

SB  
836

PREM 19/475

PART 3 ends:-

F. Gow to R. Whitney 14/2

PART ~~3~~ 4 begins:-

R-TA to CAW AS120 20.5.81





10 DOWNING STREET

14th February, 1981

I am now able to reply to your letter dated 12th January, for which many thanks.

I have had a word with the Prime Minister and with Clive Whitmore about your letter.

The Prime Minister is content for you to see those listed in paragraphs 1, 2 and 4 of the Schedule to your letter, subject to one point. Geoffrey Howe is, as you know, very heavily engaged at the present time; I think that it would be best to defer talking to him until after the Budget and the Budget Debates are over.

For reasons which you will understand, and about which we have had a word, the Prime Minister does not think that it would be appropriate for you to see Civil Servants, as listed in the third group in your Schedule.

I know that you agree that any discussions which you do have are non-official and on a strictly non-attributable basis.

I think that David has in mind to arrange an informal lunch, at which you could have an exchange of views with him, Robert Armstrong, and Clive Whitmore.

IAN GOW

Ray Whitney, Esq. O.B.E., M.P.  
House of Commons

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file 4/18  
GODDARD

10 DOWNING STREET

*From the Principal Private Secretary*

9 February 1981

The Prime Minister has approved the attached White Paper replying to the Treasury and Civil Service Select Committee's Report on the Future of the Civil Service Department. The White Paper will be published at 1130 a.m. on Thursday, 12 February.

The Prime Minister has asked me to circulate copies for information to all members of the Cabinet and to the Chief Whip. Copies also go to Sir Ian Bancroft, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

C. A. WHITMORE

J. F. Halliday, Esq.,  
Home Office.

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CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ

Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service*

Mike Pattison Esq  
10 Downing Street  
LONDON SW1

9 February 1981

*Dear Mike*

ORGANISATION OF THE CENTRAL DEPARTMENTS

- ... As agreed on Friday evening, I enclose 30 copies of the draft White Paper for you to arrange circulation to members of
- ... Cabinet. I am also sending a copy of the letter which Sir Ian Bancroft would have used had it been decided that he should circulate the draft; it may be of use in preparing your covering note.

*Yours sincerely  
R D Hull.*

R D HULL  
Acting Private Secretary

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CIVIL SERVICE DEPARTMENT  
WHITEHALL LONDON SW1A 2AZ  
Telephone 01 273 5400

*Sir Ian Bancroft G.C.B.  
Head of the Home Civil Service*

Not Sent

RDSH  
6 Feb 81

John Wiggins Esq  
Private Secretary to the  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street  
LONDON SW1

6 February 1981

*Dear John,*

... The Prime Minister has approved the enclosed White Paper, replying to the Treasury and Civil Service Select Committee's report on the Future of the Civil Service Department, for publication at 11.30 am on Thursday 12 February.

I have been asked to circulate copies for information to the Private Secretaries to Ministers in the Cabinet, and to Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

*Yours ever,*

*Ian*

IAN BANCROFT

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THE FUTURE OF THE CIVIL SERVICE DEPARTMENT

Government Observations on the First Report from the Treasury and Civil Service Committee,  
Session 1980-81, HC54

Presented to Parliament  
by the Prime Minister and Minister for the Civil Service  
by Command of Her Majesty  
1981

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## GOVERNMENT OBSERVATIONS ON THE FIRST REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE, SESSION 1980-81: THE FUTURE OF THE CIVIL SERVICE DEPARTMENT

### INTRODUCTION

1. In its First Report for the Session 1980-81 (The Future of the Civil Service Department, HC 54), the Treasury and Civil Service Committee examined the role and effectiveness of the central departments of government, and particularly of the Civil Service Department (CSD), in promoting and securing efficiency in departments generally.

### THE ALLOCATION OF FUNCTIONS AT THE CENTRE

2. On the key machinery of government issue (paragraph 23), the Prime Minister announced to the House<sup>1</sup> on 29 January 1981 her conclusion that the Treasury and <sup>the</sup> CSD should not be merged. The Prime Minister agrees with the Committee that the right course at the present time is to strengthen and improve the existing organisation rather than to change the machinery of government. The rest of this White Paper - setting out the Government's observations on the Select Committee's Report and their plans for the future work of the two Departments - proceeds from this decision.

### THE SELECT COMMITTEE'S RECOMMENDATIONS

3. In paragraph 4 of its Report the Select Committee identified three topics of interest:-
- a. the effectiveness of the CSD;
  - b. the relationship between the CSD and the Treasury; and
  - c. the policy objectives of the CSD.

<sup>1</sup> Official Report, Vol 997, Col 1070

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The Government's observations follow this structure. In those matters on which it is not yet possible to reach a conclusion, the Government hope that their observations will contribute to a continuing and fruitful dialogue between the Committee and the Departments concerned.

## THE GOVERNMENT'S OBSERVATIONS

### Background

4. The CSD must make its share of the savings planned for the Civil Service. By 1 April 1984 the staff numbers of the CSD (including the Civil Service Catering Organisation) will have been reduced by nearly 1000 (or almost one fifth) as against the number of staff in post when the Government took office. Where the availability of resources is the limiting constraint upon the implementation of the Committee's recommendations, this is made clear in the observations that follow.

### The Effectiveness of the CSD

#### The Staffing of the CSD

5. The Committee considered that the staffing of the CSD could be strengthened by importing a wider range of talent, qualification and experience (paragraph 30). As to the desirability of introducing outside experience there is nothing between the Government and the Committee, and the Government agree that the CSD should get at least its share - possibly a disproportionately large share - of the best talents, drawn from inside and outside the Civil Service.

6. The Government will take into account all the effects of this policy. It should not be carried to the point where it compromises the ability to develop professionalism, where people move in and out of jobs too rapidly, or where the potential of existing domestic talent cannot be fully developed. The best balance is a matter of judgement on which the Committee's views will be welcome; in the meantime it may be helpful to set out briefly where the Department stands today on the Committee's specific recommendations:-

- a. The recruitment at a fairly senior level of people with relevant experience from outside the Civil Service.

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Of the 147 staff at Principal level and above in the policy areas of the CSD (defined in paragraph 11 of the Report by the Study Team on the Integration of the Treasury and the Civil Service Department <sup>1</sup>), some 40 have had experience of employment outside the Civil Service. The relevance of that experience was taken into consideration at the time of recruitment, or in arranging secondments and exchanges.

b. Greater interchange between departmental Establishment Divisions and the CSD.

Of the same group of 147, some 90 have worked in one or more government departments other than the CSD; of these, 25 are at present on loan to CSD from other departments. In nearly all cases this experience has been acquired or refreshed within the last 10 years; it has included work in Establishment Divisions but has extended beyond, so that CSD gains the benefit of experience in a wide range of operational tasks. Eight Principals are on secondment from CSD to other departments, and two are seconded to Civil Services overseas.

c. Greater interchange between the Treasury's Public Expenditure Divisions and the CSD's Manpower Divisions.

Of the 90 or so staff with departmental experience outside the CSD, 40 have served in the Treasury. Numerical constraints limit interposting between the Divisions cited: the Manpower Divisions contain eight Principal and three Assistant Secretary posts. Of the three Assistant Secretary posts, two at present are held by CSD staff, of whom one has previously served as a professional economist in MAFF, and the other has had five years experience as a senior manager in a public corporation; the third is on a period of secondment into CSD from the Ministry of Defence.

7. In this situation and given that the numbers of senior policy posts are small in relation to the numbers in the grades beneath, management must carefully judge the effect that increasing the proportion of staff drawn from outside the Department will have on its policy of developing domestic talent. The Government hope that the facts on current practice will reassure the Committee that the value of a broad range of outside experience is fully appreciated.

<sup>1</sup> The Integration of HM Treasury and the Civil Service Department: Report of the Study Team; Treasury/Civil Service Department; October 1980.

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## The Role of the CSD

8. The Government welcome the Committee's support for their continuing commitment to the proper and economical management of the Civil Service. The Government note that the Committee considered widespread disquiet had been aroused by what has been seen as the CSD's failure to pursue a more active role (paragraph 9).

9. The Government agree with the Committee in attaching considerable importance to Ministerial interest and direction (paragraphs 9 and 29). The level and character of any department's activities are, and in our system of government must be, determined by the decisions and wishes of Ministers. How far the CSD has or has not in the past pursued or achieved the objectives described in the Committee's report has depended crucially on the priority which Ministers have assigned them. The activities of the central Departments affect all other departments, and are necessarily influenced by the collective priorities of the Government as a whole. This Government regards the good management of central administration and the achievement of a smaller and more efficient Civil Service as one of its top priorities. The CSD is an essential instrument for this purpose. Considerable progress has been made since May 1979. The Government are at one with the Committee in continuing to give weight to this work.

10. The Committee drew attention (paragraph 31) to the comment by a witness that the CSD left too much independence to individual departments in matters of internal management, particularly in the context of the direct control of resources. It is important to get the responsibilities clear.

11. The Government consider that although there are areas of management in which a high degree of central authority is appropriate, the primary responsibility for achieving good management in a government department rests with the Minister and his senior staff; it is to departmental Ministers that Parliament entrusts resources. The task of the central Departments in this area is to advise Ministers upon the allocation of resources (both money and manpower); to design and maintain the overall system of resource control; to ensure that it is operated effectively by departments; to satisfy themselves that departments have adequate systems for conducting their operations efficiently, and that they apply these systems properly; and to provide expert help and advice where it is needed.

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12. This distinction is required in order to preserve the clear lines of accountability which should support both the internal efficiency of government and its relationships with Parliament and the public. The Government intend that the CSD's pursuit of efficiency in the field of resource control will be conducted accordingly. Within this framework, and under the direction of Ministers, civil servants are responding well to the Government's drive for increased efficiency.

### The Pursuit of Efficiency

13. The Committee's Report criticises the CSD's effectiveness in controlling Civil Service manpower numbers and in promoting what has been termed manpower efficiency (paragraph 28).

14. Since May 1979, the Government have given high priority to these objectives. Thus, in addition to their continuing tasks in the fields of manpower control, management services and organisation, the CSD Divisions concerned have:

- a. taken the lead in an intensive programme of work to reduce the size of the Civil Service; results have been reported to Parliament and manpower targets have now been settled for all departments for 1 April 1984;
- b. provided close support for Sir Derek Rayner's programme of scrutinies and taken the lead in his Service-wide review of statistics;
- c. devised and promulgated improvements to the system of staff inspection;
- d. embarked on a programme of Service-wide cost-cutting exercises in supporting services.

15. Other CSD activities, however, are also important for the efficient despatch of government business. They include constructing a management framework that prevents wasteful deployment, promoting good industrial relations, and adopting personnel policies that maintain standards of performance. In setting its priorities the Government will ensure that due weight is given to all aspects of the Department's work and will allocate resources accordingly.

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## Programme Evaluation

16. The Committee commented (paragraphs 31 and 37) on the need to evaluate programmes in terms of their "final effectiveness". The Government agree. In addition to the review of all programmes each year in the public expenditure survey, much work, using a variety of techniques, goes into reviewing the effectiveness of particular programmes. The central Departments take part in a number of these reviews. One current objective is to develop and improve the measurement of "output" where this can usefully be done in the public services. The scrutinies of departmental activities carried out in consultation with Sir Derek Rayner are intended as a major stimulus to departmental efficiency.

### The Relationship Between the CSD and the Treasury

17. The Committee recommended three operational changes with a view to encouraging closer working relationships between the CSD and the Treasury (paragraph 32), namely, the co-location of the two Departments in a single building, the sharing of common services between the two Departments, and the transfer of the CSD's Accountancy, Finance and Audit (AFA) Division to the Treasury. These proposals drew on the Report of the Study Team on the Integration of H M Treasury and the Civil Service Department.

18. The Government agree with the Committee that a close working relationship between the Treasury and the CSD is needed to give drive and impetus to central management policies. The Report of the Study Team, (paragraphs 7-12) showed that the area of direct policy contiguity between the two Departments is small relative to the total size of the Departments. Accordingly, operational measures designed to improve communication within the centre should concentrate primarily on this restricted number of posts.

#### Co-location

19. The Government agree with the Committee that the functions of the CSD have a logical cohesion which it would be harmful to split. Accordingly the Government accept the Committee's conclusion (paragraph 32(i)) that the CSD policy functions at present brigaded together geographically should remain so; and that co-location should only proceed on condition that all the CSD's posts at present in Old Admiralty Building can be moved to join those of the Treasury.

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20. The Report of the Study Team drew attention to the costs and disruption of co-locating the two Departments in the Government Offices Great George Street. The Government believe that it would be wrong to distract the Departments from their present tasks. To make space immediately for the CSD would also result in some geographical decentralisation for the Foreign and Commonwealth Office, whose own co-location would be correspondingly harmed.

21. The Government have therefore decided not to co-locate the two Departments now. They will keep the matter under review. They will, in addition, examine whether any further steps, such as an extension of cross-attendance at policy meetings (paragraph 29 of the Report of the Study Team), can be taken to enhance day to day communication between the staff of the two Departments.

### Common Services

22. The Committee recommended (paragraph 32(ii)) that the common services of the two Departments should be brought together on the basis of the plan outlined in Annex 4.2 of the Report of the Study Team.

23. This plan assumed that there would be a single Department with its headquarters located in one building. The advantages to be gained from setting up a unified common services organisation must now be re-assessed on the basis of separate Departments separately accommodated. In particular most of the small potential staff savings identified would result from common services which it would be difficult to amalgamate in advance of co-location and whose successful operation would largely depend on unifying ultimate lines of accountability.

24. The Committee concluded that the problems that might be faced by a single Establishment Officer reporting to two Permanent Secretaries were not insuperable: they are overcome, for instance, in those departments that already have joint common services. In those departments, however, the present arrangements have evolved from the split of a larger department into two or more smaller departments. In these cases, the need to minimise disruption and to avoid additional costs has been the decisive factor. Uniting establishment matters in two departments where they have already functioned separately for many years does not offer the same benefits, imposes the costs arising from disruption, and may be expected to make the role of Establishment Officer harder rather than easier.

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25. Accordingly, the Government do not propose to bring together the common services of the two Departments. Their continued separation will not obstruct the existing arrangements for cross-posting between the CSD and the Treasury (paragraphs 6 and 7, above) which will continue to operate. Some specialist skills, namely those of the Accountancy, Finance and Audit, and the Operational Research, Divisions of the CSD, are drawn upon by both Departments; here common arrangements for managing staff may be advantageous. The Government will examine this possibility further.

The Transfer of the CSD's Accountancy, Finance and Audit Division (AFA)

26. The Government agree with the Committee in attaching importance to the improvement of financial control systems. The Treasury should be in the lead in this field and the Government agree that the balance of advantage is in favour of transferring the CSD's AFA Division; they accordingly accept this recommendation (paragraph 32(iii)). Detailed arrangements will be made to ensure that both central Departments have the support of the skills and experience of qualified accountants in order that the efficiency of the CSD should not suffer from the move.

27. The Government intend to press forward vigorously with measures to improve financial control and management in Departments. These measures include:

- more effective planning and control of the cash cost of programmes of public expenditure
- further development of financial responsibility and accountability in line management
- better matching of the financial information needed for the Public Expenditure Survey and Estimates with that needed for management
- the strengthening of internal audit in Departments.

The Treasury is taking the lead in these exercises, but the CSD will make an important contribution, drawing on its experience with departmental organisation and field work. The Head of the Government Accountancy Service will also assist with professional advice. A Steering Group

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under Treasury chairmanship has been established to co-ordinate and direct the relevant activities. It will as appropriate draw on the experience of Sir Derek Rayner's scrutiny programme and other reviews, and will ensure that support is given to the implementation of the "lasting reforms".<sup>1</sup>

## The Priorities and Objectives of the CSD

28. The Committee recommended (paragraphs 33-38) that more attention should be given to several aspects of the CSD's work beyond those of resource control and efficiency in organisational terms and that a number of measures recommended by the Fulton Committee<sup>2</sup> and by the Expenditure Committee of the last Parliament<sup>3</sup> should be re-examined.

29. Since the Government took office high priority has been given to good management and to the achievement of a smaller and more efficient Civil Service (paragraph 9, above). The priority and resources accorded to the CSD's other work will be determined by reference to this objective (paragraph 15, above). In pursuit of these aims the CSD, in collaboration with the Treasury and departments, will tackle specific problems including:-

- a. promoting a knowledge and consciousness of costs, and the incentive to be economical, at all levels of management;
- b. improving systems for controlling manpower and administrative overheads;
- c. ensuring that the staff responsible for controlling and managing resources have the necessary training and experience for the job; and,

<sup>1</sup> Paragraph 13 of a Memorandum submitted by Sir Derek Rayner to the Select Committee on the Treasury and Civil Service [Appendix 10, the Fourth Report from the Committee, Session 1979-80: "Civil Service Manpower Reductions" Vol II; HC 712]

<sup>2</sup> Fulton Report; The Civil Service; Cmnd 3638; 1968

<sup>3</sup> Eleventh Report from the Expenditure Committee; Session 1976-77; HC 535

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- d. pruning and simplifying administrative functions and procedures.

The first emphasis in personnel policies as elsewhere must be on improving the ability of the Civil Service to solve these problems. The Government will approach the matters referred to by the Committee in this light.

## Training

30. As to formal training, the resources devoted by the CSD to this part of its overall effort are being reduced, and there is a shift of emphasis towards training for efficient management, including training in accountancy, financial management and audit. The main priority in the CSD's advice and guidance to departments on training is to help them get better value for money by focussing attention on the relative costs and benefits of particular methods of training.

## Professionalism and Movement from Job to Job

31. The value of good arrangements for control and management is greatly increased if they are operated by officials with the right aptitude and training. Further thought has been given to the way in which the Service has hitherto identified and prepared, by formal training and otherwise, those who were to hold senior positions a decade or so later. Proposals are being developed for building on the present systems for defining the requirements of key posts, for identifying in advance suitably qualified successors to the existing holders, and for ensuring that key staff acquire the experience that fits them to fill such posts. Attention is being particularly focussed on posts with major responsibilities for management and control of resources. These proposals will make it possible to put on a more formal footing existing practices of specialisation in administrative work, and to ensure that those likely to occupy the highest ranks in the Service have direct experience of the management of both people and money. This approach will be adopted in other appropriate areas of the Service. The Government regard it as important that the staffing of Finance Branches, for example, should have full regard to experience, in-service training and external qualification.

32. These improved methods of succession planning and career development are relevant to the Committee's comments (paragraph 36) on the need for a greater degree of professionalism throughout the Civil Service, which includes specialisation by administrators, and the desirability of members of the Administration Group spending rather longer in each job. The extra

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effort put into succession planning should help in the long run to reduce the frequency of moves of administrative staff and to confirm the present tendency of such officers to spend much of their career in a particular work area. It will make it possible to choose more positively between importing outsiders with relevant experience for specific senior posts and ensuring a supply within the Service of people with suitable backgrounds for most, if not all, such posts.

33. These considerations do not all point one way, but the Government are sympathetic to the aim of increasing experience within one job and reducing the turbulence arising from too frequent moves.

### Unified Grading

34. The present system of grades in the Civil Service<sup>1</sup> is a mixture of an older system (based on classes) and a newer system (based on occupational groups and categories). It is recognised as a hybrid. While it has proved itself adequate for most management purposes, it is not entirely satisfactory and it has been criticised by the Expenditure Committee and by the Treasury and Civil Service Committee for failing to meet the objectives sought by the Fulton Committee (paragraphs 230-240 of the Fulton Report), whose recommendations led to the move towards occupational groups and categories. In paragraphs 35 and 38 of its Report, the Select Committee urged the Government to give fresh consideration to these proposals.

35. The Government will look again at the present structure of Civil Service grades. They will seek to establish the objectives that the management structure should meet, and see what changes may be needed. They will need to watch available resources, and the CSD will keep the Committee abreast of their thinking as it develops. Other studies are being pursued by the CSD related to the structure of grades within the Civil Service. In particular there is the Chain of Command Review, which is examining the number and use of grades hierarchically in the management structure, and which may provide a broader framework within which the principle of unified grading can be further examined.

<sup>1</sup> see paragraphs 2.4-2.7 of the Introductory Factual Memorandum submitted by the CSD to the Committee on 10 January 1980 [published by CSD; April 1980; HMSO]; and paragraphs 98-112 of the memorandum entitled "The Response to the Fulton Report" submitted by CSD to the sub-Committee of the Expenditure Committee in November 1975 [Eleventh Report from the Expenditure Committee, Session 1976-77; HC 535; pages 18-21]

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Conclusion

36. The Government have taken the opportunity provided by these observations on the Report of the Select Committee to indicate their priorities for the management of the Civil Service and for the control of resources devoted to departmental administration. The top priority is the pursuit of efficiency, particularly in the direct control of resources. As these observations show, the Government are keen to reshape the operations and policies of the central Departments so as to contribute to that priority. The Government have welcomed the recommendations of the Select Committee which are consistent with this aim. They intend to publish a White Paper describing the past and future work of the CSD and departments generally in the pursuit of the Government's high-priority policies with the accent on efficiency in the control of resources.

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10 DOWNING STREET

*From the Principal Private Secretary*

SIR IAN BANCROFT

CC HMT  
LPO  
HMT - Perm Sec.  
CO  
OPR2

Mr Gaffin

Coot

Mach

Organisation of the Central Departments

Thank you for your minute of 4 February 1981.

The Prime Minister is content for the White Paper on the future of the Civil Service Department to be published in the form of the text attached to your minute. As we have already told your office, it should be issued on Thursday 12 February, and the Prime Minister would be grateful if you would make the necessary arrangements.

In the meantime we will arrange for the White Paper to be circulated to members of the Cabinet for their information.

I am sending copies of this minute to Mr. Wiggins, Mr. Buckley, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

C. A. WHITMORE

6 February 1981

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10 DOWNING STREET

CAW

Can we clear for  
Cabinet circulation and  
publication, without  
further reference to the PM?

MAJ

5/2.



Free.  
m.

10 DOWNING STREET

CLIVE

MAN & THAMES

I HAVE DIGESTED A

LETTER TO RAY, WHICH I

WILL SUBMIT TO YOU AND

TO DAVID.

Tom.

4/2/1981

*[Handwritten signature]*



MR C A WHITMORE

ORGANISATION OF THE CENTRAL DEPARTMENTS

... I attach a final text of the White Paper replying to the Treasury and Civil Service Committee's report on the Future of the Civil Service Department, as requested in Mr Pattison's minute of 2 February. This text incorporates revisions based on all the comments we have received from the Prime Minister, the Chancellor of the Exchequer, the Lord President, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

If the Prime Minister is content with this draft, the next step is to circulate it to members of the Cabinet, for information. We shall, in parallel, make arrangements for the White Paper to be published in the week beginning 9 February.

Copies of this minute and attachments go to Mr Buckley, Mr Wiggins, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

JAB

IAN BANCROFT  
4 February 1981

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**THE FUTURE OF THE CIVIL SERVICE DEPARTMENT**

**Government Observations on the First Report from the Treasury and Civil Service Committee,  
Session 1980-81, HC54**

**Presented to Parliament  
by the Prime Minister and Minister for the Civil Service  
by Command of Her Majesty  
1981**

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## GOVERNMENT OBSERVATIONS ON THE FIRST REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE, SESSION 1980-81: THE FUTURE OF THE CIVIL SERVICE DEPARTMENT

### INTRODUCTION

1. In its First Report for the Session 1980-81 (The Future of the Civil Service Department, HC 54), the Treasury and Civil Service Committee examined the role and effectiveness of the central departments of government, and particularly of the Civil Service Department (CSD), in promoting and securing efficiency in departments generally.

### THE ALLOCATION OF FUNCTIONS AT THE CENTRE

2. On the key machinery of government issue (paragraph 23), the Prime Minister announced to the House<sup>1</sup> on 29 January 1981 her conclusion that the Treasury and <sup>the</sup>CSD should not be merged. The Prime Minister agrees with the Committee that the right course at the present time is to strengthen and improve the existing organisation rather than to change the machinery of government. The rest of this White Paper - setting out the Government's observations on the Select Committee's Report and their plans for the future work of the two Departments - proceeds from this decision.

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<sup>1</sup> Official Report, Vol 997, Col 1070

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#### The Staffing of the CSD

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6. The Government will take into account all the effects of this policy. It should not be carried to the point where it compromises the ability to develop professionalism, where people move in and out of jobs too rapidly, or where the potential of existing domestic talent cannot be fully developed. The best balance is a matter of judgement on which the Committee's views will be welcome; in the meantime it may be helpful to set out briefly where the Department stands today on the Committee's specific recommendations:-

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7. In this situation and given that the numbers of senior policy posts are small in relation to the numbers in the grades beneath, management must carefully judge the effect that increasing the proportion of staff drawn from outside the Department will have on its policy of developing domestic talent. The Government hope that the facts on current practice will reassure the Committee that the value of a broad range of outside experience is fully appreciated.

<sup>1</sup> The Integration of HM Treasury and the Civil Service Department: Report of the Study Team; Treasury/Civil Service Department; October 1980.

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## The Role of the CSD

8. The Government welcome the Committee's support for their continuing commitment to the proper and economical management of the Civil Service. The Government note that the Committee considered widespread disquiet had been aroused by what has been seen as the CSD's failure to pursue a more active role (paragraph 9).

9. The Government agree with the Committee in attaching considerable importance to Ministerial interest and direction (paragraphs 9 and 29). The level and character of any department's activities are, and in our system of government must be, determined by the decisions and wishes of Ministers. How far the CSD has or has not in the past pursued or achieved the objectives described in the Committee's report has depended crucially on the priority which Ministers have assigned them. The activities of the central Departments affect all other departments, and are necessarily influenced by the collective priorities of the Government as a whole. This Government regards the good management of central administration and the achievement of a smaller and more efficient Civil Service as one of its top priorities. The CSD is an essential instrument for this purpose. Considerable progress has been made since May 1979. The Government are at one with the Committee in continuing to give weight to this work.

10. The Committee drew attention (paragraph 31) to the comment by a witness that the CSD left too much independence to individual departments in matters of internal management, particularly in the context of the direct control of resources. It is important to get the responsibilities clear.

11. The Government consider that although there are areas of management in which a high degree of central authority is appropriate, the primary responsibility for achieving good management in a government department rests with the Minister and his senior staff; it is to departmental Ministers that Parliament entrusts resources. The task of the central Departments in this area is to advise Ministers upon the allocation of resources (both money and manpower); to design and maintain the overall system of resource control; to ensure that it is operated effectively by departments; to satisfy themselves that departments have adequate systems for conducting their operations efficiently, and that they apply these systems properly; and to provide expert help and advice where it is needed.

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## CONFIDENTIAL

12. This distinction is required in order to preserve the clear lines of accountability which should support both the internal efficiency of government and its relationships with Parliament and the public. The Government intend that the CSD's pursuit of efficiency in the field of resource control will be conducted accordingly. Within this framework, and under the direction of Ministers, civil servants are responding well to the Government's drive for increased efficiency.

### The Pursuit of Efficiency

13. The Committee's Report criticises the CSD's effectiveness in controlling Civil Service manpower numbers and in promoting what has been termed manpower efficiency (paragraph 28).

14. Since May 1979, the Government have given high priority to these objectives. Thus, in addition to their continuing tasks in the fields of manpower control, management services and organisation, the CSD Divisions concerned have:

- a. taken the lead in an intensive programme of work to reduce the size of the Civil Service; results have been reported to Parliament and manpower targets have now been settled for all departments for 1 April 1984;
- b. provided close support for Sir Derek Rayner's programme of scrutinies and taken the lead in his Service-wide review of statistics;
- c. devised and promulgated improvements to the system of staff inspection;
- d. embarked on a programme of Service-wide cost-cutting exercises in supporting services.

15. Other CSD activities, however, are also important for the efficient despatch of government business. They include constructing a management framework that prevents wasteful deployment, promoting good industrial relations, and adopting personnel policies that maintain standards of performance. In setting its priorities the Government will ensure that due weight is given to all aspects of the Department's work and will allocate resources accordingly.

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## Programme Evaluation

16. The Committee commented (paragraphs 31 and 37) on the need to evaluate programmes in terms of their "final effectiveness". The Government agree. In addition to the review of all programmes each year in the public expenditure survey, much work, using a variety of techniques, goes into reviewing the effectiveness of particular programmes. The central Departments take part in a number of these reviews. One current objective is to develop and improve the measurement of "output" where this can usefully be done in the public services. The scrutinies of departmental activities carried out in consultation with Sir Derek Rayner are intended as a major stimulus to departmental efficiency.

### The Relationship Between the CSD and the Treasury

17. The Committee recommended three operational changes with a view to encouraging closer working relationships between the CSD and the Treasury (paragraph 32), namely, the co-location of the two Departments in a single building, the sharing of common services between the two Departments, and the transfer of the CSD's Accountancy, Finance and Audit (AFA) Division to the Treasury. These proposals drew on the Report of the Study Team on the Integration of H M Treasury and the Civil Service Department.

18. The Government agree with the Committee that a close working relationship between the Treasury and the CSD is needed to give drive and impetus to central management policies. The Report of the Study Team, (paragraphs 7-12) showed that the area of direct policy contiguity between the two Departments is small relative to the total size of the Departments. Accordingly, operational measures designed to improve communication within the centre should concentrate primarily on this restricted number of posts.

#### Co-location

19. The Government agree with the Committee that the functions of the CSD have a logical cohesion which it would be harmful to split. Accordingly the Government accept the Committee's conclusion (paragraph 32(i)) that the CSD policy functions at present brigaded together geographically should remain so; and that co-location should only proceed on condition that all the CSD's posts at present in Old Admiralty Building can be moved to join those of the Treasury.

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## CONFIDENTIAL

20. The Report of the Study Team drew attention to the costs and disruption of co-locating the two Departments in the Government Offices Great George Street. The Government believe that it would be wrong to distract the Departments from their present tasks. To make space immediately for the CSD would also result in some geographical decentralisation for the Foreign and Commonwealth Office, whose own co-location would be correspondingly harmed.

21. The Government have therefore decided not to co-locate the two Departments now. They will keep the matter under review. They will, in addition, examine whether any further steps, such as an extension of cross-attendance at policy meetings (paragraph 29 of the Report of the Study Team), can be taken to enhance day to day communication between the staff of the two Departments.

### Common Services

22. The Committee recommended (paragraph 32(ii)) that the common services of the two Departments should be brought together on the basis of the plan outlined in Annex 4.2 of the Report of the Study Team.

23. This plan assumed that there would be a single Department with its headquarters located in one building. The advantages to be gained from setting up a unified common services organisation must now be re-assessed on the basis of separate Departments separately accommodated. In particular most of the small potential staff savings identified would result from common services which it would be difficult to amalgamate in advance of co-location and whose successful operation would largely depend on unifying ultimate lines of accountability.

24. The Committee concluded that the problems that might be faced by a single Establishment Officer reporting to two Permanent Secretaries were not insuperable: they are overcome, for instance, in those departments that already have joint common services. In those departments, however, the present arrangements have evolved from the split of a larger department into two or more smaller departments. In these cases, the need to minimise disruption and to avoid additional costs has been the decisive factor. Uniting establishment matters in two departments where they have already functioned separately for many years does not offer the same benefits, imposes the costs arising from disruption, and may be expected to make the role of Establishment Officer harder rather than easier.

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25. Accordingly, the Government do not propose to bring together the common services of the two Departments. Their continued separation will not obstruct the existing arrangements for cross-posting between the CSD and the Treasury (paragraphs 6 and 7, above) which will continue to operate. Some specialist skills, namely those of the Accountancy, Finance and Audit, and the Operational Research, Divisions of the CSD, are drawn upon by both Departments; here common arrangements for managing staff may be advantageous. The Government will examine this possibility further.

### The Transfer of the CSD's Accountancy, Finance and Audit Division (AFA)

26. The Government agree with the Committee in attaching importance to the improvement of financial control systems. The Treasury should be in the lead in this field and the Government agree that the balance of advantage is in favour of transferring the CSD's AFA Division; they accordingly accept this recommendation (paragraph 32(iii)). Detailed arrangements will be made to ensure that both central Departments have the support of the skills and experience of qualified accountants in order that the efficiency of the CSD should not suffer from the move.

27. The Government intend to press forward vigorously with measures to improve financial control and management in Departments. These measures include:

- more effective planning and control of the cash cost of programmes of public expenditure
- further development of financial responsibility and accountability in line management
- better matching of the financial information needed for the Public Expenditure Survey and Estimates with that needed for management
- the strengthening of internal audit in Departments.

The Treasury is taking the lead in these exercises, but the CSD will make an important contribution, drawing on its experience with departmental organisation and field work. The Head of the Government Accountancy Service will also assist with professional advice. A Steering Group

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# CONFIDENTIAL

under Treasury chairmanship has been established to co-ordinate and direct the relevant activities. It will as appropriate draw on the experience of Sir Derek Rayner's scrutiny programme and other reviews, and will ensure that support is given to the implementation of the "lasting reforms".<sup>1</sup>

## The Priorities and Objectives of the CSD

28. The Committee recommended (paragraphs 33-38) that more attention should be given to several aspects of the CSD's work beyond those of resource control and efficiency in organisational terms and that a number of measures recommended by the Fulton Committee<sup>2</sup> and by the Expenditure Committee of the last Parliament<sup>3</sup> should be re-examined.

29. Since the Government took office high priority has been given to good management and to the achievement of a smaller and more efficient Civil Service (paragraph 9, above). The priority and resources accorded to the CSD's other work will be determined by reference to this objective (paragraph 15, above). In pursuit of these aims the CSD, in collaboration with the Treasury and departments, will tackle specific problems including:-

- a. promoting a knowledge and consciousness of costs, and the incentive to be economical, at all levels of management;
- b. improving systems for controlling manpower and administrative overheads;
- c. ensuring that the staff responsible for controlling and managing resources have the necessary training and experience for the job; and,

<sup>1</sup> Paragraph 13 of a Memorandum submitted by Sir Derek Rayner to the Select Committee on the Treasury and Civil Service [Appendix 10, the Fourth Report from the Committee, Session 1979-80: "Civil Service Manpower Reductions" Vol II; HC 712]

<sup>2</sup> Fulton Report; The Civil Service; Cmnd 3638; 1968

<sup>3</sup> Eleventh Report from the Expenditure Committee; Session 1976-77; HC 535

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# CONFIDENTIAL

- d. pruning and simplifying administrative functions and procedures.

The first emphasis in personnel policies as elsewhere must be on improving the ability of the Civil Service to solve these problems. The Government will approach the matters referred to by the Committee in this light.

## Training

30. As to formal training, the resources devoted by the CSD to this part of its overall effort are being reduced, and there is a shift of emphasis towards training for efficient management, including training in accountancy, financial management and audit. The main priority in the CSD's advice and guidance to departments on training is to help them get better value for money by focussing attention on the relative costs and benefits of particular methods of training.

## Professionalism and Movement from Job to Job

31. The value of good arrangements for control and management is greatly increased if they are operated by officials with the right aptitude and training. Further thought has been given to the way in which the Service has hitherto identified and prepared, by formal training and otherwise, those who were to hold senior positions a decade or so later. Proposals are being developed for building on the present systems for defining the requirements of key posts, for identifying in advance suitably qualified successors to the existing holders, and for ensuring that key staff acquire the experience that fits them to fill such posts. Attention is being particularly focussed on posts with major responsibilities for management and control of resources. These proposals will make it possible to put on a more formal footing existing practices of specialisation in administrative work, and to ensure that those likely to occupy the highest ranks in the Service have direct experience of the management of both people and money. This approach will be adopted in other appropriate areas of the Service. The Government regard it as important that the staffing of Finance Branches, for example, should have full regard to experience, in-service training and external qualification.

32. These improved methods of succession planning and career development are relevant to the Committee's comments (paragraph 36) on the need for a greater degree of professionalism throughout the Civil Service, which includes specialisation by administrators, and the desirability of members of the Administration Group spending rather longer in each job. The extra

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effort put into succession planning should help in the long run to reduce the frequency of moves of administrative staff and to confirm the present tendency of such officers to spend much of their career in a particular work area. It will make it possible to choose more positively between importing outsiders with relevant experience for specific senior posts and ensuring a supply within the Service of people with suitable backgrounds for most, if not all, such posts.

33. These considerations do not all point one way, but the Government are sympathetic to the aim of increasing experience within one job and reducing the turbulence arising from too frequent moves.

### Unified Grading

34. The present system of grades in the Civil Service<sup>1</sup> is a mixture of an older system (based on classes) and a newer system (based on occupational groups and categories). It is recognised as a hybrid. While it has proved itself adequate for most management purposes, it is not entirely satisfactory and it has been criticised by the Expenditure Committee and by the Treasury and Civil Service Committee for failing to meet the objectives sought by the Fulton Committee (paragraphs 230-240 of the Fulton Report), whose recommendations led to the move towards occupational groups and categories. In paragraphs 35 and 38 of its Report, the Select Committee urged the Government to give fresh consideration to these proposals.

35. The Government will look again at the present structure of Civil Service grades. They will seek to establish the objectives that the management structure should meet, and see what changes may be needed. They will need to watch available resources, and the CSD will keep the Committee abreast of their thinking as it develops. Other studies are being pursued by the CSD related to the structure of grades within the Civil Service. In particular there is the Chain of Command Review, which is examining the number and use of grades hierarchically in the management structure, and which may provide a broader framework within which the principle of unified grading can be further examined.

<sup>1</sup> see paragraphs 2.4-2.7 of the Introductory Factual Memorandum submitted by the CSD to the Committee on 10 January 1980 [published by CSD; April 1980; HMSO]; and paragraphs 98-112 of the memorandum entitled "The Response to the Fulton Report" submitted by CSD to the sub-Committee of the Expenditure Committee in November 1975 [Eleventh Report from the Expenditure Committee, Session 1976-77; HC 535; pages 18-21]

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Conclusion

36. The Government have taken the opportunity provided by these observations on the Report of the Select Committee to indicate their priorities for the management of the Civil Service and for the control of resources devoted to departmental administration. The top priority is the pursuit of efficiency, particularly in the direct control of resources. As these observations show, the Government are keen to reshape the operations and policies of the central Departments so as to contribute to that priority. The Government have welcomed the recommendations of the Select Committee which are consistent with this aim. They intend to publish a White Paper describing the past and future work of the CSD and departments generally in the pursuit of the Government's high-priority policies with the accent on efficiency in the control of resources.

**CONFIDENTIAL**





H2

Gort Meeh

10 DOWNING STREET

*From the Private Secretary*

MR. COLMAN  
CIVIL SERVICE DEPARTMENT

Organisation of the Central Departments

As I told you on the telephone this morning, the Prime Minister was grateful for the revisions to paragraphs 14, 29 and 31 of the draft White Paper submitted by Sir Ian Bancroft on Friday, and similarly for Sir Douglas Wass's redraft of paragraph 27.

Subject to the deletion of the word "areas" seven lines from the end of paragraph 31, she is content with these revisions.

You will now be arranging for a final revised text of the White Paper to be submitted, incorporating other minor textual amendments.

I am sending copies of this minute to Mr. Buckley, Mr. Wiggins and Mr. Taylor (H.M. Treasury), Mr. Priestley in Sir Derek Rayner's Office and Mr. Wright (Cabinet Office).

M. A. PATTISON

CS

2 February 1981



- 12
1. MR. WHITMORE
  2. PRIME MINISTER

*There were paragraphs on a considerable improvement. MS 30;*

Treasury/CSD White Paper

Here are new versions of:

Paragraph 27 - from the Treasury;

Paragraphs 14, 29 and 31 - from the CSD.

Sir Ian Bancroft is collating some other textual improvements, and will submit a final revision of the whole paper if you are content with these revisions.

They do explain what is in hand in much clearer language than the earlier text.

Content with the revisions?

*Yes - have about - only one word*  
*no*  
*MA*

30 January 1981

*It was administrative work areas delete - areas see page 21. That was the only jargon in it*





MR C A WHITMORE

ORGANISATION OF THE CENTRAL DEPARTMENTS: WHITE PAPER

... Following the Prime Minister's meeting this morning with the Lord President, Sir Douglas Wass, Sir Robert Armstrong, Sir Derek Rayner and me, I attach revised texts of paragraphs 14, 29 and 31 of the draft White Paper. They have been seen by Sir Douglas Wass and take account of comments received from Sir Derek Rayner's office. Sir Douglas Wass will be submitting separately a redraft of paragraph 27.

When the Prime Minister has had an opportunity to comment on the attached drafts I will submit a final version of the White Paper which will in addition include some further minor textual amendments designed to improve the presentation of the Government's case.

If the Prime Minister agrees, that version could then be circulated to Cabinet colleagues for information, and we here would at the same time set in hand arrangements for printing by HMSO and early publication.

I am sending copies of this minute and attachments to the Chancellor of the Exchequer, the Lord President, Sir Douglas Wass, Sir Derek Rayner and Sir Robert Armstrong.

MB

IAN BANCROFT  
30 January 1981



14. Since May 1979, the Government have given high priority to these objectives. Thus, in addition to their continuing tasks in the fields of manpower control, management services and organisation, the CSD Divisions concerned have:

- a. taken the lead in an intensive programme of work to reduce the size of the Civil Service; results have been reported to Parliament and manpower targets have now been settled for all departments for 1 April 1984;
- b. provided close support for Sir Derek Rayner's programme of scrutinies and taken the lead in his Service-wide review of statistics;
- c. devised and promulgated improvements to the system of staff inspection;
- d. embarked on a programme of Service-wide cost-cutting exercises in supporting services.





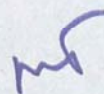
29. Since the Government took office high priority has been given to good management and to the achievement of a smaller and more efficient Civil Service (paragraph 9, above). The priority and resources accorded to CSD's other work will be determined by reference to this objective (paragraph 15, above). In pursuit of these aims the CSD, in collaboration with the Treasury and departments, will tackle specific problems including:-

- a. promoting a knowledge and consciousness of costs, and the incentive to be economical, at all levels of management;
- b. improving systems for controlling manpower and administrative overheads;
- c. ensuring that the staff responsible for controlling and managing resources have the necessary training and experience for the job; and,
- d. pruning and simplifying administrative functions and procedures.

The first emphasis in personnel policies as elsewhere must be on improving the ability of the Civil Service to solve these problems. The Government will approach the matters referred to by the Committee in this light.



31. The value of good arrangements for control and management is greatly increased if they are operated by officials with the right aptitude and training. Further thought has been given to the way in which the Service has hitherto identified and prepared, by formal training and otherwise, those who were to hold senior positions a decade or so later. Proposals are being developed for building on the present systems for defining the requirements of key posts, for identifying in advance suitably qualified successors to the existing holders, and for ensuring that key staff acquire the experience that fits them to fill such posts. Attention is being particularly focussed on posts with major responsibilities for management and control of resources. These proposals will make it possible to put on a more formal footing existing practices of specialisation in administrative work ~~(areas)~~ and to ensure that those likely to occupy the highest ranks in the Service have direct experience of the management of both people and money. This approach will be adopted in other appropriate areas of the Service. The Government regard it as important that the staffing of Finance Branches, for example, should have full regard to experience, in-service training and external qualification.





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Parliament Street London SW1P 3AG

Switchboard 01-233 3000  
Direct Dialling 01-233 3620

Sir Douglas Wass ~~CB~~  
Permanent Secretary

M Pattison Esq  
10 Downing Street  
LONDON  
SW1

30 January 1981

*Dear Mike MP*

ORGANISATION OF THE CENTRAL DEPARTMENTS

At the meeting which the Prime Minister held this morning, Sir Douglas Wass undertook to prepare and submit a re-draft of paragraph 27. I enclose such a re-draft, which has been cleared with the other interested parties.

Copies to Clive Priestley, Jeremy Colman and Jim Buckley.

*Yours sincerely*  
*Jonathan Taylor*  
J M G TAYLOR  
Private Secretary

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27. The Government intend to press forward vigorously with measures to improve financial control and management in Departments. These measures include

- more effective planning and control of the cash cost of programmes of public expenditure
  - further development of financial responsibility and accountability in line management
  - better matching of the financial information needed for the Public Expenditure Survey and Estimates with that needed for management
- [REDACTED]
- the strengthening of internal audit in Departments.

The Treasury is taking the lead in these exercises, but the CSD will make an important contribution, drawing on its experience with departmental organisation and field work. The Head of the Government Accountancy Service will also assist with professional advice. A Steering Group under Treasury chairmanship has been established to co-ordinate and direct the relevant activities. It will as appropriate draw on the experience of Sir Derek Rayner's scrutiny programme and other reviews and will ensure that support is given to the implementation of the "lasting reforms".<sup>(1)</sup>

(1) Footnote as in present draft.

*mb*





file

VLB

10 DOWNING STREET

*From the Private Secretary*

MR. COLMAN  
CIVIL SERVICE DEPARTMENT

---

The Prime Minister held a further meeting this morning to discuss the draft White Paper on the Treasury and the Civil Service Department. The Lord President, Sir Ian Bancroft, Sir Robert Armstrong, Sir Derek Rayner, Sir Douglas Wass, Mr. Whitmore and Mr. Wolfson were present.

The Prime Minister said that the draft was much improved. There were nevertheless still passages which could be tightened. The problems of public expenditure control, and efficient use of resources within the totals, were likely to come under increasing public scrutiny. She wished to ensure that this White Paper set out clearly the newly defined objectives of Government central management. The paper needed to convey a sense of immediacy.

In the course of discussion, amendments were suggested in paragraph 14, paragraph 27, paragraph 29(b) and paragraph 31. The Prime Minister invited Sir Ian Bancroft, Sir Derek Rayner and Sir Douglas Wass to reconsider these paragraphs in the light of the discussion, and to suggest revised texts to her by close of play tonight. If there are any other suggested improvements to the text, it would be most helpful to have them by this evening.

Following the discussion of the draft paper, Sir Derek Rayner raised the question of the location of the Head of the Government Accountancy Service. He felt strongly that this function should be exercised from one of the central Departments, particularly in the light of the Government's new emphasis on financial management.

/ The Prime

A



The Prime Minister said that this question had not come to her attention before, but that she was attracted by Sir Derek's argument. Sir Douglas Wass explained that there were powerful counter arguments, given that the present location, in the Department of Industry, allowed the Head of the Service full access to the area where there was greatest need for effective use of the profession. The Prime Minister invited Sir Derek Rayner and Sir Douglas Wass to arrange for submissions to be made to her on the issue.

I am sending copies of this minute to Mr. Buckley (Lord President's Office), Mr. Wright (Cabinet Office), Mr. Priestley (Sir Derek Rayner's Office) and Mr. Taylor (Sir Douglas Wass's Office).

A handwritten signature in dark ink, appearing to be 'M.A.' or similar, located below the main text.

30 January 1981





10 DOWNING STREET

Clive.

I don't think this will satisfy Ray  
Whitney!

I would be happy to invite you  
and R. A. and Ray to Dinner,  
or Lunch, for an informal and completely  
off-the-record talk. Would P.M. think  
that avoided the problem in 6.?

Daniel

I think it better that you put him  
straight, than let him go public with  
silly ideas.



b

PRIME MINISTER

Mr Ray Whitney and a Prime Minister's  
Department

I have had a word with both Sir Robert Armstrong and David Wolfson about Ian Gow's minute below commenting on the attached letter from Mr Ray Whitney in which he lists the people he would like to talk to about his ideas for strengthening the Cabinet Office.

Using the categories in the list attached to Mr Whitney's letter:-

(a) I doubt whether he should be encouraged to trouble the Chancellor of the Exchequer in the run up to the Budget. On the other hand, I see no objection to his trying to see Mr Howell and Mr Channon. I do not know how interested Lord Soames would be in discussing this subject with him, but I see no harm in his seeking an interview.

(b) I agree with your view that it would not be appropriate for Mr Whitney to see the serving civil servants listed in Category 3. But if we take that view, it should, strictly speaking, apply also to the Political Advisers in Mr Whitney's second category, for they too are technically civil servants. If you agree that this is the line, we should take with Mr Whitney, plainly he is going to be a little peeved, and David Wolfson has suggested that one way of giving him something would be for him, David, to host a lunch with Mr Whitney, Sir Robert Armstrong and me at which we could have a private, off the record discussion.

(c) There can, of course, be no objection to Mr Whitney seeing recently retired civil servants <sup>such</sup> as Lord Croham and Lord Hunt whom he mentions in his Category 4.

/Are you



Are you content that we should respond to Mr Whitney in the way I have suggested above and in particular that we should offer him the proposed lunch instead of the interviews with political advisers and permanent civil servants which he is seeking?

*Yes - but think  
he could  
talk to  
political  
advisers.  
JHR.*

29 January, 1981



72  
H M TREASURY  
OFFICE NOTICE

EO 3/07  
EO 27/206/01

ON(81)9  
29 January 1981

*KW*  
*29*

THE ORGANISATION OF THE CENTRAL DEPARTMENTS

The office will wish to know that the Prime Minister has announced in reply to a question by Mr Jock Bruce-Gardyne, MP, today that she has decided not to merge the Treasury and the Civil Service Department.

A White Paper containing the Government's observations on other matters covered by the recent report of the Treasury and Civil Service Select Committee is at an advanced stage of preparation and will be published shortly.

F E R B



PRIME MINISTER

Draft White Paper on CSD

This meeting will now begin at 0945, tomorrow Friday. We have put it back 15 minutes so that Sir Ian Bancroft and Sir Derek Rayner can come at 0930 and have a quarter of an hour with you on the question of the new Principal Finance Officer for the DHSS. I have shown Sir Derek Rayner the two minutes from Sir Ian Bancroft, and the two of them will have had a word together before they come to see you.

The papers on the PFO appointment are in the hot box.

*fw.*

29 January, 1981



CONFIDENTIAL



PRIME MINISTER

2 pps.

*ms*

ORGANISATION OF THE CENTRAL DEPARTMENTS: WHITE PAPER

... I attach a redraft of the White Paper replying to the Treasury and Civil Service Select Committee's Report on the Future of the Civil Service Department. Sir Ian Bancroft and I have taken account of your comments on the earlier version (outlined in Mr Whitmore's minute of 20 January). The redraft also reflects views expressed by Sir Derek Rayner, Sir Douglas Wass and Sir Robert Armstrong, as well as a general tightening up of the text. Paragraph 20 in the original draft, on which you commented, was provided by the Treasury: they have revised it. It now stands as paragraph 16.

*See the Chancellor's minute at May 'A'*

In general, the redraft is a clearer statement of our priorities and goes as far as I think it can whilst still observing the courtesy of replying to the Select Committee's specific recommendations. The concluding section of the draft foreshadows the proposed White Paper on Efficiency and the Elimination of Waste, in which we shall take the opportunity in more detail to point to what has been done so far and our priorities and plans for the future. This is but a reply to the Select Committee and is drafted as such. But it also, I hope, provides a springboard for the later, more expansive and vigorous, account of our policies on Civil Service efficiency.

I think the draft should be firmer in rejecting the Committee's implicit criticism of officials. We state now, quite clearly, that the attack on inefficiency and waste depends primarily on the commitment of the Government of the day to the promotion and pursuit of efficiency and economy. The Civil Service has responded well since we came to office in seeking and implementing new ways of improving efficiency under our direction, and I think we should take this opportunity to say so publicly. I therefore propose that we should add to paragraph 12:

"Within this framework, and under the direction of Ministers, the Civil Service as a whole has responded quickly and well to the present Government's drive for increased efficiency."

Subject to your views, and to those of copy recipients, the next step might well be to circulate an agreed draft to Cabinet colleagues for information. Whether or not copy recipients of this minute need meet before that stage is a matter for consideration. But we should, I think, press on with publication as soon as possible: the longer we leave it before publishing a reply to the Report the greater the expectation that we shall be publishing a major Paper.

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The earliest we can publish the White Paper is a week after circulation to the Cabinet, and we should avoid, if possible, slipping too far into February.

Copies of this minute go to the Chancellor of the Exchequer, the Minister of State, CSD, Sir Ian Bancroft, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

S.

SOAMES

27 January 1981

Prime Minister.

We have provisionally arranged a meeting to discuss this revised draft of the White Paper for Friday morning of this week when all those concerned can be present except the Chancellor (Sir Douglas Wass can take care of the Treasury's interests).

I am showing this to you tonight because tomorrow evening you will have Questions briefing and you should see OD papers on Thursday evening you have the 'Pillbox' Document.

Agree to go ahead with the meeting on Friday? Yes.

CONFIDENTIAL

AKW 27:



DRAFT

**THE FUTURE OF THE CIVIL SERVICE DEPARTMENT**

**Government Observations on the First Report from the Treasury and Civil Service Committee,  
Session 1980-81, HC54**

**Presented to Parliament  
by the Prime Minister and Minister for the Civil Service  
by Command of Her Majesty  
1981**

Cmnd



CONFIDENTIAL

**GOVERNMENT OBSERVATIONS ON THE FIRST REPORT FROM THE TREASURY  
AND CIVIL SERVICE COMMITTEE, SESSION 1980-81: THE FUTURE OF THE CIVIL  
SERVICE DEPARTMENT**

**INTRODUCTION**

1. In its First Report for the Session 1980-81 (The Future of the Civil Service Department, HC 54), the Treasury and Civil Service Committee examined the role and effectiveness of the central departments of government, and particularly of the Civil Service Department (CSD), in promoting and securing efficiency in departments generally.

**THE ALLOCATION OF FUNCTIONS AT THE CENTRE**

2. On the key machinery of government issue, the Prime Minister notes the Committee's conclusion (paragraph 23) that the Treasury and the CSD should not be merged. This accords with the views she has formed as a result of her own review of the organisation of the Departments. The Prime Minister agrees with the Committee, therefore, that the right course at the present time is to strengthen and improve the existing organisation rather than to change the machinery of government. The rest of this White Paper - setting out the Government's observations on the Select Committee's Report and their plans for the future work of the two Departments - proceeds from this decision.

**THE SELECT COMMITTEE'S RECOMMENDATIONS**

3. In paragraph 4 of its Report the Select Committee identified three topics of interest:-
- a. the effectiveness of the CSD;
  - b. the relationship between the CSD and the Treasury; and
  - c. the policy objectives of the CSD.



The Government's observations follow this structure. In those matters on which it is not yet possible to reach a conclusion, the Government hope that their observations will contribute to a continuing and fruitful dialogue between the Committee and the Departments concerned.

## THE GOVERNMENT'S OBSERVATIONS

### Background

4. The CSD must make its share of the savings planned for the Civil Service. By 1 April 1984 the staff numbers of the CSD (including the Civil Service Catering Organisation) will have been reduced by nearly 1000 (or almost one fifth) as against the number of staff in post when the Government took office. Where the availability of resources is the limiting constraint upon the implementation of the Committee's recommendations, this is made clear in the observations that follow.

### The Effectiveness of the CSD

#### The Staffing of the CSD

5. The Committee considered that the staffing of the CSD could be strengthened by importing a wider range of talent, qualification and experience (paragraph 30). As to the desirability of introducing outside experience there is nothing between the Government and the Committee, and the Government agree that the CSD should get at least its share - possibly a disproportionately large share - of the best talents, drawn from inside and outside the Civil Service.

6. The Government will take into account all the effects of this policy. It should not be carried to the point where it compromises the ability to develop professionalism, where people move in and out of jobs too rapidly, or where the potential of existing domestic talent cannot be fully developed. The best balance is a matter of judgement on which the Committee's views will be welcome; in the meantime it may be helpful to set out briefly where the Department stands today on the Committee's specific recommendations:-

- a. The recruitment of fairly senior people with relevant experience from outside the Civil Service.



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Of the 147 staff at Principal level and above in the policy areas of the CSD (defined in paragraph 11 of the Report by the Study Team on the Integration of the Treasury and the Civil Service Department<sup>1</sup>), some 40 have had experience of employment outside the Civil Service. The relevance of that experience was taken into consideration at the time of recruitment, or in arranging secondments and exchanges.

b. Greater interchange between departmental Establishment Divisions and the CSD.

Of the same group of 147, some 90 have worked in one or more government departments other than the CSD; of these, 25 are at present on loan to CSD from other departments. In nearly all cases this experience has been acquired or refreshed within the last 10 years; it has included work in Establishment Divisions but has extended beyond, so that CSD gains the benefit of experience in a wide range of operational tasks. Eight Principals are on secondment from CSD to other departments, and two are seconded to Civil Services overseas.

c. Greater interchange between the Treasury's Public Expenditure Divisions and the CSD's Manpower Divisions.

Of the 90 or so staff with departmental experience outside the CSD, 40 have served in the Treasury. Numerical constraints limit interposting between the Divisions cited: the Manpower Divisions contain eight Principal and three Assistant Secretary posts. Of the three Assistant Secretary posts, two are held by CSD staff, of whom one has previously served as a professional economist in MAFF, and the other has had five years experience as a senior manager in a public corporation; the third is on a period of secondment into CSD from the Ministry of Defence.

7. In this situation and given that the numbers of senior policy posts are small in relation to the numbers in the grades beneath, management must carefully judge the effect that increasing the proportion of staff drawn from outside the Department will have on its policy of developing domestic talent. The Government hope that the facts on current practice will reassure the Committee that the value of a broad range of outside experience is fully appreciated.

<sup>1</sup> The Integration of HM Treasury and the Civil Service Department: Report of the Study Team; Treasury/Civil Service Department; October 1980.



The Role of the CSD

8. The Government welcome the Committee's support for their continuing commitment to the proper and economical management of the Civil Service. The Government note that the Committee considered that widespread disquiet had been aroused by what has been seen as the CSD's failure to pursue a more active role (paragraph 9).

9. The Government agree with the Committee in attaching considerable importance to Ministerial interest and direction (paragraphs 9 and 29). The level and character of any department's activities are, and in our system of government must be, determined by the decisions and wishes of Ministers. How far the CSD has or has not in the past pursued or achieved the objectives described in the Committee's report has depended crucially on the priority which Ministers have assigned them. The activities of the central Departments affect all other departments, and are necessarily influenced by the collective priorities of the Government as a whole. This Government regards the good management of central administration and the achievement of a much smaller and more efficient Civil Service as one of its top priorities. The CSD is an essential instrument for this purpose. Considerable progress has been made since May 1979. The Government are at one with the Committee in continuing to give weight to this work.

10. The Committee drew attention (paragraph 31) to the comment by a witness that the CSD left too much independence to individual departments in matters of internal management, particularly in the context of the direct control of resources. It is important to get the responsibilities clear.

11. The Government consider that although there are areas of management in which a high degree of central authority is appropriate, the primary responsibility for achieving good management in a government department rests with the Minister and his senior staff; it is to departmental Ministers that Parliament entrusts resources. The task of the central Departments in this area is to advise Ministers upon the allocation of resources (both money and manpower); to design and maintain the overall system of resource control; to ensure that it is operated effectively by departments; to satisfy themselves that departments have adequate systems for conducting their operations efficiently, and that they apply these systems properly; and to provide expert help and advice where it is needed.



12. This distinction is required in order to preserve the clear lines of accountability which should support both the internal efficiency of government and its relationships with Parliament and the public. The Government intend that the CSD's pursuit of efficiency in the field of resource control will be conducted accordingly.

#### The Pursuit of Efficiency

13. The Committee's Report criticises the CSD's effectiveness in controlling Civil Service manpower numbers and in promoting what has been termed manpower efficiency (paragraph 28).

14. The priority now being given to these objectives is indicated by the shift of CSD staff to this work. Over the last 1½ years the Divisions concerned have grown by 8%, instead of reducing in line with other CSD divisions; staff have been found from elsewhere in the Department. Since May 1979 the Divisions concerned have, in addition to their continuing tasks in the fields of manpower control, management services and organisation:

- a. taken the lead in an intensive programme of work to reduce the size of the Civil Service; results have been reported to Parliament and manpower targets have now been settled for all departments for 1 April 1984;
- b. provided close support for Sir Derek Rayner's programme of scrutinies and taken the lead in his Service-wide review of statistics;
- c. devised and promulgated improvements to the system of staff inspection;
- d. embarked on a programme of Service-wide cost-cutting exercises in supporting services.

15. Other CSD activities, however, are also important for the efficient despatch of government business. They include constructing a management framework that prevents wasteful deployment, promoting good industrial relations, and adopting personnel policies that maintain due standards of performance. In setting its priorities the Government will ensure that due weight is given to all aspects of the Department's work and will allocate resources accordingly.



**Programme Evaluation**

16. The Committee commented (paragraphs 31 and 37) on the need to evaluate programmes in terms of their "final effectiveness". The Government agree. In addition to the review of all programmes each year in the public expenditure survey, much work, using a variety of techniques, goes into reviewing the effectiveness of particular programmes. The central Departments take part in a number of these reviews. One current objective is to develop and improve the measurement of "output" where this can usefully be done in the public Services. The scrutinies carried out in consultation with Sir Derek Rayner are intended as a major stimulus to departmental efficiency.

**The Relationship Between the CSD and the Treasury**

17. The Committee recommended three operational changes with a view to encouraging closer working relationships between the CSD and the Treasury (paragraph 32), namely, the co-location of the two Departments in a single building, the sharing of common services between the two Departments, and the transfer of the CSD's Accountancy, Finance and Audit (AFA) Division to the Treasury. These proposals drew on the Report of the Study Team on the Integration of H M Treasury and the Civil Service Department.

18. The Government agree with the Committee that a close working relationship between the Treasury and the CSD is needed to give drive and impetus to central management policies. The Report of the Study Team, (paragraphs 7-12) showed that the area of direct policy contiguity between the two Departments is small relative to the total size of the Departments. Accordingly, operational measures designed to improve communication within the centre should concentrate primarily on this restricted number of posts.

**Co-location**

19. The Government agree with the Committee that the functions of the CSD have a logical cohesion which it would be harmful to split. Accordingly the Government accept the Committee's conclusion (paragraph 32(i)) that the CSD policy functions at present brigaded together geographically should remain so; and that co-location should only proceed on condition that all the CSD's posts at present in Old Admiralty Building can be moved to join those of the Treasury.



20. The Report of the Study Team drew attention to the costs and disruption of co-locating the two Departments in the Government Offices Great George Street. The Government believe that it would be wrong to distract the Departments from their present tasks. To make space immediately for the CSD would also result in some geographical decentralisation for the Foreign and Commonwealth Office, whose own co-location would be correspondingly harmed.

21. The Government have therefore decided not to co-locate the two Departments now. They will keep the matter under review. They will, in addition, examine whether any further steps, such as an extension of cross-attendance at policy meetings (paragraph 29 of the Report of the Study Team), can be taken to enhance day to day communication between the staff of the two Departments.

#### Common Services

22. The Committee recommended (paragraph 32(ii)) that the common services of the two Departments should be brought together on the basis of the plan outlined in Annex 4.2 of the Report of the Study Team.

23. This plan assumed that there would be a single Department with its headquarters located in one building. The advantages to be gained from setting up a unified common services organisation must now be re-assessed on the basis of separate Departments separately accommodated. In particular most of the small potential staff savings identified would result from common services which it would be difficult to amalgamate in advance of co-location and whose successful operation would largely depend on unifying ultimate lines of accountability.

24. The Committee concluded that the problems that might be faced by a single Establishment Officer reporting to two Permanent Secretaries were not insuperable: they are overcome, for instance, in those departments that already have joint common services. In those departments, however, the present arrangements have evolved from the split of a larger department into two or more smaller departments. In these cases, the need to minimise disruption and to avoid additional costs has been the decisive factor. Uniting establishment matters in two departments where they have already functioned separately for many years does not offer the same benefits, imposes the costs arising from disruption, and may be expected to make the role of Establishment Officer harder than easier. Accordingly, the Government do not propose to bring together the common services of the two Departments.



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25. Some specialist skills, namely those of the Accountancy, Finance and Audit, and the Operational Research, Divisions of the CSD, are drawn upon by both Departments; here common arrangements for managing staff may be advantageous. The Government will examine this possibility further. Such a step will not obstruct the existing arrangements for cross-posting more generally between the CSD and the Treasury (paragraphs 8 and 9, above) which will continue to operate.

**The Transfer of the CSD's Accountancy, Finance and Audit Division (AFA)**

26. The Government agree with the Committee in attaching importance to the improvement of financial control systems. The Treasury should be in the lead in this field and the Government agree that the balance of advantage is in favour of transferring line responsibility for the CSD's AFA Division; they accordingly accept this recommendation (paragraph 32(iii)). Detailed arrangements will be made to ensure that both central Departments have the support of the skills and experience of qualified accountants in order that the efficiency of the CSD should not suffer from the move.

27. The Government will press ahead quickly with planned steps to improve financial control and management. The Treasury will continue to take responsibility for this policy. It will be assisted by the CSD, whose general concern with departmental organisation and whose field work inevitably touch on financial management, which is the keystone of good management. Accordingly, arrangements have been made to co-ordinate the work of the two central Departments, in consultation with Sir Derek Rayner and the Head of the Government Accountancy Service. The main objectives of this work over the next two years will include support for Sir Derek Rayner in relevant parts of his "lasting reforms" programme<sup>1</sup>; the methodology of financial control; the further development of accountable units of management; the closer reconciliation of the financial information needed for management with that needed for the Public Expenditure Survey and Estimates; improved analysis and control of the administrative costs of departments; and the strengthening of internal audit in departments.

<sup>1</sup> Paragraph 13 of a Memorandum submitted by Sir Derek Rayner to the Select Committee on the Treasury and Civil Service, [Appendix 10, the Fourth Report from the Committee, Session 1979-80: "Civil Service Manpower Reductions" Vol II; HC 712 Pt 1]



The Priorities and Objectives of the CSD

28. The Committee recommended (paragraphs 33-38) that more attention should be given to several aspects of the CSD's work beyond those of resource control and efficiency in organisational terms and that a number of measures recommended by the Fulton Committee<sup>1</sup> and by the Expenditure Committee of the last Parliament<sup>2</sup> should be re-examined.

29. The Government gives high priority to good management and to the achievement of a smaller and more efficient Civil Service (paragraph 9, above). The priority and resources accorded to CSD's other activities will be determined by reference to this objective (paragraph 15, above). In pursuit of these aims the CSD, in collaboration with the Treasury and departments, will tackle specific problems including:-

- a. promoting a knowledge and consciousness of costs, and the incentive to be economical, at all levels of management;
- b. improving the arrangements for the control of resources in both money and manpower;
- c. ensuring that the staff responsible for controlling and managing resources have the necessary training and experience for the job; and,
- d. pruning and simplifying administrative functions and procedures.

The first emphasis in personnel policies as elsewhere must be on equipping the Civil Service to solve these problems. The Government will approach the matters referred to by the Committee in this light.

<sup>1</sup> Fulton Report; The Civil Service; Cmnd 3638; 1968

<sup>2</sup> Eleventh Report from the Expenditure Committee; Session 1976-77; HC 535



## Training

30. As to formal training, the resources devoted by the CSD to this part of its overall effort are being reduced, and there is a shift of emphasis towards training for efficient management, including training in accountancy, financial management and audit. The main priority in the CSD's advice and guidance to departments on training is to help them get better value for money by focussing attention on the relative costs and benefits of particular methods of training.

## Professionalism and Movement from Job to Job

31. Similarly, further thought has been given to the way in which the Service has hitherto identified and prepared, by formal training and otherwise, those who were to hold senior positions a decade or so later. Attention has been focussed on key posts and succession to them, notably those with major responsibilities for the planning and control of resources (such as Principal Establishment Officer and Principal Finance Officer). Proposals are being developed for building on the present systems of succession planning and career planning. These will make it possible to put on a more formal footing existing practices of specialisation in administrative work areas, and to ensure that those likely to occupy the highest ranks in the Service have direct experience of the management of both people and money.

32. These improved methods of succession planning and career development are relevant to the Committee's comments (paragraph 36) on the need for a greater degree of professionalism throughout the Civil Service, which includes specialisation by administrators, and the desirability of members of the Administration Group spending rather longer in each job. The extra effort put into succession planning should help in the long run to reduce the frequency of moves of administrative staff and to confirm the present tendency of such officers to spend much of their career in a particular work area. It will make it possible to choose more positively between importing outsiders with relevant experience for specific senior posts and ensuring a supply within the Service of people with suitable backgrounds for most, if not all, such posts.

33. These considerations do not all point one way, but the Government are sympathetic to the aim of increasing experience within one job and reducing the turbulence arising from too frequent moves.



## Unified Grading

34. The present system of grades in the Civil Service<sup>1</sup> is a mixture of an older system (based on classes) and a newer system (based on occupational groups and categories). It is recognised as a hybrid. While it has proved itself adequate for most management purposes, it is not entirely satisfactory and it has been criticised by the Expenditure Committee and by the Treasury and Civil Service Committee for failing to meet the objectives sought by the Fulton Committee (paragraphs 230-240 of the Fulton Report), whose recommendations led to the move towards occupational groups and categories. In paragraphs 35 and 38 of its Report, the Select Committee urged the Government to give fresh consideration to these proposals.

35. The Government will look again at the present structure of Civil Service grades. They will seek to establish the objectives that the management structure should meet, and see what changes may be needed. They will need to watch available resources, and the CSD will keep the Committee abreast of their thinking as it develops. Other studies are being pursued by the CSD related to the structure of grades within the Civil Service. In particular there is the Chain of Command Review, which is examining the use of grades hierarchically in the management structure, and which may provide a broader framework within which the principle of unified grading can be further examined.

## Conclusion

36. The Government have taken the opportunity provided by these observations on the Report of the Select Committee to indicate their priorities for the management of the Civil Service and for the control of resources devoted to departmental administration. The top priority is the pursuit

<sup>1</sup> see paragraphs 2.4-2.7 of the Introductory Factual Memorandum submitted by the CSD to the Committee on 10 January 1980 [published by CSD; April 1980; HMSO]; and paragraphs 98-112 of the memorandum entitled "The Response to the Fulton Report" submitted by CSD to the sub-Committee of the Expenditure Committee in November 1975 [Eleventh Report from the Expenditure Committee, Session 1976-77; HC 535; pages 18-21]



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of efficiency, particularly in the direct control of resources. As these observations show, the Government are keen to reshape the operations and policies of the central Departments so as to contribute to that priority. The Government have welcomed the recommendations of the Select Committee which are consistent with this aim. They intend to publish a White Paper describing the past and future work of the CSD in the pursuit of the Government's high-priority policies with the accent on efficiency in the control of resources.

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Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

ORGANISATION OF THE CENTRAL DEPARTMENTS

I have seen your Private Secretary's minute of 20 January inviting comments on the draft White Paper attached to Sir Ian Bancroft's minute of 20 January. I have also seen Sir Derek Rayner's comments in his minute of 22 January.

2. No doubt the Civil Service Department will be looking again at the draft in the light of your comments and those of Derek Rayner. As regards the parts of the draft which most directly concern the Treasury, principally the section on the relationship between the CSD and the Treasury (paras. 21-31), I am generally content with what the draft says. I take Derek Rayner's point about para. 31 and like the more positive tone of his version - which exactly describes my present anxieties, as I described them to you the other day. Even so, we may possibly need some drafting changes to avoid two implications which might be read into his draft. One is that efforts by the Treasury and CSD to improve financial control and management are an entirely new initiative: the other is the implication that a large part of the responsibility does not lie with the Departments themselves.

3. In the light of your comments and those of Derek Rayner,  
... I attach a revised version of paragraph 20 about programme

/evaluation, which



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evaluation, which was originally prepared in the Treasury. It is not easy to encompass in a short paragraph the diverse work which is being done in this area and since the Committee's references to programme review consisted of only a couple of incidental remarks, rather off the main theme, it might be better to omit the paragraph altogether.

4. I am copying this minute to recipients of the earlier correspondence.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

27 January 1981



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REVISED DRAFT OF PARAGRAPH 20

The Committee commented (paragraphs 31 and 37) on the need to evaluate programmes in terms of their "final effectiveness". The Government agree. In addition to the review of all programmes each year in the public expenditure survey, much work, using a variety of techniques, goes into reviewing the effectiveness of particular programmes. The central departments take part in a number of these reviews. One current objective is to develop and improve the measurement of "output" where this can usefully be done in the public services. The scrutinies of departmental activities directed by Sir Derek Rayner are intended as a major stimulus to departmental efficiency.



Ref. A04077

MR WHITMORE

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NBPM yr.

MW  
26i

Organisation of the Central Departments

I have only two comments to offer on the draft White Paper attached to Sir Ian Bancroft's minute of 16 January: — TPM .

- (i) Paragraph 11: I suggest deleting the last two sentences, and substituting:

"The Government welcomes the Committee's endorsement of the importance of her work".

- (ii) I found paragraphs 26 to 28 a little confusing. They do not actually say that the Government are not going to do what the Committee recommended; and I think that paragraph 28 could be made more pointed.

2. I am sending copies of this minute to those who received copies of your minute of 20 January.

RA

ROBERT ARMSTRONG

26 January 1981



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PRIME MINISTER

*I think this means  
get another meeting.  
It seems that we have come to  
the head of the matter.*

ORGANISATION OF THE CENTRAL DEPARTMENTS

*In this I will  
our efforts and*

1. We had a word about the draft White Paper yesterday. This is to confirm my general comments and to offer some detailed ones on the text.

*A division of CSD is  
not doing the job it was*

General

*set up to do and revolution intends to  
carry on or not. Meeting of L. Press.*

2. I share your reservations about parts of the draft (Mr Whitmore's minute of 20 January). More generally:

*It may be  
can't do it*

*← ||*

a. I think that the White Paper would be interpreted very widely as at best an opportunity to state vigorous policies which had been missed by the Government.

*J-Royce  
The.  
Mr.*

b. In my view, the draft is flat; platitudinous; and reminiscent of many other official documents written to dull the senses, rather than to excite the mind with a sense of new endeavours.

c. The references to relevant CSD numbers are misleading. Detail is in the attached (but I should say here that I find the reference to "13 Under Secretaries and 29 Assistant Secretaries" as a "small number" of policy posts astonishing).

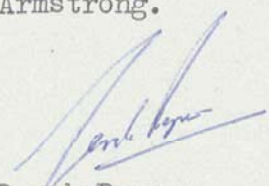
d. Whereas the Government has a peculiarly good story to tell about its policies and endeavours in the "efficiency" area and the CSD should welcome an opportunity to demonstrate that there will be a new drive by permanent officials to ensure that the desired changes will be brought about, the draft's general tone is: "Don't you see that we are already tackling new issues? But leave it to us and we will see whether there is anything else we can do within our limited resources".



Detail

3. Some comments and suggestions are set out in the attachment. I should draw the attention of Treasury Ministers and officials to references to the Treasury.

4. Copies go to the Chancellor of the Exchequer; Lord President of the Council and Minister of State, CSD; Sir Ian Bancroft, Sir Douglas Wass; and Sir Robert Armstrong.

  
Derek Rayner  
22 December 1981

*January*  
?

Prime Minister.

Enc: These comments from Derek Rayner are, as one would expect, helpful and constructive on the whole.

The Lord President proposes to let you have - probably on Monday - a revised text of the White Paper which will take account of his own views, the comments you made earlier (your own note is attached below) and these suggestions from Derek Rayner.

Jock Bruce - Geddyne has Q3 next Thursday, asking whether the Treasury/CSD merger will go ahead. <sup>2</sup> Plainly we are not going to have the White Paper out by then. You might wish therefore to anticipate the White Paper and announce the decision on the merger then.  
JBR 23.1.81.



DRAFT GOVERNMENT OBSERVATIONS ON "THE FUTURE OF THE CIVIL SERVICE DEPARTMENT"

Resources for change (paras. 4 - 6)

1. This section begins on a defensive note; para. 4 adds little and might be dropped.
2. Paragraph 5 gives a misleading impression of the relevant staff numbers in CSD. The reduction referred to relates to a total size of some 5,100 staff (Hawtin-Moore, para. 10), but the central policy core consists of some 530 (Hawtin-Moore, para. 11). (Much the same impression occurs in para. 22.)
3. A more accurate impression is given in paragraph 17, which speaks of the Divisions concerned with controlling Civil Service numbers and promoting efficiency as having gone up by 8% at the expense of other divisions (but see below). This increase of course includes a new Under Secretary command.
4. I therefore think that para. 5 needs re-drafting to give a more accurate picture of the way staffing is moving in the policy core.
5. Paragraph 5 also refers to the CSD having "taken on considerable additional tasks, particularly in the field of resource control", but does not say what they are.

The staffing of the CSD (paras. 7 - 9)

6. Paragraph 8 reads as if to say: "The facts speak for themselves; no change is necessary in staffing". I am not sure that they do speak for themselves, since (for example) 8a does not say whether the experience was relevant and 8b does not say whether the inter-change was with Establishment Divisions.



7. Paragraph 9 contains what I have always seen as one of the worst heresies of Civil Service management: 13 Under Secretary and 29 Assistant Secretary posts are described as constituting "small" numbers of "policy posts" - although this term is not defined. I understand that "policy posts" extend from Permanent Secretary to Principal. If so, the CSD's line up is at least:

<u>Grade</u>	<u>No</u>
Permanent Secretary	2
Deputy Secretary	4
Under Secretary	13
Assistant Secretary	29
Senior Principal	14
Principal	85
	<hr/>
	147
	<hr/>

I regard that as a small army, not a small number.

The Role of the CSD (paras. 10 - 15)

8. I welcome paras. 10 and 11, but I would work in the thoughts that the Government regards the good management of the State (in this case, central government) as a top priority and that CSD is one of the most important instruments in this.

9. The treatment of the CSD-Department relationship in paras. 12 - 15 is a little ponderous and negative. I myself do not think it necessary to refer to the comments made by the Director-General of the RIPA (para. 12) and I think it wrong to say that a departmental "Minister and his senior staff ..... together are answerable for the use of the resources entrusted to them" (para. 13).



10. I suggest omitting paras. 12 and 15 and re-drafting paras. 13 and 14 thus:

"The Government's aim is excellent management. Achieving it is the responsibility of departmental Ministers and their own staffs, since it is to departmental Ministers that Parliament entrusts resources, not to the central Ministers.

The task of the CSD ..... where it is needed (para. 14)."

11. I would then include a statement about what has been done so far to fulfil the role as described and about the initiatives which are in the pipeline to ensure that it is better exercised in the future, now that the Department has the necessary Ministerial interest.

The pursuit of efficiency (paras. 16 - 19)

12. The potential for reform and achievement need not be tied to numbers (para. 17) - where there's a will, there's usually a way.

13. It is important to acknowledge the hard work of the relevant Divisions (para. 18) which is genuine and where relevant to my work is much appreciated by me, but

- a. relating what is said in paragraph 18 to the "staff" gives the thing a defensive tone; and
- b. this is confirmed by para. 19, which is a string of platitudes.

Programme evaluation (para. 20)

14. I agree with your reservations about this. What I think is needed is a policy for developing

- a. formal evaluation techniques for application where these are appropriate and



b. informal techniques for application to that great multiplicity of management areas which may not bear formal analysis.

15. On a point of detail, scrutinies are not "directed" by, but "carried out in consultation", with me.

The relationship between the CSD and the Treasury (paras. 21 - 31)

16. The main issue here is not whether the CSD would "benefit" from a closer working relationship with the Treasury but what is needed to give the Government's policies for management the necessary impetus and drive (para. 22).

17. I agree with what is said about co-location and common services and with the transfer of AFA to the Treasury. I welcome what is said about the Treasury lead on financial systems (para. 30).

18. However, I think the formula in para. 31 - that the Treasury's responsibility is "to concern itself with the handling of public money" and that for the CSD "financial management is an integral part of management as a whole" - promises continued confusion.

19. "Financial control systems" are about infinitely more than the "handling" of money. It is my firm conviction that the Treasury is or should be concerned with much more than that. The Treasury is not an accounts branch. The Government should, in my judgment, establish unmistakably that the Treasury has the job of improving financial control and management and that the CSD's job is to help it do so. I would prefer para. 31 to read:

"The Government intends as a matter of urgency to develop and improve financial control and management. Having the lead, the Treasury will take



responsibility for this policy. It will be assisted by the CSD, whose general concern with departmental organisation and whose field work inevitably touch on financial management which is the keystone of management. Accordingly arrangements have been made to co-ordinate the work of the two central departments, in consultation with Sir Derek Rayner and the Head of the Government Accountancy service. The main objectives of this work over the next two years will include support for Sir Derek Rayner in relevant parts of his "lasting reforms" programme; the methodology of financial control; the further development ..... audit in departments".

The Policy Objectives of the CSD (paras. 32 - 44)

20. I very much agree with your reservations here. I would suggest an outline something like this:

"The essential aims of policy are to retrench the large volume of public expenditure; to manage resources, whether large or small, so as to get the maximum value for the taxpayer's pound from them; to speed up the improvement of the techniques and methodology of resource control; and to reform the institutions, attitudes and practices of the Civil Service where necessary so as to provide management adapted to the needs of the present and future.

These aims are partly for departments and partly for the centre. The central departments cannot and should not take over the responsibilities of departments. The Government instead expects them to act as a powerful engine for reform and to provide leadership for the Civil Service under the policy guidance of Ministers.

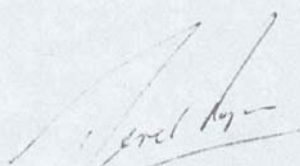


The policy objectives of Ministers in the areas covered by CSD relate to both institutions and people. As far as institutions are concerned, the Government expects the CSD to contribute to developing, or itself to develop where it has the lead, good systems of management in departments and to clarify the responsibilities of those who, whatever their level, control and manage resources. As for people, the Government is very conscious of the quality of the talent it employs. It wishes both to avoid taking too much and to make the best possible use of what it has.

Its aims in this area include:

- Training for key posts, eg in Finance Branches
- Bringing on the right people for key management posts at all levels ("succession planning")
- Making room for talent ("Chain of command review")
- Increasing "specialisation" and therefore job satisfaction."

etc etc.



Derek Rayner  
22 January 1981



Ref. A04048

MR. WHITMORE

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Mr. Ray Whitney

We had a word about Mr. Whitney's visiting list.

2. I agree with the Prime Minister that Mr. Whitney should be discouraged from trying to see civil servants, for the reason she gives. Does not the same argument apply also to those in Mr. Whitney's second category who are civil servants?

3. As to Ministers, I should have thought that Mr. Whitney should be asked not to trouble Sir Geoffrey Howe at this time of year; and I doubt whether he should trouble Lord Soames either. If he wants to talk to Mr. Howell and Mr. Channon, I do not think that the Prime Minister need deter him from approaching them. We could warn them in advance of the approach, so that they could decide whether they wanted to be involved.

4. We cannot stop Mr. Whitney approaching Lord Croham and Lord Hunt, nor would I want to do so; but I should like to warn them to expect an approach.

5. Mr. Whitney will no doubt take rather hard being denied access to the officials and advisers who are civil servants. If it would help, I should be prepared to go along with Mr. Wolfson's suggestion that he should invite you and me to lunch to meet Mr. Whitney.

6. Mr. Whitney has in fact already spoken to Mr. Wade-Gery (an old colleague and friend of his) when they met over lunch in November. Mr. Wade-Gery reported this, both before and after the event. His role was mainly a listening one: such comment as he made was completely consistent with the views that you and I both share.

REA

ROBERT ARMSTRONG

21st January, 1981



CONFIDENTIAL

Mr. PATTISON

cc for information

Mr Whitmore  
Mr Wright

THE FUTURE OF THE CSD

Sir Derek Rayner has now been able to read the draft White Paper. He thinks it poor in both tone and content and dangerous to the Government's reputation. He will be offering a short minute during the day, but would welcome a word with the Prime Minister about it this afternoon.

*CP*  
C Priestley  
21 January 1981





10 DOWNING STREET

*From the Principal Private Secretary*

SIR IAN BANCROFT

ORGANISATION OF THE CENTRAL DEPARTMENTS

The Prime Minister was very grateful to you for your minute of 16 January with which you sent the draft White Paper containing the Government's Observations on the Select Committee's recent report "The Future of the Civil Service Department".

The Prime Minister has studied the draft Observations in detail and she has commented that a large part of the draft White Paper is excellent. She has, however, two main reservations about it.

First, she is not happy about paragraph 20 which deals with programme evaluation. She feels that, as at present drafted, it is so woolly that "it throws doubts on our capacity to evaluate anything". Moreover, she thinks that this section is at variance with the Government's views set out in paragraphs 30 and 31. She would be grateful if paragraph 20 could be reconsidered with a view to making it more positive and more concrete.

Second, she does not think that the whole section beginning with paragraph 32 and headed "The Policy Objectives of the CSD" will do. She has commented that we cannot pray in aid "restraints on expenditure", as we do in paragraph 34, when Ministers have just received figures which show that departmental running costs have gone up by over 25 per cent between this year and last. She believes on the contrary that those figures suggest a lack of effective control which implies that management training in the Civil Service has hitherto been deficient. She thinks that this section must be tightened up to bring out more crisply and clearly the Service-wide problems which the Civil Service Department is in the lead in attacking and to explain, in terms which convey a sense of urgency, the solutions to those problems which the Civil Service Department is pursuing.

I think it likely that the Prime Minister will want to have a meeting with you and the others concerned before the White Paper can be finalised, and perhaps we could have a word about that when you have had an opportunity to consider the Prime Minister's comments. In the meantime she would be grateful to have the views of those to whom you copied your minute of 16 January on the White Paper, preferably before the end of this week.

/ I am sending



I am sending copies of this minute to Mr. Wiggins, Mr. Buckley, Mr. Green, Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner.

*DW.*

20 January 1981



Claire Whitman ✓

RW  
15.1.81.



*with the  
compliments of*

RAY WHITNEY, O.B.E., M.P.

We spoke about this at the  
meeting with the P.M.

HOUSE OF COMMONS  
LONDON SW1A 0AA



THE DEPARTMENT OF THE PRIME MINISTER  
AND CABINET --- IN PERSPECTIVE

ADDRESS TO THE A.C.T. BRANCH OF THE ROYAL AUSTRALIAN  
INSTITUTE OF PUBLIC ADMINISTRATION

ON 28 MARCH 1979

BY

MR G.J. YEEND, CBE

SECRETARY, DEPARTMENT OF THE PRIME MINISTER  
AND CABINET

1. As much as any department, the Department of the Prime Minister and Cabinet comes in for its share of public comment, both as to functions and purpose, on its alleged struggle for supremacy in the economic or welfare or foreign policy field or somewhere else. Inside the Department we tend to give this sort of allegation a tired smile; and because it is wide of the mark, a first reaction is to be critical of the commentators. The second reaction, and probably the proper reaction, is realisation that there needs to be greater understanding of the role of the Department and its objectives, which can only be achieved by wider discussion and public debate. The proper reticence of senior officers against entering public debate on policy issues tends sometimes to flow over to a reticence to debate questions of public service



administration. That is a pity, because public administration is our business: better administration is our objective. It is not something to be achieved within the confines of the public service; or more precisely it is to be achieved in fuller measure by debate and analysis inside and outside the Service.

2. The principal function of the Department of the Prime Minister and Cabinet is co-ordination of administration.

I shall come back to this theme at a number of points. You will know that the Department has various other functions, organising the Cabinet, briefing and advising the Prime Minister, leading and supporting committees and task groups; but all are part of co-ordination. The development of policy proposals and the administration of policies are the primary responsibilities of other departments, and while we advise, assist, support and supplement we do not replace, or seek to replace, the activities of principal policy departments.

Nevertheless co-ordination is not a passive role, the opposite of initiation, as some writers suggest. Our co-ordination is active and involved, but also, I hope, sensible and sensitive.

3. The Department can answer or find the answer to any inquiry about Commonwealth administration, and provide or arrange for advice on any aspect of Commonwealth policy. Simply to say that highlights the obvious conclusion that we don't do it alone. In a department of our size there cannot be experts on everything; we cannot be the repository for information and experience across the whole area: nor can we maintain an investigative profile, sustain a policy impetus or simply carry through an involvement in all areas at the one time. There are



priorities to be determined, priorities to be applied. And what we do has to be done hand in hand with the policy departments. There is no other way for a central co-ordinating department to operate successfully.

4. Nor are we the only co-ordinating department. Treasury, Finance and the Public Service Board have central co-ordinating roles. But I would also contend strongly that co-ordination is a duty and function of all departments, and all must exercise it. Each department in its area has a duty to consult, advise and co-operate with other departments and agencies in the relevant field: no less a duty to co-ordinate in fact than we in PM&C have.

5. I do not debate in this paper the need for a Prime Minister's Department. I think we are past the point of having to do so. Suffice it to say that the question for Westminster style governments is not whether you have a co-ordinating agency but what form it will take. Whether it will be done from a Prime Minister's office or a Cabinet office or a Privy Council office is in part bound up with administrative and political history. The decisions of 1911 and 1949, to establish the Prime Minister's Department and to incorporate a policy advising group in it, have essentially shaped our path in Australia.

#### The Department in 1950

6. The Department did not always have the central role. The Prime Minister's Department's involvement in policy issues dates from 1950. At that time, by decision of the Menzies government, the Economic Policy Division of the Department of



Post War Reconstruction, on that Department's demise, was brought across to become part of the Prime Minister's Department. The Division's head, Sir Allen Brown, had been appointed head of the Prime Minister's Department in the previous year by Prime Minister Chifley in anticipation of such a move. Until that time the Prime Minister's Department dealt with the Prime Minister's correspondence, carried a Cabinet secretariat officer and Executive Council secretary and a hospitality officer, co-ordinated communications with the States and ran archives, the arts and Australia House. But co-ordination of policy and advice on policy were not its task and it was not usually involved in policy discussions. It provided no regular briefing on matters dealt with by Cabinet.

7. In early 1950, therefore, the Department acquired almost overnight an operating group with experience in various aspects of domestic and international policy; it was tossed quickly into its advising role by the new Prime Minister and, somewhat more gradually, cast in the role of a co-ordinating agency. The reception the Department received in its new guise ranged from curiosity to suspicion to hostility - perhaps engendered by unfamiliarity and lack of comprehension. The justification of an organisation which appeared to duplicate the work of the separate policy departments was challenged, and questions asked as to how this co-ordinating body could possibly have sufficient expertise to advise on the wide range of policy matters already receiving full-time attention by major departments.

8. The suspicion and hostility are easy to understand. Major departments - Treasury, Foreign Affairs, Defence, Commerce



Agriculture and the Public Service Board - had had the field pretty much to themselves and were able to hold off other departments with relative ease. Treasury in particular had had the luxury of a Minister combining the functions of Prime Minister and Treasurer. The result was intense manoeuvring and competition, and what is sometimes flagged now as rivalry between departments pales into insignificance in comparison with the battle for the Prime Minister's ear that went on in the early 1950s. Every time PM's offered an opinion on some other department's work it had to justify its right to do so. Every time it went to the Board for staff it had to justify all over again the concept of its co-ordinating role. Had the Department not worked under reflection of the Prime Minister's authority, the notion of a central co-ordinating agency might well have been short-lived. The total Department at that stage, excluding out-riders, numbered some 140 people. Of these, 37 were acquired from Post War Reconstruction. The Department, incidentally, now has 450 people on staff. In 1950 there were 370 Cabinet submissions. Last year we had 1633 Cabinet submissions and papers. The Prime Minister now receives on average 260 letters a day, apart from organised mail campaigns, which would be five times the mail received in the 1950s.

9. There are some particular aspects of the Department's work which characterise it, and which are best dealt with at the outset. They relate to the Cabinet, the Parliament and the Governor-General.



Cabinet

10. The Department provides the secretarial services and support to Cabinet. That is easily said but it encompasses a highly complex administrative task, and one in which the administrative decisions can influence policy judgements. How papers are presented, what prior consultation occurs, whether they are handled in Cabinet or Cabinet committees, who is present at meetings, how long before a meeting Ministers receive papers and what advice is given by the bureaucracy - all are matters that can affect the ultimate conclusion. The essential administrative decisions in these matters are made by the Prime Minister. But in the full flow of Cabinet business the way in which these matters are handled is important and hence the Department's role in it is important.

11. Before World War Two no officials attended Cabinet meetings. Then from 1940 the Secretary, Prime Minister's Department, who had until then discharged some secretarial functions for Cabinet from the outside, regularly attended meetings of full Cabinet and the recording of decisions became his responsibility as Secretary to Cabinet. But a central control over what came to Cabinet, a co-ordinated Cabinet committee system and an organised Cabinet secretariat came with changes introduced by Sir Allen Brown in the 1950s.

12. Cabinet has been characterised since then by a steady and substantial increase in the number of papers presented for decision. In part this has been a growth in the complexity of government - new or expanded areas for the Commonwealth such



as in education, Aboriginal affairs and environmental issues, and a much greater involvement in international political and trade matters. A second factor in the increase has been the breadth of Commonwealth administration itself - many more departments and agencies involved in the handling of particular issues, with consequently a greater need for co-ordination. For both these reasons Cabinets have become larger - 19 Ministers in 1950 and 27 now. In 1950, on Sir Allen Brown's recommendation and after a study of British practice, a comprehensive Cabinet committee system was adopted - nineteen standing committees and twenty-six ad hoc committees in all. To an extent it was a period of experimentation. Some of these committees, such as Legislation and Foreign Affairs, have had a continuous life in one form or another since then. But in practice while some of these committees endured, most faded to be replaced by other broader committees more attuned to the needs of the day. Under each Government since 1950 the continuing pattern has been systems of standing committees of Cabinet and temporary (or ad hoc) committees formed from time to time for specific and finite purposes. In 1956 another pattern was established - an inner Cabinet within the Ministry - initially 12 Cabinet Ministers from a Ministry of 22, and this has been the pattern followed since then except for the period 1973 to 1975 under Labor's administration.

13. Clearly the inclinations of Prime Ministers and their Ministers have strongly influenced the development of Cabinet and Cabinet committee systems. At the same time, Sir Allen Brown in the 1950s and Sir John Bunting in the 1960s established a



basic pattern of Cabinet administration which continues today and which set standards of competence and trust of the highest order. Succeeding governments of different political persuasions have supported strongly traditional principles of Cabinet government, and in this have accepted absolutely the impartiality and probity of Cabinet officers.

14. Prime Ministers exercise a close control over Cabinet business lists and seek to limit the work coming to Cabinet for practical reasons. At the same time we have had a succession of Prime Ministers who have promoted and encouraged the cabinet system of government, and have promoted the opportunity and atmosphere for Ministers to bring problems to Cabinet and have them debated and considered. Although commentators might have it otherwise, there has been no determined or detectable move over the past thirty years at least, from Ministers or Prime Ministers, away from Cabinet government or away from the collectivity of Cabinet. At Prime Minister Fraser's request, because of the workload on Cabinet, we have recently conducted a review of Cabinet operations and some decisions have been made which will streamline procedures and in some areas reduce the need for Cabinet to consider some specific types of proposals.

15. In the Department, we see the collectivity of Cabinet, collective decision-making, Ministers having an opportunity for free and frank discussion within the confidentiality of the Cabinet Room but then supporting decisions as a Government and answering to the Parliament for them as a Government, and answering to Parliament individually for the administration



of departments - all as being an integral part of the Australian system of government and required under the Australian Constitution. Administrative support for the Cabinet has to operate within these parameters. It is an area where a blundering administration and insensitive handling of papers can do harm. The Department's role now and for some years past therefore has been to adopt procedures which support this principle of Cabinet collectivity.

16. Ministerial responsibility is not an outmoded concept in Australia as some contend. It is not, and probably never was, to be judged by the number of Ministers who offer resignation for some failure of administration. Responsibility is something Ministers feel and Parliament demands - and I have yet to meet a Minister who does not have a very real awareness of this responsibility and is not keenly conscious of the ever present test of Parliamentary questioning and inquiry. If anything, we have it in higher degree at the federal level with Ministers, when Parliament is sitting, attending thrice weekly for concentrated sessions of our own brand of inquisition - Questions Without Notice. There are well practised parliamentary committees with wide powers of investigation into the administration of departments and Ministers are not unaware of their diligence. Ministers' awareness of responsibility extends within the Cabinet itself - responsibility to ministerial colleagues and to Cabinet overall. The judgement of colleagues can be the most immediate and uncompromising of all.



17. For a time - 1968 to 1971 - the Cabinet Office was a separate department from the Prime Minister's Department. Sir John Bunting was the Secretary of the Department of the Cabinet Office and Secretary to Cabinet, and Sir Lenox Hewitt the Secretary of the Prime Minister's Department. It is probably right to say that Ministers did not feel themselves greatly affected by the change. They received the undivided attention of Cabinet officers and they therefore may have found some improvements in the service offered. Both the Cabinet Office and the Prime Minister's Department continued to brief the Prime Minister. The head of the Cabinet Office attended Cabinet meetings but the head of the Department did not.

18. There were undoubtedly greater effects at the bureaucratic level. The Cabinet Office had to contend with a lesser involvement among departments and in the working-up of policy proposals. The Department, while fully involved in working-up processes, had less insight into the handling of the proposals in Cabinet and less familiarity with the views of Ministers - although there continued to be a very close liaison between officers of the two groups. While both bodies enjoyed the support of the Prime Minister, the Department lost some weight in being unable to provide inside knowledge of Cabinet thinking and workings - which is often an entree card for the Department's involvement in interdepartmental discussions. The purpose of the division was not solely the issue of Cabinet administration - which makes it hardly a fair experiment from which to draw absolute conclusions.



19. A common factor of each Government's system of standing and ad hoc Cabinet committees has been that some committees work well and some fall into disuse. This is to be expected, for no administration is static and the emphasis in government policies changes. The usual pattern has been that standing committees make final decisions, as do ad hoc committees if authorised by Cabinet to do so. Membership of committees is spread between Cabinet and non-Cabinet Ministers. Usually also appointments to committees are made by the Prime Minister, and he also allocates the Cabinet work between committees and between Cabinet and committees.

20. The exception was Prime Minister Whitlam's government in 1973-75. From 1973-75, Cabinet comprised all 27 Ministers. A range of standing and ad hoc committees operated, and committees made recommendations to full Cabinet for endorsement of decisions. The larger meetings required procedures to be more formalised. It became a period of innovation and change in Cabinet secretariat work to meet the new requirements, particularly in the preparation and presentation of Cabinet papers.

21. Prime Minister Fraser has at present a Cabinet of 14 drawn from his Ministry of 27. Cabinet meets regularly, at least weekly on average, for consideration of major issues of significant political or policy content. There are 9 Standing Committees - Co-ordination, Foreign Affairs and Defence, Intelligence and Security, Monetary Policy, Social Welfare Policy, Wages Policy, Legislation, Industry Policy and General



Policy. There are then a series of specific purpose ad hoc committees supporting the standing committee structure. The average size of committees is twelve, except for Co-ordination which comprises the five senior Ministers. There is a fairly open system of co-options operating; Ministers are co-opted for any meetings where they have a portfolio interest in submissions being dealt with, and may sit in on Cabinet or Committee meetings as observers. The standing committees, for the most part, have standing committees of Permanent Heads in support for the examination of particular issues which may be referred.

22. A principal concern over the past few years in the Cabinet area has been in improving consultation between departments in relation to matters coming forward for Cabinet decision. It is important that time is not wasted around the Cabinet table on arguments as to facts, and that Ministers have clearly in mind the policy options. Towards this we have standardised the presentation of documents to Cabinet and required departments to consult with other interested departments before papers are submitted. Departments are also obliged to look ahead to the public presentation of decisions and to indicate how this is to be done. The Cabinet Office monitors submissions and the result has been the production of much briefer Cabinet papers identifying options and indicating the views of other interested departments. Emphasis on consultation beforehand and co-ordination throughout has produced a more rounded understanding of issues and at times a wider discussion of issues than may have occurred hitherto.



23. Co-ordination even in Cabinet administration is not without its critics. It is possible for departments to feel that they are obliged to spend too much time in arguing side issues with other departments and examining unlikely options. My own view is that this is a small price to pay. Departments are not always able to judge accurately the mood of a Cabinet Room or the political nuances. It is in the interests of government that decisions are clearly made on the basis of accepted facts and specified options, by those who have the political and parliamentary responsibility; and not left to the bureaucracy or assumed by a bureaucracy which does not have that responsibility.

24. We now have a Cabinet Handbook which sets down a lot of the Cabinet folk-lore, principally for Ministers but with sections of prime interest to departments. It is more comprehensive than Sir Allen Brown's Handbook of the 1950s; and we find it a useful way of recording and assembling the requirements on the administrative side. It contains the Prime Minister's standing instructions to his Ministers in relation to Cabinet principles and Cabinet organisation. There is always the danger that inscription of principles can tend to limit them. We have not, however, attempted a comprehensive essay on Cabinet philosophy and principles, but rather a Handbook on some essential requirements for effective Cabinet operation. Departments have been encouraged also to appoint Cabinet Liaison Officers, and when any new requirements come up this provides an effective group that can be called



together covering the whole administration. These Cabinet Liaison Officers also handle the flow of Cabinet work from their departments and have been of great assistance to the Cabinet Office.

25. There is a follow-up system which checks on Cabinet instructions and requirements - but which does not amount to an evaluation and assessment of the way in which Cabinet decisions are carried and the effectiveness of decisions, although the Department is involved separately in schemes of program evaluation. The follow-up system has been shown to be most useful in the legislation area, to improve the timing and drafting of new legislative proposals and achieve a more effective handling of the legislation program. The responsibility for implementing decisions rests primarily with Ministers. Decisions are recorded by Cabinet officers and circulated to Ministers forthwith. There may be subsequent discussion about the wording of decisions - but relatively rarely are decisions questioned.

#### Parliament

26. Since about 1960 the Department has become more closely involved with the programming of legislation. Two departmental officers, Parliamentary Liaison Officers, are available to the Leader of the Government in the House and the Leader of the Government in the Senate, to work closely with them on the legislative program. Originally the Department did little more than provide a service in relation to Parliamentary Questions. Now it is much more concerned with the flow of



proposals involving legislation through the Cabinet and to Parliamentary Counsel and then into the Parliament. The Parliamentary Liaison Officers work closely with the officers of the Parliament and with Parliamentary Counsel. The Department's Parliamentary Branch provides the secretariat to the Legislation Committee of Cabinet and deals with the various matters coming to the Department involving parliamentary affairs.

27. For years in Australia departments seem to have played down any role in relation to the Parliament, and until recently Parliament seems to have required very little of departments. We have a Parliamentary Branch in PM&C, and most departments seem to have sections dealing with parliamentary questions and their own legislation. But compared with the Congressional Relations Division of departments in the United States we have not seriously tackled the task of parliamentary liaison. I see scope for departments here to improve their knowledge of parliamentary proceedings and parliamentary requirements - and particularly of parliamentary timetable requirements: and to put themselves in a more positive role with Parliament generally. I think this can be done without at all stepping outside the proper role of the public service and without impinging on the proper responsibilities of Ministers.

28. The fact is that Ministers are Members of Parliament and represent constituencies. They have rights and duties no less than any other Member. A department that sees only the ministerial role or is oblivious to a Minister's role as a Member



of Parliament is likely to be less effective and to be providing something less than full service to a Minister. Ministers generally distinguish for themselves between matters political and matters departmental. This in itself has probably encouraged the tendency of departments to hold themselves at a distance from Parliament, and given them excuse for so doing. The Parliament itself suffers by this, and it is an area I think that needs re-appraisal - without, I might say, any need to fear politicisation of departments, or encroachment by the executive on the rights of Parliament.

Governor-General

29. The Department has a wider role in respect of the Governor-General and the Governor-General's Office than I think is sometimes realised. That we provide the secretariat to the Executive Council is well understood. There have been suggestions from time to time that the secretariat should be provided independently of the Department, but Governors-General have concluded over the years that the balance of advantage lies in the present system. The Executive Council secretariat is in fact quite small - three people - but there is an ability to call on the resources of the Department for any additional assistance.

30. Executive power under the Constitution is exercisable by the Governor-General acting with the advice of the Executive Council. The Governor-General's advisers are his Ministers. Council meetings usually comprise the Governor-General and two



Ministers and they deal formally with proposals requiring Executive Council approval on behalf of the Council as a whole and on the basis of papers - Executive Council Minutes - signed and submitted by Ministers individually. Each Minute is accompanied by an Explanatory Memorandum. It is this arranging of meetings and examination and organisation of papers that primarily occupies the time of the Executive Council secretariat.

31. Over many years the Department has provided administrative support to the Governor-General's Office, a wider range of administrative support than a Governor-General can expect to find from his own personal staff. This has been found useful in the administrative sense. But there is also a useful role - not in any sense replacing the proper role of Ministers to advise the Governor-General - in the Secretary of the Department being available to the Governor-General for discussions. Governors-General over the years have tended to keep contact with a range of senior public servants as the demands of the office require, and to tap the resources of departments. The Governor-General receives copies of Cabinet Submissions and decisions and the Department should, as a matter of course, look for ways to keep the Governor-General in touch with the flow of Government business.

#### Advising the Prime Minister

32. I have mentioned these specific functions of the Department - with Cabinet, with the Parliament and with the Governor-General - because of their importance. The heartland of the Department however lies in assistance, including in



advice and guidance, to the Prime Minister and the Government on the whole range of Commonwealth activities; the policy issues with which governments deal and the relations that governments maintain - internationally, with State Governments, with interest groups and with individuals. This was the pattern set in the 1950s and it has substantially continued since. A central thread has been the requirement that the Department advise the Prime Minister on all submissions coming to Cabinet. There are then the many other issues that come before the Prime Minister and on most of these the Department's advice is also sought.

33. The 1950s saw emphasis on the domestic economy and internal political issues. The staff of the Department then operating in the policy advising field of course was quite small: sections of three or four people covering quite a wide range of government activity. There was a self-imposed numerical limit on staff and recognition that it is never possible for the Department to hold on its staff enough experts, or in its resources enough expertise, to cover all the requirements. The Department then, as now, worked closely with policy departments to establish the facts and to understand proposals. It is possible, providing the staff is high quality and there is flexibility of mind, for small groups operating in this way, and having a network of contacts, to be in a position to offer sensible comments on policy issues across a wide range.

34. The pattern continued in the 1960s under the then Secretary, Sir John Bunting, who had been Sir Allen Brown's



deputy in earlier years. The 1960s saw perhaps greater emphasis on the international side, but in fact the pressures on the Department continued on all fronts. The Department became a major source of advice on policy issues generally and its role as a co-ordinating agency became more settled and accepted; it became more the practice to seek out the Department for guidance and advice. In this period the Department also developed a standing in matters that do not show in any functions statement - relations with Ministers, public service ethics, advising on proper procedures and proper standards. A lot of what is contained in the Public Service Board's guidelines on official conduct and our Cabinet Handbook is an expression of practices and standards developed through this period. The Department, along with the Board, is likely to continue in this role of confidant and adviser on practices and procedures.

35. I note a tendency to view the Department in the 1960s as being more concerned with paper handling than policy issues. This would be an incorrect view: those present in the Department at the time were thoroughly convinced by long hours and constant pressure that they were fully involved in the policy and administrative issues of the day. The archives will demonstrate it. That drums were not beaten about it testifies to the understanding that in the long run co-operation gets you further. But only the most superficial of assessments would mistake this period for anything but a continuation of the involvement in co-ordination of policy issues which by then characterised the Department.



36. There were new Prime Ministers in 1966 and 1968 and a new Permanent Head, Sir Lenox Hewitt, appointed to the Prime Minister's Department in 1968. There have been five Permanent Heads in the 1970s - Sir Lenox Hewitt, Sir John Bunting, John Menadue, the late Sir Alan Carmody and myself - serving four Prime Ministers. A major increase in staff was proposed in 1972, which gave the Department a useful basis to meet the additional tasks of the incoming Labor administration in the following year. 1973 became a testing time for the Department - having in mind that no Minister in the new administration had had any previous federal ministerial experience. The period was characterised by mountains of correspondence and furious activity on the legislative and Cabinet side. The demands on the Department for guidance as to principles and practices had never been higher - across the whole range of Cabinet and Ministerial activity and in respect of the creation and operations of new departments and new authorities. There was also a substantial increase in the size and a change in pattern of the Prime Minister's Private Office in 1973. Ministerial advisers were appointed in each Minister's Office and in the Prime Minister's Office. Generally these were middle range officers appointed from outside the service, some protective of Ministers and suspicious of the motives and abilities of public servants - attitudes which departments tended to reciprocate. The Prime Minister's Department took time to adjust to the



lessening of direct contact with the Prime Minister - and it took the new Prime Minister and his advisers time to take advantage of the available Departmental resources.

37. Sir Lenox Hewitt, John Menadue and Sir Alan Carmody all brought new perspectives to a Department that had set itself in the mould of their two predecessors, and the Department and individual officers gained from the experience and outlook of each. At times different styles were interpreted as changes of direction and a change in the purpose and function of the Department. However the Department does not automatically take on the colour of its Permanent Head in the way commentators suggest. The basic functions do not change; nor does the basic character of the Department and the intense pressure in working in the forefront of government activity continues. And there is a basic incompatibility between the role of a co-ordinating department and the role in policy initiation that some outsiders see the Department wanting to follow or needing to follow.

#### Central Co-ordination

38. Which leads me to say something about the requirements for a co-ordinating department. I do not myself believe that over the long term the Department can successfully combine a role as co-ordinator with responsibility for running policy operations. If the Prime Minister's Department runs policies or pieces of policies there is inevitably an overlap, other departments detect a rival in their policy fields, and not unnaturally they resent or resist it. If you seek a role as co-ordinator you cannot be a rival to everybody and you cannot



contest with them on every policy point. The art of co-ordination is knowing when to support, to encourage and endorse; when to probe; when to inject an alternative thought, press a contrary point or advocate an alternative policy; how to win consideration for your view without submerging or destroying the views of others. But above all to look to the long term as well as the short term and acknowledge that in the long term it is the strength and efficiency of policy departments that sustain administrations, and it is on them also that the reputation of the bureaucracy mainly depends.

39. Innovation without proper preparation passes across the stage fleetingly. Heroes tend to have short lives. We can lead in the examination of new ideas, and in proposing them. We can push to have options examined and propose alternative courses of action. But after that, our day-in, day-out task is to assist in translating governments' intentions into solid performance, and that can only be done in co-operation with policy departments who know the facts, can weigh the issues and can sustain the impetus.

40. Co-ordination requires consultation. I try to insist that in any advising we do there is full consultation with the department concerned. It is a standing instruction in PM&C that before putting notes to the Prime Minister on Cabinet Submissions, or to the Chairman of Cabinet Committees if the Prime Minister is not chairing them, there is consultation. And on any point on which we take a different



line from a proposing department, that department has to be aware of it. There is a practical reason for this. It is not our business to have Ministers surprised in the Cabinet Room with questions they have not anticipated, or be faced in the Cabinet Room with propositions they have not considered. If we are taking a different line or suggesting a different option the responsible department should be told and have the opportunity of alerting and advising its own Minister and we expect that they will do so. We are assiduous in requiring departments putting forward proposals to consult with interested departments. It seems to me not to be too much to require the same discipline of ourselves.

41. One occasionally sees pressure for the Prime Minister's Department to take over at the public service level some particular function of government. This may be because it is not being particularly well handled where it is. It may be a new function which has no other natural home. It may simply be that the Government wants to give a particular policy area a push or yet again to introduce some new policy under the wing of the Prime Minister for the reason that in any other location it may not have the necessary authority or impetus. These things are done and can be done successfully in the short term. The Department of Education had its origin in a division of the Prime Minister's Department and the Office of Education then attached to the Department. The Australia Council and Commonwealth policies in relation to the arts started off being associated with the Department. I mention



also in this connection women's affairs, Aboriginal affairs and environmental matters which were also for a time handled in the Department.

42. While it is interesting to be involved in a policy issue, to give advice, even to have one's advice accepted; and while it is flattering to feel that your advice is persuasive in a particular area, Prime Minister's Department is not in the business of taking over from other departments. We are much more concerned to ensure that these other departments are built up and sustained as front-runners in the policy field. For the same reason we decline the task of advising the media on particular government policies. Almost without exception they are the primary business of other Ministers and departments and we have to exercise a proper restraint in any public comment.

43. Within this view of our role as a co-ordinating agency, there is plenty of scope for us to develop ideas, discuss them with other appropriate departments and agencies, intervene in the consideration of issues and put views to the Prime Minister and other Ministers. We do not feel inhibited in what some might interpret as the role of second opinion. Our branches have built up an understanding of policy issues and an expertise in co-ordination; our officers are sought out for their advice and assistance. We have scope for probing and proposing, and in the result we have a satisfying role fully testing the skill and experience of our total organisation.



The Department of the Prime Minister and Cabinet in the 1970s

44. Having perhaps persuaded you that nothing is different in the Department, let me talk now about what is different. Because although the principles are the same and the functions are basically the same, the Department has changed. We have managed to shed some functions, first to what was our companion department, the Department of the Special Minister of State, and now to the Department of Administrative Services. Happily also we have not had to acquire any major extraneous functions. So we are stripped down for our essential task.

45. I was relieved to find the Royal Commission on Australian Government Administration concluding not only that a single department should continue to serve the Prime Minister and Cabinet but also that emerging functions of government should be hived off to line departments so that PM&C can concentrate on its primary role of policy co-ordination and development, adaptation and review. It would be a mistake, I believe, to tie our policy divisions as formally to Cabinet secretariat work as the RCAGA report seems to suggest. Our divisions have the responsibility of advising on policy contained in Cabinet proposals and where it is appropriate to involve key officers in Cabinet secretariat work for particular issues, then this is done and has been done for some time. But policy issues dealt with by the Government go much wider than what is actually handled in Cabinet and we have to cope with the full range.



We have relieved policy divisions from having to handle the great bulk of the Prime Minister's routine correspondence - by the creation of a separate Ministerial Correspondence Unit. Policy divisions and branches as presently structured deal with complete policy areas and there are departmental mechanisms to ensure that there is co-ordination between them.

46. The idea of a separate policy co-ordinating unit in the Department was tried under John Menadue's administration. There is a difficulty however in that the whole Department is a policy co-ordinating unit and it can be confusing to ascribe the function to a small group. We concluded then, after a short period, that this was not the way to go. We have come to a somewhat similar conclusion in respect of State relations. We have a real interest to discharge here in that all policy communications to and from State Governments come through the Prime Minister. Relations with State Governments and Local Government were for a time supplemented by our having a State Relations Branch specifically named. In practice we have found it better to emphasise the importance of State and Local Government relations in all policy branches and to use the Department as a whole as a co-ordinating agency in federal relations. These approaches sometimes lead to misunderstandings when particular names of divisions and branches appear and disappear, and this is often interpreted as functions acquired or functions relinquished. More often it simply means that we are dividing the whole in a different



way to suit our internal work flows, and too much can be read into the naming of specific divisions and branches.

47. Our Priorities Branch has both a monitoring and policy advising function, but has a more limited role than a policy co-ordinating unit. Time to think is still a scarce commodity amid the pressures of the day and we need to insulate some capacity in each area so that special projects and special efforts get their right-of-way. Often the path chosen is that of establishing a special committee, task group or independent review. The Priorities Branch monitors these activities of policy divisions and agencies alike, to put together an overall picture of connected government effort in new areas of activity.

48. I am very pleased about the quality of staff we have managed to attract, which holds comparison with any previous period. Our recruitment follows, but also tries to anticipate, changes in emphasis in government activity. The occupation of the Government with the domestic economy for example is reflected in our present organisation and the Permanent Head is a member of the Management Group charged with monitoring the exchange rate. We have had continuing involvements in the social policy field. The Government is active at present in negotiations on international commodity trade, and we have adjusted the Department's structure to enable us to reflect this emphasis. Uranium mining was handled by the establishment of a full-time interdepartmental group under our chairmanship to get over the hump of activity in this area.



49. Surges in activity are also met by seconding staff from other departments or from outside the Service. Prime Minister's Department has a continuous history of secondments from the early 1950s. In the late 1950s the Public Service Board agreed to our taking a regular succession of seconded officers from other departments. The program expanded markedly under John Menadue and Sir Alan Carmody. We have at the present time 14 officers in the Department on secondment, 3 from private industry, 10 from other departments and agencies, and one from a State Government administration. There are 13 departmental officers out on secondment, 2 to industry, and 11 to other departments and agencies or on various inquiries. There may be an impression of Prime Minister's Department having largely permanent staff. I mention in this respect that half of our Second Division staff have five years or less continuous service in the Department. This together with the program of secondments gives the Department a wide range of expertise to draw on and the opportunity of moulding its top administration towards the policy requirements of the government of the day.

50. In two other areas the Department has taken on additional tasks. There is a follow-up program for matters required to come back to Cabinet. This combined with a forecasting program of Cabinet submissions - six months ahead on a rolling basis - gives us a much better picture of the progress of policy proposals through the system and their final disposition. We are also involved in evaluation of Government



programs. Cabinet periodically approves a list of programs for evaluation and report. In most cases these are undertaken by processes which primarily involve the responsible department. But we are involved in each evaluation group and in the handling of the final report. This program evaluation is still in early stages and a pattern has not been firmly established.

51. Briefing for the Prime Minister is now better organised than it was, in respect of international visits, visits within Australia - particularly discussions with State Governments - and in respect of parliamentary proceedings. The practice started by Prime Minister McMahon and continued by the two succeeding Prime Ministers is for departmental officers to attend oral briefing sessions in the Prime Minister's office before each Question Time. There is a regularly updated written brief, but this is supplemented in discussion and senior officers have an opportunity to give oral advice in respect of issues of the day. There is on the whole a close working relationship with the private office staff. The Department does not, as it did for many years, provide the senior staff in the Prime Minister's office. That has changed the pattern of liaison but not, I think, impeded it.

52. And of course staff ceilings have an overshadowing effect on the Department's operations. Operating to a numerical staff ceiling is no new feature to the Department; on the contrary this has been the norm rather than the exception. But there has over the past few years been an



identifiable increase in workload to be met by the same number of people. This has required the shedding of involvements as fast as we take on others.

53. The use of interdepartmental committees and task groups as an administrative process is one which we as a Department strongly support. It is important that we be involved in some for co-ordination reasons. Some of course become long term exercises and change character in so doing. The point at which an interdepartmental group moves from its immediate task to one of longer term monitoring is not always clear, but when it does it is usually the point at which we should review our involvement. We do not have, as has been written, any automatic right to join all interdepartmental committees. We would not want to regard ourselves as having such a right or role, for reasons which I hope are apparent by now from this paper. We have opportunities to advise on the outcome of deliberations of task groups and interdepartmental committees, where this affects the Prime Minister or the Government, whether we are a member of the group or committee or not.

54. I hope this gives you a picture of a Prime Minister's Department that is involved and active, as we certainly are. And as I am. The Permanent Head of the Department can find ample variety in the work and enough to keep him busy. He has a special responsibility, I feel, to ensure that the Prime Minister and Ministers generally are kept in touch,



are not isolated from the advice and guidance that a public service can offer. I am not limited in putting my own views on whatever issues are under discussion. It is even more a responsibility to ensure that the relevant and expert advisers are heard, and their views come through without qualification or interpretation. I am not without hope that we can continue down this path successfully - for it is an important ingredient of our responsibility in co-ordination.

55. Co-ordination is not the opposite of initiation, but enfolds it. A Prime Minister's Department is a tool of government that can be used in a very direct and telling way in ensuring that government policies are got under way, that changes in direction are made, that there is a responsiveness by the public service as a whole to new instructions and changes of style. It can be used to best effect if it is able to do this sensitively and with a lightness of touch consistent with its longer term and wider role as a central co-ordinating agency. It is a Department that serves the Prime Minister, serves the Ministry and serves each individual Minister in its role as a co-ordinating agency. And in a very real way it can be a touchstone for the government system as a whole in standards of administration and principles of conduct, for which the Australian public service has an extraordinarily high reputation.

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ATTACHMENTS

1. Memorandum from Prime Minister Andrew Fisher to the Public Service Commissioner informing him of the proposal to establish the Prime Minister's Department, 3 April 1911
2. Memorandum from the Director-General, Department of Post War Reconstruction to the Secretary, Prime Minister's Department on the transfer of economic policy functions, 21 December 1949
3. Functions of the Prime Minister's Department - 1949
4. Functions of the Department of the Prime Minister and Cabinet - 1979
5. Working Organisation Chart as at 28 March 1979



PRIME MINISTER.

No. \_\_\_\_\_

The Public Service Commissioner.

I am of opinion the work of the Prime Minister's office needs a Dept directly under his control.

It is proposed to make provision on next year's Estimates (1911-12) for it under a separate Vote. Included in the Dept will be the Executive Council, the Auditor General and I suggest the Public Service Commissioner.

I recommend Mr. M. L. Shepherd, who has ably & faithfully carried out the duties of private secretary to Prime Ministers Deakin, Watson, Reid, & myself, for the office of secretary at a salary of £500 per annum.

Andrew Fisher  
3/4/11.

Included in  
Auditor General  
& Public Service  
Est. 6/4/11.



21st December, 1949.

MEMORANDUM TO:-

The Secretary,  
Prime Minister's Department,  
West Block,  
CANBERRA ..... A.C.T.

Following yesterday's decision of Cabinet to wind up the Department of Post-War Reconstruction forthwith and to transfer from it to your Department the Economic Policy Division, the Office of Education, Universities Commission, National University and C.S.I.R.O., I should like formally to propose that this transfer should take place as from the close of business on Wednesday, 28th December, and that these Divisions and Organizations should be regarded as being attached to your Department as from the 29th December. The only qualification I would make to that general proposal is that I be allowed to retain two or three junior officers of the Economic Policy Division for a few days longer to assist me, on the administrative side, in winding up general departmental matters. They could then follow their colleagues across to your Department in the early part of January. This matter of detail could be arranged between my officers and yours.

I shall arrange for personal files etc. held in Canberra relating to the officers of the Economic Policy Division and other Organizations to be transferred to you shortly.

(L. F. Crisp)  
Director-General.



FUNCTIONS OF THE PRIME MINISTER'S DEPARTMENT - 1949

(Taken from the Administrative Arrangements Order)

FUNCTIONS

Administrative arrangements  
Archives - Provisional arrangements for  
Art Advisory Board  
Cabinet Secretariat  
Channel of communication for all Departments with  
the Governor-General, State, British and Dominion  
Governments (excepting by cablegram)  
Commonwealth Literary Fund  
Federal Executive Council  
Government hospitality  
High Commissioner's Office, London  
Historic Memorials  
Premiers' Conferences  
Preparation and publication of -  
Commonwealth of Australia Gazette  
Federal Guide  
Royal Commissions  
State and ceremonial functions

ACTS ADMINISTERED BY THE PRIME MINISTER \*

Committee of Public Accounts Act 1913-1934  
Committee of Public Accounts Act 1932  
Commonwealth Grants Commission Act 1933-1935  
Commonwealth Public Service Act 1922-1946  
Commonwealth Public Works Committee Act 1913-1936  
Commonwealth Salaries Act 1907  
Defence (Transitional Provisions) Act 1946 insofar as it  
relates to the following Regulation:- National  
Security (Supplementary) Regulation 120  
High Commissioner Act 1908-1945  
Migrant Settlement Agreement Act 1933  
Minister of State Act 1935-1946  
Officers' Rights Declaration Act 1928-1940  
Parliamentary Allowances Act 1920-1938  
Parliamentary Salaries Adjustment Act 1938  
Royal Commissions Act 1902-1933  
Science and Industry Endowment Act 1926  
Science and Industry Research Act 1920-1945  
Special Annuity Acts

\* Including Acts related to agencies under the Prime  
Minister's control but not necessarily involving the Department.



FUNCTIONS OF THE DEPARTMENT OF THE PRIME MINISTER AND CABINET - 1979

FUNCTIONS

Co-ordination of government administration  
Assistance to Cabinet and its Committees, and to the  
Prime Minister as Cabinet chairman  
Policy advice and administrative support to the  
Prime Minister  
Co-ordination of government policy and program  
development and review  
Relations and communications with State Governments  
Government ceremonial and hospitality

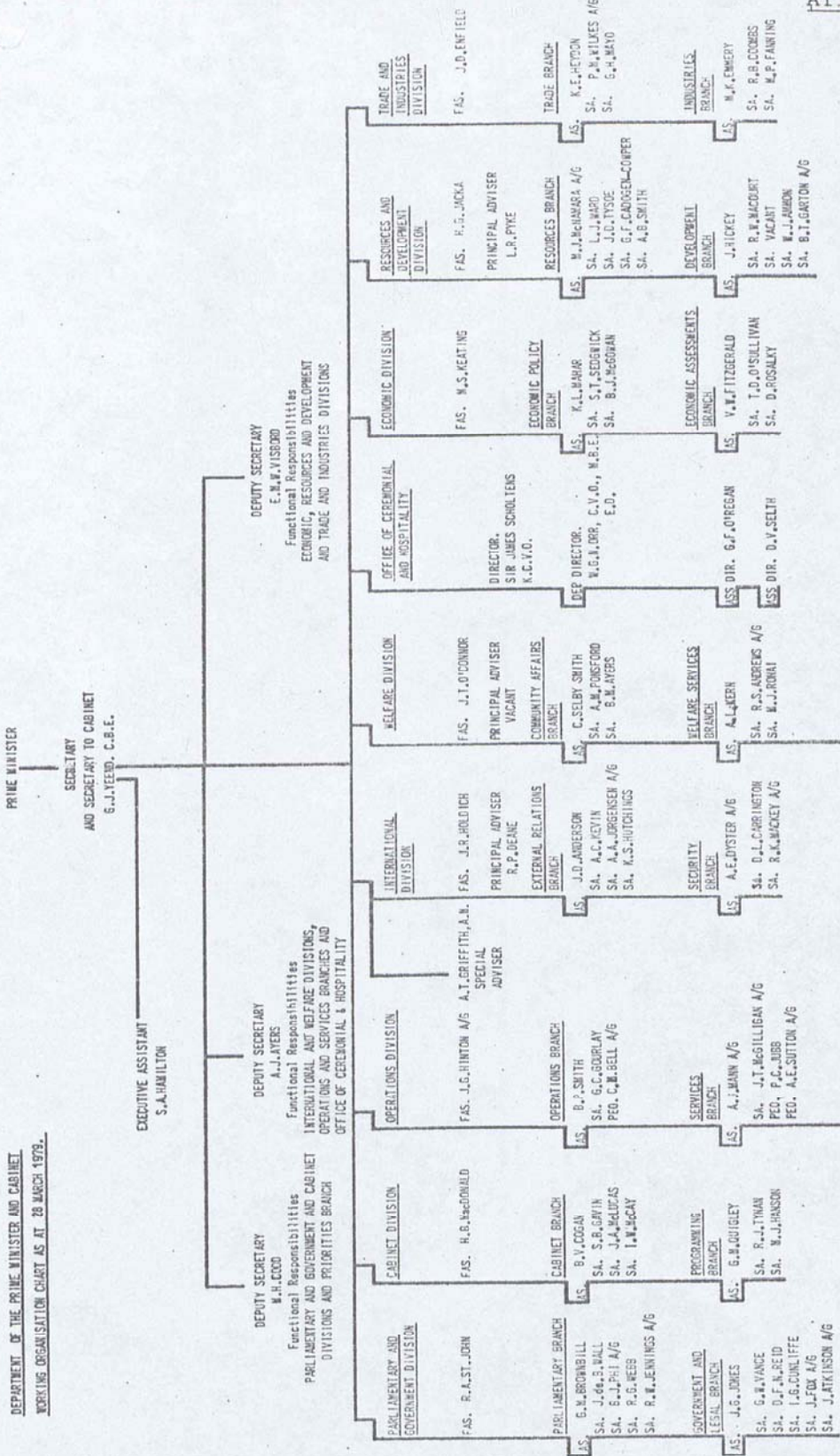
ACTS ADMINISTERED BY THE PRIME MINISTER \*

Advisory Council for Inter-government Relations Act 1976  
Australian Science and Technology Council Act 1978  
Governor-General act 1974  
Local Government (Personal Income Tax Sharing) Act 1976,  
sections 4,6,9 and 12  
Long Service Leave (Commonwealth Employees) Act 1976  
Maternity Leave (Australian Government Employees) Act 1973  
Office of National Assessments Act 1977  
Officers' Rights Declaration Act 1928  
Ombudsman Act 1976  
Parliament Act 1974  
Parliamentary Presiding Officers Act 1965  
Public Service Act 1922  
Public Service (Permanent Head - Dual Appointment) Act 1977  
Remuneration Act 1974  
Remuneration and Allowances Act 1973, except to the extent  
administered by the Minister for Administrative Services  
Royal Commissions Act 1902  
Royal Powers Act 1953  
Royal Style and Titles Act 1973  
Tasman Bridge Restoration Acts

\* Including Acts related to agencies under the Prime Minister's  
control but not necessarily involving the Department



DEPARTMENT OF THE PRIME MINISTER AND CABINET  
WORKING ORGANISATION CHART AS AT 18 MARCH 1979.



SECONDEES OUT / SPECIAL DUTIES	SECONDEES IN / CONSULTANTS
P.D. LUCK	J.K. HIRST
R.A. BOO	R. BOO ONLY
G. HITCHOLS	E.K.S. INCLAIR
D.M. KELLY	B. WIGENT
B.F. COX CVO	M.P. BREZZI
A.D. ROSE	T.H. MCGLELLAN
B.P. WILLIAMS	J. DOCK
	L. AUSTIN



For Tim only - I really  
am very concerned about  
10-2 which  
is written by the  
have done it  
is wrong to the CSO - and needs  
just to be put right.  
sub.



10 DOWNING STREET

THE PRIME MINISTER

18 Jan 1987.

I have been through the Observations in detail. A large part of the paper is excellent - but (so sorry, - there is always a but!) I have a number of reservations.

1 Para 20 - Programme 'Introduction'.  
This won't do. It is so waffly that it throws doubt on capacity to evaluate anything. Moreover it is at variance with the much better view expressed at the beginning of para 30 and 31.

2 I am very unhappy about the whole section starting at para 32 and headed 'The Policy Objectives of the CSO'. At a time when we have just received the figures showing that ad min costs have gone up by over 25% it is really not possible to place "Restrictions on expenditure" indeed what those figures show is lack



of effective control, management, & training  
~~and resolve, to~~ and some of those  
things are right at the heart of CSJ.

I don't know what that section is  
trying to say but what it does reveal  
is lack of clarity, urgency, and grasp  
of the problems that CSJ has to solve.

It just has to be reconsidered. The  
rest of the document is way ahead of  
that section.

MT.



I think that the conclusions set out in the draft White Paper are, for the most part, sound, but the language in which they are expressed is partly hyperbolic (even though Lord Soames asked earlier that it should be made "stronger" - this is what X below refers to).

MR C A WHITMORE

In your minute of 17 December recording the Prime Minister's meeting with Mr du Cann you commissioned a White Paper in reply to the Select Committee's recent Report "The Future of the Civil Service Department". When I saw the Prime Minister on 7 January about other matters she asked for an early sight of the draft. I promised to submit it this week. Here it is.

We shall need the comments of the other recipients of the draft. I propose to ask for them by Wednesday 21 January if you agree. Therefore you may want a meeting.

The White Paper deals briefly with the main machinery of government issue, and sets out fuller observations on each of the Committee's subsidiary recommendations and comments. I have consulted Sir Douglas Wass in drawing up the present draft which in essence concerns the two central departments. A minor point about the mechanics of co-location (paragraph 24) affects the FCO and has been agreed by Sir Michael Palliser. The draft seeks to reflect the Lord President's general comment on an earlier version, and I am sending a copy of this draft to him simultaneously with this submission. He is of course in no way committed to it.

X

Feb 16.1.52.

Main Points

The points to which I should particularly like to draw the Prime Minister's attention are:-

✓ paragraphs 12-15 In taking evidence the Select Committee have shown a good deal of interest in the relations between the Central Departments and departments at large, without coming to any focussed conclusion. The issues do not yet seem to have coalesced for them. The paragraphs in question may help to do this: they reflect the work on the role of the centre which Sir Derek Rayner, Sir Douglas Wass and I have put in hand under the guidance of the Chancellor of the Exchequer.

✓ paragraphs 23-25 (co-location) paragraphs 26-29 (common services) The Committee's positive recommendations for improving contact between the Treasury and the CSD were drawn from the Report of the Study Team which the Prime Minister commissioned to look at integration. Those proposals assumed merger at Ministerial and operational levels: they are not readily applicable when there is no merger. Sir Douglas Wass and I have considered this carefully. Our view is that contact between the Departments should indeed be adjusted to reflect the fact that while remaining separate for good reasons, each has much to contribute to the work of the other, particularly in the field of financial management. These paragraphs set out the measures that we think should be taken (especially on the management of our joint specialists), while stopping short of immediately incurring the disruption which would arise from undertaking co-location and amalgamation of common services in present circumstances. We should like to see how these arrangements work out in practice, and take that experience into account in a future review of co-location.



paragraphs 30-31 The acceptance of the Committee's proposal to transfer CSD's Accountancy, Finance and Audit Division to the Treasury makes good sense in the context of closer working between, and clarification of the responsibilities of, the two Departments.

paragraphs 32-44 The section on the policy objectives of the CSD develops in practical terms what the earlier part of the White Paper has to say about the Government's priorities. In particular it concludes that current training policy and the balance of resources in the CSD should not be disturbed.

#### Handling and Timescale

Subject to the Prime Minister's approval of the draft, we should aim to publish the White Paper before the end of January. The interest of departments other than the CSD and Treasury in the content of the White Paper is not extensive, and she may consider it sufficient to circulate the draft to the Cabinet for information, rather than for substantive comment. If she felt that the Cabinet should be given the opportunity to comment on the draft, the timetable would need to be extended.

I suggest that the normal procedures for publication should be adopted, with Confidential Final Revises (CFRs) being issued to the Select Committee and to selected Press correspondents 24 hours before publication. The Prime Minister may wish to consider whether she would see Mr du Cann again at that stage.

I am sending copies of this minute and the draft White Paper to the Chancellor of the Exchequer, the Lord President, the Minister of State (CSD), Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner.

*NRB*

IAN BANCROFT  
16 January 1981



DRAFT

**CONFIDENTIAL**

**THE FUTURE OF THE CIVIL SERVICE DEPARTMENT**

**Government Observations on the First Report from the Treasury and Civil Service Committee,  
Session 1980-81, HC54**

**Presented to Parliament  
by the Prime Minister and Minister for the Civil Service  
by Command of Her Majesty  
January 1981**

Cmnd

**CONFIDENTIAL**



# CONFIDENTIAL

## GOVERNMENT OBSERVATIONS ON THE FIRST REPORT FROM THE TREASURY AND CIVIL SERVICE COMMITTEE, SESSION 1980-81: THE FUTURE OF THE CIVIL SERVICE DEPARTMENT

### INTRODUCTION

1. In its First Report for the Session 1980-81 (The Future of the Civil Service Department, HC 54), the Treasury and Civil Service Committee examined the role and effectiveness of the central departments of government and particularly of the Civil Service Department (CSD), in promoting and securing efficiency in departments generally.

### THE ALLOCATION OF FUNCTIONS AT THE CENTRE

2. On the key machinery of government issue, the Prime Minister notes the Committee's conclusion (paragraph 23) that the Treasury and the CSD should not be merged. This accords with the views she has formed as a result of her own review of the organisation of the Departments. The Prime Minister agrees with the Committee, therefore, that the right course at the present time is to strengthen and improve the existing organisation rather than to change the machinery of government. The rest of this White Paper - setting out the Government's plans for the future work of the two Departments and their observations on the Select Committee's Report - proceeds from this decision.

### THE SELECT COMMITTEE'S RECOMMENDATIONS

3. In paragraph 4 of its Report the Select Committee identified three areas of interest:-
- a. the effectiveness of the CSD;
  - b. the relationship between the CSD and the Treasury; and
  - c. the policy objectives of the CSD.

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The Government's observations on the views expressed by the Committee follow this structure. In those matters on which it is not yet possible to reach a conclusion, the Government hope that their observations will contribute to a continuing and fruitful dialogue between the Committee and the Departments concerned.

## THE GOVERNMENT'S OBSERVATIONS

### Resources for Change

4. The Government are bound to consider the Committee's recommendations against the background of the other demands that the CSD has to meet in the immediate future.

5. The CSD is committed to making its share of savings in the cost and manpower of the Civil Service as a whole. By 1 April 1984 the staff numbers of the CSD (including the Civil Service Catering Organisation) will have been reduced by nearly 1000 (or almost one fifth) as against the number of staff in post when the Government took office, and by a quarter as compared with the peak year of 1976. As well as fulfilling its continuing responsibilities in respect of such matters as Civil Service pay, personnel management, training, recruitment, and the effective use of computers, the Department has taken on considerable additional tasks, particularly in the field of resource control.

6. Where the availability of resources is the limiting constraint upon the implementation of the Committee's recommendations, this has been made clear in the observations that follow.

### The Effectiveness of the CSD

#### The Staffing of the CSD

7. The Committee considered that the staffing of the CSD could be strengthened by importing a wider range of talent, qualification and experience (paragraph 30). The Government agree with the Committee that the CSD should get at least its share - possibly a disproportionately large share - of the best talents, drawn from inside and outside the Civil Service.

8. In the Government's view, departmental management will need to continue to have regard to all the effects of such a policy. Arrangements made to broaden work experience and to open the

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Department to outside influence are beneficial. They should not be carried to the point where they compromise the ability to develop professionalism, where people move in and out of jobs too rapidly, or where management's need to develop the full potential of existing domestic talent is adversely affected. What the correct point of balance may be is a matter of judgement on which the Committee's views are welcome; in the meantime it may be helpful to set out briefly where the Department stands today on the Committee's specific recommendations:-

- a. The recruitment of fairly senior people with relevant experience from outside the Civil Service.

Of the 147 staff at Principal level and above in the policy areas of the CSD (defined in paragraph 11 of the Report by the Study Team on the Integration of the Treasury and the Civil Service Department), some 40 have had experience of employment outside the Civil Service. The relevance of that experience was taken into consideration at the time of recruitment, or in arranging secondments and exchanges.

- b. Greater interchange between departmental Establishment Divisions and the CSD.

Of the same group of 147, some 90 have worked in one or more government departments other than the CSD; of these, 25 are at present on loan to CSD from other departments. In nearly all cases this experience has been acquired or refreshed within the last 10 years; it has included work in Establishment Divisions but has extended beyond, so that CSD gains the benefit of experience in a wide range of operational tasks. Eight Principals are on secondment from CSD to other departments, and two are seconded to Civil Services overseas.

- c. Greater interchange between the Treasury's Public Expenditure Divisions and the CSD's Manpower Divisions.

Of the 90 or so staff with work experience outside the CSD, 40 have served in the Treasury. Numerical constraints limit interposting between the Divisions cited: the Manpower Divisions contain only eight Principal and three Assistant Secretary posts. Of the three Assistant Secretary posts, two are held by CSD staff, of whom one has previously served as a professional economist in MAFF, and the other has had five years experience as a senior executive of a public corporation; the third is on a period of secondment into CSD from the Ministry of Defence.

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9. In this situation and with the total numbers of policy posts as small as they are at the higher levels (13 Under Secretaries and 29 Assistant Secretaries) management must carefully judge the effect that increasing the proportion of staff drawn from outside the Department will have on domestic policy objectives. As to the desirability of outside experience there is nothing between the Government and the Committee, and the Government hope that the facts on current practice will reassure the Committee on this point.

## The Role of the CSD

10. The Government welcome the Committee's support for their continuing commitment to the proper and economical management of the Civil Service. The Government note that the Committee considered that widespread disquiet had been aroused by what has been seen as the CSD's failure to pursue a more active role (paragraph 9).

11. The Government agree with the Committee in attaching considerable importance to Ministerial interest and direction (paragraphs 9 and 29). The level and character of any department's activities are, and in our system of government must be, determined by the decisions and wishes of Ministers. The extent to which the CSD has or has not in the past pursued or achieved the objectives described in the Committee's report has depended crucially on the priority which Ministers have assigned them. The activities of the central departments affect all other departments, and are necessarily influenced by the collective priorities of the Government as a whole. Since May 1979, the CSD has been working towards the present Government's objective of a much smaller and more efficient Civil Service - an objective which comes high on the list of the Government's priorities. Considerable progress has been made. Much remains to be done and the Government are at one with the Committee in giving weight to this work.

12. The Committee drew attention (paragraph 31) to the comment by a witness that the CSD left too much independence to individual departments in matters of internal management particularly in the context of the direct control of resources. That view of the role appropriate to a central department is open to debate.

13. The Government take the view that although there are areas of management in which a degree of uniformity is advantageous and cost effective and in which a high degree of central

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authority is appropriate, the primary responsibility for the efficiency of each government department must rest with its own Minister and his senior staff, who together are answerable for the use of the resources entrusted to them.

14. Accordingly in the field of resource control the essential role of the central departments must not in the Government's view derogate from this primary responsibility of departmental Ministers. The task of the CSD (and the Treasury) in this area is to advise Ministers upon the allocation of resources (both money and manpower); to design and maintain the overall system of resource control; to ensure that it is operated effectively by departments; to satisfy themselves that departments have adequate systems for conducting their operations efficiently, and that they apply these systems properly; and to provide expert help and advice where it is needed.

15. The Government consider it important to maintain the distinctions described above in order to preserve the clear lines of accountability which are necessary both for the internal efficiency of government and for its relationships with Parliament and the public. Accordingly the Government intend that the CSD's pursuit of efficiency in the field of resource control should continue to be conducted by reference to these considerations.

### The Pursuit of Efficiency

16. The Committee's Report is critical of the CSD's effectiveness in controlling Civil Service manpower numbers and in promoting what has been termed manpower efficiency (paragraph 28).

17. The priority now being given by the Government to these objectives is indicated by the significant shift of CSD personnel to this work. Over the last 1½ years the Divisions concerned have actually grown by 8%, instead of reducing in line with other CSD divisions. Staff have been found from elsewhere in the Department.

18. Since May 1979 the staff in the Divisions concerned have:

- a. conducted successive exercises aimed at reducing the size of the Civil Service; manpower targets have now been settled for all departments for 1 April 1984;
- b. provided close support for Sir Derek Rayner's programme of scrutinies and taken the lead in his Service-wide review of statistics;

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- c. devised and promulgated improvements to the system of staff inspection;
- d. embarked on a programme of Service-wide cost-cutting exercises in supporting services;

in addition to their continuing tasks in the fields of manpower control, management services and organisation. The Government will publish a White Paper reviewing the initiatives that have been taken since May 1979 and providing more detailed information.

19. These activities represent a vital part of the CSD's work but the Department has in addition to pursue other conditions necessary for the efficient despatch of government business. Efficiency in the use of human resources depends not only on using less, but also on constructing a management framework that prevents wasteful deployment, on promoting a climate of industrial relations that encourages commitment to the work in hand, and on adopting personnel policies that maintain due standards of performance. The Government need to ensure that due weight is given to each of these components of the Department's work and to allocate resources accordingly. The Government will continue to bear these considerations in mind in deciding its policy priorities.

## Programme Evaluation

20. The Committee recommended (paragraph 31) that the CSD should give more emphasis and attention to systematic arrangements for programme evaluation and the guiding of expenditure programmes by reference to their final effectiveness. This issue affects not only the CSD, but also, and more particularly, the Treasury and the CPRS. Effectiveness is clearly the ideal general criterion for judging expenditure programmes, and it is a major concern in the Government's arrangements for managing expenditure. It can also, however, be an elusive criterion, both in definition and in measurement. Experience has led the Government to be sceptical about the value of systematic approaches which are too formal and rigid. What is needed is an adaptable approach, tailored to the kinds of expenditure and results in question, although it is important to ensure that work is properly coordinated. Present practice, which is continuously developing, rests on regular annual reviews of programmes in the public expenditure survey. Partly arising from this, a range of policies and programmes is under specific review at any given time. There are also scrutinies of specific departmental activities, directed by Sir Derek Rayner, which concentrate on questions of departmental efficiency. In addition, work is proceeding in several areas on the development of improved forms of output measurement and the

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development of management responsibility and accountability in relation to particular objectives of expenditure.

## The Relationship Between the CSD and the Treasury

21. The Committee recommended three operational changes with a view to encouraging closer working relationships between the CSD and the Treasury (paragraph 32), namely, the co-location of the two Departments in a single building, the sharing of common services between the two Departments, and the transfer of the CSD's Accountancy, Finance and Audit (AFA) Division to the Treasury. These proposals draw on the discussion of these issues in the Report of the Study Team on the Integration of H M Treasury and the Civil Service Department.

22. The Government agree with the Committee that a close working relationship between the Treasury and the CSD is essential. As indicated in paragraphs 7-12 of the Report of the Study Team, however, the area of direct policy contiguity between the two Departments is small relative to the total size of the Departments. Less than one eighth of the CSD's 5000 staff advise Ministers directly on policy and no more than half of these have any close connection with the work of the Treasury. Accordingly only about 250 CSD posts at most could benefit to a significant extent from a closer working relationship with the Treasury.

### Co-location

23. The Government agree with the Committee that the functions of the CSD have a logical cohesion which it would be harmful to split. Accordingly the Government accept the Committee's conclusion (paragraph 32(i)) that the CSD policy functions at present brigaded together geographically should remain so; and that co-location should only proceed on condition that all the CSD's policy posts at present in Old Admiralty Building can be moved to join those of the Treasury.

24. The Report of the Study Team drew attention to the costs of, and disruption associated with, the co-location of the two Departments in the Government Offices Great George Street. The Government believe that it would be wrong to distract the Departments from their present tasks. To make space immediately for the CSD would result in a degree of geographical decentralisation for the Foreign Office, whose own co-location would be correspondingly harmed.

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25. The Government have therefore decided not to co-locate the two Departments now. They will keep the matter under review in the light of developments. They will, in addition, examine closely whether any further steps, such as an extension of cross-attendance at policy meetings (paragraph 29 of the Report of the Study Team) can be taken to enhance day to day communication between the staff of the two Departments.

### Common Services

26. The Committee recommended (paragraph 32(ii)) that the common services of the two Departments should be brought together on the basis of the plan outlined in Annex 4 of the Report of the Study Team.

27. This plan assumed that there would be a single Department with its headquarters located in one building. The advantages to be gained from setting up a unified common services organisation must now be re-assessed on the basis of separate Departments separately accommodated. In particular most of the small potential staff savings identified would result from common services which would be difficult to amalgamate in advance of co-location and whose successful operation would depend on unifying ultimate lines of accountability.

28. The Committee drew attention to the problems which might be faced by a single Establishment Officer required to report to two Permanent Secretaries. It concluded, however, that the problems arising were not insuperable: they are overcome, for instance, in those departments which already share common services. In those departments, however, the present arrangements have evolved from the split of a larger department into two or more smaller departments. In these circumstances, the major consideration underlying the decision to split or not to split such matters as personnel management has been the need to avoid additional costs and to minimise disruption to the staff concerned. Uniting establishment matters in two Departments where they have already functioned separately for many years does not offer the same benefits, imposes the costs arising from disruption, and may be expected to make the role of Establishment Officer harder rather than easier.

29. There is an area of specialist skills, namely the Accountancy, Finance and Audit, and the Operational Research, Divisions of the CSD, that is drawn upon by both Departments and where common arrangements for managing staff may be advantageous. The Government will examine this possibility further. Such a step will not obstruct the existing arrangements for cross-posting

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## CONFIDENTIAL

more generally between the CSD and the Treasury. These arrangements provide a wide range of experience (paragraphs 8 and 9, above) and will continue to operate.

### The Transfer of the CSD's Accountancy, Finance and Audit Division (AFA)

30. The Government agree with the Committee in attaching importance to the improvement of financial control systems. The Treasury should be in the lead in this field and the Government agree that the balance of advantage is in favour of transferring line responsibility for the CSD's AFA Division; they accordingly accept this recommendation. Detailed arrangements will be made to ensure that both central Departments have the support of the skills and experience of qualified accountants in order that the efficiency of the CSD should not suffer from the move.

31. The operation of the centre will be improved by helping the Treasury and the CSD to work more closely together in the development of financial control systems. The Treasury has the responsibility to concern itself with the handling of public money. For the CSD financial management is an integral part of management as a whole. Accordingly arrangements have also been made to co-ordinate the work of the two central Departments, in consultation with Sir Derek Rayner and the Head of the Government Accountancy Service. The main objectives of this work over the next two years will include the further development of accountable units of management, the closer reconciliation of the financial information needed for management with that needed for the Public Expenditure Survey and Estimates, improved analysis and control of the administrative costs of departments and the strengthening of internal audit in departments.

### The Policy Objectives of the CSD

32. The Committee recommended (paragraphs 33-38) that more attention should be given to several parts of the CSD's work, beyond those of resource control and efficiency in organisational terms. The Committee urged that a number of measures recommended by the Fulton Committee and by the Expenditure Committee of the last Parliament should be re-examined.

### Training

33. The 11th Report of the Select Committee on Expenditure contained recommendations about equipping staff, by formal training and other means, for the responsibilities of higher management. A scheme for a more organised system of mid-career development was being designed and might now have been in operation, had it not been necessary for the Government reluctantly to

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## CONFIDENTIAL

? suspend the work. The paper the CSD submitted to the Select Committee on 4 March 1980 said that the proposals would have involved a substantial increase in resources over a period of 12-18 months, and additional resources were not available. This remains the case.

34. On formal training generally, the emphasis of the CSD's work to advise and guide departments must change with changing needs and circumstances. Restraints on expenditure, and the increasing difficulty of sparing the time to release staff for training, as well as the reductions in the CSD's own resources discussed above (paragraph 4-6) mean that the current emphasis of this work lies in focussing attention on the relative costs and benefits of particular kinds of training so as to help departments improve the economy and effectiveness with which they discharge their responsibility for getting their staff trained, and in promoting alternative methods which are likely to maintain or improve quality and relevance at less cost.

35. The Civil Service College's main aim is, within available resources, to meet departmental needs for that training which it, rather than departments or external institutions, can provide most economically and effectively. The effect of these criteria changes over time, and there is continuing reappraisal of its activities in order to shed those which can best be done elsewhere and to identify needs for training which it can best provide or develop.

36. The Government consider that these policies remain valid in present circumstances.

### Professionalism and Movement from Job to Job

37. Further thought has been given recently to the way in which the Service identified and prepared those who were to hold senior positions a decade or so later. Attention has been focussed on key posts and succession to them. Proposals are being developed for building on the present systems of succession planning and career planning for the staff concerned. These will make it possible to put on a more formal footing existing practices of specialisation in administrative work areas.

?  
38. These improved methods of succession planning and career development are relevant to the Committee's comments (paragraph 36) on the need for a greater degree of professionalism throughout the Civil Service, which includes specialisation by administrators, and the desirability of members of the Administration Group spending rather longer in each job. This

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policy needs to be considered alongside proposals for a unified grading structure (below paragraphs 41-44) designed to make it easier for people to move from their existing specialism to another, and with the importation of senior staff from outside the Service.

39. The extra effort put into succession planning should help in the long run to reduce the frequency of moves of administrative staff and to confirm the present tendency for such officers to spend much of their career in a particular work area. It will make it possible to make more positive choices between importing outsiders with relevant experience for specific senior posts and ensuring a supply within the Service of people with suitable backgrounds for most, if not all, such posts.

40. These considerations do not all point one way, but the Government are sympathetic to the aim of increasing experience within one job and reducing turbulence arising from too frequent moves.

#### Unified Grading

41. The present system of grades in the Civil Service\* is a mixture of an older system (based on classes) and a newer system (based on occupational groups and categories). It is recognised as a hybrid system. While it has proved itself adequate for most management purposes it is not entirely satisfactory and it has been criticised by the Expenditure Committee and by the Treasury and Civil Service Committee for failing to meet the objectives sought by the Fulton Committee (paragraphs 230-240 of the Fulton Report), whose recommendations led to the move towards occupational groups and categories. In paragraphs 35 and 38 of their Report the Select Committee urged the Government to give fresh consideration to these proposals.

42. The Government will look again at the present structure of Civil Service grades. There are, at present, a number of studies being pursued by the CSD on other matters relevant to the structure of grades within the Civil Service. In particular, the outcome of the Chain of Command Review, which is examining the use of grades hierarchically in the management structure,

\* see paragraphs 2.4-2.7 of the Introductory Factual Memorandum submitted by the CSD to the Committee on 10 January 1979 [published by CSD: April 1980; HMSO]; and paragraphs 98-112 of the memorandum entitled "The Response to the Fulton Report" submitted by CSD to the sub-Committee of the Expenditure Committee in November 1975 [Eleventh Report from the Expenditure Committee, Session 1976-77; HC 535; pages 18-21]



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provide a broader framework within which the principle of unified grading can be further examined.

43. Experience suggests that two major considerations will continue to be relevant to further work. First, it is necessary to ensure that the structure which results from change does not bring with it additional and unnecessary resource costs. Second, a management structure exists, among other things, to bring people and work together. No structure will operate effectively if it fails to command the confidence of those whose working lives are regulated by it. There may well be a need to reconcile the views and interests of the groups of staff affected by change. Past studies of unified grading have been unable to identify structural reforms which would meet the objectives sought by successive reports on the Civil Service and, at the same time, prove acceptable to both management and the unions.

44. In taking a fresh look at this problem the Government's initial aims will be to establish the objectives that the management structure should meet, and to assess present arrangements to see what changes may be needed. Progress will depend upon available resources. Nonetheless the Government intend to press forward with all practicable speed. The CSD will keep the Committee abreast of their thinking as it develops.

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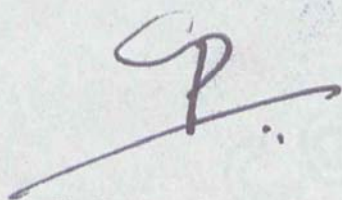
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Mr WHITMORE

✓  
JW  
16.

THE FUTURE OF THE CSD

Thank you for securing that Sir Derek Rayner should be consulted on the draft White Paper. I expect that he will have comments and that he will be able to submit these to the Prime Minister about the middle of next week.



C PRIESTLEY  
16 January 1981






10 DOWNING STREET

Clive Whitmore

Ray Whitney - Prime Minister's Department.

1. You will remember that Ray Whitney came to see the Prime Minister on 22nd December.
2. He came to see David Wolfson and me on 8th January, when David and I tried to persuade him to drop his idea about a Conference/Seminar on this subject.
3. We suggested that if Ray wished to pursue this idea (which he does) it would be better to have private discussions with those with whom he wants to exchange views, rather than to do so in the semi public atmosphere of a Seminar/Conference.
4. Herewith letter of yesterday's date from Ray Whitney, which I discussed with the Prime Minister last evening.
5. Subject to your views, she is content for Ray to see those in categories 1, 2 and 4 on Ray's list.
6. Subject to your views, she does not think that it would be appropriate for Ray to see Civil Servants, not least because it would then be very difficult to refuse similar access to other MPs.
7. It was agreed with the Prime Minister that I should discuss this with you before I submit to the Prime Minister a reply to Ray Whitney's letter.

13th January, 1981

  
Ian Gow.



2,  
RAY WHITNEY, O.B.E., M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

12th January 1981

Ian Gow, Esq., M.P.,  
The Prime Minister's Office,  
10, Downing Street,  
London SW1

*My dear Ian,*

As you know, I have believed for some time that it should be possible to improve the capacity of the Whitehall machinery to put into effect the policies of the Prime Minister and Cabinet of the day.

Since advocating the creation of a Prime Minister's Department in a Times article on 6th October 1980, I have come to the view that significant improvements in existing arrangements could be made very quickly and without the disruption and delay inevitable in setting up a new department. We have no time to spare.

In essence, what I have in mind are changes in the structure and scope of the Cabinet Office. I believe that if the staff of the CPRS, the rest of the present Cabinet Office and, possibly, some of the policy-making elements of the Civil Service Department were reorganised and given new terms of reference, government cohesion and effectiveness could be improved.

I had intended to explore these ideas further by organising a conference under the auspices of the Centre for Policy Studies. The number invited would be kept very small and restricted to people clearly able to make an informed contribution to the debate, which would be firmly off the record.

When I discussed this proposal with you and David Wolfson last week we concluded that, however strictly I tried to set "Chatham House rules" for the conference, serving Ministers and



Ian Gow, Esq., M.P.,  
12th January 1981

civil servants might well decline to participate. Yet if any worthwhile and concrete ideas are to emerge, it is essential that they are tested on those who are currently operating the system.

It seemed to us that the best way out of this difficulty would be for me to talk individually to appropriate Ministers and officials, the interviews being held on a strictly non-attributable basis. I attach a list of those who seem to me likely to have something to offer and I am sure that other names will emerge if the study progresses.

I should be grateful to know if the Prime Minister would agree to my proceeding on these lines and would have no objection to my seeking discussions with her Ministers and civil servants on the basis I have suggested. It would always be clearly understood, of course, that this study remained a personal and non-official venture.

*James Owen,*

*Ran.*

encl.



1. Ministers

Sir Geoffrey Howe  
Lord Soames  
David Howell  
Paul Channon

2. Parliamentary  
Secretaries/  
Political  
Advisers

Ian Gow  
David Wolfson  
John Hoskyns  
Norman Strauss

Sir Derek Rayner

J.R.Ibbs & selected CPRS Advisers

Adam Ridley

3. Civil Servants

Clive Whitmore  
B.Ingham

Sir Robert Armstrong  
Robert Wade-Gery

Sir Ian Bancroft  
Sir Douglas Wass  
Sir Patrick Nairne  
M.V.Hawtin  
J.K.Moore

4. Recently  
Retired  
Civil Servants

Lord Croham  
Lord Hunt



MR. COLMAN  
CIVIL SERVICE DEPARTMENT

---

The Prime Minister has seen and noted Sir Ian Bancroft's minute of 5 January to Mr. Whitmore about the organisation of the Treasury and CSD.

MAP

9 January 1981

JS  
Gorb  
Mach  
K.H.G.





1. ~~Mr Pittman~~

To see.

I doubt whether we need any  
too many more about Mr St John  
Stevas' views.

2. (A)

January 1981

AKS

7i

R 7/1

MR C A WHITMORE

THE ORGANISATION OF THE TREASURE AND THE CSD

Mr St John-Stevas saw Sir Ian Bancroft's minute to you dated 16 December and your reply of 17 December, and asked me to say that he entirely agreed with the Prime Minister's decision both on the substantive issue and on the procedural arrangements.

I am copying this minute to recipients of your minute of 17 December.

RAB

R A BIRCH

PS/Chancellor of the Duchy of Lancaster



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Mr WHITMORE



CSD/TREASURY ORGANISATION

With regard to the minute to the Prime Minister from Sir Ian Bancroft of Monday, may I suggest that in your reply you ask that Sir Derek Rayner should be consulted on the drafting of the White Paper in addition to the Treasury "and other interested departments"?

*CP*

C PRIESTLEY

7 January 1981

*Spoken to Mr (inserting) +  
other names. Sir Derek  
Rayner will put - copy  
of the draft W.P. in the  
next day or so.*

*CP*

141



Prime Minister

To note progress on the preparation  
of the White Paper.

M11

7:19

Mr C A Whitmore

## THE ORGANISATION OF THE TREASURY AND CSD

In your minute of 17 December 1980 you reported the Prime Minister's decision that the reply to the Treasury and Civil Service Committee's Report on The Future of the CSD should be by means of a White Paper outlining the Government's observations on the Committee's report as a whole.

2. We have accordingly put in hand work on the preparation of a White Paper, which will be drafted in consultation with the Treasury and other interested departments as appropriate. A number of the subsidiary recommendations of the Committee involve quite complex issues, but we shall aim to complete a response to the Committee for publication, after clearance by Ministers, in late January or early February.

3. In order to achieve this tight timescale we shall need to seek the Prime Minister's approval of the line to be taken in response to the Committee's main recommendations next week. This may constitute no more than a skeleton of the proposed reply at that stage; detailed drafting will be undertaken in parallel with that submission.

4. I am sending copies of this minute to Mr Wiggins (Treasury), Mr Buckley (CSD), Mr Birch (Chancellor of the Duchy of Lancaster's Office), Mr Maclean (Chief Whip's Office), Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

JRB

mt

IAN BANCROFT

5 January 1981



NOTE FOR THE RECORD

SUBJECT.

A PRIME MINISTER'S DEPARTMENT

cc Mr. Wolfson  
Mr. Gow

cc. Minister sec.

Government Mail

Mr. Ray Whitney, MP, came to see the Prime Minister at 1630 yesterday afternoon to discuss his proposal that this country should have a Prime Minister's Department. Mr. Gow and Mr. Wolfson were also present.

Mr. Whitney said that he had originally believed that the way to improve the cohesiveness of the British Government machine was to set up a Prime Minister's Department on lines similar to that in Australia. But he had now come to the conclusion that we should go for a compromise between an Australian-type solution and what we had now, for to go for a full-scale Department would be bound to lead to charges that another organisational monster was being created. He now thought that the answer was to take the CPRS, the Cabinet Office and those parts of the CSD dealing with essential interdepartmental policy matters and integrate them so that they provided the Cabinet collectively not only with the present "ears and eyes" and Secretariat capabilities but also with a "follow-through" function. He envisaged that this new Department would have at its heart a number of teams, each perhaps 6 to 8 strong, who would specialise in particular subjects. They would monitor and "second guess" all the major Government Departments. He believed that a Department fulfilling a role of this kind would provide a better service to the Cabinet collectively than they had now: there would be more informed discussion, and the Cabinet would be helped to concentrate on the main issues.

The Prime Minister commented that between them the CPRS and the Cabinet Office already did much of what Mr. Whitney had in mind. The CPRS took an interest in many of the principal problems facing Ministers at any time, and the Cabinet Office co-ordinated most interdepartmental business.

/Mr. Whitney said



Mr. Whitney said that the disadvantages of the present arrangements were that the CPRS, which was only small in size, tended to flit from one subject to another and the Secretariat side of the Cabinet Office was necessarily very generalist. He thought that the way in which Clause 17 of the Employment Act had been considered was a good example of the need which he saw his proposal satisfying. He would be surprised if a majority of the Cabinet had really focussed on this Clause when the Bill was being considered. He doubted whether they had really understood the provision. The team which, within his proposed Department, would deal with employment matters, would have highlighted in a constructive way the strength and weaknesses of the Clause, and they would have encouraged all members of the Cabinet to look carefully at it and to form a view about it. At present there was a tendency for Cabinet Ministers to ignore, gratefully, problems which fell outside their own field and to take refuge in the fact that a colleague was necessarily making the running on the particular matter.

Mr. Whitney continued that he believed the creation of a Department in the way he had suggested would be politically popular in the country. A large number of people, in voting Conservative, had voted for the Prime Minister personally, and they would approve of an organisational development which was designed to help her achieve more easily the results she was seeking. At the same time his proposed change would, as he had already pointed out, strengthen collective Government. It must not be a device for making the Prime Minister the Minister for Everything. Above all, he reiterated, he was looking for a way of improving the Cabinet's ability to follow up its decisions to ensure that they were carried out as it had intended. He wanted to get his proposal talked about. He had written an article about it for The Times, and he would now like to arrange a short conference at which the discussion could be taken further. There was already a lot of academic

/interest



interest in his proposal, but he would like to invite to any conference not only academics but also Ministers and senior civil servants who had actual experience of working the Whitehall machine.

The Prime Minister said that there was a need to strengthen the centre for it was here that the guardians of the strategy were located. It was all too often the case that she and her central colleagues, like the Chancellor of the Exchequer, had to defend the strategy against colleagues whose principal aim was to fight their departmental corner. She was happy for Mr. Whitney to go on airing his idea.

*stws.*

23 December 1980





10 DOWNING STREET

originals returned

to Ian Gow.

30/12.

Prime Minister

1. As you know, Ray Whitney is coming in to see you this afternoon in order to discuss his suggestion that there should be a Prime Minister's Department.

attached.

2. In your papers for the meeting is a copy of Ray's letter to Christopher Soames dated 15th October, together with a copy of the article which Ray wrote for The Times.

attached.

3. Christopher Soames thought is best that I should reply to Ray's letter to him dated 15th October, and his Private Secretary suggested that I should do so in the form of the attached letter.

attached.

I think that this draft has really been overtaken by your forthcoming meeting with Ray, and I suggest that I should send him a different letter, drafted to take account of your discussion with him this afternoon.

22nd December, 1980

Ian Gow.





10 DOWNING STREET

22nd December, 1980

Thank you very much for having sent me a copy of your letter to Christopher Soames dated 15th October, about your idea for the creation of a Prime Minister's Department.

I know that the Prime Minister has read the article which you wrote for The Times about this.

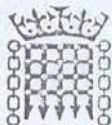
As you know, the Prime Minister also agreed that you should talk to Derek Rayner about your proposals, and I know that you have done this.

I wonder if I could offer one personal comment on the conference you have in mind to give your idea a further airing. This concerns the possibility of Ministers and senior civil servants taking part. I should not have thought that this would be on. Whatever they said would almost certainly be interpreted by commentators as indicating the Prime Minister's own views. This would, of course, be quite misconceived. But as you know from your own experience in the FCO, whatever Ministers or their civil servants say - and however hard they may protest that they speak only for themselves - is closely scrutinised for insights into the Government's thinking. So I am very much inclined to think that any Ministers or officials who attended your conference would find themselves in an awkward spot and their attendance could easily inhibit the kind of wide-ranging and free discussions you evidently have in mind. I should not be surprised, therefore, if Lord Soames and the others to whom you copied your letter felt that they were unable to accept your invitation.

Ian Gow

Ray Whitney, Esq., OBE, MP.





HOUSE OF COMMONS  
LONDON SW1A 0AA

15th October 1980

The Rt. Hon. Lord Soames, P.C., G.C.M.G., G.C.V.O., C.B.E.,  
Lord President of the Council,  
Civil Service Department,  
Whitehall,  
London SW1A 2AZ

*Dear Lord Soames,*

As I understand it, the current in Westminster and Whitehall is running very strongly for the re-absorption of the Civil Service Department in the Treasury. I believe that before final decisions are taken, it would be very well worthwhile to have a careful look at an alternative possibility - the creation of a Prime Minister's Department.

I enclose a copy of an article floating this idea which The Times carried on 6th October. Obviously, it was not possible to go into many of the details in the space of one thousand words but I hope I have managed to convey the general idea - which is not, of course, a new one.

With my own previous experience in the Civil Service, I can well understand the Pavlovian response which such a concept is likely to have provoked among the ranks of my former colleagues - and probably among any Ministers who may have focussed on it. However, before it is finally buried within departmental minuting, I should like very much to give the idea a little more air. What I had in mind was a short conference (half-day?) to which appropriate interested parties might be invited. I have mentioned this briefly to Sir Max Beloff and Professor Hugh Thomas and I believe they would wish to be associated with such a venture. Indeed Hugh Thomas has kindly said that the Centre for Policy Studies would be prepared to act as host and it may be that Sir Max could be persuaded to chair the proceedings.

I should be very grateful to know whether, in principle, you would support such a conference and whether you or other of your ministerial colleagues and senior civil servants would be prepared to participate.

... continued



Lord Soames,  
15th October 1980

If we were able to launch the conference, I would invite an Australian representative - perhaps from Australia House - and possibly politicians of the three parties. Would you see any objection to press participation, perhaps subject to Chatham House rules?

I gather the Chancellor of the Exchequer is following this debate with some interest - not surprisingly considering what the merger of the C.S.D. with the Treasury might mean for him and his colleagues. I am therefore including him on the distribution list.

*Sincerely,*

*Ray Whitney*

c.c. Ian Gow, Esq., M.P., Private Secretary to the Prime Minister  
The Rt. Hon. Sir Geoffrey Howe, Q.C., M.P., Chancellor of the  
Exchequer

Sir Derek Rayner



RAY WHITNEY, O.B.E., M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

9th December 1980

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,  
10, Downing Street,  
London SW1.

Dear Prime Minister,

Could you spare me ten minutes to have a word about Whitehall mechanisms?

I am sure the machine could be more responsive and in The Times of 6th October suggested this might be achieved by a Department of the Prime Minister and Cabinet. Ken Berrill spoke on similar lines at London University on 4th December.

After further examination, I now believe that good results could be obtained by a relatively simple reorganisation at the Centre without the problems inevitable in the creation of a new department. A suitably strengthened Cabinet Office/C.P.R.S., to which might be added the essential policy functions of the C.S.D., could provide the answer and no change of name need be involved. (The executive responsibilities of the C.S.D. which have to be retained could be brigaded with the Civil Service Commissioners.)

With the co-operation of Hugh Thomas and Max Beloff, I propose to organise a conference to discuss these possibilities but before going much further, I would be very grateful for the opportunity to discuss them briefly with you.

Yours ever,  
Ray

c.c. Ian Gow, Esq., M.P.





HOUSE OF COMMONS  
LONDON SW1A 0AA

10th December 1980

Alfred Sherman, Esq.,  
Centre for Policy Studies,  
8, Wilfred Street,  
London S.W.1.

Dear Alfred,

Many thanks for your letter of 3rd December enclosing Terry Price's note of 29th November on strengthening the Centre.

I am delighted the note will be discussed at the Constitutional Conventions lunch on 17th December. However, as I hope to be in Washington next week I offer below my own comments and a report on the present state of play of the campaign for a Prime Minister's Department.

Professor G.W.Jones of the L.S.E. (close to Wilson I believe) has just produced a paper against the case for a P.M.D. It usefully summarises all the arguments on that side and has served to strengthen my own view that we almost certainly do need a P.M.D. Previously my position was that this proposal was at least well worth discussing. I enclose a copy of Jones's paper, with apologies for my marginalia.

The (apparent) decision not to go ahead with the reunification of the C.S.D. into the Treasury clears the ground. Had that merger taken place, the mandarinate would have had the excuse of "one change at a time".

Ken Berrill, with his special background and different political viewpoint, lent powerful support to the idea of a P.M.D. in his Stamp lecture on 4th December. He believed, however, that this step had to be prepared by "a Party in Opposition" and seemed to be thinking in terms of change in five years or more. We do not have that long.

I believe there is a way out - and this is the only point where I would differ with Terry Price's note. We could simply strengthen the Cabinet Office/C.P.R.S. and take in from the C.S.D. what was described in the recent Hawtin-Moore report on the proposed



Alfred Sherman, Esq.,  
10th December 1980

Treasury merger as "the small minority ... inside the central policy core" (para. 10). (Those necessary executive functions now carried out by the other 5,000 in the C.S.D. could be operated within the Civil Service Commissioners' mechanisms.)

This manoeuvre would lie within the traditional Whitehall approach of "evolution", and therefore would be fairly easy to present. There would, of course, be important issues of staffing and tasking of the "new Cabinet Office" to be settled.

I understand the Prime Minister remains extremely doubtful. I am sure this is largely because it has not been made clear to her what is involved. She would not become "Minster of Everthing" and would not be denied her own personal advisers or lumbered with running a major department (see Jones below). I am meeting her on Monday, 22nd December when I hope to spell things out to her.

My Times article of 6th October attracted a good deal of interest, mostly academic. It therefore seems useful to hold a conference and Hugh Thomas said he would be prepared to sponsor it and Max Beloff is ready to take the Chair. I wrote to Christopher Soames on 15th October inviting him and other ministers and senior officials to take part but have, so far, had no reply. I was hoping to hold the conference towards the end of January but recognise that timing is now very tight. I believe the next essential step will be to get a positive (or at least a non-negative) reading from the Prime Minister.

I am sending copies of this letter and enclosures to all members of the Constitutional Conventions group.

Yours ever,  
Ray.



Whitney 1

AN AUSTRALIAN REMEDY FOR WHITEHALL'S ILLS?

by Ray Whitney

There are two sets of problems which face British governments of every complexion - how to develop and project a cohesive set of policies when, inevitably, the Cabinet represents a balance of forces, and how to transform the smothering octopus of the civil service so that the talent it possesses can be better used for the modernisation of Britain.

In 1968 Harold Wilson turned to Fulton and his colleagues but fatally hamstrung their efforts by confining them to the civil service. They were not allowed to look at the machinery of government. A decade ago, David Howell, now in Mrs Thatcher's Cabinet, examined the problems in pamphlets advocating a "new style" of government.

They make depressing reading today, when the structure he criticised is virtually unchanged and the situation is worse. In 1970 Ted Heath set up the Think Tank. In 1974 Harold Wilson formed a Policy Unit. In 1979 Margaret Thatcher recalled Sir Derek Rayner to work again on the civil service machine.

Many academics and other commentators continue to analyse the problems but fail to offer proposals for reforms which would be effective and quick acting.

The bitter irony is that a solution has been on hand for a long time. It is one which could soon produce a more integrated government effort and also create the conditions for a fundamental overhaul of the administrative machine in the longer term. That solution



would be the creation of a Prime Minister's Department.

This idea has been resisted steadily by Ministers and mandarins, each group fearing that it would encroach on their own preserves of power. Even Prime Ministers have opposed it. Harold Wilson preferring his own Byzantine manoeuvring condemned it as a "delusion" and quoted with approval the assessment of Professor G. W. Jones that with such a Department a Prime Minister's "personal power and influence might be reduced."

Opponents of a Prime Minister's Department sometimes seek to support their case by pointing to experience overseas but take their examples from countries such as the United States and France where the constitutional, political and historical traditions differ so much from our own that they have little relevance. A much more valid case study is available.

Australia has had a Prime Minister's Department for nearly seventy years - and it works. It has changed over the years and it is certainly not without either faults or critics but there are few, if any, Australians in public life who do not regard it as an essential part of the government machine. They find it difficult to understand how we can operate in Britain without a comparable arrangement.

The Prime Minister's Department in Canberra fulfills the same function as our Cabinet Office in servicing the Cabinet and its various Committees but it also does a great deal more. It is not merely a machine for shuffling the paper or even just for acting as arbitrator between Ministries in dispute. It operates eight



Divisions which cover the whole range of government activity and seek to achieve the maximum degree of co-ordination between the Ministries, in line with the overall policy laid down by the government of the day.

The Department is charged with assisting not only the Prime Minister but the Cabinet as a whole and has not meant that the Prime Minister becomes "Minister of everything". It ensures that the discussion of any new policy proposal is as informed as possible - which should surely be the aim for British Cabinets. For example, in Whitehall the rule that papers for discussion by Cabinet Committees should be received by participants 48 hours before the meeting to reduce the possibility of opposition being mobilised by other Departments. In Australia the Prime Minister insists that, except for emergency issues, papers should be circulated by his Department ten days ahead of the discussion.

Each division of the Prime Minister's Department is staffed by high-quality people who are very experienced in the speciality they are covering. They are well equipped to probe and prod the other Ministries to ensure that each proposal put to the Cabinet or its various Committees has been fully researched and that the policy issues at stake are clearly spelt out. Sometimes they go too far and are disowned by the Prime Minister. They accept this as an occupational hazard, recognising the democratic necessity of political control.

When a submission from a Ministry is accepted and circulated, the Australian Prime Minister's Department prepares a short analysis and critique of the proposal, significantly improving the level of



debate of the issue in Cabinet. There is plenty of evidence - past and present - that British Cabinets need a similar service. Ministers tend to be so overwhelmed with the burden of running their own Departments that they usually have little time, energy or resources to concentrate on matters which are not their immediate concern. The temptation to say "That is X's problem. I'll leave it to him and hope he's got it right" is very strong.

The creation of a Prime Minister's Department could well lead to a reduction rather than further proliferation of the bureaucracy. Nor would it really involve a major upheaval - simply a re-definition and expansion of the current responsibilities of the Cabinet Office. A Prime Minister's Department could with great advantage to the efficiency of the government machine, roll up the functions of the Cabinet Office and its agencies (including the CPRS which, under Sir Kenneth Berrill, declined sadly from the position it enjoyed under Lord Rothschild), the civil service department, which has failed so lamentably to realise the hopes of the Fulton Committee and the Civil Service Commissioners. Other candidates for inclusion would be the Exchequer and Audit Department and the Central Office of Information. There would be great scope for staff economies as well as enormous improvement in policy co-ordination.

I do not underestimate the power of the forces of inertia and vested interest to defend our present inadequate system but I believe that there is an overwhelming case for examining carefully the Australian experience of the operation of a Prime Minister's Department. We must find - and quickly - a mechanism suited to present realities rather than to Cabinet government as it functioned in the nineteenth century.



Why Britain Does Not Need a Prime Minister's

Department

G. W. Jones

(LSE.)

why - the

It has become fashionable again to argue in favour of the establishment of a prime minister's department. This theme is floated every five years or so with some article in the press (e.g. Ray Whitney, Conservative M.P. for Wycombe, in The Times 6th October 1980) or in some academic lecture, often of reflections by a distinguished retired insider (e.g. Sir Kenneth Berrill, former head of the Central Policy Review Staff, in his Stamp Memorial Lecture, 4th December 1980). On past experience, after a flurry of debate the issue will sink, torpedoed by hostility from ministers and civil servants who fear that their power and that of their departments will be reduced by an increase in the prime minister's power. However, the arguments against the establishment of a prime minister's department are not based just on the resistance of vested interests. More reputable objections are that it would disrupt the delicate constitutional balance of the British system of government and damage the policy-making process at the centre. It would also weaken the power of the prime minister.

The arguments in favour of a prime minister's department are based on faulty assumptions about the appropriate roles of the prime minister and cabinet in the British system of government. The British system is ministerial government: powers and duties are allocated to ministers, not to the prime minister or cabinet. The purpose of the cabinet is to provide an arena where divisions between the ministers can be reconciled, and the purpose of the prime minister is to assist this process of reconciliation. In cabinet the major political issues are identified and clarified, differences of opinion about them are explored and assessed, and finally an agreed solution is reached to reconcile the varying views. The prime minister's role is to help her colleagues attain consensus.



She must ensure that all relevant opinions and aspects are expressed, and mediate between the contestants to facilitate their reaching a decision to which all can adhere. Prime ministers vary in whether they can persuade their colleagues to agree on the lowest or the highest common denominator.

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The prime minister cannot help her cabinet colleagues arrive at a unified decision if she is the protagonist of a particular line. As a contestant herself she will be a pressure for dissensus, acting against the interests of some others. Her role is to be a chairman, assisting in the process of crystallizing collective agreement.

Rebush

If she is backed by her own department she will be encouraged to become the advocate of the policy promoted by her department. She will not be regarded by her cabinet colleagues as an honest broker and facilitator but as a threat. She will be pitched into the power struggles of cabinet wrangling, especially if she has committed herself to a specific outcome at an early stage of proceedings. Her concern should not be with specific outcomes but with achieving consensus. But through her own department she will become identified with specific outcomes and will thus become embroiled in disputes with her colleagues. Her role will then undermine not sustain cabinet solidarity. Therefore the establishment of a prime minister's department will frustrate the main objective of the prime minister.

Rather than championing particular policies the prime minister's concern should be with "meta-policy" and the relationships between policies: that is with managing a process of decision-making. Her role is to help forge politically acceptable solutions, and to relate policies together in an order of priorities by providing a coherent theme, tone or



philosophy. Her contribution is not to be a substitute for her ministers but a supplement; not to involve herself in departmental policy-making but to focus on the handling of crises and issues that cross departmental boundaries.

A prime minister's department will tend to develop and press for its own view of what should be done. It will urge this line on the prime minister, who will find herself adopting the position of her department. The alternative danger is that the department will simply reinforce the prejudices of the prime minister and uncritically encourage her to advocate a particular policy. In either eventuality her proposals will suffer from serious defects. Her department can never be as informed about any policy and its consequences as the department with responsibility for its implementation. Aloof from management and execution the prime minister's department will be cut off from critical policy debates and contacts with those most affected by departmental operations. Also her department could never match the analytical capacity of ministerial departments. Its interventions will be regarded as naive and meddling, and its policy prescriptions as ignorant and damaging. A gulf will widen between the formulation and implementation of policy, when what is needed is to bridge that gap. The prime minister's task is to mobilise the resources of the departments to achieve the collective purposes of the cabinet. She needs to promote trust not distrust. A prime minister's department will not aid cooperation.

A prime minister's department will also make it even more difficult for the prime minister to cope with the appalling burden of work that falls on her. Her first priority will be to respond to her department's demands, to the flow of papers it produces and to requests for



attention from her staff. It will tend to set her agenda. Her gaze will be distracted away from considering the problems of government as a whole towards what worries her department. She will be overloaded as she adds to her responsibilities for managing her cabinet the responsibility of running a department. She will then be urged to appoint personal aides to assist her in controlling the department and to ensure it does not develop a bureaucratic momentum of its own.

What the prime minister needs is a loosely structured and flexible arrangement of assistants that can be easily adapted to her style of working and to changing needs and problems. There should be (i) her personal, "household", staff, responsible for her daily schedule and acting as her gatekeeper; (ii) her political staff, linking her to her party, providing political comment, and probing the political implications of policies; (iii) her public relations staff, linking her to the media and advising on the presentation of policy, and (iv) her civil service staff, linking her to the departments and the ongoing processes of government, providing data, and ensuring she is fully informed from the administration.

For policy advice she should turn not to her own department but to a unit available to all cabinet ministers, a central "cabinet office" covering both short-term and longer term perspectives. Its role would be to process departmental submissions for cabinet consideration, ensuring that relevant options are taken into account, that issues are defined and clarified, and that aspects missed by ministerial departments are expressed. Such a central office will serve not only the prime minister but her colleagues too and be a force to strengthen not weaken collective decision-making processes.



Some prime ministers itch to run a department of their own, but whenever they have succeeded, or come close to succeeding, in Britain and in other countries, the experience has been disastrous. Decision-making has not been improved; distrust and disunity have been stimulated; and the personal standing of the prime ministers has diminished. They become entangled unnecessarily in disputes with their colleagues; they are often defeated in cabinet and lose support; and they cannot perform effectively their major objective of furthering cabinet solidarity at the highest common denominator.





Goffin

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CSD file

10 DOWNING STREET

MJP

SAW

You might like to see  
Sir K Bewill's recent  
lecture on the Prime  
Minister's Dept issue.

I find it disappointingly  
unconclusive.

MJP

18.12.89

Make

J. G. G.

The houses all round

the subject and more comes

to go on with it.

MJP



Just about a year ago I settled back in a seat down there in the audience to listen to the 1979 Stamp Memorial Lecture given by Professor Dorothy Wedderburn on her work with the Diamond Commission on the Distribution of Income and Wealth. It was a distinguished occasion - informative, stimulating and scholarly, with that attention to statistical fact and inference which Stamp himself would have admired.

Had I that evening been casting my mind forward to this year's Stamp Lecture I might have imagined myself once again listening to it and enjoying it but not for one moment would I have imagined myself in the much less relaxing role of lecturer. For what have I to say that could possibly measure up to the standards of the past? So when I received the invitation I should, on any rational grounds, have said "No". But wholly unexpected honours induce temporary euphoria. So I said "Yes" in haste and repented at leisure.

At leisure I wondered just what the powers that be had in mind when they agreed to my name. Was I being asked as an ex-Chairman of the University Grants Committee to speak on some current issue in higher education? Perhaps so; but for many in this audience listening to a discourse on such a subject would be far too much like work and I think you deserve to be spared that. So, rightly or wrongly, I chose to speak not on a subject drawn from my 25 years in higher education, but on something drawn from my last 7 years experience in Whitehall. I chose "Strength at the centre - the case for a Prime Minister's Department" partly because it is an issue of some importance and interest and partly because, in contrast to some other countries, here in the U.K. the subject has excited comparatively little public interest or debate. In this respect perhaps the greatest contrast is with the United States where the Presidential form of government means that the Head of Government has many direct and legal responsibilities placed on his shoulders which in our system are born by individual Cabinet Ministers. It is not surprising, therefore, that the past 40 years should have seen study after study on the theme "what help does the President need and how should it best be organised". The work load on the President can only be described as awesome and the support system almost equally so, for in the White House and the Executive Office of the President we are talking of a cast of literally thousands all working to support the President in his executive role; including men of great power as Presidential aides able to transmit what they interpret as the President's wishes to the departments and bureaux.



Washington is indeed a very different world from Whitehall and in what I have to say about the role of our Prime Minister in the United Kingdom and the need for support in that role I am not confusing our system with a Presidential one. Unlike the United States, our Cabinet Ministers are senior elected members of the legislature in their own right with major responsibilities for which they are directly answerable to Parliament and to the courts. I am well aware that it would be quite inappropriate for us to try to emulate Washington in the support system which we provide to our head of government.

As I have said, given the U.S. Presidential system, it is not surprising that the organisation of the White House and the Executive Office of the President should have been fairly continuously in the public eye. What is more surprising, to me at any rate, is the contrast between the United Kingdom and a number of other countries with a Prime Ministerial Cabinet system of government such as Canada, Australia, Germany. In those countries there has been considerable public analysis both of the role of a Prime Minister in the world today and the extent and type of support which that role demands. In the U.K. there have indeed been writings on the role of Prime Minister - by academics and by politicians such as Patrick Gordon-Walker, Richard Crossman notably in his Godkin Lectures, and by John MacIntosh. But in contrast to say Germany and Australia the support system has excited comparatively little attention.

It might be thought that one reason for this is the traditional low profile and confidentiality of those who work at No. 10 and the Cabinet Office. I do not myself regard this low profile and confidentiality as vitiating discussion of the Prime Ministerial support system, but perhaps I should make it clear that nothing I will say tonight will add to the facts which have already been set forth by politicians such as Gordon-Walker, Crossman or MacIntosh or more recently the the Whitehall correspondent of The Times.

It may be however that lack of public discussion is due to a general acceptance of John MacIntosh's view that the present arrangements are wholly adequate. As he put it "Harold Wilson (notoriously a fast reader) found that No.10 and the Cabinet Office provided all the material he could cope with, so it is agreed that there is sufficient advice and support." The more fundamental question is not whether the volume of advice presented to a Prime Minister is adequate but the depth of work and knowledge behind that advice.



But before I turn to the support system let me first speak about the role of Prime Minister in Britain today. This has been well enough analysed by others. A Prime Minister has immense powers of patronage. The power both to form an administration and to decide when to end it. The power to appoint Ministers and the power to drop some of them in what is euphemistically called a re-shuffle.

Parallel to these powers of appointment are the powers to decide the machinery of government - the organisation and reorganisation of ministries and particularly the organisation of the business of Cabinet and Cabinet Committees. As is now well known, the weekly meeting of Cabinet concentrates on foreign affairs, forthcoming business in Parliament and major issues such as a public expenditure review. The bulk of discussion and decision in all areas is necessarily delegated to Cabinet Committees. The Prime Minister decides the membership of those Committees and who should be Chairman of those Committees not chaired by the Prime Minister.

As we all know, to be Chairman of any Committee can be a position of great strength. The Prime Minister (or the Senior Minister appointed as Chairman of the Cabinet Committee) determines the agenda and the distribution of papers. A Cabinet Minister can always decide that he would like to bring a matter before his colleagues and if it involved legislation would always do so. But the Prime Minister (or chairman) can always insist that he does so and ask for the necessary papers to be circulated - perhaps after inter-departmental consultation. Clearly it is important for the Chairman to have a good idea of all the issues which are stirring in the area covered by the Committee and one task of a support system is to constitute eyes and ears in this respect.

As well as deciding on the agenda and seeing that the necessary papers are circulated, the Prime Minister (or chairman) controls the order of speakers, decides if further work is called for and how it should best be undertaken, and finally, sums up the "concensus" of the meeting on the basis of the discussion. That "summing up of the concensus" is vital for it appears in the minutes circulated next day throughout Whitehall and forms the operating instructions for implementation of the decisions.

In addition to the formal business of Cabinet and Cabinet Committees there is a large volume of inter-ministerial correspondence on important issues, the great bulk of which is seen by the Prime Minister, who can intervene with a

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query, express an opinion or pull the matter more closely into the No. 10 orbit by calling in the Minister for a talk, setting up a Working Group or whatever. The system of Cabinet, Cabinet Committee and inter-ministerial correspondence means that there are few issues being argued between Ministers of which the Prime Minister is not au courant and on which therefore the Staff at No. 10 and the Cabinet Office may be asked to give advice.

The power of a Prime Minister to intervene in any field at any time is clear enough (and Prime Ministerial intervention is a significant force indeed). The more interesting question is why they should feel the need to do so? There are a number of reasons and taken together they seem to me both to explain the increase in the role of the Head of Government in most industrial democracies and to suggest that this increase will continue inexorably.

The first and perhaps the most powerful reason for Prime Ministerial intervention can be expressed in the form "The Centre is the guardian of the strategy and the Prime Minister is the mainstay of the centre." In opposition Shadow Cabinets can spend a considerable amount of time working out their strategy for putting the country to rights when they get back to power. Each member of the Shadow Cabinet has a Department he is shadowing but since he is not actually in charge its problems do not pre-occupy his mind. Inevitably things are different when the Shadow Cabinet becomes the real Cabinet and each member moves into his Department, for the basis of the Departmental system is that each "fights its own corner". The regional departments (Scotland, Wales, Northern Ireland) fight for the interests of their areas. Defence, Industry, Transport, Education, Health, etc. do the same. Their job is to fight for their own programmes, their own public expenditure, their own share of the legislative timetable. Inevitably they come to see the world and any proposed action in terms of the possible effect on their particular interests and objectives. So much so that after a year or two's experience at the centre one can predict with a high degree of certainty each Department's arguments and views on any topic on the agenda.

It is also a well observed fact that the longer Ministers have held a particular portfolio the more likely they are to see the country's problems increasingly through the eyes of their Department and less in terms of the strategy of the Government as a whole. Of course this is never universally



true, but it would be strange if it were not usually so, given the very long hours they spend immersed in the detail of their Department's affairs and the continual batterings they get on those affairs in the media, in Parliament and from the ever more professionally organised pressure groups.

But the sum of spending Departments' interests can be a long way from adding up to a coherent strategy and no one is more aware of this than a Prime Minister. A Prime Minister knows only too well that the Government will be judged at the next election more on its overall performance than on its success or failure in particular departmental areas. Prime Ministers know too that time is not on their side. In the 35 years since the end of World War II we have had 9 different Prime Ministers - an average period in office of around 4 years each. The longest anyone has achieved was Sir Harold Wilson with 8 years and that was split into two separate periods. So a Prime Minister has to think in terms of a 4 year time horizon in which the Government strategy has to be seen to be working sufficiently well to achieve re-election. Hence the importance of sufficient "strength at the centre" to hold the balance in any decision between the requirements of the strategy and the crosspulls of the interests of the different spending departments.

It is, of course, not just the Prime Minister who has the task of trying to maintain this balance. The 'centre' is the 'troika' of the Prime Minister, the Chancellor of the Exchequer and his Ministerial team and the Foreign Secretary and his team. The cohesion of this troika is crucial yet even these three elements do not always pull naturally in quite the same direction, for the Treasury and the F.C.O. too have their Departmental pre-occupations. The Treasury is liable to approach every decision concerned mainly with the effect on the balance of the domestic economy and the F.C.O. pre-occupied mainly with the effects on our relations with other countries. The troika may, at any time, have the support of certain spending ministers who continue to put adherence to the strategy over departmental considerations. But in general terms the troika is the centre and the centre has to hold.

It was Richard Crossman who said that "perhaps the biggest task of a Prime Minister is to stop the fragmentation of the Cabinet into a mere collection of Departmental Heads." It is this task of preserving the balance between strategy and departmental interests which provides the first, crucial reason for the width of involvement of a Prime Minister across the business of Government.



The second reason for widespread Prime Ministerial concern and involvement is less basic but is a powerful influence nonetheless. It is the tendency of the media and the public to hold the Government responsible for virtually any problem that arises in both the public and the private sectors and to identify the Government's reaction to the problem with the persona of the Prime Minister. Internationally as well as domestically Governments are expected to have a view, a policy, a programme of action for virtually everything. The policies have to be both positive and 'caring'. Statements along the lines of "there's little we can do about it" or "yes, it is unfortunate and unfair but a lot of life consists of rather rough justice" are not popular.

This wide public expectation of the role of government is allied to the increased personalisation of Government which I believe stems mainly from Television. The Television camera peering oh so closely at every flickering emotion across a politician's face gives the public the belief that they know him as a person, can judge his character and how he will act. In a Presidential system the powers of the Head of Government are so immense that this approach to voting may have more merit. It is obviously less so in a Prime Ministerial system and more weight is indeed given by the public to the persona of Cabinet Ministers. But at bottom the media and the public think and talk of Mrs. Thatcher's government or Mr. Callaghan's. They lay the ultimate responsibility for virtually every act or omission by the Government at the door of the Prime Minister who must expect to be attacked on any of them and be ready to answer in any interview. Small wonder then that a Prime Minister should feel the need to try to keep an eye on everything and be tempted into fire-fighting intervention on issues which look like causing political difficulties.

The first two reasons for very wide Prime Ministerial involvement are then (1) the need for the centre to keep the balance on every decision between departmental objectives and strategic objectives and (2) the need to be ready to answer to the media for virtually every government action. The third reason, and in recent years it has become one of ever increasing weight, is the growth in personal contact between Heads of Government, to such an extent that we expect to read daily in our newspapers of personal visits by one Head of Government to another.

These contacts take place at formal "summits" in a variety of different fora



(EEC, Commonwealth, major O.E.C.D. countries, etc.); by bilateral visits, and through unpublicised messages and telephone conversations. To take the EEC: we are all very much aware that the founding fathers greatly underestimated the part that would be played in the operation of the Community by the various Councils of Ministers (Agriculture, Energy, Finance, etc.). We are all aware too that very major issues, such as the U.K. contribution to the EEC Budget have to be hammered out by Heads of Government personally often through a complex package of measures involving many Departments of State. Preparation for these summit meetings, be they bilateral or multi-lateral, has therefore to be over a wide canvas. For even if there is a previously agreed agenda this is usually wide enough in all conscience. But there may well be non-agenda items which we on our side would like to raise if the occasion is ripe and we have to be prepared for anything the other side may raise. These issues may be political, military, economic or social. They may be raised in general terms or in considerable detail, particularly in bilateral discussions. A Head of Government cannot always have the relevant Cabinet Minister by his side nor leave it to him to do all the talking. The Head of Government must know the facts and have views on the objectives, the strategy and the tactics across a very wide range of issues in their international context. The importance of this preparation and briefing hardly needs stressing for if Heads of Government come to an understanding, even an informal one, that is bound to have a major influence on policy.

No matter what his priorities, in today's world it is just not open to a Head of Government to devote himself very largely to his country's domestic problems. In a country like Britain the Prime Minister is involved every week and sometimes every day in international visits and contacts, and the frequency seems continually to rise. This international involvement provides the third powerful force which is moulding the role of Head of Government towards a wider and more interventionist role.

So far in this lecture I have been concerned with the role of a Prime Minister and with the forces which, as I see it, are moulding and expanding that role in most major Parliamentary democracies. That role and those forces constitute the case for what I have called "strength at the centre". The centre clearly cannot leave all industry issues to the Department of Industry, agriculture to the Ministry of Agriculture, etc. There must be some degree of parallel competence in the expenditure divisions of the Treasury and in the Foreign Office. But what of the Prime Minister? What kind of support system does a Prime Minister need and has this system developed adequately in parallel



with the degree and width of Prime Ministerial involvement?

Well, there has been little development inside the cramped confines of No. 10 Downing Street. Television has made the entrance to No. 10 the most famous front door in the country - a sharp contrast from before the First World War when Margot Asquith complained that no taxi driver could find it. No. 10 is a surprise in many respects, particularly to overseas visitors used to the much grander looking offices of other Heads of Government. The narrowness of the street, the absence of armed guards at the door, the closeness of the public to the arriving visitors. The small terraced house facing Downing Street conceals of course the much bigger house joined on behind which looks out on Horse Guards. But in administrative terms the impression from Downing Street is the correct one. The Prime Minister's staff at No. 10 remains as it always has been, very small indeed. If we want to look for changes in the support system it is through the door at the back of No. 10 into the Cabinet Office that we need to look.

Here there has indeed been organisationally almost continuous change. The creation of a European Unit to co-ordinate Whitehall's approaches to Brussels; the creation and then dissolution of a Constitution Unit to handle devolution to Scotland and Wales; the creation of a Central Policy Review Staff and then later the creation of an Advisory Council for Applied Research and Development serviced by the CPRS and the incorporation of the Cabinet Office Scientific Unit into the CPRS; the accommodation of individuals with specific remits like Lord Ryder and Sir Derek Rayner, and so on.

No

I realise that it is difficult for an outsider to see how the shape of the Cabinet Office may be changing for its constituent parts must seem so amorphous. For what has the large Central Statistical Office in common with the small C.P.R.S.; the assessment staff with the European Unit, the Secretariat with the Civil Contingencies Unit, etc.? And how far are each of these units a support system for the Prime Minister rather than for the Cabinet generally? Perhaps this very difficulty of identification is part of the explanation of the lack of public discussion in the United Kingdom of this support system question.

Other countries have equally been in a state of flux over the organisation of their support system for Prime Minister and Cabinet, but usually with more public discussion. In the years in which I was Head of the Central Policy Review Staff there was a stream of visitors from other capitals looking at how we in the CPRS did things.



They asked very pertinent questions, too. In what sense were we non-political? Could we really move immediately from being very close to the Prime Minister of one administration to a Head of Government from another political party? Did the Departments starve us of the vital facts? Did we have a rough time if we disagreed openly with a Senior Cabinet Minister? How far did we work on the things we were told to look at, or did we initiate work for ourselves? How much work was strategic and long term, and how much short term and tactical? How much of our product went to the Prime Minister personally and how much to Ministers collectively? How much of what we did was made public? etc.

All good questions, asked against a different political and administrative background in each capital. It was clear that many of our arrangements were just not transplantable to the other place and vice versa. Each country was working out a slightly different solution. In particular no two places brigaded the same functions into the equivalent of our No. 10 and Cabinet Office.

But one general impression remained, which was that none of the countries with a Prime Ministerial system gets to anything like the size of the White House and the Executive Office of the President: but several countries which one might reasonably compare with the United Kingdom have settled for a Prime Minister's Department and Cabinet Office complex which runs towards the 500 staff mark. In the United Kingdom our numbers are boosted by the inclusion of the Central Statistical Office but this apart almost every visitor to the CPRS I entertained commented on the small numbers we employed.

The Australian Prime Minister's Department and Cabinet Office is interesting as an example of a country where there has been a number of re-organisations and considerable public debate and where the publication of an annual report gives a fairly up to date picture of size and functions. The size is around 450 staff, organised in divisions, which cover Parliamentary affairs, External Relations, Trade and Industry, Resource and Development, Welfare, Prime Minister's correspondence and a Priorities Branch with a function somewhat akin to the CPRS. For the record the annual report has them servicing in the year 470 meetings, processing 1,424 papers and submissions and 3,046 decisions. The United Kingdom is certainly not less complex in this respect than Australia.

The task of a Prime Minister's Department and Cabinet Office needs perhaps some analysis for at first sight there is an ambiguity as to whether its task is to serve the Prime Minister or the Cabinet as a whole. There is indeed such



an ambiguity for the same officials may be performing one function in the morning and another in the afternoon.

The first function is the traditional and fairly straightforward one of providing a secretariat for the cabinet committee system. Preparing the forward programme of meetings and agendas, ensuring that the right papers are circulated, servicing the meetings, following up the decisions. To say that this secretariat function is traditional and fairly straightforward in no way implies that it is unimportant or routine. Quite the reverse. The best laid forward programmes are swiftly overtaken by new domestic and international events. Very quick footwork is necessary to see that the papers and meetings keep up. The very functioning of government depends on this staff work being well organised and the operational orders which emerge from the meetings being prompt and clear. In this respect the British Cabinet Office is quite superb. Nor is the work undemanding. The load is a shifting one depending on international and domestic events. A series of international meetings which require parallel action in Whitehall can put a heavy secretarial load on particular sections of the Cabinet Office. On the domestic front continual inter-ministerial meetings on, say, the details of incomes policy can work another section almost into the ground.

The second function is to provide neutral (i.e. non departmental) chairmen and secretaries of interdepartmental committees and working groups of officials. Departments look for a neutral chairman because the very disparate nature of their interests means that they are reluctant to trust one of the other spending departments in the powerful position of chairman. In principle any one of the central departments might perform the function but as time goes by the task seems to fall more and more to the Cabinet Office.

Providing neutral chairmanship for an interdepartmental committee of officials can be, as I know only too well, a frustrating task. The object is to obtain for Ministers an agreed report with clear conclusions and recommendations all in as brief a compass as possible. Each departmental representative on the committee is fighting not only for the interests of his Department but for the inclusion in the text of particular points or reservations which seem important where he comes from, if to no one else around the table. The result is often a reasonably short report with an unreasonable number of appendices to sweep up the departmental points.

This function of supporting the work of the Cabinet Committee System by providing



a good secretariat and neutral chairmanship of official committees is important and non-controversial. In the past there have been some who believed that this was basically all that was needed. It was argued in Australia that if Ministers were well chosen and departments well organised (including the Treasury and the Foreign Office playing their role at the centre) then the role of a Cabinet Office should be almost entirely secretarial and co-ordination and a Prime Minister needed little in the way of a parallel advice system.

I doubt if this picture ever really held true - at least not for many years. Prime Ministers have long expected advice from their Permanent Secretary - the Secretary to the Cabinet - and the briefs for the chairman of any Cabinet Committee have long contained analyses and advice on the issues raised on the agenda. But whatever happened in years gone by the position today is clear enough. For the reasons which I have outlined in this lecture the role of Head of Government has necessarily become increasingly activist and interventionist over a wide spectrum. For very good reasons, which I have also described, the Centre cannot just accept the analysis of the spending departments. The need for a parallel capacity to monitor, analyse and advise has always been present and has grown stronger. But where in the centre should it be?

Traditionally it is located in the Ministry of Finance (the Treasury) with something much slimmer in the Foreign Office. Why does there need to be anything additional in the Prime Minister's office? Partly because, as I have said, the Treasury and the Foreign Office although part of the centre look at things from their own special points of view; the Treasury tends to be pre-occupied with the effects on the balance of the domestic economy - particularly with the short-term effects on public expenditure.

No. Prime Ministers need and expect an advice system of their own; to help in the work of Cabinet and Cabinet committees, in their reaction to issues raised in Ministerial correspondence, in their relations with other Heads of Government - Not least because of the time factor. Briefs for Cabinet Committees, reactions to Ministerial correspondence etc. often have to be prepared at considerable speed. It would be a very great handicap indeed if the back-up for all this was situated in another central department. More frequent contacts between Heads of Government has increased the extent to which



the offices of the Prime Ministers in the different capitals are necessarily in frequent telephone contact. Indeed there is now the standing group of personal representatives of the Heads of Government who help prepare the way for the next summit (Hence the term Sherpas). Here in the U.K. our Sherpa is the Secretary to the Cabinet. All this reinforces the need for a parallel advice system in No. 10 and the Cabinet Office.

There is, of course, good advice and bad. As John MacIntosh said, a Prime Minister certainly gets plenty to read and the question is which advice to accept and which to reject? Or as Machiavelli put it "Good advice depends on the shrewdness of the Prince who seeks it and not the shrewdness of the Prince on good advice".

Nevertheless, if advice is to be proffered at a point as sensitive and influential as a Prime Minister or to a Cabinet Committee then that advice needs to be based on knowledge and study of reasonable depth and that takes time and people.

Certainly I found that in the Central Policy Review Staff. Our work consisted of a mixture of short-term tactical issues on today's problems and today's agenda, and longer term studies which could take many months to complete. Those long term studies were the capital on which we lived. Several months work on a subject, seeing people up and down the country and perhaps overseas, meant that you knew the problems in some depth, knew what you thought about the issues and, almost equally important, got to know people you could contact for a quick update. Then when problems in that area come before Ministers again some time later at fairly short notice one can second guess the sponsor department from a basis of some strength.

As I have already said, here in Britain the Cabinet Office has adapted continuously and fluidly to the changing circumstances and the changing need of Ministers (the EEC Unit, the Devolution Unit, the switch from a Science Unit to a Council on Applied Research and Development). The Central Policy Review Staff is a good example of this flexibility and pragmatism. Its work load has shifted continuously between work for the Prime Minister personally and work for Ministers collectively, and the balance between areas of work has moved with the interests of different administrations. In the early and mid 1970s it was deeply involved in the macro balance of the economy, in public



expenditure issues and above all in the details of incomes policy. That last preoccupation obviously declined sharply after the 1979 election. A heavy deployment of resources on social policy issues and relations with developing countries shifts to industrial issues and so on. By the end of the 1970s the CPRS had been involved at some time or another in virtually the whole spectrum of Government policy. Shifting partly with its own appreciation of what was likely to become important in the period ahead and partly with the changing concerns and interests of the Prime Minister and Cabinet.

The staff of No. 10 and the Cabinet Office works long hours to try to meet the needs of the Prime Minister and the Cabinet collectively. In my view it copes remarkably well with its mixture of roles, and it copes well too with the shifts in the work load from one area to another. It achieves this in part by hard work, partly because it is a hand-picked group of very high fliers and partly by great flexibility and team effort, which is all the more remarkable in that it is a revolving team all on secondment for a couple of years or so.

It really is a team effort from the front door of No.10 round through the Cabinet Office with no false pride of authorship and everyone prepared to help the man struggling to prepare a brief on a Cabinet Committee item at very short notice. I have no doubt that it is a good service. The question I ask is: is it good enough? Do we put into it the resources it deserves given the trends in the role of Prime Minister and the importance of advice at such a potentially powerful point?

I have little doubt that if Prime Ministers past or present were asked if they were satisfied with the service they received the answer would be "yes". Partly because it is a good service, and partly because if the answer were "no" the first supplementary would be "Well, why didn't you do more about it?" Prime Ministers may indeed be satisfied with the service they have received but working for years, as I have, on the servants' side of the green baize door gives one a different perspective.

My thesis is a simple one. In today's world the support system for the Head of Government is a subject of increasing importance. Our competitors have, by and large, faced this issue and come to some structured solutions which have put rather more resources into the area than we have been prepared to do.



We have preferred to keep a very small staff at No. 10 and rely on incremental changes in the Cabinet Office and on the flexibility of those who work there.

If there were to be a more public discussion my own argument would not be for massive change. Britain is a Prime Ministerial democracy, not a Presidential form of government. I would not envisage a Prime Minister taking more day to day involvement even in those departments to which they are nominally connected - Treasury and Civil Service Department. The Prime Ministerial load is already too heavy to take on yet more detailed responsibilities. What in my view is at issue is whether a Prime Minister should have a support system with time to work on problems in some depth across the width of government activities.

At present the advice is given and very presentably too, but the depth is inevitably patchy.

An across the board support system for a Prime Minister of adequate depth seems a simple enough issue and one where the expense involved is tiny in relation to the issues involved. A simple question but it raises many issues. Would these extra staff just be added to the Cabinet Office secretariat and work both for the Prime Minister and Cabinet or would they work for the Prime Minister alone? would they all be drawn from the public service or from outside? would they be political or non-political appointments? etc. I am also aware that though the cost of such an improved support staff would be tiny in relation to the issues involved, any suggestion for increased numbers is anathema at present and no Prime Minister could increase staff while everyone else was being expected to cut back.

But this is a long term question which, if I am right, will not go away but get sharper with the developing role of Heads of Government. It is also a question which is better discussed in opposition than in Government, for in Government time is always pressing, a Prime Minister's support system raises delicate issues of the balance of power between Prime Minister and members of the Cabinet and there are enough difficulties which have to be faced so why disturb something which is working as well as is the Cabinet Office.



It may be considered when in opposition, but even then the issue of a Prime Minister's Department is a sensitive one for a number of prospective members of the Cabinet could well fight shy of strengthening the hand of a future Prime Minister. This sounds a gloomy note on which to end a lecture, and some of you may be thinking that I should indeed have done what the powers that be intended, and spoken some positive thoughts on issues in higher education.

So I will end on a more positive note. The Central Policy Review Staff was a significant change in the system at the centre and that was conceived by the Conservative Party in opposition. Of one thing I am sure: we do need strength at the centre if as a nation we are to find a way out of our troubles. The role of a Prime Minister at the Centre has increased, is still increasing, and will not be diminished. We will be foolish if we do not face up to that fact and structure our arrangements adequately.



South Mach  
Tr (CSD)

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Civil Service Department  
Whitehall London SW1A 2AZ  
01-273 4400

18 December 1980

Clive Whitmore  
Principal Private Secretary to  
the Prime Minister  
10 Downing Street  
LONDON SW1

*mt* Prime Minister

*There is not much to be done  
about X/ below, given the  
decision not to make an  
immediate announcement about the  
decision on the merger.*

Dear Clive,

THE ORGANISATION OF THE TREASURY AND CSD

*AKJ  
18x in*

The Lord President has noted the Prime Minister's decision on this which you set out in your minute of 17 December to Sir Ian Bancroft. He is naturally disappointed that it will not now be possible to end the uncertainty in the minds of CSD staff before Christmas.

X/

I am copying this to John Wiggins (Treasury), Robin Birch (Chancellor of the Duchy's Office), Murdo Maclean (Chief Whip's Office), Jonathon Taylor (Sir Douglas Wass's Office), David Wright (Sir Robert Armstrong's Office), Clive Priestley (Sir Derek Rayner's Office) and Jeremy Colman in Sir Ian Bancroft's Office.

*Yours sincerely,  
Ji Buckley.*

J BUCKLEY

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Govt Mach

10 DOWNING STREET

Copied to  
Master set

*From the Principal Private Secretary*

SIR IAN BANCROFT

THE ORGANISATION OF THE TREASURY AND CSD

I have shown the Prime Minister your minutes of 10 and 16 December 1980 about the report of the Select Committee of the Treasury and Civil Service on the future of the Civil Service Department. She has also seen Sir Derek Rayner's minute of 15 December.

As you know, she decided, in view of the request for a debate on the Select Committee report which Mr. du Cann made during last week's business statement, that the next step was for her to see him. The meeting took place yesterday afternoon, and the Prime Minister and Mr. du Cann agreed that there was no need for a debate. Rather, they concluded that it would be sufficient if the Government replied to the Select Committee's report, in the traditional way, with a White Paper. This would deal with all the Select Committee's conclusions as set out in paragraphs 27-39 of their report, including the question of a merger of the Treasury and CSD. The Prime Minister does not propose therefore to announce by means of a Written Answer this week the Government's decision on the merger.

I should add that Mr. du Cann said that he hoped that the Government's reply would give strong emphasis to the need to improve the quality of management within the Civil Service and would set out the steps it proposed to take to this end.

Following her meeting with Mr. du Cann, I asked the Prime Minister whether she would like another meeting with the Chancellor of the Exchequer and the Lord President before authorising the preparation of the White Paper, but she believes that the weight of argument is

/sufficiently clearly

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- 2 -

sufficiently clearly against a merger of the two departments at the present time for a further discussion to be unnecessary. Similarly, she does not wish to pursue at present the more limited proposal that the CSD's manpower and management divisions should be put into the Treasury. She would be grateful therefore if you would go ahead immediately with the preparation of the White Paper. She would like to publish it as early as possible after the return of the House in the New Year.

I am sending copies of this minute to Mr. Wiggins (Treasury), Mr. Buckley (CSD), Mr. Birch (Chancellor of the Duchy of Lancaster's Office), Mr. Maclean (Chief Whip's Office), Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

*DW*

17 December 1980

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Mr C A Whitmore

MEETING WITH MR DU CANN: DEBATE ON THE SELECT COMMITTEE'S REPORT ABOUT THE FUTURE OF CSD

During last week's Business Statement, the Leader of the House promised to consider Mr Du Cann's request for an early debate on the Select Committee's report. You asked me for a note about the proposal for a debate in preparation for the meeting the Prime Minister is to have with Mr Du Cann.

2. In my minute of 10 December, I suggested dealing with the Select Committee's report in two stages: first, an early announcement of the Prime Minister's decision on merger; and, second, a considered response, perhaps by way of a White Paper, to the Committee's detailed recommendations. I have reconsidered this advice in the light of Mr Du Cann's request.

3. While the Committee's report calls for a full response from the Government, I should hardly have thought that it merited both a debate on the floor of the House and a White Paper. Moreover, if a White Paper were published prior to a debate, it would inevitably put the Government on the defensive: Ministers would be put in the position of having to justify their proposals instead of retaining the initiative, as the Prime Minister has succeeded in doing so far. If, on the other hand, the debate were held first, the Government would be expected to say what it thought of the report and to announce what action it proposed to take. That would leave little, if anything, new to be said in a White Paper to be published subsequently.

4. This leads me to suggest that there should be either a debate or a White Paper, but not both. Clearly, you will want to ask the Leader of the House and the Chief Whip for their views on the desirability of a debate. My own inclination, however, is to favour a White Paper. This is because there would almost certainly be criticism of the Government if the House were asked to debate the report without knowing in advance what action the Government proposed to take on it.

5. If the Prime Minister decides that a debate should be held, it probably could not be arranged before February. This is for two reasons. First, I gather that the timetable in the Commons is likely to be heavily congested in the first three or four weeks after the House resumes and that it might be difficult, therefore, to arrange a debate on the Committee's report before February. Second, time will be needed for inter-departmental discussion at Ministerial and official level of the Committee's detailed recommendations.



6. As I said in my minute of 10 December, the sooner the Prime Minister's decision about merger can be announced, the better for the work of the two departments. My advice remains, therefore, that a two stage response to the Committee's report would be desirable; and I do not think that it would be at all inconsistent with having a debate, or publishing a considered response, in February.

7. To sum up, I suggest that:

a. There should be either a White Paper or a debate, but not both, and that this should be made clear to Mr Du Cann;

b. A debate not preceded by a White Paper might occasion criticism that the House had not had the opportunity to consider the Government's proposals before they were debated;

c. The Leader of the House and the Chief Whip should be asked for their advice on the desirability of a debate and the timing of one;

d. It seems unlikely, however, that a White Paper or a debate could be arranged before the end of January;

e. It would be desirable to announce the decision on merger before then.

8. I have just seen Sir Derek Rayner's minute of 15 December to the Prime Minister. I do not wish to alter my advice on the handling aspects in the light of it.

9. I am sending copies of this minute to the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy, the Chief Whip, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

IBB

IAN BANCROFT

16 December 1980





1.

10 DOWNING STREET

Prime Minister.

I said on Friday that Sir Derek Rayner had not returned to the charge on this issue. I spoke too soon. The attached - very long - minute from him is a restatement of the case for a merger of the Treasury and CSD. I think you should read it before you see Mr de Cour tomorrow afternoon. I also think that the fact that Sir Derek Rayner has argued his point of view so strongly again means that you will have to have another meeting with him; the Chancellor, the Lord President and officials after your meeting with Mr de Cour. Agree?

John  
15xii



PRIME MINISTER

THE ORGANISATION OF THE TREASURY AND CIVIL SERVICE DEPARTMENT

1. On my return from Japan, I have seen the report of the Treasury and Civil Service Committee and Sir Ian Bancroft's minute to you of 10 December. I had also been reflecting on the issues since your meeting on 14 November.

The Committee's report

2. It is interesting that the Committee's report is about "the future of the CSD". To my mind, the real issue is the effectiveness of the centre which, as the Chancellor indicated in his minute to you of 13 November, has been damaged over the last 12 years by

- divided responsibility for financial systems, impairing the centre's work on promoting efficiency
- the diffusion of policy on public sector pay between the Treasury and the CSD
- divided responsibility for public expenditure control, impairing the totality of control over public expenditure.

3. The Committee concludes that the weight of argument is against a merger "at the present time" (paras. 23 and 27) - it means the weight of numbers, it seems to me - but recommends substantial measures of informal as against formal unification (co-location, joint common services and cross-posting). These I find paradoxical. It also recommends the measures to "revitalise" the CSD already summarised in Sir Ian Bancroft's minute. These I think more indicative of the Committee's desire to have its cake and eat it than of a thorough analysis of the issues.



4. If you wished, I should be glad to offer a more detailed appraisal of the Committee's report, perhaps as part of the work you may want to commission from others, but I should like to make two points now.

5. First, although the Committee concedes that all its witnesses have some connection with the Civil Service, it was disposed to align itself with the views of those who criticised the analogy I drew with business in my evidence as "seductive" but "false" and "misleading" (para. 14). I do not apologise for taking my experience in business into account in giving evidence. I do not feel that I am criticising a success story from a position of ignorance: unlike most witnesses, I have had the good fortune to be both a Permanent Secretary and Accounting Officer and a managing director. From that experience, I can assure you that there is a world of difference in the attitudes of those who manage and control resources provided "free" by the taxpayer or by borrowing and of those who manage and control resources which have to be earned, not just to stay in business but for investment and growth. And a very senior and experienced Permanent Secretary has recently told me that in his view, "value for money" is conspicuous by its absence from the Service.

6. Secondly, the unwillingness to get down to brass tacks of those who should know better is demonstrated by the Committee's view that the "revitalisation" of CSD as an instrument of change should include the recruitment of a "limited number of specialists" from the private sector (para. 20). I regard that as more truly demoralising for the CSD and the Service than many other things said to be so. The crying need is to make the Service itself and its systems excellent, not to import reluctant heroes from somewhere else. I am deeply opposed to abating the alleged amateurism of the Service by bringing in people who, although specialists outside, are themselves amateurs in Whitehall. I know of no responsible



organisation which would not choose to rear its own specialists in all the fields that mattered to it.

Is merger relevant to the real issues?

7. I originally raised this issue as part of the "lasting reforms" programme, a résumé of which is annexed. When we met on 14 November, you were unconvinced that merging relevant parts of the CSD and Treasury would make any radical difference to:

a. the management of this year's expenditure, in particular avoiding the breaching of certain cash limits; and

b. the attitudes of departments, including their Ministers, Permanent Secretaries and Principal Finance Officers, towards spending and control.

8. You are right, if I may say so. Change by itself achieves nothing. The point of changing organisation is to enable one to carry out policy better than through existing structures. The main needs are accordingly:

a. to be clear about one's policy aims; and

b. to decide whether existing organisation is achieving them.

9. The aims of policy seem to me to be both short-term and long-term.

Policy for the short term

10. The main relevant aim is to hold to cash limits in the rest of the current financial year and to those fixed for the next. This aim may be vulnerable to defects in departmental systems or attitudes or to changing circumstances, eg the tendency of suppliers to deliver and want to be paid earlier than hitherto.



11. Systematic or attitudinal defects should be foreseeable by the centre and preventive action should be possible. If not, such defects should attract a severe response from the centre when they do occur (for example, pressure for premature retirement or withheld honours) and, much more important, a thorough scrutiny and repair of the departmental system at fault.

12. Changes in circumstances may be harder to deal with. Recession has brought the private sector, including my firm, problems similar to those faced by the public sector. There may be no complete answer to every problem but our own case shows that careful planning with contractors and a rigorous monitoring both of agreements made with them and of cash flow go a long way towards mitigating the worst effects.

13. In other words, one needs a policy for the here and now which is to a degree independent of organisational considerations: it is a policy for management, especially in and by departments, to anticipate problems. If it would be helpful, I should be glad to offer you and those of your colleagues who are the most concerned such advice and assistance as I could.

Policy for the long term

14. As I see it, the essential aim of policy for the long term is fourfold:

- a. to plan, control, retrench and manage the big volumes of public expenditure;
- b. to get the maximum value for money from each programme of public expenditure;
- c. to accelerate the improvement of the techniques and methodology of resource control; and



d. to accelerate the reform of the Civil Service so as to provide Ministers with an instrument of management adapted to present and future needs.

15. The front-line troops for carrying out much of this policy are of course the "spending", not the central departments. There is a greater concentration of power there than at the centre. Indeed, we have to recognise some important realities here:

a. The policies and programmes funded by the Chancellor are made and operated by people and in all that follows it is people who need to be seen as the great opportunity for good as well as the targets for reform.

b. Most departments are cohesive, powerful machines, with control over everything brought together at the top. Whereas their top managers have a single source of information and integrated opportunities for management, the centre divides its information and its opportunities.

c. The system as a whole is to a degree private and privileged. The taxpayer has no choice but to pay the bill presented to him and of course to meet the consequences of any implicit decision taken by Ministers or their officials not to manage well. He must rely on each Minister to satisfy himself that his departmental systems and operations are sound.

d. But Ministers can only spend a little of their time on the quality of their systems. Like the taxpayer, they have to rely on the Civil Service.



16. The centre nonetheless has power. For example it can:

- refuse approval to departmental Estimates
- be highly critical if not negative in its response to new spending proposals
- require a review as a condition of approving such proposals
- require a review of particular, existing expenditures
- require a review of departmental resource control machinery
- be stringent in advising you on the selection of Permanent Secretaries and Deputy Secretaries, as well as in its function of approving the appointment of Principal Finance and Principal Establishment Officers
- be stringent in advising you on honours for officials.

17. Partly because of our conventions, those powers have been used modestly. And the pull round from the habits of spending to those of retrenchment and economy has been slow. The Financial Information System and Cash Limits are important but comparatively recent moves towards better financial management. Procedural and other improvements will follow in the wake of the Treasury's recent scrutiny of FIS and its review of its arrangements for central control as part of the "lasting reforms" programme.

18. Even so, we still confront very large problems of technique and of attitudes. I think it fair to say that



central Ministers remain worried about the interest in and capacity of some Ministers to restrain public expenditure and get value for money and about the effectiveness of the centre. (The Chancellor will be bringing forward a paper on central control presently.) During the summer, the Treasury was said by one of its senior officials in a paper on the General Expenditure Divisions to be still insufficiently aware of the sort of control systems it should encourage in departments, while its ability to judge their effectiveness was uneven.

19. The paper said that (as of August this year):
- a. The natural direction of future development for the Treasury was to take a more active interest in the systems of control operated within spending departments and their effectiveness.
  - b. But there was no single point of responsibility or piece of machinery for encouraging efficiency in the management of Government expenditure.
  - c. There were some things which helped:
    - squeezing expenditure totals;
    - Treasury Specific Expenditure Divisions were attentive to the quality of financial management in departments but (at that time) had no definite responsibility going beyond their concern with programme totals;
    - the Treasury had some technical services, but they tended to be responsive and advisory rather than harnessed in a deliberate and active operation;
    - the CSD had extensive machinery for efficiency but this was very loosely,



if at all, linked with the Treasury.

d. There was no concerted approach to the problem of tackling value for money and cost in Whitehall.

20. Moreover, there remain fundamental questions about the basis on which forward expenditure should be planned (the "cash v volume" issue) and about the effect on the control machinery of the centre of the multiplicity of revaluation indices in use by departments. We are therefore at a stage of development, learning and struggle which will continue for some time. The critical question is whether simply co-ordinating the work of the centre across the institutional gap between CSD and the Treasury will serve central Ministers as well as or better than a merger.

Is co-ordination a better answer than merger?

21. Very recently, the Treasury has taken an initiative, which I greatly welcome, to promote improved financial management. The instrument is a group of officials with Treasury, CSD and departmental representatives, as well as someone from my office. Among other things, it will assist me with my work on certain lasting reforms. This group, which would be needed and useful whether the departments were merged or not, will provide valuable co-ordination of thinking and action in relation to the principles and practice of financial management.

22. The Select Committee has also opted for co-ordination (on the spot rather than across the physical gap). Co-ordination can be made to work, but is it enough?

23. You may well decide that merger is not on, for a variety of reasons, and that co-ordination is to be preferred. If so, I shall do my best to help devise the best possible forms of co-ordination and, for example, through the "lasting reforms" programme, to offer you and your colleagues other relevant



advice. My own preference remains very strongly for merger for these reasons:

a. I regard the decision to split the CSD from the Treasury as wrong in principle. It gave credence to a fundamental misconception, namely treating manpower, organisation, personnel and indeed "management" as different in kind from the policies, programmes and operations which in fact dictate the use of resources. This tended to suppress the importance of money as the critical factor in management, but the same, or very similar, systems should ensure the good management of "policy expenditure" just as of administrative expenditure.

b. I also regard it as malign in some of its consequences; it

- confused and retarded the development of effective resource control, because "systems" (including financial systems) have been too much regarded as part of "organisation" and therefore for CSD, not the Treasury;
- diminished the centre's knowledge of and influence over departmental programmes, personnel and organisation;
- reinforced the power of departments as against that of the centre.

c. While it is for others to comment on the political history of the CSD, it is clear that it has had a strong Ministerial team only under this Government. For most of its life, although vested (mistakenly, in my view) with the responsibility for



promoting the overall efficiency of the Civil Service, CSD has lacked clout save at times of crisis.

d. There have already been attempts, not very successful, at co-ordination. Two departments, each headed by a Cabinet Minister and a "super" Permanent Secretary, are more likely to pursue divergent policies than a single department, no matter what the co-ordination arrangements. So there is no guarantee that co-ordination will succeed in future. If it does not, CSD will continue to be put on trial, which will be constantly debilitating, as well as (in my view) unfair.

e. More important, central Ministers and the Service need a powerful engine for reform at the centre. The component parts are there. They need linking in such a way as, for example to:

- specify the marks of good systems for controlling resources in departments
- ensure that they are adopted
- put every available pressure on the recalcitrant and give every encouragement to good managers
- run a vigorous and determined policy to improve the quality of key managers in departments, especially those responsible for large resources.

f. There is a possible cash saving of £500,000 and a possible saving in senior posts of one "super"



Permanent Secretary, one Deputy Secretary and two Under Secretaries. These are savings well worth having.

24. I would therefore hope that, as a minimum, the Manpower Divisions of the CSD would be brigaded with the Expenditure Divisions of the Treasury on the basis of Option A in the Hawtin-Moore report and that the CSD's Divisions dealing with efficiency, organisation and systems would also be moved into the Treasury. That would be in line with the proposal in the Chancellor's minute of 13 November. Although not an ideal solution, it would go a long way towards producing the single piece of machinery for and the concentrated approach to efficiency referred to in para. 19 above.

25. I think that it would also be right:

a. to move the post of Head of the Government Accounting Service from the Department of Industry into the Treasury; and

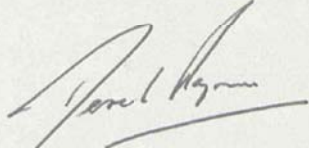
b. to establish a "Common Services Agency" from the PSA, HMSO, COI and parts of CSD, the study of which was recommended in Sir Ian Bancroft's minute to you of 31 October (para. 23).

26. Finally, I have heard it said that one argument against merger is that officials would use this as an excuse for not doing other things. From my knowledge of the people concerned, I believe this to be quite untrue.



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27. I am copying this to the Chancellor of the Exchequer, the Lord President, Sir Ian Bancroft, Sir Douglas Wass and Sir Robert Armstrong.



Derek Rayner

15 December 1980

Enc: Résumé of lasting reforms relevant to the merger  
issue



ANNEX

RESUME OF LASTING REFORMS RELEVANT TO THE MERGER ISSUE

CENTRAL CONTROL

1. A paper is in preparation by the Chancellor of the Exchequer, taking account of reviews conducted earlier this year of:

The Treasury's Specific and General Expenditure Divisions

The CSD's Expenditure Control Function.

MANAGERIAL AUTHORITY OF MINISTERS AND OFFICIALS

2. I am to prepare a paper on the relative managerial responsibilities of Ministers in charge of departments and of their officials, covering:

Ministerial responsibility and delegation

The duties of Permanent Secretaries\*

The duties of Principal Finance and Establishment Officers/


Line managers

\* The Treasury has done a lot of very valuable work this year on re-defining the additional duties of "Accounting Officer" which attach to those of Permanent Secretaries.

/ The CSD has prepared useful memoranda on the functions of these posts.

3. The official group mentioned in para. 21 of my minute will help with much of this work.





THE FRAMEWORK FOR ACCOUNTABILITY IN DEPARTMENTS

4. The official group will also carry forward work aimed at increasing responsibility and accountability for resources in the body of departments.

ORGANISATION OF THE CENTRE

5. My purpose in raising this issue was to establish whether Ministers would be better served in the management of resources and of the Civil Service by providing a single co-ordinating and regulating department at the centre in place of two.



PRIME MINISTER

The Organisation of the Treasury and CSD

As you know, the Select Committee on the Treasury and Civil Service published their report yesterday. On the main issue, it comes down against a merger of the Treasury and CSD. The attached minute from Sir Ian Bancroft, which you saw yesterday as part of your Questions briefing, summarises the main points of the report.

There are two questions to be settled immediately. The first is whether you wish to announce next week, as Sir Ian Bancroft suggests, that you have decided against the merger. I think myself that there is everything to be said for making an early announcement and so ending speculation. If you agree, you have a choice between doing it by a Written Answer or by getting someone to raise the matter during one of your Question times next week. A Written Answer is of course the surer way of doing it.

Second, do you want a meeting with the Chancellor, the Lord President and the usual officials before you make the announcement? At your last meeting with them you virtually decided against the merger, but you left the door very slightly ajar so that Sir Derek Rayner could return to the charge, if he wanted to. He has not in fact done so. I doubt whether you need another meeting. Nonetheless, even if you take the same view, you may just wish me to check with the Chancellor, Lord President and Sir Derek Rayner that none of them wants a meeting. Agree?

*AWH*

12 December 1980

*Richard du Cann raised the matter at Business Council on Thursday. He wants a debate before decision. I don't think he can respond to the report quite so quickly as suggested.*



PRIME MINISTER

THE ORGANISATION OF THE TREASURY AND CSD

... The Select Committee on the Treasury and Civil Service will be publishing their report on the Centre and giving a Press Conference about it at mid-day tomorrow. A CFR of the report is attached.

Key Points of the Report

2. Pages 19-23 of the Report give the Committee's conclusions. The Committee believe that the weight of argument is against merging the two departments at present. They would also be against splitting the CSD and putting its manpower and management divisions into the Treasury. They do not express a firm view about the possibility of splitting the Treasury and putting its public expenditure divisions into the CSD, although they appear to have reservations about the idea.

3. They consider that the CSD has been shown to be defective as an instrument for controlling numbers and promoting manpower efficiency. To remedy this, they say that:

a. The CSD's status should be raised. This requires full commitment to its work from the Prime Minister and Ministers collectively. They say that this support is evidently being given by the present Government and by you personally.

b. There should be more cross-posting between line departments and the CSD and between the Treasury's expenditure divisions and the CSD's manpower divisions. The CSD should recruit more people at fairly senior levels from outside the Civil Service.

c. Full co-location of the Treasury and the CSD in one building would be highly desirable despite its difficulties.

d. There is a case for establishing common services for the two departments, particularly if they are co-located.

e. The Accountancy, Finance and Audit division should be transferred from the CSD to the Treasury.

f. The Committee believe that some of the Fulton Committee's and the Expenditure Committee's recommendations (about, for example, training and unified grading structure) still make sense, have not yet been implemented and should receive fresh consideration from the Government.

As soon as there has been time to study the Report more thoroughly, I will send you a fuller note on it.



CS1

Question Time Tomorrow

4. Since the report will be published at mid-day tomorrow, you may be asked about it at Question Time in the afternoon. It would be perfectly reasonable, I suggest, to answer all such questions by saying that you have only just received the report, will want to study it carefully, and will be announcing your own conclusions soon. This would be consistent with the Written Answer you gave Mr Hamilton on 4 December (copy attached).

The Main Issue

5. While there is no rule or binding convention to prevent you announcing your decision during the Recess, I think the Committee and the House would be likely to take it amiss if you were to do so. This suggests that the announcement should be made either next week or after the House returns on 12 January. The sooner the current uncertainty can be ended, the better for the work of the two Departments. Ideally, therefore, there would be much to be said for announcing your decision next week.

6. Clearly, the form and length of the announcement will be influenced by what you decide on the main issue of whether to merge the departments or to keep them separate. In either event, we could provide a draft quickly. If you share the Committee's conclusion, your decision on this main issue could be announced by way of a short Written Answer in reply perhaps to a Question asked by Mr Du Cann; there would be no need to express an immediate view on the Committee's more detailed recommendations (paragraph 3 above) because some of them go outside the issues on which we have given evidence to the Committee and others can best be taken into account in considering further the way to optimise collaboration between the two departments. Your considered views on these detailed recommendations could be held over till the New Year, perhaps for a White Paper. Indeed, given the interdepartmental and inter-Ministerial consultations involved, it will take us a little time to evaluate the detailed recommendations adequately.

7. I am sending copies of this minute to the Chancellor of the Exchequer, the Lord President, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

JRB

IAN BANCROFT  
10 December 1980





EXTRACT FROM HANDBOOK

DATE 4.12.80

NO. 995

COL 336

#### CIVIL SERVICE DEPARTMENT

Q7. Mr. William Hamilton asked the Prime Minister if she will now abolish the Civil Service Department.

The Prime Minister: I have been waiting for the views of the Select Committee on the Treasury and Civil Service which has been considering this subject. I hope that its report will be available very soon so that I can take it into account in reaching my own conclusions.



HOUSE OF COMMONS

First Report from the

TREASURY AND CIVIL SERVICE COMMITTEE

Session 1980-81

THE FUTURE OF THE CIVIL SERVICE DEPARTMENT

Together with the Proceedings of the Committee,  
the Minutes of Evidence taken before the Committee  
on 26 November and Appendices.

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Ordered by the House of Commons to be  
printed 8th December 1980.

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12.00 HOURS GMT (BST) ON 11 DEC 80  
FOR PUBLICATION, BROADCAST OR USE  
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The Treasury and Civil Service Committee is appointed under S.O. No. 86A to examine the expenditure, administration and policy of the Treasury, the Civil Service Department, the Board of Inland Revenue, and the Board of Customs and Excise and associated public bodies, and similar matters within the responsibilities of the Secretary of State for Northern Ireland.

The Committee consists of a maximum of eleven members, of whom the quorum is three. Unless the House otherwise orders, all Members nominated to the Committee continue to be members of the Committee for the remainder of the Parliament.

The Committee has power:

- (a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;
- (b) to appoint persons with technical knowledge either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference.

The Committee has power to appoint one sub-committee and to report from time to time the minutes of evidence taken before it. The sub-committee has power to send for persons, papers and records, to sit notwithstanding any adjournment of the House, and to adjourn from place to place. It has a quorum of three.

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*MONDAY 26th NOVEMBER 1979*

The following were nominated as members of the Treasury and Civil Service Committee:

Mr Kenneth Baker  
Mr Anthony Beaumont-Dark  
Dr Jeremy Bray  
Mr Edward du Cann  
Mr Timothy Eggar  
Mr Michael English

Mr Terence Higgins  
Mr Robert Sheldon  
Mr Richard Shepherd  
Mr Richard Wainwright  
Mr Ken Woolmer

Mr Edward du Cann was elected Chairman on 29 November 1979.



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Note: All the evidence up to and including the evidence taken on 12 November 1980 has been published by H.M.S.O. and is available under the references HC(1979-80)333-ix, (18 June); 333-x, (2 July); 333-xi, (9 July); 333-xii, (29 October); 333-xiii, (5 November) and 333-xiv, (12 November). The evidence taken on these days is not therefore here published with the Report; the evidence taken on 26 November may be found at the end of the Report.



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The Treasury and Civil Service Committee have agreed to the following Report:-

Future of the C.S.D.

Introduction

1. In the course of our inquiry, started in January this year, into methods of improving the efficiency of the Civil Service, the question soon arose whether the organisation of government at the centre was the best to ensure efficiency in the way in which Departments carried out their tasks. Our Chairman wrote to inquire whether the Prime Minister wished to let the Committee have a memorandum setting out her views. In her reply the Prime Minister welcomed the Committee's enquiry into the role and powers of the CSD and looked forward to the Committee's contribution to the discussion of a subject in which there was considerable Parliamentary and public interest.
2. During our inquiry, a joint study by the Treasury and CSD, of the Integration of H.M. Treasury and the Civil Service Department was prepared and published. The terms of reference of this study were as follows:-

"1. To consider the organisational changes that might be made to bring about an integration of the Civil Service Department and HM Treasury into one Department, such integration having as its aims:

- a. a more co-ordinated and effective central control over public expenditure and Civil Service manpower;
- b. the promotion of greater efficiency in the Civil Service; and,
- c. reduction in the administrative effort and resources of manpower and money currently expended by the two Departments.

2. To analyse the case for and against a merger of the two Departments and compared with the present organisation.

3. To assess both the immediate costs arising from an integration, including the relocation of certain parts of the two Departments, and the implications for the saving of manpower and other costs in the longer run.

4. To prepare a factual and analytical report.<sup>1</sup>"

It will be noted that the study was formally confined to analysing the implications of integrating the C.S.D. and Treasury (though the civil servants doing the study were not invited to make a recommendation on that question). However,



the study team say in their report that they did "not feel precluded from drawing attention to measures likely to strengthen further the co-ordination and co-operation between the Departments were they to remain separate".

3. We have found the study team's report a very useful source of information in reaching our own conclusions. We think it is a pity the study team were excluded from considering other ways in which the machinery of government at the centre might be altered.<sup>2</sup> In a memorandum of 8th July 1980 submitted to us by the CSD and Treasury<sup>3</sup> two other main options, additional to the two considered by the study team, were distinguished:

(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 and management services divisions to the Treasury, leaving the rest of CSD as a separate department;

Lord Croham pointed out that there were yet other possibilities of organisational change.<sup>4</sup>

4. In our present report we have looked particularly at the possibility of integrating the CSD and Treasury but we have also considered the options labelled (a) and (b) in the last paragraph ((b) was the course recommended by the Expenditure Committee in the last Parliament)<sup>5</sup>. Finally, in the event that the status quo is retained we have considered ways in which the effectiveness of the CSD as an organisation might be increased and changes aimed at improving the working relationship between the CSD and Treasury. We have also attempted some re-assessment of the policy objectives of the CSD. We hope our report will serve to clarify the various issues.
5. Our Sub-Committee took oral evidence from Sir Robert Armstrong, the Secretary of the Cabinet, Sir Ian Bancroft, Head of the Civil Service, Sir Douglas Wass, Permanent Secretary of the Treasury, Lord Crowther-Hunt, Sir Derek Rayner, Lord Croham, former Permanent Secretary of the Treasury and Head of the Civil Service, Mr William Plowden, Director-General of the Royal Institute of Public Administration, Mr W.L. Kendall, Mr P.D. Jones, Mr B.A. Gillman, Mr K.R. Thomas and Mr W. McCall of the Council of Civil Service Unions and Mr M.V. Hawtin and Mr J.K. Moore, the authors of the joint study report. Written memoranda were submitted by Sir Antony Part, formerly Permanent Secretary of the Department of Industry<sup>6</sup> and by Sir Samuel Goldman, formerly a Second Permanent Secretary in the Treasury.<sup>7</sup> We also had the evidence taken on the subject in the last Parliament by the Expenditure Committee and took into account other published views.



### The Problem

6. There is a widely held view that the Civil Service is too large. According to this view, some civil servants are simply surplus to requirements and others employed on tasks which should be dispensed with. There is always a need for greater efficiency. The present Government has declared its intention of reducing the number of civil servants by 100,000 i.e. about 14%, and the Prime Minister has thought it necessary to appoint Sir Derek Rayner to look for savings and raise the standards of efficiency. These are matters within the responsibility of the CSD which has the duty of managing the Civil Service - limited though that is in the official definition (it excludes more than one million employees in the National Health Service, for example).
7. There is no doubt that the tendency of large organisations to grow inexorably in size is something which has to be actively and continuously resisted and the CSD has not given the appearance of being on top of that particular problem.
8. The CSD was set up in 1968 following the Fulton Report on the Civil Service<sup>8</sup> and spent its early years implementing certain of the recommendations of that Report. Since then it has been criticised for running out of steam. It is certainly true that some of the Fulton Committee's most important recommendations (many of them re-iterated in the Eleventh Report of the Expenditure Committee) have either not been implemented or only partially implemented. We return to this point later in our report.
9. It is inevitable that, for these various reasons, questions are now being asked about what is wrong with the CSD and whether the establishment of a separate department to manage the Civil Service has not been an experiment which has failed. We believe these are valid questions and we do not have any doubt that changes are needed to allay the widespread disquiet aroused by the CSD's failure to pursue a more active role.<sup>9</sup> We would only add at this stage that an obvious factor in the last decade has been the lack of interest in the CSD's work at Ministerial level and the absence of a firm political commitment to maintaining an efficient and cost effective Civil Service. The CSD itself has had a rapid succession of Ministerial heads, a number of them combining the job of running the CSD with other jobs for the Government - as when Lord Soames was sent to Rhodesia.



Present machinery of government

10. The Treasury is, under the present system, responsible for the central control over public expenditure except manpower costs. These are the responsibility of the CSD which is also responsible for the efficiency with which manpower is used as well as pay, recruitment and training. We were impressed by Lord Croham's views on the nature of the control exercised by the two Departments:-

"... there is no power of direction by one minister in charge of one department over the minister in charge of another, nor is there any such power in the hands of Treasury officials over the departments with which they are dealing, whether it is on the supply side or on the CSD side in terms of manpower. The powers that are used day in and day out are the powers of withholding consent when consent is required; in other words, it is a negative power. Those powers can be used to try to extract conditions."<sup>10</sup>

In other words, each department under its Minister is largely independent of the rest and responsible for its own expenditure and manpower as well as for the development and mode of execution of its policies. The centre exercises a negative form of control in the sense that departments have to have their proposals for expenditure and for numbers employed agreed to by the centre. In the last resort disagreements between the centre and departments are resolved at the level of the Cabinet and its Committees, serviced by the Cabinet Office.

11. There may be differences, which are worth noting, between the ways in which the Treasury and CSD operate. In exercising its control over expenditure, the Treasury would, doubtless, feel free to question the policies which give rise to the need for money. On the other hand, the joint Treasury/CSD report to which we referred in paragraph 2 does not suggest that the Treasury does much to satisfy itself that the machinery exists within departments to ensure that money spent on a settled policy is spent economically and effectively, as well as properly accounted for. Lord Croham also had this to say:

"... there is communication between those who control supply ... and those who control establishments. They will not always see eye to eye as regards priorities. Those on the supply side, having bargained as they think successfully with a department, could be reluctant to withhold what they regard as reasonable consent because of some element of interest on the other side of the house".<sup>11</sup>



On the other hand, the CSD claims to operate machinery for ensuring the efficient use of manpower in departments. Moreover, the CSD has a direct responsibility and does not work through the agency of other departments so far as pay, recruitment and a significant part of the fields of training and personnel management are concerned. The Treasury has virtually no such direct responsibilities in the field of public expenditure, except insofar as it is responsible for some of the largest departments - Inland Revenue and Customs and Excise.

The option of merging the whole of the CSD with the Treasury

12. Sir Derek Rayner strongly supported a complete merger of the two Departments. He had this to say:-

"... The principle that the permanent secretary is also the accounting officer for the department's votes reflects the principle that finance is inseparable from good policy advice and implementation, good organisation and good management... We have therefore in the department a single undivided responsibility for financial and other resource management ... any headquarters organisation must surely be weakened in its functions of central control if the two parts brought together so clearly by the permanent secretary are separated in the centre of government ... To my mind, the centre is in its divided state much less of a match for departments than if it were a single organisation."<sup>12</sup>

Sir Robert Armstrong had this to say on the point:-

" ... I think that the disadvantages of separating control of supply expenditure from the control of manpower expenditure are real and I think that separation is a little illogical... Certainly in the Home Office ...the Treasury were at us to control our expenditure from one side, and the Civil Service Department was at us to control our expenditure from the other, 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!"<sup>13</sup>.



13. Particularly in the last sentence of his remarks Sir Robert Armstrong indicated what may be the main advantage of integrating the CSD and Treasury - that it would strengthen the hand of the centre in its dealings with individual departments. Mr Hawtin and Mr Moore, the authors of the joint study report, told us that they thought the advantages of integration would be to improve the ability of the centre to ensure that departments had adequate internal systems for controlling expenditure and manpower, the ability to resolve conflicts between those responsible for the central control of expenditure and of manpower within a single Department and the financial savings.<sup>14</sup> In fact, the quantifiable annual savings would be of the order of £500,000 and would mainly flow from merging the common services of the two Departments.<sup>15</sup> In addition, of course, supporters of reintegration of the CSD with the Treasury contend that there would be significant savings achieved through increasing efficiency in other departments.
14. It is worth remarking by way of comment on Sir Derek Rayner's remarks that, below the level of permanent secretary in individual departments, the functions of finance and establishments (including the personnel function) are separated. Moreover, Sir Derek Rayner agreed that it was not unusual to find a separate personnel function in large organisations in the private sector. He said in answer to a question:

"I think it is highly desirable that at a certain level one should have a separate personnel function and that level, as you rightly suggest, is at senior board level in many companies ..."<sup>16</sup>

However, in general, Sir Derek Rayner drew on the practice in industry and commerce to support his case for a merger. Two former civil servants thought the comparison was misleading. In Sir Anthony Part's view: "There is a seductive but false analogy with business that suggests that the Treasury should be seen as a sort of Head Office of the Civil Service ..."<sup>17</sup> Sir Samuel Goldman suggested that "... analogies drawn from experience in the private sector may be misleading."<sup>18</sup> Indeed among those of our witnesses who expressed a definite opinion, only Sir Derek Rayner was in favour of a complete merger - although it is fair to note that all our witnesses were in, had served in or were closely associated with the Civil Service. The Council of Civil Service Unions thought "... it would be absurd to shift the powers of the CSD to the Treasury ... [Before Fulton] the Treasury really was non-existent in terms of Civil Service management ..."<sup>19</sup> Lord Croham was of the opinion that "... there is really far more to be lost than to be gained by trying to merge back the CSD as it now is into the Treasury as it now is with their responsibilities".<sup>20</sup> Lord Crowther-Hunt gave a number of reasons for not putting the CSD back in the Treasury pointing out, inter alia, that "... the Chancellor of the Exchequer will have very little time to give attention to Civil Service



problems. There are all the questions of the unions to see to; there are pay matters and so on and in these days people want to go to the top."<sup>21</sup> The late Lord Armstrong in a letter which he wrote to the Times on 3th July 1980 was also opposed to the merger. He gave a number of arguments pointing out, in particular, that "From the Chancellor's point of view Civil Service work is inevitably a minor excrescence on his major preoccupation of framing and carrying out economic and financial policy."<sup>22</sup>

15. We have already mentioned that it was not within the terms of reference of the joint Treasury/CSD study to say whether or not a merger was desirable. Nevertheless, it is our reading of the analyses and the opinions expressed on various matters in the study that they do not lend much support to the case for a total merger. The study considered two ways in which the Departments might be totally merged. Their option A would not merge manpower control with public expenditure control below the Permanent Secretary level. It did, however, have the advantage of putting manpower control closer to control of public expenditure while retaining the links between the control of manpower and pay. Their option B would largely integrate the manpower control divisions of the CSD with the public expenditure divisions of the Treasury, so that control over a department's expenditure and manpower was exercised by a single group of officials. Of the alternatives, the authors of the study preferred option A, at least in the first instance. In the time at their disposal, they did not feel able to say whether the much more radical option B would be an improvement on present arrangements or not - though they commented on aspects of the option.
16. We come now to our own view of the matter. The nub of the argument for merging the CSD and Treasury is that the CSD has failed to exercise a satisfactory control over numbers employed and to promote efficiency in the use of manpower with sufficient vigour. Matters might improve if the related functions of controlling the volumes of expenditure and of manpower were brought together under a single authority, exercised by a powerful Minister. Furthermore, the efficient deployment of all resources, financial and human, is best promoted from a common centre. In that way the authority of the centre vis-à-vis individual departments would be strengthened and that is a desirable objective.
17. In considering this main line of argument it is necessary to distinguish between the two ways in which the Departments might be integrated (options A and B in paragraph 15). Under both options, the divisions responsible for promoting good management in departments would be brought together in the new organisation. One advantage of this might be that it would stimulate the development of better financial control systems, a task to which the Treasury does not seem to devote many resources at the present time.



18. So far as control over manpower numbers is concerned, this has links on one side with the determination of pay, policies on recruitment and training and the handling of industrial relations in the Civil Service and it has links the other side with control over expenditure generally. Under option A the divisions controlling manpower would be kept separate in the new organisation from the divisions controlling public expenditure. In fact they would be under different deputy secretaries and only brought together at the level above or even higher. Such an arrangement seems to us only a minimal step in the direction of bringing the control of manpower and of expenditure closer together. On the other hand it leaves the existing links between manpower control and pay, recruitment etc. unaltered.
19. Under option B, the divisions controlling manpower are, broadly speaking, merged with the public expenditure divisions. Clearly that effects the closest possible relationship between manpower and expenditure control. However, as manpower costs are under 10% of all expenditure<sup>23</sup> (though this amounts to some £6-7 billion), the danger is that they might get no more than a minor share of the Treasury's attention. On the other hand, expenditure on manpower may have a particular importance in that the volume of total expenditure and of revenue may well be affected by the numbers of officials deployed on restraining the first and maximising the second. Option B would seem to weaken the links between manpower control and pay, recruitment etc. In particular, it is not to be expected that those whose main concern is the control of the whole of public expenditure (even though it included manpower costs) would be as sensitive to, say, the industrial relations implications of their actions as specialist manpower control divisions would be.
20. Indeed, the last point raises the whole question of whether the main premise on which the argument for a merger is founded - that control over manpower sits naturally with control over expenditure - is as obviously true as might appear. We note Sir Ian Bancroft's point that manpower is a very different kind of resource from others and managing people calls for special skills, not least the skill to negotiate effectively with trade unions.<sup>24</sup> As the joint study report says, the success of a manpower policy is measured in a non-money currency and this distinction may well have to be recognised in organisational terms<sup>25</sup> or, to put the point in another way, the expertise called for in the CSD may well be different from the expertise of the public expenditure divisions of the Treasury. The Treasury are dealing with public expenditure at one remove, the actual spending of the money being the business of other Whitehall departments. The CSD is, up to a point, in the same position so far as manpower numbers and efficiency are concerned but, as we have already noted, it deals directly with people and not through departments on matters like pay and recruitment. Responsibility for industrial relations has become more onerous and time consuming as the Civil Service unions have become more



militant. It is for these reasons that we feel that option A in the joint study report is preferable if integration were to proceed. This option would increase the liaison and contact between public expenditure and manpower while ensuring that the special skills of the C.S.D. were not lost.

21. The burden on those at the top of a merged organisation needs to be considered. The Treasury is responsible for the management of the economy and, as counterpart to its control of public expenditure, determines the policy for the raising of revenue. The first of these tasks gives rise to what are probably the most difficult and significant problems facing Government at the present time. It must be very much doubted if the Chancellor could give the Civil Service the attention it ought to have if he were given the responsibility for it (the Prime Minister is of course in the same position under present arrangements). The same is true of the permanent secretary of the Treasury. It is not just that Civil Service problems would be dealt with summarily but, in a Department which felt (and rightly so) that its main jobs were managing the economy and constructing the Budget, it is to be feared that Civil Service problems would be shelved and that, as time went on, the resources devoted to Civil Service work would not be of the best quality or adequate in quantity. If the CSD has not been conspicuously successful in the last decade it is hard to see how a pre-occupied Treasury would have done any better. It was largely because the Treasury had neglected the personnel aspects of the Civil Service before 1968 that the Fulton Committee recommended the setting up of the CSD.
  
22. It would be possible for the Chancellor's responsibility to be largely nominal and for effective authority to be exercised by a Minister under him. This was the kind of arrangement envisaged by, for example, Sir Derek Rayner<sup>26</sup> and Sir Douglas Wass<sup>27</sup> and which, in the event of a merger and provided the Minister was in the Cabinet, would be acceptable to the trade unions<sup>28</sup>. Properly to achieve its purpose of relieving the Chancellor, such a Minister would have to be in the Cabinet. Sir Derek Rayner also envisaged the possibility of the Treasury having an additional permanent secretary as in the years before 1968<sup>29</sup>. This would seem to follow naturally from having a Cabinet Minister in charge of the Civil Service. Such arrangements would relieve the individuals at the top of the Treasury of an excessive burden of work. They might mitigate the danger that Civil Service matters were neglected in favour of managing the economy and Budget-making. The power of the centre would be strengthened although power over both manpower and public expenditure would not be exercised by one individual minister.
  
23. We have set out in paragraphs 16 to 22 what seem to us to be the main considerations to be weighed before deciding whether or not a merger is worthwhile. We are convinced that significant improvements need to be made to improve the C.S.D.



but, on balance, we believe the arguments tell against a merger at the present time. We are fortified in this broad conclusion by the fact that organisational change is bound to be disruptive and absorb the time of senior officials and is the occasion of a loss of efficiency which takes time to make good. Because of the disruption involved, Sir Samuel Goldman thought that organisational change is only worth embarking upon when the ultimate balance of advantage is "clear and unmistakable".<sup>30</sup> On the other hand, as Sir Robert Armstrong told us, it is doubtful if "there is an organisation of the centre of government which is universally and forever right".<sup>31</sup> Whether or not there might be a case at some time in the future for looking again at the total merger solution depends on what can be done meanwhile to revitalise the CSD. We consider that later in the report but, first, we look at the two other forms of re-organisation mentioned in paragraph 3.

Putting the CSD's manpower and management divisions into the Treasury

24. If the Treasury took over the CSD en bloc it would be directly responsible for expenditure on Civil Service pay and conditions. In other words, while bringing the control of money and of manpower together has some arguments in its favour, it is the assumption by the Treasury of responsibility for pay, recruitment and training which causes concern. The former Expenditure Committee of the House looked for a solution in the transfer to the Treasury of control over manpower numbers and efficiency - i.e. the relevant parts of the management services divisions and the manpower divisions of the CSD - while leaving the rest of the CSD as it is.

The Committee said:-

"... a Department's expenditure as a whole cannot be arbitrarily divorced from the efficient use of manpower. Particularly in labour-intensive areas of Government, such as the Inland Revenue or the DHSS, questions of manpower are really about finance. Secondly, although the CSD controls expenditure on manpower, it does not have enough leverage over the Departments who cannot be expected to conduct a policy argument with both the Treasury and the CSD. In practice the realistic dialogue is with the Treasury; the CSD is reduced to rubber-stamping, to translating the agreed policy into manpower ..."<sup>32</sup>

The Committee also said:-

"There are difficulties about dividing the CSD but there is a logical case for separating personnel from management services. There is an innate contradiction between the two functions - the interests of efficiency may well conflict with human interests - and it clearly makes sense to administer them separately."<sup>33</sup>



The Committee noted (without making specific recommendations) that the Ministerial structure of the new Treasury might need some reinforcement.<sup>34</sup>

25. The memorandum of 8th July 1980 submitted to us by the CSD and Treasury lists the arguments against splitting the CSD as follows:-

"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".<sup>35</sup>

The difficulty is that two kindred subjects are brought together only at the expense of separating others - in particular, numbers and efficiency are separated from pay. We are inclined to think that the management of the Civil Service should remain an entity wherever it is situated. It has to be borne in mind that, since the Expenditure Committee reported, both the Treasury and CSD have become much more involved in problems which are undoubtedly their own speciality. In particular the CSD has to deal with more militant unions and more complex industrial relations problems than a few years ago. Moreover, the CSD has the major tasks of reducing the size of the Civil Service by 100,000 and of supporting Sir Derek Rayner in his work in departments. In the light of changed circumstances, we would not favour putting the CSD's manpower and management divisions into the Treasury.



Putting the Treasury's public expenditure divisions into the CSD

26. This achieves a unified control over resources and does not split the management of the Civil Service. In the memorandum which they submitted to us the Council of Civil Service Unions said that, in their view, the compelling logic pointed to splitting the Treasury rather than the CSD.<sup>35</sup> In their evidence to the Expenditure Committee, two former Prime Ministers, Sir Harold Wilson and Mr Heath, both favoured this split. On the other hand, other witnesses before the Expenditure Committee thought that such a step would be a mistake. The Expenditure Committee were impressed by the evidence of Lord Diamond, a former Chief Secretary to the Treasury which they quoted:-

"I doubt whether it is sufficiently understood how in practice the task of economic management, which I regard as one of the most important of all Government tasks, would be rendered the more difficult if there were an attempt made to take out of it one of its most important elements - namely, the day-to-day management of public expenditure ..."<sup>37</sup>

Clearly Lord Diamond's argument has added force at a time when the Government is pursuing a monetary policy of which the constraint of public expenditure is a part. Splitting the Treasury in the way proposed would also separate public expenditure from the raising of revenue and make it more difficult to combine expenditure and revenue in a single Budget. Like the Expenditure Committee we believe that any move away from this would be retrograde. It is not at all clear how the relationship between the Treasury and a public expenditure department would evolve. Would such a department become an ally of the Treasury or of the spending departments? In the latter case, there might be a profound shift in the balance of power in Whitehall. On the other hand, some argue that the Treasury's overall conduct of the economy may be improved if it were to concentrate on that and leave the day-to-day management of public expenditure to a sister department. In this way it is argued the central authority of government may be enhanced. We have not inquired into these complicated matters very deeply. Certainly they would have to be inquired into before any decision was taken to move public expenditure out of the Treasury.



### Conclusions on organisation

We have concluded that the weight of argument is against a merger of the two Departments at the present time (para 23). We would not favour putting the CSD's manpower and management divisions into the Treasury (para 25). We have not inquired deeply into the important issues which are raised by the opposite proposal to put the Treasury's public expenditure divisions into the CSD. A decision ought not to be taken in advance of such an inquiry (para 25).

28. We think, therefore, that the CSD and Treasury should continue as separate Departments. However, that leaves us with the problem with which we started - that the CSD has been shown to be defective as an instrument for controlling manpower numbers and for promoting manpower efficiency. Clearly something must be done. There may be organisational changes other than those we have inquired into - we mentioned in paragraph 3 that Lord Croham had drawn our attention to some - which would be worth investigating. We have preferred ourselves to consider how the CSD might be given a new lease of life. We have looked at this under three headings:

- i) the effectiveness of the CSD as an instrument of change
- ii) the relationship between the CSD and Treasury assuming they continue as separate Departments
- iii) the proper policy objectives of the CSD.

#### The effectiveness of the CSD as an instrument of change

29. It is necessary to raise the standing of the CSD. The best way of achieving that is for it to be widely known throughout Whitehall that the Government as a whole gives a very high priority to the proper management of the Civil Service. A department like the CSD cannot function effectively unless it has the full support of Ministers and unless its work engages the interest of the Prime Minister herself. The Prime Minister and the present Government have shown themselves to have such an interest. We do not know any way in which this can be guaranteed in the future. We can only draw attention to our belief in the special importance of Ministerial backing in this particular field.
30. It would also be of assistance if the staffing of the CSD could be strengthened by importing a wider range of talent, qualification and experience. It would benefit both the CSD and other Whitehall departments if some at least of the staff on establishments work in departments could serve for a spell in the CSD. We think that special priority should be given to cross posting at all levels between the public expenditure divisions of the Treasury and the manpower divisions of the C.S.D. It would also widen the experience available to the CSD if they could recruit at a fairly senior level people who had relevant qualifications and experience outside the Civil



Service. This was recommended by the Fulton Committee and came up more than once in the evidence we took. It was a main point made to us by Lord Crowther-Hunt.<sup>38</sup> We can understand the trade unions seeing difficulty in such recruitment on a Service-wide basis though we hope they would see advantage in and be prepared to agree to a limited number of specialists being recruited into the CSD. We also recognise that there are difficulties in persuading good people to leave business careers for the Civil Service. Nevertheless, we believe this matter to be an important one and it should be pursued with vigour.

31. The CSD must be equipped to promote not only higher efficiency but also a better quality of service. We were impressed by what Mr William Plowden had to say about the quality of service provided by civil servants and about the question of whether or not they achieve the policy objectives at which they aim on behalf of the Government:

"But important though economy and efficiency are, they are not or should not be the sole objectives of government administration. Quality of service is at least as important... For programmes such as law and order, road safety, job creation or the encouragement of technological innovations, the main question, under governments of any political persuasion, is whether they are effective - i.e. do they achieve their objectives? The task of the Civil Service is, therefore, to plan and administer effective programmes, within the constraints laid down by Ministers. This is a far more complex task than much of commercial management, and conventional managerial skills are relevant to only part of it."<sup>39</sup>

Mr Plowden also drew attention to a number of problems which contemporary critics have identified in the Civil Service. They included the excessive independence left to individual departments in matters of internal management and the absence of any systematic arrangements for programme evaluation. A more strongly staffed CSD with full Ministerial support is essential if such problems are to be tackled satisfactorily.

#### The relationship between the CSD and Treasury

32. We believe that many of the advantages which would flow from a merger of the two Departments could be procured while still keeping them separate. There are three changes which we think the Government might consider:-

i) Liaison between the Treasury and CSD would be improved if the two Departments were located in the same building. Both Sir Samuel Goldman<sup>40</sup> and Lord Croham attached importance to this. Lord Croham's words were:-



"Incidentally, there is a point which is touched upon in the report, to which I attach great importance. If you want departments to work closer together, it is rather important that they should be in the same building...The CSD was deliberately taken out of the Treasury building against my wishes, because the sheer physical separation reduced the number of points of contact. If you want people in different parts of an organisation to work together, I believe it is quite valuable if there are occasions when their contact is informal and not specially organised. If you are in the same building it is very easy. If you are in separate buildings, particularly across the distance from Great George Street and the Old Admiralty Building, the contact is on the telephone; you ring up, the man is not there, you put the telephone down and say "Why bother?" Therefore, if you want to get closer working, whether you leave them separate or merge them into a single department, get them into a single building."<sup>41</sup>

The report referred to by Lord Croham is the joint Treasury/CSD study which discussed the full co-location of the two departments and also the co-location in the Government Offices, Great George Street of "staff concerned with the control of Civil Service manpower, those concerned with public expenditure control, and those concerned with improvements in the financial and management systems operated by departments and the scrutiny of departmental efficiency."<sup>42</sup> The former would be difficult and rather expensive, costing £650,000. The latter would be easier to arrange and cost £150,000. It is unfortunately true that the latter would separate physically manpower control from pay and the other functions of the CSD and we do not favour that. We think full co-location, despite its difficulties and costs, is highly desirable if the two departments are ever to work effectively together.

ii) There is a case for the two Departments sharing common services. According to the joint study report these comprise financial control and accounting in relation to departmental expenditure; organisation and complementing of departmental functions; deployment, personnel management, training and remuneration of staff; office services such as accommodation, typing and messenger services; filing and records management; information and library services; and central co-ordination.<sup>43</sup> The amalgamation of these functions, at



present divided between the CSD and Treasury, would save 34 staff and £370,000 a year. It would also facilitate cross posting between the Departments which should improve liaison and strengthen the staffing of the CSD. A detailed plan is given in Annex 4 of the joint study, but the change is not favoured by the joint study in isolation from a full merger of the two Departments. One difficulty is that the officer in charge would have to report to two permanent secretaries who might, for example, have conflicting views about the staff they wanted for their own departments - though the difficulty is overcome where common services are shared already e.g. between the Department of Industry and the Department of Trade and between the Department of the Environment and the Department of Transport. The difficulty is clearly not insuperable and we can see no other reasons for the two Departments not sharing common services, especially if collocation is proceeded with.

iii) We agree with the joint study that it would be desirable to transfer the CSD's Accountancy, Finance and Audit (AFA) division, which is concerned with the development of financial systems in Whitehall departments, to the Treasury. As the study says, this would bring the AFA division's work alongside the related work of the Treasury Officer of Accounts.<sup>44</sup>

#### The proper policy objectives of the CSD

33. The basic objective is an efficient Civil Service both in the sense that it accomplishes effectively the tasks it is set and in the sense that it does so with a minimum of numbers employed. We attach great importance to raising productivity but it is too narrow to concentrate exclusively on numbers. Reforms may be needed in areas which are at least as important.
34. We note that Lord Croham went so far as to say that he thought the training of civil servants was a far more important topic than the organisational structure of departments.<sup>45</sup> It is now twelve years since the Fulton Committee reported on "the structure, recruitment and management, including training, of the Home Civil Service". Some of the Committee's recommendations have since been carried into effect but little progress has been made with others. The whole ground was covered again three years ago in the Eleventh Report from the Expenditure Committee which made further recommendations. Again, although some of these were accepted by the Government, others, arguably the most important, were not.<sup>45</sup>
35. We believe there are reforms advocated in the past and not implemented or only partially implemented which now need to be urgently re-examined. High among these are the recruitment, training and deployment of people within the Service. In perhaps its most striking statement, the Fulton Committee said that the Civil Service was "still too much based on the philosophy of the amateur (or 'generalist' or 'all-rounder')."



Additionally, the Committee thought that too few civil servants were skilled managers. It made a number of relevant recommendations, the chief of which were reconsidered in the Expenditure Committee's report. One was that there should be a "single, unified grading structure covering all civil servants from top to bottom". So far this has been accomplished only down to Under Secretary level. The Expenditure Committee recommended that the open structure should be extended downwards to Assistant Secretary as speedily as possible and that work should begin on the lengthier task of extending it to the Principal level at least.

36. Another Fulton recommendation was that "The Service should develop greater professionalism both among specialists ... and administrators... For the latter it means enabling them to specialise in particular areas of government".<sup>47</sup> Nine years later the Expenditure Committee had still to comment "... we are ... somewhat doubtful about the frequency with which members of the Administration Group move from job to job, not as part of an on the job training scheme such as we suggest, but merely with some vague idea of giving them experience."<sup>48</sup>
37. It was also recommended in the reports of the two Committees that greater efforts should be made to make the final effectiveness of a programme of public expenditure the principle by which it should be guided. This places demands on the training and structure of the Civil Service and on the methods of control of public expenditure and of the Civil Service itself.
38. The comments and recommendations of the two Committees still seem to us to make good sense. We urge the Government to give fresh consideration to these matters.

#### Summing up

39. We believe that, particularly in the circumstances of the present day, a total merger of the CSD and the Treasury would not be profitable. Attention should be directed to revitalising the CSD in the ways we have suggested in paragraphs 29 to 38. We think that changes in the areas we have described would avoid the disappointments of the past.



Footnotes

1. "The integration of HM Treasury and the Civil Service Department". Report of the Study Team (Civil Service Department, October 1980); paragraph 1
2. Letter from the Civil Service Department (Appendix 4)
3. Evidence, p.203
4. Q 1147
5. Eleventh Report, Expenditure Committee 1976-77, The Civil Service, HC(1976-77) 535-I, Chapter VIII
6. Appendix 1
7. Appendix 2
8. Cmnd 3638
9. See, for example, Eleventh Report from the Expenditure Committee (1976-77), Chapter VIII, and Evidence, Q 950
10. Q 1123
11. ibid
12. Q 991
13. Q 770
14. QQ 1179-1180
15. Joint Study Report, para 46
16. Q 999
17. Appendix 1, para 11
18. Appendix 2, para 4
19. Q 1050
20. Q 1122
21. Q 952
22. Appendix 3
23. Joint Study Report, para 20
24. Q 864
25. Joint Study Report, para 35
26. Q 1015



27. Q 921
28. Q 1081
29. Q 1001
30. Appendix 2, para 3
31. Q 770
32. Eleventh Report, Expenditure Committee (1976-77), HC (535-I), para 76
33. ibid, para 86
34. ibid, para 89
35. Evidence, p.204
36. Evidence, p.232
37. Eleventh Report, Expenditure Committee (1976-77), HC (535-I), para 33
38. Q 950
39. Evidence, p.262
40. Appendix 2, para 5
41. Q 1151
42. Joint Study Report, Annex 5
43. ibid., Annex 4 (para 38)
44. ibid., para 28
45. Q 1137
46. Government Observations on the Eleventh Report from the Expenditure Committee, Cmnd 7117; Twelfth Report, Expenditure Committee (1977-78), HC 576
47. Cmnd 3638, Summary of Main Findings, para 7
48. Eleventh Report, Expenditure Committee (1976-77), HC 535-I, para 40



PROCEEDINGS OF THE COMMITTEE RELATING TO THE CONSIDERATION OF  
THE REPORT

Monday 8th December 1980

Rt Hon Edward du Cann, in the Chair

Mr Kenneth Baker  
Mr Anthony Beaumont-Dark  
Dr Jeremy Bray  
Mr Timothy Eggar  
Mr Michael English

Rt Hon Terence L. Higgins  
Rt Hon Robert Sheldon  
Mr Richard Shepherd  
Mr Richard Wainwright  
Mr Ken Woolmer

Report from the Sub-Committee (The Future of the Civil Service Department) brought up and read.

Mr Ken Woolmer declared an interest in the consideration of the Report as Parliamentary Adviser to the Inland Revenue Staff Federation.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 9 read and agreed to.

Paragraphs 10 and 11 read, amended and agreed to.

Paragraph 12 read and agreed to.

Paragraphs 13, 14 and 15 read, amended and agreed to.

Paragraphs 16 to 19 read and agreed to.

Paragraph 20 read.

An Amendment proposed, in line 14, after "Treasury" to insert the words "although, to be fair, the CSD does not even know how many of its staff, if any, are qualified members of the Institute of Personnel Management."-(Mr Michael English.)

Question, That the Amendment be made, put and negatived.

Another Amendment proposed, in line 24, after "preferable", to insert the words "at least initially"-(Mr Michael English.)

Question, That the Amendment be made, put and negatived.

Paragraph agreed to.

Paragraphs 21 and 22 read and agreed to.

Paragraph 23 read as follows - "We have set out in paragraphs 16 to 22 what seem to us to be the main considerations to be weighed before deciding whether or not a merger is worthwhile. We are convinced that significant improvements need to be made to



improve the CSD but, on balance, we believe the arguments tell against a merger at the present time. We are fortified in this broad conclusion by the fact that organisational change is bound to be disruptive and absorb the time of senior officials and is the occasion of a loss of efficiency which takes time to make good. Because of the disruption involved, Sir Samuel Goldman thought that organisational change is only worth embarking upon when the ultimate balance of advantage is "clear and unmistakable".<sup>30</sup>

On the other hand, as Sir Robert Armstrong told us, it is doubtful if "there is an organisation of the centre of government which is universally and forever right".<sup>31</sup> Whether or not there might be a case at some time in the future for looking again at the total merger solution depends on what can be done meanwhile to revitalise the CSD. We consider that later in the report but, first, we look at the two other forms of re-organisation mentioned in paragraph 3.

An Amendment proposed, in line 6, before "merger" to insert the word "complete".-(Mr Michael English.)

Question, That the Amendment be made, put and negatived.

Paragraph agreed to.

Paragraph 24 read and agreed to.

Paragraph 25 read.

An Amendment proposed, to delete from "The difficulty is....." to end of the paragraph and to insert the words: "This argument ignores the fact that in most industrial organisations, including very large multinational companies comparable in scale to many governments, personnel functions are separated from financial functions (as, of course they are in Her Majesty's Government) but management services functions, dealing with quantifiable efficiency, are usually placed with financial functions not (as in Her Majesty's Government) with personnel functions. Everyone in fact agrees that some functions should be transferred from the CSD to Treasury (see the discussion on the Accountancy, Finance and Audit Division in paragraph 32 (iii) below). Some functions which have no particular logical department, e.g. Government Hospitality and Catering, might well stay where they are in CSD on the grounds that unnecessary change is undesirable. This still leaves a residue, however, of management services divisions, currently in the CSD, which collectively comprise the divisions which should be carrying out the CSD's function of ultimately ensuring the efficiency of the civil service as a whole, the very function which the CSD has been criticised for performing less than adequately. When the CSD's present personnel functions were in the Treasury, it was criticised for neglecting them by the Fulton Committee in 1968 and hence the CSD was created but the Treasury was not then criticised primarily for neglect of its other functions and Lord Crowther-Hunt in his evidence to us did not give us any very clear reason why some of these other Treasury functions were transferred with the personnel functions to the CSD (QQ 964-971). This, it seems to us, was an error which should be rectified. We believe it is



right to keep the CSD but primarily as a personnel department concerned with recruitment, training, promotion, pay, conditions and above all negotiations with trade unions. Its present management services divisions, however, fit more closely with the Treasury's public expenditure control function and should therefore be transferred to the Treasury which should then have restored to it the function of ensuring in the ultimate the efficiency of the civil service."-(Mr Michael English.)

Question put, That the Amendment be made.

The Committee Divided.

Ayes 1

Mr Michael English

Noes 8

Mr Kenneth Baker  
Mr Anthony Beaumont-Dark  
Dr Jeremy Bray  
Mr Timothy Eggar  
Mr Terence L. Higgins  
Mr Robert Sheldon  
Mr Richard Wainwright  
Mr Ken Woolmer

Paragraph agreed to.

Paragraph 26 read and agreed to.

Paragraph 27 read.

An Amendment proposed, in line 2, before the word "merger" insert "total"-(Mr Michael English)

Question, That the Amendment be made, put and negatived.

Paragraph agreed to.

Paragraph 28 read and agreed to.

Paragraphs 29 and 30 read, amended and agreed to.

Paragraphs 31 to 33 read and agreed to.

Paragraph 34 read, amended and agreed to.

Paragraphs 35 and 36 read and agreed to.

A Paragraph - (Dr Jeremy Bray) - brought up, read the first and second time and inserted (now paragraph 37).

Paragraphs 37 and 38 (now paragraphs 38 and 39) read and agreed to.

Resolved, That this be the First Report of the Committee to the House.

The Committee deliberated.

Resolved, That the resolution, That this be the First Report of the Committee to the House, be rescinded - (The Chairman)



Resolved, That the resolution, That paragraph 23 be agreed to, be rescinded - (The Chairman)

Ordered, That paragraph 23 be re-committed to the Sub-Committee - (Mr Woolner)

The meeting was suspended.

The Committee resumed.

Paragraph 23 brought up from the Sub-Committee, read the first and second time and added to the Report.

Resolved, That the Report as amended, be the first Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 85 be applied to the Report.



MINUTES OF EVIDENCE AND APPENDICES

Evidence taken up to and including Wednesday 12 November has been published by HMSO and is not republished here. The evidence may be obtained from HMSO under the following references:

Wednesday 18 June 1980 Sir Robert Armstrong	HC(1979-80)333-ix
Wednesday 2 July 1980 Sir Ian Bancroft, Sir Douglas Wass	HC(1979-80)333-x
Wednesday 9 July 1980 Lord Crowther-Hunt	HC(1979-80)333-xi
Wednesday 29 October 1980 Sir Derek Rayner, Mr Clive Priestley	HC(1979-80)333-xii
Wednesday 5 November 1980 Council of Civil Service Unions	HC(1979-80)333-xiii
Wednesday 12 November 1980 Lord Croham, Mr William Flowden	HC(1979-80)333-xiv

Published here are Minutes of Evidence taken on 26 November 1980 from Mr M V Hawtin and Mr J K Moore\* and the Appendices.

\*(N.B. It has not been possible to check this proof which has been deposited in the Vote Office for the convenience of Members. The evidence is, therefore, uncorrected and should be treated as such.)



26 November 1980]

Mr M V HAWTIN  
and Mr J K MOORE

[Continued

WEDNESDAY 26 NOVEMBER 1980

Members present:

Mr Robert Sheldon, in the Chair

Mr Timothy Eggar  
Mr Michael English

Mr Richard Shepherd  
Mr Richard Wainwright

Examination of Witnesses

Mr M V HAWTIN, Assistant Secretary, HM Treasury and Mr J K MOORE, Assistant Secretary, Civil Service Department, called in and further examined.

Chairman

1179. Mr Hawtin and Mr Moore, let me thank you for coming to this sub-committee. We have read with great interest the joint Treasury and CSD report on "The Integration of HM Treasury and the Civil Service Department". It does deal with it in great detail and we are thankful to you for producing this. The first question that I should like to put to you, because a lot of this report that I have read points out some of the disadvantages of integration, is this: could you just tell us some of the advantages to which you would like to draw our attention?

(Mr Moore) Yes, thank you. I think the first point I should like to make, if I could, is that the points that we make cannot be set out simply in terms of numbers. There is the question of weighting the points; so that a few on one side or the other does not in fact necessarily weight the argument—we express no opinion as to the weights of the arguments. But I think the points to which we would draw attention are firstly the opportunity for improvement and promotion of financial and management systems in Departments. We say that you can do quite a lot under the present arrangements. It would be arguable that one Department might do less than the CSD has done, but we think that there is scope for improvement in the promotion of financial and management systems. Secondly, one could say that one organisation might be more likely to resolve conflicts of policies without troubling Ministers to form collective views. Again, I think one has to be aware of the other side of the question, that some topics do in fact deserve a collective view.

1180. But that would only be in the case of deep integration, would it not?

(Mr Moore) I think it would also be the case under our Option A integration. In relation to manpower, one would still be

bringing that together with the control of public expenditure within one Department. Lastly, of course, I think one must not forget that we have suggested measures that would lead to some money savings arising from staff; so that is something to be taken into account. It is, of course, a saving which only arises once immediate costs have been paid off. Those, I think, are the three points I would add to what the report already says.

1181. You also go on to say that conflicts could arise between the objectives of reducing manpower and restraining public expenditure. Could you elaborate on that?

(Mr Moore) Yes. I think it might help if we were to turn to the report.

1182. Paragraph 35 was, I think, the one I had in mind.

(Mr Moore) Yes, that is the reference in the report. In the annexes you will find this in Annex 3, paragraphs 20 and 21 on page 5. In paragraph 21 we list some of those areas where we think it is possible to foresee—and not only to foresee, but also on the basis of experience, to list some of the possible areas of conflict.

1183. How do you see this conflict demonstrated?

(Mr Moore) I think it would arise when the possibility of reducing expenditure or raising revenue cut across a policy of reducing staff numbers.

(Mr Hawtin) Yes. We have given a number of examples in paragraph 21 of Annex 3. One in Section (d) is that the capacity of the Government to raise the revenue it requires could, in certain circumstances, be damaged if a manpower cut were required in that area. A second example is that there may be cases in the benefits field where an increase in manpower devoted to checking on claims and detecting fraud will give rise to larger expenditure savings. This is an

N.B. It has not been possible to check this proof which has been deposited in the Vote Office for the convenience of Members. The evidence is therefore uncorrected and should be treated as such.

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Charge to W/T No. 3214



26 November 1980]

Mr M V HAWTIN  
and Mr J K MOORE

[Continued

issue where the Government has to take a view on where priorities lie, given the existence of both its general policies on public expenditure and its policies on Civil Service numbers. We are not suggesting it is not perfectly possible to take that view within an integrated Department; we are simply posing, as an issue, the question of whether that is better dealt with under one roof or as between two Departments.

1184. How would it be affected if there were deep integration?—Option B, that is?

(Mr Hawtin) Then you would have at divisional or working level in the integrated Department staff that were dealing with the Department concerned in all its aspects, both in terms of the control of its expenditure on policies and programmes and the control of the administrative costs needed to carry out those performances, and therefore you would be requiring views to be taken where conflicts arose. If and where conflicts arose, one would require these to be dealt with lower down the organisation, and if necessary pushed up the hierarchy for resolution.

1185. I have just one more question. You point out the advantages of co-location. That means in the same building as much as you possibly can. Would you like to comment on the question of having co-location for the two Departments even if there were not to be any merger? Would there be any benefits in such a situation?

(Mr Moore) I think that we felt that facts on co-location are set out in the report, so that we did not specifically discuss how co-location would operate if the two Departments were kept separate. It is certainly true that the two things are logically separable. You could co-locate and you could keep the two Departments separate. In so doing you would be incurring the larger part of the costs associated with co-location, and indeed with merger, and you would have to ask yourself what the benefits would be. Here, I think we have always found ourselves in an area of behavioural and psychological judgment. It is a clearer case to say that you would expect to find co-location beneficial if you integrate than to say that it would be beneficial if you did not integrate, and taking into account the costs involved you might come to the conclusion that it would not, on balance, be a desirable step. But it is very much an area of judgment.

Mr English

1186. In the course of your study, did you come to the conclusion that the present CSD was dealing better with the trade unions than had formerly been the case before it was set up?

(Mr Moore) I think that I would find that a very difficult question to answer because I was not actually there before the Department was set up. I think also that we would have felt that the question of whether or not it was doing better than it had done in the past was not within our terms of reference. It was a question of defining an integration now and seeing how that would work, dealing with the unions as they are today.

1187. I will rephrase the question. Did anything come to your ears as you were doing this investigation that led you to believe that the relationship with the trade unions was not being carried out adequately?

(Mr Moore) By the CSD you mean?

1188. Yes.

(Mr Moore) No.

1189. Well, the CSD does it primarily.

(Mr Moore) I think the answer to that would be no.

1190. Did you get the impression that the other side of the CSD, its manpower and management services side, could be improved?

(Mr Hawtin) Well, to take the management services area generally, we have drawn attention to the particular area where the Treasury and CSD interests come closest together, which is in the promotion of improved systems of financial control in Departments; and we have drawn attention to some difficulties that may have arisen on that front, arising from the fact that there are two departmental interests involved. We have suggested that that area

would be a feature of an integration, if it took place. If it were decided not to integrate the two Departments, then there might be some scope for rearrangement of responsibilities.

1191. Yes, I have understood that. Have you had the opportunity to read the oral evidence that Sir Derek Rayner gave to this Committee?

(Mr Hawtin) Yes.

1192. It differs slightly from what we had hitherto been led to believe was Sir



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Derek Rayner's view. You will have noticed that he was of the view that, for example, the personnel side, as I call it, of the CSD should retain a Minister and a Permanent Secretary. In other words, were they talking about amalgamating the CSD with the Treasury? What exactly are we talking about? At the moment there are two Ministers in the Cabinet who represent the Treasury plus junior Ministers. There is a Minister in the Cabinet who represents the CSD as well as the Prime Minister plus a Permanent Secretary who is Head of the Civil Service. If you put the CSD in the Treasury and keep, for the personnel purposes, bargaining with the trade unions and so forth, a Minister at that level and a Permanent Secretary, have you actually changed much?

(Mr Hawtin) I think we have to say that this is an area where we did not ourselves consider what one would be doing in detail at the ministerial and Permanent Secretary level. It did not seem appropriate for a study at the level that we were carrying it out to go into this area.

Mr English: I see. Thank you.

Mr Wainwright

1193. I should like to test the validity or otherwise of the notion, which of course is attractive to those of us who have worked in industry, that the power of the purse is needed in order to enforce good manpower policies on a reluctant Department. Indeed, Sir Derek Rayner expressed that to us when he said, "I find it very difficult indeed to imagine how a strong Permanent Secretary can be made to toe the line except with money". Now is it really the case with an organisation like the Treasury, if we may suppose that on the supply side the Treasury felt that after a very tough match it had obtained a very good settlement in that respect, something with which it was very content, is it really a likely option that the supply side would be willing to have that upset in order to use the negative power in the interests of enforcing manpower policy?

(Mr Hawtin) I think we have tried to draw attention to the arguments on either side on this issue and I do not think it is for us to try and give a view on how they fall. But on the positive side, as we have said in paragraph 34 of the report, integration would bring together in a single Department the central functions for economic planning and management of Civil Service manpower costs with those of other public

resources, and that could strengthen the position of the centre in relation to the Departments. I think on the other side one has to take into account the effects in terms of the load and spread of responsibilities at the top of the Department and the point to which you have drawn attention that the manpower element will often be rather small in terms of financial amounts in relation to big policy issues.

1194. Yes, it will. I am really querying whether, with an organisation set up as the Treasury is—and no doubt rightly is—it is really altogether meaningful to talk about bringing the whole thing under one Department, because if the Department is organised in two sides and the supply side is of great importance, is it really likely that this negative power is going to be of all that much use?

(Mr Hawtin) Well, under either of the options that we have set up in our report the manpower and expenditure policy control would be brought together below the very top of the Department in a way that it was not prior to the split of the two Departments in 1968.

1195. But even so, would they be brought together at the genuinely operational level where these things are fought out or would it mean that a conflict like that had to be taken each time to an unusually high level?

(Mr Hawtin) They would not be brought together at operational level, that is quite true. Whether they would be brought together at the level at which these things are fought out would depend very much on the way the issues are resolved and the way Ministers were collectively setting about resolving them, I think.

1196. Lord Croham told us very succinctly that in the Treasury power was used more toughly at the bottom than at the top and this set me thinking on this very point as to whether there would be any great reality in using the power of the purse to make them toe the line.

(Mr Hawtin) There is a dilemma. On the one hand to get an organisation which would have the most concentrated focus on spending Departments, one needs something on the lines of Option B. On the other hand, that does involve a very significant upheaval and dilution of expertise in terms of pursuing the manpower policy and involves going much further than has been the case historically.



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[Continued

Mr Wainwright: Thank you.

Mr Eggar

1197. Earlier on you listed the additional advantages, if you like, of integration and Option A. Do you think that these advantages are achievable without going as far as Option A, merely improving liaison between the CSD and the Treasury?

(Mr Moore) I think that the first one that I drew attention to, that is the promotion of improved financial and management systems, is an area where it is possible to go quite a long way towards achieving the objective without integrating the Departments. We have covered this point in paragraph 28 where we suggest the transfer of AFA Division to the Treasury. I should say that that transfer is in itself a matter of judgment and a matter of balance, and we have said as much in the report, but we think that that step would be one that could be taken without integrating the Departments and would give most of the benefits. The other two points that I drew attention to would not be affected in the same way by the choice as to whether to integrate or not.

1198. You could achieve point two, could you not?

(Mr Moore) Well, that depends on whether you think a view—a collective view—ought to be formulated in relation to the areas where we see conflict. It is certainly true that with two Departments the issue will be resolved, but it may be at a very high level. With an integrated Department it may be that where it is appropriate similar conflicts will be resolved at a lower level. So it is not quite on the same basis as the first point.

1199. But why could you not achieve resolution of your conflicts at a lower level if the two Departments are separate, if the instruction were that this was to be done?

(Mr Hawtin) Because you would have co-equals in charge of the Departments. I mean that under a single Department there would be, in the last analysis, a Minister who would be in a position to take a view on priorities; that would not be the case with two.

1200. You are talking about the difference between the Minister making a decision and Cabinet making a decision, are you?

(Mr Hawtin) Yes.

1201. I fully see that, yes. On page 9 of your report, in the middle of paragraph 15, you make an assumption: "We have assumed that a decision to merge the Treasury and CSD would imply a decision to give greater priority to the unified control of public expenditure than to the unified management of the Civil Service ..." Why is that assumption valid?

(Mr Hawtin) It was an assumption that we felt we had to make for the purpose of putting together a possible organisation of the combined Department. Our feeling was, given our terms of reference and the emphasis on improved central control of public expenditure and Civil Service manpower and the promotion of greater efficiency in the Civil Service, a decision to go ahead with an integration would imply a decision to want to bring these elements in the two Departments closer together. So for the purpose of constructing a possible organisation, we made that assumption. Now it is not, obviously, the only sort of merged organisation you can contemplate and prior to 1968, of course, the manpower function was separate from the expenditure control function right up to the very top of the Department.

1200. But why would it give greater priority? That is what I simply do not understand.

(Mr Moore) I think it might be quite helpful to take into consideration on this point Annex 3, where we discuss the arguments that lie behind the assumptions that we have made in this section of the report, and particularly paragraphs 2 and 3 which discuss the links which exist between the manpower control and other functions. That then leads to the conclusion that we draw (on the following page in paragraph 8) which we import into the main body of the report.

(Mr Hawtin) We have attempted to draw attention there to the fact that manpower control has these very important links with the other present CSD functions and it has important links with the general issues of public expenditure control and efficiency and effectiveness in Government.

(Mr Moore) I think it might help if I say that the present distinction—that is having two Departments—in this situation—is that a line is drawn through the links that manpower has with public expenditure control, and the links which it has with the management of the Service are maintained by the existing organisation. If you are looking at integration, you are presumably



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saying to yourself, "What I want to do is to remove the barrier between manpower and public expenditure and bring those two together". That is the assumption that we have made at this point.

1203. But you are saying, then, that if you bring those two together you automatically draw up a barrier between that and the other side of the CSD. Why?

(Mr Moore) Oh, it is not a barrier of the same kind, because we are now talking about an integrated Department. It is a barrier in so far as one rearranges the lines of responsibility to reflect the connection between manpower and expenditure control, and by so doing one has to connect the lines of responsibility with the management of the Service at a higher level than one is doing now and to that extent it is disruptive.

1204. Yes, all right. If I could turn now please to Working Paper 4, I should like very quickly to go through this and take the various CSD groups and try to identify, if you like, the arguments for and against in each of those groups as to why they, the individual groups as opposed to the CSD as a whole, should not be integrated into the Treasury. I think we have already dealt with the CSD manpower group in our previous exchange—that is on page 25. Would you stick to the argument you have advanced so far with regard to the manpower group?

(Mr Moore) Yes, I do not think there is anything we would want to add at this stage.

1205. Regarding the management and organisation group, what would be lost by taking first of all the Management Development Division into the Treasury?

(Mr Moore) Can we be quite clear on this point that when you say "taking it into the Treasury" we are in fact talking about into an integrated Department and not separating it from the rest of CSD entirely by a departmental barrier.

1206. We are talking about taking it into Option A, if you like.

(Mr Moore) So that—if I could just get it clear—you would like to know the effect of Option A on this group of divisions?

1207. Yes.

(Mr Moore) I think that that is best set out in paragraph 13 of Annex 4 to the main report. What this section of the annex

attempts to do is to set out how we would suggest reorganising these divisions having made the transfer of manpower that we have already been talking about, and what we would be seeking to do is to maintain the links between the M and O group and the Functions and Programmes group of CSD. We would think that to move those divisions further into the Treasury, as it were, into what we have called the Deputy Secretary B Command, would be to break important links in relation to the maintenance of efficiency within Departments and within the Service as a whole.

1208. What reasons would you give for that?

(Mr Moore) All this group of divisions is concerned with the pursuit of efficiency within the Service or within Departments. Their mode of operation reinforces this. Each of these divisions has things to learn which it can pass on to other divisions within the Command and indeed to pass up the line to the Deputy Secretary in charge. We felt that to move them further towards the Treasury would be to break those valuable links.

Mr English

1209. But the Head of these Divisions gave evidence to a Select Committee of the House saying that they were not responsible for the efficiency of the Service.

(Mr Moore) Perhaps I have not chosen exactly the right word. I hoped to convey the impression that they were responsible in the sense of interest in these matters. They do not carry the direct responsibility on the ground.

Mr Eggar

1210. But why can you not have that under Option A? Why are they going to lose the advantage that you have just described?

(Mr Hawtin) I think directly under Option A, in terms of their immediate surroundings, they would be very little different from how they are at the moment, in the sense that basically under Option A we have imported a Deputy Secretary Command from the CSD into the organisation and suggested that he should take responsibility for certain related Treasury functions. So this group of divisions would be kept together. Their links with the other part of the CSD would be slightly extended, I think. That is all.

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1211. So if we just take those divisions, the natural loss from following Option A would be that there would be some more difficulty about links with the rest of the CSD?

(Mr Hawtin) Yes, in the sense of right at the top. We have not thought it appropriate to speculate on what the arrangements might be right at the top of the integrated Department, but these divisions would be reporting up a different hierarchy to the rest of the CSD, whereas at the moment they are eventually coming together.

1212. So there would be no loss of efficiency, if you like, or the effects of the efficiency, on the Civil Service, but there would be a loss of liaison within the old CSD structure?

(Mr Hawtin) There would be no direct loss in terms of the way the operational structure fitted together. Whether there would be a broader gain or loss would depend on judgments to questions such as "Would the integrated organisation give more or less attention to these sort of matters?"

1213. There is no underlying reason why they should not, is there?

(Mr Hawtin) No—well, apart from the question of spans of responsibility and that sort of thing.

1214. Taking the next major group, Machinery of Government—well, that is obvious. As for Accountancy, Finance and Audit Division, you have already indicated that you would like to see that integrated in any case, have you not?

(Mr Hawtin) We have suggested there are arguments which might lead you to considering that, although in the situation of separate Departments there would be a price to be paid in the sense that you would be stretching a link between the Financial Systems' interest and the Organisation of Departments' interest; but on balance we think this is an idea worth considering.

1215. To go back to Machinery of Government Division, presumably it does not matter where that particular division is, does it?

(Mr Moore) I do not think I would go so far as to say that, but it is true to say that a lot of the work that it does will report directly to the Head of the Home Civil Service, whoever it may be, and would not

therefore fall to the intermediate steps, so to that extent it does not matter where it goes.

1216. What about the Operational Research Division, does it matter where that goes?

(Mr Moore) In the sense that it does not generate a great deal of work to go up a reporting line, no it does not, but in the sense that it is directly operating in support of certain functions, yes it needs to go near those functions, and that is what we have tried to arrange under Option A—that the operational research expertise is readily at hand, within the same Commands where it is most often used.

(Mr Hawtin) Perhaps I could just add that there are two elements to this. There is the operational research effort that goes into helping Departments and there is the effort that goes into helping the other parts of the central Treasury and CSD, and we have suggested that those two aspects might be separated so that they would be more closely related to the other things that they assist.

1217. The next part concerns the Common Services Organisation. I detect that you did not see any insuperable problems, if there were integration under Option A, in integrating the Common Services.

(Mr Moore) There are no insuperable problems. The process itself will take some time, but one is essentially joining like functions together.

Mr English

1218. It works elsewhere. Do I detect a certain reluctance to comment on that statement? I said: it works elsewhere—it was a question.

(Mr Moore) Yes, it certainly works elsewhere, but it may have been arrived at by a different route and that may be significant. It works elsewhere where large Departments have been pulled apart, but in order to avoid certain disruption the Common Services elements have been kept together. We would be envisaging a situation where two Departments with separate identities would be pushed together.

1219. You could say that the Treasury and CSD were pulled apart after 1968.

(Mr Moore) That might have been an opportunity for maintaining Common Services had the idea been in currency at the time.



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Mr Eggar

1220. Looking through Working Paper 4 again, on page 32 we again talk about the Functions and Programmes Group in the CSD. What are the problems there, if you followed Option A, for that group?

(Mr Hawtin) I do not think there are great problems. As I understand it, this is a group which has strong links with Manpower Control. Indeed, it has some manpower control functions at the moment itself in respect of the Common Services Departments. It is concerned with efficiency and cost-cutting studies of the sort initiated by Sir Derek Rayner, and therefore there is an important sense in which it needs to be near the manpower control function. But there are also links in the other direction, with the other elements of organisation and management systems work. So I do not think there is any specific problem arising from the Option A organisation.

1221. So would it be fair to say that the biggest problem, from your point of view, in Option A lies with the integration of the Manpower Group with the rest of the Treasury and that other various Divisions and Departments would go in quite happily?

(Mr Hawtin) I do not think it would be fair to say that there is a problem under Option A in terms of integrating the Manpower Group because it is kept distinct as an entity. The issue arises because you are separating that CSD function from the other functions related to the management of the Civil Service.

1222. If I can get back to that point, I do not really see where there is more separation under Option A than there is at the moment.

(Mr Hawtin) Well, there is more separation in the sense that the things would come together higher up the organisation. I mean, they come together fairly high up the organisation.

1223. Exactly!

(Mr Hawtin) Yes, it is a question of where at the very top they come together, I think.

1224. You are talking of a difference of one grade, as I understand it.

Mr (Hawtin) That is right.

1225. So presumably if you had a few more open doors and talked to each other a bit more there would be no problems.

(Mr Moore) You might be making a difference of one grade. That would depend upon what arrangements are made at <sup>Permanent</sup> Secretary level.

1226. Can you clarify that for me?

(Mr Moore) It is an area that we have not looked at in detail, but I would just like to suggest that it does not follow that the same number of Second Permanent Secretaries would be required within an integrated Department as in the two together—the two separate Departments that is.

1227. So you would have redundancy—that what you mean?

(Mr Moore) I do not know what it might mean.

(Mr Hawtin) Could I, by way of trying to sum up what Option A is doing, refer to paragraph 6 in Annex 4, where we say: "The main aims of this reorganisation would be (i) to promote a more coordinated approach to the use of all types of resources used by central government while minimising any disruption to the implementation of the government's existing expenditure and manpower policies; (ii) to bring together central work on systems of financial control in departments with responsibility for the government accounting framework so as to provide a focus for their development".

1228. Yes, but if I may say so, your report is not over-enthusiastic about Option A generally. I mean, you say you do not come down to a judgment, yet it could be said that a lot of the apparent arguments that you have put up against integration—or implied arguments (I do not want to read things into the report that you may claim are not there)—when one actually gets down to looking at the different groups, are not significant. We are talking about the difference of one grade in the manpower group.

(Mr Hawtin) I think that is fair, in the sense that you are not doing anything very radical to the component organisations, although that said, it is more radical than the situation that existed before the two Departments were split.

It is more a question of things like the load at the top and the way policies are dealt with, on which we have attempted to set out some of the considerations on either side. As we have said, we have attempted to minimise any likely disruption to policy objectives.



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1229. So the organisational arguments are not overriding?

(Mr Hawtin) I am sorry—overriding in what sense?

1230. Not overriding against integration under Option A.

(Mr Hawtin) We think this is an organisation which could work—I mean, in the sense that it is intended to be a working model.

1231. I am relieved to hear that. Could I ask one further question? You talk about the cost, and I think, obviously, that you have to have some co-location—that point has already been covered. You do not dwell at all on the savings, except in so far as they are concrete savings. Do you think there would be savings by pursuing Option A in increased efficiency in Departments?

(Mr Hawtin) I think that is a very difficult judgment for us to make. We have drawn attention to the possibility that, particularly on the efficiency-effectiveness-systems side of the central interest, there are grounds for arguing that bringing the functions together could lead to a better focused approach from the centre. On the expenditure control side and manpower control, we have drawn attention to the arguments that putting under one roof the responsibility for control of all the elements of public expenditure could have benefits and the arguments on the other side that there may be something to be said for having responsibility for manpower control under a separate management. So I think it may well be that these arguments may dwarf the quantifiable savings, but we are not able to make a judgment on how they pan out.

1232. With the benefit now of having spent some time on this report, where would you say they went wrong post-Fulton? What functions went into the CSD that should have been in the Treasury?

(Mr Moore) I do not think we come away with the clear impression that any mistakes were made. I think, as we say in the report, it was recognised in 1968 that there would need to be contact within that area which is now the Treasury Officer of Accounts, AFA and MD, Management Systems; and that there would need to be continuing coordination, as indeed there has been, between manpower and public expenditure. So I do not think we would say that there were mistakes in allocating functions. It was simply that there are areas of contact between the two Departments, those that we have identified, and it is necessary to keep those contacts up in one way or another.

1233. But they do lapse?

(Mr Moore) I would have said from the evidence that we have seen that although there were instances where coordination had not been as good as it might have been, certainly in the area of the development of financial systems, things are rather better now than they were in 1968, in so far as I can see. And not merely in terms of the development of new techniques in these areas, but also organisationally people are clearer as to who is doing what.

Chairman: Mr Hawtin and Mr Moore, thank you for coming and giving your evidence so clearly and for producing this report, which we found very valuable and will be helpful in coming to the conclusions which we will be reporting in due course. Thank you.



## APPENDIX 1

## Memorandum by Sir Antony Part

The future of the Treasury/CSD complex is specially important to the other Government Departments. The views of someone who, between 1937 and 1976, served in six such Departments and was Permanent Secretary of four of them, may, therefore, be of interest to the committee.

2. This note concentrates on the only two of the four options outlined to the Committee by Sir Robert Armstrong that are realistic possibilities: the integration of the Treasury and the CSD, and the maintenance of two separate Departments.

*Background*

3. Any judgment must take into account the extent to which the responsibilities on both the Treasury and the CSD parts of the front have grown during the last 20 or 30 years.

4. On the financial and economic side this growth has been due in the first place to the increasing complications and sophistications of the international financial economic and political scene, together with the new dimensions represented by the activities of OPEC and by the UK membership of the EEC. Secondly, there is no consensus among economists about the ways in which these shifting problems should be tackled: indeed, there is at present some polarisation of views. Thirdly, in recent years the system of control over public expenditure and of getting value for money has not developed to match the needs of the times. Fourthly, there has been inadequate coordination at the centre and inadequate delegation from the centre.

5. As for the area at present covered by the CSD, the growth of active unionisation has created many problems and much more work. Pay and pensions have become more complex and more controversial. So has the development of computers, on which much remains to be done. Important advances have been made in the techniques of recruitment, in career development and in training; but much progress is still required under all three heads. Although the Civil Service record on Organisation and Methods is better than that of most businesses, there is also need for a more purposeful system of reviews, centrally planned and monitored, of the efficiency of departmental operations: witness the Rayner investigations. Finally, far too little has been done to disseminate the best practices between Departments.

6. The size of many individual Departments nowadays is also relevant. It is in such Departments as the Ministry of Defence, the DHSS, the Department of Environment, the Home Office, the Inland Revenue, Customs & Excise and the DTI complex that the main experience of large-scale management resides. The problem is how to strike the right balance between these Departments and "the centre".

7. On one view "the centre" should restrict itself to those problems that are common to the Service as a whole, eg. pay, pensions, grades that are centrally recruited, national negotiations with Unions. This view is neither sustainable (because the demarcations are not definable by such inflexible and generalised distinctions) nor desirable (because it would militate against effective coordination and against cross-fertilisation of the best practices.).

8. What the so-called "spending Departments" require on the management front is a forum for mutual consultation, a source of information about the best management practice, both inside and outside the Civil Service, a firm lead (taken after appropriate consultation) on such matters as recruitment, pay, pensions, manpower ceilings, relations between administrators and professionals, opportunities for promotion, arrangements for career development, top appointments, "Open Government", techniques for disseminating information internally and externally, the machinery of Government, and exchanges between the Home Civil Service on the one hand and the diplomatic service and the private sector on the other.

9. None of this need derogate from the constitutional responsibilities either of individual Secretaries of State or of their Permanent Secretaries as Accounting Officers. I think that the CSD have always allowed this consideration to inhibit their activities too much.

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*A General Principle and a False Analogy*

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10. From the above it follows that a powerful and lively central management organisation is needed that can work closely and knowledgeably with the operating Departments. Three dangers are to be avoided. The first is to over-emphasise the concept of a "unified Civil Service": in many respects the Service has to be treated as a unitary organisation, but that is too rigid a definition to comprehend this very varied Service as a whole. The second danger is to regard "the centre" as, for management purposes, the focal point of a loose federation of Departments. The third is to regard central management (or any other Civil Service management) as primarily a vehicle for securing cuts in public expenditure. This is an inadequate definition even of the repressive activities of management. It excludes altogether the more constructive aspects.

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11. There is a seductive but false analogy with business that suggests that the Treasury should be seen as a sort of Head Office of the Civil Service, managing the economy and managing the Civil Service. Whether or not "manage" is the right word to apply to what the Treasury tries, under ministerial guidance, to do to the economy, many of its activities in this respect affect large numbers of people and enterprises who are not under its control. This has little in common with the management of the increasingly professional kind required nowadays of large bodies of Civil Servants under the direct control of the Government.

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12. Indeed for many years the finance and supply sides of the Treasury have been organised separately from the management side, and there has been a minimal overlap between the two. The Study Team's report seems to suggest that even the potential problems arising from the dual responsibility for manpower control have proved minimal in practice, even since the management side has been handled by the CSD.

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*Future Organisation*

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13. In recent years the traditional work of the Treasury has grown enormously, and many would consider that they have their work cut out to master the tasks that face them in that sphere. One thing seems certain: neither the Chancellor of the Exchequer nor the Permanent Secretary would have much time to give to the problems of managing the Civil Service. Delegation of this authority at ministerial level within the Treasury would not be acceptable to the Service. At official level the joint Permanent Secretary arrangement did not work satisfactorily before and there is no reason why it should do so again. Nor would delegation at official level to a Second Permanent Secretary of anything except, say recommendations for top appointments be acceptable to Permanent Secretaries.

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14. Moreover, the Treasury has very little experience of large-scale management and practically none of dealing with Unions. Even in its own bailiwick it has not exercised any noticeable influence on the efficiency of an Inland Revenue Department wrestling with an over-loaded and very complicated system of direct taxation.

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15. In my view, therefore, the Chancellor of the Exchequer and senior Treasury officials would have neither the time nor the expertise to add responsibility for the management of the Civil Service to their present responsibilities. In this respect the broad thrust of the Fulton Committee's strictures remains valid, and life on both the economic and the management fronts has become more demanding since Fulton.

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16. The CSD, on the other hand, cannot claim to have established a convincing track record. For this Ministers should take some of the blame. "Managing the Civil Service" is not the most politically attractive activity, except perhaps when cuts in its manpower are involved. Yet the Head of the Home Civil Service and the CSD cannot do their job properly unless they are supported by a Cabinet Minister and, above all, by the Prime Minister, with whom—incidentally—the Head of the Service has, under any set-up, more contacts than with the Chancellor of the Exchequer.

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17. As regards officials, I am not in the business of criticising my former colleagues, with a number of whom I worked closely for several years. So this note concentrates on the characteristics required of a re-vitalised CSD.

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(a) As at present, the Permanent Secretary of the CSD should be the Head of the Home Civil Service.

(b) He should have ready access not only to the Cabinet Minister responsible for the Service but to the Prime Minister.



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- (c) He should be given some latitude to speak in public (eg. in a lecture at an institution such as the Royal Institution for Public Administration) about facts and issues affecting the Civil Service, so long as his remarks do not run counter to the policy of the Government of the day.
- (d) The CSD should be more strongly staffed. Just as most operating Departments have by now strengthened their establishment divisions, the CSD should insist on the secondment to it of an adequate number of high-flyers. As a first target, there should be in the CSD at any one time at least three future Permanent Secretaries.
- (e) The CSD should ensure that it contains all the necessary skills at the appropriate level. If these are not available from within the Service, the CSD should follow the example of some operating Departments and import them from, eg, the world of business.
- (f) Though the CSD should not feel under any obligation to follow the precise procedures introduced by Sir Derek Rayner or the present Secretary of State for Environment, they should ensure—in consultation with the Permanent Secretaries of the operating Departments—that suitable regular reviews are instituted in each Department in order to secure maximum efficiency, better value for money and close correlation between political priorities and the use of manpower.

18. Finally, inter-Departmental coordination is no less important on the management front than on the financial and economic side. As regards recommendations for top appointments, the Head of the Home Civil Service is already supported by a Committee of some of the most senior Civil Servants. He should consider either using the same Committee or a similar one to advise him on other issues affecting the management of the Service.

*Summary*

19. The responsibilities of "the centre", both for economic and financial policy and for the management of the Civil Service have greatly increased, even since the Fulton Report.

20. There is an inherent fallacy in the suggestion that the two functions are so closely connected that they should necessarily be brigaded under one Department and one senior Minister.

21. The Treasury have neither the time nor the professional expertise to take charge of an integrated operation.

22. Though the CSD has not so far gained the full confidence of Ministers, Parliament, the Service and the Unions, it could be greatly improved by the measures suggested in paragraphs 17 and 18 of this note.

20 November 1980



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APPENDIX 2

Memorandum by Sir Samuel Goldman

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I have been asked to give my views on the proposal to re-integrate the Treasury and Civil Service Department.

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2. May I first set out my credentials. I spent twenty-five years in the Treasury from 1947 to 1972. During that time I had charge of a variety of divisions—in both overseas and home finance and on the public expenditure side. My last post from 1968 to 1972 was as Second Permanent Secretary and head of the public sector group comprising all the expenditure divisions, then under a single command. After retiring from the Treasury in 1972 I spent some weeks putting down on paper thoughts on the system of public expenditure management and control as it had developed over the previous twenty years. This was subsequently published (in 1973) as the second in the series of Civil Service College Studies; and some of the observations there still have relevance to the issue now under examination by the Sub-Committee (see in particular pp 29-31 on The Departments and Administration of Programmes; and page 42 on liaison with the CSD and the CPRS).

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3. On this issue I should like first to put forward one general proposition. I believe we should avoid major changes in the machinery of government, in particular the splitting up or amalgamation of departments, unless the balance of advantage in so doing is clear and unmistakable and commends itself to the large majority of those who have knowledge and experience in these matters. Over the last twenty years there have been too many examples of major changes of this kind which have falsified expectations and have either been scrapped or reversed, at enormous cost in time and energy, to say nothing of Civil Service morale.

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4. Applying the test set out above, and after reading all the evidence (including the minutes) put to the Sub-Committee, I have come to the firm conclusion that complete or "deep" re-integration of the CSD and Treasury would be a mistake. I would suggest that analogies drawn from experience in the private sector may be misleading. In relation to expenditure of resources (human and material), its planning, management and control there is nothing in the private sector comparable with the character and functions of the Treasury and the Civil Service Department. The civil service is not the executive arm of the Treasury but of Government as a whole, operating through Ministers in charge of and responsible for their departments to Parliament. Nor is the Treasury comparable with a board of directors which requires the presence of a powerful character looking after personnel and management. The nearest analogy here is the Cabinet itself, where final decisions on public spending and the Civil Service must be taken.

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5. The Treasury has vital coordinating and supervisory functions in relation to the public programmes administered by Departments and so has the Civil Service Department in relation to the organisation and management of civil service staffs. These two sets of functions have become so elaborated and complicated over time that a high degree of specialisation as between them has inevitably taken place. I do not believe that it would be conducive to efficiency to try once more (as before 1962) to brigade control over expenditure with establishment work in single individuals whether heads of divisions or persons of higher or lower rank. To attempt to bring the existing divisions in both Departments together in formal groupings of divisions of comparable—or near comparable—scope would not improve performance in the management of the Civil Service, and would almost certainly impair it.

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6. But while I would be against complete re-integration of the kind which has been advocated I believe large changes could and should be made in organising relations between the two departments. Though they have specialised functions to perform there is considerable overlap of responsibilities eg on pay policy, the devising of management and information systems and in many other fields. We should, therefore, look to a widening and deepening of collaboration on a scale never before attempted. The principal features which I believe should be introduced, and as soon as possible, are these:—

- (i) The two departments must be housed in the same building. This is essential.
- (ii) Maximum propinquity should be encouraged at all levels. The two permanent secretaries should have adjacent rooms with an unlocked door between them! So far as possible there should be similar arrangements for less senior people.



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- (iii) There should be a common establishment division (as for the Departments of the Environment and of Transport).
  - (iv) Cross-postings between the two departments should be frequent. A Treasury official should expect to serve at least one term in the CSD and vice versa (perhaps in this case more than one term).
  - (v) Conscious and determined efforts must be made to develop contacts between individuals concerned with similar areas of responsibility. Thus heads of CSD divisions concerned with particular departments, or groups of departments, should maintain close contact with Treasury heads of divisions operating in the same field. There should be frequent attendance at each other's meetings and junior staff should be encouraged to forge the same links.
6. At the apex of the system at Ministerial level the Minister in charge of the Civil Service should regard his natural link as being with the Chief Secretary to the Treasury. Joint submissions to the Cabinet should be made whenever possible.
7. I believe that a vigorous programme on these lines would produce all the advantages claimed for re-integration; avoid the major costs (and risks) of such re-integration, and prove of immense value to both departments. The CSD would be re-invigorated; the Treasury would gain an insight into the problems of management and organisation of the Civil Service of a depth and quality it has never achieved before.

21 November 1980



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## APPENDIX 3

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## Letter to the Times from Lord Armstrong, 8 July 1980

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Sir, Your report (July 3) of the proceedings of Mr Robert Sheldon's sub-committee on the future of the Civil Service Department tells us that the senior civil servants who appeared before it expressed their entire willingness to carry out whatever changes the Prime Minister might decide.

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This is, of course, an entirely proper attitude, but it would be wrong to assume from it that there are no administrative reasons for preferring one course of action to another. There are, in fact, a number of very serious points to be considered; and it is not possible for a reader of your columns to know whether or not they have been mentioned to the committee.

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The first thing to be said is that this move, by itself, could not possibly effect any reduction in Civil Service manpower. It may be that the numbers in the CSD should be reduced, but this move by itself would not do it.

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Secondly, it will be remembered that at different times in the past the Head of the Treasury and the Secretary of the Cabinet have been responsible, in addition to their duties, for the Civil Service. The historic pattern was for the Treasury to manage the Civil Service; this culminated in the triumph of Sir Warren Fisher as the first Head of the Treasury to be designated Head of the Civil Service. By the 1950s, when Sir Edward Bridges held that post, it was manifest to successive Chancellors that the double job had become too much for one man. So, when Sir Edward Bridges retired in 1956, Sir Norman Brook combined his secretaryship of the Cabinet with headship of the Home Civil Service and joint permanent secretaryship of the Treasury. It is no disservice to Sir Norman Brook's memory to record that he himself acknowledged that the task was beyond him. His duties of constant attendance on the Prime Minister, and close attention to every shift in the political kaleidoscope, meant that time and again he was unable to give the personal attention he should have done to the affairs of the Civil Service. So in 1962 another plan was introduced, with two joint permanent secretaries—one who was in charge of the Civil Service work of the Treasury, and who was called Head of the Home Civil Service, and the other who was in charge of the economic and financial side.

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Though all these changes I was myself at the Treasury, on the economic and financial side, and I came to the conclusion that none of them was satisfactory. There are several reasons for this.

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First, the management of the Civil Service inevitably brings with it a number of questions that concern not the Chancellor of the Exchequer but the Prime Minister. These are the appointment of permanent secretaries and deputy secretaries in all departments, changes in the machinery of government and the preparation of the Prime Minister's recommendations to the Queen for Honours. Of these, the last is obviously a special matter which could be made the duty of any senior public servant who had available the not insubstantial amount of time necessary for the task. The other two, however, are very closely linked with the normal duties of the CSD—machinery of government, because it is closely connected with the management services and organisation and methods work of the department, and top appointments, because it is closely connected with the department's work on middle-range appointments, especially the handling of "fliers" and appointments to under-secretary. If one man is to be responsible on these matters to the Prime Minister, while working on other Civil Service matters to the Chancellor, he falls into the well-known trap of serving two masters. In practice, he tends to turn his face towards the Prime Minister; the Chancellor senses this and resents it. From the Chancellor's point of view Civil Service work is inevitably a minor excrescence on his major preoccupation of framing and carrying out economic and financial policy. Time and again I saw some Civil Service crisis suddenly obtrude on the Chancellor, who was himself coping with urgent financial matters which, inevitably, seemed more insistent and more important. The result was that he turned to Civil Service matters with reluctance, scrambling through the meetings with the help of a brief, and left people feeling that his mind was on other things.

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Another most important matter concerns the selection of people to work on Civil Service questions. Young people come in to the department expecting to work on financial and economic matters—but the practice was to require people to work on both sides. A young



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man or woman with a background in economics would be dismayed to be told that the time had come "to do your stint on establishment" which was the way it was described in the old days. It was popularly regarded as equivalent to the salt mines or the galleys, and the quality of the work, in spite of many heroic efforts, suffered accordingly.

Certainly for my part, I found it extremely irritating to be in charge of the Treasury financial and economic side—which is what most ordinary people think of as the Treasury—and yet not to be in control of my own staff, since every move had to be agreed with my opposite number on the pay and management side. Although Sir Laurence Helsby was the soul of tact and friendliness, the fact remained that as Head of the Civil Service he could outgun me; and he frequently did.

It was for reasons such as these that the Fulton committee recommended and the Government accepted, that the work of managing the Civil Service was of sufficient importance to be done by a separate department, brigaded neither with the Cabinet Office nor the Treasury, but coming directly under the Prime Minister with the appropriate ministerial assistance. It is my submission that these considerations still hold good.

Yours faithfully,  
ARMSTRONG OF SANDERSTEAD  
Chairman,  
Midland Bank, Limited  
Poultry, EC2.



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APPENDIX 4

342 Extract from letter to the Clerk to the Committee from the Civil Service Department

343 Civil Service Department  
344 Whitehall  
345 London SW1A 2AZ

346 I am replying to your letter of 13 November ...

347 You also asked why the terms of reference given to the study team did not cover some  
348 of the possible options that have been mentioned to the Select Committee for the  
349 organisation of the functions now discharged by the Treasury and the Civil Service  
350 Department. I have been asked to say that the terms of reference for the team were related  
351 to the specific questions which the Prime Minister wished to have studied.

352 R D J Wright

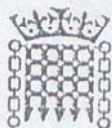
353 20 November 1980

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RAY WHITNEY, O.B.E., M.P.



HOUSE OF COMMONS  
LONDON SW1A 0AA

9th December 1980

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,  
10, Downing Street,  
London SW1.

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Dear Prime Minister,

Could you spare me ten minutes to have a word about Whitehall mechanisms?

I am sure the machine could be more responsive and in The Times of 6th October suggested this might be achieved by a Department of the Prime Minister and Cabinet. Ken Berrill spoke on similar lines at London University on 4th December.

After further examination, I now believe that good results could be obtained by a relatively simple reorganisation at the Centre without the problems inevitable in the creation of a new department. A suitably strengthened Cabinet Office/C.P.R.S., to which might be added the essential policy functions of the C.S.D., could provide the answer and no change of name need be involved. (The executive responsibilities of the C.S.D. which have to be retained could be brigaded with the Civil Service Commissioners.)

With the co-operation of Hugh Thomas and Max Beloff, I propose to organise a conference to discuss these possibilities but before going much further, I would be very grateful for the opportunity to discuss them briefly with you.

Yours ever,

Ray

c.c. Ian Gow, Esq., M.P.



Gov. MAEN

cc: Principal Private Secretary  
 PS/Chief Secretary  
 PS/Financial Secretary  
 Sir Douglas Wass  
 Sir Anthony Rawlinson  
 Mr Burns  
 Mr Ryrie  
 Sir Kenneth Couzens  
 Mr Middleton  
 Mr Bridgeman  
 Mr F E R Butler  
 Mrs Gilmore  
 Mr Folger  
 Mr Ridley  
 Mr Lankester (No 10) ✓  
 PS/Sir Ian Bancroft (CSD)

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## TREASURY AND CIVIL SERVICE COMMITTEE

I understand from Mr Hubback that the TCSC hope to publish on 18 December a short report on the economy. This will probably focus on last week's announcements and the developments leading up to them, and may contain a certain amount of updating of the Committee's Second Report of 30 April. It will not, so Mr Hubback thinks, deal at length with monetary policy which will be the subject of their separate study. 18 December is the target date for publication. It might slip, but they are determined to get something out before Christmas.

X/ 2. The Committee also hope to publish on Thursday 11 December their report on the CSD/Treasury issue. Again, this could slip, but they will publish something before Christmas.

Ju

J B UNWIN

3 December 1980



PART 2 ends:-

Priestley to MAP 28.11.80

PART 3 begins:-

Unwin (HMT) NFR 3.12.80