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PREM 19/249

Part 1
SECRET

M1

Confidential Filing

History of the Civil Service Department.
Consideration of the Parliamentary Select
Committee under Mr Edward Du Cane.

GOVERNMENT MACHINERY

Part 1 March 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
24.3.80.							
6.4.80							
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7.7.80							
4.7.80							
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PREM 19/249

**Material used by
official Historian
DO NOT DESTROY**

PART 1 ends:-

MAP to PM

~~BANWAJI to ^{PM} CAW~~ 4-7-80

PART 2 begins:-

MAP to CSD 7.7.80

Prime Minister.

I would favor going for one
Permanent Secretary
in the merged depart-
ment. On the
other hand, I think
the Cabinet Secretary
is better placed to undertake the
responsibilities listed in paragraph 10.



10 DOWNING STREET

1.
M.J.
Siv

Prime Minister (through Mr Whitmore)

Here is Sir Ian Bancroft's
note about Permanent
Secretary arrangements if
Treasury + CSO are merged.

Given his personal role, he
does not make a recommendation
on numbers of Permanent Secs
in a merged Dept: but he
advises that the special
functions of Head of the
Home Civil Service should go to
the Permanent head of the
merged Dept.

Do you want copies passed to
the Chancellor and Lord President?

• No - not yet. M.J. 4/1/11

Cant Mach 3
MK

PRIME MINISTER

THE ORGANISATION OF THE CENTRAL DEPARTMENTS: THE ARRANGEMENTS
AT PERMANENT SECRETARY LEVEL

This is the note I promised about the arrangements at Permanent Secretary level in the event of a merger of the Treasury and the core of CSD.

2. There are two main questions. First, should the new department have one Permanent Secretary or two? And, second, where should the work of the Head of the Home Civil Service be located? Neither question is crucial to the decision whether to merge the central departments. But if you were to decide in favour of a merger, there would be enquiries from the Press and others about the Permanent Secretary arrangements as soon as your decision was announced and it would be best to have the answers ready.

ONE OR MORE PERMANENT SECRETARIES?

3. Before 1956, Lord Bridges managed to combine the responsibilities of permanent head of the Treasury and Head of the Home Civil Service. He achieved this partly by delegating a lot of work on the financial and economic side to a Deputy Permanent Secretary. Between 1956-62 the Treasury had two Joint Permanent Secretaries. One of them - Lord Normanbrook - combined his Treasury (civil service) job with that of Cabinet Secretary. He found this too heavy and on his retirement his responsibilities were split between a full time Joint Permanent Secretary of the Treasury (Lord Helsby) and a full time Cabinet Secretary (Lord Trend). This was a recognition of the fact that the central management of the Civil Service had grown in both volume and complexity. And, of course, since 1968 there have been two "super" Permanent Secretaries in charge of the CSD and the Treasury respectively.

4. On sheer work-load grounds the case for Joint Permanent Secretaries is very strong. If there were to be only one Permanent Secretary he would have to delegate very extensively and even so he would not be able to give his Ministers the sort of personal service to which they are accustomed. Ministers would have to understand and accept this.

5. The process of merger and integration would itself create extra work at top official level for a period. If the initial merger were to be a straight forward reconstitution of the "Management" and "National Economy" sides while closer integration was being planned, it might be sensible to have a Joint Permanent Secretary arrangement. It would provide some capacity for supervising the necessary planning at a time when the pressures of normal Treasury and CSD work would be very intense.

6. Greater integration either at the outset or as a second stage would make it difficult to devise a situation which left one Permanent Secretary with unambiguous and unified responsibility for Civil Service management, and likewise the other for macro-economic management. And anyway, it is normally better to have a single head of an organisation.

7. I do not feel strongly either way: each course entails risks. And since I have an obvious personal interest I would prefer not to make a recommendation, but leave it to you (and perhaps your interested colleagues) to make a judgement. Sooner or later it is likely that one of the "super" Permanent Secretaries would have to be required to go early.

8. A merger would also have implications for the numbers and duties of Second Permanent Secretaries. These would need working on, once we know your mind both on the question of merger itself and the "super" Permanent Secretary arrangements.

HEAD OF THE HOME CIVIL SERVICE

9. There is also the question what to do about the post of Head of the Home Civil Service. If the Joint Permanent Secretary arrangement is adopted for a time, no immediate problem arises. The rest of this note assumes that there would be a single Permanent Secretary.

10. The title itself may be of little value and could be dropped. Its forfeiture would not, I think, be welcomed in the Service. Every big organisation likes to have an identifiable head: vide the Diplomatic Service and the three Armed Services. Anyway the work would remain. It takes a fair amount of time and is not susceptible of much delegation. It has three main components. The first entails dealing with management and personal problems at top official level. The second is the identification and development of people suitable for the most senior posts in all departments. Clearly, this is important and is closely linked with the future efficiency of the Civil Service. The third is the representational role. None of this work can be delegated below Permanent Secretary level.

11. There would be three options for the allocation of these functions if the Treasury and CSD were merged under a single Permanent Secretary. They could be made the responsibility of:

- (a) the Secretary of the Cabinet;
- (b) a "doyen" who could be the Permanent Secretary of any department so long as he had the necessary personal qualities;
- or (c) the Permanent Secretary of the merged Treasury and CSD.



12. So far as the capacity to take on the additional work is concerned, there is little to choose between these three options. But functionally, there are close links between the Head of the Service's work and the responsibilities for the central management of the Civil Service. The Cabinet Secretary and a "doyen" would, therefore, need to rely very heavily on the support and advice of the unified Central Department.

13. In view of this, I recommend that the work should be allocated to the Permanent Secretary of the Central Department.

14. I am sending copies of this minute to Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner, though I must make it clear that I have not consulted them. You may wish to send copies to the Chancellor of the Exchequer and the Lord President.

IRB

IAN BANCROFT
4 July 1980

SECRET



14 JUL 1960

CONFIDENTIAL

SECRET

*Prime Minister**This draft paper does not
break any significant new
ground.*

MR C A WHITMORE

*Yes no**Content for Sir Ian to
submit it to the Select
Committee?*SELECT COMMITTEE ON THE TREASURY AND THE CIVIL
SERVICE*MAD
4/vii*

When Sir Douglas Wass and I gave evidence to the Sub-Committee on 2 July we were asked for a paper describing the options for the organisation of the central departments which had been identified in his evidence to the Sub-Committee by Sir Robert Armstrong.

... I attach a draft of such a paper which I have cleared with Sir Douglas Wass and with Sir Robert Armstrong.

If the Prime Minister is content we will submit it very early next week. I think there would be great advantage in letting the Sub-Committee have it before they take evidence from Lord Crowther-Hutton 9 July. It will be declassified when sent to the Select Committee. I am sending copies of this minute to Sir Douglas Wass and to Sir Robert Armstrong. I am also submitting the draft to the Lord President and I understand that Sir Douglas Wass will be showing it to the Chancellor of the Exchequer.

*IAS*IAN BANCROFT
4 July 1980

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THE ORGANISATION OF THE TREASURY

AND THE CIVIL SERVICE DEPARTMENT

Note by the Civil Service Department and the Treasury

Introduction

1. At their hearing on 2 July 1980, the Sub-Committee asked for a paper describing in more detail the four options for the organisation of the central departments that Sir Robert Armstrong had identified in his evidence on 18 June.

2. The options were:
 - (a) to split the Treasury, merging its public expenditure control functions with the CSD, leaving the rest of the Treasury as a separate department;

 - (b) to split the CSD, transferring its manpower, organisation and efficiency divisions to the Treasury, leaving the rest of CSD as a separate department;

 - (c) to unify the Treasury and the CSD;

 - (d) to retain the Treasury and CSD as separate departments but to strengthen further the co-ordination and co-operation between them.

This paper briefly describes and comments on the pros and cons of each of these options, but does not seek to express a preference between them.

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Split the Treasury

3. This option would unite supply control responsibility and brigade it with responsibility for the management of the Civil Service at the cost of splitting the present Treasury's unified responsibilities for economic questions. The Treasury's public expenditure functions would be merged with the CSD in a single "Department of Expenditure and Management", which would have unified responsibility for the planning and control of public expenditure programmes and their management within government. The rest of the Treasury would form a "Department of Finance and Economic Affairs".

4. It would then become necessary to handle across the boundary between the new departments:

(a) the interaction of public expenditure decisions with macro-economic analysis and policy-making;

(b) the construction of public sector accounts and the handling of issues related thereto, given that income would be largely the business of one department and expenditure that of the other; the interaction of revenue and expenditure issues at the micro-level (eg policies on social security benefits and social security contributions) would also take place across the boundary; and

(c) the relationship of public expenditure to general industrial policy and the role of public sector enterprises.

This would increase the number of economic and financial decisions which had to come forward for collective discussion because they could not be settled within the

Treasury. The co-ordination of the management of public expenditure with the responsibilities for public finance as a whole could become more difficult than it is when the Chancellor of the Exchequer and the Chief Secretary are able to act together within a single department.

Split the CSD

5. Under this option, too, there would continue to be two central departments. The CSD's manpower, organisation and efficiency divisions would be transferred to the Treasury, and the rest of CSD's functions (eg pay, personnel management, recruitment, training) would be the responsibility of a separate department.

6. On the one hand, this arrangement would unify supply control and the central responsibility for Civil Service efficiency. The arguments in favour of it are contained in the Eleventh Report from the Expenditure Committee for Session 1976-77. On the other hand, this option would separate control over the number of civil servants from control over Civil Service pay, pensions and allowances; but the bill for Civil Service manpower is the product of the two. Manpower control also involves control over grading (these functions would be transferred to the Treasury); but grading has strong links with both the structure for personnel management and the framework of pay rates (which would be the concern of the "rump" CSD). The split would make it more difficult to do effective forward planning because "demand" would lie with the enlarged Treasury and "supply" with the rump of CSD. There

is also a relationship between future manpower requirements and the planning of computerisation, which is why manpower control and supervision of the Central Computer and Telecommunications Agency (CCTA) are brigaded together within CSD. Moreover, the organisation of people and the organisation of work have to be considered in close association; personnel management, training and recruitment have an important contribution to make to improved efficiency. It is also arguable that, stripped of its manpower and efficiency functions, the rump of CSD would carry little "clout".

Unify the Treasury and CSD

7. This option, like the others, would unify the central responsibilities for the control of public expenditure and manpower and for the efficiency of the Civil Service. But it would not entail breaking the strong and important links between the work on manpower and efficiency and that on man-management, pay, recruitment and training. Nor would it suffer the penalties of separating the control of public expenditure from the rest of the Treasury's functions. On the other hand, unification would add to the already heavy load on the Chancellor of the Exchequer and other Treasury Ministers. And there would be a risk that the functions of the former CSD would receive less attention and priority than they do now when they are the full-time concern of a separate department.

Internal Organisation of a Single Central Department

8. If the departments were unified, there would be

several options for the internal organisation of a single central department. One possibility might be to transfer CSD intact, recreating in effect the "Management" and "National Economy" sides of the Treasury that existed between 1962-68. Another would be to create "mixed" public expenditure and manpower divisions of the type which existed in some parts of the Treasury before 1962. There are other possibilities and it would require detailed study and planning to consider which might be most effective and what period of time, after the decision to unify was taken, would be required to complete the process of reorganisation.

Retain and Strengthen the Present Arrangements

9. The main argument in favour of the present arrangement is that it enables the Civil Service Department, as a separate department with its own senior Minister in the Cabinet, to give the whole of its attention to its responsibilities on the manpower and efficiency fronts and allows Treasury Ministers to concentrate their attention on the control of public expenditure and on financial and economic policies. Retaining this arrangement would avoid the diversion of effort and disruption inherent in major changes of organisation.

10. If it were decided that the present arrangements should be retained, there would be scope for modest but nonetheless useful improvements in the existing co-ordination and co-operation between the Treasury and CSD. For example, there may be room for some adjustment or clarification of the two departments' responsibilities for the development of better financial management and associated systems of control within spending departments.

Civil Service Department
Whitehall SW1
4 July 1980

14 JUL 1940



Prime Minister

Content for Derek
Rayner to let the
Select Committee have
this updated paper?
 paras 12-13 are the only
sensitive area.

Mr PATTISON

*Agreed
with
D. Williams*

SELECT COMMITTEE ON THE TREASURY AND CIVIL
SERVICE

*MAP
3/11*

1. Sir Derek Rayner has agreed to a request from the Select Committee to update the written information he gave them in his note of 12 February. *(see Govt Mach. (Rayner) 15 Enclos to Rayner to PM of 14/2/80)*
2. If the Prime Minister is content, he proposes to send the Committee the new note on the lines of the attached draft. The Clerk has asked for it to reach him early next week.
3. I am copying this and the draft to Mr Hall (HM Treasury), Mr Stevens (CDL), Mr Green (CSD) and Mr Wright (CO).

CP

C PRIESTLEY
3 July 1980

Enc: Draft note for Select Committee

SELECT COMMITTEE ON THE TREASURY AND CIVIL SERVICE

Note by Sir Derek Rayner

1. This note is intended to update my Note of 12 February.

Rayner Projects 1979

2. Action Documents have been agreed and decisions taken in principle in respect of 25 of last year's 29 projects. The extent to which Ministers have been able to accept the recommendations and the pace at which, subject in some cases to consultation, they plan to implement them are heartening. As I would expect of reports produced so quickly not all the recommendations have been accepted as proposed. But the main direction of the changes identified by the project officials has to date emerged unscathed, involving in some cases very difficult decisions, and they will be implemented, or begin to be, during this year and next.

3. The possible savings associated with these 25 projects amounts to just under £20 million a year and £8.0-12.0 million once-for-all. Behind these absolute sums lie some significant percentage savings (eg 11.5 per cent of staff effort on the Inland Revenue's Form P46, 40 per cent of staff currently employed in the administration of farm capital grants; 55 per cent of staff currently employed on rate collection in Northern Ireland.) But not all the projects were aimed directly at achieving savings (eg Department of Environment project on Management Information for Ministers) and others had benefits over and above financial ones (eg a more efficient paper handling system and better use of clerical staff in HM Treasury). Also in some cases the savings will not be quantifiable until further work is completed (eg merger of Foreign and Commonwealth Office and the former Ministry of Overseas Development).

4. Action Documents are outstanding in respect of 6 projects whilst necessary consultations and further work are undertaken prior to a decision in principle by Ministers. These are: Manpower Services Commission (Review of the Skillcentre Network and review of TOPS allowances), Northern Ireland Office (Recovery of Public Debt), Department of Health and Social Security (Arrangements for paying Social Security Benefits), Department of Energy (Organisation of Research and Development in other Energy Technologies) and Department of Education and Science (Administration of the Teachers' Pension Scheme). The largest of these from the savings point of view is the DHSS project (potential savings of £50 million a year were identified by the project officials). In the case of the Manpower Services Commission's Review of Skillcentres, the Commission's decisions in principle were announced in April but the scale of and timetable for rationalisation will depend on the outcome of consultations now in train.

5. Among the important products of this work - which, I repeat, is done for Ministers by their Officials - is the following up by the Minister of State, Civil Service Department, of general lessons, eg about excessive supervision of local authorities.

Annual Scrutiny Programme

6. There will now be 39 scrutinies this year. I annex an updated list.

7. Most studies are now under way; some are already completed or expected to complete this month. As with last year's projects, it will be for Departmental Ministers to take decisions on the recommendations

before them and to make announcements. On the basis of meetings that I have had with officials carrying out the scrutinies, the visits I have made and preliminary drafts of reports that I have seen, I am again impressed by the quality of the officials undertaking the work, their radical questioning of functions and procedures and the dedication and co-operation of the staff working in the areas under scrutiny.

8. As with last year's projects, this year's scrutinies show that within the particular activities selected by Departments there are substantial opportunities for reduction of work, simplification and the better use of staff. No scrutiny is unique in the problems which it identifies. I am finding common threads, eg administrative systems get left behind by developments in business and technology; systems grow over-complex and cumbersome; networks of local and other provincial offices get out of date; systems get caught up in a plethora of complex rules and regulations designed to cope with every possible eventuality.

Statistical Reviews

9. The 22 statistical reviews being carried out within Departments and the review of the operation of the Central Statistical Office are well advanced. As with the projects and scrutinies I am impressed with the quality of officials and their work. The departmental studies will be completed over the next few weeks. There will then be an examination of inter-departmental issues and I shall be reporting to the Prime Minister and the Lord President of the Council in the Autumn.

Cost Information

10. Departments are assembling information on the cost of the manpower, goods and services used in running their operations. I annex a copy of a note which I circulated to Ministers to assist in this task. I emphasise that this is a trial year and that I would not necessarily expect all Departments to follow the format suggested in the note.

11. Cost information will be presented to Ministers this year no later than September. In subsequent years it is intended that it should be scrutinised in May in time for them to influence the level and direction of change of such costs in the next and following years. This is a promising and important exercise because it enables Ministers to reach down into their Departments and establish and question the cost of activities.

Rules and Procedures which inhibit effective management

12. Studies are now being undertaken in a number of areas. I have termed these "lasting reforms" and they include a consideration of the following -

- supplying Property Services Agency goods and services more completely on a repayment basis;
- greater flexibility in expenditure between financial years;
- methods of rewarding achievement in post and bringing talented people on;

- a model succession policy for key management posts;
- possibilities for shortening and making better use of the hierarchy;
- the managerial role of the Minister, the responsibility and accountability of officials (especially that of Accounting Officers and Key Managers) and the financial framework within which management takes place (ie Public Expenditure Survey, Votes and Management Information);
- the respective responsibilities of the spending and central departments;
- the costs of improving and applying regulations and standards (eg housing, fire, health and safety).

Meredith

13. These studies, which are being undertaken variously under the lead of the Chancellor of the Exchequer, the Minister of State Civil Service Department and myself should in general be completed this year. As with the scrutinies and other exercises outlined above, the work will draw upon the abundant talent and thinking that exist at all levels in the Civil Service.

DEREK RAYNER

1 July 1980

Enc: Revised list of scrutinies, 1980
Note on the Scrutiny of departmental running costs

SCRUTINY PROGRAMME 1980

<u>Department</u>	<u>Project</u>
Home Office	Method of dealing with applications for naturalisation and registration.*
Lord Chancellor's Dept	Administration of the Jury system.
Foreign & Commonwealth Office	Arrangements for providing and maintaining transport for Diplomatic Service posts overseas.
Overseas Development Administration	The Services of the Directorate of Overseas Surveys.*
HM Treasury	<ul style="list-style-type: none"> - The monitoring of central Government expenditure.* - Review of Procurement and Movement Functions of UKTSD.* - Review of the Rating of Government Property Department*
Inland Revenue	<ul style="list-style-type: none"> - Annual issue of PAYE deduction cards.* - Procedures for rating proposals and appeals. - The use of Accounts Registers in tax districts.
HM Customs and Excise	<ul style="list-style-type: none"> - Distillery and Warehouse controls. - Co-operation between Inland Revenue and Customs and Excise in dealings with insolvent traders.
Department for National Savings	Rate of conversion of Computerising Premium Bond Records.*
Department of Industry	The administration of the Regional Development Grant Scheme.*
Ministry of Defence	<ul style="list-style-type: none"> - Arrangements for provision of secondary education for children of Service and Ministry of Defence personnel overseas. - Provision of assisted travel schemes and Ministry of Defence establishment bus fleets. - The requirement for, the role and organisation of the Claims Commission. - Management of internal efficiency and organisation.* - Review of Ministry of Defence building projects.*
Civil Service Department	The effectiveness of technical services of Central Computer and Telecommunications Agency.
Department of Employment (Joint Scrutiny with DHSS)	- The delivery of unemployment and supplementary benefit to unemployed people.*

<u>Department</u>	<u>Project</u>
Manpower Services Commission	Organisation of the Training Services Division
Health and Safety Executive	The problems of assessing costs and benefits of health and safety requirements and the techniques available.
Ministry of Agriculture, Fisheries and Food	Enforcement of grading regulations for eggs and fresh horticultural produce.
Department of the Environment (including the Property Services Agency)	- Arrangements for the financial control of the water industry.* Regional Organisation serving the Departments of Environment and Transport (Joint scrutiny with Department of Transport).* - The requirement for a works transport fleet (PSA).
Scottish Office	The advisory and monitoring activities of the Scottish Development Department with respect to local planning authorities.*
Forestry Commission	The administration of i. the private woodlands grant scheme and ii. the licensing of felling.
Welsh Office	The procedures for processing of major National Health Service building projects.
Northern Ireland Office	The operation of financial control within the Northern Ireland Departments and the Northern Ireland Office.*
Department of Health & Social Security	- The Department's activities in support of health care exports.* - Validation of National Insurance contribution records. The delivery of unemployment and supplementary benefit to unemployed people (Joint scrutiny with Department of Employment).*
Department of Trade	Administration of the Patent Office and Industrial Property and Copyright Department.
Department of Energy	Demand for, and resources devoted to, economic and statistical advice and services.*
Department of Education & Science	Administration of student awards.
Paymaster General's Office	Working relationship between the Paymaster General's Office and the banks.

Department

Department of Transport

Project

- Ways of improving the enforcement of vehicle excise duty.*
- Procedures for setting and certifying standards for building roads and bridges.
- Regional Organisation serving the Departments of the Environment and Transport (Joint scrutiny with the Department of the Environment).*

Note Asterisks denote those scrutinies in which the Prime Minister has asked Sir Derek Rayner to take a special interest on her behalf.

ANNUAL SCRUTINY OF DEPARTMENTAL RUNNING COSTS

1. I recommended last year and it was agreed that "each Minister in charge of a Department should at the appropriate point in the PESC/Estimates cycle, scrutinise the overheads of his Department as well as his staff costs". This is because in order to run anything, one needs first to know and then to question his costs. But I also believe that Ministers should avoid excessive detail - they are not in the business of accounting for the petty cash.

Scope of the information needed

2. This note is about providing and using information on the cost of having a Department, that is, of its staff, of its buildings and of supplying it with goods (eg stationery, furniture and equipment for scientific research) and services (eg water and electricity) which it uses. In offering it to Ministers, I acknowledge that some departments may already have sophisticated information systems, especially those which have Trading Funds; the latter should not, in my view, be excluded from the scrutiny, but it may be that their costs are already displayed in enough detail in their accounts for there to be no need to assemble them again as suggested below (paragraph 11) and in the Annex.

3. I also recognise that the detailed day-to-day responsibility for good management cannot and should not be exercised by Ministers themselves but by their officials. However, officials' authority for making good use of manpower, goods and services is delegated to them by and they discharge it under and on behalf of Ministers. I see the peculiar responsibility of Ministers here most clearly represented by two inalienable tasks, approving their Estimates of Expenditure and satisfying themselves, by selective examination, that the manpower, goods and services used in their name are used efficiently and well.

4. It may not at first be clear what information on the cost of manpower, goods and services should include and exclude. I offer the following thoughts on this.

5. First, the information to be provided should be only for the manpower, goods and services used by Ministers in running their own operations and administration, ie those operational and administrative expenditures whose form, scale and deployment are under the direct personal control of Ministers.

It may be helpful if I offer some comments in extension of that view:

a. I would exclude those "running costs" expenditures by such large public sector bodies as local authorities, the National Health Service and nationalised industries, since - although these are partly funded through departmental Votes - they are not under the Minister's personal control or within his management responsibility.

b. I would exclude grant-in-aid bodies, other than the Manpower Services Commission, Health and Safety Commission and the Advisory, Conciliation and Arbitration Service, since these are staffed by civil servants. I am writing to the Secretary of State for Employment about this. However, when in such cases the Minister's Accounting Officer is required to ensure that the body has an "appropriate financial regime", I recommend that it should be his responsibility also to assure himself that the head of that body has available to him a satisfactory management information system.

c. There may be problems of interpretation over the general aim, which is to include all relevant operational and administrative costs of the Minister's department. It might be argued that in some cases there is an unclear dividing line between, on the one hand, staffing, housing, maintaining and servicing a function and, on the other, the function itself. One example which has been mentioned to me is that of the Home Office's Prison Department, the question being where administration and "overheads" end and the function itself begins. I am firmly of the view that, for the purposes of the first year of this exercise, one need not strive to draw over-nice boundaries. In the case of the Prison Department, I would regard administration, "overheads" and function as forming a single cost centre and I would consider that all of this should be included as being part of the cost of running the operations of the Home Office.

d. By contrast, I would exclude expenditure not related to the operational management of the Department, even though it is spent on functions for which the Minister is directly responsible. Examples are intervention buying of agricultural produce, the development costs of Concorde and the government's contribution to teachers' superannuation. I would exclude also the cost of grants, loans or benefits to associations, organisations or individuals outside the department.

e. I understand that a particular problem may occur over agency or contractors' services. I suggest that where these are an essential part of the activity within the Minister's management responsibility, for example Post Office agency services, they should be included. However, where they go well beyond this (eg the use of local authorities as agents for trunk roads programme) they should be excluded.

f. I recognise that there may be special problems in the Ministry of Defence, owing to the difficulty of separating Civil Service from HM Forces costs.

6. Secondly, provided there is a broad consistency of treatment between departments, I do not think it matters much if in the first year in which Ministers scrutinise their departmental costs the exercise has rough edges and is to a degree experimental. I expect we shall all learn from the experience and I do not have a ready-made specification which will indicate with precision the exact scope and content of the data to be provided.

7. Thirdly, however, that "broad consistency" will be very much helped by the fact that it is already possible to specify with reasonable accuracy many of the constituent parts of a department's expenditure (see paragraph 11 below).

8. Fourthly, I suggest that the types of expenditure to be included should be determined not according to who pays, but who consumes. Whether or not repayment is introduced for those services currently provided on allied service terms, I suggest that Ministers will wish to manage their use and consumption of, for example, accommodation and PSA supplies as if they were a direct charge upon their Votes. Indeed I believe that the Treasury guide, Government Accounting, already asks departments so to behave. While the Property Services Agency is responsible for the management of the Government's

office estate as a whole, I see the consuming Departments as exerting a very powerful influence on the planning, allocation and control of such resources and, of course, as determining the total demand for them. Similarly, they determine the demand for other types of accommodation.

9. On this basis, I recommend that the information to be assembled should cover the following three broad categories of cost:

a. Those staff and other costs of running a department which are paid for out of its Votes and for which the Minister is accountable to Parliament.

b. The cost of those "supporting services" which are a charge upon the Votes of others and provided free to the department on allied service terms.

c. Those costs which do not entail actual expenditure by the department but which, I suggest, should nevertheless be taken into account when calculating the total cost to the taxpayer of running it. These costs are the pension and gratuity liability which accrue because staff are employed and the equivalent market rental of the offices the department occupies.

10. The Supply Estimates and associated tables provide some useful information on costs in those categories. But it is in my view an inadequate form for management purposes. For example, the information there given on "supporting services" is not presented on a departmental basis; the degree of detail about direct departmental costs is not sufficiently defined to enable the various components of the department's running costs to be managed individually; and the comparison with the previous year only does not offer an adequate span of time for effective monitoring.

Information about the Department as a whole

11. I have set out in the Annex relevant types of expenditure and the period the data should cover. The types are in brief:

- A. Staff (including pension and gratuity liability)
- B. Other services
- C. Personnel overheads
- D. Office and other accommodation costs
- E. Office services
- F. Other non-office expenditure

12. I recommend that all Ministers should have information prepared for them on this basis.

13. The costs are gross and expressed in money terms. Capital and current expenditures are separately identified (although in an ideal management information system capital expenditures would be displayed in an annualised form, depreciation and interest charges being the cost of the resources consumed each year).

14. In the case of services not paid for out of departmental Votes (paragraph 9b above), data on costs not already available to Ministers from within their own departments may be obtained from the Property Services and other agencies which supply those services. A list of contact points is given at the end of the Annex. If such costs are not at once available in the form required, they will be provided in the course of the coming year for incorporation in the schedule later. This procedure will apply to the PSA, Central Office of Information and Rating of Government Property Department and to HMSO and the CCTA in respect of expenditure before the move to repayment on 1 April 1980. It is another case where Ministers may need to accept that there will be some rough edges in the first year.

15. The cost of office accommodation (paragraph 11D above) can be charged at an equivalent market rental, by rental zones, whether it is leased or Crown freehold. This will put all departments on a comparable basis in monitoring accommodation costs. The cost of specialised buildings (Crown Courts, Prisons, Laboratories etc) is, I am informed, harder to assess. The PSA tell me that this is because there will often be no

market rent for such property and that it may be difficult to arrive at a capital value. In these cases, I propose, for the present, that only the capital cost of new construction undertaken each year should be shown. (Such projects will already have appeared in the department's PESC and will appear in Estimates.) For the future, it should be possible to devise a suitable method of capital valuation, possibly a form of depreciation based on initial or replacement cost. I have asked the PSA to advise me on this, as I am anxious that Ministers should have available to them a valuation of the capital assets in their hands. I intend to go separately into the questions of repayment for or attribution of PSA expenditure on behalf of user departments. The treatment of accommodation costs can accordingly be considered again in the light of the outcome.

16. I attach some importance to the question, covered by A in paragraph 11 above and the Annex, of how much pension liability as well as wage-salary and other cost liabilities a Minister accepts when he recruits staff. A career civil servant is a substantial investment from the moment he/she is taken on to the moment his/her working life ends, but pension liability is as much a cost of employing a civil servant as his/her pay. This point is covered by my recommendation on the inclusion of pension and gratuity liability at paragraph 9 above.

17. In case officials need help in interpreting the intended scope and coverage of the cost information, I have agreed with Mr Channon that they should write to Mr A R Williams, Manpower 1 Division, Civil Service Department.

Possible questions about the cost of the Department as a whole

18. In the first instance I suggest that information needs to be brought together and displayed for the department as a whole. It will provide Ministers with answers to such simple, but important questions as:

- What is the total cost of running my department now and how does it compare with costs in previous years?

- Which particular costs make a significant contribution to the total? What efforts is the department making to keep those under control?
- How much has inflation caused expenditure to rise and how is my department improving efficiency to off-set its effects?
- Are my non-staff costs moving in line with what would be expected in the face of changing staff levels?
- Where have I failed to achieve planned changes in my costs?
- Are the savings I am achieving merely at the margin or am I operating on the main bulk of my costs?

19. In addition to the information set out in the Annex, to provide Ministers with a feel for what they are buying for the taxpayer, I suggest that some of the expenditures should be supplemented vividly by notes on quantities, eg numbers of staff employed, square footage of office space, amounts of paper and energy consumed, numbers of staff trained, number of cars in the transport fleet.

20. I attach special importance to two things, firstly the level of staff wastage. If high, it means a significant wastage of resources, notably in the costs of recruitment, training and supervisory time, in addition to unrealised investment in wages and salaries. Similarly, it is necessary to give a clear breakdown of staff by grade. In my own business, I need to know how many managers, assistant managers, supervisors and sales staff we have and how many specialists, technologists and technicians. This is because, without careful scrutiny, the relative proportions of the various types of employee tend to change unpredictably and it is all too easy to make economies, not by cutting back on the numbers of senior grades, but on those whose jobs can most easily be measured.

21. Secondly, the cost of stocks. The "non-office expenditure" covered by paragraph 11 F above may include the purchase and storage of various kinds of stocks and stores. Where these include supplies that are expensive both to buy and to store, I suggest that it would be helpful to have a separate analysis to provide data on purchase and storage costs, so that Ministers can enquire why, for example, the level of purchase and stockholding has gone up or down.

Information about parts of the Department

22. Information about the department as a whole can only take Ministers part way along the road to effective management. To plan and control the costs of running their departments I suggest that they will need to ask, and to have information available to answer, such questions as:

- Why are the costs of particular items at the levels that they are and changing in the way they are?
- Where in my department do the cost of particular items mainly arise and the changes originate, eg HQ or Local Offices; Policy/Advisory or delivery of the services; desk staff or support staff?
- What is the rate of staff turnover or wastage, with particular reference to grades that matter to my operations?
- What grades does my staff consist of and in what numbers? Which are expanding or contracting and why? What change in the pattern of skills employed by my department does this represent and why?
- What is the cost to the department of running a particular programme?
- Are the staff and other costs of a particular programme moving in the same direction as my policy in relation to the programme? If not, why not?
- Where in my department have my economy drives failed to bite?
- How much have this year's policy initiatives affected the cost of running my department?
- In what areas could I achieve savings in the longer term by increasing expenditure in the short term?

23. I suggest that providing answers to such questions will mean underpinning gross information on the department as a whole with similar information on its component parts.

24. It will be necessary for costs to be got together in relation to organisational units and, if Ministers so desire, expenditure programmes or particular activities. The definition of the "organisational units" and of "activities" will be for Ministers to determine in the light of their own departmental circumstances. For example, in some cases it might be satisfactory to specify a Deputy Secretary command as an "organisational unit", whereas in others an Assistant Secretary (or lower) command would be appropriate. An example of an activity could be training across the whole department.

25. Ministers need not have this supplementary information presented to them in its entirety unless they wish. Its main purpose should be as a source of information which can be tapped so as to explain the data presented on the whole department and in answering Ministers' specific questions. It should also, of course, sharpen the awareness of costs and bring home the need to control them at all levels of management.

26. Having the wherewithal to examine the cost of a particular activity is the precondition for enquiring into value added for money spent. That enquiry should not and cannot be confined to appraising staff and running costs - it is bound to extend to the appraisal of the outcome of policies on the ground and therefore to the search for effective ways of assessing outcome. This may apply just as much to the expenditure of public bodies other than the department when Ministers are evaluating policies and considering the total cost of implementing a programme, but this note is addressed to the cost of departmental administration, not to the cost of policies.

Timing of the scrutiny

27. I suggest that Ministers should have an opportunity to scrutinise the cost of running their department in good time for the decisions they need to take each year on the level and direction of change of such costs in the next and coming years. I recommend therefore that departments should prepare

their analyses in April of each year for presentation to Ministers in early May. The decisions taken by Ministers on the detailed expenditures should then be reflected in the preparation of the next year's Estimates. In November each year, when these Estimates are being prepared for the following financial year, I suggest that Ministers will then wish to ensure that their management decisions have been taken on board and make further adjustments as necessary. But I should emphasise that I see the information as being just as if not more helpful to Ministers in relation to planning for later years as for the next following year. This is because, in my view, it bears heavily on the medium-term management policy of the department, as well as upon the scrutiny of costs here and now and to decisions on the administrative budget for the next year.

28. I recommend that the information should be scrutinised by the Minister in charge of the department. However the responsibility for taking the first look at the data might be delegated to a Minister of State or a junior Minister. He/she could also be responsible for any follow-up after the scrutiny.

29. The data listed in paragraph 11 and set out more fully in the Annex will also provide the base for an annual statement on the cost of running central government. This will be prepared by CSD Ministers for the Cabinet, who will consider it at about the same time as the PESG report. I understand that Mr Channon would like to receive returns from Ministers by the beginning of June, together with a commentary indicating each Minister's conclusions as a result of his scrutiny.

30. I recognise that all the information necessary to meet the management needs of Ministers may not be available in this first year of operation. It is important however that Departments begin now to refine their cost information systems with a view to its being fully operational in 1981-82. I therefore recommend that the scrutiny for 1980-81, although it should be done for real, should be regarded as a pilot run, so that the new procedures can operate smoothly in and from next year. I recognise that there could be problems of timing in this first year. If necessary,

in order to get a reliable test, the submission of trial analyses to Ministers could be put back, provided that Mr Channon received all returns by the end of September to allow enough time to consider the lessons to be learned from this first attempt at the scrutiny of costs.

31. I shall be glad to do what I can to help with the trial.

Summary of recommendations

32. Principal Accounting Officers should assure themselves that heads of bodies funded through departmental Votes have available to them a satisfactory management information system (paragraph 5b).

33. The information to be assembled should cover (a) staff and other running costs paid for out of the department's Votes; (b) the cost of supporting services provided on allied service terms; and (c) notional expenditure (paragraphs 9-12 and Annex).

34. Departments should prepare their analyses each April for presentation to Ministers early in May, beginning this year. Ministers' decisions on the detailed expenditures should then be reflected in preparing the next year's Estimates (paragraph 27).

35. The information should be scrutinised by the Minister in charge of the Department, although the first look and follow-up action might be delegated to a junior Minister (paragraph 27).

36. The 1980-81 scrutiny, although done for real, should be regarded as a pilot run (paragraph 30).

Derek Rayner
Cabinet Office
Whitehall SW1

22 February 1980

TOTAL DEPARTMENTAL COSTS

	Penultimate Year (Actual) Gross	Last Year (forecast Outturn) Gross	This year (Estimate) Gross	Last year - This year -	
				Increase/ Decrease + or -	% Change + or -
A. Staff					
1. Average Numbers of permanent staff					
2. Costs	£	£	£	£	
Wages and Salaries (including Insurance contribution)					
i. Permanent Staff (UK based)					
ii. Overtime					
iii. Casuals					
iv. Period Appointees; staff on loan from outside bodies (paid for by the department)					
v. Staff locally engaged overseas					
vi. Employers' super- annuation contri- butions					
vii. Other pay costs					
3. Pension and gratuity liability (1)					
TOTAL WAGES AND SALARIES					
B. Other Services					
1. GIRO and other banking services					
2. Post Office Agency charges					
3. Other agency charges, cost of staff employed by contractors, consultants and fee paid staff					
[Note: this item is intended to include the employment of contract labour eg cleaning staff but not the direct labour element in government contracts]					
4. Payments to other departments for 2 services provided (eg establishments or common support services)					
[specify each department separately]					
TOTAL OTHER SERVICES					

(1) Notional expenditure only.

	Penultimate Year (Actual) Gross	Last year (forecast Outturn) Gross	This year (Estimate) Gross	Last year - This year	
				Increase/ Decrease + or -	% Change + or -
<u>C. Personnel overheads</u>	£	£	£	£	
Travel					
Subsistence					
Entertainment					
Removals					
Catering Subsidies					
Protective Clothing, Uniforms etc					
External training, seminars etc					
TOTAL PERSONNEL OVERHEADS					
<u>D. i. General Office</u>					
<u>Accommodation</u>					
<u>Costs</u>					
Equivalent market rents (1)					
Rates (2)					
Heating, lighting(2)					
Maintenance (2)					
Furniture and fittings (2)					
<u>ii. Other Accommodation</u>					
<u>Costs</u>					
Rates (2)					
Heating, lighting(2)					
Maintenance (2)					
Furniture and fittings (2)					
Capital Costs - New Construction (2)					
TOTAL ACCOMMODATION COSTS					

(2) Expenditure borne on other departments' Votes (also applies to stationery, printing, office machinery and administrative computers before 1980-81).

Last Year-This Year

	Penultimate Year (Actual) Gross	Last Year (forecast outturn Gross	This Year (Estimate Gross	Increase/ Decrease + or -	% Change + or -
	£	£	£	£	
E. <u>Office Services</u>					
Carriage, freight Transport-own depart- ment (inc.vehicle maintenance)(3) Transport-PSA(2)(3) Telecommunications (3) Postage Office Machinery(5) Stationery Photocopying Printing & Publi- cations (3) Publicity and advertising (2)(3) Library Services Administrative Computers (3)					
Minor Administrative Expenses [separately annotated where substantial]					
TOTAL OFFICE SERVICES					
F. <u>Other Non-Office Expenditure</u>					
i. <u>Capital Expen- diture</u>					
Land Plant & Equipment Vehicles					
ii. <u>Running Costs</u>					
Land Plant & Equipment Vehicles					
iii. <u>Other Current Costs</u>					
TOTAL OTHER EXPENDITURE					
TOTAL EXPENDITURE A-F borne on own Votes					

	Penultimate Year (Actual) Gross	Last Year (forecast outturn) Gross	This Year (Estimate) Gross	Increase/ Decrease + or -	% Change + or -
	£	£	£	£	
TOTAL EXPENDITURE A-F borne on other depts' Votes (2)					
TOTAL EXPENDITURE A-F which is notional only (1)					
GRAND TOTAL A-F					

- (1) Notional expenditure only
- (2) Expenditure borne on other departments' Votes (also applies to stationery, printing, office machinery and administrative computers prior to 1980/81).
- (3) Please separate expenditure between Capital Costs and Running Costs where possible.

- Notes:
- (a) Pension and Gratuity Liability is to be calculated on the latest rates notified by the Treasury [currently 19% for Non-Industrials and 16% for Industrials].
 - (b) Substantial costs will also need to be subdivided by organisational units (eg locations, functions, Under Secretary Commands etc). The precise nature of the breakdown will need to reflect the internal organisation of the department itself. All staff costs will require this treatment; the separation of other costs will depend upon a number of factors eg practicability, materiality and whether cost control will be facilitated.
 - (c) Expenditure figures should be shown gross. A separate note analysing receipts may also be required in order to present a full picture.
 - (d) Current year figures should be reconcilable with those shown in Supply Estimates after allowing for notional items. Figures for last year should be as near as possible to the final appropriation account figures. Penultimate year figures must be exactly reconcilable with that year's Appropriation Accounts.
 - (e) Any goods or services provided free to the department on allied service terms should be marked. The expenditure to be shown under these items should be obtained from the relevant allied service department.
 - (f) The contact points in these departments are as follows:

Property Services Agency:	Mr P B Overton, 20 Albert Embankment, London SE1(211 3254)
Central Office of Information:	Mr D J Etheridge, Hercules Road, London SE17(928 2345 ext 8114)
Rating of Government Property Department:	Mr P S Mewes, 69 Notting Hill Gate, London W11 (229 9841 ext 46)
HM Stationery Office:	Mr P Jefford, Sovereign House, Botolph Street, Norwich (0605 22211)
Central Computer and Telecommunications Agency:	Mr D Fowler, Riverwalk House, 157-161 Millbank, London SW1 (211 0327)

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10 DOWNING STREET

From the Principal Private Secretary

3 July 1980

Dear John,

on
Civil Service At 1
Long Term Manpower +
Management Policy

THE EFFICIENCY OF CENTRAL GOVERNMENT

When the Prime Minister minuted the Chancellor of the Exchequer on 3 April 1980 about the efficiency of central government she said that she had asked Sir Ian Bancroft, assisted by Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner, to let her have advice on the possible reunification of the Treasury and the central elements of the CSD and on the possibility of creating a new service agency which might embrace not only those parts of the CSD not relevant to its control and related functions but also the Property Services Agency.

Sir Ian Bancroft has now submitted the attached reports on these two propositions, and the Prime Minister would like to hold a meeting in the near future to discuss them with the Chancellor of the Exchequer, the Lord President of the Council, Sir Ian Bancroft, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner. We will be in touch with you to arrange a time. In the meanwhile I should be grateful if you would handle the reports with the discretion which these sensitive issues require.

I am sending a copy of this letter and of the two reports to Jim Buckley (Civil Service Department). Copies of the letter also go to Sir Ian Bancroft, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

Yours etc,

John Major

A.J. Wiggins, Esq.,
HM Treasury.

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PRIME MINISTER

THE MACHINERY OF GOVERNMENT AT
THE CENTRE

Earlier this year you commissioned Sir Ian Bancroft, with the help of Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner, to examine the case ^{for} restoring the central elements of the CSD to the Treasury and for creating a new Common Services Agency, comprising the PSA, HMSO, COI and the service functions of the CSD.

In the attached minute Sir Ian Bancroft submits the reports of these two studies. The conclusions of the study of the possible reunification of the Treasury and the core of the CSD are at paragraph 29 of the report (Flag A). They do not come down decisively for or against a merger. This is because there was disagreement amongst those carrying out the study. As Sir Ian Bancroft's covering minute makes clear, he is against reunifying the Treasury and the CSD and Sir Derek Rayner is strongly in favour: Sir Douglas Wass and Sir Robert Armstrong take the same view as Sir Derek Rayner though this is not made clear in Sir Ian Bancroft's minute.

The conclusions of the report on the possible merger of common services are set out in paragraph 22 of the report of that study (Flag B). Again, there is not a firm recommendation for or against the proposal and instead it is suggested that the case for reorganising common services functions should be re-examined when a number of reviews which are already in hand have been completed. This uncertainty does not matter too much, since the decision on the possible reorganisation of common services is not critical to the proposed merger of the Treasury and the CSD.

I suggest that you defer reading the two reports in full until the weekend. The decisions which you need to make immediately are:-

/(a) Should copies

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- 2 -

(a) Should copies of the reports be sent to the Chancellor of the Exchequer and the Lord President, as Sir Ian Bancroft suggests? They, together with Mr. Channon, are the only Ministers who know that these studies have been undertaken. I suggest therefore that they should get copies of the reports. Agree?

Yes not

(b) When you have had a chance to study the reports and you have seen the further notes from Sir Robert Armstrong and Sir Ian Bancroft promised in paragraph 6 of Sir Ian Bancroft's minute, would you like a meeting with the Chancellor, the Lord President, Sir Ian Bancroft, Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner?

Yes not

(c) Do you agree that I should tell Mr. Heseltine's office to go slow on whatever they are doing on the future of the PSA (paragraph 8 of Sir Ian Bancroft's minute)?

Don't. Speak
to David
Hannock. I
expressed my
view. He said
to keep quiet
and I was told
this.

JMH
8/2

JMH. Yes not

1 July 1980

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PRIME MINISTER

THE MACHINERY OF GOVERNMENT AT THE CENTRE

... I attach two reports on the machinery of Government propositions in your minute of 3 April to the Chancellor of the Exchequer. I have prepared the reports in close consultation with Sir Robert Armstrong, Sir Derek Rayner and Sir Douglas Wass. The first one is about the propositions for the unification of the Treasury and the core of CSD and the relocation of the Head of the Government Accountancy Service in the Treasury: its conclusions are summarised in paragraph 29. The other report is about the proposition for a new common services agency comprising the PSA, HMSO, COI and the "service" functions of CSD: its conclusions are summarised in paragraph 22. Neither report discusses the proposition for an Inspector-General of the Civil Service. This is because Sir Derek Rayner wishes to develop further his ideas about the Inspector-General; and the proposition, while relevant, is not crucial to the decision whether to unify the Treasury and CSD.

THE TREASURY AND CSD

2. The agreed view of the four of us is that the practical choice is between:

a. unification of the two departments, beginning at the Ministerial level and moving forward step-by-step to closer integration at the official level (paragraph 17 of the first report); or

b. to keep the two departments separate but improve the coordination between them and clarify their respective responsibilities (paragraph 28 of the first report).

3. The case for unification is that CSD has insufficient "clout"; and that the drive on public expenditure, manpower and efficiency could be pursued more effectively if the two departments were merged. I personally find difficulty in accepting the first of these propositions and I do not think the second is self-evident.

4. My own (as it happens, extensive) experience of machinery of government changes has taught me that the costs of re-organisation are usually under-estimated and that policies and personalities are more important than organisational theories. The penalties of disruption - even if minimised as suggested in paragraph 17 of the report - are immediate and substantial: the benefits come in the longer term and are inevitably speculative.

5. Sir Derek Rayner believes that the two departments should be merged and that the risks of disruption should not be over-emphasised. He accepts that it is not out of the question to leave things as they are, with or without minor improvements; and, indeed, as he

SECRET

suggested in his minute to you of 26 March, changes in organisation cannot of themselves produce either savings in public expenditure (except the possibility of producing a slimmer organisation at the Centre) or improved performance by spenders and controllers. He believes that there has to be a driving force bringing with it changes in policy and practice and enabling those now divided by the separateness of the Treasury and CSD to be more effective. Sir Derek Rayner's view remains very firmly that, since the policy of the Government is to control and manage public expenditure and the Government's own operations much better than in the past, you and "central" Ministers are entitled to a firm base from which to be briefed and supported in leading your other colleagues in managing the consumption of resources. He believes that this should be provided by a single department, bringing together in one organisation the theory, practice and knowledge needed both to support "central" Ministers and to underpin the collective management role of the Cabinet. Sir Derek does not believe that it is sufficient or effective to try to coordinate central control across the separation of two departments.

6. The balance of the arguments for and against merger can be struck only as a matter of your personal judgement, and I recognise that organisational considerations are not the only ones. Sir Robert Armstrong will be sending you a separate note about the implications of merger at Ministerial level and I will be sending you a note about the arrangements at Permanent Secretary level. You might find it helpful to supplement this written material by a discussion at some stage with the four of us who prepared the reports.

THE COMMON SERVICES

7. All four of us see the attractions of unifying the common services; indeed, Sir Derek Rayner's view goes beyond seeing its attractions - he is for it in principle. Naturally, there would also be some disadvantages. But we all believe it would be best to await the results of the reviews on privatisation and the financial framework before reaching a final view. This need not delay your decision on the unification of the Treasury and CSD; that decision is not dependent on the future organisation of the common services. You will, however, presumably want to have the views of the Select Committee on the Treasury and Civil Service before making up your mind on unification of the central departments.

8. I should mention, too, that the Secretary of State for the Environment appears to be developing proposals for obtaining independent advice - perhaps from a new and high powered advisory board - about PSA's operations. Your office may wish to suggest to him that he defers further work on this for the time being (ie until you have had time to consider the report on common services).

9. Finally, the creation of a new common services agency would probably require a Transfer of Functions Order and possibly even primary legislation, depending on how the powers were to be vested and what the financial arrangements were to be. This is a matter on which it would be necessary to obtain legal advice before a

SECRET

final decision on the propositions was taken. It would also be necessary, of course, to bring into consultation the agencies concerned.

10. I am copying this minute and the reports to Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner. Spare copies of the reports are enclosed, as I imagine you will wish to send them to the Chancellor of the Exchequer and the Lord President.

JAB

IAN BANCROFT
30 June 1980

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THE ORGANISATION OF THE CENTRAL DEPARTMENTS

INTRODUCTION

1. The Prime Minister's minute of 3 April to the Chancellor of the Exchequer invited Sir Ian Bancroft, in consultation with Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner, to prepare advice to her on the following propositions:-

- (a) the re-formation of the Treasury and CSD to bring together in a single new department the control and related functions of CSD with those of the Treasury;
- (b) the location of the service functions of CSD alongside the functions of the Property Services Agency (PSA), HM Stationery Office (HMSO), and the Central Office of Information (COI) in one or more agencies under the new central department;
- (c) the creation of a new office of "Inspector General of the Civil Service", reporting to the Prime Minister, perhaps from within the new department but available to all Ministers on the efficiency and effectiveness of Civil Service operations;
- (d) the relocation of the Head of the Government Accountancy Service in the new department.

2. This report concentrates on the proposition for the unification of the Treasury and core of CSD. It also considers the proposition for the location of the Head of the Government Accountancy Service in the new department. The proposition concerning the Common Services is examined in a separate report; the case for the merger of the Treasury and CSD is not dependent on the decision whether to unify the Common Services. Sir Derek Rayner wishes to develop further his ideas about the proposition for an Inspector General. Advice on the proposition is not, therefore, given in this report but will be submitted as soon as possible. The

proposition, while relevant to the future organisation of the Treasury and CSD is not crucial to the decision whether they should be merged.

3. Currently the Treasury has 1030 staff, of whom 32 are at Under Secretary level and above; the corresponding figures for CSD are 4940 and 21. At Annex A are organisation charts for the two departments and a more detailed breakdown of their staff.

B THE TREASURY AND CSD: ORGANISATIONAL BACKGROUND

4. In 1962, the Treasury was reorganised. It was divided into two distinct "sides". Between 1962-68, the "Management Side" dealt with public sector pay and Civil Service recruitment, training, grading, complementing and O & M. The "Finance, National Economy and Public Sector Side" dealt with home and overseas finance, management of the national economy and public expenditure control.

5. There was therefore a natural division which could be followed in 1968 when the Treasury was split in accordance with the recommendations of the Fulton Report. The "Management Side" broadly became CSD. Fulton advocated the creation of CSD for two main reasons: because he thought the management of the Civil Service had had, and would continue to receive, inadequate attention within the Treasury because of its other competing responsibilities; and because he thought a separate Cabinet Minister and Department were needed to push through the other reforms recommended by the Committee.

6. The creation of CSD was generally welcomed. But over the last few years there has been intermittent criticism that CSD has not been in a sufficiently strong position to improve the management efficiency of the Civil Service. In particular, it has

been suggested that it has proved undesirable to separate the Treasury's control of public expenditure from CSD's control of Civil Service manpower and administrative expenditure (even though these functions had been separated at official level in the Treasury between 1962-68) and that the split between the two central departments of responsibility for the management efficiency of the Civil Service has been a hindrance to its effective promotion. These criticisms are most notably to be found in a report of the Expenditure Committee during Session 1977-78 prepared by its General Sub-Committee, chaired by Mr English.

7. The Select Committee on the Treasury and Civil Service is currently examining the role and powers of CSD and the division of responsibilities between CSD and the Treasury; it is not known when the Committee expects to publish its conclusions.

C CRITERIA

8. There is clearly common ground between the question of the machinery of government at the Centre and the parallel issue of "central control", in the study of which the Chancellor of the Exchequer is taking the lead. Without prejudging the conclusions of that study, it seems reasonable to adopt the following criteria against which to test any organisation of the functions now discharged by the Treasury and CSD.

9. These criteria are that the organisation of the Centre should provide for:

(a) a sound framework for the central allocation of resources, not only of public expenditure as a whole but also of Civil Service numbers and administrative costs;

(b) an effective basis for a contribution to the operational efficiency of departments;

(c) an effective capacity for strengthening (in support of (a) and (b)) the financial control and information systems of both the central and the spending departments;

(d) an effective capacity for the management of public finances and of monetary policy;

(e) an effective capacity for the central management of the Civil Service.

D THE CORE OF CSD AND THE COMMON SERVICES

10. The proposition is for the "core" of CSD to be merged with the Treasury. The divisions that comprise CSD's core are those which deal with:

- manpower control
- Civil Service pay, superannuation and allowances
- management efficiency (including the work in support of the exercises under Sir Derek Rayner's direction, and work on the organisation of departments, their systems for resource planning and control and internal audit)
- personnel management, which includes the divisions dealing with industrial relations (which has close links with the pay function), security, the rules on business appointments on departure from the Civil Service and the rules for handling official information.
- recruitment and training (including the Civil Service Commission and the College)
- part or all of the Central Computer and Telecommunications Agency (CCTA).

11. CCTA has important policy as well as procurement functions. Its policy functions are strongly linked to CSD's work on the way departments are organised, managed and staffed, particularly at a time of significant technological change and manpower retrenchment. However, the boundary between CCTA's and HMSO's procurement responsibilities for electronic office aids is becoming increasingly blurred. There is, therefore, a case in principle for splitting the CCTA. This is discussed fully in the report on the Common Services. But the decision whether all or only part of CCTA should be regarded as part of the core of CSD is not crucial to the judgement whether to merge the two central departments.

12. The key conclusions of the report on Common Services are that:

(a) while there are, in principle, attractions in the proposition for a new agency, comprising PSA, HMSO, COI and perhaps part of CCTA, it would be premature to reach decisions on the proposition until the results are available of the current reviews of the financial framework of the Common Services and of the range of work that should be undertaken by the private sector rather than "in house";

(b) the case for the merger of the Treasury and CSD is not dependent on the decision whether to unify the Common Services.

E THE ORGANISATION OF A NEW CENTRAL DEPARTMENT

13. There are three main options for the re-organisation of the central departments:

(a) to split the Treasury, merging its public expenditure side with CSD, leaving the rest of the Treasury as a separate department;

(b) to split CSD, transferring its manpower, organisation and efficiency divisions to the Treasury, leaving the rump of CSD as a separate department;

(c) to unify the Treasury and the core of CSD, integrating the work on manpower, organisation and efficiency now done in CSD, with that on expenditure control and efficiency now done in the Treasury.

The first two options are discussed in Annex B; neither can be recommended for the reasons given there. The rest of this report concentrates, therefore, on the proposition for unification.

14. Two of the main objectives of unifying the Treasury and CSD would be to strengthen their work on efficiency and on the control of manpower and expenditure. One way to pursue these objectives would be to locate the CSD Deputy Secretary command which contains the manpower, efficiency and organisation divisions under the Treasury Second Permanent Secretary who currently carries the lead responsibility for expenditure control and the Treasury's work on the frame-work for financial control and efficiency. This would bring the manpower/efficiency and expenditure functions together at a senior official level while recognising that the two areas of work are distinct specialisms and also retaining sufficient separation between them to help avoid the risk that expenditure control would be given undue attention and priority at the expense of the drive on manpower and efficiency.

15. A second option would be to bring about integration of the functions at a lower official level: for example, to return to the "mixed" expenditure and manpower divisions that existed in some cases before 1962 and to integrate the CSD and Treasury

divisions concerned with spending departments' systems for financial control, information and efficiency. It should be noted, however, that the CSD manpower divisions are currently organised on "departmental basis (each division dealing with whole departments) whereas the Treasury expenditure divisions are organised on a primarily "functional" basis (under which one department's expenditure may be dealt with by several expenditure divisions). The rationale for both types of organisation stems from the nature of the manpower and expenditure control functions and there would be penalties in departing from either of them to set against the benefits of closer integration. Closer integration would of course take longer to plan and the process of reorganising the two departments would temporarily divert attention and effort from the key tasks of controlling manpower and expenditure.

16. It is not possible to offer advice on which of these two options would be preferable without more detailed study and wider consultations at both Ministerial and official levels. Further, there may be other options that would be more effective than either of those described in paragraphs 14 and 15. Moreover, the experience of machinery of government changes clearly indicates the advantages of a pragmatic and step-by-step approach to internal re-organisation rather than immediate implementation of a theoretical blue-print for change.

17. For these reasons it might be best to bring about unification at the Ministerial level first. At official level, CSD would be merged intact with the Treasury. In effect, this would be to return to the position between 1962-1968 when the Treasury had a "Management" and a "National Economy" Side. But this approach is not put forward as a long-term proposition because it would entail the inevitable and substantial penalties of unification without producing an organisation at official level radically different from the present arrangements. The advantages of unification of this basis as a first step would be:

(a) its comparative simplicity;

(b) immediate unification at Ministerial level of central control over the allocation of resources and the drive

SECRET

for improved efficiency;

(c) an early end to the speculation about the future of the Centre;

(d) the ability to press ahead with detailed planning for closer integration without the need for secrecy.

A date for the completion of the planning for the next stage in the integration of the new department could be set at the same time as the decision to unify the Treasury and CSD was taken.

18. In the event of a merger, it would be necessary to consider an early re-allocation of office accommodation to break down physical inhibitions to the integration of the two departments' work. Ministers and senior officials would need to be accommodated in the same building. While this could not be achieved over night, it should not be given low priority. Whatever the form of merger adopted, there might also be scope for re-locating those CSD and Treasury divisions whose interests are close even if they were not in the same Second Permanent Secretary or Deputy Secretary commands.

F. THE MINISTERIAL ARRANGEMENTS

19. At present, and under the Prime Minister herself, the Treasury and CSD have three Ministers of Cabinet rank (the Chancellor of the Exchequer, the Lord President and the Chief Secretary). The Treasury also has three junior Ministers (excluding the Whips) and the CSD one. It should be noted, however, that perhaps only half the Lord President's time is devoted to CSD business; he also has responsibilities as Leader of the Lords and for some other non-CSD matters.

20. The Chancellor already had a strong interest in major Civil Service issues, such as pay and manpower. If the Treasury and CSD were unified he would inevitably find these issues more time-consuming because he would have to take the lead on them not only with his colleagues but also with the Civil Service Unions and in

SECRET

public. This would add to his already heavy load. He would be able, however, to delegate day-to-day responsibility for the Civil Service to the other Ministers of the new department. The Chief Secretary in addition to his current responsibilities for public expenditure, might also provide the focus for questions concerned with the efficiency, pay and manpower of the Civil Service. It might be desirable to give a junior Minister specific responsibility for all Civil Service matters under the Chief Secretary.

G THE ARRANGEMENTS AT PERMANENT SECRETARY LEVEL

21. Between 1956-68, the Treasury had two Joint Permanent Secretaries. It might be sensible to revert to that arrangement, in the event of merger, if the new department were intended to have a "Management" and a "National Economy" side (as described in paragraph 17 above) as more than a stepping stone to early and closer integration of Treasury and CSD Divisions. But if closer integration is intended, it might be preferable to have only one Permanent Secretary from the outset. The load would be heavy and it would be ^{for} consideration, therefore, whether the person who was permanent head of the Treasury should also be Head of the Home Civil Service. (That actual title could be dropped but not the work that goes with it). However, the arrangements at Permanent Secretary level are not crucial to the decision whether to unify the central departments.
22. At present, the Treasury has four Second Permanent Secretaries (including the Head of the Government Economic Service) and the CSD one. It is possible that the number of these posts would be reduced by one following unification, although this could be affected by the decision on the nature of the merger.
23. The location of the Head of the Government Accountancy Service in the new department would increase by one the number of Second Permanent Secretaries at the Centre. The case for bringing this post into the Centre is strong and is consistent with the criteria suggested in paragraph 9 above. The holder would have an important contribution to make to the work of many areas of the new department and it seems best, therefore, that he should have no specific line responsibilities initially, other than his function as the Head of Profession. But this arrangement could be reviewed in the light of experience.

H THE MECHANICS OF CHANGE

24. Unification would not require primary legislation and could be achieved either administratively or at most by a Transfer of Functions Order. The lawyers' advice would be required on the best means.

I REVIEW OF THE ISSUES

25. In favour of the approach to merger described in paragraph 17 (ie unification of control at the Ministerial level of the Management and National Economy Sides of the new department) is its comparative simplicity and minimisation of disruption. The last point is of particular weight given the Government's current major efforts directed at the levels of Civil Service manpower and of public expenditure as a whole. Moreover, unification on this basis would not preclude but would positively facilitate planning for deeper integration of the new department at official level during the life of this Parliament. Experience of other machinery of government changes demonstrates the advantages of progressive, step-by-step reorganisation without too detailed an advance blue-print. But unification primarily at the Ministerial level might well not produce sufficient advantages over the present arrangements to outweigh the penalties and risks of merger, and could be regarded as justifiable only as a staging post on the way to a more fundamental integration of Treasury and CSD divisions.
26. If a radical integration of the two departments were introduced from the outset (as described in paragraphs 14 and 15) the risks to the achievement of the key manpower and public expenditure tasks would be significantly increased.
27. Before proceeding with merger on either an evolutionary or more immediately radical basis, it would be important to consider whether the advantages of change would outweigh the penalties and whether the gains could be secured with less drastic organisational disruption. At times during its life CSD has not been a strong department. But that was primarily a reflection of policies and personalities in a period before the present Government took office. The department now has clear and major responsibilities on both the manpower and efficiency fronts with strong Ministerial direction

SECRET

and is able to devote its full efforts to them. Unification at this juncture would be bound to cause disruption and diversion of effort. That is not lightly to be contemplated when the Centre faces the immediate and over-riding job of bringing down both public expenditure and the size of the Civil Service/^{and}generally administering the Government's financial and economic policies during a period of major transition from the trends and habits of recent years.

28. If it were concluded for these reasons not to unify the departments, there would still be scope for improving the present arrangements. The review of central control being led by the Chancellor of the Exchequer will indicate ways in which both the Treasury's and CSD's roles, and the collaboration between them, might be strengthened. Certainly there is a need for close collaboration between the Treasury and CSD on manpower/expenditure questions, on spending departments' systems for financial control and information, and on efficiency; (the present arrangements for co-ordination are outlined in Annex C). And there are some awkwardnesses arising from the present split of responsibility between the two departments at some points. In particular, there is a case for reviewing the split of responsibility between the central departments for controlling expenditure on goods and services provided by the common service departments; and there is some overlap of responsibilities between the two departments in the development of better financial management and associated systems of control within departments. There may, therefore, be a case for some adjustment or clarification of responsibilities between CSD and the Treasury in these areas. There will inevitably be some problems which can be tackled only by close co-operation and co-ordination between the two departments. There has been a particular effort to improve this over the last year or so and scope exists for further improvement without merger; while the gains would be modest, they would be useful.

SECRET

SECRET

J SUMMARY AND CONCLUSION

29. This report suggests that:

(a) the "core" of CSD includes the manpower, management efficiency, pay, superannuation and allowances, personnel management, recruitment and training divisions, including part at least of the CCTA (paragraphs 10 and 11);

(b) the decision whether to unify the Treasury and CSD is not dependent on the conclusions reached about the future organisation of the Common Services (paragraph 12);

(c) one option (for adoption either initially or as a second step) would be to separate the manpower and efficiency divisions from the rest of the CSD functions and locate them intact under the Treasury Second Permanent Secretary who currently carries the lead responsibility for expenditure control and the Treasury's work on the framework for financial control and efficiency (paragraph 14);

(d) a second option would involve integration of these functions at lower official levels within the new department (paragraph 15);

(e) the balance of advantage seems to lie, however, with a step-by-step approach to integration, beginning with unified Ministerial control of a "Management" and a "National Economy" Side of the new department - broadly on the lines of the arrangements in the Treasury between 1962-68 - and moving on to a more radical integration in the next stage (paragraphs 16-18);

(f) the arrangements at Ministerial level are briefly discussed in paragraphs 19-20;

SECRET

(g) so long as unification was only at Ministerial level, there would be a case for having two Joint Permanent Secretaries; but the greater the degree of integration, the more powerful the arguments for having only one Permanent Secretary. In that event, it would be necessary to decide whether the title (if retained) and duties of the Head of the Home Civil Service should be attached to that or some other post (paragraph 21);

(h) there is a strong case for locating the Head of the Government Accountancy Service in the Treasury (paragraph 23);

(i) it appears that the unification of the Treasury and the core of CSD could be achieved by administrative action or at most by means of a Transfer of Functions Order (paragraph 24);

(j) a merger would inevitably cause disruption and could put at risk two key tasks: the reduction of Civil Service manpower and the drive on public expenditure. There is a case, therefore, for retaining separate departments while strengthening the co-ordination and co-operation between them (paragraphs 25-28).

Civil Service Department
30 June 1980

ANNEX A

THE ORGANISATION AND STAFFING
OF
THE TREASURY AND CSD

CIVIL SERVICE DEPARTMENT - ORGANISATION CHART

DEPUTY
SECRETARIES
(4)

UNDER
SECRETARIES
(15)

ASSISTANT
SECRETARIES
(43)

DEP SEC

Functions & Programmes (72 staff)	_____	2
Manpower (50 staff)	_____	3
Management & Organisation (91 staff)	_____	6
Central Computer & Tele- communications Agency (716 staff)	_____	6

DEP SEC

Pay (116 staff)	_____	5
Superannuation & Allowances (80 staff)	_____	2

SIR IAN
BANCROFT

SIR JOHN
HERBECQ

Central Group (225 staff)	_____	
Chessington Computer Centre (430 staff)	_____	

DEP SEC

Public Appointments Unit & Personnel Management (84 staff)	_____	4
Personnel Management (59 staff)	_____	4
CISCO (1818 staff)	_____	
Training Division (16 staff)	_____	1
College (286 staff)	_____	7
Medical (43 staff)	_____	
Security Adviser	_____	

DEP SEC

(1st Civil Serv-
ice Commissioner)

Commissioner (365 staff)	_____	1
Commissioner	_____	1

1
(Ceremonial)
(10 staff)

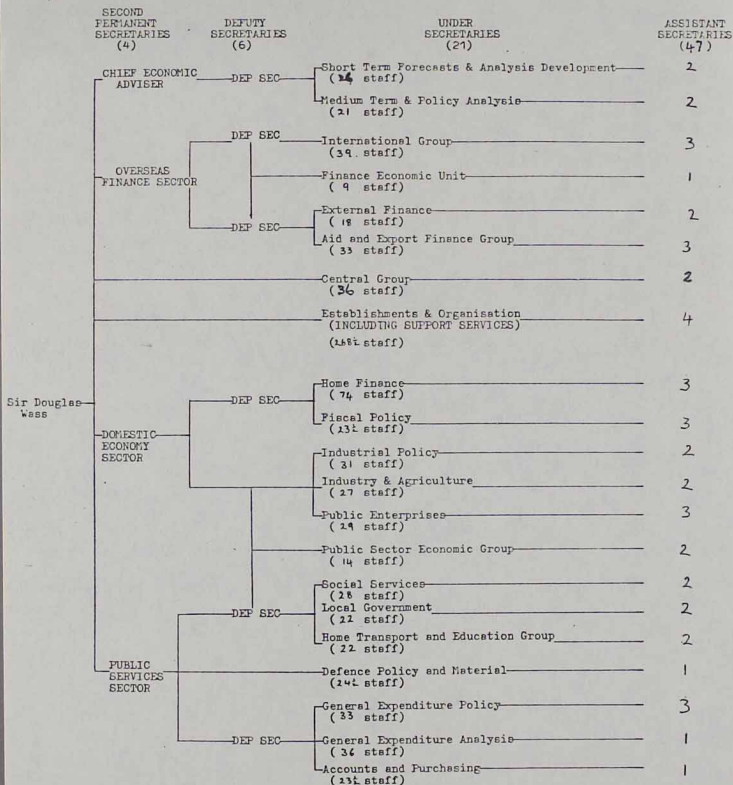
Public Appointments (8 staff)	_____	
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TOTAL: 4940 staff

NOTES

1. Staff figures are at 1.6.80.
2. About 50 additional staff are employed in servicing CSD Ministers and top management and in other functions outside Divisions. A further 405 staff (typists, messengers, photoprinters etc) provide support services to Divisions.
3. Central Group includes the Finance, Information, Personnel and Organisation Divisions.
4. Functions and Programmes Group brings together CSD's interests in the Rayner Scrutiny Programme and projects concerned with cost-cutting. It also includes the Staff Inspection and Evaluation Division and is responsible for manpower control in PSA, HMSO and COI.
5. Management and Organisation Group is concerned with helping departments to improve their efficiency through better organisation and the application of management systems and techniques; it is also concerned with the structure of central government and the allocation of departmental responsibilities, and with fringe bodies.
6. The Civil Service College the posts of the Secretary of the College and of the 6 Directors of Studies are at Assistant Secretary level.

HM TREASURY - ORGANISATION CHART



NOTES

1. The staff figures are based on the 1.6.1980 complement.
2. About 30 additional staff are employed in servicing top management and in other functions outside divisions, and are not separately enumerated on the chart.
3. Central Group includes Information Division (22) and policy co-ordination (the Central Unit) and economic briefing (14), but excludes the Parliamentary Section and Ministerial Offices which together account for another 66 staff, one of whom is an Assistant Secretary.
4. The Organisation Chart shows Assistant Secretaries and those in equivalent grades (12 senior Economic Advisers, a Chief Statistician and a CIO(A)).

OTHER PROPOSALS FOR THE ORGANISATION OF THE TREASURY AND CSD

1. This Annex briefly describes and comments on two other possibilities for strengthening the organisation of the Treasury and CSD that have been canvassed from time to time. They are as follows:

(a) to split the Treasury, merging the public expenditure side of the Treasury with CSD and leaving the rest of the Treasury to form a separate department; or

(b) to split CSD, putting the manpower, organisation and efficiency divisions of CSD into the Treasury and retaining the "rump" of CSD as a separate department.

Split the Treasury

2. This option would unify supply control responsibility and brigade it with responsibility for the management of the Civil Service at the cost of splitting the present Treasury's functions. Its public expenditure functions would be merged with the CSD in a single "Department of Expenditure and Management", which would have unified responsibility for the planning and control of public expenditure programmes and their improved management within government. The rest of the Treasury would form a "Department of Finance and Economic Affairs".

3. It would then become necessary to handle across the boundary between the new departments.

(a) the incorporation of public expenditure considerations in macro-economic analysis and policy-making;

(b) the interaction of revenue and expenditure policies, not only at the macro-level but in individual policy areas (eg policies on social security benefits and social security contributions); and

(c) the relationship of public expenditure to general industrial policy and the role of public sector enterprises.

An inevitable consequence would be to increase the number and scope of economic, fiscal and expenditure decisions which had to come forward for collective discussion under the Prime Minister because they could no longer be settled within the Treasury. It is also likely that expenditure control would itself be substantially less effective than when the Chancellor of the Exchequer and the Chief Secretary are acting together within a single department; the responsibilities for managing the economy and planning and controlling public expenditure reinforce each other.

4. The disadvantages and difficulties arising from splitting control of public expenditure from the rest of the Treasury's functions appear to outweigh the advantages to be gained from

unifying the management of the Civil Service with the control of public expenditure.

Split the CSD

5. The former Expenditure Committee proposed that the Manpower and (the then) Management Services divisions of CSD should be transferred to the Treasury, leaving a "rump" CSD. The Committee's analysis ignored the close relationship between these and other functions of CSD which bear on the efficiency of the Civil Service and its effective management. The Committee's proposal would separate control over manpower numbers from control over pay, pensions and allowances. But the bill for manpower is a product of the two. Manpower control also involves control over grading, which links with both the framework of pay rates and the structure for personnel management. This split would inhibit effective forward manpower planning since "demand" would lie with the enlarged Treasury and "supply" with the rump of CSD. There are links, too, between future manpower requirements and the planning of computerisation, which is why manpower control and supervision of the Central Computer and Telecommunications Agency (CCTA) are brigaded together within CSD. Increasingly, the organisation of work and the organisation of people have to be considered in close association. The split would leave a rump CSD with little muscle and would cut right across all the attempts which have been made to improve Civil Service management in a coherent way. Moreover, since Treasury Ministers would become directly answerable for the cost of the Civil Service, they would inevitably become more involved in Civil Service pay, although the Minister in charge of the rump of CSD would bear the formal responsibility for it.

TREASURY/CSD CO-OPERATION

1. Regular day-to-day contact between CSD and Treasury officials covers the exchange of information; the formulation of advice about expenditure and manpower implications of specific proposals by departments; and the monitoring of departmental manpower expenditure throughout the year. Collaboration is particularly intensified when the public expenditure survey report and advice thereon for Ministers is being prepared, and during the scrutiny of the annual Estimates. Recently there have been special consultations on the possibilities for reductions in civil service manpower in particular departments.

2. Consultation on specific issues takes place ad hoc. Recent examples are:-

(a) work on identification and classification of general administrative expenditure;

(b) CSD participation in Treasury-chaired committees handling public expenditure management;

(c) financial procedures - eg response to Parliamentary Committees on the method for dealing in 1980-81 Estimates with civil service pay increases;

(d) the framework for classification and control of public expenditure, and its relationship with the most effective use of resources;

(e) arrangements for the annual scrutiny by Ministers of the cost of running their departments;

(f) the future of allied services, notably PSA and COI;

(g) review of role and function of the Comptroller and Auditor General.

3. There is also more formal and regular consultation between senior Treasury and CSD officials. There are:

(a) periodic meetings between the CSD Deputy Secretary responsible for manpower and efficiency, and the Treasury Deputy Secretary responsible for public services. These generally cover policy issues of mutual interest; for example

- management and financial control in departments
- finance, audit and Parliamentary accountability of fringe bodies
- appointment of Accounting Officers and Principal Finance Officers
- the administrative cost of the civil service
- control of HMSO expenditure
- work of the CSD Management Services Division
- staff effects of tax changes.

(b) the CSD Under Secretary, Manpower, attends the weekly meetings of the Co-ordinating Group on Public Expenditure Control (COGPEC) chaired by the Second Permanent Secretary, Public Services, Treasury. Under Secretary heads of Treasury expenditure groups attend. This forum discusses topical issues relating to the financing, planning, management and control of public expenditure.

THE ORGANISATION OF THE COMMON SERVICES

PART 1 : INTRODUCTION AND SCOPE

1. This report discusses the proposition in the Prime Minister's minute of 3 April to the Chancellor of the Exchequer about the location of the service functions of CSD alongside the functions of PSA, HMSO and COI in one or more agencies under a new department created from the merger of the Treasury and the core of CSD.

2. The report considers the organisation of the following common service functions :-

- a. The Property Services Agency (PSA)
- b. Her Majesty's Stationery Office (HMSO)
- c. The Central Office of Information (COI)
- d. The Civil Service Catering Organisation (CISCO)
- e. The Government Hospitality Fund (GHP)
- f. The Central Computer and Telecommunications Agency (CCTA)
- g. The Chessington Computer Centre
- h. The Civil Service College
- i. The Civil Service Commission.

The Secretary of State for the Environment is at present responsible for the PSA. CSD Ministers are responsible for HMSO and COI; and the other services listed above at present lie within CSD itself.

3. There are also several "common services" provided by other parts of central government (eg the service provided by the Valuation Office to other government departments in the valuing of property). This report does not therefore deal exhaustively with all common services. But those listed in paragraph 2 are the relevant ones for the present exercise and represent the overwhelming bulk of common service functions. Appendix A contains brief notes on their functions, size, expenditure and staffing.

SECRET

PART II : THE CIVIL SERVICE COLLEGE AND THE CIVIL SERVICE COMMISSION

4. There are special considerations involved in the case of the Civil Service College and the Civil Service Commission, both of which are at present integral parts of CSD. There is a significant difference between their functions and those of most of the other organisations listed in paragraph 2. The others are concerned to varying degrees with the procurement and provision of "hardware" and "physical" services (eg accommodation, furniture, computers, stationery and catering services) and, although the Chessington Computer Centre carries out a purely administrative function in providing a payroll service for a range of departments, there is no policy content to its work. The College and the Commission not only provide "soft" services but also have an important role in the formulation of central policy on training and recruitment respectively, which are linked with the broader issues of manpower planning and personnel management. Moreover, it would on the face of it be a curious marriage to brigade them with some or all of the "hard" procurement services within a single organisation.

5. It is recommended, therefore, that the Commission and the College should be regarded as part of the "core" of CSD and should not be turned into agencies or, therefore, considered for brigading with other common services in any merger between them. On this basis, Parts III and IV of the report examine the organisational framework for the remaining services listed in paragraph 2: PSA, HMSO, COI, CISCO, GHF, CCTA and the Chessington Computer Centre.

SECRET

PART III : THE FRAMEWORK FOR COMMON SERVICES

6. The rationale for the existence of common service organisations within central government is that, through economies of scale and the concentration of expertise and specialist advice, they are able to provide support services to user departments more efficiently and economically than those departments could provide for themselves. The services are required by other departments to enable them to carry out the various programmes for which they carry responsibility (eg by providing them with accommodation or with stationery).

7. In the past, these services have normally been provided to user departments on an allied service basis, ie the costs of the goods and services have been carried only on the Vote of the supplying department and not the user department. But this position is changing. HMSO and CCTA already operate wholly or mainly on a repayment basis and the financial arrangements for PSA, COI and CISCO are all currently under review. Taken together it seems likely that these reviews will lead to arrangements which, whether through repayment or a system of attribution of cost to user departments and their programmes, will place greater emphasis for the purposes of planning and controlling expenditure on the provision of these services as supplemental to "operational" programmes. This is important since it will reduce the extent to which the common service departments retain a "surrogate" supply control role in allocating resources between departments and their customer departments and will consequently alter their relationship with the central departments. A shift of emphasis of this kind would make it clearer that disputes between the common service supplier and its customers about the allocation of resources had to be resolved by the central supply control department concerned. There is, however, no reason to suppose that common services would cease to be supplied on the basis of centrally determined standards and common service suppliers could continue to advise those responsible for supply control both on these standards and on questions relating to the scale of provision of these services both generally and to particular departments.

8. Questions of role and financial framework have a bearing on the question of ministerial responsibility for the common services. There are a number of options, some more theoretical than others :-

a. For common services to be provided from within a new central department formed from a merger of the Treasury and CSD (or, alternatively, the CSD if no merger takes place).

Even if it would not be appropriate to remove all services from it, there is a strong case against inflating either CSD or (even more so) a new unified central department by bringing additional common services into it and thus adding directly to the burden on top management at the official level;

b. For common services to have the same relationship to CSD or a new central department as HMSO and COI do now, ie for their Chief Executive(s) to report direct to central department Ministers without forming part of the central department itself.

Central department Ministers would then carry responsibility not only for establishing the framework for the provision of common services (including policy on tying) and exercising supply control over them, but would also be directly responsible for supervising the management efficiency of the common service departments which has an effect on the administrative costs of all departments and is therefore an important factor in the administrative cost of central government as a whole. They would thus be responsible for common service arrangements in their entirety. On the other hand, in the case of a new department formed from the merger of the Treasury and CSD, the burden on Ministers would already be considerable and there would be disadvantages in adding to them (principally by adding the PSA to their responsibilities). They would become

directly responsible for about 25% of the Civil Service. However, if the CSD and the Treasury were not unified, it would be more feasible to contemplate CSD Ministers carrying responsibility for the common services as a whole (balancing the responsibility of Treasury Ministers for the revenue departments);

c. For a separate "Minister for Common Services" to carry responsibility for all major common services (whether or not these were combined in a single agency).

This would reduce the burden on central department Ministers (and would also diminish the responsibilities of the Secretary of State for the Environment). But, there would be virtually no policy content to the new Minister's work. Despite the need for a strong Ministerial interest in the management as well as the policies of the department, on the face of it there would not be a sufficiently significant Ministerial workload for a senior Minister to undertake and there would be obvious difficulties if the Minister saw it as part of his responsibility to develop a separate policy approach on common services from the central department Ministers;

d. For one or more departmental Ministers to look after the common services in addition to their "departmental" portfolios.

Again, this would relieve the burden on central department Ministers. It would, however, be open to objection if the Minister(s) running the common services were required to play a major role in the allocation of resources between departments and their programmes since this is arguably a function which is essentially one for central department Ministers with supply control responsibilities, who have to decide on the overall allocations between departments and programmes. But to the extent that the financial framework for common services is adjusted so that the common service departments play more clearly an essentially "service" role, there would

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be less difficulty in placing common services under a "departmental" Minister to provide the necessary supervision of their management efficiency. There would be less risk of the Minister developing a strong rival "common services policy" than under (c) and there would also be advantages from a staffing point of view in providing scope for cross posting between common service and other work.

9. At present, ministerial responsibility for the common services represents a mixture of (a), (b) and (d) above. If a single common service agency were to be established based on PSA (which would form by far the largest part of it), the effective choice would appear to be between (b) and (d), in the latter case leaving PSA inside the DOE. The case for (d) would be to relieve the burden on central department Ministers and to avoid the disruption caused by moving PSA out of DOE. On the other hand, it would arguably be more appropriate for central department Ministers than for a single departmental Minister (ie the Secretary of State for the Environment) to supervise the work of a unified common service agency.

10. The report now examines the case for unifying the main common services.

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PART IV : A SINGLE AGENCY?

11. On the basis of the recommendations in Parts I and II, this report is concerned with the organisational framework for PSA, HMSO, COI, CISCO, GHF, CCTA* and the Chessington Computer Centre. Any merger of these services would have to be based on PSA. This would raise the question whether PSA should be removed from DOE, within which it is at present located as a departmental agency. HMSO and COI are both free-standing agencies. The remaining four units form part of CSD.

12. Even if no wider changes were in contemplation, there is already a strong case for CISCO to be reconstituted as an agency under the control of CSD Ministers. The case will be strengthened if it is decided that CISCO's subsidiaries should in future all come direct from the department in which it provides its services. It is a self-contained trading body with no policy content. (This change would also have a beneficial side effect in removing the distorting impact of a trading organisation on CSD's staff complement). The GHF is a very small and specialist organisation. It might appropriately be brought under the FCO, which makes by far the greatest use of its services. But in any case, its location does not affect the central issues.

13. The position of CCTA is more difficult. It has an important role in CSD's work. It combines important procurement functions in the computer and telecommunications field with policy responsibilities which, particularly at a time of significant technological change and manpower retrenchment, need to be linked in closely with central responsibility for questions about the way in which departments are organised, managed and staffed. There is in principle a case for splitting its policy and procurement functions, but it would be wasteful to duplicate the technical services which buttress both roles and the unification of these three aspects of its work provides a secure base for CCTA's advice on supply control.

* CISCO is the Civil Service Catering Organisation; the GHF is the Government Hospitality Fund; and CCTA is the Central Computer and Telecommunications Agency.

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Recently, there has been an examination of the case for transferring to CCTA the procurement functions of HMSO in the office machines field since, with the development of electronic office aids of various kinds, the boundary between HMSO's and CCTA's procurement functions is becoming increasingly blurred. An alternative option would be to transfer CCTA's procurement functions to HMSO. The issue is, however, a difficult and complex one and it would be prudent not to reach a decision on it without more detailed study. Certainly, the case for transferring HMSO's procurement functions to CCTA would be weakened if CCTA were to form part of a new department containing the Treasury and the core of CSD. But the resolution of this issue would not in itself affect the argument decisively either in relation to the establishment of the new central department or the case for a merger between the common service department as a whole. It is suggested therefore that the position be reviewed in more detail as a separate issue in the light of the broad conclusions reached on the present machinery of government study as a whole (when it will also be possible to take account of the forthcoming "scrutiny" of its technical services).

14. There are links between the Chessington payroll services and CCTA, although they are not currently brigaded together within CSD. A number of current reviews (eg of the Centre's computer capacity and requirements) bear on the likely future workload for Chessington. It would be desirable to take decisions on its future in conjunction with decisions about CCTA and, again, a decision on Chessington either way would not be decisive for the main argument.

15. The main issue at this juncture therefore is whether there is a case for bringing PSA, HMSO, COI and possibly CISCO together in a single agency. This would currently produce an organisation with 53,000 staff and a current expenditure of £835m., of which PSA's share is 44,000 staff and £575m.

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16. All these organisations provide goods and services on a common service basis, but the services have significantly different characteristics. The greatest degree of similarity exists between the work of HMSO and of PSA Supplies Division (both of which have some affinity with the procurement work of CCTA). There is a considerable contrast, however, between the provision of accommodation (and its associated large capital expenditure and major maintenance task across a large number of establishments) and the work of COI, which is a smaller organisation with contacts in the media and advertising worlds. Similarly, CISCO has a specialised role to perform it in its delivery of catering services. Any merger between these various services to form a single agency would need to be based initially on a "federal" structure, leaving open the possibility of more integration at a later stage.

17. The arguments for establishing a unified agency are:-

- a. there would be scope for promoting best practice in procurement and contractual procedures across the work of the combined agency as a whole (and for cross-posting of staff on this work) and for co-ordinating projects involving a range of services;
- b. while the services themselves may be different, there are common issues involved in the conduct of relationships with suppliers and customer departments;
- c. in the longer term there might be some scope for rationalisation of the regional structure of the services;
- d. customer departments could go to a single agency to deal with a wide range of goods and services;
- e. it should facilitate a strong link between those at the Centre concerned with supply control and the common service supplier and make it easier to establish a common framework for the common services generally;

f. the job of Chief Executive of a combined agency would be demanding and varied; its potential would be likely to attract a manager of high quality to take the post.

18. On the other hand :-

a. it should be possible without merger for the central departments in consultation with the common service departments to establish an effective common framework for them and for best practice to be spread between them through promoting closer contact on matters of common concern;

b. there would be disadvantages in brigading HMSO with its difficult industrial relations (particularly with the print unions) with the other agencies. There would also be little scope for cross-posting professional and specialist staff (who would represent about half of the non-industrial staff). PSA has important "common citizenship" links with the rest of DOE and the Department of Transport. If PSA were removed from DOE to provide the foundation for the new enlarged agency, this would in practical terms make cross-posting of mechanical, electrical and civil engineers between PSA and DOE/DTP more difficult;

c. it should be possible to select effective heads of separate agencies and any Chief Executive of a single agency would find himself spending a lot of his time initially on the mechanics of making the merger work.

19. A crucial issue, in relation not only to establishing an "omnibus" agency but also to any smaller-scale merger, is whether PSA should be removed from DOE and whether the arrangements made for ministerial responsibility for the common services require this. On the one hand, there is a case for arguing that if PSA is to remain an allied service and to be regarded as having important functions in the allocation of resources to departments

and their programmes (in addition to its basic estate management and procurement functions), it should be the responsibility of central department Ministers. On the other hand, changes in the financial framework for PSA may well be recommended in the current study of allied service/attribution/repayment which would alter the balance of the argument on this point. There is also a functional link between PSA and DOE's responsibilities for housing and construction, although, in practical terms, this has proved weaker than might be expected. Removal of PSA from DOE would involve the penalties of disruption which flow from any organisational change. Furthermore, if it were to be removed from DOE, the Ministry of Defence might want to reopen the question of the merger of the civil and defence works services.

20. Apart from the relevance of the reviews now in progress of the financial framework for various common services, there are also important studies on the scale of "in house" facilities which should be maintained in PSA and HMSO (and in the case of HMSO, this could affect the extent of the print unions' influence). It would be easier to assess the case (and to set a timetable for this assessment) for and against a change in the organisational framework for the common services when these reviews have been completed and there has been an opportunity for a fuller study on the CCTA and its relations with HMSO. The balance of argument for and against a unified agency or, more plausibly, some more limited merger (eg PSA, HMSO and the procurement functions of CCTA) might then look different. This could in turn affect the balance of argument on PSA's continued location in DOE.

21. We recommend carrying out a more extensive study of the organisation of the common services and ministerial responsibility for them (in consultation with those with direct responsibility for the services) when the results of the current reviews are available, particularly since the organisation of the common services is not a crucial factor in deciding

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whether to merge the Treasury and CSD. A timetable for the conduct and completion of this study should be set when the conclusions of the reviews are available and in consultation with the heads of the common services.

PART V : CONCLUSIONS

22. The conclusions of this report are :-

- a. under any arrangements it would be desirable to leave the Civil Service College and the Civil Service Commission and some or all of CCTA as part of the CSD, or of a merged Treasury and CSD;
- b. there is a case for moving CISCO out of CSD or a new unified central department, whether on its own or as part of a single common service agency; and the GHF might be brought under the FCO but this does not affect the main issues involved here;
- c. the division of procurement responsibilities between HMSO and CCTA requires further examination taking account of the forthcoming "scrutiny" of CCTA's technical services;
- d. it would be preferable not to contemplate any immediate merger of existing common services until current reviews of the financial framework for them and of the range of work which they are to undertake "in house" have been completed;
- e. PSA would have to form the foundation of any merged agency. From a staffing point of view, there would be disadvantages in removing PSA from DOE, and in bringing HMSO staff represented by the print unions into a larger grouping;

f. it is recommended that the case for some regrouping of common service functions should be re-examined after completion of the reviews mentioned in (d) above and in the light of decisions on a merger between CSD and Treasury (which would affect the balance of the argument on the appropriate ministerial responsibility for these services); a firm timetable for the completion of this study should be set.

Civil Service Department

30 June 1980

THE COMMON SERVICES

1. The Property Services Agency's main function is to provide central government, the Armed Services and certain other public sector clients with land, accommodation, supplies (including fuel, furniture and furnishings) and transport services. It owns and manages the UK Civil Estate and much of the Diplomatic Estate and manages, on behalf of MOD, the Defence Estate. It is headed by a Second Permanent Secretary and employs about 44,000 staff of whom just over 20,000 are non-industrials; of these about 11,000 belong to the P&T Group and most of the rest to the Administration Group. In the year 1979/80, PSA's estimated expenditure on accommodation services was £575 million (on two separate votes); PSA Supplies is financed by a trading fund (but with PSA as its only customer).
2. Her Majesty's Stationery Office has two main functions: the supply and purchase of all stationery goods and office machinery, and the printing (and contracting out), distribution and sale of government publications. About two-thirds of printing and binding is contracted out. It is headed by a Deputy Secretary and employs about 6,500 people of whom just under half are non-industrials; of the non-industrials, about 1,300 are Administration Group staff and most of the rest members of the Duplicating Class or HMSO departmental grades. HMSO's estimated expenditure in 1979/80 was about £198 million (of which £92 million was recouped); from 1 April 1980, all HMSO goods and services are being supplied on repayment.
3. The Central Office of Information is responsible for managing Government advertising campaigns and exhibitions, and for briefing the media, both at home and overseas. It also supplies departments with certain technical services (including photographic, design and publishing work) and organises tours for official overseas visitors. It is headed at a level between Under Secretary and Deputy Secretary and employs about 1,100 staff (all non-industrials); about 400 of these are information officers and about 400 Administration Group staff. COI's estimated expenditure in 1979/80 was about £48 million (of which £12.5 million was recouped from repayment clients). The existing allied service arrangements are under review.
4. The Civil Service Catering Organisation (CISCO) has direct control (including purchasing of supplies) over about 250 departmental restaurants; it also advises on the planning and management of Committee-run restaurants. It is headed by an Under Secretary and employs about 1,800 staff, of whom about 400 are non-industrials. Estimated expenditure in 1979/80 was about £14 million of which just over £13 million was recouped from customers. The framework for the payments of outsiders to CISCO are currently under review.
5. The Central Computer and Telecommunications Agency is responsible for the procurement of computers and telecommunications equipment for departments, and exercises control over their expenditure on these goods. It also provides technical services (including data processing at its own computer centre) and consultancy advice to departments.

It is headed by an Under Secretary and employs about 700 staff, most of whom are non-industrials. Estimated expenditure in 1979/80 was about £107 million of which nearly £49 million was recouped. From 1 April 1980, all CCTA goods and services are being supplied on repayment.

6. The Chessington Computer Centre provides a payroll and staff records service for CSD and a number of other departments (totalling just over 100,000 staff accounts) and a computerised accounting system for CSD's Finance Division. It is headed by a Senior Principal and employs about 400 staff. Its estimated expenditure in 1979/80 was about £2.5 million.

7. The Civil Service Commission is responsible for recruitment (including recruitment policy) and selection of staff in the Home Civil Service and Diplomatic Service. In the exercise of their selection functions, the Commissioners are independent of Ministerial control, but the First Civil Service Commissioner is also appointed as a CSD Deputy secretary and, as such, is responsible to the department for policy matters. The Commission has about 400 staff and its estimated expenditure in 1979/80 was about £5 million.

8. The Civil Service College provides central courses and seminars for civil servants of all grades and specialisms as well as job-related training for departments without their own in-house facilities. College training amounts to about 3% of the total Civil Service training effort. It is headed by an Under Secretary and has about 300 staff, most of whom are non-industrials. Its estimated expenditure in 1979/80 was about £2.5 million (of which about £0.5 million was recouped in through fees from non-Exchequer bodies). The scope for introducing charges for courses more widely is under review.

9. The Government Hospitality Fund organises visits and entertainments (including dinners) for overseas Ministers and other distinguished visitors from abroad. It is headed by an Assistant Secretary and has about 20 staff. Its estimated expenditure in 1979/80 was about £0.5 million.

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10 DOWNING STREET

From the Principal Private Secretary

30 June 1980

SHELDON SUB-COMMITTEE OF THE TREASURY
AND CIVIL SERVICE SELECT COMMITTEE

I have shown the Prime Minister your letter of 23 June 1980 to Tim Lankester about the request which the Chief Secretary has received to give evidence to the Sub-Committee about the machinery of Government issues relating to the roles of the Treasury and the CSD.

The Prime Minister agrees that it would not be appropriate for a Treasury Minister to appear before the Sub-Committee at this stage, though she has commented that it is likely to be difficult to avoid doing so eventually.

I am sending a copy of this letter to John Wiggins (Treasury).

G. A. WHITMORE

A.C. Pirie, Esq.

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PRIME MINISTER

Your comment on the letter below worries me a little. You are, of course, quite right when you say that the Chief Secretary can really deal only with the role of the Treasury and that a CSD Minister should talk about the CSD. No doubt Mr. Biffen and Mr. Channon could both be invited to give evidence on this basis. But if we proceed in this way, there is a very real risk that the Sub-Committee will say that the only person who can comment on the roles of both Departments and on the relationship between them is you and that you should therefore be invited to appear before them to give evidence.

I think that we want to avoid getting into this situation, and I therefore suggest that Mr. Biffen should continue to try to escape the attentions of the Sub-Committee but without advancing the reason you suggested. Do you agree?

Yes - but it will
be difficult.

AMC

ant.

27 June 1980

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Prime Minister



I would have thought the
Chancellor's and Chief Secretary's
view on this was right. Agree?

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24/6

Treasury Chambers, Parliament Street, SW1P 3AG

T P Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

The only safe ground on
which he can refer to
appear before a Treasury
Committee is that

23 June 1980

Committee is that

he knows chiefly only the roles
of Treasury, A CSD, Finance -
Paul Chamber, in much more

Dear Tim,

SHELDON SUB-COMMITTEE OF THE TREASURY AND CIVIL SERVICE (unpublished)
SELECT COMMITTEE on the CSD

On 18 June the Chief Secretary received an informal request, via Mr Michael English, to give evidence to the Sub-Committee about the machinery of Government issues relating to the roles of the Treasury and the CSD. The date proposed was 25 June, and the Chief Secretary turned this down on the grounds of the short notice, his commitments with the Committee Stage of the Finance Bill, and the fact that the Sub-Committee had yet to complete their evidence from officials: Sir Ian Bancroft and Sir Douglas Wass are to give evidence to them on 2 July.

He has also consulted the Chancellor on the question whether it is appropriate for a Treasury Minister to appear before the Sub-Committee at all on this subject, and they have agreed that this should be avoided at this stage. The Chief Secretary would be grateful to know if the Prime Minister shares this view.

Yours sincerely,
Aristair Pirie

A C PIRIE
Private Secretary

23 JUN 1980



✓ [Blind copy: Mr Pattison]
cc for information

Sir Derek Rayner

Mr Colman (CSD)
Mr Taylor (Tsy)
Mr Wright (CO)

SELECT COMMITTEE ON THE TREASURY AND CIVIL SERVICE

1. Mr Hubback, Clerk to the Committee, rang on 19 June to say that it hoped to report on efficiency matters before the Recess and to ask whether there had been or would be any public statement by you about results or developments since your appearance in February which the Committee should take into account.
2. I said that it was most unlikely that there would be a formal statement but that there might be a joint press conference given by Mr Channon and yourself before the Recess. Mr Hubback asked me to enquire whether you would be willing to let the Select Committee have a short "up dating" paper in the first week of July.
3. I think this a perfectly fair request and, if you agree, I will prepare a draft for your approval; I should of course want to touch base with No 10, the Treasury and CSD on the drafting of this.
4. Mr Hubback also commented on the Committee's interest in the structure of the "Centre" and asked whether I thought you would like to give evidence on this.
5. I said that I thought that most unlikely. You did not have a detailed knowledge which would enable you to hold forth at any length or to deal with the detailed questioning. I thought it would be bad use of the Committee's time and yours.
5. Mr Hubback did not press that point but thought that it might be raised by members of the Committee if you were asked to give oral evidence again, during the autumn.

CP
C PRIESTLEY
20 June 1980



23 JUN 1980

HOUSE OF COMMONS
MINUTES OF EVIDENCE
TAKEN BEFORE
THE TREASURY AND CIVIL SERVICE SUB-COMMITTEE
WEDNESDAY 18 JUNE 1980

SIR ROBERT ARMSTRONG KCB CVO

Evidence heard in Public

Questions 770 - 817

MEMBERS' CORRECTIONS

Any Member of the Committee who wishes to correct the Questions addressed by him to a Witness is asked to send the corrections to the Committee Clerk as soon as possible.

Members receiving these Minutes of Evidence are asked to ensure that the Minutes are confined to the object for which they are printed - the special use of the Members of the Committee - and are not given wider circulation.

WEDNESDAY 18 JUNE 1980

Members present:

Mr Robert Sheldon in the Chair
Mr Timothy Eggar
Mr Michael English
Mr Richard Wainwright

SIR ROBERT ARMSTRONG, KCB, CVO, Secretary of the Cabinet, called in and examined.

Chairman

770. Thank you, Sir Robert, for coming this afternoon. You will know that on 14 March the Chairman of the full Committee, Edward du Cann, did write to the Prime Minister and pointed out that the Committee was concerned that following its early days, the Civil Service Department had run out of steam and, although he valued, and the Committee valued, the detailed work done by the Department, it was concerned about this matter and^{had} asked for the Prime Minister's views on this and the Prime Minister replies that she would welcome the opinions of the Committee on this matter. The particular problem that concerns the Committee is whether the Civil Service Department has lost influence and power; whether its morale has declined; whether its standing in Whitehall is as high as it used to be and if these things are true, why have they come about? It is also concerned very much with questions of efficiency; it is concerned about the relationship between the Civil Service Department and the Treasury and it wants to examine some of the reasons for the change and to see what might be some of the alternatives that can be considered, but I believe you would like to commence with an opening statement, which we would very much like to hear?

(Sir Robert Armstrong) Thank you, Mr Chairman. I would like to say one or two things by way of introduction addressed very much to these questions which you have touched on in the course of what you said, the way in which the work of the central departments, the Treasury and the Civil Service Department, is organised. I ought, by way of introduction, to say one or two things. I am not the Prime Minister's principal adviser or official adviser on the machinery of Government questions and any views that I may express are purely personal views. They do not reflect the views of the Prime Minister or of the management or, if they do so, it is by coincidence rather than by design. The second point perhaps I could make is that the Cabinet Office is a very small department in terms of the money it spends and the manpower it employs and the core of its work is highly uncharacteristic of other Government Departments since we have very few executive responsibilities and its management is both a small-scale affair and rather untypical. I ought to add that I have never served in the Civil Service Department, though I had three years in the central pay division in the early '60s before the Treasury /CSD split and it is ten years since I left the Treasury. On the other hand, I have had opportunities of observing the organisation of the central departments for nearly five years from the vantage point of 10 Downing Street and as principal private secretary to two Prime Ministers and, if I may add, two years as the permanent secretary of the Home Office have given me something of the spending department's perspective of these matters. To some extent, I can look at the gamekeepers with the watchful, suspicious, jaundiced eye of the poacher. I am not sure that there is an organisation of the centre of Government which is universally and far over right. There are certain jobs

which have to be done which are done from the centre. Those have to be done one way and another and in deciding how to organise the centre to do those jobs, there is a balance of advantage and disadvantage to be struck and how you strike it from time to time really depends on the policy priorities of Ministers of the day and the relative weights which the various advantages and disadvantages seem to have in a particular set of circumstances, so I do not myself start from the position of feeling that there must be some answer which is always right. The Civil Service Department was set up in 1968 I think with perhaps three considerations most in mind. There was a feeling, as my predecessor said to a Select Committee some years ago, that the Treasury had done the Civil Service on the cheap. There was a feeling that it would be a good thing to create a unit which could concentrate on improving the management and the efficiency and the morale of the Civil Service without having the distraction of the other central responsibilities - in particular, the responsibilities for making management and expenditure control and there have been very considerable benefits from this, in my view. The CSD have put more resources into management reviews, management efficiency and personnel management than the old Treasury did, and they have developed their expertise in those fields. I speak from the experience of a time in the spending department, when I say the Departments have found this of benefit, and I would not want any reorganisation, if it were to occur, to have the effect of reducing the effort that now goes into that work, either in quality or quantity. I think the third advantage of setting up the CSD was that it enabled the appointment of a Cabinet Minister, other than the Chancellor of the Exchequer who had more than enough to do and indeed other than the Prime Minister who has plenty to do, who could make the business of management and efficiency

in the Civil Service a main charge upon his time and energies.

There are considerable advantages in having a single department over all Civil Service matters and a Cabinet Minister with those matters as his primary responsibility. As against that, I think that the disadvantages of separate control of supply expenditure from the control of manpower expenditure are real and I think that separation is a little illogical. In a sense, manpower is just one of the resources of which a Government Department disposes and there can be a trade-off between spending on manpower and spending on other resources.

certainly in the Home Office I was conscious of the illogicality of the separation from this point of view. During that time, and irrespective of the political complexion of the Government in power, the Treasury were at us to control our expenditure from the one side, and the Civil Service Department was at us to control our manpower from the other, and perhaps it felt a bit like being slugged from the left by one boxer and slugged from the right by another boxer, perhaps without the co-ordination of punches that one might have expected from a single pair of hands. Perhaps it made it a little easier to dodge the punches! Another disadvantage has been that in the course of controlling supply expenditure, the Treasury does acquire a knowledge in depth and detail about the policies and activities and expenditure of a department. Of course the CSD in the course of its oversight of departmental management and efficiency acquires a great deal of knowledge on its own side about how departments are organised and run and managed, and about the people in them. The two departments thus in terms of the fund of knowledge that they have complement one another and I think the question is whether each would have readier access to the knowledge of the other insofar as that would be valuable to them if they were one department rather than two. I am speaking of course of control the public expenditure bits and the manpower/bits. Once you take manpower control and management and efficiency into a separate department there is a danger that the sort of information that comes naturally to the Treasury in the course of its work is not so readily available to the department which is in charge of the manpower and efficiency, and vice versa. As my predecessor told the Sub-Committee of the Expenditure Committee in 1977, for a time after the separation the Treasury people who went into CSD in 1968 carried with them a store of knowledge which they derived from their Treasury days, but over time that is bound to be a wasting asset. I do not know whether it would be

possible to organise the CSD and the Treasury work to compensate for that by even closer co-ordination between the two, but I think I have to say that, as seen from the Home Office, it did not always feel as if they had done so. I did not feel that the Treasury knew what the CSD was doing and vice versa, and in some aspects and some matters that may have been a disadvantage. I think the options for what you do for the future, if you think the present system is deficient, are really very much as my predecessor set them out. Firstly, you could keep the two departments very much as they are but improve the co-ordination between the two. If you take the view, as some do, I believe, that the CSD is criticised as being inflexible, measures to improve the flexibility of the CSD could be implemented - that is the status quo improved solution. Then the second possibility is to in effect split both departments to bring the public expenditure divisions of the Treasury and the manpower control and management services divisions of the CSD together in a new department of expenditure and manpower - the business of what you might call the bureau of the budget solution. The third seems to be bring the manpower control and management services division of the CSD back into the Treasury and leave the rest of what is now the CSD either as a rump CSD or in some kind of public service commission - and that you might call the public service commission solution. The fourth is to put everything, or virtually everything, back into the Treasury, which you might call the re-integration solution. I do not think any of these is perfect or without disadvantage, any one of them would have disadvantages and whichever you adopted one would have to try to institute arrangements which to some extent compensated for those disadvantages. As to the first, the status quo improvement solution, there were good reasons for the separation, as I have tried to suggest, and only some of them have diminished with the passage of time. This arrangement with co-ordination and flexibility is easier to achieve

within a department than between departments, but the separation should enable, at any rate in principle, each of them to concentrate with the necessary degree of drive on its own special functions, and as I have said there is plenty of potential to do so, the Treasury has plenty on its hands with the management of the economy and public matters, public expenditure and so on. The second solution, the bureau of the budget solution, splitting both departments, would have the disadvantage, and it is that, of separating Ministerial responsibility for control of public expenditure from the responsibility for macro-economic management. Some other countries do separate these two responsibilities, so it would be impossible to argue that was unworkable, but there seems to be in this country a disposition in favour of not divorcing micro-economic management of the public sector from macro-economic management of money and resources. The third solution, the public commission service, would split the USD, the public sector manpower control, from public sector pay control and personnel management, such things as grading, recruitment, training and so on, and indeed from questions of the application of new technology. The penalty you would pay for better co-ordination between expenditure and manpower control, which you would get from that solution, would be less better than co-ordination between manpower management and personnel management. The fourth solution would recreate a considerable concentration of power and a heavy workload for the Treasury, particularly at Ministerial level. There would be a danger that we should lose the advantages which we have gained from the separation, notably the creation of a department which would be able to put more resources into management and efficiency and personnel than the old Treasury did. We should risk subordinating the promotion of good management to pure control of expenditure, and we should risk reducing the amount of Ministerial input to Civil Service management and manpower control at Cabinet level. I think the only comment I would want to put on that aspect, which I think is a serious one, is that it now seems

to have become more or less normal for the Chief Secretary of the Treasury to be a member of the Cabinet in his own right - I think I am right in saying that has been true since 1974, if not longer - as well as the Chancellor of the Exchequer, perhaps this disadvantage, of the right of Ministers to be at Cabinet level, may be less significant now than it might have been some 10 years ago. At the end of the day I come back to a point I made at the beginning, what one decides to do about this is not just a matter of pure organisation, not, I think, a matter of eternal verity, the structure has to be adapted to the priority policies of the Minister and it has to reflect the Prime Minister's idea on how best to deploy the strengths and valents of his colleagues. Perhaps I should say where I speak of the Prime Minister as an office I use the word 'his' or 'he' and I only use the word 'she' when referring to the present Prime Minister specifically.

77L. Thank you. Just one or two questions arising out of your statement. First, the problem about putting it all back into the Treasury, the reintegration solution which you suggest does provide, as you have pointed out, a great deal of extra burdens upon Treasury Ministers and the big problem that gave rise to the Fulton recommendation was neglect of management. Given the particular burdens that the Treasury carry, even though there are two Ministers in the Cabinet in the Treasury, it is going to be a further additional burden that can be shelved. How would you view this?

(Sir Robert Armstrong) I think this is a very serious difficulty. You have, if I may say so, Mr Chairman, more direct experience of this than I do and I believe it to be a serious problem. There would undoubtedly have to be a reorganisation of the work if one were going down this road, which made sure that that penalty was minimised. I do not feel close enough to the Treasury to know whether

this could be done without the kind of loss on ministerial input on these matters that you obviously fear might happen, but one would have to think very hard whether one could do it and if one thought one could not do it, that would be a serious objection to going down that course.

772. May I take the first of your suggestions, the status quo, with certain improvements? How do you view the particular problem that has struck the Committee, that the expectation that the Civil Service Department would lead the drive for further efficiency has not materialised? Is this due to a lack of power, a lack of authority, a lack of influence, or do you see other reasons?

(Sir Robert Armstrong) I think I would want to spend a moment on the first part of your question because I would not entirely go along with the view that the Civil Service Department had not made a contribution, had not taken some kind of lead on this. Certainly, if I may speak once again from experience in the spending department, we were given a lead. We were given help from the Civil Service Department which it was valuable to have. I do not know whether we got help as good as that under the old Treasury because I did not have any experience of that but I do not think it fair to say that there has been no drive from the CSD. It would be silly of me to say that there could not be more. As to why there has not been more, to some extent through part of the time I suppose it has been feeling its way into the new role, certainly in the early years. Partly it is a question of resources, and I think that the original hopes and expectations that Governments would be able to put more resources into this work have, for a whole variety of reasons over the last five years, not been able to be realised fully. Whether there are elements in the constitution of the CSD which diminish its impact or weaken its ability to do it I do not know.

773. How do you see the powers of the Civil Service Department vis a vis the other departments in the drive for efficiency? Is it based on power? Is it based on authority or is it based on influence or are there other factors?

(Sir Robert Armstrong) It is primarily advisory and a matter of influence. Clearly there are some powers - the powers of manpower control, certain powers to control the number of appointments and the actual appointments themselves at very senior levels - but basically it is an authority which depends upon the recognition by departments that the job that the CSD do is well done and that the advice that they have to offer is worth having.

774. But since the departments have their own views as to their own efficiency, is it then impossible for the Civil Service Department to obtain uniform standards of efficiency without that kind of authority unless it was seen to have almost superhuman advantages?

(Sir Robert Armstrong) I am sorry. I am not sure that I have really followed the drift of the question.

775. The Civil Service Department every few years goes round each of the departments and has a management review. In those departments themselves they have their own particular people and so the Civil Service Department has essentially this advisory role and it may be that the department itself, having a rather higher opinion of its own people than the Civil Service Department's personnel, might come to reject the Civil Service Department's advice or not to implement it fully. How can one have an objective look at these matters when the Civil Service Department's authority does not run?

(Sir Robert Armstrong) I think I come back to the point that the Civil Service Department's influence must depend on the success with which it does its work and the respect which its advice earns. I can only speak in this matter from my direct experience.

The Civil Service Department were involved in a management review which we did in a part of the Home Office and my impression of that was that it was a marriage of the Home Office's knowledge of the job that had to be done and the way in which it had been done, with the Civil Service Department's more general knowledge of how similar jobs and similar functions had been tackled in other departments and the problems that had been encountered. In many of the questions, the advice which the Civil Service Department gave us was very much to the point and very valuable and we acted on it. In one or two cases the advice did not seem to suit the particular circumstances of the Home Office and we did not. Whether we were wrong in that last matter I find it difficult to say but that was certainly the view we took and the Civil Service Department were not at that stage able to say, "It does not matter what you think about how your Department should be managed. This is how you have to do it". It was a matter of arguing it out with them.

776. Will there not be certain cases where the recommendations of the Civil Service Department about efficiency might be right but might be inconvenient to the department?

(Sir Robert Armstrong) There might well be and then they would have to be argued out up to ministerial level.

777. Is not the situation something like this: under the Civil Service Department you may have greater expertise on matters appertaining to efficiency but the role of that advice is just advice and nothing else? When it was under the Treasury, there was less expertise but it was more respected and even feared. How would you react to that sort of statement?

(Sir Robert Armstrong) I was never at the receiving end of it so I do not have very much that I can offer the Committee on that. I think there has been a sense in which the spending departments

are all used to the Treasury. They have lived with Treasury control for a very long time and, as I said earlier, the Treasury in the course of this process, have acquired a lot of knowledge about the activities and policies and so on of the Departments and of course the Treasury have the power of Treasury controlled expenditure. That is an established and settled thing that everybody has lived with and knows about. In a sense the Civil Service Department has been struggling against that because the Treasury have kept this primacy in the control of expenditure and have, I think, in large measure, retained the respect of departments in that field and the Civil Service Department does not have that bit of clout in its knapsack. I would have thought that over a period of time, if the Civil Service is good at its job, the fact that it is good at its job, the fact that the advice it gives is good advice would earn it the respect of the spending departments and they would listen very hard to it and accept the advice they were given, but in the end the circumstances and the activities of departments vary so much that I find it difficult to see how the ultimate responsibility for the management of a department can be taken away from the Minister in charge of that department.

778. I understand that, but would not clout be improved if the head of the Civil Service were seen to be clearly the superior authority in a number of these matters such as might be, for example, if we follow the recommendations of the Fulton Committee, if the head of the Civil Service was paid a sum of money in excess of anybody else in the Civil Service?

(Sir Robert Armstrong) That might, I suppose, marginally increase the respect in which he was held, unless the quality of the advice was right I do not know that it would do much for him.

779. May I briefly refer to the third of your points, the rump OSD solution, as I think you called it. Who would be in charge of such a small body in your view?

(Sir Robert Armstrong) I did not develop that in my opening statement. I think that you might have a public service commission which was run by somebody who was not a Minister, because the services were not the sort of services which a Minister needed to be directly responsible for, as indeed Ministers are not in a sense directly responsible for recruitment - or it might remain as a small department. I do not feel I have strong views on that which I would wish to bother the Committee with; I do not think I am sufficiently well informed about that.

780. Who then would be the head of the Civil Service?

(Sir Robert Armstrong) There would be a Permanent Secretary but I think in those circumstances he would not be the head of the Civil Service.

781. Have you any views as to where the head of the Civil Service might be located?

(Sir Robert Armstrong) I think that there are, if you depart from the present system, from our present arrangements, then the options, I suppose, are four really - either the Permanent Secretary to the Treasury becomes the head of the Civil Service again, or the Secretary

to the Cabinet becomes the head of the Civil Service, or it is an appointment and title which goes to the doyen-Permanent Secretary, I use that term as a rather vague term but it might be that at one time there is a senior Permanent Secretary who is neither the Permanent Secretary to the Treasury nor the Secretary to the Cabinet who is experienced and wise and has the confidence of the Prime Minister who could take that on. I suppose the fourth is to forget about Sir Warren Fisher and not to have a head of the Civil Service. There are certain jobs which have to be done which are now done by the head and you would have to provide for those but that does not mean you have to have somebody who is called the head of the Civil Service.

Mr. Wainwright

782. In your statement you emphasised that the CSD has its responsible Minister in the Cabinet, but of course up to now successive Ministers responsible to the Civil Service Department have also had other weighty responsibilities, chairing very important committees, leading the House of Lords and more recently in Zimbabwe, all of which must have been pre-occupying, some of which could be in conflict with the headship of the Civil Service Department. Has the presence of the responsible Minister in the Cabinet really given the clout to the Civil Service Department's policies which certainly our Committee feels is needed?

(Sir Robert Armstrong) I think that it has been advantageous that there has been a Minister who was not the Chancellor of the Exchequer who was able to argue the point of view of the Civil Service Department, who was able to speak on questions of management and efficiency and needed to take a very different standpoint from that of the Chancellor of the Exchequer.

783. But it is the concern of this Committee that somebody somewhere should have the power, subject to the Prime Minister of course, to lay down the law as to how departments should use the Civil Service and so on. Is this achieved through having the responsible Minister in the Cabinet?

(Sir Robert Armstrong) I do not know that that affects whether or not the Civil Service can lay down the law. As we were saying earlier, I think, on the question of management and personnel management, the ultimate responsibility is almost bound to be that of the Minister in charge of the department, and it is very difficult to see how you ultimately over-ride that, except, of course, with the authority of the Prime Minister.

784. If there is some scope for over-riding departments or convincing or persuading departments through sheer weight of expertise, do you feel that the management and the two factions of the Civil Service Department to which you referred in your statement, can really be exercised by officials in the department who have not had at any time in their life's experience of managing very large organisations and very large numbers of people?

(Sir Robert Armstrong) I certainly think it would be a danger if, where this work is done, there was an interchange of people coming in and out of it who had that experience.

785. Or could there be a special case for the Civil Service Department, quite independent of other departments, starting in that particular department to fill some of the senior posts by public advertisements hoping to attract people with very wide commercial experience of mass management?

(Sir Robert Armstrong) I would not exclude that at all, I have not thought about it but I would not exclude it at first sight.

786. You did say that policies changed, Governments changed and that there is a lot to be said for having machinery that can be adapted ad hoc rather than building a monumental structure. To hypothesize, if some future Cabinet decided, let us say, to change the Civil Service structure so that it was a matter of 12 year commissions of service, like in the Army, rather than a life time, and other changes of that sort, do you think that the present structure of the Civil Service Department could implement those sort of changes?

(Sir Robert Armstrong) I would have to have notice of that question, Mr. Wainwright, I have not thought about it at all. I would simply like to say that in what I said at the beginning I said I thought that the organisation would not necessarily be right for all times but should respond to the policy priorities of particular Ministers. I think I just wish to imply from that not that one would have such a flexible organisation which would respond without change but it might be right to change the organisation from time to time to respond to it.

787. You feel that certainly changes would be needed if some fairly thorough going policy were the wish of the Cabinet?

(Sir Robert Armstrong) I think you would have to look at it again if that were the case.

Mr. Eggar

788. It was not entirely clear to me from your opening statement whether you believe that the present situation is satisfactory?

(Sir Robert Armstrong) I think it would be very silly to say that the present situation is satisfactory and I am sorry if I left that impression. Where I feel less clear is what changes should be made to make it more satisfactory and I have taken you through the various courses down which one could go for that purpose.

789. In your view was it at any stage, post-Fulton, a satisfactory conclusion, the splitting of the CSD?

(Sir Robert Armstrong) I think that its setting up did respond to a need at that time, yes, and I think that with the ferment that was created by the examination of Fulton and its report it was a good thing that the separation took place and I think the Civil Service Department was able to do a good and useful job and that it was right to have separated it. I think it is also right to consider now, with that process being complete and other priorities being in the minds of Ministers, whether that organisation is still right.- whether it should be retained with improvements or whether one should re-construct the centre in one or other of the ways I indicated.

790. So in many ways, the CSD, if it ever had any steam, has run out of what steam it did have?

(Sir Robert Armstrong) It has clearly exhausted the immediate, post-Fulton momentum because what was to be done after Fulton has been done and therefore it is working out a road for itself over a longer term. I do not want to go all the way with you on running out of steam. I think that is too over-stated by quite a long way.

Chairman

791. If the Civil Service Department was right a few years ago, why is it not right now?

(Sir Robert Armstrong) It may be, but I think it is time to look at it again.

Mr Eggar

792. This interests me. Can you name one reorganisation of Government or governmental agency that has actually been achieved, that has actually achieved what its proponents have claimed it would achieve? Is it merely not an upheaval and no positive result at the end?

(Sir Robert Armstrong) We have had a series of changes of various kinds. One would have to go back and look at what was claimed for them which I do not have by me here now. For instance, I think that the merger of the three departments into the Department of the Environment did achieve certainly a great deal of what was claimed for it. I think that the Civil Service Department played its part in bringing that about. The other great merger, I suppose, was the Department of Trade and Industry. We found in 1973, after October of that year, that it was not really sufficient to have the problems of energy dealt with by a Secretary of State for Trade and Industry as one part of his activities. We needed a Cabinet Minister for whom this was the sole responsibility so that part of the merger which created the Department of Trade and Industry was undone and the Department of Energy was set up, in my view, quite rightly but that was a response to the change of circumstances.

793. Have your views on the role of the CSD been affected in any way by the work that Sir Derek Rayner has done?

(Sir Robert Armstrong) I think my own views have been more affected by my own experience, particularly in the Home Office, and to some extent in Number Ten than by anything as recent as that.

794. Do you think there are any lessons to be learned from the work that Sir Derek has done?

(Sir Robert Armstrong) I am absolutely sure there are. I should think in any large organisation, certainly in the government departments, there is scope for improving efficiency.

795. I am particularly on this ---

(Sir Robert Armstrong) He has come in with experience from outside, with methods of looking at these things which perhaps - I do not know - perhaps the Civil Service Department did not have, but what strikes me - and I think Sir Derek Rayner would agree with this

- is that though he has had overall direction, the exercises that have been done under his direction, the areas of organisation which have been the subject of scrutiny, have been chosen by the departments themselves and the actual scrutiny exercises have been done by departmental officials, so that could presumably have been done without the interposition of Sir Derek Rayner.

796. But it was not:

(Sir Robert Armstrong) I think there are various reasons for this. I think, it comes back partly to the priorities of Ministers. A government came in last May which perhaps wanted a reduction in the Civil Service. It was an object of policy for the previous government but it perhaps did not appear as high on its list of priorities as it does with the present government.

797. There has been a fair amount of comment that the position of the establishment officers and officers of the relevant departments has grown in stature somewhat and that whereas perhaps the establishment officer was somebody who had been put out to graze - I think that was a comment made to me earlier - now that position tends to go to the high fliers in the department. Is that an observation that is correct?

(Sir Robert Armstrong) I do not really know enough about it to generalise. I would hope it is because I think that establishment work tended, when I was a young civil servant, to be somewhat the Cinderella. You would come into the Civil Service and you would think that the glamorous thing to be doing was to be advising Ministers on policies, whereas the business of actually managing the service and making it efficient and looking after the people in it is a very difficult and very worthwhile job and I hope that we have been getting more people to accept that point of view and more fliers to go into the established management side of the work, not

just at the principal establishment officer level but below that, so that people who are fliers get this sort of experience in the early part of their career. When you come to the higher levels and when they are coming to the levels where they themselves are in the running for appointment of a principal establishment officer, they will have got some experience and some modification.

798. If the establishment officers are going to be given power and credibility and so on, is there not a fifth alternative that we could propose, and that is that the establishment officers should report direct to the CSD, perhaps a slimmed down form of CSD, and not necessarily be answerable directly to the permanent secretary of the relevant department?

(Sir Robert Armstrong) Would they be answerable to their Ministers? It seems to me that it comes down in the end to two things, to the Minister's responsibility for both the policies and the management of his department and to the Permanent Secretary's responsibilities as an accounting officer. I would think it was quite difficult, unless you were going to change the latter quite dramatically, for the establishment officer to do other than report to the Permanent Secretary. I should have thought the Permanent Secretary role in his department would be very much affected if his establishment officer was not reporting to him and I should have thought the Ministers might feel that their ability and their power to run their departments the way they think they should be run, to apply the effort of the department to the activities to which they think it ought to be applied would be very considerably diminished by that.

799. Would it not have the advantage that the Minister of a Permanent Secretary was forced to pay attention to the importance of manpower and of management? They may not be comfortable with it but it was always there as a reality.

(Sir Robert Armstrong) I am not clear that it would have that effect if the establishment officer was reporting to the Civil Service Department or whether the Permanent Secretary would say, "I have no influence in this; I must just get on with helping the Minister to determine the policies of the department and carry them out."

800. So there would be a division within the department which would be unhealthy?

(Sir Robert Armstrong) I would think so.

Chairman

801. Did this not exist when the Treasury had responsibility here, in so far as it did have the power but did not have the expertise and the problem is, or may be, that you have more expertise but less power and in recommending moves to increase the efficiency of a particular department, is it not frequently the case in private industry that efficiency frequently has to be forced upon organisations, and is not necessarily always welcome? Is this not one of the dilemmas with which we are faced?

(Sir Robert Armstrong) I think that is fair and how you force it on then can be done in a whole variety of ways.

802. Is not Sir Derek Rayner, if not forcing it upon departments at least, since he has the full backing of the Prime Minister, producing in this situation the kind of power that the Treasury formerly had but the Civil Service Department does not have?

(Sir Robert Armstrong) Yes. I should like to think that it would have been possible to find a senior civil servant and detach him from what he was doing and say "Now you are going to do this job and your remit covers the whole of Whitehall and all the Government departments and you are to go around and find people to help you identify what needs to be looked into and look into it". They would not have Sir Derek Rayner's particular personal qualifications but there is no reason why they should not have the backing of the Prime Minister, they would not necessarily have his experience of managing outside organisations and I think it is a great help, as I think Mr. Wainwright was suggesting, that you do have coming into the Government machine in some form or another experience from outside so it is not just contemplating itself.

803. Is it the ideas of Sir Derek Rayner that are so persuasive or is it not the figure of the Prime Minister's supporting action in this area which is the more important?

(Sir Robert Armstrong) I think the figure of the Prime Minister is very important.

804. Can we turn on to the question of man management? How do you see man management operating in the Civil Service Department? Do you think it is an improvement over what happened previously when the Treasury ran themselves?

(Sir Robert Armstrong) Once again I have to say that my experience of how the Treasury did it is virtually nil before 1969 and I therefore have no basis of knowledge on which to answer the question. My impression is that it is better.

805. How valuable do you regard the work of the senior appointments selection committee? That you need such a body is obvious, is it wide enough in its membership, for example? Does it have knowledge of all the candidates available for promotion? How important are the views of

the Permanent Secretary within his own department for promotion, within his own department at this senior level?

(Sir Robert Armstrong) I have not served as a member of this committee for very long. I have been impressed by the fact that every time we look at one of these proposals for appointments the candidates, apart from the fact that information is available to us about the job specification, about the qualifications and qualities of the candidate, it would be very rare indeed for the candidate not to be known to at least half or perhaps more members of the committee personally, on the basis of having worked together at some point in a career. I think, yes, it does serve a useful purpose. The views of the Permanent Secretary on a particular point below that level obviously carry great weight, he is the man who has to run the department, he knows what he wants in that particular position, but this committee is undoubtedly able to examine what is proposed with a shrewd and knowledgeable consideration.

806. The Fulton Committee did advise that an outside person, or two, should be on this committee and even though he would suffer from the disadvantage of not knowing many of the individuals concerned he could bring at any rate some of the views as to what outside practices were to bear on the discussion. Do you think this would be valuable?

(Sir Robert Armstrong) I am afraid I do not know the reason why the recommendation was not acted upon. I should have thought it could be, but I do not know why it was not acted upon.

807. In general the Permanent Secretary for a department, who is not on the senior appointments selection committee, will have initiated the suggestions, as a rule, for promotions in his own department?

(Sir Robert Armstrong) Right.

808. Is it fairly uncommon for his recommendations to be turned down?

(Sir Robert Armstrong) I suppose in more cases than not his recommendation would be accepted but cases in which there is a second view to which he is brought to agree, to which he comes to agree, are by no means infrequent.

809. Finally, I would like to put one question concerning efficiency to you. The particular problems of obtaining information are, of course, related to both the manpower concerned and to the objectives that are to be achieved. We have, of course, been concentrating very largely on the manpower, how would you see the setting up of what has been called accountability units of management? How realistic is it to divide the work of the Civil Service - and much of it is done already in blocks of accountability management, or with progress reports - not only on the manpower engaged on the particular task but the actual task itself and the comparison, one with the other, made? How practical is all of this?

(Sir Robert Armstrong) I simply do not know the answer to that question, I am afraid. My experience does not lead me to have any clear views.

Mr. Eggar

810. Could I come back to the specific manpower system of efficiency? Why have the Civil Service never had a system of remuneration by merit?

(Sir Robert Armstrong) As a matter of history I simply do not know the answer. The thing has grown up with these set grades and scales for grades and I suppose the view has been taken that the competence and - how shall I put it - the integrity of the advice ought not to be qualified too much by considerations of personal competitiveness, therefore we accept the kind of grading structure in which the problem of the fliers do come through, flying fastest and highest, but people

do not feel that driven by immediate considerations of merit. I do not know whether this argument is the argument which has prevailed although it was one of the considerations which was entered into.

811. So in your view there has been a deliberate attempt to iron out competitiveness, to iron out the sort of pressures you would get?

(Sir Robert Armstrong) I think it has been thought, it may well have been thought, those pressures were less proper in a public sector advising Ministers than they might be in an industrial situation. Whether that is right or not I do not know, but I think that would be historically correct.

812. Given the Government's new emphasis on efficiency and the need for improvement is it any longer the case?

(Sir Robert Armstrong) I do not think that the argument is completely disposed of, the balance of argument may have changed. I have not really thought about it, I am afraid.

813. Finally, do you see a role for a strengthened CSD in, if you like, making merit awards in deciding promotion not just at the highest level but at the lower levels as well, that it should be taken away from the departments?

(Sir Robert Armstrong) They might have a role, I would have thought it quite difficult to see that decision could be taken right away from the department. I could easily see that in the process the Civil Service Department might be involved.

If the Civil Service Department were going to do it for the whole service, they would have to have very considerable allocations of staff and resources in addition to those that are allocated to the business of personnel management in the department already.

Mr Wainwright

814. I suppose that through age the Civil Service has recently lost the last of the civil servants who were old enough to have had considerable man management and large organisation management in the war, either military or civilian. If that is so, how would you suppose that something roughly equivalent to that experience outside the Civil Service and of management, particularly, and training, how can something equivalent be provided under present conditions?

(Sir Robert Armstrong) There are comparatively few of us left who actually served in the forces in the war and had that experience of man management, that is true. We have to try to provide that experience both within the service and by interchange with other organisations.

815. Is the amount of that interchange either substantial or increasing materially?

(Sir Robert Armstrong) It may be increasing. I doubt if it is substantial, even yet. I think it would be a very good thing if it could be more substantial. I only have to say again, coming back to my experience in a spending department, that there is a price to be paid for interchange in the sense that you lose somebody who has experience. He will take some time in whatever he goes into to become useful there and if it is a straight interchange and you have somebody coming in from outside, there is a learning period to go through, so that if you are going to have more interchange, one of the elements we shall need is sufficient elasticity in complementing to be able to afford it.

816. Overall, would you consider the price well worth the benefits obtained?

(Sir Robert Armstrong) I would.

Chairman

817. If we were to adopt your fourth suggestion, all back in the Treasury - that is the reintegration option that you mentioned - how do you see it being organised, with two joint permanent secretaries as we had last time, one for the Treasury and one for the Civil Service? As we know, from Sir Laurence Helsby, it has had a powerful effect in making people believe that the Treasury was one but in actual practice there was not a great deal of relationship between the two. That is by the by. How do you see it being organised?

(Sir Robert Armstrong) I would like to stress that this is a purely personal view, as indeed all that I have said has been. I think that there should be a single permanent secretary in that situation. I think the question comes below that. If you go back to before 1962, public expenditure and manpower controls were brought together for at least some departments in what were called mixed divisions to quite a low level in the Treasury down to assistant secretary for the divisional level. In 1962, there was a functional reorganisation when public expenditure and manpower were separated. We had the beginnings of the structure which later turned into the two departments and I think there is a question, if one were to go down the reintegration solution, how far down the Treasury you push that process of integration, whether it is to deputy secretary level or assistant secretary level. I have not been in the Treasury or the CSD - I have not been in the CSD at all and not in the Treasury enough - to have a clear view of that. Interchange? I am inclined

to think if you decide integration is what the balance in advantage now requires, the logic drives you to taking that down further rather than not so far, but I think I would defer it to the knowledge and experience of people who have worked in those departments in more recent times than I have and I would not regard that as anything but a rather off the top of the head view.

Chairman: Thank you.

JS

Govt Made

19 June 1980

Thank you for your letter of 13 June, with which you enclosed the transcript of meetings of the Treasury and Civil Service Committee at which Sir John Herbecq gave evidence.

The Prime Minister was grateful for the opportunity to see these. I will be in touch with you again if the Prime Minister asks to see further papers.

CW

D.F. Hubback, Esq.

KRB

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10 DOWNING STREET

PRIME MINISTER

Mr. Edward du Cann has arranged for you to be sent the attached text of Sir John Herbecq's evidence to Treasury and Civil Service Committee.

If there are any particular subjects which you want to follow, please let me know what they are so that I can resubmit to you those papers flagged up.

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

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

17 June 1980

Govt Machinery
[Signature]



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-~~XXXXXXX~~ 233 8224

17 June 1980

The Rt Hon Paul Channon MP
Civil Service Department
Whitehall
London SW1

Paul Channon

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REVIEW OF CSD'S EXPENDITURE CONTROL FUNCTIONS

Thank you for your letter of 4 June and the "framework" paper enclosed with it. My comments are attached.

You mentioned timing. I have seen Geoffrey Howe's comments (Martin Hall's letter to Geoffrey Green of 9 June).

My view, and I think that also of Ian Bancroft and Douglas Wass, is that Ministers should have enough time to consider the issues fully and so should not feel constrained to come to decisions on the policy for and methods of central control next month if a few weeks more would make for a better thought-out conclusion.

I am strengthened in this view by the consciousness that there is a question whether the separate exercises on Treasury and CSD control should result in, as it were, two sections of the same book or in two separate books.

I am copying this to the Prime Minister and Geoffrey Howe.

[Signature]
Derek Rayner

Derek Rayner

Enc: Note on CSD "framework" paper

REVIEW OF CSD'S EXPENDITURE CONTROL FUNCTION: NOTE BY
SIR DEREK RAYNER

The lessons of experience

1. I think it vital for the report to be completely objective and clinical about the lessons of experience and about what it reveals about the working relationship between central controllers and departments. If I may say so, I think it also very important for the report to draw attention to the effects of conflicting policy objectives and of changes in policy on good manpower management and efficiency eg "on and off" on computerisation.
2. I quite realise that this may take us into some tricky water, given the constitutional conventions on the inviolability of the advice given to and the papers of former Ministers, but I would imagine that there is enough on the public record to enable some account to be given.
3. Following on the thought in paragraph 1 above, I believe that one should also be very hard-headed in looking to and planning for the future both as to the policy for and practice of central control.
4. Given that when we talk of the "CSD", we are dealing with very small control units in the Manpower Group and comparatively small numbers of staff in the associated Groups (eg on staff inspection, management services and management review), I think it would be helpful if the review considered these questions:
 - a. What are the marks of "good" and "bad" expenditure control, at the centre and in departments?

b. What were the successes and failures of central control in the 1970s? For example, why only a few years after the Cost of Central Government exercise is another drive on staff inspection necessary?

c. What are the lessons for future CSD practice? In particular:

- What is the practical meaning of "scrutiny", "appraisal" and "monitoring" in para. 8?
- What are CSD controllers and associated staff strong and weak in? What sort of people are needed as controllers?
- Across the whole field of control, what are the strengths to build on and the weaknesses either to correct or to obviate by ceasing to kick against the pricks? What should CSD leave to departments and what should it do itself, very well?

A practical policy for central control

5. I should find it very helpful if the report specified clearly the responsibilities which rest respectively on the CSD (including their source and whether CSD Ministers act wholly on their own account or in some respects as agents for the Chancellor) and on Departmental Ministers.

6. That is because I should like to establish the inescapable and irreducible duties of both the Central and Departmental Ministers.

7. I think it would be helpful to derive from the formal duties, together with past experience and existing conventions, a viable, practicable policy of control.

8. It would then be very desirable to establish what body of things the central and spending departments must and can

do to give effective expression to the policy. (The paper pushes in this direction, I am glad to see, eg para. 15.)

The departmental manpower reviews

9. I have the impression that what the paper is really talking about is the design and conduct of the central and departmental contributions to the reviews of functions and efficiency called for by Cabinet on 1 May.

10. If that interpretation is correct, it would be right to ensure that the Lord President and you were well equipped to respond to the outline plans from departments called for by his letter to his Cabinet colleagues of 4 June.

11. The key part of the paper is, I think, the reference in para. 14(b) to an "informed analysis" of departmental plans. "Informed analysis" will, I imagine, only be possible if departments are already working in line with an overall specification or with general suggestions.

12. It would be very helpful - to me at least - to take a view, fairly soon, on these questions:

a. Just how "inescapable" are "inescapable additional demands" (para. 13)? If Ministers are at risk of getting stuck with "immutable" complementing formulas, they should recognise it and consider whether the risk should be taken. The answer to this question may well influence the way in which CSD lays out its own resources, of course, (cf paras. 14(e) and 15(b) and (c)).

b. What should a good departmental plan for reducing functions and increasing efficiency comprise, eg (to take just two factors, what part can computerisation and office machines play in substituting for manpower)?

c. What parts would CSD like to see played in departments by the Permanent Secretary and PEO; staff inspection, O&M/MS and computer staff; line managers; and departmental staff sides?

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10 DOWNING STREET

From the Principal Private Secretary

SIR IAN BANCROFT
CIVIL SERVICE DEPARTMENT

Treasury and Civil Service Committee

The Prime Minister has seen and noted your minute of 10 June 1980 and the letter of 9 June from the Clerk to the Treasury and Civil Service Committee inviting you and Sir Douglas Wass to give evidence to the Committee on 2 July.

I am sending copies of this minute to Mr. Buckley (Civil Service Department), Sir Douglas Wass and Sir Robert Armstrong.

S. A. WHITMORE

16 June 1980

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COMMITTEE OFFICE
HOUSE OF COMMONS
LONDON SW1A 0AA
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TREASURY AND CIVIL SERVICE COMMITTEE

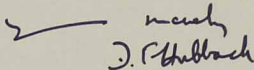
13th June 1980

Dear Whitmore

The Prime Minister recently asked Mr Edward du Cann how the Committee's enquiry into Efficiency in the Civil Service, was progressing. She expressed a particular interest in the oral evidence which has been given recently by Sir John Herbecq.

I am therefore now enclosing the transcript of these 2 recent meetings. As Mr du Cann may have made clear the Committee hopes to produce its report before the Summer Recess.

No doubt you will let me know if the Prime Minister requires any other papers.



D.F. Hubback
Clerk to the Committee

C.A. Whitmore, Esq.,
Prime Minister's Office,
10, Downing Street,
London SW1

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16 JUN 1960





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ZPPS

Prime Minister.

to note.

ALL

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MR C A WHITMORE

TREASURY AND CIVIL SERVICE COMMITTEE

...

I attach a self-explanatory letter dated 9 June from the Clerk of the Committee.

In giving evidence we will of course confine ourselves to the facts and to a rehearsal of the various options.

I am sending a copy of this minute to the Lord President, Sir Douglas Wass and Sir Robert Armstrong.

JAB

IAN BANCROFT
10 June 1980

Handwritten signature and a horizontal line.



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TREASURY AND CIVIL SERVICE COMMITTEE

9th June 1980

Dear Ian

I have heard from your private secretary, who has been in touch with Douglas Wass's private office, that you would both be ready to give oral evidence on the role and powers of the Civil Service Department and its division of responsibilities with the Treasury, at 4.30 p.m. on Wednesday 2nd July. I am now writing to confirm this arrangement which is most welcome to members of the Sub-Committee. As I think you know Robert Armstrong will be giving evidence on Wednesday 18th June.

If I can help in any way please let me know. I am sending a copy of this letter to Douglas Wass.

2 *in copy*
D.F. Hubback

Sir Ian Bancroft, GCB,
Civil Service Department,
Whitehall,
SW1A 2AZ

D.F. Hubback
Clerk to the Committee



M 1 JUN 1964

HOUSE OF COMMONS
MINUTES OF EVIDENCE
TAKEN BEFORE THE
TREASURY AND CIVIL SERVICE COMMITTEE

MONDAY 9 JUNE 1980

SIR JOHN HERBECQ, KCB, MR J.P. CHARKHAM and MR A.W. RUSSELL

Evidence heard in Public

Questions 690 - 769

MEMBERS' CORRECTIONS

Any Member of the Committee who wishes to correct the Questions addressed by him to a Witness is asked to send the corrections to the Committee Clerk as soon as possible.

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MONDAY 9 JUNE 1980

Members present:

Mr Edward Du Cann, in the Chair
Mr Kenneth Baker
Mr Anthony Beaumont-Dark
Dr Jeremy Bray
Mr Timothy Eggar
Mr Michael English
Mr Robert Sheldon
Mr Richard Shepherd
Mr Richard Wainwright
Mr Ken Woolmer

SIR JOHN HERBECQ, KCB, Second Permanent Secretary, Civil Service Department, called in and further examined

MR J.P. CHARKHAM, Under Secretary, and MR A.W. RUSSELL, Under Secretary, Civil Service Department, called in and examined

Chairman

690. Sir John, we are grateful to you for coming to see the Committee again and to your colleagues you have brought with you. You will remember that when we met before the Whitsun recess there were four subjects we particularly wanted to discuss with you: efficiency in general, numbers, chain of command and liaison between the Civil Service and those working in the government service in general and industry and commerce. We probably completed our discussion on the matter of numbers. We were coming to a conclusion on the matter of efficiency and the chain of command. If it is agreeable to you we will finish our discussions on that and then go on to the other remaining matters. Does that suit you?

(Sir John Herbecq) Yes.

691. There are no other matters you want to address us upon following our earlier discussion?

(Sir John Herbecq) No.

Mr English

692. I would like to refer you back to your answer to Q538 on the last occasion when you said that the Civil Service was not ultimately responsible for the efficiency of the government as a whole. Who is?

(Sir John Herbecq) I doubt whether the efficiency of the government as a whole as a subject in itself could be located in any one place.

693. That was what I feared. When in 1976 we had evidence from Richard Wilding who was with you on the previous occasion you were hear - evidence which was distinctly vague about who was responsible ultimately - I think his conclusion was that each department was responsible for its own efficiency but nobody was responsible for the efficiency of the government as a whole, but I am greatly summarising it. There was another portion of his evidence where he suggested that the Treasury and CSD jointly were responsible. Finally, there was also some evidence submitted that the CSD was actually the department that ultimately was responsible for the efficiency of government as a whole, but do you agree that the point is not clear?

(Sir John Herbecq) Yes. May I draw a distinction between the Civil Service (perhaps I might be forgiven for not volunteering a precise definition of what I mean by that; I am talking of central government departments, broadly speaking) and other government operations ranging much more widely in the public sector as a whole. Within the Civil Service I think I would attempt to summarise it very briefly in these terms: there is a central responsibility, many aspects of which fall to the CAD and some of which to the Treasury. Beyond that, each department is responsible for the efficiency of its own operations. We have recently endeavoured to look across the service as a whole and to interest ourselves in efficiency across the board.

694. But then that separation leads us back to what we discussed on the last occasion, that you have a 10% cut in Civil Servants defined in some way and no co-ordination as to whether other public servants are suffering cuts of the same order.

(Sir John Herbecq) Yes. As I said last time, the CSD does not have responsibility for other public servants outside the Civil Service in certain closely related fringe bodies.

695. Do you not think it is rather inefficient that a policy, whatever the policy may be, whether or not you agree with it, simply says that there shall be a 10% cut applied only to a body of public servants - those who happen to be within some definition called "Civil Servants"?

(Sir John Herbecq) I hesitate to make much comment about other parts of the public service, except I might offer the thought that it would not seem to me necessarily to follow that a cut which was thought to be right for the Civil Service was right for other parts of the public sector as well. It might or might not be; it might be possible for other parts to make larger or smaller cuts.

696. I thought we both agreed on the last occasion that the definition of "Civil Servant" was both artificial and indeed very difficult to understand. The memorandum which you submitted with your previous evidence proved that point. If it is desirable to cut public expenditure, let us put it that way, all of the public service whose pay is part of public expenditure should be affected evenly and equally. Would you not say that was a possible argument, too?

(Sir John Herbecq) Yes, I would say it is a possible argument.

697. But it seems at the moment that those more immediately the responsibility of the CSD are suffering a greater cut than

those less immediately responsible to the CSD.

(Sir John Herbecq) I do not think I am able to comment on that; I cannot judge the degree of severity which is being applied in other areas.

698. Because there is no co-ordination as you said at the last meeting.

(Sir John Herbecq) Because I have no responsibility for it.

699. And because nobody else does. In 1978 the then Government in reply to the 1977 Report of the Expenditure Committee said that they were considering the question of vesting ultimate responsibility for monitoring the control of efficiency in the Treasury. Has the present Government decided to take that on or has it dropped with the election?

(Sir John Herbecq) I do not recall the particular passage and the particular piece of work two years or so ago.

700. Your response put it as the machinery of government, but we did not say that. Our 24th recommendation related to the splitting of the Treasury or putting it back together, but our 35th recommendation said that ultimate responsibility for monitoring the control of efficiency should be vested in the Treasury.

(Sir John Herbecq) Yes.

701. It was not directly related to the question of the relationship between the CSD and Treasury.

(Sir John Herbecq) There is no immediate plan that I am aware of to move the responsibility in that area which we currently have in the CSD to the Treasury.

702. Another recommendation which the Committee put forward then was that there should be something like an efficiency commission - a sort of institutionalised Derek Rayner. We now have somebody looking at efficiency in government in the person of Derek Rayner.

Has there been any consideration given to the question of the creation of a small institution to look at the efficiency of government as a whole?

(Sir John Herbecq) I think the view is that it is rather early to decide what institutional arrangements should follow when Sir Derek Rayner has made his contribution. We are at the moment working closely with Sir Derek Rayner on his studies. We have not given serious thought yet to what might be the most effective way of continuing that work when the time comes - whenever that may be - for Sir Derek Rayner to withdraw.

703. Even though that recommendation was made in July 1977 and practised in France as far back as 1948?

(Sir John Herbecq) Sir Derek Rayner's appointment is in its way a response to the need to which the Committee drew attention at that time.

704. Do you not think, Sir John, that somebody looking at the efficiency of the Government would be actually a better practice than the sort of across-the-board cut of 10%? A bankrupt company or a company verging on bankruptcy might indulge in an across-the-board cut but an efficient company would be looking at all its operations and decide how to operate more efficiently. It would hope not to get to the situation of an arbitrary across-the-board cut of 10%.

(Sir John Herbecq) With respect, I do not quite recognise the decisions that have been taken as arbitrary across-the-board cuts.

705. If they are not arbitrary why could you not give us a breakdown at the time they were announced?

(Sir John Herbecq) As I said last time when I came, they represent a judgment by the Government following a considerable period of study as to what is possible by way of reduction in the size of the

Civil Service. It is not intended it should be achieved in an arbitrary way but judged to the likely outcome of the work currently going on to improve efficiency, to simplify tasks and where possible to reduce the number of tasks falling on the service.

706. A Sub-Committee of this Committee only recently was told in relation to the 85,000 people in the Inland Revenue, one of the four biggest Departments in the Civil Service in terms of numbers, that nobody at all amongst all those 85,000 people was responsible for the research into the impact of taxation or how money might be collected more efficiently. Research and development in general was nobody's responsibility. That was in the written evidence, and that is one Department of State. As far as I know it has roughly always been true. Would it not be better if there had been research into inefficiency before? The right-across-the-board view did not look to what was arbitrary. Surely it must be autocratic to say that what you would need would be a cut of 5%, 10% or 15%, whatever the practice, and to say: "Right, we shall put it at 10%." That means it is 10% generally speaking on all Departments but Defence, say all but a few. Surely it is much better to cut the most inefficient and not ask the most efficient to suffer the same cut as the least efficient, if anybody in central government knows the least efficient. How do you do that?

(Sir John Herbecq) I think there is improvement in efficiency quite generally in the Civil Service - quite generally - but I do not think any of us would argue that we have reached the point where we cannot improve efficiency. We have to be on the lookout for improved efficiency generally across the service, and there are savings certainly to be made through improved efficiency over the next three or four years, which is the period to which the run-down has been related, and within Departments efficiency studies are going on

carefully as has been done already, and I have no doubt a great deal more will be done.

707. Nobody in Government is looking at who should do it in the Government as a whole?

(Sir John Herbecq) We are coordinating the work within the Civil Service as a whole.

708. But not the Government?

(Sir John Herbecq) We are looking more to the National Health Service, local authorities, Armed Forces, nationalised industries and public centres as a whole. I doubt, with respect, whether one can tackle efficiency right across such a large part of the country's activities as a subject centralised at any one point.

709. The example I gave was carefully chosen within the Civil Service, and not a nationalised industry, the Health Service or local authority or Armed Services, but the Inland Revenue.

(Sir John Herbecq) I cannot comment on evidence given by colleagues of mine in the Inland Revenue, but they do indeed have staff who are concerned with the efficiency of their working.

710. They said they all work but also said it was nobody's primary responsibility.

(Sir John Herbecq) I think the Chairman of the Board said it was one of his primary responsibilities.

Mr English: He was not giving evidence.

Mr Eggar

711. I must say I am a little surprised by the way Sir Derek Rayner was brought out of the hat, so to speak. Why was his appointment necessary?

(Sir John Herbecq) It is a matter for the Prime Minister. He was appointed by the Prime Minister to help us in all these studies immediately after the last Election.

712. In recognition of a failure by the Civil Service Department?

(Sir John Herbecq) In the belief, I take it, that a man of his background and experience would have a good deal to offer.

713. What has he to offer that you have not, with respect?

(Sir John Herbecq) He has a very wide-ranging experience. He has, based on his experience, been able to suggest ways of tackling the various exercises which he has put in hand, which, I must say, we have not done for ourselves beforehand, but we have ourselves been active in the field of efficiency.

714. Are you saying in fact the Civil Service Department are not managers?

(Sir John Herbecq) No, I am not. I think we have done a great deal in the field of efficiency ourselves. There is a great deal we can point to, and we have put in a reasonably substantive paper, explanations of what we have done ourselves. A very large part of the manpower savings made in 1979-80 were not in any way as a result of Sir Derek Rayner's activities but the Civil Service Department's.

715. Nevertheless, you have to admit that one man has come in from outside and had a very profound effect. You must have some weaknesses in the Civil Service Department for him to be so effective.

(Sir John Herbecq) I certainly would not want to claim we are perfect and have not got areas in which we can be shown to be able to do a more effective job.

716. Would one of the weaknesses be a lack of management skills?

(Sir John Herbecq) You could certainly describe them in that way. We said I think in the paper we put to you there was an area which is an area in which Sir Derek Rayner has been active where we were conscious there was a job to be done, and if that adds up to a lack of management skills, then certainly there is some.

717. Would it be fair to say a successful Civil Service in the administrative way causes progress primarily through the Minister's Private Office?

(Sir John Herbecq) That is often the case but by no means invariably the case.

Chairman

718. If I may interrupt Mr Eggar, this area of questioning we have been pursuing this afternoon precisely illustrates the worries the Committee has, which I can spell out in a few sentences. The first is the influence that the Civil Service Department has over the Government service in the most general sense, and it seems to us that it does not have the influence to drive for efficiency that we would like to see, and the example of that which Mr Eggar is so clearly bringing out now in his questions is that Sir Derek Rayner on a part-time basis with trivial reinforcement under his own immediate control or that of various Departments is discovering cumulatively areas where money can be saved and areas of reorganisation without any dereliction in the service to the general public. Why is it he is able to achieve that, and why is it none of this could happen before? Why is it that there is not, so to speak, an automatic drive for effectiveness, efficiency and proper value for money without reinforcement from outside. We wrote to the Prime Minister on these matters some months ago, as you will know, before her announcement of the decrease in numbers, and this is a question to which we find it impossible to get a satisfactory answer. I think there is a very serious moral to be drawn from that.

(Sir John Herbecq) I am sorry if I have not been able to answer this at all satisfactorily. I would like to say again that there is a great deal of work which has gone on and still goes on in my Department. We have described it in a paper which we have given you and I think it sets out a number of areas which have been successfully pursued within my Department and have yielded savings commensurate with many of the projects that Sir Derek Rayner has put in hand. We have been active, and I hope I can say successfully active, in pursuing the reductions in the size of the Civil Service on which the Government has placed great emphasis. That has been pursued, I hope I may say again, energetically and successfully by the staff of my own Department. There are other areas - the computer area - where we have achieved a certain amount and we would like to achieve more. I do not claim that in any of these areas our performance might not have been better, but I do believe we have got a basis of substantial achievement over the years to which we can point. The Civil Service is a very large organisation and certainly there are areas in which we have not been active and which Sir Derek Rayner with the assistance, as he has generously acknowledged, of some of the best young staff of the departments has been examining and has found scope for further savings. We have been supporting him in that work. In fact Mr Russell as part of his responsibilities supports Sir Derek Rayner.

Chairman: Sir John, do not misunderstand the Committee. I regard this Select Committee and your Department as allies; we have precisely the same objectives and we are trying to achieve them in our different ways. On the other hand, whilst I have long said it is a great pity we do not have Select Committees of the House of Commons to report on the things that the Civil Service does well (it does some things very well indeed and quite magnificently), nonethe-

less it seems there is a whole area where there is lack of information - an even larger area where such matters as efficiency audits, measurements of performance and so on require investigation in order to be able to build on the good work your Department is already doing. It seems to me (I cannot speak for the Committee as a whole) that at a time when there is an inevitable surplus of demand for money for good causes it is necessary to accelerate these processes, and we have to ask ourselves why it is they have not been started and done more energetically beforehand perhaps with a view to enabling the foundations you have already laid to be built on.

Dr Bray

719. Following that through, I have a question about whether the influence that Sir Derek Rayner has owes something to the fact that he has the ear of the Prime Minister and is able to resolve tensions between policy and administration and between one department and another which the CSD is not able to do.

(Sir John Herbecq) As to the first part of your question, I agree and at the last hearing I said that Sir Derek Rayner himself had gone out of his way to say that the strong personal backing of the Prime Minister had been an important factor in his work, but in saying that I would not at all want to suggest that my own Department in pursuing this work did not equally enjoy the support of the Prime Minister; it does. I did say I thought that in the past different governments had placed different degrees of emphasis on their desire to achieve economies and reductions in the size of the Civil Service, and perhaps we have not been quite as active in that in the past as now and it has not been given the same degree of priority that is attached to it today. There is no doubt that a very high degree of priority is being attached to it today. We have employed additional resources on that in the last 12 months, so although we have reduced

our total numbers we have made a considerable swing in that direction.

Mr English

720. I hope you are not confusing reductions in services and increases in efficiency. It is easy to say (I have known it said to this Committee) that you can economise in the Civil Service by cutting out services. What I am interested in is whether you can continue the same services with fewer people or improve the services with the same number of people. That is a different thing from just making economies or reductions. Any fool can knock something down by 10%, but can you perform the same services with 10% fewer people or better services with the same number of people?

(Sir John Herbecq) Yes, and we pursue both things: we try to improve the service with existing resources, but it is also a matter of high priority to try to sustain the service with reduced resources, and it could be necessary to reduce services.

Mr Woolner

721. Twelve months ago to this week Mr Wilding of your Department in a letter to establishment officers, a copy of which was kindly given to us, indicated that Ministers' departments had been asked to identify savings options of 10%, 15% and 20%, and the cuts at this stage which we are considering would in fact involve reductions of about 14% during that period to the end of 1984. Did all the departments reply by the end of last July as they were requested to do on the consequences of those three levels of cuts?

(Sir John Herbecq) They certainly all replied; a few may have been slightly late. I cannot say from memory what replies were in by the precise date stipulated, but they all replied and none was so late as to be severely embarrassing to us.

722. So, eight or nine months ago you had spelt out the consequences of trying to save manpower of the order of 10%, 15% and 20%?

(Sir John Herbecq) Yes.

723. In answer to Mr English you indicated that there was no detailed thinking behind this figure. Does that mean you have really learned not a great deal from that exercise nine or twelve months ago, and if the answer is that you have learned something why have you not given us more details on where the savings can be made?

(Sir John Herbecq) We learned a great deal from that exercise. The departments did indeed set out in some detail how they would go about achieving reductions of that order if they were required to do so. That led to the cuts announced in December of last year which was not a final decision by the Government and was stated not to be. Further work has been done since. The decision which has now been taken, the most recent one announced by the Prime Minister the other week, has set a target for achievement by 1984 which is a judgment by the Government based on all the evidence which has come before it in the twelve months it has been in office, of which the product of the 10%, 15% and 20% exercise is part but not the whole. The translation of that decision into detailed figures department by department is what we are taking some time to work out and what I think the Prime Minister's statement indicated would be a matter of further detailed careful work. A good deal of the work has been done; a judgment has been reached, but the translation of that back into detailed decisions is now going on. There is bound to be some movement of thought over the twelve months; one does not necessarily reach precisely the same conclusions in the autumn of this year that one thought one would reach last year because circumstances change and things move on.

724. When you were before the Sub-Committee on the 19 March you were questioned in some detail on the distinction between net and gross cuts and as recently as March you said there was no direct

relationship between the two and one always knew that if the workload increased because of additional claims for benefits or as a result of budgets that change in the volume of work falling on the Civil Service would have to be taken care of in any event. You are now saying that these reductions must be found net. Does that mean there has been a change in attitude towards the consequences in areas where workloads would be increasing, and in particular what estimate have you made to establish the reasonableness of this reduction to 630,000 of the effects of an increase in unemployment to something of the order of 2m-2½m?

(Sir John Herbecq) We have always realised that over a number of years there will be changing circumstances, changing economic and social circumstances, which will cause variations in the amount of work which the Civil Service is required to do and, therefore, inevitable variations other things being equal in the amount of staff required to do it. Life moves on. It would be much easier for us if all other factors remain totally stable, because we would know precisely what we are aiming at and be able to give more accurate estimates. Often we can cite a figure of 630,000 or a judgment taking into account various possible changes in circumstances over those four years, and in particular we have taken account of the forecast of unemployment in the Expenditure White Paper published earlier this year, and we know their forecast points to a growth in staff to deal with the consequences of the rise in unemployment it allows for, and our figures make some allowance for that. We also intend in making plans for the figure of 360,000 to build in a contingency margin which will be fairly small, but we think it necessary to have some sort of contingency margin in this period to provide for unforeseen additional demands which may arise. If I could say again, one hopes in the next

four years there may be external changes which may reduce the external demand of the Civil Service, but we do not anticipate that change will be putting up the rate.

725. The Manpower Services Commission and the IHSS both seem to be expressing some concern for being able to cope with the manpower implications of rising unemployment, and you yourself said in the meeting I referred to that in the DHSS benefits will have to be paid. Are you saying in the end, if it comes to it, the 630,000 will have to go by the board?

(Sir John Herbecq) No. We have built in a margin to cover the predicted growth of unemployment. On top of that we have a general margin for all purposes. One can see if things were to change violently some of the assumptions would have to change, but there would be other changes no doubt and decisions, and we may be in a different position altogether. On reasonable assumptions, the best we can make with the assistance of the Treasury, of the Department of Employment and others concerned, the target announced we believe is attainable, as I say, with a reasonable margin for growth which may come our way.

Mr Baker

726. The White Paper forecast 1.58m in the course of the next 18 months, but all the forecasts we have had indicated it would be higher than that and the Chancellor implied in answer to us it is likely to be higher than that. As I understand it you can still design it on 1.8m.

(Sir John Herbecq) The allowance I have made is the best to use.

727. How many extra people are needed in the DHSS and the Department of Employment for each extra 1,000 unemployed? Do you have a ready reckoner?

(Sir John Herbecq) We can make a shot at that in passing.

I am not sure I have got it in my mind, and I am afraid I have not brought it with me.

728. Does Mr Russell have that?

(Mr Russell) I am sorry.

(Sir John Herbecq) I do not think he has. It is a figure we can readily supply.

729. Is it 5,000?

(Sir John Herbecq) At a rough shot it would be of that general order I think.

730. So if in fact the unemployed rose to 2.2m, which is another 400,000 over and above the figures of the White Paper, one is talking of an extra number of maybe 20,000 civil servants to deal with an unemployment rise of that sort?

(Sir John Herbecq) No, I am sorry. I think 5,000 would be a much closer estimate if it were to go from 1.8m to 2.2m than 5,000 per 100,000 increase. I may be wrong about this.

Chairman

731. If you want to correct them when you get back, send in a note by all means.

(Sir John Herbecq) From memory, which is not too reliable, I think it is 5,000 for 400,000.

Mr Baker

732. That includes extra people for retraining, does it?

(Sir John Herbecq) I would have to look at that.

Mr Baker: I think we would appreciate a note on that.

Chairman

733. Very much so, Sir John.

(Sir John Herbecq) Yes.

Mr Woolmer

734. Could I turn to the question of monitoring and evaluation

and ask where you are getting to on the question of staff reductions? What monitoring and report-back system do you have in hand? Do you yourselves collect and collate the progress being made and is it on a monthly or quarterly report system?

(Sir John Herbecq) We get quarterly reports from Departments of their staff intakes, and we monitor on the basis of those quarterly reports, and I believe I am right in saying we have undertaken to keep the Committee informed of quarterly figures.

735. To what extent are you accompanying that yourselves by finding out whether or not from the reported quarters the savings are continuing savings, that is not just putting the employment out to agencies or outside contractors and the like, and to what extent are you keeping a quarterly eye on whether or not services are being reduced to achieve reductions in manpower or whether it is, as Mr English says, efficiency that is improving and that is producing the same service with less manpower; in other words, putting it generally, how far are you monitoring what is going on to improve the services and efficiency across the various Departments of Government service?

(Sir John Herbecq) We have not ruled out the possibility of putting work outside the Civil Service, particularly where it could be done more economically and efficiently.

736. I would not want you to spend time answering a question I did not ask. I am not concerned at this time whether you are considering at this time going outside the Civil Service on staff but how are you, as the Civil Service, monitoring how staff reductions are being achieved?

(Sir John Herbecq) I am sorry. I was coming on to say, we have indeed asked Departments particularly to let us know when they send us the quarterly figures to what extent, if at all, any of the reductions they show have been achieved by putting work outside the service, and,

again, I believe I am right in saying, we have undertaken to keep you informed of that, and whether or not we have I am ready to say so now if it is your wish.

737. You appreciate my particular suggestion may not be the best way of doing it, but would it be possible to have columns in the reporting as to manpower and staff, whether it is more efficient or put outside? I would have thought it possible, but would it be overburdensome?

(Sir John Herbecq) I would certainly have thought we could get a very broad breakdown. You will understand, I am sure, certainly in large Departments the change in the manpower strength from one quarter to another may be the product of a very wide-ranging number of changes of different positions. It would be unfortunate to have to bother a Department with a great deal of detailed working at a time when they are hard pressed already.

But if we could get some broad indication in terms of categories (we already ask them to let us know why they are putting work outside) we could make an estimate as to the rest of how much is the result of work given up in the sense of a service which is discontinued or a function which has been abolished on the one hand and how much is the result of a more efficient method of operation on the other hand. We will do that, but I would be grateful if I might have a look at that to see how far we could take it without being unreasonably burdensome on some departments.

Mr English

738. I think that is fair enough, but Sir John will know that what worries us is the possibility that a 10% cut in manpower might lead to a 10% cut in services and no increase in efficiency at all.

(Sir John Herbecq) That I can well understand and it is an anxiety which we in the CSD share fully with the Committee. We are anxious that that should not be the case.

Mr Baker

739. What will happen when Sir Derek Rayner goes back to Marks & Spencer? Are you going to breath a sigh of relief?

(Sir John Herbecq) Not at all. I think we are much enjoying the stimulus which he has brought and the help he has given us and we shall be sorry to see him go.

740. And then?

(Sir John Herbecq) As I said earlier on, there has been no decision taken at all on what institutional arrangements, if any specific arrangements, shall take his place.

741. Do you think the function he is performing should be continued?

(Sir John Herbecq) In one way or another I have no doubt it should.

742. Half in and half out like Sir Derek Rayner, or do you want to chuck it under the GSD?

(Sir John Herbecq) That would be a decision to be taken at the particular time.

743. Which do you favour?

(Sir John Herbecq) In many ways I would like to think we could do it for ourselves; I would have less than a proper pride in ourselves if I did not say that, but I readily acknowledge as I have done in the past the experience and wide knowledge that Sir Derek Rayner has been able to bring to bear, and if we can in one way or another get that sort of help after he has gone as far as I am concerned I would be glad to have it.

744. When people have come in like that they havetended to be tamed by the system. The uniqueness of Sir Derek is that he is untameable.

(Sir John Herbecq) Yes, he is untameable, and as we have noted before the Prime Minister has very helpfully given him a great deal of support.

745. Are you considering the possibility of institutionalising his semi-independence or total independence by having possibly a separate standing commission, a very small body, not a large increase in bureaucracy, which would be virtually outside looking at the operation of the Civil Service?

(Sir John Herbecq) That is a suggestion which has been made and indeed I would not at this stage wish to rule it out because we have not got to the point of coming to any decision at all on this. One would have to see precisely how it would relate to the existing machinery. On the one hand there is the Exchequer and Audit Department which concerns itself with value for money and efficiency in that sense. On the other hand, there is the work we

have to do in the CSD and the departments' own primary responsibility for their own efficiency. I could see us getting in each other's way if we had another body which would be responsible in that field, but, having said that, I do not at all this afternoon want to suggest that I would exclude it; it is something which would require consideration.

Mr Shepherd

746. Would not the advice and views of Mr Leslie Chapman be helpful and would you consider appointing him as an adviser on efficiency and numbers?

(Sir John Herbecq) I know that Sir Derek Rayner has had discussions with Mr Chapman and he has no doubt gained the benefit of Mr Chapman's advice.

747. That was not quite my question.

(Sir John Herbecq) If an adviser in Sir Derek's place were to be appointed it would be a matter for consideration. I make no criticism of Mr Chapman; a good deal of the work he did in the PSA was very good work, but I would have thought there was something to be said for looking for somebody with experience such as Sir Derek has had largely outside the Civil Service rather than somebody whose experience has been inside it.

748. It may be that the quality of the experience he has had inside makes him better qualified to take an objective view of how to seek efficiency in the Civil Service, and I thought it might be of assistance to the CSD rather than some outside body like Sir Derek Rayner or his particular function.

(Sir John Herbecq) That would be a matter for consideration at the time.

Mr Eggar

749. Can I quickly follow that up? You have said you have respect for a good deal of what Mr Chapman has done. Why were you so

careful to qualify your comment?

(Sir John Herbecq) I do not know that I was particularly qualifying it in the sense I had no respect for other work he had done. I read his book with much interest and when I said that I was really referring to the work he described in that book which many of us think was very effective work. What he did with the rest of his time in his career I am not sufficiently knowledgeable about to comment upon.

Chairman: If I can help, some of his comments about the Public Accounts Committee were quite patently inaccurate.

Mr Wainwright

750. Moving away from personalities for a moment, some large and apparently successful professional firms when faced with the need to get through their work with reduced numbers, especially of middle-ranking qualified staff, deliberately reduce the speed of movement of such staff between different subjects; in other words, they markedly reduce the amount of time staff spend taking over somebody else's files and reading up subjects new to them and meeting fresh groups of people and spend more time than hitherto on subjects which they get set into. Is that an option available in most departments for civil servants in particular grades and, if so, is it something which will have to be considered?

(Sir John Herbecq) I think we have been concerned for some time that staff tend to get moved, especially in some areas of the Service, from one area to another more rapidly than we would like. This is not an easy matter when you look at the series of moves where people do seem to have moved too soon. You find there is always a good reason for each particular move. Nevertheless, it has been less than efficient to move people as often as they have been moved in the past. We are trying to slow it down. I daresay it

varies from department to department. I think I can say that our own Department has slowed it down a bit recently and has not been moving people about quite as frequently and we make a conscious effort not to move three people if two will do. I believe that other departments are trying to do the same thing, but there are particularly amongst the very able people more jobs than able people, and that tends to mean that the able people get moved more quickly to take on jobs like a Bill or something like that where you need the high-fliers.

751. I am not trying to make light of it, but the generality of middle-ranking staff do tend to move about. Do you think it is possible that in some departments there are old rules of thumb that it is a good thing for the younger staff to have the widest possible range of experience and the widest possible diet of jobs, some of which may lead to movement for movement's sake?

(Sir John Herbecq) Yes. Amongst the non-high-fliers the mobility would not be quite as rapid as amongst the high-fliers, but my remarks were of general application. We have rather changed our minds about the virtues of pushing people around Whitehall quite quickly to give them as wide as possible general experience and we believe there is more virtue than we previously thought in some degree of specialisation.

752. Do you find you are able to get that change of view accepted in departments?

(Sir John Herbecq) I would have thought that what I have said represents general thinking across the Civil Service as a whole, yes.

Mr Sheldon

753. Sir John, there are two subjects which we have yet to deal with, the chain of command and relations between industry and commerce and the Civil Service, and because of the shortage of time perhaps we might telescope these into one general subject. The Prime Minister in her statement mentioned the review of grading that was taking place, and coupled with this is the discussion about the removal of the grade of Under-Secretary and that of SEO. Would you like to say how it is proceeding?

(Sir John Herbecq) I would ask Mr Russell to say a word, if I may, about the detailed aspects that we are launching in the area. If I may start with the general chain of command, we think there is scope for evening out the chains of command in the service in many areas. Whether it will lead to the disappearance of old grades I think is much more questionable. In any grade there are posts which one could point to which are pretty key posts and which are probably being correctly done at that particular level. That is not to say there is not a scope for a good deal of evening out. We think it ought to be possible to make changes and improve efficiency by leap-frogging up grades.

754. You are thinking in terms of retaining these grades but having fewer people appointed to them?

(Sir John Herbecq) We have not ruled out the possibility of getting rid of more than one grade, but I would not like to be committed to them as the probable outcome of the steps we are undertaking.

755. One of the problems of removing a grade is that people in the grade have to go up or down, and going down is not something that those people fancy. Would it not lead to inflation in the higher grades?

(Sir John Herbecq) This is a problem, and when I said there are some posts in every grade where one would feel they were correctly graded, where they were in a sense, one could not put them down. Let us assume we can deal with the job of retaining an individual where the work is properly done, and if you move that grading point there is only one way it can go and that is upwards.

756. Except that if there were a sufficient time allowed to absorb those people the amount involved could be reduced, given the time?

(Sir John Herbecq) It is not so much the problem of retaining staff that worries us, although I do not want to suggest it would not be a worry. It is something we would look at anxiously, but perhaps I could quote an example of the sort of thing I have in mind. The Deputy Master of the Mint, who is a senior civil servant in charge of the Mint, is an Under-Secretary, and let me make it quite clear that posts could not be held at the lower level. I am equally clear that the Mint must have somebody in charge of it. I would be reluctant to abolish the grade if the only way out was to put in the next one up.

757. I do not want to go too deeply into this, and there are many other opportunities we will have for exploring this whole area. These cuts, which are substantial over a time-scale from last year to 1983, how are they going to affect the age structure of the Civil Service?

(Sir John Herbecq) We have got a pretty large run-out of retirements in the late 1970s and early 1980s through a lot of retirement because the age structure was out of gear at that time. This was because of a large intake immediately after the War. To that extent it is quite a good time to be attempting to achieve quite a large run-down. We shall be recruiting smaller numbers than we have in the recent past, but our total loss from the service in a year is running at something up to 80,000 - it is perhaps 80,000 or a little less. The run-down we have to achieve is about 75,000 over four years. So if one called that 20,000

in very round figures it means reducing our intake from what it would otherwise have been by about 25%, so it should not cause serious distortions of structure.

758. But would there not be distortions of structure of certain grades?

(Sir John Herbecq) We shall try to see we do not have serious distortions. It depends a little how the wastage takes place and where the posts are abolished.

759. Going on to the next part, the relations between industry and commerce and the Civil Service, the Prime Minister in one of her replies to a Question called for more people in the Civil Service with practical experience in industry and commerce. This presumably means direct entry to Principal level and Assistant Secretary level to meet some of the points she had in mind, and we know that these injections of such people at this level have in fact been going down in recent years. Could you give me the position on this?

(Sir John Herbecq) Yes. The main level of intake, in fact, much the most important level of intake, has been at the Principal level, where we had rather two in years in 1976 and 1977 after a period when we had been averaging about 35 a year, and in 1976 we went down to 15 and in 1977 we only managed to take in 8, although in fact we would have been glad to recruit 15 if we could have got them, but the competition produced only 8 successful candidates. In 1978 we made a determined effort to improve on the previous year by widespread publicity and various other ways. We went for 15 and we actually got 25, and we thought that was a good a year. Last year the competition fell foul of the recruitment ban and was discontinued. We will not be running one this year. We need to take stock and see precisely what our vacancies are likely to be over the next two years and what the effect on structure is of the run-downs we are carrying out, but it is certainly our

intention to resume that competition as soon as we can. We regard it as a very valuable source of experience, and, indeed, the people we have taken in have gone on and been a particularly valuable reinforcement to the Secretary grades.

760. That is an answer to the Principal. What about the Assistant Secretary, where I believe it has been worse in percentage terms, has it not?

(Sir John Herbecq) Apart from a number of specialist recruits, we have not attempted to recruit to the Assistant Secretary grade as such, but I should say that over 30% of the Assistant Secretary grade is occupied by people who came in as direct entry Principals, so to that extent we have a levelling in the Assistant Secretary grade of people who have spent the bulk of their careers outside, although they joined the service a few years after they entered the grade. If I could say a word on Under-Secretary?

761. Yes?

(Sir John Herbecq) For the first time last year we announced a competition to see if we could recruit a few Under-Secretaries outside. We set ourselves a target of 3. That also unfortunately had to be discontinued at the time of the recruitment ban. Here again, as soon as we can get some sort of reasonably clear picture as to what the future holds we will be giving some serious consideration to launching a fresh competition at that level.

But we need to have some regard to how many vacancies will be arising and to the proper career aspirations and expectations of our existing staff.

762. But the Prime Minister was only reflecting a view that we have heard expressed time and time again over the past 15 years of the need for greater fertilisation by the Civil Service with outside interests and yet we have seen the numbers decline. Does this not show a lack of determination in the Civil Service to bring people in from outside with experience of industry and commerce and to make use of the knowledge they have of what happens outside the Civil Service for the benefit of the Civil Service generally?

(Sir John Herbecq) I do not think it shows a reluctance at all. In 1978 - our last year of undisturbed recruitment, if I can put it that way - we made a special effort to improve considerably on our success rate in the previous years, and indeed we did make that improvement. We went on in the following year to launch a completely new competition to bring in executives for the first time. I said we had been knocked off course by the changes. We will get back on course as soon as we possibly can, but we do need to see precisely where we are going before we can judge how best we can offer attractive posts to suitably qualified people from outside. There is no lack of will. I do not want you to think for one moment that the Civil Service is at all reluctant to meet the wishes of the Prime Minister; that is not the case.

Mr Beaumont-Dark

763. What kinds of jobs are they being recruited for? When you try to recruit and you put advertisements in do they say, "Come to us and let us change you", or, "Come to us and you change us"?

(Sir John Herbecq) We tried at an early stage to advertise generally opportunities in the Civil Service. We came

to the conclusion when we had rather poor results in 1977 and 1978 that we might do better if we gave specific indications of the type of job we were recruiting for. We do not want to carry it too far because we do not want to have somebody so specialised that he is locked into a very narrow area of official requirements and has not some reasonable prospect of going on to a full career. But we did advertise particular jobs in 1978 and I think this was a factor in improving the response and getting a better list of good candidates, but the direct entry principals are widely spread over the whole Civil Service, and indeed one of my colleagues with me this afternoon came in as a direct entrant.

764. Are these direct entrants going to fill administrative jobs or specialist jobs within departments?

(Sir John Herbecq) They are ordinary administrative jobs in the sense they are jobs which we grade as principals' jobs as opposed to specialist jobs in the scientific, technical and professional fields.

765. If you can get a lot more do you think it would be a useful thing if people came for five or six years?

(Sir John Herbecq) Yes; we believe it is right to do so. We welcome people in for quite short attachments and then send them out. The attachment can range from only a few months to a few years. At the end of last year we had something like 100 Civil Servants serving on short attachments and gaining experience outside and we had a rather smaller number of people coming in to gain experience inside. We had something like 50 serving in the Service. We have put a good deal of work into that. That is much larger than it was a few years ago. We are anxious to gain experience and to get people in from outside.

766. Do those who have gone into industry come back or once they have tasted freedom do they tend to stay out?

(Sir John Herbecq) We try to have what I might call a no-poaching agreement with the firms with whom we exchange. There is a very wide range of firms; we have something like 100 who have sent us people or taken people from us over the last three years. The great majority have returned home, but we do suffer the odd loss.

767. Do you find them better for it, if you can measure it?

(Sir John Herbecq) In general, yes. We would not be putting an effort into it if we did not think it was experience of value and was worth having.

Mr English

768. When you are knocking out a grade in the Civil Service are you going to do anything about what the previous head of the Civil Service called "creeping upgrading" caused by the undue compression of the top grades? Can we not get back to the days when a deputy secretary was deputy to a permanent secretary and not a permanent secretary acting as deputy to another permanent secretary, and on the other side will the reduction in numbers injure your plans to increase the number of professionals, of which you are very short, like accountants?

(Sir John Herbecq) If I might take the first question, we are concerned to keep tight grading standards. This is something we are working away at. There is an inevitable tendency for grade drift to take place and for the level of work to drift up higher than it ought to go. We will keep working away at that and we will put increased effort into it to get decisions taken at the lowest practicable level and to get work dealt with at the most practicable level. There is every reason to think that part of the exercise we will be running is to see if we can give it an extra push. Would you remind me of the second question?

769. I said it was partly caused by the underpay of top ranks, but will the reduction in numbers - a 10% cut - hinder the increase in professional staff? For example, you are short of accountants.

(Sir John Herbecq) It is difficult to give a totally unqualified assurance that we will take just as many accountants in against the Civil Service size of 630,000 as we would have done with a Civil Service of 750,000, and it is something you can never prove, but if I may be as forthcoming as I think I ought and should be, we have retained a strong desire to increase the number of accountants we have; we see a real need for them in many areas of work. I know that in the Ministry of Defence there is a great determination to increase the number of accountants. I mention that by way of illustration only. I am pretty confident that even against the background of the Civil Service reducing in size we will see a larger number of accountants employed in the Service four or five years from now than we have today.

Chairman: Sir John, it only remains for me to thank you for your helpfulness in coming before the Committee.

file 26

Robinson.

SIR ROBERT ARMSTRONG

I have shown your minute A02229 of 21 May 1980 to the Prime Minister.

She agrees that you should accept the invitation to appear before the Select Committee on the Treasury and the Civil Service Department to give evidence to them as part of their inquiry into the role of the Civil Service Department, and she is content with the line you are proposing to take, as set out in paragraph 3 of your minute. She believes, however, that you should make it clear to the Select Committee that you are giving evidence in a personal capacity and are in no way representing either her views or those of the Government as a whole.

(Am)

27 May 1980

1.
PRIME MINISTER

The attached minute from Sir Robert Armstrong asks you to agree that he should respond to a summons from the Select Committee on the Treasury and the Civil Service Department to give evidence on 18 June on the role of the CSD.

I think that Sir Robert Armstrong is right in his view that he should not decline the invitation to appear before the Select Committee: if he were to refuse to give evidence, this would lead - as I know from my own experience with the old Expenditure Sub-Committee on Trade and Industry - to a running battle which the Government would probably lose in the end. But if Sir Robert Armstrong does give evidence, I think that he should make it clear to the Select Committee that he does so wholly in a personal capacity, as Sir John Hunt did in 1977, and is in no way representing either your views or those of the Government as a whole. If he does not give evidence on that basis, your position is likely to be misunderstood and the confidential inquiry into the future of the CSD which you have ordered might well be prejudiced.

Do you agree that Sir Robert Armstrong should be allowed to appear before the Select Committee and that he should do so on the basis I have suggested above? *Yes*

If you agree that he should give evidence, do you want to see him before he appears, to discuss in further detail the line he proposes to take? *No*

J.M.S.

21 May 1980

amb

Ref. A02229

MR. WHITMORE

As you know, the Select Committee on the Treasury and the Civil Service Department is conducting an inquiry into the role of the Civil Service Department in Whitehall, its relationship with the Treasury in the management of the Civil Service and its effectiveness and future - its effectiveness having been called into question in recent weeks. I have been asked to give evidence to the Committee on this subject on Wednesday, 18th June. I understand that this invitation does not foreshadow an investigation by the Committee of the Cabinet Office, but is rather an invitation to me as somebody involved at the centre of Government.

2. In a sense I have no direct standing in this matter, and should prefer not to have to give evidence, particularly when the matter is under review on the Prime Minister's instructions. But I think that it is impossible for me to get out of it, given that Sir John Hunt, when he was Secretary of the Cabinet, gave evidence on exactly this subject to the Select Committee on Expenditure in 1977. Given that precedent, I do not think that I should try to decline the invitation. I should be grateful if you could let me know whether the Prime Minister is content for me to accept it, and to give evidence accordingly.

3. In his evidence to the Select Committee on Expenditure, Sir John Hunt said that his view was that the manpower divisions of the Civil Service Department should be brought together with the public expenditure divisions of the Treasury into a new "Bureau of the Budget", which would be a separate Department from the Treasury, and would be responsible for the control of public expenditure and Government manpower. I shall say that I share Sir John Hunt's view that the manpower divisions of the Civil Service Department should be brought together into one organisation with the public expenditure divisions of the Treasury; but I shall say that I do not share his view that the resulting amalgamation should be in a separate Department, but that I consider that it should be within the Treasury, with a Cabinet Minister (the Chief Secretary) as the Minister in day-to-day charge.

4. I understand that the Committee also propose to summon Sir Ian Bancroft.



ROBERT ARMSTRONG

21st May, 1980

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Charge to W/T No. 2603

PROOF: IN CONFIDENCE UNTIL PUBLISHED Ev. 6

HOUSE OF COMMONS
MINUTES OF EVIDENCE
TAKEN BEFORE
THE TREASURY AND
CIVIL SERVICE
COMMITTEE

MONDAY 19 MAY 1980

Evidence heard in Public

Questions 584-689

✓ Sir JOHN HERBECQ, KCB, ✓ Mr R W L WILDING, CB, ✓ Mr E BROADBENT, CB, CMG,
✓ Mr N H CALVERT, Mr P D DAVIES, Mr N E CLARKE
and Mr J F BOYD

MEMBERS' CORRECTIONS

Any Member of the Committee who wishes to correct the Questions addressed by him to a Witness is asked to send the corrections to the Committee Clerk as soon as possible.

Members receiving these Minutes of Evidence are asked to ensure that the Minutes are confined to the object for which they are printed—the special use of the Members of the Committee—and are not given wider circulation.

MONDAY 19 MAY 1980

Members present:

	Mr Edward Du Cann, in the Chair
42	Mr Anthony Beaumont-Dark
44	Dr Jeremy Bray
46	Mr Timothy Eggar
48	Mr Michael English
50	Mr Terrence Higgins
	Mr Robert Sheldon
	Mr Richard Shepherd
	Mr Richard Wainwright
	Mr Ken Woolmer

CIVIL SERVICE MANPOWER NUMBERS

Memorandum by the Civil Service Department

1. The Sub-Committee asked for a note explaining how manpower numbers have changed since May 1979, and how the various announced cuts are to be set against forecast levels of growth.

Estimates provision for Civil Service Manpower

2. Estimates provision for Civil Service manpower is made in financial terms. The underlying manpower levels are settled by the Civil Service Department in conjunction with departments, and an estimate of the staff provided for at the start of the financial year is shown against each Vote. These figures, together with the staff of the Trading Funds for which Estimates are not presented, are also set out in the annual Memorandum by the Chief Secretary to the Treasury. The Estimates provisions are maxima, and it is normal for the number of staff in post to be below the number provided for.

3. The number of staff provided for in the original Main Estimates and in the Trading Funds for 1979-80 and for 1980-81 are as follows:

	1979-80		Average
	1 4 79	1 4 80	
Non-Industrials	573,000	579,000	576,000
Industrials	167,000	169,000	168,000
Total	740,000	748,000	744,000
	1980-81		Average
	1 4 80	1 4 81	
Non-Industrials	554,000	559,000	556,500
Industrials	158,000	156,000	157,000
Total	712,000	715,000	713,500

A departmental analysis of the 1980-81 figures is given in the Appendix to this paper.

4. There is hence a reduction of 30,500 in the average provision for staff in 1980-81, as compared with the original average manpower provision for 1979-80. The following factors have been taken into account in determining the staff provision for 1980-81:

(a) The carrying forward into 1980-81 of the reduction of 3 per cent in the volume of Civil Service manpower costs for 1979-80 announced on 22 May 1979 and incorporated in the cash limits published in Cmnd 7604 (equivalent to about 20,000 posts).

rom

(b) Those of the reductions from this lower 1979-80 level announced on 6 December 1979 which are to be made in 1980-81 (equivalent to about 12,000 posts). This is the first stage in the total programme of reductions equivalent to some 39,000 posts announced at that time. This first stage has been largely offset by increases equivalent to about 11,500 posts in particular departments, mainly to cope with increased benefit payments, and to provide additional staff in prisons, and on police support and immigration work.

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19 May 1980]

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(c) A run-down of staff in 1979-80 over and above that required by the 3 per cent reduction (a. above) which is being carried through into 1980-81, equivalent to an average of about 10,000 ~~costs~~. The main reason for this has been the inability of departments to recruit the staff they need. In arriving at this figure of 10,000 an allowance of 3,000 posts has been made in the expectation that it will be possible to make good some of the deficiencies during 1980-81; this should be seen in the context of a staff turnover that may reach 80,000 in the year.

Staff in post since April 1979

5. It is long standing Civil Service Department practice to collect information about the numbers of staff in post in departments quarterly on 1 April, 1 July, 1 October and 1 January. Figures for other months of the year are not held centrally. The position since 1 April 1979 is as follows:

	<i>Non-Industrials</i>	<i>Industrials</i>	<i>Total</i>
1 April 1979	566,000	166,000	732,000
1 July 1979	560,000	164,000	724,000
1 October 1979	552,000	160,000	712,000
1 January 1980	549,000	159,000	708,000
1 April 1980	548,000	157,000	705,000

The 2½ per cent reductions

6. The number of staff provided for in 1980-81 (see paragraph 3) does not allow for the reduction in manpower costs averaging 2½ per cent over most departments announced on 14 March by the Minister of State, Civil Service Department. The purpose of this cut, which amounts in cash terms to about £95 million, is to require Departments to reduce the volume of their manpower costs to that extent. The resulting saving will then be available, in addition to the global cash limited sum (Class XIII, 31), to finance the 1980 pay settlements. In making this saving, departments will be taking into account such questions as the amount of overtime working and the pace at which particular reductions can be made. It is not therefore possible to be precise about the effect of this cut in terms of posts or of the distribution between industrials and non-industrials but we expect it to mean a reduction of at least 15,000 in the average provision of 713,500 originally made for 1980-81—see paragraph 3.

7. To summarise, the total average staff provision for 1980-81 is 713,500, which reflects the combination of factors set out in paragraph 4. Had the offsetting increases mentioned in paragraph 4(b) not been necessary, the provision would have been of the order of 702,000. The financial provision which reflects the average staff provision is now being cut by 2½ per cent before being increased to take an account of the 1980-81 pay settlements; since this saving is expressed in terms of costs, its effect on staffing levels cannot be precisely quantified. It will however mean that the total staff numbers will continue to decline.

8. The present level of staff in post is 705,000—1.2 per cent below the average provision for 1980-81. Without the application of the 2½ per cent cut, it would probably have risen in the course of the year on the assumption of some easement in recruitment difficulties. Now that the 2½ per cent cut has been applied, it is expected to continue to fall, and should reach a level well below 700,000 by the end of the financial year.

Civil Service Department
Whitehall
London SW1A 2AZ

2 May 1980

19 May 1980]

[Continued

APPENDIX

153

Staff of Central Government Departments: Departmental Analysis

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Ministerial responsibilities
and departmentsNumber of staff provided
for in Supply Estimates

1 April 1980

1 April 1981

	Number of staff provided for in Supply Estimates	
	1 April 1980	1 April 1981
*CABINET OFFICE	614	613
AGRICULTURE, FISHERIES AND FOOD		
Ministry of Agriculture, Fisheries and Food	13,820	13,963
Intervention Board for Agricultural Produce	588	588
CHANCELLOR OF THE DUCHY OF LANCASTER		
Office of Arts and Libraries ¹	40	27
Victoria and Albert Museum	624	619
Science Museum	500	495
CHANCELLOR OF THE EXCHEQUER		
Treasury	1,084	1,074
Customs and Excise	27,650	27,750
Inland Revenue	79,580	79,588
Department for National Savings	10,442	10,082
Exchequer Office, Scotland including Lord Lyon and Warden of Regalia	65	65
National Investment and Loans Office ²	74	68
Registry of Friendly Societies	120	120
Royal Mint	1,372	1,372
Treasury Solicitor	458	447
EDUCATION AND SCIENCE		
Department of Education and Science	2,625	2,515
EMPLOYMENT		
Department of Employment	22,126	25,499
Health and Safety Commission/Executive	4,165	4,100
Manpower Services Commission (including its Divisions)	25,332	24,572
Advisory Conciliation and Arbitration Service	780	731
ENERGY		
Department of Energy	1,305	1,310
ENVIRONMENT		
Department of Environment (including Property Services Agency)	45,486	43,909
Supplies Division (Property Services Agency)	3,315	3,205
Department of Transport	14,036	14,185
Ordnance Survey	3,550	3,588
FOREIGN AND COMMONWEALTH		
Foreign and Commonwealth Office	6,890	6,936
Government Communications Headquarters	1,767	1,767 1774
Passport Office	970	1,004
Overseas Development Administration	2,253	2,405
HOME		
Home Office	34,726	36,227
INDUSTRY		
Department of Industry	9,330	9,128

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126

MINUTES OF EVIDENCE TAKEN BEFORE THE

19 May 1980]

[Continued

APPENDIX—Continued

Ministerial responsibilities and departments	Number of staff provided for in Supply Estimates	
	1 April 1980	1 April 1981
LORD CHANCELLOR		
Lord Chancellor's Department	10,125	10,400
Land Registry	5,990	5,890
Public Trustee Office	330	315
Public Record Office	430	430
LORD PRESIDENT OF THE COUNCIL		
Civil Service Department	3,371	3,348
Civil Service Catering Organisation	1,860	1,950
Central Office of Information	1,226	1,195
*HM Stationery Office	6,445	6,655
Parliamentary Counsel	44	44
Government Actuary	62	66
NORTHERN IRELAND		
Northern Ireland Office	258	258
PAYMASTER GENERAL		
Paymaster General's Office	923	941
SCOTLAND		
Scottish Office	10,953	10,861
Scottish Courts Administration	860	890
General Register Office, Scotland	365	376
Registers of Scotland	476	555
Royal Scottish Museum	177	177
Scottish Record Office	139	139
SOCIAL SERVICES		
Department of Health and Social Security	95,829	97,686
Office of Population Censuses and Surveys	2,698	2,729
TRADE*		
Department of Trade	7,203	7,271
Export Credits Guarantee Department	2,040	1,959
Office of Fair Trading	349	334
WALES		
Welsh Office	2,505	2,505
SMALL DEPARTMENTS		
Charity Commission	344	344
Civil Service Pay Research Unit	91	91
Crown Estate Office	119	119
Director of Public Prosecutions	218	232
Law Officers' Department	22	22
Lord Advocate's Department	23	23
Privy Council Office	40	39
Crown Office and Procurator Fiscal Service	813	858
DEFENCE		
Ministry of Defence	218,385	215,893
*Royal Ordnance Factories	21,725	22,100
TOTALS	712,125	714,654

*Staff paid from a Trading Fund for which there are no Estimates.

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19 May 1980

[Continued]

Footnotes

*Office of Arts and Libraries set up with effect from 1 September 1979 and took over responsibility for the Victoria and Albert Museum and Science Museums from the Department of Education and Science.

*Set up with effect from 1 April 1980 and comprises the former National Debt Office and Public Works Loans Board.

*Functions of the Department of Prices and Consumer Protection transferred to the Department of Trade with effect from 1 June 1979. Ministerial responsibility for the Office of Fair Trading was transferred to the Secretary of State for Trade at the same time.

General Notes

Figures for 1 April 1980 are as published in Table 6A of the Memorandum by the Chief Secretary to the Treasury on the Supply Estimates, 1980-81 (CMND 7869) and are repeated for ease of reference.

THE CIVIL SERVICE: DEFINITIONS AND MANPOWER NUMBERS

Memorandum by the Civil Service Department

At their hearing on 19 March, the Sub-Committee of the Treasury and Civil Service Committee sought details of the work undertaken by CSD on the most appropriate current definition of a civil servant, and estimates of the apparent size of the UK Civil Service that would result if alternative definitions were used (Q521-526).

Definitions of a Civil Servant

2. The Tomlin definition describes civil servants as "those servants of the Crown other than holders of political or judicial offices, who are employed in a civil capacity and whose remuneration is paid wholly and directly out of monies voted by Parliament". The key feature of the Tomlin definition, therefore, is that it covers only the staff of bodies funded directly off the face of the Parliamentary Vote. It should be borne in mind that the Tomlin definition, was formulated in 1931 and that it has been rendered obsolete by the subsequent course of administrative innovation founded on Statute. Accordingly, it excludes civil servants working for the MSC, HSE and ACAS (bodies funded by grant-in-aid, employing in all some 30,000 staff) and those working in bodies financed by trading funds (rather over 32,000 staff in the ROFs, HMSO, PSA Supplies and the Royal Mint). Thus were the Tomlin definition now employed for such purposes as the Manpower count, the Civil Service would appear to be smaller by the 60,000 or more civil servants who would not thereby be counted.

3. The *Superannuation Act 1972* simply authorised the Minister for the Civil Service to make, maintain and administer pension schemes for persons in employment in "the Civil Service of the State" or in an employment, or in an office, listed in Schedule 1 to the Act. The Act authorised the Minister to add to this list, and a statement of all the employments or offices to which the main scheme (the Principal Civil Service Pension Scheme) now applies or has applied is at Annex A. The Act does not define "the Civil Service of the State" and it does not therefore provide a means of determining who is or is not a civil servant.

4. Most civil servants are pensionable under the Scheme. Some, for example those who are pensionable under other pension schemes (e.g. the Teachers' Scheme or FSSU), are not. On the other hand, some non-civil servants, such as the staff of the Trustee Museums, are. The *Superannuation Act* does not, therefore, provide a self-standing definition of a civil servant and neither the Act nor the criterion of pensionability under the Principal-Civil Service Pension Scheme provides a basis for counting the number of employees in the Civil Service.

The Manpower Count

5. The bodies covered by the Manpower Count are indicated in Tables 1 and 2 of Civil Service Statistics 1979 (copies of which were provided to the Committee on 14 January 1980). The Count covers members of the Home Civil Service and the Diplomatic Service only and excludes the Overseas Civil Service (of negligible size), the Northern Ireland Civil Service (34,000), the Northern Ireland Court Service (600) and the Forestry

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MINUTES OF EVIDENCE TAKEN BEFORE THE

19 May 1980

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Commission (8,000). These bodies are referred to in paragraphs 7 and 8 of Annex B. Since 1972, the Manpower Count has excluded the staffs of the Office of the Parliamentary Commissioner for Administration and of the Exchequer and Audit Department. The staff of these Offices are civil servants, but since they are employed in support of independent statutory office-holders, crown they are excluded from the Count. This is consistent with the separate description of these Offices in the Chief Secretary's Memorandum laid annually before Parliament.

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*Civil Service Status*87
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6. A working procedure for identifying whether a particular public servant is a civil servant or not is described in paragraph 6 of the paper at Annex B. This paper summarises the position as regards the difficult problem of deriving a definition of a civil servant from the complex and uncertain interrelation of Statute, Prerogative, judicial *dicta*, and administrative practice. The working procedure in paragraph 6 of Annex B is not a legal definition of general application, since the law provides none. But it is one which might be found acceptable by the Courts, should a general definition ever be a point of contention.

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*Summary*95
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7. Neither the Tomlin definition nor the criterion of pensionability provide a satisfactory basis upon which to measure the size of the Civil Service. It is clear that the former would exclude a large number of people who are undoubtedly civil servants; the latter would exclude some civil servants and would also include a number of people who equally clearly are not civil servants. Over much the greater part of the field there is no doubt about who is or is not a civil servant, but no single formula provides a satisfactory definition.

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Civil Service Department
Whitehall
London SW1A 2AZ
16 May 1980

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SUPERANNUATION—PRINCIPAL CIVIL SERVICE PENSION SCHEME

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Employments or offices to which the PCSPS applies

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Employment or office

*PCSPS applies to employment
starting ending
on or after on or before*

*Statutory
authority*

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i. Museums and Galleries

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British Museum
British Museum (Natural History)
~~British War Museum~~
Imperial War Museum
London Museum
National Gallery
National Maritime Museum
National Portrait Gallery
Tate Gallery
Wallace Collection
National Gallery of Scotland
National Museum of Antiquities of
Scotland

Decided always to have applied

Superannuation
Act 1972—
Schedule 1

19 May 1980]

[Continued

SUPERANNUATION—PRINCIPAL CIVIL SERVICE PENSION SCHEME—Cont

111	Employments or offices to which the PCSPS applies			
112	Employment or office	PCSPS applies to employment starting on or after	ending on or before	Statutory authority
113	ii. Royal Commissions and other Commissions			
114	Royal Fine Art Commission	} Deemed always to have applied		} Superannuation Act 1972— Schedule 1
	Royal Fine Art Commission for Scotland			
	Historical Manuscripts Commission			
	Standing Commission on Museums and Galleries			
	Royal Commission on Historical Monuments (England)			
	Royal Commission on Ancient and Historical Monuments (Wales and Monmouthshire)			
	Royal Commission on Ancient and Historical Monuments for Scotland	1 August 1974	Continuing	SI 1975 No. 599
115	Royal Commission on the Distribution of Income and Wealth			
116	National Incomes Commission	Deemed always to have applied	9 April 1965	Superannuation Act 1965— Schedule 8
117	Commission on Industrial Relations	1 March 1969	31 July 1974	SI 1969 No 665 SI 1971 No 1648
118	Commission for Racial Equality	28 April 1977	Continuing	Race Relations Act 1976
119	Manpower Services Commission	25 July 1973	Continuing	Employment and Training Act 1973
120	Monopolies Commission	1 January 1949	25 July 1973	SI 1969 No 349
121	Equal Opportunities Commission	29 December 1975	Continuing	Sex Discrimination Act 1975
122	iii. Other bodies			
123	Council for Technical Education and Training for Overseas Countries	Deemed always to have applied	1 March 1972	} Superannuation Act 1965— Schedule 8
	Inter-University Council for Higher Education Overseas	Deemed always to have applied	1 April 1971	
124	National Economic Development Council	} Deemed always to have applied		} Superannuation Act 1972— Schedule 1
	National Library of Scotland			
	Public Works Loan Board			
	Scottish Land Court	25 October 1968	Continuing	Gaming Act 1968
125	Gaming Board for Great Britain	6 April 1977	Continuing	Health Services Act 1976
126	Health Services Board	8 December 1965	28 April 1977	Race Relations Acts 1965, 1968 and 1976
127	Race Relations Board			SI 1965 No 1285 and SI 1967 No 571
128	National Board for Prices and Incomes	9 April 1965	22 March 1973	SI 1965 No 2092
129	Rent Tribunals	18 December 1965	Continuing	Employment and Training Act 1973
130	Employment Services Agency	25 July 1973	Continuing	Police Act 1976
131	Training Services Agency			
132	Police Complaints Board	8 December 1976	Continuing	
133	iv. Offices			
133	Receiver for the Metropolitan Police District	} Deemed always to have applied		} Superannuation Act 1972— Schedule 1
	Falkland Macer			
	Crown Solicitor for Northern Ireland		1 January 1974	
134	Assistant Chancery Registrar	1 June 1972	Continuing	SI 1975 No 338

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MINUTES OF EVIDENCE TAKEN BEFORE THE

19 May 1980]

[Continued

SUPERANNUATION—PRINCIPAL CIVIL SERVICE PENSION SCHEME—Cont

137	Employment or offices to which the PCSPS applies			
138	Employment or office	PCSPS applies to employment starting	ending	Statutory authority
		on or after	on or before	
139	Chairman of the Parole Board	1 March 1974	Continuing	SI 1975 No 599
140	Lord Lyon King of Arms	1 July 1979	Continuing	SI 1979 No 1540
141	Lord Clerk and Keeper of the Records of Court and Office of Lyon King of Arms	1 July 1979	Continuing	SI 1979 No 1540

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ANNEX B

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FURTHER NOTE ON CIVIL SERVICE STATUS

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*Introduction*145
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1. While it is normally clear whether or not staff are civil servants, from time to time uncertainties arise about the status of a given group. The purpose of this Annex is to provide a brief and up-to-date account of current thinking on the subject, to describe the problems which accompany any attempt at a comprehensive definition, and to indicate where the boundaries are clear and where they are not. It is not a map—it is a guide.

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2. There is, in law, no general definition of what constitutes the Civil Service or a civil servant. In 1931 (following the course adopted by the MacDonnell Commission of 1912-15) the Tomlin Commission took as a working definition, "those servants of the Crown, other than holders of political or judicial offices, who are employed in a civil capacity, and whose remuneration is paid wholly and directly out of monies voted by Parliament". This working definition was also adopted by the Fulton Committee in 1968. Because certain organisations whose staff are civil servants are currently financed by Trading Funds or by grant-in-aid (e.g. the Manpower Services Commission), that working definition is now out-of-date. In 1977, the Expenditure Committee recommended that "an agreed definition of civil servant which would continue to be applicable irrespective of such changes (e.g. the creation of the Manpower Services Commission) in organisational structure should be worked out . . .". The Government's response stated that no definition could be drawn up which was impervious to structural change of all kinds.¹ But it is possible to advance certain general propositions which assist in defining the boundary of the Civil Service.

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*The Crown*170
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3. It is clear that a person cannot be a civil servant unless he is a servant of the Crown.² There is no doubt that those serving in ministerially headed departments are Crown servants. Those who serve a non-ministerially headed Crown body (including a single Crown office holder) will also be Crown servants. The question of whether a particular body or office holder has Crown status can be difficult. More modern statutes will include a declaratory provision as to the status of a body created by the statute if the status would otherwise be unclear. But in the absence of such a declaratory provision or a clear court decision on status, there can be uncertainty as to whether a particular body does or does not enjoy Crown status. In such cases reference has to be made to such indicators as, for example, the functions performed by the body in question and how it is financed. But no single indicator is necessarily conclusive, nor are the indicators of equal weight. Each case therefore has to be considered individually.

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*Crown Servants other than Civil Servants*186
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4. Not every person in the service of the Crown is a civil servant and accordingly it does not follow that every person serving the Crown is caught by legislation which refers to the "Civil Service of the State". Some of these fall into distinct groups:

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¹Eleventh Report from the Expenditure Committee Session 1976-77, HC535, Vol 1 Appendix Paragraph 7.

²The Civil Service: Government observations on the Eleventh Report from the Expenditure Committee Session 1976-77, HC535, Paragraph 109.

³In this paper "servant of the Crown" and "Crown servant" are used to signify persons who are in the service of the Crown, irrespective of whether there is a master/servant relationship between the Crown and them.

19 May 1980] - - -

[Continued

- (a) servants of the Crown in a personal capacity paid from the Civil List (The Royal Household);
- (b) the holders of Ministerial offices paid under the Ministerial and Other Salaries Act 1975;
- (c) the holders of judicial offices (e.g. as specified in Schedule 1 to the House of Commons Disqualification Act 1975); and
- (d) members of the Armed Forces.

It is clear that members of these groups, although certainly persons serving the Crown, are not civil servants, and different provision is therefore made in each case for their terms and conditions of service.

5. In addition to those mentioned in paragraph 4b. and c., there are other Crown servants who hold individual offices to which they are appointed by the Crown: they are normally referred to as "Crown Office holders".¹ Some of these Crown office holders are not civil servants, e.g. the Parliamentary Commissioner for Administration, and the Comptroller and Auditor General. But others are civil servants e.g. the Chairman, Deputy Chairman and Commissioners of Inland Revenue and the Civil Service Commissioners. Again, there are a number of indicators of status which must be scrutinised carefully, in particular whether the terms and conditions of service of the office holder are unique to his office or are shared with members of one of the services mentioned below. Direct appointment by the Crown does not determine whether an office holder is or is not a civil servant.

219. Civil Servants

6. Leaving aside those Crown office holders who are not civil servants (and the other Crown servants listed in paragraph 4), there remains the general body of Crown servants performing functions in a civil capacity ultimately on behalf of the Crown but more immediately on behalf of a Minister or other Crown office holder or Crown body. It is at this point that we can produce a working definition of a civil servant by describing him as:

"A servant of the Crown, working in a civil capacity, who is not

- (i) the holder of judicial or political office;
- (ii) the holder of certain other offices in respect of whose tenure of office special provision has been made;
- (iii) a servant of the Crown in a personal capacity, paid from the Civil List."

Examples of (ii) include the Comptroller and Auditor General and the Parliamentary Commissioner for Administration [those who fall within this description do not constitute a monolithic block. They comprise the services referred to, but not defined, in statute (the House of Commons Disqualification Act 1975), and other groups of staff with identifiably separate and self-contained terms and conditions of service, such as the Forestry Commission.

7. The services mentioned by name in statute are the Home Civil Service, the Diplomatic Service, the Northern Ireland Civil Service, the Overseas Civil Service and the Northern Ireland Court Service. By far the largest of these is the Home Civil Service and this may account for the fact that the expression Home Civil Service and Civil Service are sometimes used inter-changeably; but this is inaccurate and, though it serves well enough in many contexts, it may be misleading when precision is required. It is wholly clear from the House of Commons Disqualification Act 1975, for example, that in that Act the Civil Service of the Crown includes these separate services.

8. There are other groups of staff acting in a civilian capacity within the Crown boundary which are distinguishable from these separate services. The staff in these groups may not generally be regarded as civil servants, but it is likely that a court would conclude

¹It should be noted here that the Crown makes a wide range of appointments but many of these are not Crown offices, that is to say the appointee, although appointed by the Crown, does not perform his duties on behalf of the Crown. For example, the Crown appoints the Governors of the BBC, which is not a Crown body. An important feature of appointments of this kind is that the holder operates independently of the Crown.

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MINUTES OF EVIDENCE TAKEN BEFORE THE

19 May 1980]

[Continued

250 that they were civil servants in law and that they would accordingly be caught by
251 legislation which referred to the Civil Service of the Crown, e.g. the House of Commons
252 Disqualification Act 1975. One example is the staff of the Forestry Commission which
253 was, until 1959, regarded as a non-Crown body. Since then, legal advice has been that the
254 Forestry Commission is a Crown body and that its staff must therefore be regarded as
255 being civil servants, but there are differences between them and members of the Home
256 Civil Service (they have different terms and conditions of service) and the staff of the
257 Forestry Commission constitute a separate service.

258 *Summary*

259 . 9. There may be occasions when it is not easy to determine whether an individual or a
260 particular group of staff are civil servants and, if so, to which service they belong. The first
261 question to be answered is whether or not they are in Crown Service (which follows, in the
262 case of a group of staff, from serving a Crown body). Secondly, a view must be taken on
263 whether the staff are included in the categories listed in paragraph 4 of those Crown
264 servants who are not civil servants. A further step, in the case of Crown office holders not
265 falling within paragraph 4, is to examine the various statutory and other indicators to
266 determine whether or not they are also civil servants. Having established that the group
267 appear to be civil servants (in a general sense) the final step is to ascertain whether they
268 fall within one of the services expressly recognised by statute or whether it is necessary to
269 regard them as forming a separate service. Uncertainties can arise at any point in the
270 exercise because there is no legal definition of the civil service and there is a dearth of
271 court rulings in this area. Nonetheless such uncertainties do not give rise to doubt about
272 the status of the vast majority of staff, because it is normally quite clear whether or not
273 they are civil servants.

Examination of Witnesses

Sir JOHN HERBECQ, KCB, Second Permanent Secretary, CSD, Mr R W L WILDING, CB,
Deputy Secretary, CSD, Mr E BROADBENT, CB, CMG, Deputy Under Secretary,
Ministry of Defence, Mr N H CALVERT, Director General, Organisation and
Establishments, Department of the Environment, Mr P D DAVIES, Under Secretary,
Property Services Agency, Mr N E CLARKE, Under Secretary, Department of Health
and Social Security, and Mr J F BOYD, Deputy Secretary, Board of Inland Revenue,
called in and examined.

Chairman

584. May I welcome you, Sir John, and your colleagues to this meeting of the Committee. We thought it right to ask you and senior representatives of the four major departments because those departments account for two-thirds of the whole Civil Service, industrial and non-industrial strength together, and indeed over 80 per cent of the industrial Civil Service alone. It follows, if the Prime Minister's target of 630,000 is to be achieved then the major savings will be made from those departments and we thought a discussion would be sensible at this very early stage. I understand that you would like to make an opening statement. Would you care to make that now and then we can discuss how we will proceed?

(Sir John Herbecq) I thought perhaps I might make a brief statement relating the

intended reduction in the size of the Civil Service to 630,000 by 1 April 1984, as announced by the Prime Minister last week, to the cuts previously announced by the Government. The position we had reached immediately before last week's statement was set out in the memorandum submitted to the Committee by my department on 2 May, and perhaps I might take that as my starting point. We explained in that memorandum that the cuts already announced would reduce the level of staff in post to a figure well below 700,000 by the end of the current financial year. We cannot quote a precise figure, but we think it might be in the range 690-695,000. The memorandum explained (in paragraph 4.b.) that this reduction took account of the first instalment, equivalent to about 12,000 posts, of the reduction of some 39,000 posts announced on 6 December last, thus leaving

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19 May 1980]

Sir JOHN HERBECQ, KCB, [Continued
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

some 27,000 to come in later years. In finding the reductions they were due to make in 1980-81 however which now include the 2½ per cent cut announced on 14 March this year, departments are free to bring forward into this year any of the items in the 27,000 originally scheduled for later years if they find that to be the most effective way of reaching their targets. We do not yet know how far they may wish to do this, but I may assume for purposes of illustration that they do so to the extent of 5,000 posts. The following position will result: the balance to be found in later years would be reduced on that basis from 27,000 to 22,000. I said just now that we think the figures for staff in post on 1 April next year, 1981, may be in the range of 690-695,000. So if the remaining reductions from the 6 December statement then amount to 22,000, that would get us down to 668-673,000—perhaps I could call that 670,000—or 35,000 below the figure for staff in post on 1 April this year. The Prime Minister's statement of last week would therefore mean on this basis that a further 40,000 reduction remained to be found over the 3 years to 1984, beyond 1981. Some part of this—I am afraid I cannot yet put any firm figure on it—will come from the studies and reviews in particular departments to which reference was made in the 6 December statement. The balance of it will be new savings. But I am afraid that it is rather more complicated a picture than that—I am sorry these figures are perhaps not completely easy to follow. We cannot assume that, apart from the changes that will be made to achieve these reductions, nothing will alter over the next four years which affects the amount of work falling on the Civil Service and therefore, quite inevitably, staff required. Thus we already know, on the basis of the estimating assumptions for unemployment in the Public Expenditure White Paper, that, subject to any savings which may arise from improvements in efficiency, some 7,000 extra posts may be required in this area in the later years. In drawing up their plans to reduce numbers to 630,000 by 1984 departments know that sufficient flexibility must be built in to cope with unavoidable growth of this kind. That is, the intention is that at the end of the day the figure of 630,000 should be net of any unavoidable growth. As the Prime Minister explained in her statement last week, the Government having established the aim of reducing the Civil

Service to 630,000 over the next four years, all Ministers in charge of departments will now work out detailed plans for achieving this aim by concentrating on essential functions and by making operations simpler and more efficient in their departments. The figure of 630,000 represents a considered judgment by the Government of what is practicable in this way over an extended period. It is not however based on firm plans already worked out—that still lies ahead of us. It follows that, while I and my colleagues are anxious to be as helpful as we can this afternoon, at this very early stage I cannot possibly indicate, except in the most general way, the nature of the new reductions to be made. But, as the Prime Minister has said, the main thrust will be in pursuit of the Government's commitment to a reduction in tasks and to better management.

585. Sir John, the Committee is much obliged to you. The way in which we would like to proceed, if it is agreeable to you, is this: I think the Committee would like to ask you questions about the statement that you have just made in amplification of the Prime Minister's statement of 13 May. Obviously we shall want to put some matters to you about the Prime Minister's statement and not less about those other matters which she covered in answers to questions. She made some important pronouncements, it seems to us in her answers to questions, some of which were of a significance equal to parts of the original statement itself. The way in which we would like to do that this afternoon is to divide our questioning broadly speaking into four sections. If we could take first of all the matter of numbers, about which you have spoken to some extent, then second we would like to go on to the matter of efficiency in the public service in general, and then other matters which the Prime Minister mentioned—one was the chain of demand and lastly the liaison interphase some would say between the Civil Service and industry and commerce. She made a particularly strong statement on that subject which seems to have been very largely overlooked. If you can give us some information on it we will be obliged. Mr Sheldon will lead for us on each of these matters and after he has put a question or two other members of the Committee will no doubt want to come in. I would hope that we would end our proceedings at any rate at

19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,

Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

this session may be we shall want to talk to you again on other occasions at a quarter past six. I hope your colleagues will feel free to comment at any time and by all means let any one of them come forward whenever it seems convenient, but I think probably we will put most of our questions directly to you. Does that suit?

(Sir John Herbecq) Absolutely.

Chairman: We will start with the plain matter of numbers. We want to get the numbers clear in our minds.

Mr Sheldon

586. Thank you for that opening statement, but it is not clear exactly how these numbers are derived with the short time that we had to look at those numbers. Might I put it in a slightly different way, but I hope a comprehensible one, can I put it that we started off on the 1 April 1979 with a figure for the industrial and non-industrial civil servants of 732,000 and it is the intention to reduce this to 630,000—a reduction in total of 102,000. Our task then is to find out how this 102,000 is to be comprised. On the 22 May, there was—last year—announced a 3 per cent cut of 20,000. That is right, is it not?

(Sir John Herbecq) Yes, it was a 3 per cent cut in cash but we estimated that it would amount to about 20,000.

587. Then on the 6 December was announced a further 39,000 over the four year period. This was offset by what was called "unavoidable growth"—a matter which we will be returning to later because it is the price of the future as well as the past, because of increased benefit payments, additional staff in prisons and police support and immigration work. It is not a net 39,000 reduction over those four years—it is 39,000 less 11,500 or about 27,000?

(Sir John Herbecq) Yes, I follow the calculation.

588.—Towards that 102,000 gap we now have 20,000 plus 27,000—a total of 47,000—then because of the 1980 pay settlement, there was a reduction of 15,000 that was announced on 14th March 1980. I am correct in that I think? A further 15,000—that makes a total of 20,000 on the 3 per cent cuts, 27,000 on what was

meant to be the 39,000 cuts but which were later reduced, and 15,000, making a total of 62,000. I am sorry—it is rather tiresome to go over the numbers in this way, but it is clear we must have these figures otherwise it will not make sense of what it is we are trying to achieve. We have the total already announced before the Prime Minister rose to make her statement of 62,000 against the 102,000 further cuts. This is the 40,000 which we are now concerned with—approximately?

(Sir John Herbecq) Indeed. There is inevitably a degree of approximation about these figures but subject to that minor caveat I am absolutely with you.

Mr Sheldon: I am grateful to you. I hope we do not need to return to these rather tiresome details.

Mr Higgins: Could I just check when this 102,000 figure was announced?

Chairman

589. The 102,000 figure was actually never announced in that way, was it? What happened was the Prime Minister took the starting figure as Mr Sheldon has described it and then we have the final figure again as Mr Sheldon has described it of 630,000 over the four year period. That is how the global figure which Mr Higgins has mentioned is made up.

(Sir John Herbecq) That is how I understand it, yes.

Mr Sheldon

590. You now talk about "unavoidable increases". So far as you are concerned, this further 40,000 is going to be gross or net—we had this problem at an earlier stage you will recall?

(Sir John Herbecq) It is intended that it should be net—in other words, to the extent that we do have unavoidable increases, the 40,000 will have to go up to accommodate them.

591. Do you know of any unavoidable increases at this stage?

(Sir John Herbecq) We know of the 7,000 which I mentioned in my statement which arises from forecast growth in unem-

19 May 1980]

Sir JOHN HERBECQ, KCB, [Continued
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

ployment and that 7,000 will be divided between the Department of Employment and the Department of Health and Social Security.

Chairman

592. Are you calculating on the 1.8 million figure that was included in the White Paper or are you taking a higher figure than that?

(Sir John Herbecq) We are taking the White Paper figure.

593. If the figure is higher than that, if it is let us say for the sake of argument 2.2 million—then your 7,000 would have to be increased accordingly?

(Sir John Herbecq) Yes.

Mr Sheldon

594. Can you give us any indication of what the figure might be if it were 2.2 million?

(Sir John Herbecq) I do not think I could do that off the cuff. We would have to go away and look at that.

595. The numbers that you will be reducing in the Civil Service to will be obtained by various elements of efficiency which we will be discussing later but also by a certain amount of living off—giving the jobs to outside contractors, is this so?

(Sir John Herbecq) I said that ministers would now be considering how they were to make the further reductions that are to be made in various ways of improved efficiency, reduced tasks and so on. That is one possibility certainly.

596. What are the total cost savings that you expect to see as a result of this reduction in numbers in the Civil Service?

(Sir John Herbecq) I am not in a position yet to give at all an accurate figure but if I could give you a broad order of saving, we think it might be up to 500 million pounds.

597. That is the whole of the 100,000 saving?

(Sir John Herbecq) That is the additional reduction. I am sorry—in making that calculation, I started from where we are now

rather than where we were last April—April of 1979—but if I may quote you a figure from April 1980, in other words, based on our 705,000, at that time the saving which we will achieve in cash terms by coming down from 705,000 to 630,000 will be we think in very round terms up to 500 million pounds. On top of that, if one is going back to April 1979 there will be a further saving represented by the 27,000 posts which have disappeared in the course of last year.

598. Can you divide these numbers between industrial and non-industrial civil servants?

(Sir John Herbecq) We cannot at this stage because we do not know yet how the savings will fall out between industrials and the non-industrials.

599. There is an important aspect, is there not, here in that the industrials largely produce something for sale which may be in the way of export orders of ships of various kinds or armaments of various kinds? A saving there is not the same as a saving for example at the administrative level?

(Sir John Herbecq) Many of the industrials are engaged in production processes, that is so. Perhaps I could refer to what the Prime Minister said on this question of putting work outside, where she said that the decisions taken there would be commensurate with sound management and good value for money for the taxpayer.

600. What worries me is that Departments under pressure to reduce the number of civil servants might start putting out jobs for contract when there may not be the same financial imperatives to do it. Let me put it another way. A Department could well decide that office cleaning for example is better done within their Department; marginally cheaper, marginally better. Faced with the need to reduce numbers the imperative for the reduction of numbers may be greater than the marginal inefficiency or the marginal expense of putting those tasks out to contract.

(Sir John Herbecq) Departments will certainly need to have close regard to the cost of their operation. They are subject to pressure in terms of their financial resources

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19 May 1980

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

as well as their manpower resources. It is a matter of judgment where they strike the balance but if there was any significant disadvantage in terms of finance, in terms of cost through putting work outside, that I think would not be easily reconciled with the Prime Minister's statement on the subject to which I have just referred.

601. But whereas the pressure for cost savings is always there, the imperative to reduce numbers is a new one.

(Sir John Herbecq) It is a new one perhaps at this level of intensity but I would not want the Committee to think that we have not constantly been pressing Departments on the level of their manpower. It is part of the duty of our Department to do that.

Dr Bray

602. In the case of cleaners and the Ministry of Defence, the Ministry of Defence estimated savings of only 5 per cent of the total wage bill.

(Mr Broadbent) We are in the process of getting tenders to see whether the general study which we have done and which had indicated that there would be savings can be borne out in practice. The evidence that comes in obviously varies from case to case, but the evidence suggests that we will be saving money. It is difficult to quote a figure but I think perhaps it is more than 5 per cent. The cost effect is a complicating factor but the evidence suggests that we will save some money, certainly not anything like the total costs, but it will be a financial saving as well as a saving in numbers.

603. If it was 5 per cent only if similar measures were taken over the full 75,000 reduction Sir John was talking about, that would reduce the savings from 500 million to 25 million.

(Sir John Herbecq) If the entire manpower saving were achieved in that way it would certainly totally alter the general estimate of saving that I made, but we certainly do not expect a large part of the saving to be made in that way.

604. To return to the cleaners for a moment, there would initially be greater costs in the redundancy payments of the

present cleaners, so there would be no saving for the first year of two?

(Mr Broadbent) That depends on the phrasing of the contract, the amount of natural wastage that occurs when people know there is going to be a change. There will be some redundancy payments anyway.

605. And the problem of security clearance in that whereas Civil Service cleaners are subject to a three-month security clearance procedure at the moment even for a cleaner, contract cleaners come in with no security clearance at all; is that correct?

(Mr Broadbent) I think we are satisfied that there is no security problem.

606. Why have cleaners been subject to security clearance in the past?

(Mr Broadbent) I think it varies from area to area. There may be certain special areas but in the generality of the locations we are talking about we do not see any security problems.

607. You see major savings in abolishing security clearance throughout the Civil Service?

(Mr Broadbent) Oh no.

Mr Higgins

608. I wonder, Sir John, if I might take up a particular point in relation to the numbers which Mr Sheldon has already raised to some extent? As I understand it, the objective of the Government through time is to reduce the size of the Civil Service consistent with the job being done properly; is that your understanding?

(Sir John Herbecq) Yes.

609. That being so they are presumably going for the maximum reduction consistent with that and yet at a later stage we are told that in the light of the fact that the Civil Service past settlements exceeded the percentage increase envisaged in the cash limits there would be a reduction, it was announced, I think, on the 14 March, of a further 15,000 people. That is correct, is it not?

(Sir John Herbecq) Yes.

19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

610. What I find puzzling is why in that case that saving was not going to be made, given the original criterion which was set down.

(Sir John Herbecq) The Government have been studying the whole question of the size of the Civil Service since they came into office. ~~The announcement~~ if I could go back one step, the first announcement made was of a 3 per cent reduction very soon after the election, which was partially to finance the pay settlement of 1979, but there was also an immediate start into the operation of reducing the size of the Civil Service. Our second announcement, which was made in December of last year, was the 39,000. I think I am right in recalling that in that announcement it was made clear that that was a stage in that operation but it by no means represented the Government's final word. Further work had been done and the 2½ per cent reduction which was linked with the fixing of the cash limit for 1980/81 ~~had been~~ in reinforcement of the December announcement. There was no suggestion that the December announcement in some sense put a line over this operation and there was a second thought about the first announcement.

611. In that case why was not the 2½ per cent reduction going to be made anyway regardless of the size of the pay settlement?

(Sir John Herbecq) It is always difficult to know what would have happened if events had moved in a different way from the way in which they did move. It is a hypothetical question.

612. This is not hypothetical. If the saving is going to be made it is presumably possible. What I am not clear about is why it was not going to be made anyway. If the saving had been made anyway that could be used as a legitimate means of seeing that the settlement on pay was within the cash limit. Would you agree?

(Sir John Herbecq) With respect, I do not think I would agree with that. We have been looking as a constant operation at what can be done to reduce the size of the Civil Service. At the time the cash limit was fixed, the Government reached the conclusion that it would be possible in various ways by bringing forward savings which might ~~have been~~ made earlier—that

was one way in which it was to be done—~~but~~ a further 2½ per cent or just under could be achieved in 1980/81. That meant that the cash limit which had already been determined could be held and has been held and will be held in the face of a somewhat higher pay settlement than could otherwise have been financed in that way.

613. I would like to come back to the question of bringing the numbers forward, which I think has only been announced this afternoon. As far as I know it has not previously been suggested that the 2½ per cent would be cut by bringing the numbers forward but if the 2½ per cent—i.e. the 15,000 or so saving—could in any way be made why was it not made in any case?

(Sir John Herbecq) I do not think there is an absolute criterion against which one can decide that a saving can or cannot be made.

614. But it is going to be made, is it not?

(Sir John Herbecq) It is going to be made, most certainly. It is in the course of being made but given that it can be made, it did reduce to that extent the level of expenditure on the Civil Service that would otherwise have had to be made.

615. Would it follow from that that every time we reduce the size of the Civil Service that amount of cash saved is available for increasing the amount of pay settlement?

(Sir John Herbecq) Not necessarily.

616: At all?

(Sir John Herbecq) I think this depends how one goes about the determining of the fixing of a cash limit. If a cash limit is going to be fixed at a certain level, it is there to finance two things. One thing is the pay and the other thing ~~is~~ the number of people you employ and there is, to that extent, a trade-off one against the other within a fixed cash limit.

617. But we are already being told these savings in numbers are going to be made; that is a quite separate exercise. Am I to understand there is any question at all of that reduction in numbers and the savings in public expenditure which result from it

19 May 1980

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

being used to increase the amount available for pay settlements?

(Sir John Herbecq) When you say the amount available for pay settlements, I do not think there is any predetermined sum available for pay settlements in future years in that sense. This is something on which the Government has to take a decision when the time comes.

618. Might I come back now to the question which you raised yourself—and I think which has not been previously announced before this afternoon—of saying that some of this 2½ per cent saving, which is to offset the fact that the pay settlement was way above the cash limit, is going to be brought forward from later years? Is that number which is brought forward from later years then to be replaced by corresponding savings in those later years?

(Sir John Herbecq) To the extent that because any part of the 27,000, if I may refer to it as 27,000 leaving on one side for the moment the offset in increases which has been referred to earlier?

619. Yes, sure.

(Sir John Herbecq) To the extent that any part of that which we had earlier thought would fall in the years ~~1980/81~~ onwards is brought forward into ~~1979/80~~, then it will have to be made good by other savings in order to get us down to the figure of 630,000 which has now been announced.

620. So the fact that it is brought forward does not mean that the overall target is going to be any less?

(Sir John Herbecq) That is correct.

621. If the pay settlement next year exceeds the cash limit which is set and it is then said that the reduction in numbers is offsetting that, would you expect that to be bound over by further savings in the Civil Service over and above the number now announced by the Prime Minister?

(Sir John Herbecq) I find it very difficult to answer that question at this stage. We have just emerged from the main pay settlement of this year. We have still got some negotiations outstanding, particularly with the industrials and the shape and pattern of

next year's pay settlement is really difficult to forecast at this stage.

622. But the principle is there, surely, that if the pay settlement exceeds the cash limit figure, there would be an offsetting saving in numbers?

(Sir John Herbecq) If I may refer to one of the answers the Prime Minister gave last week which I think would carry it as far as I would feel able to carry it myself this afternoon, she said that if there were to be another squeeze on numbers ~~to~~ contribute towards the cost of a pay settlement in future years—and perhaps I might be allowed to quote what she said: "I think that reductions in numbers will go"—that is, reductions in numbers for that purpose—"will go towards the target that I have announced. Part of that target is already on the way to achievement." If there were to be another squeeze which resulted in a larger cut than had been originally planned for, what I think the Prime Minister was saying was that that larger cut would count towards the achievement of the 630,000 target, but whether there will be such a squeeze I find it very difficult to conjecture on at this stage.

623. It is the principle I think we are concerned with, so it would follow, would it not, from the quotation you have just made and the earlier statements you have just made—or the implication of what you have just said would be that whatever happens next year the pay settlement will have to be within the figure set by the cash limit without any alteration in numbers because that has already been pre-empted.

(Sir John Herbecq) I think it would follow from what I have said—if I may use a figure ~~not too pure~~ for the purpose of illustration and with no validity whatever—that if when we got to the spring of next year—and we are looking at 1981/2—we had estimates which provided for a Civil Service average strength in that year of, let us say, 670,000—and I say that as purely illustration—and it were then found possible at that stage, by a further squeeze—whether it would be possible I cannot say—but if it were found possible to push that down from ~~670~~ to 660,000 in order to generate some further savings towards financing the cost of the pay settlement, the

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19 May 1980]

Sir JOHN HERBECQ, CGB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

additional 10,000 saving which was being
made ~~and~~ would score towards the final 630,000.

Mr Eggar

624. In evidence to the Sub-Committee and talking about the 2½ per cent cut which had been achieved within the context of the cash limits, you said in answer to questions, "I am happy in the sense that I do not believe there is any significant scope for reductions beyond that in any department in the forthcoming financial year". In other words, beyond 2½ per cent. In the light of the Prime Minister's statement, would you like to comment on your earlier evidence to the Committee?

(Sir John Herbecq) I do so with some hesitation because, as I said at the beginning of this session, the planning is only just beginning on how we could achieve the further run-down, and it may well be that as it is carried forward what I am about to say will turn out not to be accurate. But my expectation at this stage is that the great bulk of this further saving will come after 1 April next year.

Mr Wainwright

625. To return to what you describe in your statement as "unavoidable growth in the future Civil Service", you gave the example of unemployment which is common-place in industry, but that to prepare for big cuts on a really sensible basis and help to introduce new systems for economy's sake it is first of all inevitable that there should be some temporary increase in manpower to do all that work and it would help us if you could explain how far this applies to the public service. For instance, Sir Derek Rayner explained to us how he sees the value of buildings already which have hitherto been occupied free of charge by departments to be estimated building by building and then to be charged out. That, on the face of it, would seem to require manpower and there is also the question of planning cuts themselves. I imagine this can be a very time-consuming task with long programmes and re-arranging programmes and the like. I wonder for instance if your colleague from the Property Services Agency could say anything about the manpower that would be involved in charging out property services for the first time?

(Sir John Herbecq) Certainly.

(Mr Davies) The initial cost would not be great, it would depend really to what extent and practice it was found entirely necessary to go into rather more detail, for example if departments wanted a very much more detailed break down of costs, this would obviously involve us in greater effort, but it is impossible to say how much additional effort might be involved.

626. Then the Department of Environment, the re-arranging of programmes in order to achieve public expenditure cuts and so on, how far does this initially require extra manpower?

(Mr Calvert) The Secretary of State is taking a keen personal interest in the whole of the functions of the department and to assist him we have in fact established a special unit which is engaged in a review of all the department's activities. I have brought an example of the booklet along with me for four directorates and this analyses the current activities of each directorate and puts a cost on those activities based on manpower and offices services. It states what the director believes his objectives will be over the next six months as well as reviewing them over the last six months, and these statements are the bases of the Secretary of State's examination of the work of every directorate in the department. The unit involved is a small one but it is a fairly high powered one, it has six people in it and we hope that the first round, reviewing the work of the department with the Secretary of State, which started in January will be completed by the summer recess.

627. In general could you tell us anything from your experience as to the initial manpower costs of very severely re-arranging the public spending programme of some departments?

(Sir John Herbecq) I can certainly say a word about my department. The work that has been going on in the last year on manpower has indeed imposed a great deal of burden on the people who are concerned with it. In the main this has been absorbed by those people putting in some very long hours over a very considerable period of time now. We have introduced some modest reinforcements of staff and this has been a question of re-arranging departmental priorities and we have done less work which

19 May 1980]

Sir JOHN HERBECQ, KCB, [Continued]
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

9 we otherwise might like to have done and put more in more on manpower. It is a relatively minor shift of resources, I would not want to exaggerate it, but in an exercise of this sort one has to rely on the people who are already in the jobs and know about it and know what they are doing. If one drafts new people in they have to spend time learning and the people who know the job are diverted from trying to do it. The existing people just have to get down and work hard.

628. To sum up, in order to achieve this net reduction of 102,000 in four years can you estimate what the gross reductions will have to be in order to accommodate foreseeable increases in the service during that time?

(Sir John Herbecq) I do not think we know of major foreseeable increases other than the very big one of 7,000 to which I referred. We do realise that very much can happen over a period of three or four years and it will not be at all surprising if there are changes which at the moment are unforeseeable but which nevertheless we have to cope with. We hope they will not all be in one direction, that there will be unforeseeable things which relieve pressure on the Service and operate to help us make savings. No doubt there will be changes in the other direction and we have to be as flexible as we can be in ~~our~~ planning in order to cope with these changes as they come along.

Mr Shepherd

629. The broad target does not distinguish between the industrial and non-industrial Civil Service and I wondered if you had any views on the sort of numbers you were looking for from industrial civil servants?

(Sir John Herbecq) No view at all at this stage. We have to work this through except I would say that the Prime Minister made it clear that savings are being looked for at all levels and that we are not simply going to concentrate on the industrials and low levels of the non-industrials.

630. There is a view that savings in industrial civil servants are not real savings in Civil Service members. Is that a view you would accept or not accept?

(Sir John Herbecq) I would not accept that as an unqualified view. It depends, I think, on the way the savings are made. There have been very large reductions in industrials over the years, many of which have flowed for example from large reductions in the size of the defence programme and those I would ~~not~~ claim are real savings. Clearly it would be less sensible to make reductions in industrials which are manufacturing arms which can be exported very profitably for the country as a whole; I have no reason to think that will be done.

631. I take that point but there is an argument that was advanced that the savings of 9,000 in industrial civil servants reflects more the loss of export orders for Chieftain Tanks than it does the search for savings. Is that fair?

(Sir John Herbecq) I will ask Mr Broadbent to answer that but if I may offer one comment on it myself. Certainly if one loses some work, such as manufacture of tanks for export to Iran, we must save staff, what we ~~must~~ not be justified in doing would be to keep the industrials who would have been employed doing that when we have no other work for them to do. That is one example of what I have said to Mr Wainwright, where we hope there will be unforeseeable changes—some will work in our favour and we will not all be taking on extra staff. Perhaps Mr Broadbent can comment, that there will 9,000 involved in that.

(Mr Broadbent) I cannot quite recognise that figure—

632. I did not actually say that.

(Mr Broadbent) In the Royal Ordnance factories our strength of industrials went down 1,250 over the last 12 months, and that primarily flowed from reductions in staff at Leeds, flowing in turn from Iran tank orders, but in other parts of the Ministry of Defence we saved 4,000 industrial staff in the same 12 months.

Mr English

633. I wonder if I could declare an interest here, Chairman, in our questioning of Sir John and his colleagues. I have just come back from the seaside resort where the annual conference of one of the trade unions in the Civil Service, the General and Municipal Workers, of which I am a spon-

19 May 1980

Sir JOHN HERBECQ, KCB, [Continued]
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

sored member, is being held. I would like to ask him, basically his department has been kind enough to send our sub-committee a paper on the definitions and manpower numbers of the Civil Service, the details of that I am sure should be discussed on another occasion, primarily because it is extremely complex, but it says "that no single formula provides a satisfactory definition", something with which I can probably agree with Sir John at this stage. However there are people, let us not call them civil servants for that reason, there are people not in the market sector, not in a nationalised industry charging for its services, not in the Armed Forces, not judges, not politicians, people paid by the taxpayer who are not included in the general definitions of the Civil Service. I want to know at this stage does the Prime Minister's statement merely mean it is only this approximate 700,000 people who will suffer a 10 per cent cut or is the same principle going to apply to all the other people? Perhaps, just to take a big one, how many people are currently responsible to the Secretary of State for social services?

(Sir John Herbecq) I will ask my colleague from the DHSS to answer that but ~~I am sure~~ if I can ask you, when you say "currently responsible" have you in mind the whole of the National Health Service?

634. Yes, indeed.

(Mr Clarke) I have not got figures—

635. Round figures.

(Mr Clarke) About a million, those employees are responsible to the Secretary of State through the regional health authorities.

636. I thought that was approximately the figure. The Clerk has just drawn to my attention that there is a figure of 1.18 million, that is bigger than the 700,000 we are talking about. Leaving out doctors and nurses and ancillary workers of that kind is a 10 per cent cut going to be administered to the administrative echelons of the health service.

(Mr Clarke) I have no information to that effect, but I imagine that during the re-organisation that is going to take place

in the National Health Service there will be an eye to saving costs.

637. I wonder if I could go back to Sir John. I think it would be helpful to everybody. I do not want to go through the other bodies, Northern Ireland Civil Service, the Forestry Commission, if we could have target figures for all these groups of people outside the Civil Service so that later we can see if they are adhered to. At the moment the Prime Minister and the CSD have given us some targets—three of four years hence we can see if they have been adhered to. The bulk of people employed by the taxpayer are not included in those figures nor is a 10 per cent cut included. If it is intended that there should be cuts, and I am not advocating it one way or the other, at this stage would it not be desirable for the Civil Service Department to see that something is done to provide targets if only for itself, at this stage, so that in three or four years time it can see if the same principle of Government's has been followed throughout the services paid for by the taxpayer?

(Sir John Herbecq) These other services taking the National Health Service as the very largest are not the responsibility of the Civil Service Department.

638. I thought the Civil Service Department was ultimately responsible for the efficiency of the Government as a whole?

(Sir John Herbecq) No, Sir.

Chairman

639. Does the Civil Service Department exercise no influence of any sort over the persons employed under the sponsorship, let us say, of minor industries which are such an important part of Government? Are you never consulted about such matters as administrative efficiency? Use of modern machinery? Office procedures, pay and conditions and the like? Does the Civil Service Department have no influence at all over employment of anybody other than those who are described as civil servants, though, noting Mr English's point, it is very difficult to get an exact definition?

(Sir John Herbecq) We have certain responsibilities in some fringe bodies—Quangos, as they are commonly called—where the statutory basis of their constitu-

19 May 1980]

Sir JOHN HERBECQ, CDB, [Continued
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

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tion provides that we shall have where it is stated that for example their pay will be determined by the Minister and the Department responsible with consent of the Minister for the Civil Service but our responsibilities narrow kind and in general we do not regard ourselves as having a direct responsibility for such questions as the efficiency of the National Health Service.

Mr English

640. But the Minister for the Civil Service is the Prime Minister and presumably you advised her on her statement. Are you suggesting that a statement has been made by the Prime Minister, the Head of the Government, and the Head of your Department, that there will be in effect a 10 per cent. cut in certain people employed by or paid for by the taxpayer, but not even the bulk of them?

(Sir John Herbecq) It would not be for my Department to offer advice on whether it would be right to impose similar—

641. Which Department should?

(Sir John Herbecq) The sponsoring department in each case.

642. Which Department should on behalf of the Government as a whole?

(Sir John Herbecq) In so far as expenditure is concerned, the Treasury would have a major interest in this but there is no single Department which has responsibility for manpower employed by Government, if I can put it in that wide sense.

643. So we can take it in effect on the people concerned that there is no way in which Government policy on redundancy or on unemployment or natural wastage or getting rid of jobs in which that that is being co-ordinated at the Civil Service level? The Prime Minister has to keep it all in her mind and rely purely on her political colleagues without any assistance from the civil service machine?

(Sir John Herbecq) No, I am not saying that. Co-ordination is perfectly possible within the Whitehall machine. All I am saying is that it is not the prime responsibility of my Department.

644. If it is possible within the Whitehall machine, is it being done?

(Sir John Herbecq) I do not know immediately and I have not briefed myself on the extent to which there is currently co-ordinating activity going on in this field, but in general consultation certainly does take place between Government Departments on such matters as redundancy.

645. Are you seriously saying—

(Sir John Herbecq) And pay.

646. ——— as the Deputy Head of one of the principal Departments of State that you do not know whether there is any co-ordination going on?

(Sir John Herbecq) No, I am saying I do not know in detail what co-ordination is going on off the cuff. I did say that in general co-ordination does certainly go on on major questions such as pay and redundancy.

647. I asked you whether the policy of 10 per cent cut in round figures is being applied to everyone being paid for by the taxpayer, as this one is at the moment?

(Sir John Herbecq) Not to my knowledge.

Mr Beaumont-Dark

648. When the man in the street looks to the Civil Service, you either get— It would be easier to pin the figures to the wall and really understand what they all mean. The one thing we hear about is that if the Civil Service is to be cut it is going to be because functions are reduced. What we do not hear much about is what kind of increase in productivity. Productivity may not be as easy to mention in the Civil Service as it is in a factory but surely are we going to hear something about an increase in productivity or is it all going to be cuts in the service? What is happening at the present time according to all of us who are at the sharp end—the people end—is that the real savings seem to be being made where it reaches the nerve ends of people. Are we really going to have a system whereby the administration rolls on and the service rolls off? That is how it seems at the present time?

19 May 1980

Sir JOHN HERBECQ, KCB, [Continued]
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

(Sir John Herbecq) I think that impression is not wholly accurate as to what has happened. If I may quote the example of the Department of Health and Social Security—and my colleague will correct me if I am wrong about this—I am pretty sure I am right. I say that the reductions that are being made in that Department have been proportionately a good deal higher in the headquarters staff than in the local office staff, who deal with the public, ~~then~~ who render the direct service to the public, is that correct Mr Clarke?

(Mr Clarke) Yes, that is correct.

649. I do not really understand and possibly that is one of the problems that in an age of modern machinery and modern communications and all the management aids that we have got why it is that if you take the Health Service there is about 14,000 less beds than 20 years ago and yet there are about 29,000 administrators. In education, if you look at education, there are less teachers now and less pupils and yet there are tens of thousands more administrators. If you look at the Royal Navy, where you take 30,000 civilians to keep the Navy afloat, as against 4,300 in 1914. What the people want to know really is why is it that in spite of all these modern aids and all the communications we seem to be employing more and more people, but frankly in the end seem to do less and less at the sharp end?

(Sir John Herbecq) I cannot speak for the Health Service, as I have just explained, and neither can I speak for education, but you did quote a figure about the Ministry of Defence, and again I would like Mr Broadbent to speak on that, but I strongly suspect it is inaccurate.

650. If you think it is inaccurate, this is a good chance for you to say so.

(Mr Broadbent) We were very surprised at the figure of 4,300 as being the dockyard strength in 1914. Naval estimates for 1914 suggest that the figure was 43,000 instead of 4,300.

Chairman: Those damned docks again!

Mr Beaumont-Dark

651. What you are really saying is that figure is wrong in the costs, that it is illusory. We are all suffering under an

illusion. There are a lot more administrators now than there were 20 years ago and the service is better and all the people in the street are wrong in thinking that the service is not as strong. That is an illusion, is that right? As a Councillor in the past and a member of Parliament now I am one of the suffering public.

(Sir John Herbecq) I cannot quote figures off hand over the whole field on that subject and I entirely take the point that one has to be on one's guard all the time about elaboration and complication and multiplication of headquarters administrative staff to the detriment of the service given in the local office, as it is in our case, or in hospitals or wherever. All I can say is yes, we are aware of that; yes, we indeed ~~are~~ at the moment—I quoted an example of DHSS as evidence that we have in fact done something about it. I am not disputing that this is an area which demands constant attention. It certainly does, I agree, but I would want to say that we at any rate in the Civil Service have done something about it and I do not think the picture is, if I may say so, with respect, as black as Mr Beaumont-Dark is suggesting it is.

652. It is blacker from my seat than yours because mine is rather more exposed. 80,000 people have either retired or escaped from or leave the Civil Service in this country; is that right?

(Sir John Herbecq) In a year we reckon about 80,000 people, perhaps a little less, right across the whole Civil Service, including industrials.

653. Let us accept that we cannot have a simplistic approach. Would you not think it is likely say that 30,000 or 40,000 a year of those could be lost and people could be redeployed and be more productive?

(Sir John Herbecq) No, I do not. I think the reductions which the Government have announced last week will not be easy to achieve. I think it does represent a major task for us and I do not think we could go at ~~it~~ very much faster rate than that ~~which~~ you suggest or imply if we are not to lose morale.

654. Do you not think in industry you need to do it rather more quickly if morale

19 May 1980]

Sir JOHN HERBECQ, KCB,
Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

[Continued

is not to be lost? Do you not think there is a danger in taking the whole four-year period to make these cuts and I hate to tell you I think they are reasonably modest cuts and morale will tend to suffer more than by doing it rather quicker even if one makes some mistakes on the way?

(Sir John Herbecq) I do not think that is so because if we did it a great deal faster we should have a much greater danger of very considerable redundancy than we would have, but apart from that how fast we will be able to go will depend on the decisions which will be taken and how it is to be achieved, and I am sorry to go on saying it but we have not done the work on that with the earlier cuts announced last December some of them may be dependent for example on legislation and of course it takes time to get legislation and put it into effect, so we will need time to carry this through. I referred to the problem of redundancy because you mentioned morale, but I would not want the Committee to think that the timing of these cuts has been devised simply in order to avoid redundancy. That is not the case. The relevance of redundancy is to morale.

Chairman: We have already begun to move into the second area we want to be talking about, efficiency, what is being done, are the tasks the right tasks to be done, ought there to be a close look at the effectiveness of work and all the rest of it. I am going to ask Mr Sheldon, as I said I would, again to lead on this subject perhaps for the next half hour or so in order to bring us through to our timetable of ending at a quarter past six.

Mr Sheldon,

655. One of the problems of mixing up the industrial and non-industrial sections of the Civil Service together is that if, for example, we export more tanks, the numbers in the Civil Service actually increase and so it means that we really ought to concentrate, quite rightly, on tasks performed and the Prime Minister, in answer to a question in the House of Commons following her statement said: "This is a statement designed to reduce the tasks carried out by the Civil Service, to carry them out more simply and to get very much better and more efficient management in the carrying out of those tasks throughout the entire Civil Service." What work is

being done to reduce these tasks and bring about the more efficient management at the same time as the numbers in the Civil Service are being reduced?

(Sir John Herbecq) There is a great deal of work going on in the Departments. I can refer to some work which we have at hand ourselves and which I know is going on in the Department, and perhaps if you would like to pursue it in more detail my colleagues could speak to their own Departments. One might start for example with the considerable number of studies which have been carried out under the supervision of Sir Derek Rayner over the last year, spread widely over the Departments. Many of them I think are going to lead to improvements of one sort and another in efficiency of operation of Departments and they are of a widely ranging character. We have a number of studies which have resulted from the Lord President's review, for example a consultation document has recently been issued about placing on employers the responsibility for the payment of a minimum level of sick pay during the early weeks of sick absence. If that proves to be practicable that would lead to a very useful saving in staff numbers. We have a number of initiatives of our own which we put in hand in the Civil Service Department. We have done a study of the work of the messenger service which shows—and I would like to say that this in no way reflects on the excellent work which the messengers themselves do; I would not want for a moment to suggest that they do not work efficiently; they do—that there are very considerable savings to be had through better organisation of messenger services and we hope to study those in two or three Departments. We intend to spread it through the rest of the Whitehall machine. We have been looking at the staff inspection arrangements. This already makes a useful contribution. Several thousand posts have been saved through this means in recent years but we think there is room for improvement there and we are aiming to make it more effective than it is. We discussed quite a number of these things indeed in the memorandum we sent you recently on efficiency and the use of computers in the Civil Service. I might perhaps refer to one or two of our management reviews. We have a management review going on in the Department of Agriculture, Fisheries and Food which has led to pro-

9/Ministry

19 May 1980

Sir JOHN HERBECQ, KCB,
Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

[Continued

postals for the streamlining of regional structures. That I think will save us something like 400 posts. The Department of Employment have undertaken a revision of a staffing formula for unemployment benefit offices and that has produced savings of 900 posts. I could go on but I think gives a representative selection.

Chairman

656. Could I put one point to you following Mr Sheldon's question? I do not know whether you are aware of this but I wrote to the Prime Minister in March for the Committee asking her about these matters and perhaps the views expressed in that letter have been one reason for the statement that was made in the House of Commons a few days ago. One of the points we made, adverting to one of the largest items in this catalogue of yours was that it occurred to us in this Committee that the fact that Sir Derek Rayner had been able apparently to discover, with a very small staff and really not a very great back-up in Departments, such a substantial list of items which were going to bring about savings on a fairly broad scale seemed to indicate that the organisation of your Department must be open to criticism and all these things had not been discovered previously. Would you think that was a fair point to have made or an unfair point?

(Sir John Herbecq) I think, if I may say so, it is a little unfair to my own department. We have had a considerable number of studies which have gone on over the years. I could quote examples of marked improvements in efficiency in the Civil Service which have flowed from these studies in recent years. I have not brought the list with me but Mr Wilding has been concerned with them and I am sure he could tell you some of the things we have done over the years. We have a very high regard for the work that Sir Derek Rayner has done and I would want to have that on record. I do think—and I know that Sir Derek would say this himself and indeed has said it—that one very major element in his success has been the fact that he has had the wholehearted support of the Prime Minister behind him as he has gone about his work.

657. I understand that very well and I have no wish to be unfair. Please do not think that in discussing these subjects we

want in some way to secure an advantage; it is just a matter of trying to get things clearer. It is splendid that he has had the backing of the Prime Minister and that he has been so successful but one is bound to ask the question if he is able to find in the aggregate very considerable savings, why it is that these things were not discovered before. How was it there was apparently so very much scope? Was his whole attitude different? Was there some new factor of which we are unaware which led to this? I have no wish to take away any credit for what has been or is being done by the Civil Service Department but I want to know how this one man with a very small staff can do so much. If there were ten men like Sir Derek Rayner, what would they achieve?

(Sir John Herbecq) I have no wish to be defensive over this, for my part. Personally, I have a very great admiration for Sir Derek and I have very strong support for the way he has gone about much of what he has done. A good deal of what I have referred to has not been based on work done by Sir Derek Rayner; it has been work we have done separately. He knows about it; there is no rivalry or hostility; we work very closely with him. There are always fresh things that can be done. We have been aware for some time that there was a gap in the work we were doing and we have been looking for ways of filling it and being more effective in the very area in which Sir Derek has done most of his most valuable work. I am very glad he has come in and done that. He brings with him experience and skills which inevitably we do not have in the same way, not that type of experience which has been very valuable for us to have but I hope I am not being defensive if I say that we have made a major contribution ourselves as civil servants, individuals, the speed with which one can move, the thoroughness of detail, one can take it inevitably depends on the amount of interest and priority and importance which the Government of the day happens to be giving at the material time and where we are operating, as Sir Derek is, around the other departments in Whitehall, the attitude of the Prime Minister of the day is very important to the response one gets. It is the attitude of the Prime Minister and I ought to say of the Ministers in charge of the departments themselves too. If there is not a climate of desire to see greater efficiency

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19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

and improvement, one does not make the same progress. There is always some interest in it; I do not at all want to suggest previous Ministers have been careless over it, but one gets varying degrees of emphasis at different times. We have had a very great deal of emphasis on it in the last 12 months and it has enabled us all to make a very solid ~~programme~~ ^{progress}. I think so long as that interest is sustained, we will go on making ~~the~~ progress.

(Mr Wilding) As I think Sir Derek explained to the Committee, the way in which these projects were set up was that each department was asked to put forward a subject for one of these projects and to put on to it one of its best people, working in a very close relationship with the Minister of the department. That meant that there were available for that round of projects as many people full-time as there were projects working full-time. It proved to be a very good investment. It is perhaps worth pointing out without in any way detracting from this, because I have no doubt that the work was done with extra thoroughness and extra speed on account of the way it was done, that departments were putting forward these ideas and it probably would not be right to conclude that if they had not pursued them in this context they would not have been pursued at all.

658. Nonetheless the stimulus of having one man working on a part-time basis with the backing of the Prime Minister has achieved a great deal which would not have been achieved on the same timescale.

(Mr Wilding) It has certainly achieved a great deal, probably a great deal quicker and this is something we must build on, I am quite sure, for our future programme.

Mr Sheldon

659. The problem the Committee has is understanding how far this reduction in numbers will be reducing the tasks performed and how much of it will come from efficiency improvements. We are very conscious that we were told, I think it was by Mr Channon at an earlier meeting, that the original three per cent, across the board cut resulted in no noticeable effect on efficiency; that there was no loss of efficiency in the performance of the duties of the Civil Service concerned and the difficulty that we have is understanding whether all these very

clever ideas are going to improve the efficiency or whether it is just selecting an area of work and saying, "where there is 100 there will now be 95", and sharing out that work among you. What would you reply to that sort of comment?

(Sir John Herbecq) One has to look at the different blocks of work separately here. I hope there are not too many areas in the service where one can simply take five or ten per cent of the staff away without making any other change of any kind and the work still gets done just the same as though the full quota were there. If that were so on a wide scale we would not have been doing our jobs properly in years past. By making changes in the way one organises work, in the way one does work, in the aids one introduces, new technology and so forth, certainly one hopes to be able to save numbers and to get the same amount of work done by fewer people. I have mentioned our staff inspection. Inevitably in many large organisations and in small ones, one needs to be looking at that from time to time to see whether a bit of slack has not crept in, but the slack does creep in and one cuts down trying to tighten up and pull in a bit of rope, but I think if one is not careful one could make cuts which will result in less efficiency and not more efficiency and one has to try and be discriminating and selective and make cuts in the right way and in the right areas and that is why we need time to study.

660. When you are looking for these cuts and improvements in efficiency you presumably have to relate the improvements in one department and compare them with perhaps a less good performance in another department. How do you make these kind of comparisons to know that the efficiency across the departments is going to be not too disparate and what control do you as a central department have over these other departments and what powers do you think you have that are lacking in order to be able to exercise this kind of close, controlled efficiency?

(Sir John Herbecq) We do studies of our own across the board. I referred to the messenger study as one example. I have referred to our staff inspection systems which give us the performance of different departments. I do not want to suggest the departments do not do a great deal of work

19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

of their own. They certainly do. We keep in touch with what is going on in departments and we do our best to disseminate good practice and if we find a department has a good idea and is organising something well we endeavour to see other departments are made aware of it and encourage them to adopt it but that is all in very general terms. Perhaps I could ask Mr Wilding to fill it out a bit.

(Mr Wilding) The degree of exactness in the comparison you can make varies a good deal, the simplest kind of case you can take is where you find some improvements in one part of a department and you can spread them to similar work in the same department. That is the most straightforward kind. An example of that at the moment is an examination of the London Customs and Excise and that is leading to an examination of whether the results of that can be applied to the department as a whole. When you come to the work between departments the thing tends to become somewhat less exact because they are not doing exactly the same kind of work, but in a number of cases they do similar work. That is where, for example, one of Sir Derek Rayner's projects has produced some interesting questions about how far one department with responsibility for local authorities should be concerning itself with control and supervision of what the local authorities do, that immediately raises the question of whether the same ideas might be applied in England or Scotland or Wales or Scotland, whichever the other two may be. That is something we follow up, are following up at the moment. Or more generally there are questions about the extent of the involvement that various sponsoring departments have on various parts of the economy when they are looking at various forms of industrial sponsorship, this is something which is spread over a number of departments and we are seeking to see whether one can, with reasonable consistency apply that to the other departments, and if not there will be very good reasons. One further thing is that we are at the moment conducting, with great help from Sir Derek Rayner, a study of the statistical machinery of the Government as a whole, how different departments treat their statistics and how those are pulled together, and this is an examination of a function which is common to a great many of the departments in which it is possible to take a look at the intensity with which they

are done in different places and the reasons why that intensity varies within departments and whether there are possible greater rationalisations.

661. Do you consider as a department you have enough power centrally to implement these decisions in the most efficient way?

(Sir John Herbecq) I think the responsibility for implementing decisions rests on the Ministers, as the Prime Minister has said. We have our responsibilities in the civil service department, it is a question, if I may say so, which I am frequently asked and I do not think there is anything lacking at all in the formal powers of the department or otherwise. It would be undesirable for us to dictate to departments and require them to go about work which they have to do, which it is their ~~fixed~~ statutory responsibility to carry out, in ways which they thought were wrong. On the other hand they cannot ignore us if we believe that they should be doing something in a different way and more efficiently then we tell them they ought to be doing it—we have all the normal machinery of Government, possibilities for arguing it out at whatever level it is necessary to argue it, including Ministerial level, depending on the degree of importance. I do not think there is any lack of formal powers at all.

Mr Shepherd

662. Last week's Economist quotes a senior Civil Service department official as writing to the departments saying that he promised the unions "it is generally an exercise to reduce functions and not to reduce staff while leaving functions intact". Do you have any knowledge of that letter?

(Mr Wilding) I have knowledge of it, if I may answer. The letter in question was one which I wrote to the Establishment Officers of the departments and it will have been entirely understood by them to mean what it was intended to mean. The impression given by the way in which it was quoted in fact misrepresents it. The unions have for a long time, because this business of cuts is not wholly new, we have been putting pressure on staff resources in the Civil Service since 1976, have been very much concerned to make sure that when

¹See annex.

19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

the Government cuts staff it does not do so simply in the way in which somebody was suggesting a moment ago—I am sorry I forget who—i.e. by saying "Here is the same amount of work, do it in future with seven people rather than 10". They have a legitimate worry which they express fairly often to us, that we really must work this through and make sure what it is that we are doing. Are we dropping a function, are we re-arranging the work in such a way that it can efficiently and properly be done within a proper working day with a smaller number of people, are we asking them to simply shove up? What they asked us was to give an assurance that we were not asking them to shove up with no difference at all to the way in which the work was done or the way it may be done more efficiently. That was the assurance I gave them.

663. It seems to me that statement, which the Economist quoted—was it quoted accurately, was that your letter?

(Mr Wilding) I have not got it in front of me, nor the article.

664. I wonder whether Chairman, under Lord ~~Cornwallis~~'s excellent directive, we could have a copy of that letter because it seems fundamental, if there is misrepresentation among the public and this Committee, as to what the intention is?

(Mr Wilding) The letter was one I was addressing to my colleagues and others as a letter in confidence and it is a letter which I do not doubt they understood to say what it was meant to say.

665. You see there is a feeling that it reflects the position of the department and it appears to be in conflict with the Prime Minister's views as expressed last week.

(Mr Wilding) Given the wrong interpretation that was given to it I would agree with you but that interpretation was wrong.

666. Are you saying that the letter written with your authority to other colleagues across the Civil Service is a matter which is confidential and outside our purview then?

(Sir John Herbecq) May we have a look at it and study it?

Chairman: Let us leave it like that.

Mr Shepherd

667. I wanted to come to one final point about how we effect reductions in numbers arising out of Mr Broadbent's comments about the loss of orders in Chieftain Tanks. I understood it was 1,250 jobs or something of that order?

(Mr Broadbent) The strength of the Royal Ordnance factories went down by some 1,250 in recent months.

668. And the reductions were in the order of 25,000?

(Sir John Herbecq) ~~28,000~~

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669. The only point was that in the industrial Civil Service you can say a loss of orders, you can draw the conclusion, that 5 per cent of our cuts were in fact attributable to 1,250 jobs to 25,000—all right, 4 per cent—was attributable to the loss in export orders and that seems to be not the essence of what we are talking about in reducing numbers in the Civil Service to get greater efficiency. The question of greater efficiency was raised nervously by your colleague in private letters which are given between departments which were understood by colleagues in the department but not by outside members, and it is very misleading.

(Sir John Herbecq) What we have done is to produce factual figures as to what the size of the Civil Service was at one date and what it was at the other date. As I said earlier ~~one makes~~ changes in the circumstances in which we are working and this is going on all the time. Some of them put additional strain on the Service and inevitably to do that work we have to employ more people. Some of them were unfortunate, such as the loss of the Iran contract. None of us wanted the loss of that but we had the duty to save staff, they were not redeployable, we could not put them on work of equal value, in other words sell tanks elsewhere immediately; they were staff saved. I think it was right to save those staff. I think we were efficient to save those staff. We would have been inefficient if we had not done so. We are expected, and I think rightly, when ~~the~~ external circumstances move against us and we have to put more staff on jobs, to swallow that and

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19 May 1980]

Sir JOHN HERBECC, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
- Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

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to find that extra number by making additional staff ~~and other~~ adjustments. I think it is right we should do that. I hope it will not be taken against us from both ends, namely that when we do achieve some savings which reflect no merit on us other than we have simply reacted to a loss of work by reducing posts accordingly. I sometimes wonder whether these days that in itself is not a meretricious thing to be doing. ~~We have done that~~ That is not improving the efficiency of our operations as such. ~~We have done it~~ We are not going to be told we must not score that when that happens, but we must find ~~and other~~ savings when it goes the other way. That will make life very difficult for us indeed and if there are going to be all swings and no roundabouts then the task becomes more difficult and indeed the reality of the actual numbers that we are expressing, namely these are the numbers of civil servants we have got, never mind how they have got there, is what the fact is, and that is all it is. Perhaps I am reacting too sharply but there is no intention of deceiving in any way here at all. We are very open about it and ready to be answering questions you have on it.

670. Sir John, like the Chairman, I want to be absolutely convinced that the question of efficiency within the service is there, and that is, the productivity.

(Sir John Herbecq) I know I can say for the Ministry of Defence, without asking them, that there is no relaxation whatever because they have had an ~~advantageous~~ saving of ~~£2,000~~ staff. They are doing all the saving they can because they are going to need it.

Dr Bray

671. Can I ask either Sir John or Mr Wilding whether in making these very major reductions in numbers you are contemplating any major changes in the principle of procedures within the Civil Service on establishment matters, for example, in agreeing the numbers, the actual mechanics by which that is done, within the Department, the examination of administrative costs of policy changes, methods by which that is carried out, the set up and organisation of methods, recruitment, training, are there any general across the board changes which you are contemplating?

(Mr Wilding) I do not think there are any general across the board changes in as

it were the whole manner in which we approach recruitment or training or organisation or the way in which we use people. Quite certainly the various initiatives which the present Government has taken which go wider than purely manpower policy here, their wider interest in good management is putting a greater emphasis on a variety of things which my colleagues here could give you examples of in terms of improving and making ~~lighter~~ the machinery within the Departments for allocating the resources, the smaller resources, they have, and seeing how those resources are used, reporting costs, up the line and to Ministers who are now taking a very great interest in this themselves. For the most part I believe that this is being done by as it were putting greater priority ~~in through~~ this work and this is extremely welcome to us in the Civil Service Department ~~that~~ does not so far as I am aware involve as it were a major change of rules or the guidance given to Departments about the management of the Civil Service as a whole. I cannot think of any that are yet coming into that sort of category.

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672. Is nobody being encouraged to think whether there might not be some major changes in the rules?

(Mr Wilding) What kind of changes have you in mind?

673. I listed a number of them—determination of establishments, examination of administrative costs of policy changes, organisation of methods, recruiting, training?

(Mr Wilding) These are certainly all things to which we have to pay special and great attention but if I may take the determination of costs and manpower resources it is a question fundamentally of using the existing arrangements in terms of the public expenditure survey, the estimates and the cash limits, the flow of financial information and so on and using those instruments more sharply.

674. I wonder whether there are any departmental representatives who can point to major changes in procedures which can have drastic manpower effects if the Governments would grasp the nettle of quality assurance—there are none?

19 May 1980]

Sir JOHN HERBECQ, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

(Mr Broadbent) I was pausing on the word "major" really. One of the studies that we have done in the last 12 months is to look at the whole system of quality assurance, the extent to which we can rely on industry rather than do it ourselves. This is a road that we have been going down for some time and we have decided that we can go further and faster down that road. There are other things but I think they are of a secondary order. There are changes in procedures and changes in methods but they are not affecting the totality of the Civil Service as opposed to one Department's practices.

(Mr Calvert) I would like to make two points really—the first is on control of recruitment. Obviously the Civil Service must issue certificates of qualification for all civil servants but in terms of the numbers of civil servants recruited and so on in the Department of the Environment, and of Transport, both the Secretary of State and the Minister are taking a personal interest in this. Subject to delegations to myself and to Mr Davies for the PSA, all proposals for the recruitment except in one-off situations—a lift attendant, a security guard and so on—must be cleared with the Secretary of State and the Minister. Now, the procedures of recruitment once he has determined what shall be recruited are the same, but control over numbers has been instituted by both the Secretary of State and the Minister. My second point is this: in the Department—

675. That is numbers including replacements?

(Mr Calvert) Indeed.

676. Gross numbers?

(Mr Calvert) Yes. The second point is that we have adopted a new approach to the use of computers and computer resources, linking it very much more than it was in the past with manpower implications and we have established in the two Departments, because there are common services—the two, a new central computer directorate which vets all proposals for the use of and the acquisition of computer and associated facilities. Those bids are examined both in terms of hardware, software and the manpower requirements. This is no small thing, because in those two departments

there are at the moment computer installations to the value of £13 million, and a staff engaged in the operation of those facilities of some 2,000 staff. This is a recent innovation. If I may, whilst I have the floor, just refer to Mr Anthony Beaumont-Dark's reference to productivity and yours and Mr Richard Shepherd's, on efficiency, I am laying my head on the block here but I would like to refer to the much maligned Driver and Vehicle Licensing Centre at Swansea. I quote to the Committee one or two figures about manpower in that directorate. I give you the total figures of manpower in the Driver and Vehicle Licensing Centre on 1st January 1978, which were 8,951; on 1st January 1979, which were 6,999; and on the 1st January 1980, which were 6,638. There are reasons besides increase in efficiency to explain those reductions. In the first instance, the take up of all vehicle registration had just been completed but over the last year there has been a 5 per cent reduction in manpower in the Driver and Vehicle Licensing Centre and it is not all simply by not filling vacancies.

Chairman

677. How does that compare with the observations—it is very meritorious, that of course is what that Centre was designed to do.

(Mr Calvert) Indeed.

678. How does that square with what I call the other side of the balance sheet and that is the facts brought out by successive Committees on Public Accounts in this House which indicated that there was not a single estimate for the establishment of that Centre which was in any way maintained, that staffs were very much greater than the original estimates and the costs escalated to an astounding extent?

(Mr Calvert) Indeed. I would not wish to question what you have said but given that the thing had now been fully operational for two and a half years I think there is some indication that we are keeping a very tight control on manpower when the figure has gone down by 25 per cent in two years. I do not calculate this on increased productivity and efficiency. There are good reasons why it should have fallen but it is just one indication of the very tight control that is now being exercised.

19 May 1980

Sir JOHN HERBEG, KCB,

[Continued

Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

679. It is now efficient after the most appalling series of blunders, extravagances, failure to meet estimates, failure to meet the original time schedules expected for that and a plethora of complaints from the public which have swollen Members of Parliament's postbags over a very long period of time.

(Mr Calvert) I expect that the PCA office would confirm this. The number of complaints from Members of this House to the PCA about Swansea has gone down enormously.

680. If that is so, and I dare say it is, I am delighted to hear that it is now beginning to work and that is splendid, but I did not want your answer to Dr Bray to look as if it was efficiency on its own. The matter requires to be looked at in perspective. If it has now succeeded in squaring we shall all be quite delighted but, I say, after a period of miserable and quite ridiculous and shameful history.

(Mr Calvert) It will go lower still because one of the savings announced in December was the transfer of relicensing work from DVLC and the local vehicle licensing offices to post offices and that will begin from early in 1981.

(Sir John Herbecq) Very briefly, Mr Calvert referred to the very close personal control that his Secretary of State has taken over recruitment in his Department. My own Minister has taken a very similar grip on the recruitment to our own Department. This is not purely an innovation of one single Department.

Dr Bray

681. Can I round off that line of questioning by asking whether there has been consideration of major changes in procedures which are forged rather more on policy. For example the introduction of self-assessment into the Inland Revenue and generally taking up the points made by Mr Broadbent the replacement of complete checks on procedures by random checks but heavier penalties.

(Mr Boyd) The introduction of self-assessment was a matter which was looked at by a committee which reported and whose report was published in March last year. I would say it is unlikely that self-

assessment could be brought in before the computerisation is complete because without new computerisation self-assessment could be a very expensive job indeed.

682. Taking the point about timing in relation to computerisation and therefore possibly the difficulty of fitting it in within a four year period, nevertheless the consultants say we have a Rolls Royce collection system and maybe it is a political decision on the part of the Government that it make do with a rougher and readier collection?

(Mr Boyd) Are you talking about self-assessment from employees, for employees to make their own assessments and pay their tax? Are you talking about self assessment by sole traders too or self-assessment by companies?

683. All these different possibilities assume a different aspect, if greater emphasis is being placed on manpower savings, do they not?

(Mr Boyd) I think it was a previous Chairman of mine who called it the Rolls Royce system. He was really talking about pay as you earn and to have self-assessment of that with something like 25 million taxpayers who may have been looked after very well by the Inland Revenue for the last 35 to 40 years I would say is a doubtful proposition myself at this stage to get people suddenly to change over to self-assessment. Self-assessment for a sole trader or partnerships or companies I think is a different matter altogether.

684. So we take it from what you are saying that in fact the Inland Revenue has no major changes in mind as the result of the greater emphasis on manpower savings, no changes which have a bearing on policy?

(Mr Boyd) The major change we have in mind is the computerisation of pay as you
pay Earn

685. That was planned already.

(Mr Boyd) The full feasibility study has just been completed and the decision on implementation is now awaited. This planning started in 1977 and was completed in the early part of this year.

caps

caps

19 May 1980]

Sir JOHN HERBECQ, KCB, [Continued
 Mr R W L WILDING, CB, Mr E BROADBENT, CB, CMG, Mr N H CALVERT,
 Mr P D DAVIES, Mr N E CLARKE and Mr J F BOYD

686. Is the credit for the savings from this computerisation taken up in the reduction to 630,000?

(Mr Boyd) No.

(Sir John Herbecq) It has not arrived in time. It will be after 1984 before we see significant manpower savings from the computerisation of PAYE.

687. With the general absence of any major change in procedure, this does reflect upon a point made by Sir Derek Rayner when he came to us that he has worked outside the framework of Cabinet committees. Has he now been brought within the framework of Cabinet committees?

(Sir John Herbecq) No.

688. He is not a member of any official Cabinet committees?

(Sir John Herbecq) He is not a member, no.

Chairman

689. Sir John, I think we have a real problem and that is that we have to end at 6.15. You will see the Committee is absorbed by our discussion. I know Mr English and Mr Eggar among others wanted to ask questions, and Mr Woolmer. We are going to have a short discussion among ourselves for a few minutes but we would like to propose to you that we make an opportunity to re-convene if that would be agreeable to you. We can discuss the timing for that perhaps through the usual channels if we may, if I might so describe the Clerk to the Committee. We would like to talk to you more on this subject of efficiency and there are two other subjects we would like to talk about. Would it be convenient if we adjourned and discussed meeting again?

(Sir John Herbecq) Certainly, I am entirely at your service.

Chairman: Thank you and your colleagues for your help this afternoon.

ANNEX

Letter from Mr R W L Wilding to Establishment Officers

Dear Establishment Officer

CONSULTATION OVER CIVIL SERVICE REDUCTIONS

The President's Private Secretary has today written to his opposite numbers to convey the message that discussions may now be opened with departmental staff sides over the review which was the subject of my DEO letter of 4 June. For ease of reference, the main points made in the Private Secretary letter are:

- (a) the Lord President leaves it to each departmental Minister to decide, bearing in mind the probability of leakage, how much to tell his staff side about the precise nature of the possible measures he is considering; on particularly sensitive measures he would not want discussion with the staff side before decision;
- (b) where the staff side are consulted about any option which would involve a change in national policy, it should be made clear to them that they are being consulted over the consequences of the change for the staff, and not over the merits of the change itself;
- (c) it would be as well to make clear that anything and everything may be considered and that it does not follow from the fact that an option is being considered that it will necessarily be adopted.

2. CSD officials met the National Staff Side on 11 June. The meeting went off quite quietly. We shall circulate the formal record of the meeting. Meantime you may find it helpful to know that we told the Staff Side that:

- (a) each Minister had been asked to identify options for savings amounting to 10%, 15% and 20% in the relevant expenditure (paras 5 and 6 of my DEO letter of 4 June);

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19 May 1980]

[Continued

- (b) no overall target had yet been set; this would be for Ministers collectively when they say the options; and there was no presumption that the result would be a uniform percentage for all departments;
- (c) the timetable was the end of July for departmental returns, September for Ministerial discussion, and 1 April 1982 for the reductions (though some might take a bit more time, and others less);
- (d) the necessary reconciliation would be made between this exercise and the Treasury's public expenditure survey, and any manpower savings made via the survey would count towards this exercise;
- (e) the base-line would be as in paras 11 and 12 of my DEO letter.
3. The Staff Side were mainly concerned to elucidate the points above, to press for the fullest consultation at departmental level and to register their concern about possible redundancy. As regards elucidation, they were concerned to establish:
- (i) that any savings achieved by other exercises (e.g. the Rayner project) would count towards the required target;
- (ii) that the base-line would not be revised downwards for any department which achieved better than the revised cash limits to be set for 1979-80, reflecting the 3% cut;
- (iii) that they would be told as soon as it became clear whether redundancy was in prospect;
- (iv) that this was genuinely an exercise to reduce functions, and not to reduce staff while leaving functions intact;
- (v) that we were not going to seek purely artificial reductions in staff numbers by substituting agency staff, consultants, etc for civil servants at the same or greater cost.

We confirmed all 5 points. The agreed note of the meeting will be circulated as soon as possible.

4. As regards consultation, the Staff Side were anxious about the shortage of time between now and the end of July, and we suggest that an early discussion in general terms will be helpful. You may also like to have the following points in mind:

- (a) It will be helpful if at the end of the day the Government can say that all staff sides were asked for their own ideas for possible cuts (even if that has produced no result);
- (b) All revelations to the staff side about the nature of specific options under consideration should be made either by Ministers themselves or on their express authority; it may be sensible to draw up a short list of more likely candidates before embarking on this part of the consultation process. But subject of course to the views which your Ministers take about specific options, we suggest that the general stance should be to consult except where there is good reason for not doing so;
- (c) It is very desirable that all staff should have accurate, and not garbled, information about the exercise. Departments will wish to consider how best to ensure that accurate information about the form of this exercise and the appropriate parts of exchanges with the staff side are widely disseminated.

5. As regards redundancy, no guarantees can be given that there will be none. The Government will do all it can to achieve the reductions by natural wastage, but there may be some redundancy; we shall have to see how big the reductions are, whom they affect and where, before this can be decided. It would however be helpful if, in preparing your returns at the end of July, you could give us as good an indication as you can of the size of any redundancy problem you foresee in your departments for each of the three percentage levels of saving.

6. In paragraph 16 of my DEO letter of 4 June, I asked that Manpower Branches in the CSD should be kept informed of your proposals as they develop. Since the scope of consultation, as determined by each Minister, may vary from department to department,

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MINUTES OF EVIDENCE TAKEN BEFORE THE

19 May 1980]

[Continued

it would be helpful if you could cover this also as you keep us up-to-date; this will enable us at least to warn departments if the variations in consultation are becoming notably wide.

7. You may find it helpful to have the attached copy of my letter to Kendall of 8 June informing him of the present state of play on Sir Derek Rayner's project.

8. Departments employing industrial staff may like to know that officials have met the JCC trade union side, also on 11 June, to explain the exercise along similar lines. Their reaction was also a quiet one, their main points being that the unions would react against cuts being implemented in such a way as to impose on staff additional duties or overtime; and they understood defence to be a priority area for the Government.

R W L Wilding

12 June 1979

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10 DOWNING STREET

From the Principal Private Secretary

SIR IAN BANCROFT

Select Committee on the Treasury and Civil Service

You will remember that we had a word some weeks ago about Mr. du Cann's approach to the Prime Minister about the interest of the Treasury and Civil Service Select Committee in the role and work of the Civil Service Department. As you know, the Prime Minister saw Mr. du Cann on 24 March.

Initially the Prime Minister was concerned that Mr. du Cann's approach to her should be kept confidential but she has now agreed that I should let you have, for your information, the attached copies of her exchange of correspondence with him.

The reason for the delay in replying to Mr. du Cann's letter of 14 March was simply that the nature of the Prime Minister's discussion with him on 24 March was such that it seemed unnecessary for the Prime Minister to let him have a written response to his letter. But we learned last week from the Clerk to the Select Committee that Mr. du Cann was enquiring whether he would get something in writing - presumably so that he could show it to his colleagues on the Select Committee - and so the Prime Minister sent him the letter of 24 April.

I am sending a copy of this minute and its attachments to Sir Robert Armstrong.

RE: A. WHITMORE

Spoke to Mr. Haddock, the Clerk to the Treasury & Civil Service Select Committee, to ensure that he understood that we regarded the exchange of correspondence between the Prime Minister and Mr. du Cann as private and not for publication. He said that that was his understanding and that there was no question of publishing the letters, though

30 April 1980

They had been shown to the members of the office. I passed this on to Sir Ian Bancroft's office.

BMJ
2.4.80



PS

10 DOWNING STREET

THE PRIME MINISTER

24 April 1980

I am sorry that I have not replied before to your letter of 14 March which we met to discuss on 24 March.

I think it is right that Select Committees should look critically every so often at Government organisations and practices that have been in existence for some time. For this reason, as I told you when we met last month, I welcome the intention of the Treasury and Civil Service Committee to enquire into the role and powers of the Civil Service Department. This is a subject in which there is considerable Parliamentary and public interest at present and on which the Government will in due course have to reach conclusions. I am sure that it will be valuable to have the Committee's contribution to the discussion.

(SGD) MARGARET THATCHER

The Rt. Hon. Edward du Cann, M.P.

vb



May I have
him reply
to the
draft pl.

10 DOWNING STREET

MR WITTMORE

AW.

PRIME MINISTER

I mentioned to you this afternoon that the Clerk to the Treasury and Civil Service Select Committee had telephoned to say that Mr. du Cann was wondering whether you were going to reply to his letter of 14 March about the future of the CSD (Flag A).

I must say that, in view of the very frank and confidential nature of the discussion you had with him when you saw him on 24 March, I thought that a reply from you was not called for. But you agreed this afternoon that if Mr. du Cann would like a letter (which of course he will show to his Committee), he should have one, and I accordingly attach a draft which follows the lines you sketched out.

AW.

23 April 1980



10 DOWNING STREET

~~CLIVE~~ MMS.

The Clerk to the Tsy Select
Committee rang me today to say that
E du Can wonders whether the PM
intends to reply in writing to his
14 March letter (at the flap). I
was non-committal, but will have to
ring him back. Do we regard the
discussion on 24 March as being
our last word?

MJS

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cc Master Set
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- H/c Proadun. A 2

NOTE OF A MEETING BETWEEN THE PRIME MINISTER AND
MR. EDWARD DU CANN AT 1445 ON MONDAY, 24 MARCH 1980

Mr. du Cann said that he had sent the Prime Minister his letter of 14 March 1980 about the future of the Civil Service Department because he thought it important that he should have guidance from her on the direction in which he should take his Select Committee.

The Prime Minister said that she was very glad that the Select Committee was turning its attention to the CSD. When she had visited the Department recently she had found that although many of its staff were of high quality, a lot of them seemed to spend much of their time simply shadowing other departments. She was now of the view that it would make sense to put the Pay and Manpower divisions of the CSD into the Treasury. She thought that it would be helpful to have the Select Committee's views on this issue. She would also like to encourage them to look at the possibility of personal rates of pay for the most senior officials and at the proposal that there should be much more grade skipping at higher levels in the Civil Service. Finally, she hoped that the Select Committee would continue to pay close attention to the size of the Civil Service: she felt that far too many civil servants were employed on monitoring the work of other departments and on unnecessary coordination.

Mr. du Cann said that the Prime Minister's steer had been very helpful. There were a number of members of his Committee who would like to ask the Prime Minister to submit a memorandum on the future of the CSD and even to invite her to give oral evidence. He personally was strongly opposed to this for it would be intolerable to put the Prime Minister in this position. The Prime Minister's response to his request for guidance would enable him to head off those of his colleagues who wished to pursue the idea of having evidence from the Prime Minister. He was seeing his Committee later that day and he would tell them that the Prime Minister was considering the future of the CSD and had said that she would find it valuable to have their views at a fairly early date.

/The Prime Minister

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10 DOWNING STREET

From the Private Secretary

1 April 1980

Original on
Govt. Mach, Efficiency & Waste Pt 5

Dear Gerry.

The Prime Minister held a meeting yesterday afternoon to discuss the Secretary of State for Trade's minute of 12 March on waste in Government and Sir Derek Rayner's minute of 26 March on the efficiency of central government and lasting reforms. The following were present in addition to your Minister: Sir Ian Bancroft, Sir Robert Armstrong, Sir Derek Rayner and Mr. Priestley.

Waste in Government

The Prime Minister said that she had a good deal of sympathy for the points made in Mr. Nott's minute. In particular, she believed there was too much overlapping of functions between Departments. In some cases, staff in one Department seemed to be monitoring the work of other Departments quite unnecessarily; in other cases, for example as between ODA and FCO and as between the Departments of Industry and Trade, there seemed to be unnecessary duplication of work. She also agreed that the appointment of deputy chairmen of nationalised industries and public boards should not need to be cleared with her; nor should it be necessary for holidays and trips abroad by Junior Ministers to be cleared with No. 10. It would be right for Cabinet Ministers in future to be responsible for visits away from London by their Junior Ministers, though they would need to ensure that official visits were fully justified and that their Departments were always left with adequate Ministerial cover.

In discussion, Mr. Channon said that Mr. Nott's complaints about CSD control of his Department's expenditure were ill-founded. By monitoring expenditure on transport by Departments, the CSD were saving a great deal of money at little cost in terms of staff expenditure. The Prime Minister commented that the existence of central control of expenditure by the CSD and Treasury implied that Ministers were not sufficiently economy minded: it was a sad comment that such control appeared to be needed. None the less, she hoped that the Treasury and CSD would concentrate more on broad control of expenditure and on developing control parameters, leaving more of the detail to spending Departments.

/ Mr. Channon

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Mr. Channon said that he agreed with Mr. Nott that there was too much Departmental "sponsorship"; but the Department of Trade were in fact one of the biggest "sponsor" Departments, and they would need to drop some of their "sponsorship" activities. As regards Ministerial travel, Sir Ian Bancroft pointed out that the Scottish Office had introduced a specific cash limit on travel; and it would be worth considering extending this to other Departments.

Finally, the Prime Minister commented on what she regarded as much wasteful expenditure by the COI on paid publicity - for example on behalf of the Department of Energy. Sir Ian Bancroft said that there might be less waste in this area if Departments, rather than the COI, had responsibility for their own advertising budgets. Mr. Channon said that he would compile a report for the Prime Minister on COI advertising.

Summing up this part of the discussion, the Prime Minister asked Sir Robert Armstrong to provide a revised draft of a minute for her to send to Mr. Nott - taking into account the points which had been made.

The Efficiency of Central Government: Lasting Reforms

Introducing his paper, Sir Derek Rayner said that it was absolutely vital that Ministers in charge of Departments and their senior officials should be fully involved in the efforts to reduce Civil Service numbers and functions. The Rayner projects showed what in principle could be achieved, but if a major and lasting impact were to be made, Ministers and officials would have to take a much greater interest in bringing about a more efficient and streamlined Civil Service. There would need to be greater accountability for success or failure in meeting the Government's efficiency objectives. A whole new approach to Civil Service management was needed. At present, for example, whenever new problems had to be dealt with, Departments almost always asked for additional staff - instead of finding staff economies in other policy areas. Also, there were often ways of dealing with problems without a significant addition to staff numbers.

The meeting then discussed each of the paper's recommendations in turn.

- (i) Recommendations 1-3: It was pointed out that in some very large Departments it would be difficult to combine the posts of Principal Finance and Establishment Officers because the combined job would simply be too big for one person. On the other hand, it was argued that the finance and manpower control functions in Departments

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should be integrated as far as possible. The Prime Minister agreed that Sir Derek Rayner should take the lead on these recommendations with the help of the Treasury and the CSD and the Head of the Government Accountancy Service - with a view to reporting back later this year if possible.

- (ii) Recommendation 4: It was agreed that the aims and practices of central control needed to be restated. The Treasury and the CSD, assisted by Sir Derek Rayner, should put forward recommendations.
- (iii) Recommendation 5: Sir Derek Rayner said that the idea of an "Inspector General" was intended as a way of institutionalising the Rayner exercise on a continuing basis. The "Inspector General" would provide a continuing, independent source of advice on how the Civil Service might function better. The Prime Minister said that she was attracted by the idea, but it would require much further consideration before a decision could be taken. So too would the proposal to merge the CSD with the Treasury, although here again she could see a good case in principle. She would like Sir Ian Bancroft to examine further the idea of an "Inspector General" and the proposal for a merger between the Treasury and the CSD (and the other related changes proposed) in consultation with Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner. Sir Ian Bancroft said that the organisation of government at the centre was being looked at by the Select Committee on the Treasury and the Civil Service and officials giving evidence would need clearance from the Prime Minister on what they were to say. There was also the question of whether the merger study should be made public, given the Select Committee's interest in the subject. The Prime Minister said that, on balance, it would be better to keep it secret at this stage.
- (iv) Recommendations 6 and 7: The Prime Minister said that she would consider these herself.
- (v) Recommendations 8-11: It was agreed that the CSD should advise on these.

/ (vi)

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- (vi) Recommendation 12: It was agreed that it would be a good idea, in principle, to ask Departments to keep a record of the cost of resources committed in support of Parliamentary work. But further work was needed on how this might be done. The Prime Minister suggested that the CSD, in consultation with Sir Derek Rayner, should put forward recommendations with a view to action in one Department initially.
- (vii) Recommendations 13-14: It was agreed that Sir Derek Rayner should take the lead on these recommendations drawing on the assistance of the CSD, the Treasury and the Head of the Government Accountancy Service.
- (viii) Recommendation 15: This was agreed in principle; but it would be for the Treasury to take the lead.

Some of the recommendations which were agreed only affect your Department in the first instance; work on these can therefore begin immediately. A number of them, however, involve the Treasury. As regards these, the Prime Minister will shortly be writing to the Chancellor asking for his co-operation in carrying them forward. Clive Priestley has kindly agreed to provide a draft.

The Prime Minister has indicated that she hopes all of this work can go forward quickly and that Sir Derek Rayner can be involved as fully as possible. She would be grateful if your Minister would let her have a proposed timetable for carrying forward the various recommendations.

The Prime Minister does not want this work to be held up until the Cabinet discussion on manpower management in the Civil Service which has been planned for later this month. At that meeting, there will of course be papers by Mr. Channon and Mr. Heseltine and also a general paper by Sir Derek Rayner; but the Prime Minister does not wish to seek Cabinet's endorsement of the various recommendations mentioned above. Sir Derek's paper for Cabinet should not cover his machinery of government proposals, knowledge of which should be restricted to your Department and the Treasury on a strictly "need to know" basis; nor should Sir Derek's paper cover his honours proposals.

2) Finally, as you know, the Prime Minister has invited your Minister to Chequers next Wednesday to discuss Civil Service matters further. She has also asked Sir Derek Rayner to join them later in the day.

/ The Prime

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3) The Prime Minister has it in mind to discuss with Mr. Channon the establishments of Departments, and it would be helpful if he could let the Prime Minister have in advance notes on departmental numbers which would enable her to see the data in a historical sequence. It would be helpful if this could also include information on the changes in staff numbers by grade, especially for big Departments such as DHSS, MOD, Inland Revenue and Customs and Excise.

The Prime Minister would hope to be able to obtain from this information and from her discussion with Mr. Channon a clearer idea of the issues facing Departments in the manpower field, and she would then like to go over with Mr. Channon the main ideas on manpower policy which he intends to put forward to the end-April Cabinet. The Prime Minister would like Sir Derek Rayner to join the discussion later in the day, partly to take stock of progress on the 1979 Rayner projects and partly to continue the discussion on manpower policy and lasting reforms.

I am sending copies of this letter to David Laughrin (Civil Service Department), David Wright (Cabinet Office) Sir Derek Rayner and Clive Priestley.

Wright

Tim

KRB

G. E. T. Green, Esq.,
Civil Service Department.

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The Prime Minister confirmed that she did not wish to give either written or oral evidence to the Select Committee and that she was content for Mr. du Cann to proceed as he had proposed.

AWL

24 March 1980

CONFIDENTIAL



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10 DOWNING STREET

Prime Minister.

More signs of the times,
I am afraid.

How soon you wish
to proceed? I think it would
be better to take up Mr De
Lam's the of a talk at this
stage rather than put in a
memorandum. If you agree, I
suggest that I first get Sir Dan
Bancroft's comment's on Mr De
Lam's letter. Content?

I should like to
talk to him
Just one.

AKW

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HOUSE OF COMMONS
LONDON SW1A 0AA

14th March 1980


A handwritten signature in dark ink, appearing to read 'Lord du Cann'.

As you know, there has been considerable unease on both sides of the House, in this Parliament and in the last, that the Civil Service Department having done well in its early days when implementing the Fulton Report, has since run out of steam. This view is based on the assessment that the Civil Service Department does not carry enough weight to persuade or require Departments to undertake the necessary reforms to cut down unnecessary manpower to promote productivity and value for money in administration. (It was set out clearly in Chapter VIII of the Eleventh Report of the Expenditure Committee in 1977 which discussed alternative solutions on which the Government of the day did not pronounce.)

The Treasury and Civil Service Committee has reverted to this question in the enquiry they are now carrying out into efficiency in the Civil Service. Members would very much welcome some idea as to how your mind is moving about possible changes before pressing on with what they rightly consider the central part of their enquiry, namely the role and powers of the Civil Service Department.

The Committee has had the advantage of a discussion with Sir Derek Rayner. We have not yet reached any formal conclusions following our discussions with him but, impressive and useful though his work undoubtedly is, the fact of his appointment seems to indicate of itself that the present division of responsibility between the CSD, the Treasury and Departments is not working as well as it should. I have no doubt that the Committee will be concerned that it is only after the appointment of Sir Derek Rayner that the potential economies in administration which are currently under discussion have been discovered inside Departments. I feel that the Committee may take the view that it is appropriate to ask the question - why this is so? More particularly, if Sir Derek's work continues to result in a much longer catalogue of potential economies, perhaps the attention of Government should be better directed towards the need for enquiries into the structure of and organisation within Departments. The question is bound to be asked, are Departments organised in such a way as to ensure maximum efficiency, maximum economy, and maximum value for money?

I do not know whether you would prefer to have an informal discussion with me about these matters or whether you would like to let the Committee have a memorandum of your views. You may wish to know, however, that the Committee is aware that I am corresponding with you on this subject.

A handwritten signature in dark ink, appearing to be 'J. ...', written in a cursive style.A second handwritten signature in dark ink, appearing to be 'S. ...', written in a cursive style.

The Rt. Hon. Margaret Thatcher, M.P.,
10 Downing Street,
London, SW1.

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