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PART B

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MANAGEMENT-IN-CONFIDENCE



PO -CH /NL/0221



PART B

CHANCELLOR'S PAPERS ON  
NEXT STEPS AGENCIES

NL/0221

-CH

PO

PART B

Begin: 20/10/87

DD: 25 years

Ends: 4/1/88 (CONTINUED)

13/9/95



17/Mck6

FROM: R PRATT  
DATE: 20 October 1987

MR ANSON —

cc Mr Kemp  
Mr Robson  
Miss Peirson  
Mr Burgner  
Mr Revolta  
Mr Instone  
Mr Chivers

**NEXT STEPS: BRIEFING ON INDIVIDUAL AGENCY PROPOSALS**

I attach briefs, prepared by the relevant expenditure divisions to a standard format on each of the agency proposals attached to Sir Robert Armstrong's paper for Ministers.



RICHARD PRATT



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From: SIR PETER MIDDLETON

Date: 20 October 1987

CHANCELLOR

cc Chief Secretary  
Mr F E R Butler  
Mr Anson  
Mr Kemp

NEXT STEPS

Mr Anson has provided a very good brief. But you might also like to have a series of crisp debating points.

2. The Treasury is not opposed to agencies as a management device within the Civil Service.

3. We are opposed to a big bang approach which separates agencies from Ministerial control and at the same time promises a relaxation of public expenditure and running cost controls.

4. There is no evidence that public sector organisations, left to determine their own pay, act so as to contain costs: eg local authorities.

5. The big Civil Service unions will pick off the agencies one by one. Instead of a careful programme to destroy the power of the unions we have an uncontrolled process to destroy the bargaining power of the Treasury, *ack a brief for Govt*

6. Letting "chief executives" of non-profit earning organisations loose to increase their output against non-market performance criteria reverses Government policy on the frontiers of the state. It will roll the state forwards, not backwards.

7. This is simply recognising that the public services are fundamentally different to the private sector because they do not make profits.

*150 opk  
Munk  
Folk  
Approval of  
no project  
no done*

*Enlarge to State  
low of PEX control: have  
John  
Private  
Chief Execs: Who?  
must be selected  
pressure ops?  
Perry*

*Sir Peter  
13-End*



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8. If Ministers really want to free these agencies from public expenditure controls they should be privatised. If they cannot be privatised they should be considered on their merits with a presumption that they move within existing controls not without them.

9. We certainly do not need a high profile project manager to develop the system of agencies as a Civil Service management device. This can be done directly with the Treasury. The project manager's role appears to be to put the Prime Minister's authority behind a generalised relaxation in the public expenditure, running cost and pay regime.

10. It would be madness to follow up a large increase in public expenditure with a signal that we were now relaxing our input controls in order to secure more public service output.



P E MIDDLETON



FROM: R PRATT  
DATE: 20 October 1987

MR ANSON —

- cc Mr Kemp
- Mr Robson
- Miss Peirson
- Mr Revolta
- Mr Instone
- Mr Gray
- Mr Bonney
- Mr Waller
- Mr Chivers

*a*  
*I think it is pretty*  
*unimaginative*  
*AA*

**NEXT STEPS: PRIVATISING THE AGENCIES**

You asked me to consider the extent to which the Chancellor could argue that any or all of the 'agencies' (as proposed by departments) are an unsatisfactory half way house and could be given the necessary financial flexibilities by privatising them.

2. In effect, this is arguing that the present bureaucratic controls should be replaced by market disciplines. For that to work, the agency has to be trading in a competitive market, (presumably we would rule out a further quango such as OFGAS or OFTEC to oversee and control the monopoly power of an organisation as small as those proposed for agency status).

3. In practice, this rules out the following agencies, which are not trading in any sense and which have essentially administrative or enforcement functions.

- Employment Service
- Driver and Vehicle Licensing
- Companies Registration Office
- Passport Office —

*? could well be a candidate*

4. As far as the remainder of the agencies are concerned, the position is as follows:

**A.D.A.S:** The proposal is to give this a role in administering public money and policing statutory requirements as well as giving advice on repayment. To separate out the latter as a privatisation candidate would be a totally different proposal. It is certainly not clear that it would be a runner.



**Defence Research Agency:** MoD and the establishments are some way off defining an appropriate customer contractor relationship. At present the establishments are to a substantial degree self tasking, and have a monopoly position as MoDs only supplier. MoD also argue that public sector status is essential for international co operation. Privatisation is an option but much would have to be done to redefine its role and its relationship with MoD.

**Met Office:** As with DRA, this is, to a substantial degree, self tasking and has a substantial monopoly position. But again privatisation is an option.

**Royal Palaces:** DoE claim that this cannot be privatised or given any real independence because of the Secretary of State's responsibility to the Queen for the upkeep of the Palaces. At present they are not self financing (although, in principle, they probably could be).

**QEII Conference Centre:** It would be odd to privatise the Conference Centre so soon after the Government had decided that it needed a special centre, with adequate security, for its own purposes. The cost of the necessary security means that it is nowhere near self financing. Nevertheless, in principle, it would be a candidate, with a heavy subsidy for security.

**Resettlement Units:** The policy is already to divest the Government of responsibility for administering the units, and to hand them over to voluntary bodies and local authorities. Any residual function would be administering grants which would not be appropriate for privatisation.

**Vehicle Inspectorate:** Privatisation was considered and rejected 3 years ago, on the grounds that the cost of privatisation outweighed the receipts and any likely benefits. This was largely because the haulage industry were opposed to privatisation on the model of the car testing arrangements (individual garages having licences and competing to sell testing facilities) and insisted on a nationwide scheme run by a body independent of individual garages. Privatisation would now be more difficult as the VI has been established in a form that would be viable as a Trading Fund, with an enforcement function that would not be appropriate for a privatised body. Moreover, with plans for Trading Fund well advanced, privatisation is arguably less necessary.

*This one is a bit bizarre!  
(but no reason why maintenance would be privatised?)*

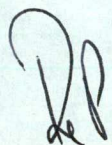
*V good candidate*



HMSO: This is already a Trading Fund. It is not clear that privatisation would be an attractive proposition to a buyer or would bring benefits. But it could an option.

5. I conclude from all this that there is no reason why the Chancellor should not make the point that if a body is serving a market that is prepared to pay for its services, then we ought to think about privatisation. But if privatisation is not possible because of a monopoly position; or because the unit has an administrative, policy, or enforcement role, then it casts doubt on the assumption that bureaucratic controls should be lifted, for there is no market based discipline to replace them. The question then becomes whether one set of bureaucratic controls is better or worse than another, and this is something that can be considered on its merits, case by case.

6. I have consulted the relevant divisions about the comments on individual proposals.

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RICHARD PRATT



22/10

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From: J Anson  
Date: 20 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

#### NEXT STEPS IN CIVIL SERVICE MANAGEMENT

I said in my brief of last Friday that we would let you have any necessary supplementary briefing when we had seen the final version of the paper. The paper is not in fact substantially changed. The following comments relate to Lord Young's minute of 15 October, and the points in Mr Allan's minute of 19 October.

##### Lord Young's minute

2. Lord Young has strongly supported the general Ibbs approach. If other Ministers endorse his remarks, you could respond as follows.

3. It is common ground that we want to build on existing improvements and make further progress in improving management; and that this includes increasing the sense of responsibility which individual managers have for the delivery of services. The primary way to do this is to give them clear directives and targets, a well-defined and controlled budget, and have effective ways of measuring their output and performance.



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4. That is not really in dispute. The issue in these papers is whether that will be helped, or hindered, by adding two things: (i) flexibility in budgetary control; and (ii) delegation on pay. On the first, Lord Young himself says that managers should have "firmly controlled" budgets. This seems to accept that any flexibility should be strictly limited to the particular needs (if any) of the activity concerned - as it is under the present arrangements for trading funds, end-year flexibility, etc.

5. On the second, Lord Young suggests that "we should not allow fears about repercussions to deter us"; that such repercussions can be controlled; and that it would be wrong to let apprehensions of this kind to dictate a "stifling uniformity of practice". His first point seems a bit unworldly: I attach at flag A a note by Mr Chivers which comments on three specific examples of how these things can go wrong. In short, we can still develop flexibility and some measure of departmental discretion in this field but, as Lord Young concedes, it does need to be controlled. It is a misconception that Ministers could stop being interested in pay and conditions just because staff were in "agencies" instead of in mainstream departments. They are of course deeply interested in such matters in organisations much further from the centre than such "agencies", eg teachers, NHS staff, local authorities, etc.

**Privatisation**

6. On your point about privatisation, I attach a note by Mr Pratt (flag B). This shows that most of the 12 potential agencies do not look very fertile ground for full privatisation, mainly because they would be monopolies or performing regulatory functions. To achieve the result described in Mr Allan's minute, there must be some kind of competitive market to ensure value for money without the need for the pay or manpower controls. Moreover, the real nub of Thursday's discussion is whether the Ibbs proposals make sense for those activities which do need to stay within government, at least for the foreseeable future.



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7. That said, the recent expenditure Survey has thrown up little evidence that departments are prepared to think radically about the services which they themselves perform, and those which might be privatised, contracted out, or hived off. Against that background, it would be wrong to assume that activities which departments have identified as more detachable from detailed Ministerial supervision should necessarily remain in the civil service.

8. I suggest therefore that you should make the point in general rather than particular terms, without implying that you yourself think all 12 are ripe for privatisation. You could say that before these cases are taken any further, the question ought to be seriously examined whether they could be privatised and the necessary cost control achieved by market pressures. (If you want to offer illustrative examples for such examination, you could perhaps refer to the two MOD cases, but putting it as a question rather than a conclusion.)

**Heads of Agencies**

9. As you noted, the Efficiency Unit and OMCS have not really thought through the status of heads of agencies. The paper is dealing with two separate points raised at the July meeting: how to avoid creating pressure groups, and how to subject the head of the agency to commercial-type pressures. The latter could be achieved by bringing in outsiders, who could be dismissed, but who might be more likely to form pressure groups. The two objectives are therefore in conflict, and how far you recruited outsiders would depend on the balance struck between them. (We asked for this linkage to be brought out more clearly in the final paper, but it has not been.)

10. If you raise the privatisation point, this one could naturally follow on from it. The paper does not suggest any clear way in which entrepreneurial-type pressures could be brought to bear on agency heads, unless they were outsiders on a contract which enabled them to be dismissed if they did not perform well enough (but who might then be more inclined to set themselves up as pressure groups). This therefore reinforces the case, wherever possible, to go for privatisation rather than the half-way house.



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Manpower

11. On your third point, we do not at present have a control over the manpower of parts of departments, and we are in the process generally of going over from manpower targets to running costs controls. To introduce a new manpower control over agencies as such would therefore be very much a fall-back position. If you find that you need further arguments as a fall-back, you could draw on the following:

(a) The likely outcome of the Survey on manpower already gives cause for concern: it implies that the reduction in the size of the Civil Service has stopped, at least for the time being. If agencies are left free to respond to demand, there is a danger that the size of the service could start to creep up again.

(b) If in addition, they are free to settle their own pay rates, there could be a double pressure on running costs which a simple running costs control would be inadequate to restrain. Heads of agencies would just come back and confront Ministers with the dilemma of cutting services or raising budgets. If therefore greater freedom were to be conceded on pay, the control framework for the agencies would need to include a manpower control, operated by the department in agreement with the Treasury.

12. Another argument which you could also deploy is that operating the Ibbs approach would have a considerable opportunity cost in terms of the time of Ministers and departmental management taken up in establishing the agencies. In the FMI, we are now just getting to the point of changing the emphasis from setting up structures to getting actual value for money improvements. We do not want a new diversion to take us away from that desirable shift of emphasis.



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Detailed notes on agencies

13. I attach at flac C a set of brief notes on the 12 agency proposals. They are arranged in the same order as the proposals in the yellow book. Also attached, as requested, is a short note by LG2 on manpower in HMSO (flag D).

A handwritten signature in dark ink, appearing to be 'J Anson', with a vertical line above the 'A'.

J ANSON



**CONFIDENTIAL****NEXT STEPS : DANGERS OF DEPARTMENTAL DISCRETION**

Three examples of cases where Departmental discretion has led to problems recently:

i. ADP supplements, DE and DHSS in Reading

DE, who share a site and machinery with DHSS decided to pay ADP supplements to their staff without consultation with the other Department. DHSS staff immediately came out on strike as a result.

ii. Typing skill supplement, DES

When typing skills supplements were introduced last year DES and some other Departments elected to pay the lower rate supplement to all their typists and secretaries, instead of paying it on a selective basis. As a result it became impossible for the Treasury to resist a CPSA claim that the supplement should be paid to all the relevant Treasury staff.

iii. Restructuring of the legal Group: Customs & Excise

Last year Departments were asked to implement a restructuring of legal staff which involved assessing the work of Senior Legal Assistants and regrading it either to Grade 7 or Grade 6. In some instances lawyers who were moved to Grade 6 were overtaken in pay terms by those who were promoted later from Grade 7. To counter this Customs, on their own initiative, granted promotion



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terms to all their staff who had been regraded to Grade 6. We are still trying to contain the damage and stop it prejudicing future restructurings.

Comment

These cases do not show conclusively that it is wrong to give Departments discretion in pay matters. On the contrary, we believe that it is broadly the right direction in which to go. But there are important lessons to be learnt.

For the purposes of the new Local Pay Additions scheme a network of local consultative arrangements has been established with lead Departments in each main centre of employment. If agreement cannot be reached locally all disputes must be referred to the Treasury, which has supervision over the scheme as a whole. This machinery means that we should be better equipped to deal with Ibbs agencies, if Ministers were to decide to set them up.

Sometimes, however, Departments consciously break the rules (the Customs and Excise example quoted above is a case in point), and that danger may be enhanced if agencies are encouraged to behave in an independent and entrepreneurial spirit.



FROM: F. E. R. BUTLER  
21st October, 1987.

CHIEF SECRETARY

c.c. Chancellor  
Paymaster General  
Sir P. Middleton  
Miss A. Mueller  
Mr. A. Wilson  
Mr. Anson  
Mr. Kemp  
HEGs  
Dr. Freeman  
Mr. Harris  
Mr. Turnbull  
Mrs. Lomax  
Mr. Peretz  
Mr. Luce  
Mr. Spackman  
Mr. Welsh  
Mr. Tyrie

IBBS REPORT ON 'THE NEXT STEPS': PROGRESS IN REMOVING  
UNNECESSARY CENTRAL CONTROLS ON DEPARTMENTS

This is not additional briefing for Thursday's discussion on 'The Next Steps'. It is a report I was going to make to you anyway. But I thought it might be useful to put it forward now because the Chancellor and you may find it useful material as background for discussion on Ibbs. It shows how much work the Treasury is continuously doing in reviewing and simplifying controls over Departments.

Background

2. Two years ago a team under Mr. A. Wilson conducted a multi-department review (MDR) of budgeting methods. One of the recommendations of that report was that the central departments should review their rules and controls and remove those that were unnecessary.

3. In December 1986 we prepared a progress report which your predecessor submitted to the Prime Minister on the implementation of the MDR of budgeting. The report said that, as regards removing unnecessary central rules and



controls, specific objectives for 1987 fell into three main areas: delegated authorities within the expenditure control area; running costs and manpower; and pay.

4. We will be reporting progress on the overall programme of improvements in budgeting in a further report for you to forward to the Prime Minister in December. But I suggested to your predecessor in my minute of 19th February 1987 that interim reports should be made in respect of each of the three areas referred to above.

#### Summary

5. The Annex to this minute summarises the further work done this year by expenditure divisions in their reviews of delegated authorities, and the parallel work in which the Central Computer and Telecommunications Agency (CCTA) have been in the lead on IT delegations. This shows that some worthwhile progress has been made and that a good deal of further work is in hand, particularly by linking increases in delegated authorities with improvements in departmental control systems.

6. This work has, of course, proceeded against the background of existing organisation. If Ministers decide to proceed with the Agency proposals at their discussion of the Next Steps on 22nd October, we shall need to review separately the delegated authorities for the individual Agencies in working up the appropriate framework of controls. More generally, we are following up the claim - not supported by all departments - that existing delegations are not always clear.

7. On running costs, manpower and pay, the main issues have been covered in the papers for the Ministerial discussion of the Next Steps on 22nd October. As you



are aware, there have been considerable advances in developing the flexibility of the pay system over the past year. The IPCS Agreement, performance pay and the recently announced initiative on local pay are all moves in that direction. They involve greater discretion being given to departments, who are increasingly being asked to exercise their managerial judgement, though within a firm framework of Treasury controls. On allowances, a review suggests there is scope for more delegation, though the details need to be discussed with departments.

F.E.R.B.

F. E. R. BUTLER



## EXPENDITURE CONTROL

Specific Departmental Delegations

1. Expenditure groups have already delegated many authorities over expenditure to departments. The main opportunities to increase or revise the terms of delegated authorities now arise where improved information and control systems are introduced; and when price movements render existing levels obsolete.

2. Revised delegated authorities have been introduced in 1987 for the following:

- Department of Employment (comprehensive review which codified delegations and made arrangements for future review);
- Ministry of Defence (ship refits following commercialisation of dockyards);
- Hospitals and Community Health Service capital programme (Scotland and Wales brought into line with DHSS and overall approach streamlined to allow Treasury to operate on a more selective basis);
- Department of Transport (delegated authority levels for roads raised);
- Department for National Savings (comprehensive review);
- Forestry Commission (significant increases).

3. Work is continuing on revising delegations in the Home Office (various), Ministry of Defence (nuclear area and defence



sales), Export Credits Guarantee Department (administrative and trading), Department of Trade and Industry (selective financial support), the Research Councils and road construction in Scotland and Wales. In the MOD case, the work has concentrated on codifying and rationalising delegations. This has revealed some inadequate control systems in MOD which are being addressed. For the Research Councils, the aim is a new approach which dispenses with formal delegated limits and relies instead on agreed criteria for reference to the Treasury backed by post hoc review of selected cases.

4. Expenditure divisions plan to review delegated authorities in the near future in:

- Ministry of Agriculture, Fisheries and Food;
- Intervention Board for Agricultural Produce;
- Department of Agriculture and Fisheries for Scotland;
- Department of Energy;
- Overseas Development Administration;
- Lord Chancellor's Department.

#### IT Delegations

5. Following a review by CCTA and expenditure divisions, revised arrangements for IT were promulgated in June. They reflect the general increase in IT awareness and competence in departments since the previous review in 1984, and the need for greater flexibility because of developments in technology.

6. A key change is the introduction of a wider definition of project cost for IT delegation purposes. This recognises that design and development and implementation costs are a significant proportion of project costs and need to come within the terms of the delegation. The approach is different from



other Treasury delegations, but is justified because so much of the investment in IT projects is in the form of staff and consultancy costs. A further development in our approach is that expenditure divisions' are increasing their awareness of, and involvement in, departments' strategic plans for IT. Expenditure divisions will in future take account of the state of development and implementation of these strategic plans when approving specific levels and the terms of delegations to individual departments.

7. Expenditure divisions are now taking the opportunity offered by these new arrangements to reassess the delegated authorities for individual departments. Work is in hand, or has been completed, on IT delegations for:

- Department of Energy;
- Department of Health and Social Security;
- Department of Transport;
- Intervention Board for Agricultural Produce;
- Home Office;
- HMSO;
- Treasury.

But the traffic is not one way. Dissatisfaction with ECGD investment appraisal methods has led to a reduction in the authority delegated to that department. Delegated authorities for some other departments are deliberately being pegged pending systems improvements.

#### Related Developments

8. The section of the Guide to Expenditure Work in the Treasury which deals with delegating authority to departments has been considerably revised.



22/10/87



10 DOWNING STREET

LONDON SW1A 2AA

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

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

The Prime Minister discussed this morning the note on the Next Steps attached to your Private Secretary's minute of 15 October with the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Transport and Social Services, the Minister for Agriculture, Fisheries and Food, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Treasury and the Minister of State, Privy Council Office. Sir Robin Ibbs, Professor Griffiths, Miss Kate Jenkins and yourself were present. The meeting also had before it the Secretary of State for Trade and Industry's minute of 15 October.

The Prime Minister recalled that following Ministers' last discussion, you had been asked to put revised proposals for following up Sir Robin Ibbs' report which took account of the Treasury's and Parliament's likely concerns. She understood that there was a good deal of enthusiasm in the Civil Service for Sir Robin's suggested approach. But it needed boldness and the investment of commitment if it were to be successfully implemented. Ministers needed to decide whether it was worth making such a commitment.

Sir Robin Ibbs said that despite the progress in improving management in the Civil Service, there was still a lack of responsibility in the service for seeking value for money. Too often this was regarded as "someone else's task".



There was no half way house for securing the necessary change in attitudes and behaviour. The outline schemes for possible agencies, described in the Yellow Book, demonstrated Departments' belief that there was real scope for "The Next Steps" approach. Of the two options described in paragraph 28 of your note, the second - implementing the agency approach as an evolution of existing management trends - would not, in his view, provide a valid test of his proposals. The first option - a wholehearted Government commitment with the announcement of the intention to set up as many agencies as possible and the appointment of a project manager - was the only way of proving the approach. Its success required a strong commitment from Ministers. This did not entail acting incautiously nor any automatic delegation of responsibility. .. The Project Manager - who should be a senior official at Permanent Secretary level - was essential to the success of the approach. Repercussive effects could be avoided. Private sector "overhead departments" which, like Government Departments, did not generate revenue, were controlled broadly in the way he had suggested. He believed that such an approach could be presented positively to Parliament; responsible officials could be identified and the prospect of better quality information offered to Parliament.

The Chancellor of the Exchequer emphasised that there was no lack of commitment to improve value for money and the Financial Management Initiative was beginning to produce important results here. But it would be imprudent to adopt the first option identified in paragraph 28 of your minute - wholehearted Government commitment with the announcement of as many detailed proposals as possible etc. This option was hardly consistent with the low-profile approach generally endorsed at the last meeting. It would make it harder to continue the firm control of public expenditure which was one of the main reasons why the economy was performing better. The first option would, in his view, be seen by the managers as abandonment for public expenditure control. The agencies would wish to pay their staff more leading to extra costs and repercussions throughout the Civil Service as trade unions



picked departments off one by one. The heads of agencies would campaign publicly for more funds, something that they would not be allowed to do in a private sector organisation. Experience with existing agency type bodies within the public sector was not encouraging. They had a tendency for empire building and expanding the frontiers of the State. For the agency approach to operate successfully, there needed to be a sense of personal vulnerability on the agency managers; Ministers should therefore be able to hire and fire heads of agencies who should have the same power over their staff. He preferred the second option in paragraph 28, coupled with a rigorous examination of the possibilities of privatising the functions identified as suitable for the agency approach.

Several Ministers then spoke in support of the first option identified in paragraph 28. They made the following points:

(i) A powerful project manager was the key element if the option was to succeed. He would have an essential role in advising Ministers of the feasibility of the outlined schemes for possible agencies and would help resolve difficulties, for example, by confirming that satisfactory arrangements had been introduced for controlling pay.

(ii) Ministers would not be successful if they tried to persuade Parliament to adopt quickly the system of accountability for agencies described in Sir Robin's report. The better approach was to steer Members of Parliament gradually towards approaching the head of the agency rather than the Minister.

(iii) The concerns expressed by the Chancellor could be met through the proper implementation of the agency approach. The key here was the agreement between the Department and the agency on a proper framework for operation. In the last resort it would be the Minister's responsibility to ensure that public expenditure controls were observed and that the head of the agency did not campaign in a way inimical to the Government's objectives.



(iv) There needed to be further consideration of the possibility of privatising some of the agency functions. Other functions now carried out by quangos, like the Development Commission and the Nature Conservancy Council, might be brought back within the Government and placed under proper Ministerial control.

(v) It was vital for Ministers to have the right to hire and fire the heads of the agencies and for the heads to have a similar right regarding their staff; but in practice this sanction would probably not need to be invoked often since this mere threat in the background should be sufficient to galvanise those concerned into action. There needed to be further exploration of the difficulties of operating the agency approach within the framework of terms and conditions for the Civil Service. Points to be considered included the possibility of delegating to heads of agencies some of the Civil Service Commission's responsibilities for recruitment. The ability for Civil Servants to move between Departments needed to be preserved.

(vi) The approach would not succeed without the full wholehearted commitment of Ministers. The advantage of the first option was that it would prevent those opposed to this approach swamping Ministers in details and difficulties.

*very!*  
A few Ministers, while emphasising their commitment to better value for money and improved management within the Civil Service, and their support in principle for the objectives of the "Next Steps" approach, shared the reservations expressed by the Chancellor of the Exchequer. Recent experience suggested that there was substance to the fear that pay would be bid up. There was a real risk too that agency heads would campaign for higher expenditure or grumble publicly about the constraints under which they operated. The better course would be to identify a few agencies and to proceed quickly to their establishment. There were dangers in moving too rapidly towards what all agreed was an attractive goal.



Summing up the discussion, the Prime Minister said that the majority of Ministers present agreed with option one. But it needed further development to meet the concerns expressed by the Chancellor of the Exchequer. The right to hire and fire agency managers would be a key ingredient here. Legislative implications of the proposals needed further exploration. It would be necessary to identify those functions where the agency approach stood the most chance of success. You should reflect on the points made in the discussion and produce, in consultation with Departments, a further note developing Sir Robin Ibbs' proposals, and suggest a procedure for carrying the work forward.

I am sending copies of this minute 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, and to Sir Robin Ibbs and Professor Griffiths.

N.L.W.

N. L. Wicks

22 October 1987

PMMAJC





10 DOWNING STREET  
LONDON SW1A 2AA

pup

CH/EXCHEQUER	
REC.	26 OCT 1987 ✓ 26/10
ACTION	CST
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Ch  
Nigel seems to have  
written this up as  
favourably as could be  
expected AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

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

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The Prime Minister recalled that following Ministers' last discussion, you had been asked to put revised proposals for following up Sir Robin Ibbs' report which took account of the Treasury's and Parliament's likely concerns. She understood that there was a good deal of enthusiasm in the Civil Service for Sir Robin's suggested approach. But it needed boldness and the investment of commitment if it were to be successfully implemented. Ministers needed to decide whether it was worth making such a commitment.

Sir Robin Ibbs said that despite the progress in improving management in the Civil Service, there was still a lack of responsibility in the service for seeking value for money. Too often this was regarded as "someone else's task".



There was no half way house for securing the necessary change in attitudes and behaviour. The outline schemes for possible agencies, described in the Yellow Book, demonstrated Departments' belief that there was real scope for "The Next Steps" approach. Of the two options described in paragraph 28 of your note, the second - implementing the agency approach as an evolution of existing management trends - would not, in his view, provide a valid test of his proposals. The first option - a wholehearted Government commitment with the announcement of the intention to set up as many agencies as possible and the appointment of a project manager - was the only way of proving the approach. Its success required a strong commitment from Ministers. This did not entail acting incautiously nor any automatic delegation of responsibility. The Project Manager - who should be a senior official at Permanent Secretary level - was essential to the success of the approach. Repercussive effects could be avoided. Private sector "overhead departments" which, like Government Departments, did not generate revenue, were controlled broadly in the way he had suggested. He believed that such an approach could be presented positively to Parliament; responsible officials could be identified and the prospect of better quality information offered to Parliament.

The Chancellor of the Exchequer emphasised that there was no lack of commitment to improve value for money and the Financial Management Initiative was beginning to produce important results here. But it would be imprudent to adopt the first option identified in paragraph 28 of your minute - wholehearted Government commitment with the announcement of as many detailed proposals as possible etc. This option was hardly consistent with the low-profile approach generally endorsed at the last meeting. It would make it harder to continue the firm control of public expenditure which was one of the main reasons why the economy was performing better. The first option would, in his view, be seen by the markets as an abandonment for public expenditure control. The agencies would wish to pay their staff more leading to extra costs and repercussions throughout the Civil Service as trade unions



picked departments off one by one. The heads of agencies would campaign publicly for more funds, something that they would not be allowed to do in a private sector organisation. Experience with existing agency type bodies within the public sector was not encouraging. They had a tendency for empire building and expanding the frontiers of the State. For the agency approach to operate successfully, there needed to be a sense of personal vulnerability on the agency managers; Ministers should therefore be able to hire and fire heads of agencies who should have the same power over their staff. He preferred the second option in paragraph 28, coupled with a rigorous examination of the possibilities of privatising the functions identified as suitable for the agency approach.

Several Ministers then spoke in support of the first option identified in paragraph 28. They made the following points:

(i) A powerful project manager was the key element if the option was to succeed. He would have an essential role in advising Ministers of the feasibility of the outlined schemes for possible agencies and would help resolve difficulties, for example, by confirming that satisfactory arrangements had been introduced for controlling pay.

(ii) Ministers would not be successful if they tried to persuade Parliament to adopt quickly the system of accountability for agencies described in Sir Robin's report. The better approach was to steer Members of Parliament gradually towards approaching the head of the agency rather than the Minister.

(iii) The concerns expressed by the Chancellor could be met through the proper implementation of the agency approach. The key here was the agreement between the Department and the agency on a proper framework for operation. In the last resort it would be the Minister's responsibility to ensure that public expenditure controls were observed and that the head of the agency did not campaign in a way inimical to the Government's objectives.



(iv) There needed to be further consideration of the possibility of privatising some of the agency functions. Other functions now carried out by quangos, like the Development Commission and the Nature Conservancy Council, might be brought back within the Government and placed under proper Ministerial control.

(v) It was vital for Ministers to have the right to hire and fire the heads of the agencies and for the heads to have a similar right regarding their staff; but in practice this sanction would probably not need to be invoked often since this mere threat in the background should be sufficient to galvanise those concerned into action. There needed to be further exploration of the difficulties of operating the agency approach within the framework of terms and conditions for the Civil Service. Points to be considered included the possibility of delegating to heads of agencies some of the Civil Service Commission's responsibilities for recruitment. The ability for Civil Servants to move between Departments needed to be preserved.

(vi) The approach would not succeed without the full wholehearted commitment of Ministers. The advantage of the first option was that it would prevent those opposed to this approach swamping Ministers in details and difficulties.

*very!*  
A few Ministers, while emphasising their commitment to better value for money and improved management within the Civil Service, and their support in principle for the objectives of the "Next Steps" approach, shared the reservations expressed by the Chancellor of the Exchequer. Recent experience suggested that there was substance to the fear that pay would be bid up. There was a real risk too that agency heads would campaign for higher expenditure or grumble publicly about the constraints under which they operated. The better course would be to identify a few agencies and to proceed quickly to their establishment. There were dangers in moving too rapidly towards what all agreed was an attractive goal.



Summing up the discussion, the Prime Minister said that the majority of Ministers present agreed with option one. But it needed further development to meet the concerns expressed by the Chancellor of the Exchequer. The right to hire and fire agency managers would be a key ingredient here. Legislative implications of the proposals needed further exploration. It would be necessary to identify those functions where the agency approach stood the most chance of success. You should reflect on the points made in the discussion and produce, in consultation with Departments, a further note developing Sir Robin Ibbs' proposals, and suggest a procedure for carrying the work forward.

I am sending copies of this minute 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, and to Sir Robin Ibbs and Professor Griffiths.

N.L.W.

N. L. Wicks

22 October 1987

PMMAJC



CONFIDENTIAL

*pusp*



FROM: S P JUDGE  
DATE: 22 October 1987

PS/CHANCELLOR OF THE EXCHEQUER

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

*CL*  
*This arrived too late*  
*for meeting*  
*AA*

*Thames*

**NEXT STEPS IN CIVIL SERVICE MANAGEMENT**

The Paymaster General has seen Mr Anson's submissions of 14 and 20 October, and associated papers. He comments that if there is to be an agency emanating from the Chancellor's Departments, clearly HMSO is a good candidate. The only point he wishes to add to what others have said about HMSO relates to the admirable current pressure of the CUP on Departments to improve their purchasing techniques - which is leading to much more competition for HMSO. Because HMSO believe themselves to be good buyers, they are currently a little resentful of the amount of tendering they are being asked to do in response to the CUP's pressure. They suspect (as with COI's relationship with Departments) that Departments do not know enough to judge how good a bargain HMSO give them. The Paymaster thinks this problem is quite good for HMSO, thinks it will sort itself out, <sup>and</sup> is not sure whether being an agency affects it either way - although clearly the pressure HMSO are under will gradually make them a better candidate for survival in a more independent mode.

On pay (pace Lord Young) the Paymaster is extremely cautious. People do not grow responsibly without freedom, but it is irresponsible to give them freedom too fast.

S P JUDGE  
Private Secretary



12/11/87

CONFIDENTIAL  
MANAGEMENT IN CONFIDENCE

MR WICKS

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Improving Management In Government: Next Steps

1. I am attaching a note by Sir Robert Armstrong which deals with the matters he was asked to cover at the last Ministerial meeting of the Prime Minister's group on the Next Steps.

2. The paper asks for a decision by Ministers on the timing and content of an announcement of their decision to go ahead with implementing Sir Robin Ibbs's report.

3. The decisions needed are:

1. Are Ministers content with the sections of the paper dealing with the issues they asked to have considered at their last meeting: privatisation, terms and conditions for Chief Executives and legislation? (Paragraphs 3-12)

2. Do Ministers agree that an announcement should be made of the Government's decision to implement the main recommendations of the Next Steps report? Do they consider the announcement should be by Written Answer or by Oral Statement? (Paragraph 14)

3. Do Ministers consider that the announcement should be in terms which refer specifically to a timetable for implementing the recommendations of the report? (Paragraph 15)

4. I should be grateful if you could let me know whether the Prime Minister is content for copies of Sir Robert Armstrong's note to be circulated to Ministers who attended her meeting on 22 October.



5. If she is, she will wish to consider whether to call another meeting of that group to discuss the note, before it goes (with whatever endorsement or other recommendation by the group) to other members of the Cabinet, or whether to seek to clear the note with the group by correspondence.
6. A considerable amount of work will need to be done on preparing communications to the staff and to the unions, before an announcement can be made. We should need final decisions in the week beginning 23 November if the Prime Minister was to be in a position to make an announcement on, say, 8 or 10 December.
7. I am sending copies of this minute and the attachments to the Private Secretaries to the Chancellor of the Exchequer and the Minister of State, Privy Council Office.

*T. A. Woolley*

T A WOOLLEY  
(PS/SIR ROBERT ARMSTRONG)

12 November 1987



MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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

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

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

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



## OUTSTANDING ISSUES

### PRIVATISATION AND QUANGOS

3. In determining how best to deliver executive functions, the scope for privatisation should always be considered. Where Ministers decide that such functions are most appropriately carried out within Government, they should consider whether they should be handled by an executive agency under Ministerial control, on the lines proposed in Sir Robin Ibbs's report. Each case would need to be considered on its merits.

4. Privatising the activity has the great merit that it can subject the management to commercial pressures for efficiency and successful operation without the need to simulate these within the government machine. In cases where this is not possible, the agency approach - set within a robust policy and resource framework providing effective control of spending and encouraging improved outputs - should be able to provide a rigorous basis for control, while distancing day to day operations from Ministers. In some cases this may provide a more appropriate form of organisation for a particular set of functions than a non-Departmental public body (quango). The new Employment Services Agency involves this type of change, with the transfer of major functions from the MSC, a non-Departmental public body, to a Departmental agency under the control of Ministers. There may be scope to bring the functions of other non-Departmental public bodies under closer Ministerial control by changing them to agencies. Again, each



case would need to be considered on its merits; and specific legislation would generally be required.

5. Whichever of these various approaches is adopted in a particular case, the arrangements will need to provide effective control of spending. Where the discipline of the market does not apply, for example where the agency is delivering a monopoly service, or has a regulatory role, it will be important to see that the administrative cost, as well as the total cost of the agency is properly controlled. Different solutions may be appropriate for different agencies, and each case will need to be examined on its merits.

#### APPOINTMENTS AND TERMS OF SERVICE FOR AGENCY CHIEF EXECUTIVES

##### i. Agency Heads from outside the Civil Service

6. A Chief Executive recruited from outside the Civil Service would be given a contract which emphasised the risk/reward balance to attract and motivate the right kind of person. The contract should have a substantial performance-related element. Recruitment would be on the basis of "fair and open competition" through a public advertisement. Existing civil servants would be able to apply.

##### ii. Agency Heads from the Civil Service

7. In many cases a career civil servant will be the best choice for the Chief Executive of an agency: Indeed, it is a main purpose of Sir Robin Ibbs's proposals that the Civil Service should equip its people with the skills to take on such jobs and provide more executive management. A civil servant might be selected as a result of open



competition (see paragraph 6 above); if the appointment was not being opened to non-civil servants he would be selected through existing internal advertisement or "trawling" arrangements.

8. A Civil Service nominee for a Chief Executive post would be appointed for a fixed term, with the possibility of an extension not excluded. He would be paid at the rate appropriate for the relevant grade. In addition there should be a suitable performance related element linked to defined performance objectives. I envisage that the main element of this would be performance-related selected discretionary increments of the kind we have introduced for Grades 2 and 3 and are currently developing for Grades 4 to 7. The increments adopted for use for Chief Executives of agencies would not need to be identical either in number or in amount with those adopted at comparable levels in the Civil Service as a whole; but, if the disparities were too great, that would cause complications when Chief Executives left agencies and were reabsorbed into other Departmental duties. In suitable cases there might also be a terminal bonus paid on the achievement of defined and substantial results. It should be made clear that failure to meet the defined objectives would entail the loss of the performance related element in the terms of the job. It would need to be made clear to the Chief Executive before appointment that, if he fell significantly short of delivery on the defined objectives, he would be relieved of that particular job or, in extreme cases, asked to leave the Civil Service. For these jobs the present provisions for premature retirement for civil servants who put in "limited performance" might need to be sharpened up. The main purpose of this element in the terms and conditions for Chief Executives would be to ensure that they and their Departments understood that defined and effective personal performance was an essential requirement for the



job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

9. An alternative approach is that, if a serving civil servant was to be appointed as an agency head, he should be required as a condition of appointment to resign from the Civil Service at that time, and become an "outsider" ie an external appointee to a Civil Service post. This would make it easier to get rid of him at the end of, or during, his contract if he failed. As a corollary he should, of course, be eligible for the reward available to a Chief Executive recruited from outside the Civil Service. But the expectation must be that most agency heads will not fail, and that many will do rather well. In such cases, if this approach were adopted, there should be as few obstacles as possible to reabsorbing them in the Civil Service at the end of their contract. It would be a pity if the Civil Service lost such people at the end of their term as agency head, just when they might have a lot to contribute elsewhere in the Service.

10. The extent to which an insider's future career is at risk is relevant to the level of his rewards. If he is not required to resign before appointment, the reward he could earn should be on the lines indicated in paragraph 7 above, and not identical with the reward which an outsider would be offered for the same appointment.

11. It would be essential to establish a satisfactory method of setting and assessing individual performance for the Chief Executive. The individual performance targets should be based on the performance and output indicators which would be set for the agency as a whole as part of the framework. The performance goals would have to be agreed



x 10/11/71

between the Chief Executive and the Department, and would be likely to imply obligations by the Department on (for instance) the stability of policy and the provision of resources for the work of the agency including the terms on which they were provided. In order to avoid suspicions that decisions about the extent to which an individual has met his performance objectives were politically motivated, final decisions would have to rest with the Permanent Secretary of the Department concerned (who would of course be expected to consult and take account of the views of his Minister). All these matters would have to be understood and accepted by the Chief Executive before he took up his appointment.

12. I invite Ministers to agree that these options offer a sufficient range from which to select suitable arrangements for individual agencies. I hope and expect that in most cases civil servants will be appointed Chief Executives and remain with the Civil Service.

Interchange between Departments and agencies is integral to Sir Robin Ibbs's basic proposals.

#### LEGISLATIVE IMPLICATIONS OF THE PROPOSALS

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



## PROCEDURE FOR CARRYING THE WORK FORWARD

14. If Ministers who attended your meeting on 22 October are content that we should now proceed to announce and implement the "Next Steps" proposals on the basis of my note of 15 October and of this note, I suggest that this note and the previous papers should now be copied to other members of the Cabinet. I will minute you separately about the appointment of a "Project Manager" (I intend to find a different title).
15. Subject to the views of members of the Cabinet, I suggest that we should aim to make a public announcement by about the end of November or early December of the Government's response to Sir Robin Ibbs' report and of the appointment of the "Project Manager". I attach at Annex A a possible draft of an announcement to Parliament. This has been drafted as for a written answer to an arranged Parliamentary Question, in the belief that that is consistent with the low-profile evolutionary approach that Ministers have been inclined to favour. Ministers will wish to consider whether an announcement of this importance should be made by way of an oral statement which would reflect their wholehearted commitment to the approach. It will be for individual Departments to tell their staff and the unions which units are proposed initially for agency treatment. It will be essential that the identity of the initial units is not revealed at the time of the announcement, or until a reasonable period - of say 48 hours - has elapsed for the Departments concerned to forewarn their staff and unions.
16. As now drafted, the answer would not commit Ministers to implementing the proposals in the report to a defined timetable or within a specified period, as recommended in the report. It is my



impression that Ministers do not wish to commit themselves to a specific and definite timetable and period. They may, however, wish to consider whether the failure to do so would too greatly dilute the sense of commitment which they wish the answer to give. One possibility would be to announce that the "project manager" would be invited to recommend a programme and suggest a timetable for carrying it through.

17. Shortly before the announcement is due to be made, a note on the Government's proposals would be issued to Departmental Permanent Secretaries, to be circulated to civil servants at the time of the announcement.

18. Also shortly before the announcement it would be necessary to meet the Civil Service trade unions to explain the general principles of the Next Steps approach. There would probably need to be further and fuller discussions of the general principles with the unions at national level after the announcement. Detailed consultations about the creation and operation of individual agencies would be handled subsequently within Departments

19. Copies of the report are believed to be in the hands of some of the unions and of some outside commentators. There is an argument for publishing the report in full when an announcement is made and dealing explicitly at the time of the announcement with the reasons for rejecting those recommendations which are not being adopted. Ministers will, however, wish to consider whether this is the best course. The report contains some passages which are unhappily drafted from the point of view of Parliament and of staff relations. An alternative would be to publish, at the same time as the answer, a full summary of



the report and recommendations. Such a summary is in preparation. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

19. I am sending copies of this minute in the first instance to all those Ministers who attended your meeting on 22 October.

ROBERT ARMSTRONG



DRAFT WRITTEN QUESTION TO THE PRIME MINISTER

Question:

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

Draft Reply:

1. I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Earlier this year they reported - "Improving Management in Government - The Next Steps", and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of a summary of this report are available in the Vote Office and are being placed in the Library.
2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period.



Many civil service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

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

- To the greatest possible extent the executive functions of Government that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies should be carried out by executive units clearly designated within departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a "project manager" at a senior level to ensure that the programme of change took place.



The Government has accepted these recommendations, and work is now in hand to implement them as a further development of the programme of management reform, in a way which will make it possible progressively to apply the lessons of experience as further agencies are established.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various departments during the coming months. Each agency will work within a firm framework of policy and resources. Each will be accountable to the appropriate departmental Minister, who will set the framework within which the agency is to operate and will in turn be accountable to Parliament for the agency's performance. These agencies will be within the civil service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach.

5. I believe that the setting up of agencies has advantages to offer to staff at all levels, in terms of a clearer definition of management objectives and by providing opportunities of developing new and more flexible approaches to civil service work. The civil service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.



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

..



(Arrived 7PM)

12/11/87

Ch

*PEM  
Have a lot of  
copies of the  
same stuff.  
I have used  
a few.*

Ref. A087/3219

MR WICKS

*Copies have gone to PEM FERB, Arson etc.  
Nigel has engineered that it has only  
been copied to you & Lure @ this stage.  
Will go in PM's wife box & could be helpful  
if you connect could be @ same time.  
Will be difficult to organise but may  
be able to do it  
Jonathan*

Improving Management In Government: Next Steps

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2. The paper asks for a decision by Ministers on the timing and content of an announcement of their decision to go ahead with implementing Sir Robin Ibbs's report.

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*It is very definitely  
not being played long*

*AA*



5. If she is, she will wish to consider whether to call another meeting of that group to discuss the note, before it goes (with whatever endorsement or other recommendation by the group) to other members of the Cabinet, or whether to seek to clear the note with the group by correspondence.
  
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*T A Woolley*

T A WOOLLEY  
(PS/SIR ROBERT ARMSTRONG)

12 November 1987



MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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## OUTSTANDING ISSUES

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This is  
180° to  
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#### APPOINTMENTS AND TERMS OF SERVICE FOR AGENCY CHIEF EXECUTIVES

100 Weak  
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HMS

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*Now there  
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ing)*

*Understand*



job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

9. An alternative approach is that, if a serving civil servant was to be appointed as an agency head, he should be required as a condition of appointment to resign from the Civil Service at that time, and become an "outsider" ie an external appointee to a Civil Service post. This would make it easier to get rid of him at the end of, or during, his contract if he failed. As a corollary he should, of course, be eligible for the reward available to a Chief Executive recruited from outside the Civil Service. But the expectation must be that most agency heads will not fail, and that many will do rather well. In such cases, if this approach were adopted, there should be as few obstacles as possible to reabsorbing them in the Civil Service at the end of their contract. It would be a pity if the Civil Service lost such people at the end of their term as agency head, just when they might have a lot to contribute elsewhere in the Service.

10. The extent to which an insider's future career is at risk is relevant to the level of his rewards. If he is not required to resign before appointment, the reward he could earn should be on the lines indicated in paragraph 7 above, and not identical with the reward which an outsider would be offered for the same appointment.

11. It would be essential to establish a satisfactory method of setting and assessing individual performance for the Chief Executive. The individual performance targets should be based on the performance and output indicators which would be set for the agency as a whole as part of the framework. The performance goals would have to be agreed



— α KMT

between the Chief Executive and the Department, and would be likely to imply obligations by the Department on (for instance) the stability of policy and the provision of resources for the work of the agency including the terms on which they were provided. In order to avoid suspicions that decisions about the extent to which an individual has met his performance objectives were politically motivated, final decisions would have to rest with the Permanent Secretary of the Department concerned (who would of course be expected to consult and take account of the views of his Minister). All these matters would have to be understood and accepted by the Chief Executive before he took up his appointment.

12. I invite Ministers to agree that these options offer a sufficient range from which to select suitable arrangements for individual agencies. I hope and expect that in most cases civil servants will be appointed Chief Executives and remain with the Civil Service. Interchange between Departments and agencies is integral to Sir Robin Ibbs's basic proposals.

#### LEGISLATIVE IMPLICATIONS OF THE PROPOSALS

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



## PROCEDURE FOR CARRYING THE WORK FORWARD

14. If Ministers who attended your meeting on 22 October are content that we should now proceed to announce and implement the "Next Steps" proposals on the basis of my note of 15 October and of this note, I suggest that this note and the previous papers should now be copied to other members of the Cabinet. I will minute you separately about the appointment of a "Project Manager" (I intend to find a different title).

15. Subject to the views of members of the Cabinet, I suggest that we should aim to make a public announcement by about the end of November or early December of the Government's response to Sir Robin Ibbs' report and of the appointment of the "Project Manager". I attach at Annex A a possible draft of an announcement to Parliament. This has been drafted as for a written answer to an arranged Parliamentary Question, in the belief that that is consistent with the low-profile evolutionary approach that Ministers have been inclined to favour. Ministers will wish to consider whether an announcement of this importance should be made by way of an oral statement which would reflect their wholehearted commitment to the approach. It will be for individual Departments to tell their staff and the unions which units are proposed initially for agency treatment. It will be essential that the identity of the initial units is not revealed at the time of the announcement, or until a reasonable period - of say 48 hours - has elapsed for the Departments concerned to forewarn their staff and unions.

16. As now drafted, the answer would not commit Ministers to implementing the proposals in the report to a defined timetable or within a specified period, as recommended in the report. It is my



impression that Ministers do not wish to commit themselves to a specific and definite timetable and period. They may, however, wish to consider whether the failure to do so would too greatly dilute the sense of commitment which they wish the answer to give. One possibility would be to announce that the "project manager" would be invited to recommend a programme and suggest a timetable for carrying it through.

17. Shortly before the announcement is due to be made, a note on the Government's proposals would be issued to Departmental Permanent Secretaries, to be circulated to civil servants at the time of the announcement.

18. Also shortly before the announcement it would be necessary to meet the Civil Service trade unions to explain the general principles of the Next Steps approach. There would probably need to be further and fuller discussions of the general principles with the unions at national level after the announcement. Detailed consultations about the creation and operation of individual agencies would be handled subsequently within Departments

19. Copies of the report are believed to be in the hands of some of the unions and of some outside commentators. There is an argument for publishing the report in full when an announcement is made and dealing explicitly at the time of the announcement with the reasons for rejecting those recommendations which are not being adopted. Ministers will, however, wish to consider whether this is the best course. The report contains some passages which are unhappily drafted from the point of view of Parliament and of staff relations. An alternative would be to publish, at the same time as the answer, a full summary of



the report and recommendations. Such a summary is in preparation. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

19. I am sending copies of this minute in the first instance to all those Ministers who attended your meeting on 22 October.

ROBERT ARMSTRONG



DRAFT WRITTEN QUESTION TO THE PRIME MINISTER

Question:

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

Draft Reply:

1. I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Earlier this year they reported - "Improving Management in Government - The Next Steps", and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of a summary of this report are available in the Vote Office and are being placed in the Library.
2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period.



Many civil service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

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

- To the greatest possible extent the executive functions of Government that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies should be carried out by executive units clearly designated within departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a "project manager" at a senior level to ensure that the programme of change took place.



The Government has accepted these recommendations, and work is now in hand to implement them as a further development of the programme of management reform, in a way which will make it possible progressively to apply the lessons of experience as further agencies are established.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various departments during the coming months. Each agency will work within a firm framework of policy and resources. Each will be accountable to the appropriate departmental Minister, who will set the framework within which the agency is to operate and will in turn be accountable to Parliament for the agency's performance. These agencies will be within the civil service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach.

5. I believe that the setting up of agencies has advantages to offer to staff at all levels, in terms of a clearer definition of management objectives and by providing opportunities of developing new and more flexible approaches to civil service work. The civil service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.



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



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MANAGEMENT IN CONFIDENCE

From: J Anson  
Date: 13 November 1987

## 1. SIR PETER MIDDLETON

I have incorporated my own points  
into your draft,

cc

## 2. MR A ALLAN

Mr F E R Butler  
Mr Kemp  
Mr Harris  
Mr Richardson  
Miss Mueller (Personal)

## NEXT STEPS

I attach a draft on the lines requested in your minute of 12 November. Given the tone, I think it is better sent as a minute rather than as a PS letter, even if you have to sign on the Chancellor's behalf.



J ANSON





mp

Ch

I showed a version of this to Nigel Woods, & this reflects some comment from him.

He thought it was absolutely right to lead off with the points about written/oral statements. It will bring home the sense of risk to the PM if she has to contemplate making an oral statement herself!

AA

13/11.



**CONFIDENTIAL**  
**MANAGEMENT IN CONFIDENCE**

**PRIME MINISTER**

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

I have seen Trevor Wolley's minute of 21 November to Nigel Wicks, attaching the note by Sir Robert Armstrong.

2. I am grateful to Sir Robert for the work he has done on the points I raised at our last meeting. We are clearly making progress. But I am concerned that we are being pushed into an early statement on this subject - largely because the report is already in the hands of others. It seems to me that there are several points where we are not yet fully clear about where we stand. And more generally, we need to be very sure in our own minds the limits of what we are proposing; otherwise we are at risk of creating exaggerated expectations.

3. If a statement is to be made on the lines Sir Robert Armstrong suggests, I <sup>very much</sup> doubt whether <sup>you could get away with</sup> a Written Answer ~~would satisfy Parliament~~, particularly if it is accompanied by circulating a message to every civil servant. <sup>The House would almost certainly</sup> Members might well feel that this was a major issue, and that if it required special treatment of <sup>the</sup> that kind <sup>suggests</sup> within the civil service, <sup>Parliament</sup> they ought to have an opportunity to question you ~~and other colleagues~~ on what it would mean; they would expect either an oral Statement or a debate. There would certainly also be pressure for Select Committee hearings, and we should have to consider who should give evidence. One point in particular <sup>Members would</sup> which would worry <sup>fasten on</sup> Members would be whether we were restricting their traditional rights to question Ministers. We need here to be clear about how far we expect agencies to extend



eventually. <sup>Members will</sup> be particularly concerned if the impression <sup>is</sup> given that agencies are eventually to extend throughout Whitehall; they <sup>would want to know</sup> will wonder which of their questions could in future be referred to some agency head for answer. I am not sure we have thought through the implications thoroughly enough yet to be able confidently ~~and consistently~~ to answer such concerns.

4. You also know my worries about the public expenditure implications. The approach proposed does not, in my view, yet offer enough protection in the areas where we are most at risk: we could face increasing pressure on expenditure, stoked up in particular by escalating and repercussive pay claims. We must be very careful not to give the impression to Parliament and the public - and to staff - that setting up agencies will somehow enable pay and spending controls to be relaxed. <sup>Although these</sup> These pressures will come <sup>at New</sup> not just from the proposed agencies themselves <sup>but in bodies</sup> but in bodies like the Inland Revenue and Customs <sup>which</sup> which are already structured as agencies (although without all the characteristics which Sir Robin Ibbs would give them). They <sup>will</sup> will want to know why flexibility - which the staff will see as meaning more pay - should not apply to them now.

5. I do not believe that it will be a sufficient safeguard just to set a "policy and resource framework" for an agency and to leave the chief executive free to operate within it. If, for example, he made an error of judgement on pay and conditions or numbers, it would be Ministers who would ultimately be left with the dilemma whether to provide more resources or see services deteriorate. In a trading organisation there is more flexibility because there is also the possibility of adjusting prices; but most services provided by Government departments are not in that position.

6. I therefore feel it is essential that:

a. The Treasury's general responsibility for securing efficiency savings within public expenditure constraints



should be specifically recognised. Under these proposals it appears to be shared with, if not <sup>supplanted</sup> ~~superceded~~ by, the project manager. It is not at all clear how his responsibilities would link in with ours - particularly given the transfer of responsibilities from the MPO. A full job description for the new project manager should surely first be written and discussed.

b. Performance goals, for the agencies and for the chief executives, should be agreed with the Treasury and should not just be a matter for internal negotiation within the department, or between the department and the project manager.

c. Given the risks to our central objectives that we run in giving the agencies these responsibilities, the terms and conditions <sup>not simple</sup> of the chief executive <sup>but also of his</sup> and key staff <sup>will need to</sup> ~~must~~ be very carefully considered. I believe we should be very tough indeed here, much more so than is implied by the paper at present. And these terms should clearly be subject to Treasury approval.

7. More generally, we have not yet considered any of the proposed new agencies in any detail. None of them is yet ready to go.

*Crucial Issues* 8. ~~All in all, I believe it is essential that we~~ ~~I feel very strongly indeed that we must discuss this~~ ~~further before we commit ourselves to a statement on the timetable proposed by Sir Robert Armstrong. I should be glad to supply a paper elaborating these views if you wish.~~ ~~there~~

9. I am copying this minute to Richard Luce and to Sir Robert Armstrong.

N.L

13 November 1987



**CONFIDENTIAL**  
**MANAGEMENT IN CONFIDENCE**

**PRIME MINISTER**

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

I was grateful for a sight of Sir Robert Armstrong's paper attached to Mr Woolley's minute of 21 November.

2. I am grateful to him for examining the points I raised at our last meeting. But I am not convinced that those points have been adequately met. We seem to be being rushed into an announcement on this subject largely because the report is already in the hands of others. We are also at risk of making much too much of it when it is announced.

3. If a statement is to be made on the lines Sir Robert Armstrong suggests, I doubt whether you would get away with just a Written Answer, particularly if it is accompanied by circulating a message to every civil servant. Members might well feel that if it required that treatment within the service, they ought to have an opportunity to question you and other colleagues on what it would mean, either by demanding an oral Statment or a debate, or by Select Committee hearings. The point which would worry them primarily would be whether we were restricting their traditional rights to question Ministers. If the impression is given that the agency treatment is to creep gradually across the whole Whitehall scene, they will wonder whether it is seriously suggested that questions about, say, a prison breakout will be referred to some agency head for answer. I do not think we have yet thought through the implications enough to be able confidently and consistently to reply to queries of that kind.

4. Added to this is the economic problem. The proposed approach offers little protection in the areas where we are most at risk: increasing pressure on public expenditure, stoked up in particular by escalating and repercussive



pay claims. All our colleagues have an interest in avoiding this as we are to deliver our economic objectives for the lifetime of this Parliament. It will only lead to trouble later if the impression is given now to Parliament and public, and to the staff, that setting up agencies will somehow enable pay and spending controls to be relaxed. The pressures will come not just from the proposed agencies themselves but in bodies like the Inland Revenue and Customs which are already structured as agencies (although without all the characteristics which Sir Robin Ibbs would give them). They will want to know why flexibility - which the staff will see meaning more pay - should not apply to them now.

5. Just setting a "policy and resource framework" for an agency and leaving the chief executive free to operate within it would not be a sufficient safeguard. If, for example, he made an error of judgement on pay and conditions or numbers, it would be Ministers who would ultimately be left with the dilemma whether to provide more resources or see services deteriorate. In a trading organisation there is rather more flexibility because there is also the possibility of adjusting prices; but most services provided by Government departments are not in that position.

6. I therefore regard it as essential that:

a. The Treasury's general responsibility for securing efficiency savings within public expenditure constraints should be specifically recognised. Under these proposals it appears to be shared, in an undefined way, between them and the project manager. This cuts right across our responsibilities - strengthened since the transfer of MPO staff in the summer. I should find it very interesting to see a full job description for the new project manager.

b. Performance goals, for the agencies and for the chief executives, should be agreed with the Treasury,



and should not just be a matter for internal negotiation within the department, or between the department and the project manager.

c. Given the enormous risks to our central objectives that we run in giving them these responsibilities, the terms and conditions of the chief executive and key staff must be very carefully considered. So I believe we should be very tough indeed here, far more so than is implied by the paper at present. These terms should clearly be subject to Treasury approval.

7. More generally, we have not yet considered any of the proposed new agencies in any detail. None of them are ready to go. For some it may be better to privatise the activity or its management; or an agency may prove for other reasons to be impracticable. Indeed there are so many questions which we cannot answer that I greatly doubt the wisdom of the big bang approach which is proposed.

8. I think we need to discuss this further among ourselves before we get committed to a statement in the form Sir Robert Armstrong proposes.



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MANAGEMENT IN CONFIDENCE



13/11/87

*pur*

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

**PRIME MINISTER**

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

I have seen Trevor Wolley's minute of 21 November to Nigel Wicks, attaching the note by Sir Robert Armstrong.

2. I am grateful to Sir Robert for the work he has done on the points I raised at our last meeting. We are clearly making progress. But I am concerned that we are being pushed into an early statement on this subject - largely because the report is already in the hands of others. It seems to me that there are several points where we are not yet fully clear about where we stand. And more generally, we need to be very sure in our own minds the limits of what we are proposing; otherwise we are at risk of creating exaggerated expectations.

3. If a statement is to be made on the lines Sir Robert Armstrong suggests, I very much doubt if we could get away with a Written Answer, particularly if it is accompanied by circulating a message to every civil servant. The House would almost certainly feel that this was a major issue, and that if it required special treatment of the kind suggested within the civil service, Parliament ought to have an opportunity to question you on what it would mean; they would expect either an oral Statement or a debate. There would certainly also be pressure for Select Committee hearings, and we should have to consider who should give evidence. One point in particular which Members would fasten on would be whether we were restricting their traditional rights to question Ministers. We need



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here to be clear about how far we expect agencies to extend eventually. Parliament would, I believe, be particularly concerned if the impression were given that agencies are eventually to extend throughout Whitehall; they would want to know which of their questions could in future be referred to some agency head for answer. I am not sure we have thought through the implications thoroughly enough yet to be able confidently to answer such concerns.

4. You also know my worries about the public expenditure implications. The approach proposed does not, in my view, yet offer enough protection in the areas where we are most at risk: we could face increasing pressure on expenditure, stoked up in particular by escalating and repercussive pay claims. We must be very careful not to give the impression to Parliament and the public - and to staff - that setting up agencies will somehow enable pay and spending controls to be relaxed. Although these pressures will come at their strongest from the proposed agencies themselves, they will also emerge in no uncertain way from bodies like the Inland Revenue and Customs and Excise which are already structured as agencies (although without all the characteristics which Sir Robin Ibbs would give them). The latter will want to know why flexibility - which the staff will see as meaning more pay - should not apply to them now.

5. I do not believe that it will be a sufficient safeguard just to set a "policy and resource framework" for an agency and to leave the chief executive free to operate within it. If, for example, he made an error of judgement on pay and conditions or numbers, it would be Ministers who would ultimately be left with the dilemma whether to provide more resources or see services deteriorate. In a trading organisation there is more flexibility because there is also the possibility of adjusting prices; but most services provided by Government departments are not in that position.



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6. I therefore feel it is essential that:
- a. The Treasury's general responsibility for securing efficiency savings within public expenditure constraints should be specifically recognised. Under these proposals it appears to be shared with, if not supplanted by, the project manager. It is not at all clear how his responsibilities would link in with ours - particularly given the transfer of responsibilities from the MPO. A full job description for the new project manager should surely first be written and discussed.
  - b. Performance goals, for the agencies and for their chief executives, should be agreed with the Treasury and should not just be a matter for internal negotiation within the department, or between the department and the project manager.
  - c. Given the risks to our central objectives that we run in giving the agencies these responsibilities, the terms and conditions not simply of the chief executive but also of his key staff will need to be very carefully considered. I believe we should be very tough indeed here, much more so than is implied by the paper at present. And these terms should clearly be subject to Treasury approval.
7. More generally, we have not yet considered any of the proposed new agencies in any detail. None of them is yet ready to go.
8. All in all, I believe it is essential that we discuss these crucial issues further before we commit ourselves to a statement on the timetable proposed by Sir Robert Armstrong. I should be glad to supply a paper elaborating these views if you wish.



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MANAGEMENT IN CONFIDENCE



9. I am copying this minute to Richard Luce and to Sir Robert Armstrong.

ACS Allan

pp N.L

13 November 1987

(approved by the Chancellor  
and signed in his absence)



16/11/87



10 DOWNING STREET

LONDON SW1A 2AA

*From the Principal Private Secretary*

Mr. Woolley,  
Cabinet Office.

**IMPROVING MANAGEMENT IN GOVERNMENT: NEXT STEPS**

The Prime Minister has seen your minute of 12 November, covering a note by Sir Robert Armstrong, and the Chancellor of the Exchequer's minute of 13 November about Sir Robin Ibbs' report "Improving Management in Government: Next Steps".

2. The Prime Minister has noted that the Chancellor feels that Sir Robert Armstrong's minute does not meet some of the concerns which he expressed at the Ministerial meeting on 22 October, and that he believes that there is more work to be done before there can be an announcement. The Prime Minister agrees with the Chancellor. In particular, she thinks that further consideration needs to be given to the position of agency chief executives, and to the need to put their tenure of office on to a "hire and fire" basis. She has commented (against the reference in paragraph 8 of Sir Robert Armstrong's note about the appointment for a fixed term, with the possibility of an extension, of a civil service nominee for a chief executive post) that she does not see that a civil servant would apply for such a post when he is liable to lose security of tenure. She is also not satisfied with the arrangement, described in paragraph 11 of Sir Robert Armstrong's note, whereby the Permanent Secretary would have the final decision on whether an agency head has met his performance objectives when it would presumably have been the Minister who would have set the objectives of the agency.

3. The Prime Minister is not satisfied about the arrangements for controlling agencies. She has noted that the second sentence in paragraph 4 asserts that the agency approach should be able to provide a rigorous basis for control "if" it is set within a robust policy and resource framework. Paragraph 5 asserts too that it would be important to see that the administrative cost as well as total cost of the agency is properly controlled. The Prime Minister would like to have greater assurance on how these objectives would be achieved in practice.



4. On an announcement, the Prime Minister has not yet come to a view on whether it should be made by oral or written statement, though she has noted the Chancellor's view that a change of such consequence should be announced by oral statement. She believes that we need to involve more Ministers before there can be any announcement, and that more work needs to be done on the matters considered at the last meeting, such as privatisation, terms and conditions for chief executives, and legislation. She has indicated that an announcement should be in terms which do not refer to a defined timetable for implementing the recommendations of the Ibbs Report. She does not think it is possible for there to be a public announcement before the end of November.

5. The Prime Minister would like the note attached to your minute to be revised in the light of her comments reported in this minute, and then circulated to the Ministerial Group for discussion before it goes to other members of the Cabinet.

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

N.L.W.

N.L. Wicks

16 November, 1987.





10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER	
REC.	13 NOV 1987 ✓
ACTION	MR ANSON
COPIES TO	CST FST PNG EST
	SIR P. MIDDLETON
	MR FER BUTLER
	MR KEMP MR C BUTLER
	MR LUCE MR HARRIS
	MR SCHOLAR MR CHIVERS
	MR WELSH MR PRATT
	MR TYRRE MR CALL

Ch  
 Good N. Jackson ✓  
 concerning the shake, etc  
 as a copy of the paper  
 Mr. Woolley,  
Cabinet Office.

### IMPROVING MANAGEMENT IN GOVERNMENT: NEXT STEPS

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3. The Prime Minister is not satisfied about the arrangements for controlling agencies. She has noted that the second sentence in paragraph 4 asserts that the agency approach should be able to provide a rigorous basis for control "if" it is set within a robust policy and resource framework. Paragraph 5 asserts too that it would be important to see that the administrative cost as well as total cost of the agency is properly controlled. The Prime Minister would like to have greater assurance on how these objectives would be achieved in practice.



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N.L.W.

N.L. Wicks

16 November, 1987.



*pm*

From: SIR PETER MIDDLETON

Date: 26 November 1987

CHANCELLOR

cc Chief Secretary  
 Mr Anson  
 Miss Mueller  
 Mr Kemp  
 Mr Turnbull  
 Mr L Harris  
 Mr Luce  
 Mr Richardson

*1. Pay/Anson's responsibility*  
*2. Role for the (by pm)*

NEXT STEPS

As I mentioned to you, we have been doing some work in the Treasury about the steps which would be necessary in order to set up agencies, and the role which the Treasury would expect to play. ... The result is the attached note assembled by Mr Harris.

2. We cannot wholly eliminate the threat posed to public expenditure control. Nor can we really hope to prevent a shift of emphasis from cost control to increasing public sector output. But if these procedures are followed we can, we think, contain the risks and in some areas, eg privatisation, even turn things to our advantage.

3. The issues involved are complex and in many cases present difficult legal problems, especially as regards terms and conditions of services. It is difficult to imagine that a big bang is remotely feasible; despite the decision to present it that way.

4. Perhaps I could have a preliminary word with you tomorrow about how we should proceed, and whether we can use the note to secure the low key approach that not only we but the rest of Whitehall think is right. We might then think of a meeting with you and the Chief Secretary early next week.

*SL*

*pp.* P E MIDDLETON  
 approved by Sir Peter Middleton  
 and signed in his absence



## MANAGEMENT IN CONFIDENCE

### "NEXT STEPS": ESTABLISHING AND ADMINISTERING AGENCIES

1. Identification. Provisional identification of potential agencies will be the responsibility of departments or Treasury Expenditure Divisions. The criteria will develop over time in the light of experience with the pilot agencies, but common features will be that the prospective agencies are, or can be made:

- X
- a. discrete administrative units, sufficient in size to justify major structural change;
  - b. wholly concerned with the delivery of services to the public or the Government;
  - c. independently accountable within their parent departments, with whom they will have what is essentially a customer-contractor relationship.

Areas of work where the day-to-day involvement of the department or its Minister is inevitable, or where policy and its execution are inextricably linked, are unlikely to be suitable candidates for agency treatment.

2. Form of Organisation. Before further work is done on establishing an agency, the parent department will consider the following:



- a. privatisation. Privatisation provides all the managerial freedoms and disciplines sought by the agency approach, and should normally be regarded as the preferred route unless there are compelling reasons to the contrary. If privatisation is not immediately practicable, but might become so later on, the department will consider whether agency treatment is an appropriate transitional measure;
- ~~handwritten word~~
- b. contractorisation. If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;
- c. public corporations. Large executive operations which already have an arm's length relationship with their parent departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation.
- d. abolition. Closer examination of particular services as part of the preparation for setting up an agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the department.



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

- a. the prospective agency's aims and objectives;
- b. the adequacy of the agency's internal management and financial systems.
- c. the benefits sought from the agency approach;
- d. the resources currently employed in the areas to be covered by the agency;
- e. the outputs/unit costs now achieved in those areas;
- f. any new or modified functions to be carried out by the agency;
- g. proposed changes in inputs/outputs/unit costs;
- h. existing and planned performance measures;
- i. the pay and expenditure regime;
- j. the state of industrial relations within the agency.
- k. any legislation likely to be required.



4. Provisional approval. Assuming that the analysis is satisfactory and does not suggest that immediate privatisation or some other structure would be a better solution, the department will submit outline proposals for approval in principle by its own Minister.

5. Approach to Treasury. The department will discuss its outline proposals with the Treasury, who will check that the options set out in paragraph 2 have been properly considered.

6. Treasury consideration. The Treasury will then consider the outline scheme, paying particular attention to the proposed pay, running cost and public expenditure control arrangements, and their possible repercussive effects within the public service and the economy generally. Other departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

7. Preparation of framework. The department, in consultation with the Treasury, will draw up the key elements of the policy and resources framework for the agency. The framework will set out:

a. the relationship with the department, including the circumstances in which the Minister will issue directions to the agency, and the extent to, and the arrangements under, which the agency will contribute to policy formation;



- b. the agency's aims and objectives;
- c. the nature of the resources to be provided, and of the outputs to be achieved, and how they are to be measured;
- d. the machinery for accounting, audit, monitoring and reporting, both within government and externally;
- e. the arrangements for setting objectives and financial targets for the agency, where appropriate, and the arrangements for their periodic revision;
- f. the expenditure classification and control mechanisms agreed with the Treasury for the agency when first established and any change which might be proposed subsequently;
- g. arrangements for recruitment, pay, and other personnel management responsibilities;
- h. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently.
- i. the terms of reference for the Chief Executive;



ii. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;

iii. reporting arrangements for the Chief Executive;

j. the industrial relations structure.

8. Approval of framework. The framework as discussed with the Treasury will be submitted to the appropriate departmental and Treasury Ministers for approval before submission to the Prime Minister.

9. Staff interests. The department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation; the conduct of industrial relations within the agency, including the establishment of Whiteley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.

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



## B. IMPLEMENTATION

11. Recruitment of Chief Executive and Key Staff. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the department, the Treasury and the OMCS.

Appointment will be by either:

a. open competition on fixed contract; existing civil servants would be free to apply, but, if appointed, would be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

b. internal selection:

i. from within the department; or

ii. by Service-wide advertisement.

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

All agency staff (including the Chief Executive) will, at any rate initially, be civil servants, the main difference between



the two methods of appointment being that method a. will offer high rewards in return for high risks, while method b. will balance lower remuneration against greater security of tenure.

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

The Chief Executive's contract must set out precisely what is expected of him and the circumstances in which penalties, including termination of contract, will be enforced. Experience has shown that drawing up satisfactory contracts of this kind is extremely difficult, and the assistance of the department's legal advisers should be sought from the outset. Sanctions against an under-performing Chief Executive on fixed term contract would include:

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



Chief Executives who were career civil servants would be subject to the full range of sanctions under the Civil Service Pay and Conditions of Service Code, ranging from dismissal or premature retirement, through regrading and loss of increments, to simple reprimand and movement to another post.

Similar sanctions would apply mutatis mutandis to key staff who failed to deliver the agreed outputs. Positive performance incentives will be considered in setting the pay regime.

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

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



None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other legal process, but should reduce the frequency with which that was likely to occur.

14. Recruitment of staff. The Chief Executive will discuss and agree terms and conditions for the agency's staff with the Treasury and OMCS. Recruitment will be by transfer from the parent or other departments, or by a special exercise carried out by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the two. There will be a presumption that pay, grading and superannuation will normally follow Civil Service models, unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. In considering requests for special treatment, the Treasury will need to be satisfied that it is essential for the achievement of the agency's target, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other departments and agencies will be consulted if there is a risk of repercussions elsewhere.

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



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

### C. RUNNING

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

18. Approval. The plan will be subject to approval by the departmental Minister, and the Treasury.

19. PES. The resources sought in the annual plan will be considered during the department's PES discussions. They could be negotiated either as part of the department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. Any changes from the amounts included in the annual plan will have to be negotiated between the agency and the department, perhaps with consequential changes to the output targets, and with the Treasury where there is no block budget arrangement. The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement, and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.



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

Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria, already agreed by Ministers collectively, that the activities should be self-financing, the management and performance systems robust enough to substitute for gross running costs control and any implications for Civil Service size acceptable.

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

22. Reporting. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report may be published after discussion with the Treasury and the Minister; whether or not the updated plan should also be published will be a matter for consideration in each case by the Treasury and the department.

Careful monitoring of the agencies' performance will be



essential, particularly while the concept is new, and will call for close consultation between parent departments and the Treasury.



CH/EXCHEQUER	
REC.	04 DEC 1987
ACTION	SIR. P. MIDDLETON
COPIES TO	MR ANSON
	MISS MUELLER
	MR KEMP

Ref. A087/3395

MR WICKS

*Some comments passed*

Improving Management in Government:  
The Next Steps

--- I attach a revised copy of the paper for the meeting of Ministers on the Next Steps. It takes account of the points made in your minute to my office of 16 November and the Chancellor's minute to the Prime Minister of 13 November.

*not copied but sounds helpful!*

2. You mentioned Mr Ingham's note of 24 November. A management brief which incorporates answers to the questions suggested by Mr Ingham has been prepared in consultation with the Treasury. Mr Ingham also raised three other issues:

*Nigel tells me it said proposals are so vague they would be impossible to present.*

a. His comments on the question of Ministerial commitment seem to be based on a minute of mine which predated the last meeting at which Ministers (other than the Chancellor of the Exchequer) made clear their readiness to undertake a commitment to the approach in Sir Robin Ibbs's report.

b. Mr Ingham referred to "the clash of cultures inherent in an industrialist advising Government". Of course, Sir Robin Ibbs draws on his experience as an industrialist, and of course practice in the private sector cannot simply be read across into the public sector. But it is also fair to say that Sir Robin Ibbs has had more experience than most industrialists of the workings of the Government machine, and his proposals are based on a detailed scrutiny of the present position within the Civil Service, and of the views of civil servants.



✓✓ c. Mr Ingham suggested that a number of aspects of the Government's proposals were as yet far from clear. There is truth in that; but on many of those aspects the decisions required will vary from agency to agency, and it is not possible to get much further in terms of general decisions. There is an element of chicken and egg: these matters will not be resolved until there is a "project manager" in place and following up these points with Departments in specific terms in relation to particular agencies; but we cannot appoint a "project manager" until we know that there will be a project to manage.

3. One of the annexes to my paper is a note by the Treasury on the procedures for establishing and administering agencies. This paper has been agreed by the Chancellor of the Exchequer. He will want to make his own comments, but I understand that he would be prepared to go along with the proposals as they now stand, if the procedures suggested in the Treasury paper were agreed.

4. I think that there is a major issue for decision here. The Treasury paper calls for a close and detailed Treasury control of almost every aspect of establishing and administering agencies. Departmental Ministers may well take the view that, if the Treasury's apron strings are going to be as tight and as comprehensive as that, those responsible for managing agencies simply will not have the freedom and flexibility of management which Sir Robin Ibbs's proposals are intended to permit. Sir Robin Ibbs himself regards as one of the main purposes of his proposals to release energies which are confined and constrained by existing procedures and controls, and considers that what the Treasury proposes - which would if anything extend rather than reduce Treasury control and which he regards as obsessive and bureaucratic - would absorb (by way of constant arguments with the Treasury) energies that are supposed to be released for managing agencies and improving their effectiveness.



5. I think that it is now becoming urgent to bring these matters to a resolution. Departments have done a considerable amount of work, and (basing themselves on the conclusions of the meeting of the Ministerial Group on 22 October) are keen to make further progress. Delay is producing uncertainty and that is being increased by stories of the kind which have appeared recently in the Daily Telegraph and the Independent. Departments are now asking about the reasons for delay, and are coming to their own conclusions about that. I recognise that the Prime Minister will not want to have a meeting on 8 December, but I think that it is highly desirable to arrange the next meeting of the Ministerial Group as soon as possible thereafter.

6. I am sending copies of this minute and the annexes to the Private Secretaries to the Chancellor of the Exchequer and the Minister of State, Privy Council Office.

ROBERT ARMSTRONG

4 December 1987



MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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

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

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

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



## OUTSTANDING ISSUES

### PRIVATISATION AND QUANGOS

3. In determining how best to deliver executive functions, the scope for privatisation should always be considered. Where Ministers decide that such functions are most appropriately carried out within Government, they should consider whether they should be handled by an executive agency under Ministerial control, on the lines proposed in Sir Robin Ibbs's report. Each case would need to be considered on its merits.

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



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

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#### APPOINTMENTS AND TERMS OF SERVICE FOR AGENCY CHIEF EXECUTIVES

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

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



8. A Civil Service nominee selected on this basis would be appointed for a fixed term, with the possibility of an extension not excluded. This would emphasise the contractual nature of an appointment to a Chief Executive post and that success or failure would have repercussions. He would be paid at the rate appropriate for the relevant grade. In addition there should be a suitable performance related element linked to defined performance objectives. I envisage that the main element of this would be performance-related discretionary increments of the kind we have introduced for Grades 2 and 3 and are currently developing for Grades 4 to 7. The increments adopted for use for Chief Executives of agencies would not need to be identical either in number or in amount with those adopted at comparable levels in the Civil Service as a whole; but, if the disparities were too great, that would cause complications when Chief Executives left agencies and were reabsorbed into other Departmental duties. In suitable cases there might also be a terminal bonus paid on the achievement of defined and substantial results. The Treasury would need to be consulted about these arrangements, and about similar arrangements for key agency staff other than the Chief Executive.

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

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essential requirement for the job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

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

#### LEGISLATIVE IMPLICATIONS OF THE PROPOSALS

11. The creation of agencies within Departments to handle distinct operational functions will not of itself generally require legislation. Subsequent privatisation or conversion of agencies into non-Departmental public bodies (or vice-versa) would do so in most cases. Some of the suggested changes in the parliamentary financial control regime would need legislation if it were decided to implement

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them. Whether legislation is needed in each case (or across the board) would be for the responsible Minister to consider in consultation with the Treasury, the OMCS and the project manager and other affected Departments.

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

#### ACCOUNTABILITY

13. As the paper for the Ministerial meeting on 22 October recognised, Ministers' formal accountability to Parliament would be unaffected by the implementation of the Next Steps proposals, though their detachment from day to day operations would entail changes in the way in which it was discharged. This would mean, for example, that Parliamentary Questions about the operation of an agency would always be answered by the responsible Minister, albeit in the light of advice from the agency's chief executive. Ministers might choose to encourage MPs to address operational enquiries initially to the agency managers but MPs would retain the right to approach Ministers directly, if they were dissatisfied with the reply.

14. The announcement to the House should make clear that, while the intention is to apply the agency principle extensively throughout Whitehall, each case will be considered on its merits and suitable

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accountability arrangements devised to meet the circumstances of individual agencies. The public announcements of the establishment of individual agencies would set out any intended changes in the handling of MPs' enquiries.

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

#### PROCEDURE FOR CARRYING THE WORK FORWARD

16. If Ministers who attended your meeting on 22 October are content that we should now proceed to announce and implement the "Next Steps" proposals on the basis of my note of 15 October and of this note, I suggest that this note and the previous papers should now be copied to other members of the Cabinet. I will minute you separately about the appointment of a "Project Manager".

17. The Treasury's responsibility for securing efficiency savings within public expenditure constraints will be unchanged. Careful handling will be required to ensure that the introduction of different agency solutions does not lead to an impression of general pay and spending control relaxation. It will be for the "Project Manager" in conjunction with Departments and the Treasury to take forward the agency proposals and to arrange for the resolution of issues as they arise.

only



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

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

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

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

#### PRESENTATION

20. Subject to the views of members of the Cabinet, the next step would be to make a public announcement of the Government's response to Sir Robin Ibbs' report and of the appointment of the Project Manager. I attach at Annex A a possible draft of an announcement to Parliament.



This has been drafted as for a written answer to an arranged Parliamentary Question, in the belief that that is consistent with the low-profile evolutionary presentation to Parliament that Ministers have been inclined to favour. The Chancellor has, however, suggested that an announcement of this importance should be made by way of an oral statement. It will be for individual Departments to tell their staff and the unions which units are proposed initially for agency treatment. It will be essential that the identity of the initial units is not revealed at the time of the announcement, or until a reasonable period - of say 48 hours - has elapsed for the Departments concerned to forewarn their staff and unions.

21. As now drafted, the answer would not commit Ministers to implementing the proposals in the report to a defined timetable or within a specified period, as recommended in the report.

22. Shortly before the announcement is due to be made, guidance on the Government's proposals would be issued to Departmental Permanent Secretaries, for them to circulate to civil servants at the time of the announcement. A full question and answer brief would be provided with the central guidance.

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



!!!

24. Copies of a final draft of the report are believed to be in the hands of some of the unions and of some outside commentators. It is proposed that the report should be published in full when an announcement is made. A complementary Press briefing package would also be prepared. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

25. I am sending copies of this minute in the first instance to all those Ministers who attended your meeting on 22 October.

ROBERT ARMSTRONG

X

Who is your authority for this? The no work - make anyone?



DRAFT WRITTEN QUESTION TO THE PRIME MINISTER

Question:

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

Draft Reply:

1. I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Earlier this year they reported - "Improving Management in Government : The Next Steps" - and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of this report are available in the Vote Office and are being placed in the Library.
2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period.



Many civil service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

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

- To the greatest possible extent the executive functions of Government, that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies, should be carried out by executive units clearly designated within departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a "project manager" at a senior level to ensure that the programme of change took place.



The Government has accepted these recommendations , and work is now in hand to implement them as a further development of the programme of management reform, in a way which will make it possible progressively to apply the lessons of experience as further agencies are established.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various departments during the coming months. Each agency will work within a firm framework of policy and resources, which will be set by the appropriate departmental Minister (in consultation with Treasury). Each will be accountable to the Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the civil service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach.

5. I believe that the setting up of agencies has advantages to offer to staff at all levels, in terms of a clearer definition of management objectives and by providing opportunities of developing new and more flexible approaches to civil service work. The civil service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.



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



PROJECT MANAGER: JOB DESCRIPTIONTasks

The Project Manager will report to the Head of the Home Civil Service and to the Prime Minister. His tasks will be, in consultation with the Treasury :

1. To produce a plan with a timetable for implementing the proposals in the Next Steps report
2. To establish that departmental proposals for particular agencies:
  - a. are soundly based and offer well-defined benefits from the creation of an agency;
  - b. have a robust framework of objectives, policies, resources, targets, clearly defined accountability and a stated process for handling politically-sensitive developments;
  - c. specify what new flexibility the management will need.
3. To advise on issues for individual agencies which may have repercussions for other parts of the Civil Service, and to ensure that such issues are resolved effectively.
4. To work with Departments to ensure the successful establishment and operation of agencies in accordance with the approved plan.
5. To ensure that the recommendations on the skills and experience that civil servants need are applied rigorously and effectively particularly for senior management posts.
6. To devise ways of creating throughout government continuing pressure for improvement in the delivery of services.



**"NEXT STEPS": ESTABLISHING AND ADMINISTERING AGENCIES**

Note by the Treasury

1. Identification. Provisional identification of potential agencies will be the responsibility of departments, or Treasury Expenditure Divisions. The criteria will develop over time in the light of experience with the pilot agencies, but common features will be that the prospective agencies are, or can be made:

- a. discrete administrative units, sufficient in size to justify major structural change;
- b. wholly concerned with the delivery of services to the public or the Government;
- c. independently accountable within their parent departments, with whom they will have what is essentially a customer-contractor relationship.

Areas of work where the day-to-day involvement of the department or its Minister is inevitable, or where policy and its execution are inextricably linked, are unlikely to be suitable candidates for agency treatment.

2. Form of Organisation. Before further work is done on establishing an agency, the parent department will consider the following:



- a. privatisation. Privatisation provides all the managerial freedoms and disciplines sought by the agency approach, and should normally be regarded as the preferred route unless there are compelling reasons to the contrary. If privatisation is not immediately practicable, but might become so later on, the department will consider whether agency treatment is an appropriate transitional measure;
- b. contractorisation. If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;
- c. public corporations. Large executive operations which already have an arm's length relationship with their parent departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation.
- d. abolition. Closer examination of particular services as part of the preparation for setting up an agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the department.



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

- a. the prospective agency's aims and objectives;
- b. the adequacy of the agency's internal management and financial systems.
- c. the benefits sought from the agency approach;
- d. the resources currently employed in the areas to be covered by the agency;
- e. the outputs/unit costs now achieved in those areas;
- f. any new or modified functions to be carried out by the agency;
- g. proposed changes in inputs/outputs/unit costs;
- h. existing and planned performance measures;
- i. the pay and expenditure regime;
- j. the state of industrial relations within the agency.
- k. any legislation likely to be required.



1. the arrangements for answerability to Parliament and individual Members.

4. Provisional approval. Assuming that the analysis is satisfactory and does not suggest that immediate privatisation or some other structure would be a better solution, the department will submit outline proposals for approval in principle by its own Minister.

5. Approach to Treasury. The department will discuss its outline proposals with the Treasury, who will check that the options set out in paragraph 2 have been properly considered.

6. Treasury consideration. The Treasury will then consider the outline scheme, paying particular attention to the proposed pay, running cost and public expenditure control arrangements, and their possible repercussive effects within the public service and the economy generally. Other departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

7. Preparation of framework. The department, in consultation with the Treasury, will draw up the key elements of the policy and resources framework for the agency. The framework will set out:



a. the relationship with the department, including the circumstances in which the Minister will issue directions to the agency, and the extent to, and the arrangements under, which the agency will contribute to policy formation;

b. the agency's aims and objectives;

c. the conventions which the department would wish to establish regarding answerability to Parliament and individual Members on the activities of the agency.

d. the nature of the resources to be provided, and of the outputs to be achieved, and how they are to be measured;

e. the machinery for accounting, audit, monitoring and reporting, both within government and externally;

f. the arrangements for setting objectives and financial targets for the agency, where appropriate, and the arrangements for their periodic revision;

g. the expenditure classification and control mechanisms agreed with the Treasury for the agency when first established and any change which might be proposed subsequently;

h. arrangements for recruitment, pay, and other personnel management responsibilities;



i. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently.

j. the terms of reference for the Chief Executive;

ii. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;

iii. reporting arrangements for the Chief Executive;

k. the industrial relations structure.

8. Approval of framework. The framework as discussed with the Treasury will be submitted to the appropriate departmental and Treasury Ministers for approval before submission to the Prime Minister.

9. Staff interests. The department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation; the conduct of industrial relations within the agency, including the establishment of Whitley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.



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

#### B. IMPLEMENTATION

11. Recruitment of Chief Executive and Key Staff. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the department, the Treasury and the OMCS. The Prime Minister will need to be consulted at this stage about the more important appointments.

Appointment will be by either:

a. open competition on fixed contract; existing civil servants would be free to apply, but, if appointed, would be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

b. internal selection:

i. from within the department; or



ii. by Service-wide advertisement.

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

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

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

The Chief Executive's contract must set out precisely what is expected of him and the circumstances in which penalties, including termination of contract, will be enforced. Experience has shown that drawing up satisfactory contracts of this kind is extremely difficult, and the assistance of the department's legal advisers should be sought from the outset. Sanctions against an under-performing Chief Executive on fixed term contract would include:



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

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

Chief Executives who were career civil servants would be subject to the full range of sanctions under the Civil Service Pay and Conditions of Service Code, ranging from dismissal or premature retirement, through regrading and loss of increments, to simple reprimand and movement to another post.

Similar sanctions would apply mutatis mutandis to key staff who failed to deliver the agreed outputs. Positive performance incentives will be considered in setting the pay regime.

13. Assessment of performance. The judgement on whether or not a Chief Executive has met the agreed targets for costs and performance should rest in the first instance with the agency's parent department. The assessment will be made by the departmental Minister, advised in the normal way by his Permanent Secretary after consultation with the Treasury. It will be necessary to provide for a formal appeal procedure where an



adverse assessment leads to termination of contract; possible options, which would be written into the contract and would depend on the status of the Chief Executive concerned, would include appeals to:

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

None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other legal process, but should reduce the frequency with which that was likely to occur.

14. Recruitment of staff. The Chief Executive will discuss and agree terms and conditions for the agency's staff with the Treasury and OMCS. Recruitment will be by transfer from the parent or other departments, or by a special exercise carried out by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the two. There will be a presumption that pay, grading and superannuation will normally follow Civil Service models, unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. In considering requests for special treatment, the Treasury will need to be satisfied that it is essential for the achievement of



the agency's target, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other departments and agencies will be consulted if there is a risk of repercussions elsewhere.

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

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

### C. RUNNING

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

18. Approval. The plan will be subject to approval by the departmental Minister, and the Treasury.



19. PES. The resources sought in the annual plan will be considered during the department's PES discussions. They could be negotiated either as part of the department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. Any changes from the amounts included in the annual plan will have to be negotiated between the agency and the department, perhaps with consequential changes to the output targets, and with the Treasury where there is no block budget arrangement. The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement, and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.

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

Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria, already agreed by Ministers collectively, that the activities should be self-financing, the management and performance systems robust enough to substitute for gross running costs control and any implications for Civil Service size acceptable.



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

22. Reporting. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report will be submitted to the Prime Minister after discussion with the Treasury and the Minister and may be published; ; whether or not the updated plan should also be published will be a matter for consideration in each case by the Treasury and the department.

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





*psj*  
7/12/87

Treasury Chambers, Parliament Street, SW1P 3AG  
01-270 3000

**PRIME MINISTER**

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

I have seen a copy of Sir Robert Armstrong's minute of 4 December to Nigel Wicks, to which he attached the revised draft of his paper on the implementation of the "Next Steps" proposals.

I think there may be some misunderstanding about my position. As you know, I was concerned that the earlier papers did not adequately protect our control over public expenditure. Nigel Wicks' letter of 16 November recorded that you yourself were not satisfied about the arrangements for controlling the agencies, and said you would like greater assurance on how the objectives of controlling the administrative and total costs of the agencies would be achieved in practice.

I therefore asked Treasury officials to produce a detailed note about how we should go about setting up agencies. It does not suggest what Sir Robert refers to as a tightening of the apron string through greater intervention in day-to-day management; indeed, it recognises that some of the traditional detailed controls may have to be modified in the interests of greater efficiency, provided that we retain a central control over the quantities that matter for the purpose of management of the public finances and the achievement of our macro-economic objectives. If we do not go through these steps we risk throwing away a large part of what, thanks to an enormous and sustained effort, we have gained over the 8½ years since 1979 in the expenditure and pay fields.



CONFIDENTIAL



On the more detailed points of Sir Robert's draft paper, I still think that the arrangements for Civil Service heads of agencies are feeble. We must be quite clear precisely how the risk/reward balance, which we all agree is important, should be achieved. If a civil servant is appointed by open competition to a Chief Executive post which carries a salary above Civil Service rates, we must not expect Civil Service security of tenure. Conversely, if a civil servant is appointed by internal selection, and therefore retains security of tenure, he cannot, *ceteris paribus*, be expected to enjoy terms more favourable than those available to his peers elsewhere in the Civil Service.

Second, we need to think hard about what is said in Sir Robert's paper about accountability. Even if Members are satisfied to move towards answers given by unelected Chief Executives on routine matters, it is unrealistic to suppose that they can be denied access to Ministers, if necessary across the Floor of the House, on questions of major public importance. We have recently seen that they will insist on such access in many Health Service cases. And I note that when there were recent complaints about Hansard, the Leader of the House and the Lord President expected and got answers from the Paymaster General rather than from the Controller of HMSO. If one of the main thrusts of the proposals is to detach Ministers from answerability for significant day-to-day activities of the agency, then I suspect it will be a long time coming, if indeed it is right to go very far in that direction anyway.

Finally, it is regrettable that the original Next Steps Report has evidently been leaked. If this means that it has to be published (and I am not wholly convinced that it does), we must make a specific disclaimer - preferably in a preface - about those things said in the Report with which we do not specifically agree. It will no doubt become the subject matter for enquiry by Parliamentary committee, and I must be free to disassociate myself from many of the critical comments made in the Report about the way in which



CONFIDENTIAL



Treasury Ministers and officials have dealt with public expenditure and running costs and pay matters throughout the period since 1979. I have no wish to be thought to be agreeing with the "wider range of officials" on whose "evidence" the Report is based.

Against this background, I think the draft public announcement needs to be modified to make it clear exactly to what we are and are ... not agreeing. I attach a revised draft of page 3 of the statement.

I am copying this minute to Richard Luce and to Sir Robert Armstrong.

ACS Allan

PP N.L.

7 December 1987

[approved by the Chancellor  
and signed in his absence]



**CONFIDENTIAL  
MANAGEMENT IN CONFIDENCE**

DRAFT **STATEMENT**: PROPOSED REVISED PAGE 3.

The Government believe that in appropriate cases the setting up of agencies would have advantages both in enabling management objectives to be defined more clearly, and in facilitating more effective and flexible management within a firm policy and resource framework. We have therefore decided to explore the extent to which such agencies could be established as a further development of the programme of management reform.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various departments during the coming months. Each agency will work within a firm framework of policy and resources, which will be set by the appropriate departmental Minister (in agreement with Treasury). Each will be accountable to the Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach. The Government will continue to explore the possibility of further agencies, in a way which will make it possible progressively to apply the lessons of experience as further agencies are established.

5. The Civil Service unions have been told of the Government's response to the Efficiency Unit's proposals;




and there will be continuing consultation, both about the general approach and, within individual departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.



CONFIDENTIAL

FROM: P J CROPPER  
DATE: 16 December 1987

CHIEF SECRETARY

cc Chancellor   
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir P Middleton  
Mr Tyrie  
Mr Call

NEXT STEPS

The Chancellor asked me to circulate this a little more widely.

  
P J CROPPER



## PERSONAL AND CONFIDENTIAL

FROM: P J CROPPER  
DATE: 15 December 1987

CHANCELLOR

NEXT STEPS

I have read all the papers, and would be happy to discuss. My conclusions are very much the same as yours.

2. One can criticise the Ibbsonian agency concept in two ways: each has some validity.

(1) It is too rigid a formula to apply to the diversity of organisations found on the periphery of central Whitehall.

(2) It is not precisely enough formulated to be effective in providing a combination of financial incentives and financial controls.

If the first criticism is correct, then one is thrown back to the view expressed in several of the Treasury papers on the file - that each of these peripheral organisations calls for its own solution - whether privatisation, contracting out, franchising ...or, indeed, an Ibbsonian agency. If that route is taken, then "Next Steps" becomes a relatively damp squib.

3. If one then pursues the second line of criticism, I think one runs straight into the difficulty of defining the post of chief executive and of setting targets. Most of the peripheral organisations we are talking about have unique characteristics - even if they are not downright monopolies - and profit maximisation is not going to be their only purpose in life. Recent reflection on the problems



of Somerset House have driven home to me the difficulty of setting targets even for them: maximisation of revenue cannot be pursued to the exclusion of all else.

4. One must not, of course, overdo the nihilism. A person with experience can tell the difference between a well run organisation and a badly run organisation. A good manager will know in his bones whether his outfit is running properly. But unless the profit yardstick can be applied coldly, without other considerations having to be brought into account, it is extraordinarily difficult to define the appropriate criteria on paper. In particular, it would be very difficult to draw up a set of criteria which would distinguish between an Ibsian manager who was doing a very good job in extremely difficult circumstances and an Ibsian manager who was getting moderately good results in a situation where everything was going for him.

5. I have looked at the proposals from the Inland Revenue point of view. Taken in their crude form they would be tantamount to reintroducing the Roman idea of tax farming. Taken in a more sophisticated sense they probably point in the direction of self-assessment, along American lines, involving the High Street tax consultant and a regime of heavy penalties. I favour that line of development, but as far as I know it cannot be on the practical agenda until well into the nineties.

6. I was interested in the account of discussions about where the tax policy-making role would lie. If the Inland Revenue were turned into an Ibsian agency then policy-making would surely have to be brought into the Treasury: the job of the agency would be to collect the amounts of tax due from citizens in accordance with the law of the moment. Would this be a good thing? I doubt it very much indeed. I do not think we could conduct the sort of budget making work that I have been involved in these last eight years on the basis of papers solely prepared in the Treasury. We depend



heavily on the practical experience of the Revenue staff in running the system and, in particular their experience of compliance work and of pursuing their claims through the legal processes - Commissioners, Courts, Ombudsmen etc.

7. It may be that the Treasury group of departments would work better if they were all housed in one building, with fully interchangeable staffing at the higher levels. In that sense I could envisage the Treasury "taking over" the policy-making role. But I cannot see it being done by bringing the policy work in here to Treasury Chambers, while further distancing the tax collecting role itself by putting it on an agency basis.

8. I do not, therefore, see the Inland Revenue as a good candidate for agency status. I think its problems, particularly those of holding its specialist staff, will have to be solved within broadly the present organisational structure. By the same token I cannot see how Customs can be considered a candidate. It is true that excise and VAT law are not subject to quite such constant change as Inland Revenue law, so that the problem of locating the policy-makers would be less intractable. On the other hand, drug detection work must be quite inappropriate for agency status - just as it would be impossible to design a set of Ibbsonian criteria for the police.



P J CROPPER





D32 C C W

*a*  
*As Peter said,*  
*v helpful*

10 DOWNING STREET  
LONDON SW1A 2AA

*From the Principal Private Secretary*

CH/EXCHEQUER	
REC.	17 DEC 1987 ✓ 13/12
ACTION	SIR P. MIDDLETON
COPIES TO	MR ANSON
	MR MULLER
	MR KEMP MR TURNBULL
	MR RICHARDSON MR HARRIS

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister has now been able to consider your minute of 4 December and the Chancellor of the Exchequer's minute of 7 December.

She is reluctant to go back to the Ministerial group on the basis of a set of papers in which there is so clear and marked a divergence of views at the centre, without an attempt being made to reconcile them. She thinks that the Treasury is entirely justified in insisting upon the need for a proper control of expenditure, and within that of running costs and pay. She believes that Sir Robin Ibbes would have no difficulty in agreeing with that. The question is whether that need requires the Treasury to be involved in the processes of setting up and managing the agencies in the detail and to the degree set out in the note by the Treasury annexed to your minute of 4 December. She would be grateful if you could consider with Sir Peter Middleton whether, and if so how, the procedures proposed in that note could be adjusted so as to provide for the Treasury to be involved, where they would need to be involved, for the purposes of protecting the control of public expenditure, running costs and pay, at the same time as permitting the exercise of responsibility and the release of energies which it is the purpose of Sir Robin Ibbes' recommendations to achieve.



I am sending copies of this minute to the Private Secretary to the Chancellor of the Exchequer, to Sir Peter Middleton and to Sir Robin Ibbs.

N. L. W.

N. L. Wicks

14 December 1987



CONFIDENTIAL

FROM: A G TYRIE

DATE: 18 DECEMBER 1987

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir P Middleton  
 Mr Cropper  
 Mr Call

NEXT STEPS

You invited comments on this.

The Issues

It is astonishing that these proposals have got so far in such a muddled form. The advantages seem pretty elusive and there are no clear prospects of savings.

On the other hand there are considerable dangers. There is the risk that agency directors would act as second guessers in battles between us and the departments. Agency directors would no doubt want to restructure the pay scales of their staff and public pay policy would be at risk. This could also upset the uneasy balance we have with public sector unions. Were agencies to proliferate there is the added risk that they could elect themselves a chairman who could force collective consideration of chunks of public expenditure on us. Altogether the appointment of the right directors would be absolutely crucial to the Treasury.

Handling. It is a pity that the Treasury were initially thrown on the defensive on a subject where we should have had the initiative. We are now taking the flak for doing other people's thinking for them. But I see only a little harm in allowing one or two candidates for agencies to proceed on a piecemeal basis. We can then suck it and see.

Perhaps one of the biggest risks is on presentation. We must be careful not to let these proposals be oversold and presentation should be low key. I am sceptical that agencies



could deliver much and the Government could be left with egg on their faces if agencies ended up costing us money, with little or nothing to show for them in the form of efficiency gains.

Nor should we rush into it. I think Sir Robert Armstrong's line that we should press ahead with great urgency (see his 4 December note) seems entirely fallacious.

#### Some pet views on Civil Service reform

1. Quality of Management. Rather than look at institutional and structural reform I think there is more to be gained from reform of recruitment of the higher grades into the civil service. The trend throughout the economy is towards a much higher level of switching between careers and the exchange of expertise. The civil service career structure inhibits this. We would benefit from a much more vigorous attempt to recruit highfliers in mid career.

At the same time we must grasp the nettle and remove its corollary, job security for life for high grade officials. Getting rid of dead wood as the pyramid tightens would release some of the cash needed to recruit staff in mid career from better paid professions elsewhere. I think that a steady flow of high grade people from other walks of life into the civil service would do more to improve 'A Grade' management techniques and the approach to their work than any amount of juggling with the institutions, through agencies etc.

2. Overall cost control/savings etc. As you know, I am also an advocate of using civil service numbers to control running costs. They act on overall costs, they are a spur to managerial efficiency, and to the privatisation/contracting out of services. By contrast, the present system whereby running costs are linked to the planning total gives departments some psychological elbow-room. There is also something rather absurd about a running cost level which depends upon success in EEC negotiations or fluctuations in the price of Trident.



On agencies, as on so many things, I tend to agree with  
Sir Humphrey Appleby:

're-organising the civil service is like drawing a knife  
through a bowl of marbles'.

PP *RJ*  
A G TYRIE





H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000

Direct Dialling 01-270 .....

Sir Peter Middleton KCB  
Permanent Secretary

Ch / see also A Tynie's  
minute (behind this bundle). 23/12

Chancellor,

You will not wish to respond to this  
too quickly. The submission will then go from F&CB  
in the New Year. If we can get what is  
suggested here, plus agreement about the role of the  
project manager, we may have turned this into  
something sensible

However I hear that R Jobs + R Armstrong  
are seeing the PM at this very moment - so there  
must be some risk of a stab in the back

Notes:  
I am critical  
(without  
enthusiasm)  
for this  
no form suggested  
by Mr Harris in  
his memo of 23/12



## CONFIDENTIAL

FROM: L J HARRIS  
 DATE: 23 December 1987

- James G. Em*
1. MR KEMP
  2. SIR PETER MIDDLETON
  3. CHANCELLOR OF THE EXCHEQUER

cc Miss Mueller  
 Mr Anson  
 Mr Richardson

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

Mr Wick's minute of 14 December recorded the Prime Minister's request that Sir Peter Middleton and Sir Robert Armstrong should consider whether the Treasury paper circulated with your minute of 7 December could be adjusted in a way which would continue to protect the control of public expenditure, running costs and pay, while permitting the exercise of responsibility and the release of energies which it was the purpose of Sir Robin Ibbs's recommendations to achieve. In discussion with the Efficiency Unit, we reached provisional agreement on a number of drafting changes to the Treasury paper (indicated in manuscript on the attached copy of the paper) which, together with the suggested covering note, were designed to bring the two sides closer together. Sir Robert Armstrong and Sir Robin Ibbs are prepared to go along with the revised note as a basis for an agreed submission to the Prime Minister, to be accompanied by a revised version of the draft statement which takes account of the points made in your minute of 7 December.

The suggested revisions to the Treasury paper were considered at an internal meeting held by Sir Peter Middleton this morning. The meeting agreed that the proposed changes are largely presentational, and in no way weaken the retention of the essential Treasury controls on which you have insisted throughout. The new covering note unequivocally asserts the necessity of Treasury agreement to any changes affecting present expenditure or pay controls, and the detail of the paper backs this up in specific instances. The section of the paper dealing with the terms and conditions of employment of Chief Executives and agency staff (revised paragraph 10 onwards) reflect the views expressed in a separate series of discussions which have been held with the Principal Establishment Officers of the major departments under



Treasury chairmanship, and now bring out more clearly the balance which has to be achieved between security of tenure and high reward.

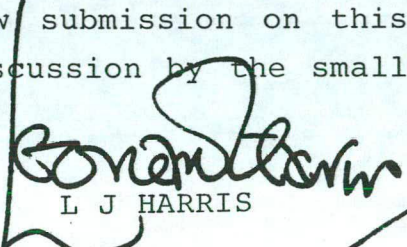
The third paragraph of the covering note, which has been included at the insistence of the Efficiency Unit, briefly summarises the role of the Project Manager. It is not satisfactory as it stands, because it appears to give the Manager executive responsibilities. Sir Peter Middleton will be asking Sir Robert Armstrong to amend it to read as follows:

"The Project Manager's role will be to assist with the process of setting up the new agencies; to help with the resolution of potential difficulties; and to ensure that the establishment of each agency is successfully completed within whatever timescale is agreed."

Sir Robert Armstrong's minute of 4 December contained, at Annex B, a full job description for the Project Manager. The Treasury were unhappy about several points in the description, but it will in any case have to be rewritten in the light of the provisional agreement reached on the Treasury paper. Sir Peter Middleton will be taking this up separately with Sir Robert Armstrong.

Sir Robert Armstrong's proposed revised page 3 of the draft Ministerial statement (copy attached) incorporates the changes of substance sought in your minute of 7 December. The last sentence of paragraph 3 is superfluous and inaccurate; Sir Peter Middleton will ask for its deletion, and will suggest further drafting changes to the paragraph to make it clear that the Government's agreement is limited to the four recommendations listed in the draft statement, and does not extend to the Efficiency Unit's report as a whole.

Subject to these further amendments, we think that the revised Treasury paper, together with the covering note and the modified statement fully protects the Treasury's position, and we should be grateful for your approval to Sir Robert Armstrong's being told that the Treasury are now content for a new submission on this basis to be put to the Prime Minister for discussion by the small group of Ministers early in January.

  
L J HARRIS



MANAGEMENT IN CONFIDENCE

**NEXT STEPS: ESTABLISHING AND ADMINISTERING AGENCIES**

1. The attached note sets out the steps to be taken by those responsible for the management of executive functions in departments in setting up agencies. It describes the arrangements for the establishment of the great majority of agencies which will remain within the Civil Service; modifications will have to be considered case by case for non-Civil Service agencies. The arrangements will be kept under review, and modified as necessary the light of experience.

2. These procedures are designed to provide for the Treasury to be involved, where necessary, for the purpose of protecting the control of public expenditure, running costs and pay, at the same time as permitting the exercise of responsibility and the release of energies which it is the purpose of the "Next Steps" recommendations to achieve. No change affecting expenditure controls or pay controls as they exist at present will be introduced into the operational management of the agencies without the specific agreement of the Treasury. Similarly, changes in recruitment procedures must have the agreement of the Office of the Minister for the Civil Service (OMCS). Both the Treasury and the OMCS will, of course, be ready to give any further advice needed by departments setting up agencies.

3. The Project Manager's role will be to assist with the process of setting up the new agencies. He will be responsible for ensuring that ~~potential difficulties are resolved, and~~ that the establishment of each agency is successfully completed within whatever timescale is agreed. ]

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## MANAGEMENT IN CONFIDENCE

**"NEXT STEPS": ESTABLISHING AND ADMINISTERING AGENCIES**

1. Identification. Provisional identification of potential agencies will be the responsibility of departments, or Treasury Expenditure Divisions. The criteria will develop over time in the light of experience with the pilot agencies, but common features will be that the prospective agencies are, or can be made:

- a. discrete administrative units, sufficient in size to justify major structural change;
- b. wholly concerned with the delivery of services to the public or the Government;
- c. independently accountable within their parent departments, ~~with whom they will have what is essentially a customer-contractor relationship.~~

Areas of work where the day-to-day involvement of the department or its Minister is inevitable, or where policy and its execution are inextricably linked, are unlikely to be suitable candidates for agency treatment, *at least initially*

2. Form of Organisation. Before further work is done on establishing an agency, the parent department will consider the following:



- a. privatisation. Privatisation provides all the managerial freedoms and disciplines sought by the agency approach, and should normally be regarded as the preferred route unless there are compelling reasons to the contrary. If privatisation is not immediately practicable, but might become so later on, the department will consider whether agency treatment is an appropriate transitional measure;
- b. contractorisation. If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;
- c. public corporations. Large executive operations which already have an arm's length relationship with their parent departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation.
- d. abolition. Closer examination of particular services as part of the preparation for setting up an agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the department.



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

- a. the prospective agency's aims and objectives / and The functions to be covered ;
- b. the adequacy of the agency's internal management and financial systems;  
The type of organisation best suited to ensure the desired results ;
- c. the benefits sought from the agency approach;
- d. the resources currently employed in the areas to be covered by the agency;
- e. the outputs/unit costs now achieved in those areas;
- f. any new or modified functions to be carried out by the agency;
- g. proposed changes in inputs/outputs/unit costs;
- h. existing and planned performance measures;
- i. the pay and expenditure regime;
- j. the state of industrial relations within the agency.
- k. any legislation likely to be required.

REORDERED  
AS  
ON  
CLEAN  
TYPESCRIPT.



1. the arrangements for answerability to Parliament and individual Members.

4. Provisional approval. Assuming that the analysis is satisfactory and does not suggest that immediate privatisation or some other structure would be a better solution, the department will submit outline proposals for approval in principle by its own Minister.

5. First stage review  
~~Approach to Treasury~~. The department will discuss its outline proposals with the Project Manager, ~~who will check that the options set out in paragraph 2 have been properly considered.~~

~~6. Treasury consideration~~. The Treasury will then consider the outline scheme, paying particular attention to the proposed pay, running cost and public expenditure control arrangements, and their possible repercussive effects within the public service and the economy generally. Other departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

7.6. Preparation of framework. The department, ~~in consultation with the Treasury~~, will draw up the key elements of the policy and resources framework for the agency. The framework will set out:



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



i. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently.

j. the terms of reference for the Chief Executive;

ii. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;

iii. reporting arrangements for the Chief Executive;

k. the industrial relations structure.

8.7. Approval of framework. The framework as ~~discussed with~~ <sup>agreed with the</sup> ~~the Treasury~~ <sup>and OMCS</sup> will be submitted to the ~~appropriate~~ departmental <sup>Minister</sup> and ~~Treasury Ministers~~ for approval, ~~before submission to the~~ ~~Prime Minister.~~ <sup>It will be for the Minister to clear his framework with the Chancellor of the Exchequer, the Minister of State Privy Council Office, and the Prime Minister.</sup>

8.8. Staff interests. The department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation; the conduct of industrial relations within the agency, including the establishment of Whitley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.



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

**B. IMPLEMENTATION**

10.10. Recruitment of Chief Executive and Key Staff. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the department, the Treasury and the OMCS. The Prime Minister will need to be consulted at this stage about the more important appointments.

Appointment will be by either:

- a. open competition on fixed contract; existing civil servants would be free to apply, but, if appointed, ~~would~~ be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

on terms providing substantially higher rewards than normal scales might

- b. internal selection:

- i. from within the department; or



ii. by Service-wide advertisement.

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

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

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

The Chief Executive's contract must set out precisely what is expected of him and the circumstances in which, penalties, including termination of contract, ~~will be~~ enforced. Experience has shown that drawing up satisfactory contracts of this kind is extremely difficult, and the assistance of the department's legal advisers should be sought from the outset. <sup>NP.//</sup> Sanctions against an under-performing Chief Executives <sup>or key staff</sup> on fixed term contracts would include:

performance related awards will be given and

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



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

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

~~Chief Executives who were career civil servants would be subject to the full range of sanctions under the Civil Service Pay and Conditions of Service Code, ranging from dismissal or premature retirement, through regrading and loss of increments, to simple reprimand and movement to another post.~~

Similar sanctions would apply mutatis mutandis to key staff who failed to deliver the agreed outputs. Positive performance ~~incentives will be considered in setting the pay regime.~~

~~13.12.~~ Assessment of performance. The judgement on whether or not a Chief Executive has met the agreed targets for costs and performance should rest in the first instance with the agency's parent department. The assessment will be made by the ~~departmental Minister, advised in the normal way by his~~ Permanent Secretary after consultation with the ~~Treasury.~~ <sup>departmental Minister.</sup> It will be necessary to provide for a formal appeal procedure where an



adverse assessment leads to termination of contract; possible options, which would be written into the contract and would depend on the status of the Chief Executive concerned, would include appeals to:

- a. the Head of the Home Civil Service; ~~under the normal grievance procedures;~~
- b. an independent advisory panel;
- c. the Civil Service Appeal Board.

None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other legal process, but should reduce the frequency with which that was likely to occur.

*The method of agreeing*  
4.13. Recruitment of staff. ~~The Chief Executive will discuss~~ *will be set out in the*  
~~and agree terms and conditions for the agency's staff with the~~  
*framework. Agency staff will be recruited appointed*  
~~Treasury and OMS. Recruitment will be by transfer from the~~  
*from these already doing the work, or recruited transferred from elsewhere in the Civil Service, or recruited*  
~~parent or other departments, or by a special exercise carried out~~  
by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the ~~two~~ *three*. There will be a presumption that pay, grading and superannuation will normally follow Civil Service models, unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. In considering requests for special treatment, the Treasury will need to be satisfied that it is essential for the achievement of

*Positive performance incentives will be considered in devising such arrangements*



the agency's target, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other departments and agencies will be consulted if there is a risk of repercussions elsewhere.

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

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

### C. RUNNING

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

18.17. Approval. The plan will be subject to approval by the departmental Minister, ~~and~~ the Treasury.

<sup>after consultation with</sup>



19. ~~18.~~ PES. The resources sought in the annual plan will be considered during the department's PES discussions. They could be negotiated either as part of the department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. ~~Any changes from the amounts included in the annual plan will have to be negotiated between the agency and the department, perhaps with consequential changes to the output targets, and with the Treasury where there is no block budget arrangement.~~ The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement, and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.

20. 19 Running costs. Where activities are classified as running costs now, they will continue to be so classified. Their treatment will be based on the same principles as for resources overall: similarly, the relationship of the agency's running costs to those of the parent department must be agreed with the Treasury in advance.

Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria, already agreed by Ministers ~~collectively, that the activities should be~~ <sup>from time to time.</sup> self-financing, the management and performance systems robust enough to substitute ~~for gross running costs control and any implications for Civil Service size acceptable.~~



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

22.21 Reporting. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report ~~will~~ <sup>may</sup> be submitted to the Prime Minister after discussion with the Treasury and the Minister and ~~may~~ <sup>will normally</sup> be published. ; ~~whether or not the updated plan should also be published will be a matter for consideration in each case by the Treasury and the department.~~

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



Annex

MANAGEMENT IN CONFIDENCE

~~ANNEX A~~

DRAFT WRITTEN QUESTION TO THE PRIME MINISTER

Question:

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

Draft Reply:

1. I asked the Efficiency Unit to look at progress with the reforms in the Civil Service. Earlier this year they reported - "Improving Management in Government : The Next Steps" - and recommended an approach to giving civil servants an increased sense of personal responsibility for achieving improvements. Copies of this report are available in the Vote Office and are being placed in the Library.
2. The report says that, while the management of Government business is much improved since 1979, substantial further improvement is possible. The developments of the last eight years have had a positive effect on the way civil servants involved in the delivery of services go about their business. The development of the various FMI systems, of new budgeting systems and of reforms in such areas as personnel management are all examples of positive changes during that period.



Many civil service managers were found to be enthusiastic about changes made so far but conscious of continuing constraints on effective management, and keen to see further changes which give still more scope and flexibility for the exercise of personal responsibility by managers.

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

- To the greatest possible extent the executive functions of Government, that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies, should be carried out by executive units clearly designated within departments, referred to in the Report as 'agencies', with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a "project manager" at a senior level to ensure that the programme of change took place.



*over the*

The Government has accepted these recommendations, and work is now in hand to implement them as a further development of the programme of management reform, in a way which will make it possible progressively to apply the lessons of experience as further agencies are established.

4. As a first step, the Government is considering which executive functions might be suitable initially to be developed as agencies which could be established in various departments during the coming months. Each agency will work within a firm framework of policy and resources, which will be set by the appropriate departmental Minister (in consultation with Treasury). Each will be accountable to the Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the civil service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives enshrined in this approach.

5. I believe that the setting up of agencies has advantages to offer to staff at all levels, in terms of a clearer definition of management objectives and by providing opportunities of developing new and more flexible approaches to civil service work. The civil service unions have been told of the Government's response to the Efficiency Unit's proposals; and there will be continuing consultation, both about the general approach and, within individual departments, about the setting up of particular agencies. The unions will be consulted if any change in terms and conditions of service is contemplated.



21 December 1987

DRAFT STATEMENT: PROPOSED REVISED PAGE 3

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

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

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



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





**CABINET OFFICE**  
70 Whitehall London SW1A 2AS  
01-270 0101

PRIME SEC'S OFFICE	
RECEIVED	
22 DEC 1987	
Action	Mr Harris
	Mr Anson
Copies	Mr Kemp
	Mr C O Miller
	Mr Coope
To	Mr Chivers
	Mr Pratt

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

Ref. A087/3654

Sir Robert Armstrong GCB CVO 21 December 1987

*m c Welsh*  
*Mr Mivell*  
*Mr Richardson*  
*Mr Trenchard*

*My dear Peter,*

Improving Management in Government: The Next Steps

Robin Butler and I have now had an opportunity to consider the revised note by the Treasury which has emerged from discussion between Peter Kemp and Kate Jenkins before the weekend. We are content to go forward to Ministers with the paper as now drafted; I hope that you are too.

There then remains the question of the terms of the proposed statement by the Prime Minister. We still consider that the revised draft attached to the Chancellor's minute of 7 December is too tentative: it corresponds more to the original option 2 than to option 1, which was the option which Ministers provisionally approved. In particular, if we cannot say that the Government accepts the recommendations set out in the earlier part of paragraph 3 (which did not specify agencies or a timetable), we appear to put on one side the recommendations about training and personnel development and the recommendation for the establishment of a project manager. Both of these are in our view essential parts of the scheme; and, as you know, Robin Ibbs attaches the greatest importance to the establishment of a project manager to manage the programme of implementation and maintain momentum.

We should therefore like to propose to the Prime Minister a slightly revised version of the revised page 3 which was attached to the Chancellor's minute. I attach a copy of the revise herewith.

If (in the spirit of Christmas) you can accept these proposals, I should like to put them forward to the Prime Minister before I go, as a basis agreed between the Treasury and the OMCS for her to have a resumed discussion with the small Ministerial Group early in the New Year.

*Yours ever*  
*Robert*

Sir Peter Middleton KCB



21 December 1987

DRAFT STATEMENT: PROPOSED REVISED PAGE 3

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

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

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





cc Miss Mueller  
Mr Anson  
Mr Kemp  
Mr Harris  
Mr Richardson

**H M Treasury**  
**Parliament Street London SW1P 3AG**

Switchboard 01-270 3000  
Direct Dialling 01-270 .....

Sir Peter Middleton KCB  
Permanent Secretary

Sir Robert Armstrong GCB CVO  
Cabinet Office  
70 Whitehall  
LONDON  
SW1

23 December 1987

*Dear Robert*

**NEXT STEPS**

This letter confirms the points which I made in our talk earlier today about the revised submission to Ministers on "Next Steps". As you suggested, I have approached the issue with a full measure of Christmas spirit but, for reasons which you will understand, that does not extend to giving Treasury blessing without consulting the Chancellor. I have, however, recommended to him the solution set out below, and I hope to be able to let Robin Butler have his reaction very soon after Christmas.

I am content with the suggested changes to the Treasury paper which have been worked out between the Treasury and the Efficiency Unit. I am also happy with the proposed covering note, apart from the statement of the role of the Project Manager in paragraph 3. The second sentence of that paragraph implies a greater executive function for the Project Manager than I, for one, would find acceptable, and I hope you will be able to agree that the paragraph should be redrafted as follows:

"The Project Manager's role will be to assist with the process of setting up the new agencies; to help with the resolution of potential difficulties; and to ensure that the establishment of each agency is successfully completed within whatever timescale is agreed."

Annex B to your minute of 4 December set out a detailed job description for the Project Manager. There are several points in this which I do not find acceptable, but the Annex will in any case have to be extensively redrafted to take account of what is now said in the agreed paper on procedure. I suggest that Treasury officials get together with the Efficiency Unit on this immediately after Christmas. I ought, however, to put up a marker that neither I nor the Chancellor are likely to be able to go along with the appointment of a Project Manager at Grade 1 or 1A level.



I am also willing to accept the proposed revised page 3 of the draft statement, subject to two further changes. First, there is still some ambiguity in paragraph 3 about whether the Government are accepting the whole report, or just the four recommendations listed. To put the matter beyond doubt, I think that paragraph 3 must open "The report includes the following recommendations ...", and then, after listing the recommendations, continue "the Government accepts these four recommendations...". Second, I do not find the final sentence of paragraph 3 very illuminating - indeed, it tends to obscure the main objective of improving the delivery of services to the public. I think it should be deleted.

I am glad that we are now well on the way to resolving the difference of view between the Treasury and the Cabinet Office on this issue, and I hope that there will be no unnecessary delay in putting together a revised and agreed submission. The terms of the submission will largely determine whether Ministers are able to reach final decisions at the next meeting of the small Ministerial group and I should be grateful if I could be given a chance to comment on the draft before it goes forward to the Prime Minister.

*Johns etc*

*Peter*

P E MIDDLETON

*This is what I would have said had I managed  
to get you before I ~~leave~~ left the office! Have  
a very nice Christmas + thanks for everything*

*P.*



HM SEC'S OFFICE	
RECEIVED	
- 4 JAN 1988	
TO	Chancellor
Copies	Mr Anson
To	Dame Mueller
	Mr Kemp
	Mr Harris
	Mr Turnbull

MANAGEMENT IN CONFIDENCE



*without Attachments*

**CABINET OFFICE**

Whitehall London SW1A 2AS

01-270 0101

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

Sir Robert Armstrong GCB CVO

Ref. A087/3701

31 December 1987

*My dear Peter,*

Next Steps

Thank you for your letter of 23 December.

--- I have been anxious to get this up to the Prime Minister before I finally retire, and I am therefore putting a submission to her today; I attach a copy of the submission and the accompanying papers herewith.

I hope that you will think that I have sufficiently protected the Chancellor of the Exchequer's position in the submission. As you will see, I have gone along with almost all the changes proposed, though I have queried whether we need to refer explicitly to 'four' recommendations. I have also left the point about the grading of the Project Manager as one open for further discussion, though I have suggested a possible course whereby the appointment would be in the first instance at Grade 1A and the grading could be reviewed when the next appointment came to be made. I know that this is something about which Robin Butler will be wanting to have a word.

As to paragraph 3 of the Treasury's note, I think that your re-draft goes further than Robin Butler or I would wish in putting the Project Manager on the sidelines. I have suggested a form of words which is I hope somewhere between the paragraph which you said that you would not find acceptable and your own latest version.

*My last missive to you on this letterhead!  
 With best wishes for 1988, and with  
 happy memories of, and much gratitude for, all we have  
 done together, Yours ever Robert*

Sir Peter Middleton KCB

MANAGEMENT IN CONFIDENCE



for carrying out and completing the programme of change recommended which were included in the draft report and were of especial concern to the Treasury.

b. The Treasury accept that the proposed Project Manager should be in the Office of the Minister for the Civil Service, with a responsibility through the Head of the Home Civil Service to the Prime Minister, but have reserved their position on the grading, and have indicated that they would be unlikely to be able to go along with an appointment at Grade 1 or 1A level. Sir Robin Ibbs holds strongly to his view that the Project Manager will not have sufficient clout to do his job properly unless he is appointed at Grade 1 or 1A. The decision may be affected by Mr Butler's recommendation as to the person who should be appointed to be the Project Manager. Subject to that, I should be inclined to propose that the Project Manager should be appointed in the first instance at Grade 1A, but that the grading should be reviewed when the time comes to make the next appointment to the post.

Y | In these circumstances, my own suggestion would be that the word 'four' in paragraph 3, square bracketed in the revised draft statement, should be deleted, but that the words 'Grade 1A' in paragraph 6 should be retained.

4. The note attached as Annex B to my minute of 4 December gave a job specification for the Project Manager. That will need to be re-drafted in due course, but I think that is second-order business which can await Ministerial decisions on the main recommendations. In the meantime, there is no need to circulate the job specification to Ministers, and I have withdrawn it.

--- 5. I accordingly attach a Note by the Head of the Home Civil Service in the same form (subject to necessary editorial amendments) as that in which it was attached to my minute of



John Simon Smyth  
prep BE 8/1

CH/EXCHEQUER	
REC.	04 JAN 1988 ✓/1
ACTION	SIR P. MIDDLETON ✓
COPIES TO	MR ANSON
	DAME A MUELLER
	MR KEMP
	MR TURNBULL
	MR RICHARDSON
	MR HARRIS

*RM  
advise, per.*

Ref. A087/3699

MR WICKS

*Ch / See also Sir R Armstrong's letter of 31/12, behind.  
(i) Are you content to give your endorsement to the 'agreed' revisions ('X' below). These seem to be in line with those attached to Sir PEN's minute to you of 23/12 with which you were reluctantly content. (ii) What about the disputed points?*

Improving Management in Government: The Next Steps *Sir RTA's suggestions 'y', over - seem*

Following your minute of 14 December, I have now considered with Sir Peter Middleton how the procedures proposed in the note by the Treasury annexed to my minute of 4 December could be adjusted on the lines indicated by the Prime Minister.

2. I am glad to be able to report that I have reached agreement with Sir Peter Middleton (subject to endorsement by the Chancellor of the Exchequer) on revisions to the note with which both he and I and Sir Robin Ibbs are content.

3. I have also agreed with Sir Peter Middleton (again subject to the Chancellor's endorsement) revisions to the proposed draft statement annexed to my minute of 4 December with which all concerned are content, save on two points:

a. In paragraph 3 of the draft statement, the Treasury would like to insert the word 'four' where it is shown in square brackets in the revised draft attached. I do not think that this insertion is necessary, since what the Government is accepting is clearly defined by the word 'these'. The insertion of the word 'four' would set people searching through the Ibbs report looking for recommendations which are not being accepted. The final published version of the report will in fact contain none of the recommendations as to the number of agencies eventually to be set up or the number of civil servants eventually to be employed in agencies, or the time-table



4 December, with a revised draft announcement (Annex A) and a revised note on procedures (now Annex B). If the Prime Minister is content, it can be circulated to the Ministerial group for discussion at a meeting as early as possible in the New Year.

6. I am sending copies of this minute and the attachments to the Private Secretaries to the Chancellor of the Exchequer and the Minister of State, Privy Council Office, to Sir Peter Middleton and to Sir Robin Ibbs.

RA

ROBERT ARMSTRONG

31 December 1987



MANAGEMENT IN CONFIDENCE

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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

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

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

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



## OUTSTANDING ISSUES

### PRIVATISATION AND QUANGOS

3. In determining how best to deliver executive functions, the scope for privatisation should always be considered. Where Ministers decide that such functions are most appropriately carried out within Government, they should consider whether they should be handled by an executive agency under Ministerial control, on the lines proposed in Sir Robin Ibbs's report. Each case would need to be considered on its merits.

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



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

#### APPOINTMENTS AND TERMS OF SERVICE FOR AGENCY CHIEF EXECUTIVES

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

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



8. A Civil Service nominee selected on this basis would be appointed for a fixed term, with the possibility of an extension not excluded. This would emphasise the contractual nature of an appointment to a Chief Executive post and that success or failure would have repercussions. He would be paid at the rate appropriate for the relevant grade. In addition there should be a suitable performance related element linked to defined performance objectives. I envisage that the main element of this would be performance-related discretionary increments of the kind we have introduced for Grades 2 and 3 and are currently developing for Grades 4 to 7. The increments adopted for use for Chief Executives of agencies would not need to be identical either in number or in amount with those adopted at comparable levels in the Civil Service as a whole; but, if the disparities were too great, that would cause complications when Chief Executives left agencies and were reabsorbed into other Departmental duties. In suitable cases there might also be a terminal bonus paid on the achievement of defined and substantial results. The Treasury would need to be consulted about these arrangements, and about similar arrangements for key agency staff other than the Chief Executive.

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



essential requirement for the job. This underlines the importance of defining clear, quantified performance indicators and targets for the activity, and the conditions necessary to enable the Chief Executive to achieve these targets.

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

#### LEGISLATIVE IMPLICATIONS OF THE PROPOSALS

11. The creation of agencies within Departments to handle distinct operational functions will not of itself generally require legislation. Subsequent privatisation or conversion of agencies into non-Departmental public bodies (or vice-versa) would do so in most cases. Some of the suggested changes in the parliamentary financial control regime would need legislation if it were decided to implement



them. Whether legislation is needed in each case (or across the board) would be for the responsible Minister to consider in consultation with the Treasury, the OMCS and the project manager and other affected Departments.

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

#### ACCOUNTABILITY

13. As the paper for the Ministerial meeting on 22 October recognised, Ministers' formal accountability to Parliament would be unaffected by the implementation of the Next Steps proposals, though their detachment from day to day operations would entail changes in the way in which it was discharged. This would mean, for example, that Parliamentary Questions about the operation of an agency would always be answered by the responsible Minister, albeit in the light of advice from the agency's chief executive. Ministers might choose to encourage MPs to address operational enquiries initially to the agency managers but MPs would retain the right to approach Ministers directly, if they were dissatisfied with the reply.

14. The announcement to the House should make clear that, while the intention is to apply the agency principle extensively throughout Whitehall, each case will be considered on its merits and suitable



accountability arrangements devised to meet the circumstances of individual agencies. The public announcements of the establishment of individual agencies would set out any intended changes in the handling of MPs' enquiries.

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

#### PROCEDURE FOR CARRYING THE WORK FORWARD

16. If Ministers who attended your meeting on 22 October are content that we should now proceed to announce and implement the "Next Steps" proposals on the basis of my note of 15 October and of this note, I suggest that this note and the previous papers should now be copied to other members of the Cabinet. I will minute you separately about the appointment of a "Project Manager".

17. The Treasury's responsibility for securing efficiency savings within public expenditure constraints will be unchanged. Careful handling will be required to ensure that the introduction of different agency solutions does not lead to an impression of general pay and spending control relaxation. It will be for the "Project Manager" in conjunction with Departments and the Treasury to take forward the agency proposals and to arrange for the resolution of issues as they arise.



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

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

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

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

#### PRESENTATION

20. Subject to the views of members of the Cabinet, the next step would be to make a public announcement of the Government's response to Sir Robin Ibbs' report and of the appointment of the Project Manager. I attach at Annex A a possible draft of an announcement to Parliament.



This has been drafted as for a written answer to an arranged Parliamentary Question, in the belief that that is consistent with the low-profile evolutionary presentation to Parliament that Ministers have been inclined to favour. The Chancellor has, however, suggested that an announcement of this importance should be made by way of an oral statement. It will be for individual Departments to tell their staff and the unions which units are proposed initially for agency treatment. It will be essential that the identity of the initial units is not revealed at the time of the announcement, or until a reasonable period - of say 48 hours - has elapsed for the Departments concerned to forewarn their staff and unions.

21. As now drafted, the answer would not commit Ministers to implementing the proposals in the report to a defined timetable or within a specified period, as recommended in the report.

22. Shortly before the announcement is due to be made, guidance on the Government's proposals would be issued to Departmental Permanent Secretaries, for them to circulate to civil servants at the time of the announcement. A full question and answer brief would be provided with the central guidance.

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



24. Copies of a final draft of the report are believed to be in the hands of some of the unions and of some outside commentators. It is proposed that the report should be published in full when an announcement is made. A complementary Press briefing package would also be prepared. Copies would be placed in the Vote Office, in the Libraries of the Houses of Parliament and sent to the Treasury and Civil Service Committee.

25. I am sending copies of this minute in the first instance to all those Ministers who attended your meeting on 22 October.

ROBERT ARMSTRONG



DRAFT WRITTEN QUESTION TO THE PRIME MINISTERQuestion

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

Draft Reply

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

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

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



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

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

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



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

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

6. I have approved the appointment of Mr J Bloggs to a Grade 1A post in the Office of the Minister for the Civil Service, with responsibility through the Head of the Home Civil Service to me for managing the process of change needed to implement the recommendations. He will bring forward proposals in consultation with Departments for a continuing programme of development of agencies over the coming years.



Next Steps: Establishing and Administering AgenciesINTRODUCTION

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

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

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



Identification

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

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

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

Form of Organisation

5. Before further work is done on establishing an agency, the parent Department will consider the following:

a. Privatisation

Privatisation provides all the managerial freedoms and disciplines sought by the agency approach, and should normally be regarded as the preferred route unless there are compelling reasons to the contrary. If privatisation is not immediately practicable, but might become so later on, the Department will consider whether agency treatment is an appropriate transitional measure;



b. Contractorisation

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

c. Public Corporations

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

d. Abolition

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

Analysis

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

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



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

#### Provisional Approval

7. Assuming that the analysis is satisfactory and does not suggest that immediate privatisation or some other structure would be a better solution, the Department will submit outline proposals for approval in principle by its own Minister.

#### First Stage Review

8. The Department will discuss its outline proposals with the Project Manager. The Treasury will then consider the outline scheme, paying particular attention to the proposed pay, running cost and public expenditure control arrangements, and their possible repercussive effects within the public service and the



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

#### Preparation of Framework

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

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



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

#### Approval of Framework

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

#### Staff Interests

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



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

### Legislation

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

### IMPLEMENTATION

#### Recruitment of Chief Executive and Key Staff

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

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



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

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

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

#### Performance of Chief Executive

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

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

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



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

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

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

#### Assessment of Performance

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

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

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



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

#### Recruitment of Staff

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

#### Modification of Framework

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



Establishment of Agency

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

RUNNING

Annual Planning

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

Approval

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

PES

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



Running Costs

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

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

In-year Adjustments

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

Reporting

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

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

31 December 1987



CONFIDENTIAL



FROM: J M G TAYLOR  
DATE: 31 December 1987

M

SIR P MIDDLETON

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

The Chancellor has seen your personal note of 23 December, covering Mr Harris's submission of the same date.

2. He is content (without enthusiasm) for this to go forward in the form suggested by Mr Harris.

A handwritten signature in dark ink, appearing to be "JMG".

J M G TAYLOR