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PART C


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MANAGEMENT-IN-CONFIDENCE

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PO -CH /NL/0221



PART C

CHANCELLOR'S PAPERS ON  
NEXT STEPS AGENCIES

PO -CH /NL/0221  
PART C

Begins: 11/1/88  
Ends: 18/5/88 (CONTINUED)

DD: 25 years  
*[Signature]*  
13/9/95



10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER	
REC.	11 JAN 1988
ACTION	SIR P. MIDDLETON
COPIES TO	PMC EST
	MR ANSON
	DAME A. MUELLER
	MR LEMP
	MR TURNBULL
	MR RICHARDSON
	MR HARRIS

SIR ROBIN BUTLER

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS pyp

The Prime Minister has considered over the weekend your predecessor's submission of 31 December on future action on the Efficiency Unit's Report on "Improving Management in Government: The Next Steps".

The Prime Minister agrees that the paper attached to your minute should now be circulated to Ministers in the form drafted, except that she would like the reference to the Project Manager not to refer to the post being graded as a Grade 1A. She believes that the Project Manager will have less to do than originally envisaged and she doubts whether the post would warrant a Grade 1A level.

We will now arrange an early meeting of the Ministerial Group.

I am sending a copy of this minute 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.

N.L.W.

N. L. WICKS

11 January 1988

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*Wyp*

CH/EXCHEQUER	
REC.	14 JAN 1988 ✓
ACTION	SIR P. MIDDLETON
COPIES TO	CST PMG FST EST
	MR ANSON
	DAME A MUELLER
	MR KEMP
	MR TURNBULL
	MR RICHARD
MR HARRIS	
MR Cropper	
MR TYRRE	
MR call	

Ref. A088/121

MR WICKS

Improving Management in Government: The Next Steps

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

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

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

*T A Woolley*

T A WOOLLEY  
PS/Sir Robin Butler

14 January 1988

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IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

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

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

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

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

OUTSTANDING ISSUES

Privatisation and Quangos

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

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

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

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

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

Appointments and Terms of Service for Agency Chief Executives

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

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

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

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

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

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



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

#### Legislative Implications of the Proposals

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

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

#### Accountability

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

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

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

15. The practical effects of the changes would be felt by Ministers 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 introductions of different agency solutions does not lead to an

*(on other 2  
pages)*

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

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

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

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

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

#### PRESENTATION

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

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--- 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 should 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 some outside commentators. It is proposed that the report should be published in full when

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

ROBIN BUTLER

13 January 1988

DRAFT WRITTEN QUESTION TO THE PRIME MINISTERQuestion

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

Draft Reply

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

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

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

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

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

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

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

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

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



Next Steps: Establishing and Administering AgenciesINTRODUCTION

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

*Summary*

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: L J HARRIS  
DATE: 22 January 1988

- 
1. SIR PETER MIDDLETON
  2. CHANCELLOR

cc (w/o attachments):  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Dame Anne Mueller  
Mr Anson  
Mr Kemp

"NEXT STEPS": MEETING OF SMALL MINISTERIAL GROUP 28 JANUARY 1988

### Background

At the meeting chaired by the Prime Minister on 22 October (minute at Flag A), you expressed considerable reservations about Sir Robin Ibbs' proposal that the Government should announce its wholehearted commitment to the "Next Steps" approach, appoint a project manager, and set up as many agencies as possible with the minimum of delay. You argued that this ran counter to the earlier decision to handle the Efficiency Unit report "without drama", and would lead to increased pressures on public expenditure generally, and on pay in particular. You also commented that the proposals as they stood would not instil the necessary sense of personal vulnerability in agency managers. For all these reasons, you favoured a more gradual approach, coupled with a rigorous examination of the scope for privatising those functions identified as suitable for agency treatment.

2. The majority of Ministers present favoured the Ibbs approach, but the Prime Minister, in summing up in this sense, invited Sir Robert Armstrong to produce a further note developing the proposals to meet your concerns, exploring the legislative implications, identifying the functions where the agency approach stood most chance of success, and picking up other points made

in discussion (including the use of the agency route to bring certain NDPBs back into proper Ministerial control).

3. Sir Robert Armstrong produced a further draft paper on 12 November (Flag B). Neither you (minute of 13 November to the Prime Minister - Flag C) nor the Prime Minister (minute of 16 November from No.10 to Sir Robert's Private Secretary - Flag D) felt that this adequately discharged the remit. With your approval, Sir Peter Middleton then fed in some proposed drafting amendments, together with a paper on procedure prepared by the Treasury. He made it clear that you expected the paper to be submitted to the Prime Minister without alteration, and that, in addition, you looked to Sir Robert to provide a full job description for the Project Manager.

4. Sir Robert's next submission (4 December - Flag E) took issue with the Treasury paper on the grounds that it would impose on the agencies a close and detailed control which would vitiate the main thrust of the Ibbs proposals. That provoked your further minute of 7 December to the Prime Minister (Flag F), which led in turn to the minute of 14 December from her Private Secretary to Sir Robert (Flag G) asking him to consider with Sir Peter Middleton how the conflict of interest could be resolved. After further consultation, the slightly revised version of the Treasury paper which now appears as Annex B to Sir Robin Butler's note of 13 January was agreed between officials, and subsequently approved by you as the furthest you would be prepared to go to bridge the gap between the Treasury and the Efficiency Unit.

5. Meanwhile, as part of the contingency planning, a small interdepartmental group under Treasury chairmanship has been preparing a draft brief for departmental managers on the implications of the "Next Steps" proposals. The latest version of this is attached at Flag H; it is, of course, subject to further amendments in the light of decisions by the small Ministerial group and the Cabinet.

#### **Sir Robin Butler's Note**

6. The main paper for discussion is Sir Robin Butler's note

of 13 January, to which are attached a draft Parliamentary Answer (Annex A) and the Treasury paper (Annex B). It covers the following main points:

- i) **Privatisation.** The case for privatisation as opposed to agency treatment would be considered in each instance on its merits, as would the possibility of converting some non-departmental bodies into agencies in order to bring them under closer Ministerial control. Any agency would have to be given a robust policy and resource framework to ensure that Ministerial objectives, particularly in relation to control of expenditure, were met;
- ii) **Chief Executives.** Most Chief Executives would be career civil servants, paid at the normal rate for the grade, but with the possibility of performance-related increments and, in some cases, terminal bonuses. Occasionally, it might be appropriate to advertise a Chief Executive post more widely; civil servants would be free to apply. Performance would be assessed against agreed targets, any shortfall by a civil servant incurring consequences ranging from loss of performance increments to dismissal or premature retirement;
- iii) **Legislation.** Legislation would be required to privatise an agency, or to convert an agency to an NDPB or vice versa. Some of the proposed changes in Parliamentary financial control would also need legislation;
- iv) **Accountability.** MPs would retain the right of access to Ministers, but would be encouraged to approach agencies directly in the first instance. Ministers would remain responsible to Parliament for the agencies' activities. The practical effect of the changes would emerge gradually;

- v) **Procedure.** The Project Manager will be invited to propose a programme and timetable for implementation, to monitor its execution, and to assist in resolving problems. The Treasury's responsibilities for securing efficiency savings within expenditure constraints would be unchanged, and there would be no general relaxation of pay and spending controls;
- vi) **Presentation**
- a) announcement by means of arranged Parliamentary Question and Answer;
  - b) revised Efficiency Unit report to be published. (The Unit propose to remove the existing Annex 1, dealing with the pace and scale of implementation, and the Appendices on earlier scrutinies and on central constraints.);
  - c) guidance to be issued to departments shortly before the announcement;
  - d) preliminary meeting with Civil Service unions to be held just before announcement.
- vii) **Project Manager.** The issue of the grading of the Project Manager and his job specification is being dealt with separately.

#### Treasury Position

7. Sir Robin Butler's note, read in conjunction with the Treasury paper, meets your main concerns, but you may wish to make the following points in discussion;

- i) **Treasury paper.** Your agreement to the package now



put forward is conditional upon acceptance of the Treasury paper as an integral part of it. The paper has already been extensively considered at official level between the Efficiency Unit, the Cabinet Office, and the Treasury, and you could not countenance any further substantive changes at this stage, though progressive relaxation of the existing controls if and when equally robust alternatives are developed in the light of experience is not ruled out. This in line with the thinking in the Efficiency Unit's report (cf paragraph 32: "...the centre has to have confidence in the new pattern before it can responsibly start relinquishing some of the present constraints on departments.") The paper is intended to constitute on internal understanding between the Treasury, the Project Manager and departments; it is not for publication;

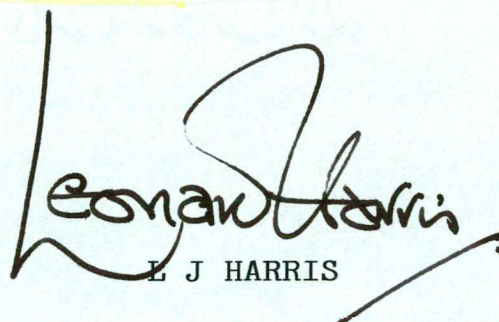
- ii) Privatisation. Privatisation is the preferred option wherever possible. The scope for privatising agencies should be kept under constant review; as they become more freestanding, the case for retaining them in the public sector will generally diminish;
- iii) Terms of Chief Executives and Key Staff. Maintenance of an acceptable risk/reward balance requires that any civil servant who successfully applies for an advertised Chief Executive or other key agency post offering substantially higher remuneration than the equivalent Civil Service grade should have to resign on appointment. Reappointment to the Service at the end of a successful contract would be likely and desirable, but not guaranteed;
- iv) Form of announcement. There is a good deal of public and Parliamentary interest in the Efficiency Unit's proposals, which seem to have been comprehensively leaked. MPs will expect an early opportunity to question Ministers, and an oral statement would

therefore be preferable to a Written Answer;

v) **Status of Efficiency Unit report.** The revised version of the report is understood to exclude some of the earlier contentious material (such as the target of reducing the "core" Civil Service to 20,000 over 5 years). But it still contains much direct or implied criticism of the management of central government since 1979. The announcement and any preface to the report should make it clear that in accepting the main recommendations and general approach, the Government is not endorsing all its conclusions. For the same reason, the square bracketed word "four" should remain on page 2 of the draft announcement;

vi) **Timetable.** To minimise the risk of further leaks and awkward Press speculation, the period between the proposed Cabinet discussion on 4 February and an announcement should be as short as practicable.

8. A suggested introductory note is attached.

  
L J HARRIS

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**SUGGESTED INTRODUCTORY SPEAKING NOTE**

When we last discussed this subject on 22 October, I expressed some very serious reservations about the proposals then before us, particularly in relation to our ability to control public expenditure and pay settlements in the public sector. I welcome grater delegation of managerial authority and responsibility for the executive functions of government, and I accept that it is probably essential if we are to carry forward the substantial improvements we have already achieved in the efficiency of the Civil Service. But I am not prepared to put at risk all we have gained since 1979 in the field of pay and public expenditure by abandoning the conventional central controls before equally robust and effective alternatives have been designed and tested, and the managerial ability of the agencies established. The Efficiency Unit's report has much to say about the stultifying effect of central supervision, but offers little guidance about what should replace it.

The Treasury note at Annex B to Sir Robin Butler's paper sets out, step by step, the procedures which I consider it necessary to follow in establishing and administering agencies at the beginning. It is not immutable, and I fully expect to be able to agree to some relaxations as experience is gained. But I have already gone against my better judgement in modifying my first thoughts to meet some points put to the Treasury by the Efficiency Unit, and I am not prepared to regard the document as being further negotiable at this stage. I can, however, give an assurance that the Treasury will be looking at all the individual agency proposals in as creative and constructive a way as it consistent with our overall macro-economic objectives.

Against this background, I hope that colleagues will be able to accept the Treasury paper as it stands as an integral part of the package now before us.

DRAFT MINUTE FOR SIR PETER MIDDLETON TO SEND TO THE:

CHANCELLOR OF THE EXCHEQUER

cc Mr Anson  
Miss Mueller  
Mr Harris  
Mr Turnbull  
Mr Richardson

Ch  
NA sent, but passed  
to me as background!

AA

(draft below)

**NEXT STEPS**

Sir Robert Armstrong's minute to the Prime Minister of 4 December, and some of the material he attaches, makes me pretty cross. On the minute itself I really do not think he can have read our paper; what he says about "apron strings" and all that is a travesty and simply fails to understand the very real effort the paper represents to square the circle of the need for macro-economic etc controls on the one hand and the Ibbs perception of the need for operational flexibility on the other. Robert Armstrong's minute gives the game away; it makes clear that the objective of the Efficiency Unit is simply to get rid of Treasury etc controls tout court, as an end in itself. Secondly, the draft announcement which Robert Armstrong attached still in my view gives far too much of an impression that Ministers have accepted the Efficiency Unit report completely, which I hope very much they have not done, as opposed to merely taking decisions based on that report. In fact I offered Robert Armstrong some drafting amendments to meet this point but he failed to take them.

In his note of 7 December Alex Allan asked for a minute for you to send to the Prime Minister. This is below. I hope you find it self-explanatory. Its main object is to make your position clear, which is that you are not opposed to Ibbs providing there are satisfactory macro-economic safeguards, and that the Treasury paper was designed to meet this. It represented a deal - you will come quietly if our conditions are met.

You will see the minute does not take up all the points Alex Allan recorded in paragraph 3 of his note. (i), about specific legislation, is I think

based on a reading of the not very clear section of paragraph 4 of Robert Armstrong's draft; I think he was referring there to turning quangos into agencies, rather than mainstream Government activities. Indeed paragraph 11 of the note says that creation of agencies within Departments ".... will not of itself generally require legislation". On (ii) and (iv) we would cover this by reference to our paper which makes it clear that the Treasury has got to be involved in these matters. On (iii) the important point is to make sure that the potential rewards and potential penalties are commensurate one with the other. We are arranging to let you have a brief aide memoir about the penalties currently available against all civil servants if they deliver poor performance - as you would expect these turned out to be fairly Draconian on paper but little exercised and practiced. On (v) we think there are two good cases about accountability which are current which will make your point. And as for (vi) - a possible leak enquiry - I would recommend against that; there are a large number of these copies around and they have been around for the best part of 6 months or more and I think a leak enquiry would get nowhere. (A separate point arising on publication of the report is important, however, which is that this is the report of the Efficiency Unit and not of Ministers so that a health warning is required, and we have covered this in the draft letter.)

Finally a point not covered in the draft for you to send is the question of timetable. I myself feel that while not impossible to get something out and published before Christmas now looks very difficult indeed, and could end up messy. On the other hand one can see that Robert Armstrong is under pressure to get this thing launched while he is still in post. I think this is a matter worth leaving out of your note to the Prime Minister, because it will in a sense speak for itself - and also because I do not think you will want to appear to be against those dragging their feet. With any luck there will be plenty of these people elsewhere.

CONFIDENTIAL

DRAFT MINUTE FROM THE CHANCELLOR OF THE EXCHEQUER TO THE PRIME MINISTER

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

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

Sir Robert suggests in paragraph 3 of his covering note that I would be prepared to go along with these proposals provided that the procedure suggested in the Treasury paper (which he also attached) were agreed. But he then goes on to argue that accepting the Treasury's procedure would prevent the agencies from functioning effectively in the way envisaged in the Ibbs proposals. I am afraid that this is based on a misreading of the Treasury paper, and I think that I should make my position clear.

Wm  
I have never been against the approach in Next Steps, provided that its implications are properly thought through. The proposals point in the direction which we have been anxious to go since we came to Office in 1979, and in a sense all they do is push along what has been happening already - the devolution of management, greater flexibilities and delegation, and a greater emphasis on value for money, including improving the ratio of outputs to inputs. Indeed I would agree that from this point of view, the proposals do not go far enough. We need to place much more emphasis on looking constructively at giving many of the activities the full degree of managerial discretion implied by privatisation or contracting-out as opposed to the halfway house of agency treatment.

argue

The Efficiency Unit report itself placed prime importance on setting each of the agencies a clear and precise policy and resources framework within which greater flexibility could be given without putting the Government's central policies at risk. But simply repeating those vague words is not good enough. We need to know what they mean. I am concerned to reconcile the control of public expenditure with what is proposed. I also want to protect the running cost system and ~~to~~ maintain the thrust of pay policy; to introduce flexibility, to weaken the unions, to avoid repercussive settlements and to keep a tight grip on the pay bill. The Treasury note attached to Sir Robert's minute sets out procedures for establishing agencies which are perfectly reasonable in my view - quite apart from the fact that they are the only ones in existence.

The Treasury paper 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 an enormous amount of what we have gained since 1979 in the expenditure and pay fields, on the rash assumption that the controls which bought it about can simply be dispensed with, rather than carefully replaced with other equally effective mechanisms which are still to be developed.

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 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. I am sure that this alone will make an oral statement essential. 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 Next Steps report has been leaked. If it has to be published for this reason, we must make a specific disclaimer - preferably in a preface - about things said in the report other than those with which we 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 comments made about the way Treasury Ministers and officials have dealt with public expenditure and running costs and pay matters during the



Conservative administration. 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 what we are and are not agreeing. I attach a revised draft of page 3 of the statement.

I am copying this minute to the Minister of State, Privy Council Office and Sir Robert Armstrong.

**CONFIDENTIAL  
MANAGEMENT IN CONFIDENCE**

DRAFT WRITTEN ANSWER: 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.

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ready for you  
return  
AA*

CONFIDENTIAL

DRAFT MINUTE FROM THE CHANCELLOR OF THE EXCHEQUER TO THE PRIME MINISTER

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

I have seen a copy of Sir Robert Armstrong's minute of 4 December to ~~your Private Secretary~~ <sup>Nigel Wickes</sup>, to which he attached the revised draft of his paper on the implementation of the "Next Steps" proposals.

*(X)*

Sir Robert suggests in paragraph 3 of his covering note that I would be prepared to go along with these proposals provided that the procedure suggested in the Treasury paper (which he also attached) were agreed. But he then goes on to argue that accepting the Treasury's procedure would prevent the agencies from functioning effectively in the way envisaged in the Ibbs proposals. I am afraid that this is based on a misreading of the Treasury paper, and I think that I should make my position clear.

I have never been against the approach in Next Steps, provided that its implications are properly thought through. The proposals point in the direction which we have been anxious to go since we came to Office in 1979, and in a sense <sup>what</sup> [all] they do is push along what has been happening already - the devolution of management, greater flexibilities and delegation, and a greater emphasis on value for money, including improving the ratio of outputs to inputs. Indeed I would agree that from this point of view, the proposals do not <sup>go</sup> far enough. We need to place much more emphasis on looking constructively at giving many of the activities the full degree of managerial discretion implied by privatisation or contracting-out as opposed to the halfway house of agency treatment.

*I think there may be some  
misunderstanding about my  
position. H. J.*

(X)  
P

I think there may be some misunderstanding about my position. As you know, I was concerned that the earlier papers did not <sup>adequately</sup> ~~fully~~ protect our controls 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 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.

~

[ The Efficiency Unit report itself placed prime importance on setting each of the agencies a clear and precise policy and resources framework within which greater flexibility could be given without putting the Government's central policies at risk. But simply repeating those vague words is not good enough. We need to know what they mean. I am concerned to reconcile the control of public expenditure with what is proposed. I also want to protect the running cost system and maintain the thrust of pay policy; to introduce flexibility, to weaken the unions, to avoid repercussive settlements and to keep a tight grip on the pay bill. The Treasury note attached to Sir Robert's minute sets out procedures for establishing agencies which are perfectly reasonable in my view - quite apart from the fact that they are the only ones in existence.]

2 [ ~~The Treasury paper~~ ] <sup>it</sup> 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 <sup>a large part of what,</sup> ~~an enormous amount~~ <sup>we have so thanks to an enormous effort, we have</sup> of what we have gained since 1979 in the expenditure and pay fields. [ ~~on the rash assumption that the controls which bought it about can simply be dispensed with, rather than carefully replaced with other equally effective mechanisms which are still to be developed.~~ ]

*over the 8 1/2 yrs*

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 be expected to enjoy terms more favourable than those available to his peers elsewhere in the Civil Service.

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Second, we need to think hard about what is said in Sir Robert's paper about accountability. ~~I am sure that this alone will make an oral statement essential.~~ 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.

This

Finally, it is regrettable that the <sup>original</sup> Next Steps report has <sup>Av. Hank</sup> been leaked. ~~If it has to be published for this reason, we must make a specific disclaimer - preferably in a preface - about things said in the report other than those with which we 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 <sup>critical</sup> <sup>in the report</sup> comments made about the way <sup>in which</sup> Treasury Ministers and officials have dealt with public expenditure and running costs and pay matters during the~~

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*Draft since 1979.*

~~Conservative administration.~~ 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 <sup>to</sup> what we are and are not agreeing. I attach a revised draft of page 3 of the statement.

*Richard Luce*

I am copying this minute to <sup>to</sup> ~~the Minister of State, Privy Council~~ Office and Sir Robert Armstrong.



CONFIDENTIAL

*BF to ACSA (draft)*

From: SIR PETER MIDDLETON

Date: 26 January 1988

CHANCELLOR

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Dame Anne Mueller  
 Mr Anson  
 Mr Kemp  
 Mr L Harris

NEXT STEPS

I think the objective should now be to get this out of the way quickly with the Treasury paper completely intact.

*Below 2nd divider ✓*

2. As the brief says, quite separately from the proposals before Ministers, the Efficiency Unit Report contains references to the public expenditure, running cost and pay regimes to which we could not possibly subscribe. There are others you might find awkward politically. It is important that the PM should not be asked to give credence to points which she has not even considered by an all embracing preface. You might in particular look at page 22, page 24 and page 26 of Next Steps. *(plus some earlier bit)*.

3. So far as tactics are concerned, I do not think you need jump in too early. The PM is expected to steer the discussion in the direction of the agreed compromise. So with luck you will need only to come in to give your reluctant acquiescence - or do some stiffening if there is an attempt to relax central controls.

4. The PM is being strongly advised to keep off the question of who should be Project Manager and at what precise level. That can be dealt with later.



P E MIDDLETON



FROM: A C S ALLAN  
DATE: 28 JANUARY 1988

*pay-*

CHANCELLOR

**NEXT STEPS**

Leonard Harris's brief is not all that helpful, in that lots of what it refers to is private correspondence between you, Armstrong and the Prime Minister; very definitely background only for this wider meeting.

2. A point to bear in mind is that there may well be "shock horror" from other Ministers at Treasury paper emasculating Ibbs' wonderful proposals. So far as they are concerned, things were left with the Prime Minister's rather bullish summing up at the last meeting) (Flag A below first divider).

3. The only papers you have not seen before are:

- i. the draft brief for departmental managers at Flag H in the background papers;
- ii. Robin Butler's letter of 25 January to Peter Middleton, attaching draft paragraphs for Permanent Secretaries to send to their staff; and the latest, slightly amended version of the Next Steps paper (below second divider).

4. It may be that you couldn't get away with not publishing the Ibbs Report. nor with bowdlerising it too much if copies are already in circulation. But it says some most unhelpful things.

A handwritten signature in blue ink, appearing to be 'A C S Allan'.

A C S ALLAN

28/1/88 prep.



10 DOWNING STREET  
LONDON SW1A 2AA

From the Principal Private Secretary

CH/EXCHEQUER	
REC.	229 JAN 1988 29h
ACTION	SIR P. MIDDLETON
COPIES TO	CST PM G MR ANSON DAME A. MULLER MR KEMP MR TURNBULL MR RICHARDSON MR HARRIS


SIR ROBIN BUTLER

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

The Prime Minister held a meeting this morning to discuss the paper attached to your Private Secretary's minute of 14 January. The Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Trade and Industry, Transport and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord President, the Lord Privy Seal, the Chief Secretary, the Minister of State Privy Council Office and Sir Robin Ibbes were present.

Opening the discussion, the Prime Minister recalled that at the Group's last meeting, Ministers had agreed to commit themselves to the "Next Steps" approach, subject to certain points being resolved with the Treasury. You then introduced your paper. This dealt with 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; and the legislative implications of the proposals. Your note included at Annex B, a Treasury paper, prepared in consultation with yourself and the Efficiency Unit, which suggested a procedure for setting up the initial agencies and their subsequent control.

The following were the main points made in the discussion:

- (1) Although some Ministers saw scope for extending the agency concept to a large part of their Departmental functions, several Ministers suggested that there was a limit to the number of agencies which could sensibly be created. There were, for example, difficulties in establishing agencies in services where executive and policy functions were combined. It would be wrong to give the impression that the agency approach could be extended to the greater part of the Civil Service. The concept should not be oversold. 
- (2) After it was suggested that the arrangements suggested by the Treasury in Annex B looked to be onerous, it was pointed out that the arrangements described in Annex B had been agreed after intensive consultation with the Efficiency Unit and represented the Treasury's views on the necessary controls for the establishment and operation of the agencies. Nevertheless, it was important that the arrangements were not exercised in a bureaucratic or inflexible manner. To some extent, the drafting made the paper appear unduly restrictive; for example, the reference in paragraph 2 to ".....permitting the exercise of responsibility....." would better read "...encouraging the exercise of responsibility....". The reception of the paper would be improved if similar drafting changes were made to its text so as to convey a more positive approach to the exercise.
- (3) In some cases, legislation would be required to establish an agency. The Vehicle Inspectorate was a case in point and so possibly was the DVLC.
- (4) The public statement should make no reference to bringing into departmental agencies functions now carried out by quangos.

- (5) Several Ministers expressed regrets that significant restraints appeared to be placed on the hiring and firing of Chief Executives and that the expectation now seemed to be against hiring Chief Executives from outside the department. It was a pity too that there would be real constraints upon the ability of agency management to hire staff, particularly if the Civil Service Commission's rules were applied inflexibly. In this connection, it was pointed out that paragraph 19 of the Treasury's note gave flexibility in that it envisaged the possibility of agencies recruiting staff in accordance with schemes agreed with the Commission. It was extremely important that the agency approach did nothing to inhibit the special arrangements which had permitted departments to recruit top calibre people from the private sector for specific jobs.

As a separate matter, there was a strong case for reviewing the arrangements whereby the Civil Service Commission insisted that certain appointments held by outsiders had to be subject to open competition even if a Minister wished to re-appoint the present incumbent. For understandable reasons, senior managers recruited from the private sector were unwilling to subject themselves to such open competition when their appointment came up for renewal. The Commission's insistence on this procedure had, at least in one instance, caused a department to lose a highly successful manager.

- (6) The arrangements proposed for agencies would probably not create opposition in the House as regards questions, MPs' letters and so on. But there could be problems with Select Committees if Chief Executives were stimulated to criticise the Government. The Treasury and Civil Service Select Committee (TCSC) would no doubt wish to take evidence on the "Next Steps" approach. Oral evidence should be given by the Minister of State Privy Council Office, and not on any account by the Prime Minister.

- (7) The draft answer should be amended to distinguish between departments' work in the delivery of services and in policy formulation, and to make clear that the agency approach applied to the service delivery function. It was agreed that the reference to the recommendations in the eighth line from the end of paragraph 3 should read ".....the Government accepts the above recommendations....". The term "Unoccupied Royal Palaces" gave an unfortunate impression, and a better title should be devised for that agency. The announcement should list the functions identified as possible agencies.
- (8) The arguments were finely balanced as to whether the answer should be made by Written Answer or Oral Statement to Parliament. There was a risk that there would be a Parliamentary row if such an important change in the machinery of Government was announced by a Written Answer.
- (9) Before any announcement was made, it would be important for departments thoroughly to brief their staff, particularly those in the blocks of works identified for agency treatment.

Summing up the discussion, the Prime Minister said that Ministers endorsed the approach in the paper before them, including the arrangements described in the Treasury's note at Annex B of the paper, though the Treasury should take care to avoid operating the arrangements described there in a bureaucratic manner. As suggested in paragraph 2 above, the Treasury should consider the drafting of their note at Annex B so as to convey a more positive approach to the exercise. The announcement should be made by an Oral Statement. You should prepare a draft statement for the Prime Minister's consideration, based on a shorter version of the draft at Annex A. The draft should take account of the points made in discussion and particularly the points in paragraphs 1 and 7 above and make it clear that the agency approach applied only

to departments' service delivery functions. It should avoid raising expectations about the extent of the application of the agency approach. You should also provide answers for supplementaries likely to arise on the statement. You should consider whether there needed to be a reference in the statement to legislative consequences or whether this could be dealt with in answers to supplementaries. You should check that the arrangements for recruiting chief executives and senior staff of agencies were not unnecessarily inhibited by the requirements of the Civil Service Commission; and report to the Prime Minister. As a separate exercise, you should also put proposals to the Prime Minister for avoiding the situation whereby existing post holders, recruited from outside, had to resubmit themselves for open competition before their contracts could be renewed. The issues on the Next Steps Report should now be put to Cabinet for their endorsement, as soon as convenient. Meanwhile, arrangements should be carried forward in departments to prepare the necessary briefing for staff so that the Statement to Parliament could be made in the afternoon after the matter had been considered by Cabinet, if Cabinet so decided.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Trade and Industry, Transport and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord President, the Lord Privy Seal, the Chief Secretary, the Minister of State Privy Council Office and to Sir Robin Ibbs.

N.L.W.

N. L. WICKS

28 January 1988


## MANAGEMENT IN CONFIDENCE



From: S D H SARGENT

Date: 2 February 1988

MR L HARRIS

cc PPS   
Chief Secretary  
Paymaster General  
Mr Anson  
Dame Anne Mueller  
Mr Kemp  
Mr Turnbull  
Mr Richardson

NEXT STEPS

Sir Peter Middleton has seen Mr Wicks' minute of 28 January to Sir Robin Butler. He would be grateful if you would prepare the drafting changes to the Treasury paper which are proposed in (2) on page 2 of Mr Wicks' note, and submit them to him for approval. They should not of course affect the substance of the paper.



S D H SARGENT

Private Secretary





Page 1

Permanent Secretary  
HM TREASURY

Alex Simon  
see Ch's  
comments  
Next steps (please  
return i.d.c.)  
Alex

FERB B) is keen to submit the attached draft and statement - with which PERC is content - to the PM asap. His office wd be grateful if the Chancellor was able to consider it in the course of today.

(draft a hand  
which will get the balance right.  
5x6)

No further injections.  
Bond issue with  
overriding. See eg 4 ("500  
guaranteed extra practice"),  
with no mitigation of  
gradual transition of  
relative franchise  
150 batch.

PERC  
Boris  
Philip

## MANAGEMENT IN CONFIDENCE

FROM: L J HARRIS  
DATE: 3 February 1988

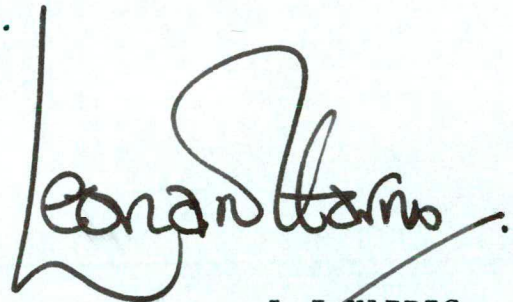
- 
1. SIR PETER MIDDLETON
  2. CHANCELLOR

cc Dame Anne Mueller  
Mr Anson  
Mr Kemp**NEXT STEPS**

The Prime Minister now intends to take the 'Next Steps' proposals at Cabinet on 18 February and, subject to colleagues' agreement, to announce the Government's conclusions by way of an oral statement that afternoon. The attached draft, which is considerably shorter than earlier versions, has been prepared by Sir Robin Butler in the light of the discussion at the small Ministerial group on 28 January.

2. I do not think that you need object to anything in the new text from a Treasury point of view. The last sentence of paragraph 3 is of dubious relevance - the proposals need to be justified on their merits, not on the grounds that some Civil Service managers want them - but it is a straight and acknowledged quotation from the Efficiency Unit's report. The first sentence of paragraph 7 could be read as presaging more radical changes at the centre of the Civil Service than have so far been agreed, but the following sentence makes it clear that all that is contemplated is the appointment of a Project Manager to see the Unit's recommendations through. Neither of these points seems worth arguing about at this stage.

3. If you are reasonably happy with the draft as it now stands, I will tell Sir Robin Butler's office that you are content for it to be submitted to the Prime Minister.



L J HARRIS

MANAGEMENT IN CONFIDENCE

DRAFT ORAL STATEMENT BY THE PRIME MINISTER

Mr Speaker, with permission I should like to make a statement on management in the Civil Service.

2. I asked the Efficiency Unit to report to me on the progress of management reforms in the Civil Service. They have produced a report - "Improving Management in Government: The Next Steps".

3. The report says that, while the management of Government business is much improved since 1979, there is scope for substantial further improvement. The report finds that many Civil Service managers want to see further changes giving more room and flexibility for the exercise of personal responsibility.

4. The report recommends:

X | first, to the greatest extent practicable, the executive functions of Government - as distinct from policy advice - should be carried out by units clearly designated with Departments, referred to in the Report as "agencies". Responsibility for the day to day operations of each agency should be delegated to a Chief Executive who would be responsible for management within policy objectives and a resources framework set by the responsible Minister, in

consultation with the Treasury;

Second, the Government should commit themselves to a progressive programme for attaining this objective.

Third, staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

Fourth, a "Project Manager" at a senior level should ensure that the programme of change takes place.

5. The Government has accepted the above recommendations, which will set the direction for further development in the programme of management reform. Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives of this approach.

6. The Civil Service unions have been told of the Government's response to the Efficiency Unit's proposals and will be consulted, both about the general approach and, within Departments, about the setting up of particular agencies. They will also be consulted if any change in terms and conditions of civil servants is contemplated.

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

8. I have placed copies of the Efficiency Unit's Report, together with a list of executive functions which appear promising candidates as initial agencies, in the Library and Vote Office.

MANAGEMENT IN CONFIDENCE

FROM: R I G ALLEN  
DATE: 4 FEBRUARY 1988

SIR PETER MIDDLETON

cc PPS  
PS/Chief Secretary  
Mr Kemp  
Mr L J Harris  
Mr Bush

## NEXT STEPS: PUBLICITY

Following our conversation this morning, I have spoken to Leonard Harris and Bernard Ingham. It is not clear who has been leaking the information. The Efficiency Unit is one possibility, though the Telegraph's story by David Millward - refers to "union sources".

2. Mr Ingham said that he had rubbished the Independent story at his Lobby this morning, pointing out that:

- the story was "grossly exaggerated";
- what the Government was trying to do was to develop gradually beyond FMI;
- this would involve the more direct management of discrete parts of the executive Civil Service;
- there would be safeguards to ensure that the new management arrangements were satisfactory and that there was no loss of accountability;
- the approach would be slow and incremental - how far it developed in the longer term, remained to be seen.

This is helpful and should be sufficient to damp down further exaggerated speculation - of the Independent and Times variety - before the report is published on 18 February.

MANAGEMENT IN CONFIDENCE

*Re (Marr & Sat!)*

3. I would propose to back up the line taken by Bernard Ingham in any enquiries we get from the press over the next day or two. Beyond that, however, I would be inclined to say as little as possible until the report is released. I think we will then need to develop a stronger Treasury line to counteract the rather negative message about the Treasury's position in some of today's stories - Times leader is a good example of this. And we shall clearly need to think very hard about questions which the press will ask us and our responses to them, for example about differences between the Efficiency Unit's report as eventually published and the original draft which had clearly fallen into the hands of Andrew Marr - see Mr Harris' minute attached.

4. It might be worth pinpointing one or two of the more fair-minded journalists (eg Peter Riddell the FT or John Peet of the Economist) to bring them a little more clearly into the picture, on a purely background basis. The regular reporters on this subject - for example, Andrew Marr of the Times and David Millward of the Telegraph - cannot really be trusted to propogate anything but the crude "Treasury versus the rest" story.

? 5. This might be a suitable issue for the Chief Secretary to take up in his new "umpiring" role.

*R.I.G.*

R I G ALLEN

## MANAGEMENT IN CONFIDENCE

FROM: L J HARRIS  
DATE: 4 February 1988

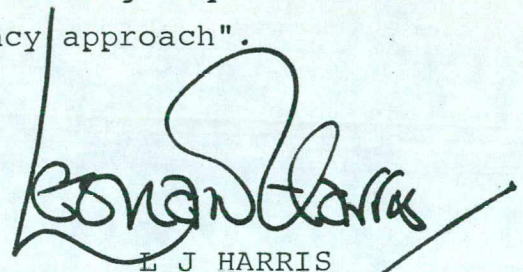
MR R I G ALLEN

cc Mr Kemp

**NEXT STEPS**

Checking back through my papers, I see that a copy of the Treasury note I mentioned when we spoke this morning was included in the bundle which I circulated to COGPEC. All you need to bring you up to date at this point is, I think, Nigel Wicks's minute of last week's Ministerial meeting; a copy of this is attached. You will see from that that Ministers endorsed the Treasury paper, but that the Chancellor was asked to see whether its presentation could be softened. There is not much that can be done to the detail of the paper - the reservations of other Ministers are really more about the substance than about the expression - but I have suggested to Sir Peter Middleton a revised version of the introductory paragraphs to make the Treasury and OMCS sound a bit more enthusiastic about the exercise in general. He will need to take the Chancellor's mind - there is no reaction as yet.

As I said earlier, I think that the immediate follow-up to this morning's leaks should be handled by No 10. The line taken in The Times leader is, in fact, quite sympathetic to the Treasury, but any attempt to reinforce it would run the risk of appearing further to widen the alleged gap between the Chancellor and his colleagues on this issue. Depending on developments between now and the Prime Minister's oral statement on 18 February, we may need to be ready to deal with any questions about the differences between the Efficiency Unit's report as eventually published, and the original draft which has clearly fallen into the hands of Andrew Marr, the most obvious one being that the earlier target of reducing the "core" Civil Service to 20,000 people over 5 years has been deleted. This is consistent with the Prime Minister's wish that her statement "should avoid raising expectations about the extent of the application of the agency approach".

  
L J HARRIS





Permanent Secretary  
H M TREASURY

Alex ✓ Ch OK?

OK

Next Steps, AA

Sir Robin Butler has added a sentence to para 5 of the draft oral statement - see below - to meet the point made by the Chancellor yesterday. Sir Robin proposes to put the draft to the PM tonight if the Chancellor is content. Please could you let me know, or contact Trevor Woolley direct if you prefer.

Simon 5/2

Ray

MANAGEMENT IN CONFIDENCE

DRAFT ORAL STATEMENT BY THE PRIME MINISTER

Mr Speaker, with permission I should like to make a statement on management in the Civil Service.

2. I asked the Efficiency Unit to report to me on the progress of management reforms in the Civil Service. They have produced a report - "Improving Management in Government: The Next Steps".

3. The report says that, while the management of Government business is much improved since 1979, there is scope for substantial further improvement. The report finds that many Civil Service managers want to see further changes giving more room and flexibility for the exercise of personal responsibility.

4. The report recommends:

first, to the greatest extent practicable, the executive functions of Government - as distinct from policy advice - should be carried out by units clearly designated with Departments, referred to in the Report as "agencies". Responsibility for the day to day operations of each agency should be delegated to a Chief Executive who would be responsible for management within policy objectives and a resources framework set by the responsible Minister, in

consultation with the Treasury;

Second, the Government should commit themselves to a progressive programme for attaining this objective.

Third, staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

Fourth, a "Project Manager" at a senior level should ensure that the programme of change takes place.

5. The Government has accepted the above recommendations, which will set the direction for further development in the programme of management reform. Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance. These agencies will generally be within the Civil Service, and their staff will continue to be civil servants. We shall be improving training and career development to promote the objectives of this approach. *The Government will develop a continuing programme for establishing agencies, applying progressively the lessons of the experience gained.*

6. The Civil Service unions have been told of the Government's response to the Efficiency Unit's proposals and will be consulted, both about the general approach and, within Departments, about the setting up of particular agencies. They will also be consulted if any change in terms and conditions of civil servants is contemplated.

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

8. I have placed copies of the Efficiency Unit's Report, together with a list of executive functions which appear promising candidates as initial agencies, in the Library and Vote Office.

FROM: L J HARRIS  
DATE: 8 February 1988

*Oh (PEM lateral?)*

CHANCELLOR

*This seems all wrong to me. I don't see why you need to minute PM at all. Can't Robin & Peter sort out v means drafting amendment (subject to gov agreement); to swap it to Cabinet?*

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Dame Anne Mueller
- Mr Anson
- Mr Kemp
- Mr Turnbull

**NEXT STEPS: PROCEDURE**

The meeting of the Ministerial group on "Next Steps" on 28 January endorsed the arrangements described in the Treasury note on procedure, but invited the Treasury to look again at the draft "so as to convey a more positive approach to the exercise".

*- Annex B below*

The body of the Treasury note is in studiously objective terms, and it would defeat its object if largely platitudinous expressions of goodwill towards the exercise were to be inserted. The best way of meeting the point made in the Prime Minister's summing up, therefore, would be to introduce a slightly warmer note into the opening paragraphs on the lines of the redraft attached to the suggested minute from you to the Prime Minister which follows. You were not asked to clear the revised text with colleagues, but it would be helpful to copy it for information to members of the Ministerial group.

*A good neutral formulation*

*- by whom?*

It has been suggested that there is no need for the Treasury note to be included in the package put to Cabinet next week, on the grounds that it is no more than a statement of Treasury intentions which does not require collective agreement. This approach is not acceptable. You have made it clear that endorsement of the note is your price for going along with the "Next Steps" approach as a whole, and it needs specific approval by Cabinet if we are to avoid claims by departmental Ministers at a later stage that they either did not know of, or did not accept, the line being taken by the Treasury. This is covered in the draft minute.

*[Signature]*  
L J HARRIS  
ENC

NEXT STEPS: REVISED INTRODUCTION TO TREASURY PAPERNext Steps: Establishing and Administering AgenciesINTRODUCTION

*Part 1 as in original*

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).

*New*

*ugh* {

2. Subject to these essential safeguards, the Treasury and the OMCS hope to be able to work closely with departments in a constructive and flexible way so as to encourage the exercise of responsibility and the release of energies which it is the purpose of the 'Next Steps' recommendations to achieve. As alternative procedures are developed and tested, it should prove possible progressively to relax some of the conventional controls, including some of the more detailed arrangements set out in this note. Both the central departments will, of course, be ready to give any further advice or help they can to departments contemplating setting up agencies.

*original*

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.

MANAGEMENT IN CONFIDENCE

DRAFT MINUTE FROM THE CHANCELLOR TO THE PRIME MINISTER

**NEXT STEPS: PROCEDURE**

The Ministerial meeting on "Next Steps" which you held on 28 January endorsed the arrangements set out in the Treasury paper on the procedure for establishing and administering agencies, but invited me to consider the drafting so as to convey a more positive approach to the exercise.

2. The body of the paper is carefully written as a clear and objective statement of the best way of setting up agencies while safeguarding the essential aims of our wider economic policies. It would in my view be wholly inappropriate to use such a statement to express either enthusiasm or lack of it for the "Next Steps" philosophy. I accept, however, that the delay in reaching our conclusions and the misguided media comments in recent weeks may have created an impression that the procedures now proposed by the Treasury are deliberately designed to impede progress. This is far from the truth, and I should be very happy to see the introductory part of the Treasury paper amended to make it clear that Treasury Ministers and officials will be approaching the exercise in a responsible and constructive spirit. I attach a revised version of the first two paragraphs of the Treasury paper which are designed to meet the views expressed at the 28 January meeting.

*You can't say this.*

It is essential that there should be no doubt about the way in which proposals to establish agencies will be

considered, and I therefore think it important that the revised Treasury paper should be attached to the report made to Cabinet so that it may receive our specific collective endorsement.

I am copying this minute to members of the Ministerial Group, and to Sir Robin Ibbs and Sir Robin Butler.





FROM: A M W BATTISHILL

THE BOARD ROOM  
INLAND REVENUE  
SOMERSET HOUSE

9<sup>th</sup> February 1988

*Ch*  
*Content with Mr B's draft*  
*Office Notice?*  
*9/2*  
*Content subject to views*  
*from*  
*Centre*  
*FSI*  
*PEM*  
*(FST content)*  
*(No word yet from PEM)*  
*BF 11/2*

CHANCELLOR OF THE EXCHEQUER

**IMPROVING MANAGEMENT IN THE CIVIL SERVICE : NEXT STEPS**

I understand the Prime Minister is expecting to be in a position to announce the Government's conclusions on Sir Robin Ibbs' report in the House later this month.

2. As you know, it is also proposed that Permanent Secretaries should simultaneously send a message to staff drawing attention to the Government's plans and, so far as possible, explaining the consequences for their own staff. I attach a draft of the kind of thing I have in mind to issue within the Inland Revenue. No doubt some small changes will still be needed but I hope the broad shape is right.

3. The Revenue is not amongst those Departments where the first batch of agencies has been identified. When we discussed this before you had doubts about turning the Inland Revenue (or any of its constituent parts) into a full agency because of the politically sensitive nature of the work and the very close links between tax policy and administration.

cc Chief Secretary  
Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Scholar  
Mr Unwin (C & E)

Chairman  
Mr Isaac  
Mr Painter  
Mr Rogers

4. If you were to take a different view there are, of course, possibilities that could be considered - though a good deal of work would be involved first. I discussed these briefly in the note I sent you on 7 July (a copy is attached - top copy only). But for the purpose of informing staff I have assumed that, whilst added flexibility is welcome, the Revenue is not going further into the agency business, at least for the time being.

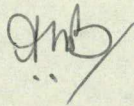
5. My note to staff for the most part broadly follows the central guidance for all Departments in describing the Next Steps report, and the Governments' decisions on it. But paragraphs 8 and 9 are tailored to the special circumstances of the Revenue.

6. These are purposely fairly low-key. The Government's announcement is bound to give rise to a good deal of speculation about the target areas for future agencies. With our networks of local offices dealing direct with the public many will probably see us as natural candidates - including our own staff and the Departmental trade unions. Indeed you will have seen that press speculation over the past few days already has us in the vanguard.

7. Some staff may be disappointed to find that we are not. Others will take a different view. But either way if people become too unsettled, and uncertain about their future, we risk losing even more of them than we are already doing. So I shall need to make it plain that there are no plans at this stage to go any further in turning the Revenue into an agency or agencies. There are, after all, plenty of other important things for us to be getting on with. We are already facing extensive changes over the next two or three years with computerisation, changes in working patterns flowing from the TRSF pay agreement, exit London, and so on. The Valuation Office is working flat out to deliver the non-domestic revaluation. And there are your tax reforms still to come.

8. As well as sending the note to staff I propose to see the representatives of the trade unions after the Prime Minister's announcement, to take them through the report and try to answer any questions they have on it.

9. I should be grateful to know that you and the Financial Secretary are content with this general approach.



(A M W BATTISHILL)

## IMPROVING MANAGEMENT IN THE CIVIL SERVICE : THE NEXT STEPS

1. The Prime Minister announced in the House of Commons today new Government proposals for improving the way in which the Civil Service carries out its business. I thought it would be helpful if I told you something about the background and how we, as a Department, are affected.

### Background

2. Last year the Efficiency Unit, at the Prime Minister's request, looked at the progress of Civil Service management reforms. In their report called "Improving Management in Government : The Next Steps" they concluded that a great deal had been done in recent years to improve management in the Civil Service, but that further substantial improvements were still possible.

3. The Next Steps report recognises that the developments of the last eight years have had a positive effect on the way we all go about our business. The introduction of the various FMI systems, of new budgeting arrangements and of reforms in personnel management are all seen as examples of positive changes over that period. Many Civil Service managers, while welcoming the changes made so far, still felt that there were constraints on their freedom to manage properly. They were keen to see more scope for flexibility in the exercise of personal responsibility.

4. The report includes the following four recommendations:

(a) As far as practicable, those functions that Departments perform which are concerned with providing services to the public rather than with matters of policy, should be carried out by executive units clearly designated within Departments. These are referred to in the report as "agencies". Responsibility for day to day operations in these agencies would be delegated to a Chief Executive who would manage the agency within the policy objectives and a resources framework set by the responsible Minister.

(b) Ministers should undertake to implement this objective progressively, agency by agency.

(c) Departments should ensure that their staff are properly trained and prepared for managing the delivery of services.

(d) The Government should maintain pressure on Departments from the centre to improve and develop their operations, and a "Project Manager" at a senior level should be appointed to ensure that the programme of change took place.

#### The Government's proposals

5. As the Prime Minister said, the Government has accepted these recommendations, and Ministers will be looking at their Departments to see which functions might be capable of being handled more effectively within agencies.

6. Each agency will work within a firm framework of policy and resources, which will be set by 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. The first of the new agencies could be set up in the coming months, and the Government will be developing a continuing programme.

7. The Government is also committed to improving training and career development to promote the objectives of the Next Steps approach.

#### How this affects the Revenue

8. You will want to know how all this affects the Revenue. As the report recognises, the Revenue already exhibits features of an agency in the way it is organised to do its work and in the way we account for what we do to Ministers and to Parliament, and there are no immediate plans for any further changes. We have already come a long way too in improving management and training, in introducing new financial systems for managers and in securing value for money in our work. There can be no let-up in any of these.

9. That is where the Government's new proposals come in. The purpose behind them is to help us all to do our job more effectively. In common with other Departments, therefore, we shall be considering how the various approaches in the Next Steps report can help us in the Revenue to do just that and provide an even better service to taxpayers.

10. The departmental trades unions will be consulted fully about these developments and I will continue to keep you in touch with any which affect the Revenue.

MANAGEMENT IN CONFIDENCE

FROM: E P KEMP  
9 February 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary  
PS/Paymaster General  
PS/Financial Secretary  
PS/Economic Secretary  
Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr R I G Allen  
Mr C D Butler  
Mr Harris

Ch  
Only new point is  
X overleaf - should  
Treasury note be 'in public  
domain'  
AA

"NEXT STEPS"

As you know, subject to Cabinet approval the Prime Minister is to make an oral statement on Thursday 18 February about "Next Steps". Against that announcement, and in view of the Press speculation etc, the Chancellor and other Ministers may like to have by them the attached kit of the main documents, as they currently stand. These comprise :-

- a. A draft of the Prime Minister's statement.
- b. A list of the Government functions initially being considered as candidates to be established as "agencies", which will also be published on 18 February.
- c. The management brief or background notes which has been prepared and circulated to Departments to help Establishment Officers deal with initial queries.
- e. A note prepared by the Treasury about establishing and administering agencies which sets out the rules of the game.

Some of these documents may yet change and have to be updated before 18 February. (a), (b) and (c) will of course be in the public domain after the announcement has been made on the 18th, and given the

inevitability of leaks we are giving consideration to whether (d) can also be so treated. X

2. Permanent Secretaries are expected to send messages to staff as soon as is practicable after the announcement on the 18th; these will be based on the Prime Minister's statement a draft of which is at (a) above, but a number of Departments, most notably those who include one of the twelve functions identified as initial candidates for agencies are likely to add their own local variation to meet the needs of their case.

3. It would be noted from (b) that the only function within the Chancellor's Departments initially identified as an agency candidate is HMSO.

4. Press and other handling on publication will be dealt with by the Cabinet Office and/or No 10. However IDT will stay closely alongside this, not least because of the tendency of the Press wrongly to see this exercise as some kind of battle between the Treasury on the one hand and the Efficiency Unit and other Departments on the other. We all want to do our best to rubbish these sort of silly and unhelpful stories.

ETK.

E P KEMP





Board Room  
H M Customs and Excise  
New King's Beam House  
22 Upper Ground  
London SE1 9PJ  
Telephone: 01-620 1313

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

FROM : THE CHAIRMAN  
DATE : 10 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary  
Sir P Middleton  
Mr Battishill (IR)

NEXT STEPS

As you know, it has been proposed that Permanent Secretaries should send a personal message to staff to coincide with the Prime Minister's statement on 18 February. This is intended to explain the background to the statement and to spell out the consequences for the Department.

2. Staff in Customs and Excise have already been unsettled by the various misleading press reports about splitting off the VAT function and so on. You saw the short message that I felt it necessary to send out in response to the Guardian and Daily Mail reports on 5 February. The Prime Minister's statement will no doubt revive the uncertainty, and I shall therefore take the opportunity to restate in my message that there are no plans for splitting the Department, either for 'agency' or any other purposes. I think it will be very important to make this quite clear.

3. This does not mean, however, that we shall be unaffected by the new proposals. In many ways their general thrust will reinforce the kind of management changes - particularly in terms of

*I agree: OK with No Excision for staff as we have agreed to X. when changes have been made with that agreed.*

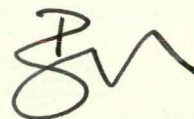
*Ch  
I don't much like X (flagged) which goes beyond what Tony Battishill has.  
AA*

internal delegation - we have been making; and as and when any new 'flexibilities' emerge, we shall want to consider their implications for the management and operations of the Department, in addition to pursuing those proposals we already have on the table. We shall, of course, continue to keep in close touch with you and the Economic Secretary and with the official Treasury on all this.

4. Otherwise, I would prefer to keep the message reasonably low key, and I have drawn on, with suitable adaptation, some "core paragraphs" provided to Permanent Secretaries by the Cabinet Office. I think the message is sufficiently consistent, mutatis mutandis, with that which Tony Battishill, with whom I have kept closely in touch, proposes to send to staff in the Inland Revenue.

5. I shall, of course, be arranging to talk to the trade unions after the Prime Minister's announcement.

6. I should be glad to know that you are content with what I propose. I may, of course, need to do a bit of editing before final issue, particularly if there are any further press reports singling out this Department.



J B UNWIN

## **IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS**

In a statement in Parliament today the Prime Minister announced new proposals by the Government for management in the Civil Service, called "Next Steps". Particularly in view of various recent press reports, on some of which I sent you a short message on 5 February, I thought it would be helpful for me to tell you a little more about the background to this statement and about how the proposals can be expected to affect Customs and Excise.

### **Background**

2. A very great deal has been done in recent years to develop and improve management in the Civil Service. You are aware of the many changes we have introduced in this Department. Last year the Prime Minister asked her Efficiency Unit to look at progress. In their report, called "Improving Management in Government: The Next Steps", they recognised that a great deal had already been done, but that further improvements were possible. (Copies of the report will be available in Departmental and Collection libraries).

3. A key recommendation in their report was the establishment of what are called "agencies" to undertake certain functions which involve the delivery of services to the public. Responsibility for day to day operations in these agencies would be delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister, who will in turn be accountable to Parliament for the agency's performance. Within this framework there would be more scope to devise structures and systems to meet the needs of the public which each organisation serves. These agencies will generally be within the civil service and their staff will continue to be civil servants.

4. As the Prime Minister stated, the Government have accepted these recommendations and will be implementing them progressively. Departmental Ministers will now be looking at their Departments to decide what functions might be capable of being handled more effectively as agencies. The intention is to establish the first agencies later this year and the provisional list is being announced separately. The Government will be developing a continuing programme and are also committed to improving training and career development to promote the objectives of the New Steps approach.

#### How "Next Steps" will affect Customs and Excise

5. First of all, no area of work in this Department has been identified as a candidate for separate agency treatment and, as the Board's recent statement on personnel policies made clear - and as I confirmed to you in my message on 5 February - we envisage that Customs and Excise will remain an integrated department for the foreseeable future. If at any time this should change, I will, of course, let you know straight away.

6. To a large extent, as indeed the Report recognises, we are already in practice well down the "agency" path. The Commissioners are responsible in law for management, within the policy objectives and the resources framework set by Treasury Ministers. With the help of all of you, we have made very good progress in implementing the Financial Management Initiative and delegating budgetary and other authority, and we hope to do more, particularly in the area of personnel management. All these are areas we shall want to press on with.

7. Accordingly, the "Next Steps" approach will not make any immediate difference to the course we have set. Nevertheless, the essence of the new proposals is to help all Departments to deliver their services more effectively and, in common with other

Departments, we shall be considering how the principles behind the changes could usefully be applied to our work. [For example, the proposals envisage giving agencies greater flexibility to enable them to achieve better results. We shall be reassessing our own flexibility, with a view to discussing any possible changes where appropriate with the Treasury.]

8. And, most importantly, we remain firmly committed, with your support, to continuing to improve the way in which all of us in this department do the job for the whole community.

, including any scope for greater flexibility,

J B UNWIN

*pay*



FROM: A C S ALLAN  
DATE: 10 February 1988

MR L J HARRIS

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Dame A Mueller  
Mr Anson  
Mr Kemp  
Mr Turnbull

**NEXT STEPS: PROCEDURE**

The Chancellor was grateful for your minute of 8 February, which he has discussed with Sir P Middleton. They agreed that he should not minute the Prime Minister. Sir P Middleton would discuss with Sir R Butler the points you raised in your minute.

*ACSA*

A C S ALLAN



*psw*

FROM: A C S ALLAN  
DATE: 10 February 1988

MR KEMP

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Anson  
Dame A Mueller  
Mr C D Butler  
Mr L J Harris  
Mr R I G Allen

**NEXT STEPS**

I showed the Chancellor your minute of 9 February. He felt that the Treasury note should not be treated as "in the public domain".

*ACSA*

A C S ALLAN



FROM: A C S ALLAN  
DATE: 11 February 1988

MR UNWIN - CUSTOMS AND EXCISE

cc PS/Economic Secretary  
Sir P Middleton  
Mr Battishill - IR

**NEXT STEPS**

The Chancellor was grateful for your minute of 10 February, and is generally content with what you propose. But he feels you should omit the last two sentences in paragraph 7 of your draft note to staff ("~~F~~or example, the proposals envisage giving agencies greater flexibility to enable them to achieve better results. We shall be reassessing our own flexibility, with a view to discussing any possible changes where appropriate with the Treasury"). He feels that staff should be informed only when changes have been discussed with the Treasury and agreed.

A handwritten signature in black ink, appearing to read "ACSA".

A C S ALLAN





FROM: A C S ALLAN

DATE: 11 February 1988

MR BATTISHILL - INLAND REVENUE

cc PS/Chief Secretary  
PS/Financial Secretary  
Sir P Middleton  
Mr Anson  
Mr Scholar  
Mr Unwin - C&E  
Mr Isaac - IR  
Mr Painter - IR  
Mr Rogers - IR

**IMPROVING MANAGEMENT IN THE CIVIL SERVICE: NEXT STEPS**

The Chancellor was grateful for your minute of 9 February, and is content with what you propose. I understand that the Financial Secretary is also content.

A handwritten signature in black ink that reads "ACSA".

A C S ALLAN

*ME*

FROM: MISS C EVANS

DATE: 12 May 1988

MR . L HARRIS

cc **Chancellor 12/2**  
**Chief Secretary**  
**Financial Secretary**  
**Paymaster General**  
**Economic Secretary**  
**Sir P Middleton**  
**Dame Anne Mueller**  
**Mr Anson**  
**Mr Phillips**  
**Mr Turnbull**  
**Mr Luce**  
**Mr C D Butler**  
**Mr Kelly**  
**Mr Odling Smee**  
**Dr Freeman**  
**Mr Welsh**

**Mr Battishill - IR**  
**Mr Unwin - C&E**  
**Mr Dole - HMSO**  
**Mr Patterson - DNS**  
**Mr Taylor - COI**

**TCSC NEXT STEPS ENQUIRY**

The Assistant Clerk telephoned to say that the sub committee would like to receive oral evidence from the Treasury following our recent memorandum. They would like to see a Treasury Minister, but I got the impression that they could be persuaded that an official hearing would be more sensible. Oral evidence from Mr Richard Luce has been arranged provisionally for 7 July. As you know, Mr Kemp and Sir Robin Ibbes are to appear next Wednesday and the following week respectively.

2. I would be grateful for your advice on our response to this request. Dates suggested by the Clerk are 15, 22 or 29 June at 11.30

*CE*

MISS C EVANS

*prop*

From: SIR PETER MIDDLETON

Date: 15 February 1988

CHANCELLOR

*OK subject to 2 pts below*

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Paymaster General  
Mr Anson  
Sir G Littler  
Sir T Burns  
Mr C D Butler

*passed to PS/PEM*

NEXT STEPS

... I attach two notes which I am proposing to send to Treasury officials. The first is to all staff. The second is just to the pay, expenditure and related groups in the central Treasury.

*CS*  
*I'm not sure top one*  
*went a bit too concis*

*AM*

P E MIDDLETON

## MANAGEMENT IN CONFIDENCE

LETTER FROM: Sir Peter Middleton

TO: All Treasury Staff

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister told the House of Commons this afternoon that the Government had accepted the ~~the~~ main recommendations in a report by the Efficiency Unit entitled "Improving Management in Government: The Next Steps". These proposals are summarised in the attached note. *(not attached)*

2. HMSO is to be considered as a candidate for agency treatment on the lines set out in the note, but otherwise there are no immediate plans to establish the new type of agency in the Treasury or any of the Chancellor's other departments.

3. Staff in central Treasury will be involved with other departments and with the Project Manager in the creation of agencies elsewhere. Clear arrangements have been made and agreed by Ministers to direct this process. The Treasury has to ensure the proper control of public expenditure, running costs and pay while giving the agencies the managerial freedom they need to carry out their work successfully. This will be a difficult task, but I know that I can rely on those involved to carry it through in a constructive way.

4. Treasury senior management will be keeping you informed as the "Next Steps" approach develops. Meanwhile, you will find copies of the Efficiency Unit's report and of the Prime Minister's statement in the library.

*see below  
for the  
info.*

(Fw Pay, GE, RCM etc)

### NEXT STEPS

The Prime Minister announced the Government's decisions on the Efficiency Unit's Report "Improving Management in Government: The Next Steps" in an oral statement in the House of Commons this afternoon. A copy of the statement is attached, together with the published Efficiency Unit report, a management brief for use by departments in answering questions, and the final version of the Treasury paper, setting out the procedure for establishing and administering agencies.

I am sending a letter to all Treasury staff explaining that HMSO is the only candidate among the Chancellor's departments for consideration as one of the initial agencies. But central Treasury will be deeply involved in the implementation of the agency programme overall.

The Treasury, in its drive for [better financial management and] greater efficiency in departments, has been moving for some time in the broad direction recommended by the Efficiency Unit, and supports its basic approach. But it has taken time to reach agreement on procedures which adequately protect the Government's wider economic policy objectives. These procedures are set out in the attached Treasury paper, which has been endorsed by Cabinet. It will not be published, but it has been accepted as constituting the procedures to be applied by departments, the Treasury and OMCS, and the Project Manager in considering proposals for setting up agencies. It is very important that these procedures should be followed, and in particular that all the options in paragraph 5 of the Treasury paper should be explored before work on agency status is started.

You will see from the Prime Minister's statement that the Government has accepted four of the recommendations in the Efficiency Unit's report. It has not endorsed everything that is said in the report. The explicit or implied criticisms in the report of the role played by the central departments in the management of the Civil Service, of public expenditure and running costs in recent years have no status other than as an expression of opinion by the Unit itself.

CONFIDENTIAL

FROM: L J HARRIS  
DATE: 16 February 1988

- 
1. MR. KEMP
  2. CHANCELLOR

cc Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Dame Anne Mueller  
Mr Anson  
Mr Turnbull**CABINET 18 FEBRUARY 1988**  
**IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS**

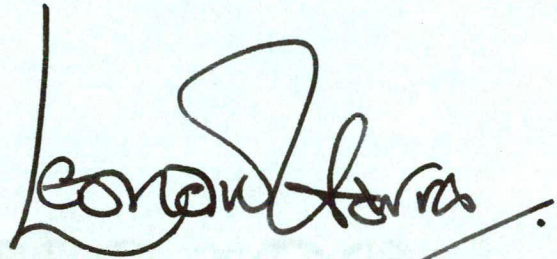
The note by the Secretary of the Cabinet sets out the position reached in the small Ministerial Group very fairly, and there is nothing in it to which you need to take objection. Like the earlier notes by Sir Robert Armstrong and Sir Robin Butler, however, it leaves vague the precise status of the Treasury paper on procedure. It notes that the Group agreed that the recommendations "... should be implemented according to procedures designed to ensure the proper control of public expenditure, running costs and pay", but it does not identify the Treasury paper as the agreed procedure; it merely says that the paper is "... at Annex B". You will wish to ensure that the Cabinet specifically endorse the Treasury paper as an integral part of the package which they are being asked to approve.

You can point out that since it was first drafted, the Treasury paper has been discussed in great detail between the Treasury, the Efficiency Unit, and the Secretary of the Cabinet and his predecessor. It has been substantially amended as a result, and the version which went to the last meeting of the Ministerial Group was an agreed text. In her summing up of the Group's discussion, the Prime Minister said that Ministers endorsed the proposals put to them by the Secretary of the Cabinet including the arrangements described in the Treasury's note. Since then, in response to points made during the discussion, the Treasury, in consultation with the Efficiency Unit, have softened the language of the note, particularly in paragraph 2, so as to convey a more positive approach to the exercise. The text now before the Cabinet

CONFIDENTIAL

is the furthest you are prepared to go, and you attach the greatest importance to its being firmly endorsed as part of the package, although you do not, of course, exclude the possibility of further relaxations being introduced as experience of the running of the initial agencies is gained.

You might also, if the opportunity arises, make the point that the Cabinet's approval is being given only to the four recommendations listed in the Prime Minister's statement, and not to the report as a whole. But this is already tacitly accepted by the Prime Minister's reversion in her statement to the formula that "The Government has accepted these four recommendations" and by the insertion of suitable defensive material drafted by the Treasury in the briefing for supplementaries on her statement. There is, therefore, no need to make a great issue of this point.

A handwritten signature in black ink, appearing to read "Leonard Harris". The signature is stylized with a large loop at the top and a long horizontal stroke at the bottom.

L J HARRIS

MANAGEMENT IN CONFIDENCE

*pur*

From: S D H SARGENT

Date: 16 February 1988

MR C D BUTLER

cc PPS -  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Paymaster General  
 Sir T Burns  
 Sir G Littler  
 Mr Anson  
 Dame A Mueller  
 Mr Kemp  
 Mr L Harris

NEXT STEPS: MESSAGE TO TREASURY STAFF

I attach a copy of the Office Notice to be distributed to all Treasury staff on Thursday afternoon.

*pp**For Clerk*

S D H SARGENT

Private Secretary

*a*  
 This has attachment

*AA**[Red signature]*



**OFFICE NOTICE**

TO: All Treasury Staff

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

The Prime Minister told the House of Commons this afternoon that the Government had accepted the **four** main recommendations in a report by the Efficiency Unit entitled "Improving Management in Government: The Next Steps". These proposals are summarised in the attached note.

2. HMSO is to be considered as a candidate for agency treatment on the lines set out in the note, but otherwise there are no immediate plans to establish the new type of agency in the Treasury or any of the Chancellor's other departments.

3. Staff in central Treasury will be involved with other departments and with the Project Manager in the creation of agencies elsewhere. Clear arrangements have been made and agreed by Ministers to direct this process. The Treasury has to ensure the proper control of public expenditure, running costs and pay while giving the agencies the managerial freedom they need to carry out their work successfully. This will be a difficult task, but I know that I can rely on those involved to carry it through in a constructive way.

4. Treasury senior management will be keeping you informed as the "Next Steps" approach develops. Meanwhile, you will find copies of the Efficiency Unit's report and of the Prime Minister's statement in the library.

P E MIDDLETON

## IMPROVING MANAGEMENT IN THE CIVIL SERVICE: THE NEXT STEPS

The Government has announced further steps to improve the way in which the Civil Service carries out its business.

During 1987 the Efficiency Unit, at the Prime Minister's request, looked at the progress of Civil Service management reforms. In their report called "Improving Management in Government: The Next Steps" they concluded that while a great deal had been done in recent years to improve management in the Civil Service further substantial improvements were possible.

The report says that the developments of the last eight years have had a positive effect on the way civil servants go about their business. The development of the various FMI systems, of new budgetting 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. They were keen to see further changes which gave more scope for flexibility for the exercise of personal responsibility by managers.

The report includes the following recommendations:

- As far as practicable, the executive functions of Government, that is service delivery undertaken by departments (as distinct from policy advice), 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 the above recommendations, which will set the direction for further development in the programme of management reform.

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 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.

The Government is also committed to improving training and career development to promote the objectives of the Next Steps approach.

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

*PM*

From: SIR PETER MIDDLETON

Date: 17 February 1988

CHANCELLOR

*Support four proposals  
Provide procedure to Annex B  
Follow, consistent with  
Govt's overall px of pay  
Agreements  
Avoid overselling (see  
Turnbull pass letter)  
Mustn't give  
Wholesale  
approval to  
What stops - see  
page 28  
(TSC first Jan)*

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Dame A Mueller
- Mr Anson
- Mr Kemp
- Mr Turnbull
- Mr L Harris

NEXT STEPS

The objective is to get through the meeting with the agreed procedures intact and a summing up similar to that at the last meeting. It might do no harm to let No 10 know what we are looking for in advance.

2. You might therefore:

(a) support the four proposals which Ministers are asked to approve (those in the PM's statement). They push forward in the direction in which pay and expenditure arrangements are already moving with the development of budgetting. On the assumption that the procedures in Annex B are followed, Cabinet can be reasonably assured that the Government's overall objectives for public expenditure and pay will not be put at risk;

(b) avoid overselling what is proposed. Some candidates will not become agencies because better solutions will be found eg privatisation or contracting out. And it will clearly be best to demonstrate a number of successful cases rather than dissipate effort in a confused way over a wide field (the briefing so far has been clearly over the top);

*(X idea  
contact meeting)*

MANAGEMENT IN CONFIDENCE

- (c) avoid any impression that Ministers have approved everything in next steps. Otherwise we risk a public squabble and difficulties with Parliament (see pages 22, 24 and 26 - it would not take too much to build paragraphs 19 and 20, 32 and 37 and 48 into a nasty health service story).



P E MIDDLETON

EXTRACT FROM  
RECORD OF MEETING

ON 28 JAN  
(full text  
below)

(7) The draft answer should be amended to distinguish between departments' work in the delivery of services and in policy formulation, and to make clear that the agency approach applied to the service delivery function. It was agreed that the reference to the recommendations in the eighth line from the end of paragraph 3 should read ".....the Government accepts the above recommendations....". The term "Unoccupied Royal Palaces" gave an unfortunate impression, and a better title should be devised for that agency. The announcement should list the functions identified as possible agencies.

(8) The arguments were finely balanced as to whether the answer should be made by Written Answer or Oral Statement to Parliament. There was a risk that there would be a Parliamentary row if such an important change in the machinery of Government was announced by a Written Answer.

(9) Before any announcement was made, it would be important for departments thoroughly to brief their staff, particularly those in the blocks of works identified for agency treatment.

Summing up the discussion, the Prime Minister said that Ministers endorsed the approach in the paper before them, including the arrangements described in the Treasury's note at Annex B of the paper, though the Treasury should take care to avoid operating the arrangements described there in a bureaucratic manner. As suggested in paragraph 2 above, the Treasury should consider the drafting of their note at Annex B so as to convey a more positive approach to the exercise. The announcement should be made by an Oral Statement. You should prepare a draft statement for the Prime Minister's consideration, based on a shorter version of the draft at Annex A. The draft should take account of the points made in discussion and particularly the points in paragraphs 1 and 7 above and make it clear that the agency approach applied only

to departments' service delivery functions. It should avoid raising expectations about the extent of the application of the agency approach. You should also provide answers for supplementaries likely to arise on the statement. You should consider whether there needed to be a reference in the statement to legislative consequences or whether this could be dealt with in answers to supplementaries. You should check that the arrangements for recruiting chief executives and senior staff of agencies were not unnecessarily inhibited by the requirements of the Civil Service Commission; and report to the Prime Minister. As a separate exercise, you should also put proposals to the Prime Minister for avoiding the situation whereby existing post holders, recruited from outside, had to resubmit themselves for open competition before their contracts could be renewed. The issues on the Next Steps Report should now be put to Cabinet for their endorsement, as soon as convenient. Meanwhile, arrangements should be carried forward in departments to prepare the necessary briefing for staff so that the Statement to Parliament could be made in the afternoon after the matter had been considered by Cabinet, if Cabinet so decided.

I am sending copies of this letter to the Private Secretaries to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Trade and Industry, Transport and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord President, the Lord Privy Seal, the Chief Secretary, the Minister of State Privy Council Office and to Sir Robin Ibbs.

N.L.W.

N. L. WICKS

28 January 1988

Sir Brian Hayes GCB  
Permanent Secretary

MANAGEMENT IN CONFIDENCE

E P Kemp Esq  
Cabinet Office  
70 Whitehall  
LONDON SW1

Department of  
Trade and Industry

1-19 Victoria Street  
London SW1H 0ET

Switchboard  
01-215 7877

Telex 8811074/5 DTHQ G  
Fax 01-222 2629

*Handwritten notes in red ink:*  
PES had us  
have a note  
on the pros &  
cons of creating  
the CCTA as  
an Agency. M.  
ccPPS —  
PS/CSE  
Mr Anson  
John Anson/Muller  
Mystaria  
pm - Budget

Direct line  
Our ref 215 4439  
Your ref  
Date

26 February 1988

cc Sir P Middleton  
(without enc)

Dear Peter,

NEXT STEPS

As you know, my Secretary of State is enthusiastic about the prospect offered by the Next Steps approach for improving the quality of services provided by the Government, while at the same time seeking better value for money.

Lord Young wishes to implement the Next Steps recommendations in DTI as rapidly and extensively as possible and to this end he wants us to pursue the following programmes:

- i. Have our first agency, the Companies Registration Office, in operation by 1 October 1988;
- ii. Complete Departmental examination of the case for at least six further agencies and set a timetable for implementation by 30 June. During the summer we would consider proposed framework agreements with you and the Treasury, and the Secretary of State would hope to tie up any loose ends during the PES bilaterals. If all goes well this would allow further agencies to be announced before Christmas and set up between 1 January and 1 April 1989;





the department for Enterprise

MANAGEMENT IN CONFIDENCE

- iii. Complete current and prospective reviews of other DTI executive functions by the autumn so that a further list of candidates can be tabled in time for the PES bilaterals. In the light of the bilaterals detailed cases would then be worked up for sending to you and the Treasury. The aim is to announce this second wave of DTI Agencies in 1989/90 and to establish them between 1 October 1989 and 1 April 1990.

The Companies Registration Office

The case for the Companies Registration Office is well advanced. Our Ministers have recently considered the case for privatisation and concluded it is not practicable though the boundary with the private sector needs further consideration. The necessary control systems are in place and will support the net running cost control system to be introduced at the CRO on 1 April 1988. A supervisory board which will monitor CRO performance under the net running cost control system has been functioning for a year and the CRO management accounting system generates the information the Treasury need on unit costs and other performance indicators, including quality of service. The CRO corporate plan has been updated and is now ready for transmission to the Treasury - I attach a copy - and work has begun to identify the overall framework and the flexibilities which the CRO will need under Next Steps.

Subject to any final checks by DTI Ministers I therefore believe we are ready to move on Next Steps with the CRO and that the timetable for approval and the subsequent establishment of the CRO as an Agency is feasible, provided that we receive a quick response to our proposals from you and the Treasury.

Further Agencies

Apart from the CRO the main potential agencies in the Department are:

	<u>Location</u>	<u>Staff</u>
Patent Office	London/Newport	1150
Business Statistics Office	Newport	650
Radiocommunications Division	London HQ	500
Insolvency Service	London HQ	1500

## MANAGEMENT IN CONFIDENCE

3

REs		2130
of which		
- Laboratory of the Government Chemist	Teddington	(340)
- National Physical Laboratory	Teddington	(820)
- National Engineering Laboratory	Glasgow	(620)
- Warren Spring Laboratory	Stevenage	(300)
- National Weights & Measures Laboratory	Teddington	( 50)
Export Services	London HQ	750
Regional Operation	English Regions	1100
and possibly, support services (eg Accounts Branch, training computer services)	(mainly London)	1400
	<b>TOTAL</b>	<b>9180</b>

These, with the CRO, amount to well over three quarters of the Department's staff, but some will be more straightforward and quicker to deal with than others.

In terms of the decisions that need to be made on their suitability for agency treatment the Patent Office and R Division are almost in the starting frame. Much work has been done on management systems aspects of R Division though important policy decisions will be needed. The other potential candidates will take a little time to prepare because they are currently the subject of a review (eg the REs) and/or DTI Ministers will wish to reconsider the policy framework within which they operate, including prospects for privatisation. The position of the Business Statistics Office is complicated by the review of Government economic statistics which may conclude that the BSO should be part of an Economic Statistics Office (ESO). That possibility apart the Business Statistics Office is a clear candidate for early Next Steps treatment.

These potential first wave candidates will provide a pretty full workload for the Department's Next Steps team led by our Finance and Resource Management Division and for our Treasury interlocutors if we are to secure the aim of having all the potential first wave agencies in place by 1 April 1989 at the latest. But in line with my Secretary of State's wishes, work will proceed in parallel on the other candidates listed in paragraph 5 above. The Insolvency Service and other candidates listed in paragraph 5 will draw up plans which will allow my Secretary of State to take a

MANAGEMENT IN CONFIDENCE

4

view in the autumn on whether to propose in the PES bilaterals that some or all of them should become agencies in 1989/90 and in any case be operational by 1 April 1990.

Preliminary thought is also given to how the Next Steps concept can be made to apply to the Department's support services. But the nature of the support operations required will almost certainly change as a result of the creation of all the other agencies. It may well make sense therefore to bring the support services forward for serious consideration in 1989 after the first wave of agencies has been established.

All this amounts to a fairly formidable programme for application of the Next Steps approach in the DTI. My Secretary of State would if anything want us to give effect to it more quickly than I have indicated, though I have warned him that we shall need a very quick response from the centre if we are to achieve even the timetable I have outlined. I should welcome your reaction to all this and, I hope, your confirmation that it fits in well with your own ideas on how progress can be made. I should also welcome guidance on when and how we should start consulting you, and the Treasury, on the detailed mechanics for establishing each potential agency.

I am sending a copy of this letter to Peter Middleton.

*Yours ever*

*Brian*

BRIAN HAYES



FROM: A C S ALLAN  
DATE: 2 March 1988

~~BF 21/3~~  
~~next~~  
~~BF 21/4~~  
~~Water~~

SIR P MIDDLETON

~~BF 20/4~~  
~~next BF 21/4~~  
~~Water~~  
~~And again~~

**NEXT STEPS**

The Chancellor has seen Sir Brian Hayes' letter of 26 February to Peter Kemp. He would be grateful for a note - post-Budget - on the pros and cons of converting the CCTA into an agency.

~~ACSA~~ ~~BF 1/6~~  
~~15/6~~  
~~1/7~~  
~~15/7~~  
~~6/9~~  
fuz

A C S ALLAN

Ref. A088/746

MR WICKS

*Chk*  
*(see para 7*  
*re Terry)*  
*HA*

CH/EXCHEQUER	
REC.	07 MAR 1988 <i>HS</i>
ACTION	SIR P. MIDDLETON
COPIES TO	CST PMG MR ANSON DAME A MUELLER MR KEMP MR RICHARDSON MR HARRIS

*Prop.*  
*Next Steps.*

Civil Service Commission Procedures for Appointment and Reappointment

In your minute of 28 January, recording the meeting chaired by the Prime Minister on "Improving Management in Government: The Next Steps", the Prime Minister asked me to check that the arrangements for recruiting Chief Executives and senior staff to agencies were not unnecessarily inhibited by the requirements of the Civil Service Commission. As a separate exercise the Prime Minister asked me also to put proposals for avoiding the situation whereby post-holders, recruited from outside, had to submit themselves for open competition before their contracts could be renewed.

Appointment Procedures

2. Appointments to the Civil Service are covered by the Civil Service Order-in-Council, and the Regulations made under it, which, in line with Government policy, requires that all appointments should be made solely on merit on the basis of fair and open competition (my underlining). The Civil Service Commission have to satisfy themselves that the requirements of the Order-in-Council are satisfied.

3. The standard process of recruiting to the Civil Service is by advertisement followed by a selection procedure. The Civil Service Commissioners recognise, however, that cases arise when a formal procedure of this kind would not work because a suitable candidate would not submit himself to such a procedure.

4. In such cases, the Commissioners are prepared to authorise a different procedure, which nevertheless complies with the Order-in-Council. The First Civil Service Commissioner needs to be satisfied that there have been confidential soundings (which take the place of an advertisement) with a view to producing a short-list of suitable candidates within the field. It is not required that this procedure produces several candidates: it might produce only one. What is necessary is that the Commissioner should be satisfied that the Government has looked widely enough to establish that the appointment is being made on merit.

5. The candidate, or candidates, who emerge from this exercise are then interviewed, but this again is done discreetly and informally, for example by an informal discussion in which the First Civil Service Commissioner is one of those taking part. It is important to establish at this stage whether they would be prepared to take the job for the salary which is on offer. The current Director of Public Prosecutions was selected in this way and the same procedures are at present being used to find a Chief Scientific Adviser in the Ministry of Defence and a Chief Medical Officer for the Scottish Office. Experience suggests that they work well. I do not know of any evidence that this procedure frightens off the candidates the Government wants; and I do not see why it should.

#### Re-employment

6. No problem arises when the question is one of extending the contract of someone in whose appointment the Civil Service Commissioners were involved at the outset. In these cases the Commission are usually content to agree to a proposal to extend the appointment or convert it into a permanent one without further formality. For this reason Departments are advised to publicise the possibility from the outset and to involve the Civil Service Commission in the original recruitment exercise if

there is any likelihood in due course of the extension of the contract or a proposal to make the appointment permanent.

7. I have looked into the two cases mentioned at the Prime Minister's meeting. One was the reappointment of Sir Terence Burns. The problem here stems from 1979, when the arrangements mentioned in the previous paragraph had not become as established as they are now. In this case, while the First Commissioner agreed in 1979 that the successful candidate could be appointed under one of the Commissioners's discretionary powers which limited appointment to five years, the Commissioners were not subsequently involved in the selection and appointment of Sir Terence Burns. After Sir Terence's appointment, the Treasury, after consultation with the Commissioners, assured the Union concerned that the conditions for any extension of the appointment beyond five years would be determined by the Commissioners. In 1983, after further correspondence, the First Civil Service Commissioner agreed to use his discretionary powers to authorise extension of Sir Terence's appointment, without an open competition, for a further five years to 31 December 1989. It will need to be decided before the end of 1989 what procedures should then be pursued if Sir Terence's tenure is to be further extended.

8. The other case is the Head of TVEI at the Manpower Services Commission, Mr J Woolhouse. He was appointed on 1 January 1983 for a period of two years on secondment, without involvement of the Commissioners (who at that time had no formal powers over secondment). As the end of the two years approached, the MSC wanted to extend the post for a further three years by offering a fixed term appointment to 31 December 1987. The MSC said that they had no intention of extending the appointment beyond that date. After correspondence, the First Civil Service Commissioner agreed to authorise Mr Woolhouse's appointment on period terms, as the Department of Employment had requested, and Mr Woolhouse duly completed his term. So the Government did

not lose Mr Woolhouse: it is true that the Commissioners needed some persuasion to turn his secondment into a period appointment without an open competition but they did in fact do so, using their discretionary powers. The case illustrates that the Commissioners do not refuse to use their discretionary powers, even when there has been no open competition, provided that the circumstances warrant it.

### Conclusion

9. Since 1979 considerable advances have been made in finding methods of appointment satisfying the requirement in the Civil Service Order in Council for fair and open competition with sufficiently informal and flexible arrangements to avoid deterring first class candidates. I do not think that the arrangements now made should act as an obstacle to getting first rate outsiders as heads of agencies when this is what is wanted. If any difficulties arise in this respect we will consider how they can be removed.

10. On reappointment, it is now widely understood that the Civil Service Commission should be involved in the original appointment so that the requirements for fair and open competition do not give rise to difficulty if the appointment is to be extended or made permanent. Again we can see whether any problems arise in practice, but there is good reason for thinking that knowledge and acceptance of these arrangements should avoid difficulty in future.

11. I am copying this minute to the Private Secretaries to 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 President, the



Lord Privy Seal, the Chief Secretary, Treasury and the Minister of State, Privy Council Office, and to Sir Robin Ibbs and the First Civil Service Commissioner.

R.R.B.

ROBIN BUTLER

4 March 1988

FROM: MISS C EVANS  
DATE: 5 APRIL 1988

MR L J HARRIS

cc Chancellor of the Exchequer 12/2  
Chief Secretary  
Financial Secretary  
Paymaster General  
Economic Secretary  
Sir Peter Middleton  
Dame Anne Mueller  
Mr Anson  
Mr Scholar  
Mr Phillips  
Mr Culpin  
Mr Odling-Smee  
Mr Turnbull  
Mr Luce  
Mr C D Butler  
Mr Kelly  
Mrs Lomax  
Mr Peretz  
Mr Richardson  
Mr Macauslan  
Mr Welsh  
PFOs of all Chancellor's  
Departments (on ~~attached list~~)  
list below

*Mr Hawtin*  
*Miss Peirson*  
*Mr Hoare*  
*Mrs Wiseman*

*Note*  
*Spoke to C Evans. She will*  
*arrange with Leonard Harris for*  
*all the draft replies to be*  
*submitted together to Tony Mins*  
*for approval.*

**TCSC SUB COMMITTEE ENQUIRY INTO NEXT STEPS**


I mentioned to you on the 'phone that the TCSC sub Committee (members: Mr Radice (Chairman), Mr Higgins, Miss Quin, Mr Sedgmore, Mr Watts) is conducting an enquiry into the Ibbs' proposals starting with evidence from the Efficiency Unit and the Project Team. The Assistant Clerk is writing to me\* asking for a paper on the implications of the proposals for the Treasury's interests in public expenditure, accountability etc.

2. In addition the sub Committee want to establish the context to the Ibbs' proposals by probing the present relationship between the Treasury and the Chancellor's departments which are not designated agency candidates. They will therefore be writing direct to the PFOs of some of these departments (probably the Revenue Departments and DNS and one or two others). They will be looking similarly at the relationship between for example the MSC and DE. I mentioned to you that I suggested to the Assistant Clerk that it would be more convenient if the Treasury prepared a co-ordinated reply explaining

\* letters now received and attached

this relationship but, after consulting the Clerk, the Assistant Clerk's reply was that the sub Committee would want replies direct from the department itself. You will want to consider whether this is the best way to proceed.

3. You agreed to prepare a reply to the questions addressed to the Treasury when we receive them. You will also prepare guidance for the Chancellor's other departments to use in preparing responses to the letter addressed to them (which will be copied to us); these will then need to be cleared with Treasury Ministers.



MISS C EVANS

Chancellor's Depts :

Mrs V Strachan	C+E
Mr J Crawley	IR
Mr A H Robinson	COI
Mr DEZ Whittall	DNS
Mr Johnston	GAD
Mr <sup>M</sup> Lyan	HMSO
Mr M Battenti	Registry of Friendly Societies
Mr Snell	Royal Mint
Mr I H Peattie	NJLO



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 5766 (Direct Line)  
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

30 March 1988

Dear *Carys*

The sub-committee has been appointed to inquire into the management reforms announced by the Prime Minister on 18 February in response to the Efficiency Unit's report on management in the civil service.

The sub-committee would be most interested in the Treasury's view on these proposals, not merely in respect of HMSO's candidature for agency status, but also on the wider issues of the delegation of financial and managerial responsibility and the kind of accountability that entails.

I shall also be writing to some of the bodies for which the Treasury has responsibility, or form part of the Department (eg CCTA), in order to assess their position in relation to the proposed agencies. The comments of the Treasury would also be of interest. I shall of course forward copies of such letters to you as they are sent.

It is expected that the sub-committee will want to take oral evidence from the Treasury at some point in May or June.

Please do not hesitate to ring me if I have left anything unclear, or unsaid.

PAUL HIBBERT  
Clerk of the Committee

Carys Evans  
HM Treasury  
Parliament Street  
SW1P 3AG



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 (Direct Line)  
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

PRESS NOTICE

The Treasury and Civil Service Committee has appointed a sub-committee to inquire into the proposed management reforms in the Civil Service announced by the Prime Minister on 18 February in response to the Efficiency Unit's report "Improving Management in Government: The Next Steps".

Members of the sub-committee are:

Mr Giles Radice (Chairman)  
Rt Hon Terence L Higgins  
Ms Joyce Quin  
Mr Brian Sedgemore  
Mr John Watts

The sub-committee will announce its programme for oral evidence in the near future.

30 March 1988

Inquiries 01-219-5766



COMMITTEE OFFICE  
 HOUSE OF COMMONS  
 LONDON SW1A 0AA  
 01-219 5766 (Direct Line)  
 01-219 3000 (Switchboard)

Chancellor

12/2  
 BF to ACS A  
 7/4

TREASURY AND CIVIL SERVICE COMMITTEE

TCS on Agencies  
 other pp behind

SUB-COMMITTEE

5 April 1988

Mr L J Harris

cc Try copies of  
~~my~~ my minute  
 + Mrs Burnham's of 5 April

Carys Evans  
 HM Treasury  
 Parliament Street  
 SW1P 3AG

for action as requested  
 in my minute of yesterday  
 please

CEvans 6/4

Dear Carys

Further to my letter of 30 March, I thought it might be of help to raise some specific issues of interest which the Treasury may wish to comment on in its evidence to the sub-committee.

What are the advantages of 'agencies', which the Treasury perceives, over the present arrangements? Is there an order of priorities underlying discussions about possible agencies and the forms they might take? What steps will be taken to follow up the structural changes to reinforce the emphasis on management? Does the Treasury see any conflicts between financial control by and accountability to the Treasury and the Department and management as practised in the private sector, and taught in management schools?

I hope these questions prove helpful in the preparation of the Treasury's evidence.

I enclose copies of letters to HMSO, the Board of Inland Revenue, HM Customs and Excise, the Department of National Savings, COI and CCTA.

*Paul*

PAUL HIBBERT  
 Clerk of the Committee



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 5766 (Direct Line)  
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

J A Dole Esq  
Controller and Chief Executive  
Her Majesty's Stationery Office  
Room 1/15  
24 Whitehall  
LONDON  
SE1A 2ED

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to the HMSO at present. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT  
Clerk of the Committee



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 5766 (Direct Line)  
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

A M W Battishill Esq  
Chairman  
Board of Inland Revenue  
Somerset House  
LONDON  
WC2R 1LB

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to the Board at present, whether this level of delegation is sufficient, and whether the reforms envisaged in the Prime Minister's statement of 18 February could usefully be applied to the Board. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT  
Clerk of the Committee





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LONDON SW1A 0AA  
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01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

J B Unwin Esq CB  
Chairman  
HM Customs and Excise  
King's Beam House  
39-41 Mark Lane  
LONDON  
EC3R 7HE

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to HM Customs and Excise at present, whether this level of delegation is sufficient, and whether the reforms envisaged in the Prime Minister's statement of 18 February could usefully be applied to HM Customs and Excise. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT

Chairman of the Committee



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LONDON SW1A 0AA  
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01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

J A Patterson Esq  
Director  
Department of National Savings  
Charles House  
375 Kensington High Street  
LONDON  
W14 8SD

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to the DNS at present, whether this level of delegation is sufficient, and whether the reforms envisaged in the Prime Minister's statement of 18 February could usefully be applied to the DNS. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT  
Clerk of the Committee



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TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

N Taylor Esq  
Director General  
Central Office of Information  
Hercules Road  
LONDON  
SE1 7DU

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to the COI at present, whether this level of delegation is sufficient, and whether the reforms envisaged in the Prime Minister's statement of 18 February could usefully be applied to the COI. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT  
Clerk of the Committee



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TREASURY AND CIVIL SERVICE COMMITTEE

SUB-COMMITTEE

5 April 1988

Dr P I Freeman  
Director  
Central Computer and Telecommunications Agency  
Riverwalk House  
157-161 Millbank  
LONDON  
SW1P 4RT

Dear Sir

I enclose a copy of a press notice, for your information, issued to announce the opening of an inquiry, by the Treasury and Civil Service sub-committee, into the Efficiency Unit's Report 'The Next Steps' and its consequences.

The sub-committee would be most interested to receive a memorandum from you setting out your views in this area. One might ask, in particular, what financial and managerial responsibility is delegated to the CCTA at present and whether the reforms envisaged in the Prime Minister's statement of 18 February could usefully be applied to the CCTA. Will improvements in the quality of management and efficiency necessarily flow from structural changes, or will more effort be needed subsequent to these changes? If so, what sort of effort?

Please do not feel constrained to answer only the questions above. It would be most helpful if I could receive a reply by the first week in May.

I shall be forwarding a copy of this letter to Miss G C Evans at HM Treasury.

Yours faithfully

PAUL HIBBERT  
Clerk of the Committee

RF 415  
1315



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

CHIEF SECRETARY
111 W 128
Mr Buzner
Mr. Anderson
Mr. Wilson, Mr. Monek
Mrs Case, Mr Turnbull, Mr Robson
Mr Waller, Mr Mason, Mr Gunnarsson
Mr Bradley, Mr Elias, Mr Call

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade and Industry  
1 Victoria Street  
LONDON  
SW1H 0ET

21 April 1988

*Dear David*

**NATIONAL ENGINEERING LABORATORY, EAST KILBRIDE**

I understand that the Central Unit in your Department has been conducting a review of your Industrial Research Establishments and that its officials have had informal contacts with mine in the Industry Department for Scotland about it. My purpose in writing is to declare an interest in the future of the National Engineering Laboratory at East Kilbride which is one of the Industrial Research Establishments under review. While NEL has always been a DTI responsibility its location in Scotland since it was set up and more particularly its role as a significant employer in a Scottish new town, together with its place in the package of attractions on offer to industry considering Scotland as a location, mean that I am closely interested in its future.

I appreciate your reasons for wishing to carry out your review discreetly but I hope you can also see that my interest in the Scottish industrial context is significant. I should be grateful therefore if your officials would keep mine in touch with your Department's thinking on this issue and allow me an opportunity to comment before you take any final decisions about the future of NEL.

*Malcolm Rifkind*

**MALCOLM RIFKIND**

UNCLASSIFIED

FROM: C J WELSH

DATE: 29 APRIL 1988

1. MR PHILLIPS *Agreed in draft. HP 2a/4*
2. **CHANCELLOR OF THE EXCHEQUER**

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Economic Secretary  
 Sir Peter Middleton  
 Dame Anne Mueller  
 Mr Anson  
 Mr Scholar  
 Mr Culpin  
 Mr Beastall  
 Mr C D Butler  
 Mr Harris  
 Dr Freeman  
 Mr Luce  
 Mr Kelly  
 Mrs Lomax  
 Mr Odling-Smee  
 Mr Peretz  
 Mr Turnbull  
 Miss G C Evans  
 B/8

*Ch*  
 This is appalling gobbledegook,  
 but seems OK. Two small drafting  
 points @ X & Y (on the Treasury  
 page).

*OK?*  
*OK as* *AA*

---

Mr Battishill - IR  
 Mr Unwin - C & E  
 Mr Dole - HMSO  
 Mr Patterson - DNS  
 Mr Taylor - COI

---

Mr Kemp

**TCSC SUB-COMMITTEE ENQUIRY INTO NEXT STEPS**

Following the appointment of this Sub-Committee the Clerk has written to us with some general questions about Next Steps. He has also written to the other Chancellor's departments listed above, to a number of other departments to management consultants, to some retired civil servants and academics. In all, 55 people or organisations have been approached. This submission seeks your agreement to the way in which we propose to handle the questions to the Treasury and the other Chancellor's departments and the terms of our reply.

## Handling

2. The questions to the Treasury (see Annex A) cover a number of general issues such as our views on the Next Steps proposals, the advantages of delegation and questions about accountability. Some of the questions are vague and unfocussed. Similar questions have been put to other departments. The Sub-Committee has arranged to take oral evidence from Sir Robin Ibbs on 25 May and from Mr Kemp on 18 May. Mr Kemp has been invited to submit a note on his role as project manager but not on wider issues.

3. After discussion with OMCS, our joint view is that they should submit a memorandum covering most of the general questions asked by the Sub-Committee. By providing a 'central' paper on these lines we will be able to give the Sub-Committee an authoritative view and a point of reference for other departments who can then confine their replies to factual questions such as those about existing delegations and freedoms. This means that we shall not seek to answer directly those questions put to the Treasury which seem more appropriate to an OMCS paper.

✓ 4. Given this approach we think it would be tidier for the Treasury paper to include the replies to the questions posed to your other departments rather than for each of them to reply separately. As you will see from Annex A, these questions cover matters such as the basis on which your other departments are controlled and their existing delegations and flexibilities.

### Terms of the Treasury and OMCS paper

5. The draft of the Treasury paper is at Annex B. It deals with three of the clerk's questions about financial control, viz:

- clerk*
- (i) whether we see any conflict between financial control by and accountability to the Treasury and departments, and management as practiced in the private sector;

(ii) the Treasury's view on wider issues of delegation of financial and managerial responsibility; and

(iii) whether improvements in quality and efficiency necessarily flow from structural change.

6. We propose to answer these questions in the Treasury paper because it would look odd and could renew speculation about the Treasury's position if our paper said nothing on these matters. Moreover, it gives us the opportunity to reiterate what the Prime Minister said on 18 February about the need to safeguard the control of public expenditure and to maintain essential central controls. The draft also says that where the necessary conditions are met, the Government expects to see improvements in efficiency beyond those that would have been achieved without the creation of agencies. (This is the line we are taking in looking at the early proposals from departments for the creation of agencies.)

7. In relation to your other departments the draft makes the point that the current arrangements go along way to meeting the Next Steps proposals. This material and the overall approach has been cleared with the departments concerned.

8. The OMCS draft is at Annex C. This sets out the role of the Project Manager, the Government's general position on Next Steps and the way the exercise is being handled. It also deals with the questions to us about the advantages of agencies over present arrangements, implications for accountability and the steps to be taken to reinforce the emphasis on management. As posed by the Sub-Committee we see these questions as largely for OMCS to answer. We are content with the terms of the OMCS draft.

## **Conclusion**

9. The Sub-Committee has asked for replies by the first week in May. They have indicated that they expect to ask the Treasury to give oral evidence in May or June. We should be grateful



to know please if you are content:

(i) with our proposals for handling this exercise ie to divide the general questions between the OMCS and Treasury papers and for the latter to cover the questions to your other departments;

(ii) with the terms of the Treasury and OMCS memoranda.

? / 10. Both the Treasury and OMCS papers are being submitted to Mr Luce today.

A handwritten signature in dark ink, consisting of a large, stylized 'C' followed by 'J' and 'WELSH' in a cursive script.

C J WELSH

## TCSC ENQUIRY INTO NEXT STEPS

QUESTIONS TO THE TREASURYANSWERED IN

- |   |   |
|---|---|
| (i) wider issues of the delegation of financial and managerial responsibility;  | Treasury paper para 3.                    |
| (ii) kind of accountability entailed by (i);  | OMCS paper para 12                        |
| (iii) Treasury comments on the position of other Chancellor's departments.  | Treasury paper paras 5-8                  |
| (iv) advantages of agencies over present arrangements;  | OMCS paper para 9.                        |
| (v) order of priorities about possible agencies;  | OMCS paper para 14 Treasury paper para 7. |
| (vi) forms agencies might take;   | OMCS paper para 14.                       |
| (vii) steps to follow up structural change to reinforce emphasis on management;   | OMCS paper para 17.                       |
| (viii) conflicts between financial control by and accountability to Treasury and the department and management as practised in private sector and taught in management schools. | Treasury paper para 2.                    |

QUESTIONS TO HMSO, IR, C & E, DNS, COI AND CCTA

- |  |  |
|--|--|
| (i) general views on "Next Steps";                                       | OMCS paper para 2.   |
| (ii) what financial and managerial responsibility delegated at present;  | Treasury paper para 9-17 and Annex.  |
| (iii) whether (ii) is sufficient;  | Treasury paper para 16 and Annex.  |
| (iv) whether reforms announced on 18 February could usefully be applied; | OMCS paper para 15 with comments in Treasury paper para 8 on extent to which IR etc already meet criteria. |

(v) whether improvements in quality of management and efficiency necessarily flow from structural changes or whether more effort be needed subsequently;

Treasury paper para 4  
OMCS paper para 17.

(vi) if so what sort of effort.

Ditto.

**TREASURY AND CIVIL SERVICE COMMITTEE**  
**ENQUIRY INTO THE EFFICIENCY UNIT'S REPORT**  
**"IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS"**

Note by the Treasury

---

X  
The Committee has written to the Treasury (including the CCTA, which is part of the Treasury) and a number of other departments for which ~~Treasury Ministers~~ *the Chancellor of the Exchequer is* responsible (Inland Revenue, Customs and Excise, HMSO, the Department for National Savings and the Central Office of Information). The Government's position on Next Steps is set out in the Prime Minister's statement to the House of Commons on 18 February. General questions about the principles of Next Steps and about the way that the accepted recommendations will be applied in the civil service as a whole are a matter for the Project Manager. These are therefore being dealt with in a memorandum by the OMCS. This memorandum deals with the specific questions on financial control for which the Treasury is responsible and the questions addressed to the other departments for which ~~Treasury Ministers~~ *The Chancellor is* responsible.

X

**Conflicts Between Financial Control by and Accountability to the Treasury and Departments, and Management as Practiced in the Private Sector**

2. As explained in the memorandum by the OMCS, the introduction of agencies is designed to improve efficiency by the delegation of authority to the heads of agencies to the maximum extent possible within a rigorous policy and resource framework. But all managers, whether in the private or public sector, operate under constraints which reflect the wider needs of the organisation. Typically, such constraints include cash flow and priorities. In the public sector it is necessary to safeguard

the control of public expenditure in accordance with the Government's macro-economic policies and, in the non-marketed public services where it is not possible to rely on normal market forces, to continue to contain the overall cost of administration. Flexibility in areas such as pay and recruitment will therefore have to be applied within a suitable overall framework. It is

*mistakenly to speak of 'conflict' between Treasury financial control and managerial prerogative in the private sector. What is at issue.*

**Wider Issues of Delegation of Financial and Managerial Responsibility**

3. The Treasury favours the maximum possible degree of delegation that is consistent with ~~essential~~<sup>those</sup> central controls. The delegations appropriate to individual agencies will need to be considered on a case by case basis according to the needs of that agency in improving its efficiency, the rigour of the policy and resource framework in place and the adequacy of the necessary internal control systems. This is consistent with other recent reforms such as the FMI and work to improve budgeting and output and performance measures. These have already provided a basis for increased delegation and flexibility for managers in the deployment of their resources. These developments were acknowledged in the Efficiency Unit's report.

*which remain essential*

#### **Will Improvements in Quality and Efficiency Necessarily Flow From Structural Change?**

4. Structural change should facilitate improvements in quality and efficiency, but does not guarantee them. Structural change needs to be reinforced by, for example, the right policy and resource framework and by ensuring that staff have the right skills and training. Where those conditions are satisfied the Government expects to see progressive improvements in efficiency beyond those that would be achieved without this initiative. At this stage it is not possible to quantify these gains, although it will be the intention to build targets for better performance into the framework for each agency as and when it is created. Beyond the initial creation of agencies, it will be part of the monitoring arrangements to identify the scope for further efficiencies and the means of delivering them.

*is) the nature & extent of the inherent differences between the public & private sectors.*

## The Existing Relationship Between the Treasury and the Chancellor of the Exchequer's Other Departments

5. The Chancellor's "other departments" have a dual relationship with the Treasury. First, in common with all Government departments, they are subject to the general arrangements for public expenditure control. These include the analysis by the Treasury of public expenditure bids and output and performance targets in the annual Survey, the scrutiny of Estimates, cash limits and running costs totals and, subject to the level of individual delegated authorities, the approval of major expenditure decisions such as capital investment. As part of this process, Treasury Expenditure Divisions need to be satisfied with the strategy being pursued by the department concerned.

6. Secondly, in respect of his departments, the Chancellor is responsible as the departmental Minister both for policy and for regular management oversight including performance. On these issues the head of the department reports to the Chancellor, not to Treasury officials. In practice the Chancellor delegates ~~regular oversight~~ to other Treasury Ministers.

*day-to-day responsibility*

7. In common with all Ministers, ~~Treasury Ministers~~ will be reviewing functions and activities within ~~their~~ <sup>his</sup> responsibilities to identify suitable candidates for consideration as agencies. This will be done in accordance with the procedure described in the OMCS paper.

*The Chancellor*

8. The extent to which further improvements will flow from creating agencies depends in part on how far the broad concept has already been applied. The Chancellor's departments have already made considerable progress towards meeting a number of the objectives of "Next Steps". Each of them already has a head of department who fulfills the role of "Chief Executive" and who is responsible for the efficient conduct of day to day operations within the resources available and the overall targets agreed with Treasury Ministers.

9. In the case of HMSO, Ministers approve each year the five

year forward plan following consideration by Treasury officials as described in paragraph 5 above. As a Government Trading Fund, HMSO already has a substantial degree of managerial freedom in financial and operational matters. A feasibility study is currently taking place to determine the extent to which similar managerial freedom in the fields of pay and grading would lead to further improvements in efficiency.

10. The **DNS** also prepares annually a medium term corporate plan which is discussed both with Treasury officials and with the appropriate Minister. It will increasingly cover not only the funding prospects and marketing strategy, which are essentially policy issues, but also the resource and management context within which National Savings operates.

11. The **COI** also has a great deal of freedom in financial and operational matters when meeting the publicity requirements of its client departments which are almost exclusively on repayment terms. The volatility of COI's demand-led services makes detailed long term planning of overall volumes difficult but control is achieved by monitoring against both low level unit-cost and overall operating targets with a financial objective of break-even.

12. For **Customs and Excise**, priorities and performance plans for the period ahead are reviewed by Ministers in the public expenditure Survey. In the light of the outcome, and with the approval of Ministers, the Chairman of the Board of Customs and Excise produces a management plan which sets clear objectives and targets for each of the department's functions, and reports progress in his next published annual report.

13. For **Inland Revenue**, priorities and performance plans are similarly reviewed by Ministers in the public expenditure Survey. Following this, the department issues with Ministers' approval a Departmental Statement for the immediate year ahead on main aims and objectives, priorities and specific targets. In addition there is an annual review of all programmes through the Senior Management System (the documentation for which is published

in the Summer). The Board also prepares and submits to Ministers from time to time a departmental development plan looking at major developments, including computerisation, over a larger time span. A detailed report is made annually to Parliament in the Board's annual published report.

14. In considering how best to implement the "Next Steps" programme across the departments for which they have responsibility, Treasury Ministers intend to build on these developments.

#### **Delegated Authorities for the Chancellor's Departments**

15. Within the arrangements described above, the main financial and managerial responsibilities currently delegated to the heads of HMSO, DNS, COI, Customs and Excise and Inland Revenue are Annexed to of this memorandum.

16. Delegated authorities are kept under review between the Treasury and all departments to ensure that they are kept up to date and extended in line with improvements in departments' internal control systems and procedures.

#### **The Position of the Central Computer and Telecommunications Agency (CCTA) as part of the Treasury**

17. CCTA is part of the Treasury and has a separate Vote. Its resource requirements are considered each year by the Treasury in the context of the Treasury's requirements as a whole. CCTA is one of a number of 'responsibility centres' within the Treasury. Delegations to individual responsibility centres vary, reflecting the nature of the business covered and the scale and shape of the expenditure involved.



**DELEGATED AUTHORITIES FOR HER MAJESTY'S STATIONERY OFFICE,  
DEPARTMENT FOR NATIONAL SAVINGS, CENTRAL OFFICE OF INFORMATION,  
CUSTOMS AND EXCISE AND INLAND REVENUE**

1. The overall framework within which these departments operate is described in paragraphs 9 to 13 of the covering paper. Within that framework the departments are subject, like all departments, to the rules and guidance issued by the central departments on financial and management matters. These include Government Accounting, the Civil Service Pay and Conditions of Service Code and the Establishment Officers Guide. The latter two documents cover pay and personnel issues. Under these arrangements departments have a wide degree of discretion in the application of the centrally prescribed principles to individual cases. Specific financial delegations also apply. The main current financial delegations are listed below. In addition to the authorities listed the departments have varying authorities covering such matters as the write-off of losses. Departments also have arrangements with central procurement agencies such as HMSO, Crown Suppliers and COI for "untying". These arrangements are negotiated bilaterally between the customer and supplying department.

**HMSO**

2. Treasury oversight of the activities of the HMSO Trading Fund is exercised primarily through consideration of HMSO's five-year Forward Plan, which is revised annually. The Forward Plan sets out:

- (a) the assumptions about major external factors which influence HMSO's trading plans;

(b) forecast sales, together with proposed pricing levels, and details of any major new marketing initiative;

(c) proposed manpower and accommodation requirements, and details of the capital investment programme;

(d) forecast consolidated operating statements, balance sheets and cash flow statements;

(e) forecast divisional operating statements and balance sheets;

(f) key financial ratios;

(g) such information as the Treasury may from time to time reasonably require.

3. Treasury acceptance of the Plan is deemed to constitute authority for HMSO to conduct its operations accordingly, and signifies approval of all capital projects described therein. In the course of discussion of the Plan, the Treasury may seek further information as necessary to satisfy itself of the reasonableness of any major investments or disposals exceeding £1m. Any such major addition to the capital expenditure programme which arises between Plans is notified to the Treasury for separate agreement.

#### **DEPARTMENT FOR NATIONAL SAVINGS**

4. The system of delegations from the Central Departments reflects the fact that National Savings is both a Government Department and a self-contained agency under the Director of Savings as Accounting Officer. National Savings is separately responsible for its own management and for delivering services to tens of millions of customers.

5. A new set of financial delegations was agreed in 1987. Over most of its budget National Savings is given full delegation. There are only two significant expenditure areas in which the

level of delegation is likely to require reference of cases to the Treasury:

(i) information technology - £3 million for the full project cost (a project of this order is likely to be of high strategic importance);

(ii) accommodation, new works - £1 million per job (since the capital budget is very small projects of this order would be likely to involve discussion with the Treasury for resource reasons anyway).

6. The biggest single item in the annual budget is the payment to Post Office Counters Ltd which provides the main National savings retail network in more than 20,000 post offices. National Savings has full delegated authority to negotiate the Agency Services Agreement with Post Office Counters Ltd within the annual running costs limit for DNS, provided that the broad strategic approach is discussed in advance with the Treasury.

7. The other main payment to outside organisations is the expenditure on press, TV and poster advertising. Within the Vote provision agreed for this purpose National Savings has full delegation to select its own advertising agencies and to devise its advertising campaigns without reference to the Treasury. The Treasury is kept in the picture on advertising plans as they develop because of the link between advertising and funding policy.

#### **CENTRAL OFFICE OF INFORMATION**

8. Customer Departments are responsible for ensuring that any necessary Treasury approval is obtained for expenditure on services provided by the COI. COI have authority to commit expenditure on repayment up to the limit of expenditure authorised by the customer department.

9. On allied services, COI has authority to vire between allied services programmes up to £40,000. On IT equipment COI have

delegated authority to incur project costs up to £100,000, without reference to the Treasury.

10. COI have unlimited authority for the issue of indemnities, but no delegated authority for the payment of any claims.

#### **HM CUSTOMS AND EXCISE**

11. The legal and constitutional position for HM Customs and Excise is set out in the Customs and Excise Management Act 1979 (especially Section 6). This confers wide powers on the Commissioners for managing Customs and Excise functions under the general direction of Treasury Ministers. It also vests in the Commissioners the powers to appoint and remunerate staff and set their terms and conditions with the sanction of the Minister for the Civil Service. All of the revenues collected by the Department are, pursuant to this legal basis, remitted to the Exchequer.

12. Delegated authority has been given for major capital contracts (accommodation, vessels etc) up to £25m and for IT capital projects up to the following limits:

- Computer equipment and systems - £1,500,000
- Use of the IT services industry - £ 500,000
- Office machines and systems - £ 100,000
- Telecommunications equipment - £ 100,000  
and services

13. Where remission or repayment of taxation is allowed by extra-statutory concession (for either class concessions or individual concessions) the Treasury is to be consulted in advance on where there is a Treasury interest eg cases involving:

- (i) balance of payments considerations;

(ii) possible current or future effects on the Votes of other Departments or on the finances of nationalised industries or other public sector bodies;

(iii) immunities or privileges of diplomatic missions or international organisations; or

(iv) a possible loss to the Exchequer of £10m or more (Ministers are to be consulted where exceptionally large sums are involved or whether the matter is contentious).

14. Approximately 1 per cent of staff in post are departmental grades. The vast majority of these are Revenue Constables whose pay is directly linked as a percentage of specific points on the Administration Officer pay scale. The remaining staff are tied to Treasury grade pay scales.

#### **INLAND REVENUE**

15. The Inland Revenue like Customs and Excise is headed by a Board which has a statutory basis. This formal structure for senior management provides a statutory base for ensuring that Treasury Ministers, to whom the Board are accountable, are at one removed from the day to day administration of taxation in respect of the affairs of individual taxpayers. For management purposes, however, there is no significant difference between the senior management of the Board of Inland Revenue and that of other Government Departments.

16. The current limits of the main specific financial delegations are as follows:

(i) COMPUTER PROJECTS AND OTHER PROCUREMENTS

Computers	£8 million
Bureau and Turnkey projects	£750,000
Consultancies	£500,000
Office Machinery	£750,000
Telecommunications	£1 million

(ii) ACCOMMODATION WORK £3 million

TREASURY AND CIVIL SERVICE COMMITTEETCSC Enquiry into Next Steps - Draft OMCS Memorandum**Introduction**

1. The Sub-Committee has written to the Office of the Minister for the Civil Service (OMCS) and to a number of other departments including the Treasury about the implementation of the Government's decisions on the Next Steps report. The Second Permanent Secretary OMCS, is the designated Next Steps Project Manager. This reply will therefore deal with those questions relating to the general principles of Next Steps; as well as questions about the role of the Project Manager and the work of the team so far. It will also respond to the questions addressed directly to the Civil Service College (which is part of OMCS).

2. In the House of Commons on 18 February this year the Prime Minister announced that the Government had accepted four of the recommendations of the Efficiency Unit's report 'Improving Management in Government: the Next Steps :-

- i. that, to the greatest extent practicable, the executive functions of Government - as distinct from policy advice - should be carried out by units clearly designated within departments, referred to in the report as 'agencies';
- ii. that the Government should commit itself to a progressive programme for attaining this objective;
- iii. that staff should be properly trained and prepared for management of the delivery of services;
- iv. that a 'Project Manager' at a senior level should ensure that the programme of change takes place.

The Prime Minister went on to announce that a Permanent Secretary in the Office of the Minister for the Civil Service would be responsible

through the Head of the Home Civil Service for managing the process of change needed to implement the recommendations. A copy of the Prime Minister's statement is attached at Annex A.

3. Mr E P Kemp was appointed to the post of Second Permanent Secretary, OMCS, and Next Steps Project Manager on 18 February 1988. The OMCS is part of the Cabinet Office. It is directly responsible, among other things, for the following Civil Service activities:

- the Civil Service Commission
- management development and training policy
- the Civil Service college (to whom the Sub-Committee have also written)
- equal opportunities, welfare and employee communications
- the Occupational Health Service

The OMCS and the Treasury work closely together in relation to Civil Service management matters.

#### Role of the Project Manager

4. The Next Steps Project Manager is responsible for planning and managing the process of change and for ensuring that obstacles to progress are identified and tackled. This includes :-

- i. ensuring that departments are adequately informed about the Next Steps proposals and how these will affect them; that they understand what is required of them and when;
- ii. developing in conjunction with departments a progressive programme for the establishment of agencies in accordance with the Prime Minister's statement;
- iii. guiding departments in taking the practical steps necessary to establish an agency once an activity has been identified; and,

immediately, helping departments to prepare their proposals in respect of the first 12 agency candidates which have been named; ensuring that where appropriate experience is shared and common lessons learned; and facilitating any necessary contacts between departments and agencies over particular issues;

iii. identifying and tackling the across the board issues which arise;

iv. ensuring that effective training and personnel management policies aimed at improved management and delivery of services are designed and introduced;

v. evaluating and report progress at regular intervals.

#### Work of the Project Team

5. The implementation of the Government's policy on Next Steps will be a corporate effort within the Civil Service, involving OMCS, the Treasury and departments. A Project Team has been appointed within OMCS to provide direct support and others throughout the whole of OMCS will support the Project Manager in carrying the Next Steps initiative forward.

6. One of the first tasks for the Next Steps Project Team has been to make arrangements for good, regular communication between all parts of the Service to ensure that the agency programme goes forward as quickly as possible, that good practice is shared, and that problems are dealt with without delay. To this end the Team meets regularly with a number of groups embracing the Treasury, and nominated Next Steps representatives in departments. From time to time the Team will also bring together particular groups with specific shared interests to exchange ideas.

7. Next Steps will have benefits for staff as well as for the public and taxpayers. The Project Manager and his team have already met staff in their visits to departments and this will continue. The Project



Manager also meets the Council of Civil Service Unions (CCSU) from time to time. The CCSU and the JCC (who represent industrial civil servants) have been given an assurance that there will be consultation at national and local levels as work on implementation proceeds, and that they will have a full opportunity to represent the special interests of their members in the potential agencies on matters relating, for example, to terms and conditions of service.

8. The Project Team's job is the support of the Project Manager in the role set out in paragraph 4. Specifically the work so far has included :-

i. helping departments to draw up their proposals for the first 12 agency candidates, with the aim of laying sound foundations for future business success;

ii. beginning discussions with departments to identify their proposals for further agencies;

iii. beginning to review, with departments, what changes will be needed to central and departmental training to improve the way staff are prepared for work involving the delivery of services. The background to this is described in Annex B.

iv. identifying and starting to consider the across the board issues which arise.

v. encouraging awareness and discussion of the Next Steps proposals.

#### Advantages of agencies over present arrangements

9. The idea of agencies is not new. What is new is the extent and pace of the proposed changes. The Next Steps proposals build on many of the improvements in management that have taken place in the Civil

Service over the last few years, in particular the work done as a result of the financial management initiative and reforms in the pay and personnel field. The thrust of these developments has been to focus more closely on performance, on getting value for money and for delegating, as far as possible, responsibility and authority to those with the job of getting results; and to recognise that the Civil Service needs increasing flexibilities to suit local conditions and requirements, and to tailor its organisation more closely to the enormous variety of tasks which it carries out.

10. The aim of creating agencies is to release the managerial energy and personal commitment needed to achieve real improvements in the handling of Government business. The benefits will include better service to the customer and better value for money in the delivery of services.

11. Achievement of these improvements will necessitate, and will derive from in particular

i. a clearer distinction between of responsibility for executive functions and policy formation which will enable both agencies and departments to focus more sharply on the job to be done;

ii. greater precision about the results required;

iii. greater emphasis on training and experience to prepare staff for work in the delivery of services;

iv. delegation of necessary powers to Chief Executives (subject to clearly specified central rules where essential) to exercise personal responsibility for delivering the required service; and

v. improved measurement and assessment of the results achieved, and development of systems to reward those responsible

in the light of results.

**Implications for Accountability**

12. The internal accountability of agencies to their Ministers will be expressed in terms of:

i. the achievement of agreed performance targets within agreed resources;

ii. the conduct of day to day operations within the policy and resources framework agreed by Ministers, which will cover issues including standards of conduct, propriety and other management practices.

13. Ministers will continue to account to Parliament for all the work of their departments including agencies, including replies to Parliamentary Questions and debates. Departmental Select Committees will be able to examine departmental agencies and agency staff in the same way as they now examine departments about specific responsibilities; Ministers will continue to be responsible for replies to Select Committee reports. Accounting Officers giving evidence to the PAC on the activities of agencies will normally expect to be accompanied by the head of the agency. Members of Parliament may wish to approach agencies direct about enquiries concerning operational matters, though this could not preclude an approach to the responsible Minister.

**Order of priorities for establishing agencies and forms they might take**

14. The initial twelve candidates were nominated by the Ministers concerned, generally because they were already discrete executive functions to which, prima facie, the principles in the Efficiency Unit's report could be readily applied. They are listed at Annex C, and proposals which examine their suitability for agency status are now being prepared.

15. The Prime Minister made it clear in her statement to the House on 18 February that, to the greatest extent practicable, agencies would

be established to cover all the executive functions of Government. Departments are currently reviewing their activities to assess the scope for this. It is for individual Ministers and departments, in consultation with the Project Manager, to identify the functions and activities that might be suitable candidates for agency status; to set dates on which they might become agencies under the progressive implementation programme endorsed by the Government; and to establish priorities within that programme. Identification as a candidate does not automatically imply that agency status will automatically follow, nor that alternatives have been ruled out. Neither is it an indication of when, if granted, agency status might be achieved.

16. Agencies will generally be within the Civil Service and their staff will continue to be civil servants. The Government will maintain its privatisation policy but Next Steps is primarily about those activities which are to remain part of Government and part of the Civil Service.

Steps to follow up the structural changes to reinforce the emphasis on management

17. The existence of a rigorous policy and resource framework and clear targets for the delivery of services will of themselves reinforce the further emphasis on management. It will also be manifested in the business/corporate plans, annual reports and other similar documents through which agencies will account for their activities.

18. Where agency status is inappropriate, or in the interim period before an agency can be established managers will be expected to continue to take steps to improve performance in accordance with the reforms referred to in paragraph 9 above.



FROM: A C S ALLAN

DATE: 3 May 1988

*pyg*

MR C J WELSH

cc Sir P Middleton  
Mr Anson  
Mr Phillips  
Mr C D Butler  
Mr L J Harris  
Dr Freeman  
Mr Luce  
Mr Odling-Smee  
Miss G C Evans  
  
Mr Battishill - IR  
Mr Unwin - C&E  
Mr Dole - HMSO  
Mr Patterson - DNS  
Mr Taylor - COI

**TCSC SUB-COMMITTEE ENQUIRY INTO NEXT STEPS**

The Chancellor was grateful for your minute of 29 April. He was content with your proposals for handling this exercise, and with the terms of the two memoranda, subject to the following comments on the Treasury memorandum:

- (i) In the third line of the first paragraph, delete "Treasury Ministers are" and substitute "The Chancellor of the Exchequer is". Similarly, in the last line, delete "Treasury Ministers are" and substitute "The Chancellor is".
- (ii) Add <sup>two</sup> new sentences at the end of paragraph 2: "It is misleading to speak of 'conflicts' between Treasury financial control and management as practiced in the private sector. What is at issue is the nature and the extent of the inherent differences between the public and private sectors."
- (iii) Amend the end of the first sentence of paragraph 3 to read "...is consistent with those central controls which remain essential".

UNCLASSIFIED



- (iv) Amend the last sentence of paragraph 6 to read "In practice the Chancellor delegates day-to-day responsibility to other Treasury Ministers".
- (v) In paragraph 7, delete "Treasury Ministers" and insert "The Chancellor", and change "their" to "his" in the next line.

A handwritten signature in black ink, appearing to read "A C S Allan", with a long horizontal stroke underneath.

A C S ALLAN

BF 1315

FB



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

**COMMERCIAL IN CONFIDENCE**

The Rt Hon Lord Young of Graffham  
Secretary of State for Trade and Industry  
1 Victoria Street  
LONDON  
SW1H 0ET

CHIEF SECRETARY  
Mr Burgess  
Cx, Mr Angus  
Sir A. Wilson, Mr Monck  
Mrs Case, Mr Turnbull, Mr Robson  
Mr Waller, Mr Mason, Mr Jamieson  
Mr Bradley, Mr Elias, Mr Call

4 May 1988

*Dear David,*

**NATIONAL ENGINEERING LABORATORY, EAST KILBRIDE**

You approached me last week about the report by your officials recommending privatisation of the Warren Spring Laboratory and the National Engineering Laboratory at East Kilbride and invited my views.

As I said in my letter of 21 April my particular concerns about privatisation are whether if this route were taken substantial contraction or relocation might result. These concerns are exacerbated by the conclusion that NEL, the only industrial research establishment in a Development Area and the only one in Scotland, should be singled out for privatisation and no other option. I note that while privatisation of Warren Spring Laboratory is recommended there is a fallback of making it part of a Next Steps Agency. My main difficulty in offering a view on your favoured option, far less offering support for it at this stage, is that it is far from clear what a privatised NEL might look like and what consequences that would have for industry in Scotland.

I know you wish to let both potential buyers onto the East Kilbride site as soon as possible to evaluate the position and prepare their proposals. Clearly we cannot know at this stage what precise proposals will emerge from this exercise nor what the consequences might be. In the circumstance I would like to suggest that any announcement at this stage should simply say that privatisation is one of the main options emerging from the review but that before you can form a view on it, you are inviting interested bodies to draw up detailed proposals for your consideration. These will involve on site visits and discussions with DTI officials. I would be content with an announcement along these lines.

As soon as you have detailed proposals to hand I would welcome the opportunity to offer a view on these.

*Yours ever*  
*M Rifkind*

**MALCOLM RIFKIND**



# dti

the department for Enterprise

BF 17/5

RESTRICTED

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon. John Major MP  
Chief Secretary of the Treasury  
HM Treasury  
Parliament Street  
LONDON  
SW1P 3AQ

CHIEF SECRETARY	
REC.	10 MAY 1988
ACTION:	Mr Burgner
COPIES:	Cx, Mr Ineson
2 Sir A. Wilson, Mr Monk,	
Mrs Case, Mr Tombull, Mr Robson,	
Mr Waller, Mr Mason, Mr Jamieson,	
Mr Bradley, Mr Ellis	
Mr Call.	

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Our ref PSlATJ  
Your ref  
Date 9 May 1988

Dear Chief Secretary

## REVIEW OF DTI RESEARCH ESTABLISHMENTS (REs)

In the White Paper published in January - "DTI - the department for Enterprise" (Cm 278), I set out my intention to review the Department's Research Establishments. This review has now been completed and I have the report. An executive summary and recommendations made by the review team is ... attached to this letter.

I have accepted the recommendation that statutory, regulatory and policy work should in general remain within the public sector. I am also inclined to accept that the REs should continue to undertake more limited amounts of strategic research, work on industrially relevant R&D and technology transfer activities.

Acceptance of these recommendations would lead to the following conclusions for each of the REs. In the case of two of them, the National Physical Laboratory and the Laboratory of the Government Chemist, the work is largely for Government and it would be most appropriate for them to go into an agency. I am awaiting a further report on the right form of the agency structure.

For Warren Spring Laboratory the work is half for Government; the remainder is industrially relevant research. I have concluded that the right solution for WSL is to turn it into an agency and for the direction of its work to be changed towards environmental engineering, mainly for public sector customers. I have written to Nicholas Ridley and Paul Channon as their Departments are major customers of WSL.

The contentious area is the National Engineering Laboratory. We have two possible contenders who have expressed an interest in NEL. Both are independent research and technology organisations (RTOs) who are required to plough back their profits. Between them they provide a match for most of NEL's activities. I am attracted to the RTO solution because they combine being in the private sector and are thus obliged to direct their research efforts to what the market wants with the obligation to plough all their profits back into further research. If NEL does become part of an RTO it may be appropriate to retain the small part of the work NEL does for Government within an agency structure. I am going to East Kilbridge to visit NEL shortly. I will then decide whether in principle to go for the non-profit retaining RTO solution.

In any event, we are unlikely to find any acceptable buyer willing to pay money for NEL. What we would have to do would be to transfer assets, with guarantees to the Exchequer, and to continue to fund work that we want done at NEL. There would also need to be a tapering level of support for the existing programmes as commercial management takes over the work.

You will wish to be aware of these proposals at this early stage. I will, of course, be liaising closely with Malcolm Rifkind.

I suggest that once we are clearer on the principles officials should meet to discuss the details. I expect that there will be short-term costs in coming to an agreement with an RTO. The long-term gain would be a stronger commercial direction to the work, with higher financial contributions by industry than at present.

*Yours sincerely*

*Jeremy Goffrey*

*(approved by the Secretary of State  
and signed in his absence)*

## REVIEW OF THE RESEARCH ESTABLISHMENTS: EXECUTIVE SUMMARY OF REPORT

The Secretary of State announced in January in the White Paper "DTI - the department for Enterprise" that he intended to review the Department's Research Establishments (REs). The Central Unit was asked to carry out this review of the purpose and nature of the work done at the REs and of the framework within which it should be carried out. We began work towards the end of January.

2 There are four REs - the National Physical Laboratory (about 810 staff), National Engineering Laboratory (625 staff), Laboratory of the Government Chemist (335 staff) and Warren Spring Laboratory (300 staff). The gross cost of the work undertaken is £71.3m, and the net cost to DTI, taking account of all types of repayment income, is £50.1m.

3 In carrying out the review, we studied past reviews of the REs and obtained information from posts overseas to make comparisons with other countries. We worked through the Corporate Plans and Annual Reports of the REs. We visited each RE to look in more depth at some typical programmes, and to have discussions with senior management and those carrying out the work. We spoke to about 100 industrialists, academics and civil servants to obtain their views. We carried out a small postal survey of non-exchequer customers and took into account a recent DTI evaluation of other industrial customers for REs' club activities.

4 We also took account of the recent statement by the Prime Minister on "Next Steps" agencies as an important development in the execution of Government policy. However, more detailed work on the operation of the REs within an agency structure is underway in parallel with this review.

5 As our starting point we took the five categories under which work at each RE is classified

- Category 1: Statutory and regulatory work
- Category 2: Research in support of Government policy
- Category 3: Administrative work in supporting DTI
- Category 4: Industrially relevant R&D
- Category 5: Repayment work for non-exchequer customers.

The work at present carried out conforms to that previously agreed by Ministers.

6 Work under the first two categories is carried out entirely for Government customers, although by no means only for DTI. At least six other Departments are significant customers. The beneficiaries of this work, most of which is concerned with standards or closely related topics, such as measurement in chemical sciences or environmental work, are widespread. They include manufacturers, retailers, and consumers.

7 We think this work should where possible remain in the public sector to keep and demonstrate its independence, maintain its stature and retain confidentiality. However, any opportunity to collaborate with EC partners, or to locate new equipment in the private sector for shared use, should be pursued vigorously.

8 Non-research work for DTI under category 3 includes technology transfer, which should remain a priority. We propose criteria against which REs should be considered for policy work on new technologies.

9 Industrially relevant R&D carried out under category 4 is important, but we think it would be better directed to industrial interests if it were in general to be carried out within the private sector. Any work of this type which does continue should be funded by industry to the extent of at least 50% of its cost. Repayment work for non-exchequer customers which seeks to exploit resources provided for statutory, regulatory or policy work should continue in the public sector.

10 Taking account of the dominance of regulatory and statutory work at NPL and LGC and of industrially relevant R&D at NEL, with significant work of both types at WSL, we recommend that NPL and LGC should become a single agency on one site at Teddington along with the National Weights and Measures Laboratory. NEL and WSL should be privatised, with work that is essential for statutory or regulatory purposes at these laboratories being carried out under contract by the new owners.

Central Unit  
April 1988

## SUMMARY OF RECOMMENDATIONS

The following are our main recommendations:

### Statutory, Regulatory or Policy work

1 Work for statutory, regulatory or policy purposes should in general be carried out within the public sector (para 5.14).

2 REs should be considered as candidates to undertake policy work on particular technologies provided that the following criteria are met:

- the technology should have been identified as a high priority by DTI;
- the technology should be closely related to the area of expertise of the RE in question;
- no other DTI Division or outside agency is a more appropriate choice (para 5.18).

### Strategic Research

3 Each RE should be permitted, as at present, to spend up to 10% of the full economic cost of research carried out for DTI (but not other work) on strategic research (para 5.43).

### Technology Transfer

4 Administrative work for DTI which depends on research work done for statutory, regulatory or policy reasons and which satisfies the prescribed criteria should continue to be done in the public sector at the REs (para 5.24).

5 REs should set up a membership scheme and should encourage firms to become members (para 5.40).

6 A small team should be recruited from outside the REs, either reporting to the Chief Executive of the Next Steps RE agency, or preferably under sub-contract to him, but in either case paid partly by results, to take responsibility for marketing the agency and its services, and for encouraging technology transfer (para 6.18).

### Industrially Relevant R&D

7 DTI should not itself carry out industrially relevant R&D except in strictly limited circumstances, but should support programmes of collaborative work in industry or at other organisations such as Higher Educational Institutions and especially Research and Technology Organisations (para 5.37).

8 Any industrially relevant R&D which exceptionally is carried out at the REs should:

- be related to work for statutory, regulatory or policy reasons;
- be covered by a Rational, Objectives, Appraisal, Monitoring and Evaluation (ROAME) statement;
- take the form of club activity;
- be restricted to (at most) 50% DTI funding;
- be restricted in total to 10% of the full economic cost of each RE (para 5.38).

#### Repayment work

9 REs should be permitted to undertake repayment work for non-exchequer customers related to their principal role, subject to their earnings not exceeding 10% of the full economic cost of the RE in question (para 5.48).

#### Structure of the REs

10 NPL should form part of a Next Steps agency (para 6.3).

11 LGC should form part of a Next Steps agency (para 6.5).

12 WSL should be privatised as a whole, preferably as a contract research association. If this cannot be achieved, the emphasis of the work at WSL should be changed towards environmental engineering, carried out mainly for public sector customers, within a Next Steps agency structure (para 6.7-6.9).

13 NEL should be privatised, preferably turning it into a contract research organisation (para 6.14).

#### Other Points

14 The same management information should be collected for each sub-unit within the Next Steps agency, and the information requested by headquarters should be restricted to the minimum necessary adequately to monitor the performance of the agency and should so far as is feasible be taken from that collected by management of the agency for its own purposes (para 6.24).

15 The categorisation of work set out in Annex H should be adopted by the REs within the next year or so once arrangements have been made for programmes of applied research at present 100% funded by DTI to cease (para 5.44).

*prop* *BF 17/5*

RESTRICTED

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

The Rt Hon Paul Channon MP  
Secretary of State for Transport  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

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Trade and Industry

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Direct line  
Our ref 215 5422  
Your ref PS6AJM  
Date 9 May 1988

CHIEF SECRETARY	
REC.	10 MAY 1988
ACTION	Mr Burgess
COPIES	Mr Hanson
	Mr Mank. disclosure
	Mr Turnbull
	Mr. Kibson
	Mr. Dallas
	Mr. McCall

*Sir A. Wilson*  
*Mr Mason*  
*Mr Jamieson*  
*Mr Bradley*  
*Mr Elias*

*Paul*

Since your Department is an important customer of Warren Spring Laboratory, one of DTI's Research Establishments, I thought you would wish to know that I am considering proposals on the Laboratory's future development.

Following the announcement of my intention in January in the White Paper "DTI - the department for Enterprise", DTI officials have reviewed the Research Establishments to see how their work fits in with my Department's objectives. I know that during the course of the review there has been contact between our officials and I am grateful for the help your Department has given.

... The review team has recently completed its work. I attach in confidence a copy of a summary of the report and a list of the main recommendations. The report recommends that DTI should not itself carry out industrially relevant R&D in the Research Establishments (except in strictly limited circumstances), and that the Research Establishments should concentrate on work that is required for statutory, regulatory, or policy reasons. Industrially relevant R&D would then in future be largely carried out in the private sector.

For Warren Spring, which carries out roughly half its work for regulatory or policy reasons and the remainder on industrially relevant R&D, the report recommends either that the laboratory should be privatised or that the emphasis of the work should be altered, moving away from industrially relevant work towards work required by Government. In the latter case the report recommends that Warren Spring Laboratory should form part of a "Next Steps" agency.

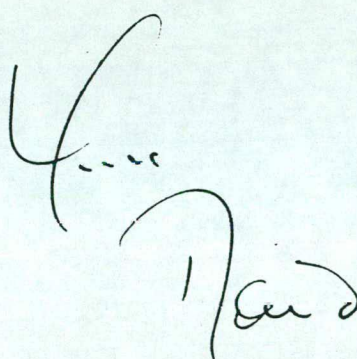
I do see difficulties in privatising Warren Spring Laboratory, not least in continuing to demonstrate the objectivity and independence of the work on environmental pollution done for Government. I am therefore minded to adopt the second option set out above, moving resources away from industrially relevant R&D towards environmental engineering, mainly for Government customers. This will in future be the primary focus of the work at WSL. This change will take at least a year or two to implement in full. If it does not prove possible to switch resources to sound programmes in environmental engineering, the laboratory will have to contract. However, the position on this will not be known until new programmes and relevant customers have been indentified.

These changes should allow Warren Spring Laboratory to continue to provide the service which as I understand it your Department values. Indeed, they should permit the present centre of excellence in environmental engineering to develop in response to demand.

I plan to announce all of my decisions on the review of the Research Establishments as soon as possible. I will let you see a copy of the announcement before it is made. In the meantime, the circulation of the report's conclusions has been very limited.

I am writing in similar terms on Warren Spring Laboratory to Nicholas Ridley.

I am copying this letter to John Major, and to Sir Robin Butler.





## REVIEW OF THE RESEARCH ESTABLISHMENTS: EXECUTIVE SUMMARY OF REPORT

The Secretary of State announced in January in the White Paper "DTI - the department for Enterprise" that he intended to review the Department's Research Establishments (REs). The Central Unit was asked to carry out this review of the purpose and nature of the work done at the REs and of the framework within which it should be carried out. We began work towards the end of January.

2 There are four REs - the National Physical Laboratory (about 810 staff), National Engineering Laboratory (625 staff), Laboratory of the Government Chemist (335 staff) and Warren Spring Laboratory (300 staff). The gross cost of the work undertaken is £71.3m, and the net cost to DTI, taking account of all types of repayment income, is £50.1m.

3 In carrying out the review, we studied past reviews of the REs and obtained information from posts overseas to make comparisons with other countries. We worked through the Corporate Plans and Annual Reports of the REs. We visited each RE to look in more depth at some typical programmes, and to have discussions with senior management and those carrying out the work. We spoke to about 100 industrialists, academics and civil servants to obtain their views. We carried out a small postal survey of non-exchequer customers and took into account a recent DTI evaluation of other industrial customers for REs' club activities.

4 We also took account of the recent statement by the Prime Minister on "Next Steps" agencies as an important development in the execution of Government policy. However, more detailed work on the operation of the REs within an agency structure is underway in parallel with this review.

5 As our starting point we took the five categories under which work at each RE is classified

- Category 1: Statutory and regulatory work
- Category 2: Research in support of Government policy
- Category 3: Administrative work in supporting DTI
- Category 4: Industrially relevant R&D
- Category 5: Repayment work for non-exchequer customers.

The work at present carried out conforms to that previously agreed by Ministers.

6 Work under the first two categories is carried out entirely for Government customers, although by no means only for DTI. At least six other Departments are significant customers. The beneficiaries of this work, most of which is concerned with standards or closely related topics, such as measurement in chemical sciences or environmental work, are widespread. They include manufacturers, retailers, and consumers.

7 We think this work should where possible remain in the public sector to keep and demonstrate its independence, maintain its stature and retain confidentiality. However, any opportunity to collaborate with EC partners, or to locate new equipment in the private sector for shared use, should be pursued vigorously.

8 Non-research work for DTI under category 3 includes technology transfer, which should remain a priority. We propose criteria against which REs should be considered for policy work on new technologies.

9 Industrially relevant R&D carried out under category 4 is important, but we think it would be better directed to industrial interests if it were in general to be carried out within the private sector. Any work of this type which does continue should be funded by industry to the extent of at least 50% of its cost. Repayment work for non-exchequer customers which seeks to exploit resources provided for statutory, regulatory or policy work should continue in the public sector.

10 Taking account of the dominance of regulatory and statutory work at NPL and LGC and of industrially relevant R&D at NEL, with significant work of both types at WSL, we recommend that NPL and LGC should become a single agency on one site at Teddington along with the National Weights and Measures Laboratory. NEL and WSL should be privatised, with work that is essential for statutory or regulatory purposes at these laboratories being carried out under contract by the new owners.

Central Unit  
April 1988

## SUMMARY OF RECOMMENDATIONS

The following are our main recommendations:

### Statutory, Regulatory or Policy work

1 Work for statutory, regulatory or policy purposes should in general be carried out within the public sector (para 5.14).

2 REs should be considered as candidates to undertake policy work on particular technologies provided that the following criteria are met:

- the technology should have been identified as a high priority by DTI;
- the technology should be closely related to the area of expertise of the RE in question;
- no other DTI Division or outside agency is a more appropriate choice (para 5.18).

### Strategic Research

3 Each RE should be permitted, as at present, to spend up to 10% of the full economic cost of research carried out for DTI (but not other work) on strategic research (para 5.43).

### Technology Transfer

4 Administrative work for DTI which depends on research work done for statutory, regulatory or policy reasons and which satisfies the prescribed criteria should continue to be done in the public sector at the REs (para 5.24).

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15 The categorisation of work set out in Annex H should be adopted by the REs within the next year or so once arrangements have been made for programmes of applied research at present 100% funded by DTI to cease (para 5.44).



CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-270

From John W Fairclough FEng  
Chief Scientific Adviser

W0639

MANAGEMENT IN CONFIDENCE: CONFIDENTIAL

Rt Hon Nicholas Ridley MP  
Secretary of State for the Environment  
2 Marsham Street  
London SW1

CHIEF SECRETARY	
REC	18 MAY 1988
ACTION	Mr Brogner
COPIES TO	Mr Anson, Sir A Wilson Mr Monk, Mrs Case, Mr Turnbull, 0259 Mr Robson, Mr Waller Mr Mason, Mr Jamison, Mr Bracke Mr Elias, Mr Call

~~BE 2815~~  
M

17 May 1988

Dear Secretary of State,

CIVIL RESEARCH ESTABLISHMENTS: NEXT STEPS REVIEW

At the last meeting of E(ST) it was agreed that Departments with Civil Research Establishments, Laboratories etc (REs) should set in hand a review under the Next Steps arrangements to consider putting them on to an agency basis. I was asked to coordinate this work and to report back to the Sub-Committee in due course. I attach at Annex A a list of the Departments who would seem to be covered by this exercise and the REs concerned.

My interest in coordination is not to seek identical arrangements for all Departments' REs. There will be different circumstances. In some cases privatisation may be appropriate; in others it may not. It should always be considered. For those REs which remain publicly funded however I believe the best arrangement would be one which very clearly separates out Departments' commissioning responsibilities as customers from the REs' role as contractors and which encourages the maximum competition between REs for work. This would provide something close to a market test. I believe there is a real and growing market for Government business to be won as technologies converge and become increasingly relevant to a wide range of applications supporting the Government's policy, procurement and regulatory functions. Where appropriate, this work should also be open to private sector research contractors.

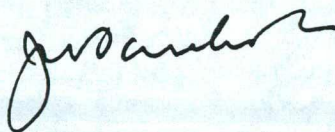
I would therefore like to see certain common elements in the terms of reference for the different agency reviews, relating to the development of this internal market and the terms and conditions on which REs would compete with one another. Specific issues include cost and management accounting procedures, the management freedom of the Chief Executive, commissioning arrangements including the use of competitive tendering, arrangements on overheads to fund seedcorn research etc. All Departments will need to decide how they would strengthen their capacity for commissioning in order to act as intelligent customers for research. I would expect Departments to use the review to re-examine the role of their REs and their broad requirements for a continuing in house R & D effort, taking full account of Government policy on contracting out R & D wherever possible. I would like the reviews to work to a common timetable if

possible. The Review which the Defence Secretary has commissioned into possible agency status for the non nuclear defence REs is being carried out in 90 working days. The task is a good deal more modest for the civil REs and I would suggest we should aim for completion by mid September. Some Departments are already embarked on this work. If their reviews can be completed before September, so much the better.

A co-ordinated programme should enable Departments to learn from each others' experience as the reviews progress and thereby develop a stronger case for the arrangements they propose. Perhaps the best way of my taking matters forward is if you could identify the person nominated for the review or if we could be put in touch with the people who will be advising you on this. The contact here is Ian Downing on 270 0022. Needless to say, I would be very happy to come and see you for a talk about this if you would find that helpful.

I am copying this letter to other members of E(ST), to the Secretaries of State for Employment, Home Affairs, Scotland and Northern Ireland and the Minister of Overseas Development and extend the same request where they are responsible for the REs listed in the Annex. If I have omitted any laboratories which should be covered, I would be very grateful to know. I am also copying this letter to Sir Robin Butler and Peter Kemp.

Yours sincerely,



JOHN W FAIRCLOUGH

## DEPARTMENTS WITH CIVILIAN RESEARCH ESTABLISHMENTS

DOE: Building Research Establishment

DTP: Transport and Road Research Laboratory

MAFF: ADAS Laboratories (including Experimental Husbandry Farms,  
Horticulture Farms, Central Veterinary Laboratories and  
other Agricultural Laboratories)  
Food Science Laboratories  
Fisheries Research Station

Home Office: Forensic Science Service

DTI: National Physical Laboratory  
National Engineering Laboratory  
Warren Spring Laboratory  
Laboratory of the Government Chemist  
National Weights and Measures Laboratory

Health and Safety Research and Laboratory Services Division  
Executive:

ODA: Natural Resources Laboratory

Scottish Office: Marine Laboratory  
Freshwater Fish Laboratory  
Agricultural Scientific Services

Northern Ireland: Industrial Science Laboratory  
Agricultural Research (Agriculture and Food Science  
Centre, Agricultural Research Institute, Fisheries  
and Freshwater Research, Veterinary Research Division)

The Rt. Hon. Lord Young of Graffham  
Secretary of State for Trade and Industry

D J Crawley Esq  
Private Secretary to the  
Secretary of State for Scotland  
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Mr Burgess  
Mr Anson  
Mr Wilson  
Mrs Case, Mr Tomblin, Mr Jamieson  
Mr Robson, Mr Waller, Mr Mason  
Mr Bradley, Mr Ellis  
Mr Call

Direct line 215 5422  
Our ref DC1ALM  
Your ref  
Date 17 May 1988

Dear David

**NATIONAL ENGINEERING LABORATORY, EAST KILBRIDE**

I am afraid that part of a sentence was inadvertently omitted from Lord Young's letter of 9 May to your Secretary of State about the National Engineering Laboratory. The second sentence in the second paragraph should have read:

"My initial reaction is to accept the recommendation in the report that work for statutory, regulatory or policy purposes should be carried out in the public sector."

I apologise for any inconvenience that this omission may have caused.

I am copying this letter to Jill Rutter (Treasury), Stuart Brand (Energy) and to Trevor Woolley (Cabinet Office).

Yours

Jeremy

JEREMY GODFREY  
Private Secretary



REC'D 1915

FROM: L J HARRIS  
DATE: 17 May 1988

*Agree.*

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Dame Anne Mueller
- Mr Anson
- Mr Phillips
- Mr Turnbull
- Mr Luce
- Mr C D Butler
- Mr Kelly
- Mr Odling Smee
- Dr Freeman
- Mr Welsh

*Ch/ Further developments since this was written. The Clerk of the Sub-committee has rung Cansys to say that Radice quite accepts they can do without Ministers, and they would be quite happy with PEM (!).*

*Cansys thinks we can probably bat this one away if we tell them, ASAP tomorrow, that Ministers had independently decided to offer team at X, and do they really feel strongly enough about seeing PEM to*

- Mr Battishill - IR
- Mr Unwin - C&E
- Mr Dole - HMSO
- Mr Patterson - DNS
- Mr Taylor - COI

**TCSC NEXT STEPS ENQUIRY** *make us bother Mins with this again? Content? upon 1915*

As Miss Evans's minute of 12 May recorded, the TCSC Sub-Committee on Next Steps have asked for oral evidence from the Treasury in the second half of June. This will follow their examination of Mr Kemp, the Project Manager (18 May) and Sir Robin Ibbs (25 May), but will come before the evidence of the Minister of State, Privy Council Office (Mr Luce) on 7 July.

The Sub-Committee would prefer the Treasury evidence to be given by a Minister, but seem willing to be persuaded that evidence from officials would be more sensible. Offering official evidence would be entirely in line with the normal practice for routine TCSC hearings, and we see no reason to inflate the importance of the event by fielding a Minister on this occasion. If you are content, we will tell the Clerk that I will lead for the Treasury, with support as necessary from the Expenditure, Running Costs, and Pay Groups.

*John SAs know, this was discussed @ C&E (on equiv) (in prospect) @ some time ago, it is not all Mins who will appear for Mr Luce.*

*OR*

*Leonard Harris*

L J HARRIS

21-17-5.

FROM: K S WRIGHT  
DATE: 18 May 1988

- 1. MR RUSSELL *I agree. Russell 18/5*
- 2. MR REVOLTA *note at end*
- 3. MR ANSON
- 4. CHIEF SECRETARY

*cc*  
*Mr No*  
*Land Registry*  
*cc*  
*Mr Phillips*  
*Mr Case*  
*Mr Luce*  
*Mr Turnbull*  
*Mr Hansford*  
*Mr Baker*  
*Mr Binns*  
*Mr Hurst*

- Chancellor
- Paymaster General
- Sir Peter Middleton
- Mr Phillips
- Mrs Case
- Mr Luce
- Mr Turnbull
- Mr Hansford
- Mr Baker
- Mr Binns
- Mr Hurst

*Ch/More evidence...*  
*NB Mr Revolta's note at end*

*map.*  
*24/5*

SUMMER SUPPLEMENTARY ESTIMATE 1988-89  
 CLASS XX, VOTE 6: HM LAND REGISTRY

This submission seeks approval to a request for an increase of £17.087 million in the Land Registry's current administrative provision of £126.888 million. As this increase is wholly offset by additional appropriations in aid, there is no claim on the 1988-89 Reserve nor is there a substantive increase in the overall cash limit for the Vote. It also involves an additional 900 permanent staff by 31 March 1989. *(a 9 1/2 % increase)*

2. The Vote covers the administrative costs of HM Land Registry for the performance of its tasks, the major one being the registration of title to land in England and Wales. It includes provision for capital costs of office building works and computerisation.

3. There is a history of sharply rising workloads in the Land Registry. In 1987-88 the Department had an in-year increase of £9.067 million which secured the Chief Secretary's agreement to exemption from gross running costs control as from 1 April 1988.

4. The Main Estimate provision was based upon forecasts prepared in April 1987 that the total applications received (for registration, searches, office copies etc) and associated correspondence and enquiries would equate to about 6.412m units of workload. Despite some temporary uncertainty following last October's "Stock Market Crash" activity on the property market generated unprecedented record intakes of applications in 1987-88. Actual unit workloads exceeded

the previous record volume received in 1986-87 by 10.3 per cent and the level forecast in PES 87 for 1987-88 by 5.3 per cent. The latest reliable assessment shows that this additional activity has increased forecast workload for 1988-89 by 12 per cent, to 7.180m units.

5. The continuing rise in workload is due to several factors. Widening owner occupation has been a central and successful feature of government policy, most notably through the 'Right to Buy' legislation under the Housing Acts, greatly aided by the ready availability of mortgage finance and the competition between the various institutions in the matter of terms and interest rates. As a result, re-mortgages, second mortgages and the trading of mortgages between lenders are rising to exceptional levels, and it must now be recognised that Land Registry is as much affected by purely financial dealings as by property deals.

6. At the time of PES 87, backlogs of work had reached 1.709m units. Currently, the department is carrying 2.443m units of backlog, 43 per cent more than on 31 March 1987. It is estimated that the backlog of work is growing at a rate of almost 1,700 units a day distributed over the 18 district offices of the department. Although the Registry recognises that some backlogs of work are inevitable to provide an operational margin, the current levels are more than the size (1.200m units) which would be sensible in the interests of operational efficiency. Unmanageable work stocks not only make the registered conveyancing process slower and more complex but also themselves waste manpower resources in handling and checking through the incomplete work and in dealing with enquiries about it.

7. The inability of the Registry to process the backlogs quicker is generating considerable complaints from customers, their legal representatives and MPs. The current problem is that the customers are not getting the service which they have paid for in advance. It is not that the department is inefficient - in fact the Registry's system of performance measures demonstrates the opposite - it is rather that the Department is unable to earmark adequate resources to be able to process the backlog quickly enough.

8. Clearly the volume of work exceeds the output capacity of the Department and, without the extra manpower resources sought, the

stock of unprocessed work will continue to grow, leading to serious disruption to conveyancing in England and Wales, and making the registration service virtually unworkable. Although the Registry has improved productivity in terms of unit output per post by 0.9 per cent in 1987-88 it actually failed to meet its unit cost target because it takes several months for new staff to reach the optimum productivity level. We intend to explore with them the effect of recruiting proportionately large numbers of new staff on unit cost targets, and attempt to produce a formula which reflects this.

9. Exemption from gross running costs control allows the Registry to exceed the agreed manpower provision in-year by up to 200. In fact, the department is seeking 900 extra permanent staff, thereby increasing its end-year manpower provision from 9,500 to 10,400 (9.5 per cent). We have re-examined with the Land Registry whether their bid is realistic in terms of recruitment and wastage and whether it would be possible for any of the requirement to be met by the use of casuals. During the last two years, the Land Registry, with the agreement of the Treasury and MPO/Cabinet Office, has established offices at Telford, Coventry and Hull, which should have a small but useful impact on the unemployment situation in those parts of the country. Because of its wide distribution of offices the Registry anticipates no difficulty in being able to recruit and retain the permanent staff required (hence the fact that it has already filled a substantial proportion of the 1,245 posts conceded in PES for 1988-89, on perceived workloads at that time). It is expected that many of those on casual appointments will become permanent members of the Registry thereby reducing training costs. The Department currently has provision for 600 man years of overtime and casuals; their present bid already comprises 25% for overtime (mainly because of the practical problems of finding space for growing numbers of additional staff) and to go beyond this 300 man-years of overtime would seriously endanger the Department's efficiency.

#### **Recommendation**

10. The proposed in-year increase is large by any standards. The impression is that the Land Registry is incapable of getting its forecast of workloads correct. It has already sought RC2 assistance

in this but, at our insistence, is now broadening its contacts with banks and other financial institutions in order to improve forecasting performance. Bearing in mind, however, that it is extremely difficult to foretell how active the property market will be, that the Registry is now no less affected by financial dealings, that forecasts are made 12 months in advance and even with the proposed additional resources the Registry will still be operating with an envisaged backlog some 54 per cent above a manageable level, I reluctantly recommend you to agree to an increase of £17.087 million in the Land Registry's administrative costs provision and to the related increase of up to 900 in the Department's manpower. Although the Department has assured us that it will not make any further bids later in the year, your agreement would be regarded as a indication that the Treasury acknowledges the circumstances that require such substantial reinforcements with the inescapable implication that continuation of existing housing and financial policies will call for even more during the Survey period. We shall make clear to the Land Registry (now identified as a firm candidate for agency status) that it must adhere to improved productivity and unit cost targets for 1988-89 and provide timely corrective action should in year monitoring warn that targets are at risk. There is no requirement for a PQ as no running cost or substantive cash limit charges are involved. This advice has been agreed with RC1 and GEP2.

*K S Wright*

K S WRIGHT

I agree, but this is an awkward case. Because Land Registry is exempt from gross running costs control, its substantial demands for staff have no effect on the running costs total, and because it recovers its costs they also make no claim on the planning total. But this supplementary bid increases gross expenditure by over 13 per cent; it follows a PES increase of 18 per cent for 1988-89 in the last Survey; and we expect further substantial bids to come in shortly in PES 88, which if conceded in full will add a further 50 per cent to its expenditure over the next three years.

Although Land Registry is a relatively small department, the percentage rate of growth seems fundamentally out of line with what is happening elsewhere in public expenditure. The supplementary bid has been closely scrutinised, but is a good example of how difficult it can be to reduce a department's claim on spending when (i) we are dealing with a single function department, (ii) that department operates a demand-led service, (iii) the demand is fuelled by boom areas of economic activity, and (iv) the department is efficiently managed with a good record of improvement in measured output. The same general problems arise for example with the Crown Prosecution Service, although it has not had as long to work on its efficiency.

The continuing growth in Land Registry is not in itself any threat to recorded public expenditure, other than perhaps to the manpower total, but if growth continues it may be necessary to tackle the underlying case for the registration of all mortgages as well as the underlying title to property. I am making arrangements therefore to put some Treasury options along these lines to Land Registry for discussion in this year's Survey, though we should expect any significant changes to require primary legislation.

DWR

D C W REVOLTA