | Grant-in-aid status | Would require legislation. Would not help to remove annuality controls. |
| (iii) | Chief Executive to be
Accounting Officer | Inappropriate as long as agency remained part of Department, because AO should be person who decides allocation of resources to agency, its objectives and performance measures, etc. |

Policy and Resources framework proposed: Agency subordinate to DHSS on policy, but responsible for implementation (management of units and form of replacement provision). Agency to be given budget, but not much more freedom than now (eg no untying) except for removal of annuality.

Industrial Relations implications: Agency to set up own industrial relations framework (though staff to remain civil servants until all units closed: DHSS propose agency should then become non-departmental).

Other Comment: Seems bad choice for agency. Sets up large planning and accounting superstructure to deal with disappearing function. Agency might remain in business indefinitely (it might like running units, or at least take active role in overseeing replacement facilities), whereas non-independent part of DHSS more likely to run down to much smaller level than proposed 30-40 staff.

On other hand, proposal falls short on benefits. An agency should have full responsibility for management within defined tasks and quantified objectives. But DHSS not proposing to give agency any real responsibility for staff, or to untie it from allied services (eg PSA). Therefore it seems unlikely to be good pilot from which useful lessons could be learnt.

150/0

DEPARTMENT OF TRADE AND INDUSTRY - COMPANIES REGISTRATION OFFICEFunctions

Responsible for the incorporation of limited liability companies and maintenance of register on active companies including their constitution and reports/accounts.

Finance/Manpower

Annual running costs £14.2m; fully offset by receipts from charges. Total manpower 1,095. Capital expenditure about £1m a year.

Changes soughtCommentPay/recruitment

Introduction of performance related pay)	Changes acceptable in principle.
)	Proposals on pay and restructuring
Reduce the present number of classes of junior civil servant.)	in line with changes planned for Civil Service as a whole. Personnel management already largely delegated
)	to DTI. Short-term contracts possible, Treasury ready to discuss.
Devolve personnel management from centre.)	
)	
Short term contracts for senior staff recruited from private sector.)	

Financial controls

Capital expenditure control separate from DTI.

Greater flexibility possible within existing system - perhaps with some easing of the EYF scheme, which is under review. No case for borrowing which would have major implications for public expenditure control mechanisms.

Power to borrow up to 5 per cent of annual income.

Policy and Resource framework proposed

Agreement now reached on exemption from gross running costs control from 1 April 1988. Will provide basis for future development with corporate planning system currently in place. Increased flexibility and authority to enable local management to improve productivity, efficiency and standard of service. Control exercised through Supervisory Board reporting to the DTI's Resource Management Group.

Industrial Relations implications

Strong tradition of trade unionism at CRO. Unlikely that changes in status proposed will be welcomed by DTUS; but this should recognise the potential benefits arising from the changes, in particular the opportunity to raise locally issues which are presently dealt with elsewhere.

PROPOSED AGENCY DTP: Driver and Vehicle Licensing Directorate

Activity: Responsible for registration and licensing of drivers and vehicles, and for collection of Vehicle Excise Duty.

Expenditure: £113 million of which running costs = £100m

Total receipts: £2.48 billion

Manpower: 5,300

Changes sought

Comment

Pay

Incentive bonuses from surplus proceeds

Treasury willing to discuss but general distribution of surpluses not acceptable.

delegated authority on pay

Unspecific: room for discussion under LPA scheme, but not to prejudice of national grading standards.

Financial controls

external financing limit

implies trading fund approach, though not a trading body in any real sense

Unit cost and performance targets
accrual accounting

Some already in place. Case not made out: cash accounting can be consistent with a degree of trading activity.

Policy and resources framework proposed

Ministerial control through Departmental Board of overall policy in corporate plan

satisfactory

Would retain surplus income and could undertake new activities

would need Ministerial control

Would treat revenue collection as a fee-funded activity carried out for Treasury

largely unacceptable: better to focus on unit cost targets

Industrial Relations implications

Some difficulties; increased autonomy for local union branches

Other comments

Generally an under-developed proposal. Trading framework not obviously right for a regulatory and tax raising body. Major issue in proposal to introduce notional fee for collection of revenue. Puts aspects of the Parliamentary accountability on to Treasury Ministers and officials. Major implications for IR and C&E.

DTP: Vehicle Inspectorate

responsible for checking roadworthiness of freight, public service and other vehicles

annual expenditure : £32m of which running costs = £26m
 total receipts : £31m
 manpower : 1500

Changes soughtpay etc

local pay

productivity bonuses

local recruitment

grading freedom

Financial controls

trading fund outside Vote accounting with external financing limit; target rate of return on assets; unit cost and performance targets

Policy and Resources framework

Ministerial control through Departmental Board of overall policy in corporate plan

could undertake new activities

Industrial Relations implications

no particular difficulties expected

Other comment

a well-developed proposal, following extensive discussion of a net running costs regime and possible trading fund. But pay and grading delegations which undermined central standards would need to be resisted

Comment

for discussion under LPA scheme

Treasury willing to discuss performance pay

possible under CS Commission oversight

delegation allowed but within Treasury standards

discussion well advanced; standard features of trading fund regime

satisfactory

would need Ministerial control

HO: Passport Office

responsible for issue of passports, and for related travel document work

annual expenditure	:	£30m	UK (running costs: £29.5m)
total receipts	:	£50m,	also covering £20m annually on FCO consular services overseas
manpower	:	1000	

Changes soughtCommentpay etc

control of pay of Chief Executive

no: should remain as a senior public appointment under Treasury control

productivity bonuses

Treasury willing to discuss performance pay

local pay additions

now possible, but needs Treasury coordination with other Depts

local grading

possible within Treasury standards

financial controls

memorandum trading accounts on accounts basis, but remain within Vote accounting net running costs control

satisfactory

Policy and Resources framework

Home Office responsible for setting an overall budget, performance targets and fee levels

satisfactory

switch expenditure treatment of fee income from tax to retained receipts

inconsistent with current classification ground rules

Industrial relations

Volatile : risk to current computerisation project

Other comment

a relatively modest proposal, although net running costs control raises awkward issues on classification of passport receipts

STANDARD FORMAT FOR BRIEFING ON DEPARTMENTAL AGENCY PROPOSALS

Proposed Agency

- Department and name of agency Her Majesty's Stationery Office
- Description of activity Publications, stationery and print supplies
- Financial/manpower details
 - total turnover (1986-87) £332m
 - manpower levels (31.3.87) 3,350

Changes Sought

Pay

- local flexible pay
- departmental grading
- fluid grading

Financial controls

No changes sought.

Comment

- no problem if a local agreement could be reached with unions on lines of IPCS agreement.
- Treasury ready to discuss an appropriate grading structure.
- would have to be done under Treasury supervision.

Policy and Resources framework proposed

HMSO envisages continuation of present system under which departmental Minister, Paymaster General, would be responsible for setting policy and resources framework. To achieve distancing of agency from "the Department" as envisaged in Sir Robin Ibbs' report greater Treasury involvement in those areas might be required. This would need clarification in consultation with HMSO and Treasury Ministers.

Industrial Relations implications

No particular problems envisaged by HMSO.

Other Comment

Little further development needed. Could be implemented by April 1988. But on condition that HMSO undertook to deliver the increased savings in manpower costs envisaged.