

41

Confidential filing

Management Consultants Association
(MCA). Reports into Government
Departments.

GOVERNMENT

MACHINERY

NOVEMBER 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
11.11.81							
25.2.82							
1.3.82							
10.3.82							
16.3.82							
22.3.82							
23.3.82							
25.10.85							
29.3.82							

PREM 19/773



MANAGEMENT
CONSULTANTS
ASSOCIATION

LIMITED (BY GUARANTEE)

Registered No. 772318

23-24 CROMWELL PLACE LONDON SW7 2LG : TELEPHONE 01-584 7283

WV 2/3
Gaut...

CF/RS?

The Rt.Hon. Margaret Thatcher MP
10 Downing Street
London SW1

March 29, 1982

R3073

Dear Prime Minister,

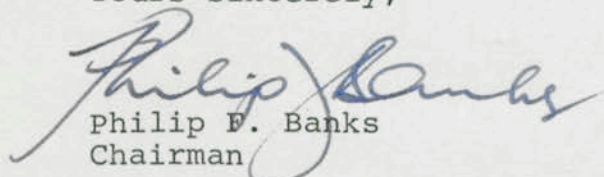
Thank you for your communication of 23rd March, and the expression of appreciation to my colleagues for our presentation.

We were most grateful to you for the time given and the interest displayed on 16th March. As you have noted, there has been some subsequent interest displayed by your officials. A meeting has now been initiated by the Treasury and I will be meeting Sir Anthony Rawlinson. As we understand the objectives of this meeting, it is to examine the concerns noted in the presentation and to review our suggested plan for action. We look forward to this meeting and to the opportunity for proceeding in a speedy and co-ordinated way.

I do assure you that MCA does desire to help, and that highly appropriate people are available to assist with the creation of momentum and the faster achievement of really durable results.

My sincere good wishes.

Yours sincerely,


Philip F. Banks
Chairman



Govt. Mach. Juf^o

c. 60

(Priestley, Cassels,
wright)

HMT (Lawhson,
Carter, Mathews)

cbh

10 DOWNING STREET

From the Private Secretary

23 March 1982

The Prime Minister was much interested in the presentation which you and your colleagues gave her, other Ministers and senior officials on 16 March, and she has asked me to thank you on her behalf; she would be grateful if you would also convey her thanks to your colleagues.

I understand that officials are already in touch with various members of your team to follow up some of the points which arose in the course of discussion.

W. F. S. RICKETT

Philip F. Banks, Esq.

9

Ref. A07882

MR. PRIESTLEY

cc Sir Anthony Rawlinson
Mr. Cassels

Management Consultants Association

Thank you for your minute of 22nd March.

2. I think that it would be as well for the Prime Minister to write, without waiting for the MCA to write to her.
3. But two comments on the draft:
 - (a) I think that the last sentence of the first paragraph should be omitted, in case the MCA read too much into it.
 - (b) I understand that Sir Anthony Rawlinson is not the only person in touch with the MCA; the second paragraph ought to be generalised.
4. I therefore suggest a revised draft on the lines of the attached.

REA

ROBERT ARMSTRONG

22nd March, 1982

Mr. Rickett

Re type w/m 23/3

" File

I sent you yesterday a blind copy of my minute to Sir Robert Armstrong on this subject. Here is the draft which he would prefer, and which I suggest that you issue soon.

GP

23.iii.82

DRAFT LETTER

Philip F Banks Esq
Chairman
Management Consultants Association
23-24 Cromwell Place
London SW7

Blind copies: T F Mathews, Treasury
J Buckley, MPO
A A Carter, Treasury
Sir Robert Armstrong KCB CVO
Sir Anthony Rawlinson KCB
J S Cassels CB
C Priestley

The Prime Minister was much interested in the presentation which you and your colleagues gave her, other Ministers and senior officials on 16 March, and she has asked me to thank you on her behalf; she would be grateful if you would also convey her thanks to your colleagues.

I understand that officials are already in touch with various members of your team to follow up some of the points which arose in the course of discussion.

W. F. S. Rickett

CONFIDENTIAL

Office of the Director
Federal Bureau of Investigation
Washington, D.C.

Dear Sir:
Reference is made to your letter of the 12th instant, in which you advised that you had received a copy of the report of the FBI on the activities of the [redacted] in the [redacted] area.

The information contained in the report is being reviewed and will be used as a basis for the [redacted] of the [redacted] in the [redacted] area.

Very truly yours,
Director

11 12 1
9 8 7 6 5 4 3 2

2 3 MAR 1982

[Blind copy: Mr Rickett]

cc Sir A Rawlinson
Mr Cassels

Sir Robert Armstrong

pn
Cent Mach
Wh 22/3

MANAGEMENT CONSULTANTS ASSOCIATION

We spoke last week. I now attach a possible draft "thank you" letter to round off at the Prime Minister's end.

2. However, the MCA Quartet (Brocks dissenting) are also quite keen to say "thank you" to the PM. You may think it preferable to see whether they do write, but my own feeling is that we ought to take the initiative.

3. May I know your views by close of play tomorrow, please?

CP

C PRIESTLEY
22 March 1982

Enc: Draft letter

DRAFT OF 22 MARCH 1982

Philip F Banks Esq
Chairman
Management Consultants Association
23-24 Cromwell Place
London SW7

The Prime Minister was very interested in the presentation which you and your colleagues gave her, other Ministers and senior officials on 16 March. She has asked me to thank you on her behalf and to convey her thanks to Mr Brocks, Mr Hancock and Mr Watts. The Prime Minister is also conscious of the great assistance which Ministers and their departments may obtain through the work of management consultants.

Some of the suggestions which you and your colleagues helpfully made will be taken up with you in informal discussion. I understand that Sir Anthony Rawlinson is already in touch with you for this purpose.

W F S Rickett

[Blind copies: T F Mathews Esq HMT
J Buckley Esq MPO
A A Carter Esq HMT
Sir R Armstrong
Sir A Rawlinson
J S Cassels Esq
C Priestley Esq]

2 MAR 1962



SUBJECT



file

CC: CDK
HMT
CO

Gore Mack B

Sir A. Rawlinson
Mr. Cassels
Mr. Wilding
Clive Priestley

10 DOWNING STREET

From the Private Secretary

17 March 1982

Lee Mackat etc

Dear Terry

MANAGEMENT CONSULTANTS ASSOCIATION

The Prime Minister held a meeting yesterday afternoon at 1545 with the following representatives of the Management Consultants Association: Mr. Philip Banks, Chairman of the MCA Council, and Managing Director of AT Kearney Ltd.; Mr. Ian Hancock, Managing Director of Coopers & Lybrand Associates; Mr. Bernard Brocks, Executive Director of Price Waterhouse Associates; and Mr. Vincent Watts, a partner in Arthur Andersen. The Chief Secretary, the Chancellor of the Duchy of Lancaster, Mr. Hayhoe, Sir Robert Armstrong, Sir Anthony Rawlinson, Mr. Cassels, Mr. Wilding and Mr. Priestley were also present.

The representatives of the MCA presented their case, as set out in their letter of 15 February to the Prime Minister, and summarised in the attached document, which they circulated to the meeting. They said that they felt that there was now an opportunity to improve managerial effectiveness in Government. Senior civil servants now accepted the principles which the MCA considered important: the clearer definition of managerial responsibilities and their greater delegation; the need for proper systems of management and financial information to help managers carry out these responsibilities; and greater incentives to managers to devote more time to managing staff and resources. However, the MCA were concerned that departments were making slow progress in improving their management structure and managing information systems. The studies of financial control in MAFF and the Department of Industry, and the scrutinies of the control of staff and non-staff running costs in the Department of the Environment were encouraging; most of their recommendations had been accepted; but their implementation was taking a long time. There were a number of institutional barriers to change in the Civil Service. Management responsibilities in the Service were not always clearly defined; the MCA were for instance aware of senior officials who had no job description. The tendency to set up central divisions dealing with finance and personnel management not only encouraged line managers to take no interest in these functions, it also made it very difficult to delegate these responsibilities to line managers. There was too little emphasis in job evaluation and promotion policy on managerial excellence, and therefore little incentive for civil servants to develop their managerial skills.

/ The resources

PAK

The resources in terms of staff and skills devoted to changing the existing management structure of the Service, and its management information systems, were inadequate. Finally, the MCA felt that there was too little co-ordination and leadership by the central departments on tackling this problem. They proposed that a "central directing group" of Permanent Secretaries should be set up. This should consist of a small number of Permanent Secretaries from the central departments and from one or two large spending departments. This group should establish the general principles which departments should follow; should provide the leadership necessary to get departments to take action; and should monitor progress. It would be serviced by an executive group, which should include representatives with financial, accounting, and computer skills, and should perhaps include a number of outside representatives. Each department should set up its own "task force". These would be responsible for designing solutions tailored to the department's needs, and would work within set timetables (18 to 32 months from planning to implementation). Where Service-wide issues arose, such as the relationship between management accounting and vote accounting, these would be tackled by the central directing group.

In discussion, the Chief Secretary said that there was a lot of common ground between the Government and the MCA; Ministers were all agreed on the need to set managers clear objectives, to provide them with sufficient information to help them meet those objectives, to delegate responsibility as far as possible, and to train managers in the necessary financial and other skills. The Government recognised that there was a need for a systematic campaign by the central departments. The Treasury would shortly be issuing a paper to all departments setting this in hand. It would stress the importance of proper management accounting systems. It would give detailed instructions on how to implement such systems. It would not just be exhortation. It would call on departments to draw up programmes of work, and to discuss them with the Treasury before the end of 1982. The aim would not be to impose a single system on departments. But the Treasury would ensure that the systems proposed by departments met certain minimum criteria. It would be necessary to make some changes in vote arrangements, but this was not a central issue. The whole campaign would take time. The resources and expertise that the Civil Service could devote to the task were not inexhaustible. But the Government did have a general campaign under way, and its purpose was to improve the management structure of the Civil Service and its management information systems.

Lady Young went on to say that the MPO were co-ordinating three different initiatives in this field; a series of resource control reviews in large executive units, such as the prison service, the PSA, the coastguard, the Royal Mint, etc.; a similar series of scrutinies of the control of running costs in six departments; and a series of scrutinies of personnel management in nine departments. The MPO would clearly be co-operating with the Treasury on the long-term programme described by the

/ Chief Secretary

Chief Secretary. The recruitment and training of staff with the necessary skills would clearly be important. The MPO had set in hand several schemes for training staff in financial management and computer systems. One objective was to double the number of accountants within the Service.

After some further discussion, Mr. Banks said that the MCA acknowledged that the present Government was doing more than any of its predecessors to improve managerial effectiveness in the Civil Service. Members of the Association had been involved in a number of one-off studies in some twenty departments. The Association's concern was simply that there seemed to be an urgent need for a uniform approach with more central leadership. The Association felt they could contribute something useful to such a campaign and that was why they had put their proposals to the Prime Minister.

In conclusion, there was some discussion of the need to publicise the action that the Government was taking to improve managerial effectiveness, and management accounting systems, within the Civil Service. It was agreed that the Government's response to the forthcoming report from the Treasury and Civil Service Select Committee might prove a suitable vehicle for this.

I am copying this letter to Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Adrian Carter (HM Treasury), David Wright (Cabinet Office) and to the offices of Sir Anthony Rawlinson, Mr. Cassels, Mr. Wilding and to Clive Priestley.

Yours ever
Willie Rickett

Terry Mathews, Esq.,
HM Treasury.



MANAGEMENT
CONSULTANTS
ASSOCIATION

IMPROVING MANAGERIAL EFFECTIVENESS

IN GOVERNMENT

16 MARCH 1982

IMPROVING MANAGERIAL EFFECTIVENESS IN GOVERNMENT

INTRODUCTION

P.F. Banks

- . MCA REPRESENTATIVES
- . MCA'S EXPERIENCE
- . OPPORTUNITY
- . THEME
- . AGENDA

WHY ARE WE CONCERNED?

B.J. Brocks

- . NEED FOR CHANGE WIDELY ACCEPTED
- . AGREEMENT ON ELEMENTS OF IMPROVED RESOURCE MANAGEMENT
- . PLENTY OF ACTIVITY
- . TOO MUCH EMPHASIS ON TOOLS
- . LITTLE REAL CHANGE IN THE PAST
- . WILL CURRENT INITIATIVES BE ANY MORE FRUITFUL?

WHAT ARE THE BARRIERS TO CHANGE?

V.C. Watts

- . UNCLEAR MANAGEMENT STRUCTURE
- . "VALUE FOR MONEY" NOT DELEGATED
- . INFORMATION SYSTEMS NOT IN PLACE
- . INADEQUATE INCENTIVES TO MANAGE
- . "IT WON'T WORK HERE"
- . INADEQUATE RESOURCES DEVOTED TO CHANGE
- . LACK OF CO-ORDINATION

Accountancy skills -

WHAT ACTIONS ARE NEEDED?

I. Hancock

- . CENTRALLY - PROVIDE LEADERSHIP
 - ESTABLISH GENERAL PRINCIPLES
 - COVER SERVICE-WIDE ISSUES
 - MONITOR PROGRESS
- . WITHIN INDIVIDUAL DEPARTMENTS

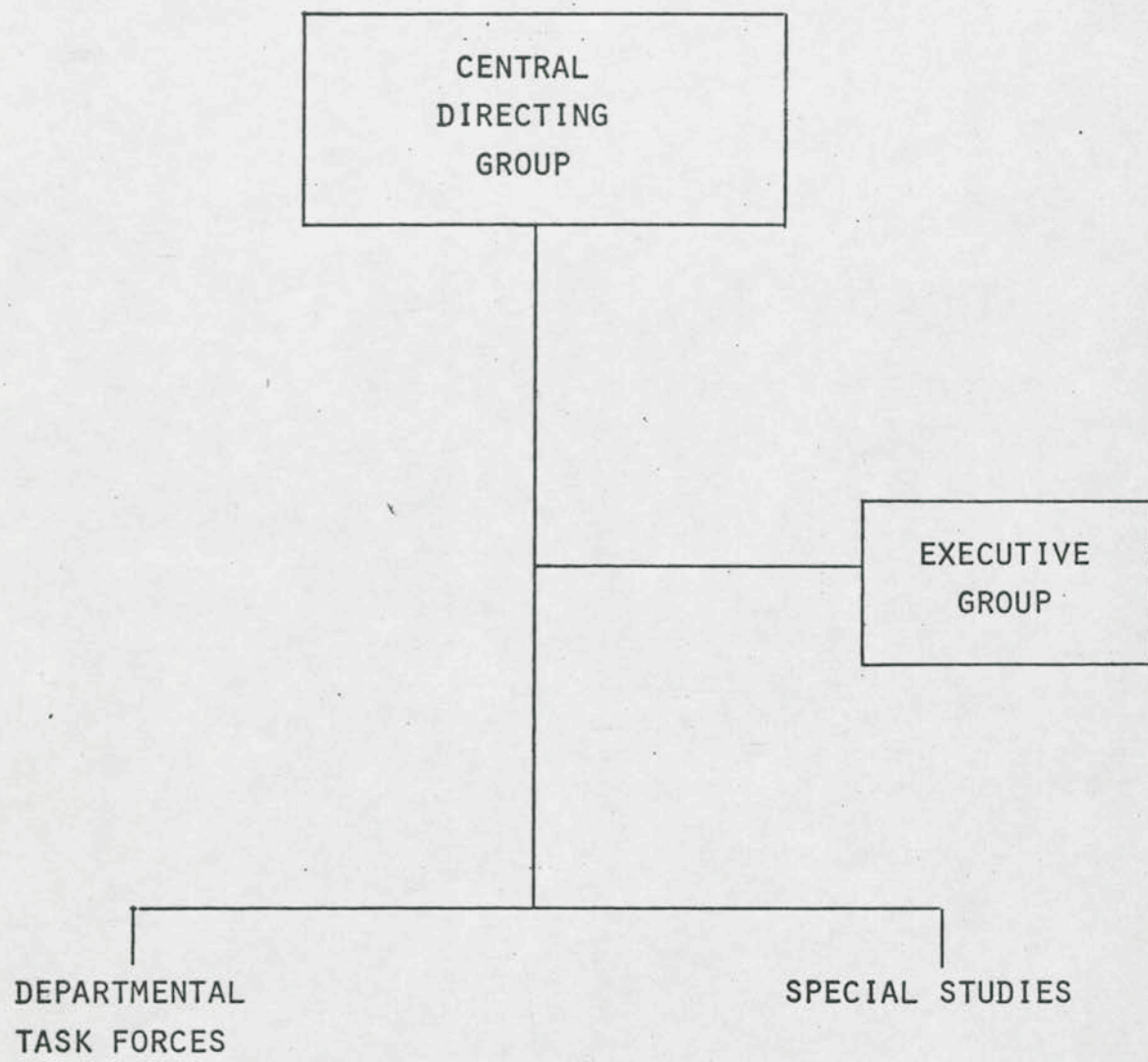
*Central direction
group.*

ACTION PROGRAMME SHOULD INVOLVE

- . CENTRAL DIRECTING GROUP - WITH EXECUTIVE SUPPORT
- . DEPARTMENTAL TASK FORCES
- . SPECIAL STUDIES

POSSIBLE TIME-SCALES:-

- . INITIAL PLANNING 2 MONTHS
- . DEPARTMENTAL AND SPECIAL STUDIES 4 - 6 MONTHS
- . IMPLEMENTATION OF SIGNIFICANT CHANGES 12 - 24 MONTHS



Mr RICKETT



MEETING WITH MANAGEMENT CONSULTANTS ASSOCIATION, 16 MARCH

I attach a brief for the Prime Minister. It seems rather long for such a short meeting (45 minutes), for which apologies.

2. I am copying this minute and the brief, but not the supporting material to Mr Mathews (Chief Secretary's office), Mr Buckley (Chancellor of the Duchy's office), Mr Carter (Mr Hayhoe's office), Sir Robert Armstrong, Sir Anthony Rawlinson, Mr Cassels and Mr Wilding.

3. Sir Derek Rayner cannot be present, but his views are available (his letter to you of 1 March).

SP

C PRIESTLEY
15 March 1982

Enc: Brief

pm
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Banks
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Im

MCA

The PM held a meeting with me at 1545 with the following reports of the meeting: PWB ; ;

Re C

CS LY BH ATA AR JL RW CP
Banks Hancock Brooks and Walts

PRIME MINISTER

MEETING WITH REPRESENTATIVES OF THE MANAGEMENT CONSULTANTS ASSOCIATION, 3.45 PM, TUESDAY 16 MARCH , 10 DOWNING STREET

PURPOSE OF THE MEETING

1. This is in short:
 - (1) to update you and your colleagues with recent experience of MCA member firms in Whitehall departments; and
 - (2) to share thoughts on how to get the practical changes to which the Government's as well as the MCA's analysis points.

ATTENDANCE

2. The MCA's representatives are as follows. (The list gives examples of the recent assignment work undertaken by their firms in Whitehall.)

<u>Name</u>	<u>MCA office/firm & office</u>	<u>Recent assignment work</u>
Mr Philip <u>BANKS</u>	Chairman, MCA Council; Managing Director, A T Kearney	Department of Industry and Monopolies and Mergers Commission
Mr Ian <u>HANCOCK</u>	Member, MCA Council; Managing Director, Coopers & Lybrand Associates	Ministry of Agriculture: Financial Control Systems (see Mr Peter Walker's letter of 9 March).* Department of the Environment: trading accounts in Directorate of Ancient Monuments and Historic Buildings, cost cutting in Ordnance Survey. Department of Transport: aspects of Heavy Goods and Public Service Vehicle Testing.

<u>Name</u>	<u>MCA office/firm & office</u>	<u>Recent assignment work</u>
Mr Bernard <u>BROCKS</u>	Member, MCA Public Sector Working Party; Executive Director, Price Waterhouse Associates	Department of the Environment: <u>Regional Water Authority</u> charges (with C&L and Arthur Andersen) Department of Health and Social Security: <u>Development of a Budgetary Control System.</u>
Mr Vincent <u>WATTS</u>	Member, MCA Public Sector Working Party; Partner, Arthur Andersen	<u>Ministry of Defence:</u> participation (by Mr Watts) in study of cash control and financial accountability. <u>Department of Employment:</u> Computer manpower.

* One of two studies conducted at your request in 1981, the other being by Touche Ross in the Department of Industry.

3. All four of these gentlemen are rather quiet characters. All will be somewhat nervous, Mr Banks perhaps most of all. Messrs Hancock and Watts are probably the ablest. Messrs Brocks and Watts have the most recent personal experience of Whitehall, Mr Brocks in DOE and Mr Watts in last year's seminal studies by a team in MOD of cash control and financial accoutability.

4. You will be supported by:

HM Treasury: Chief Secretary and Minister of State (Commons), Sir Anthony Rawlinson and Mr Richard Wilding

MPO: Chancellor of the Duchy of Lancaster, Sir Robert Armstrong and Mr John Cassels

DOCUMENTATION AND BACKGROUND

5. I have attached relevant papers (all flagged). Some you may want to read again, while others are for optional reference on the footing that your colleagues or their officials can deal with points raised. SEE READING LIST, (flagged).

6. The MCA letter and paper argue that Ministers must take "clear and unambiguous policy decisions", to overcome "established practices and attitudes" which impede progress towards lasting reforms. They welcome signs of change but argue that fundamental reform could fail if the effort concentrated too much on methodology as against ensuring that people have allotted to them responsibility and accountability, with clear criteria for acceptable performance.

7. Other "people" points are:

- (1) The lack of trained and experienced financial managers to direct and co-ordinate the finance function within departments (para. 3).
- (2) The difficulty of getting and keeping good accountants (para. 13) which deprives the government of the expertise to design adequate management accounting systems and interpret their results. There are similar problems about ADP staff (paras. 14 - 16).
- (3) "High flyers" are almost exclusively routed through "policy" rather than "management" (para. 17).

8. The MCA's broadly drawn prescription for putting things right is summarised in para. 18 of their paper. It is about methodology on the one hand and people on the other:

<u>Methodology</u>	<u>People</u>
<p>18(1) Re-organise responsibility by <u>delegation</u> to line management. Get senior civil servants to use <u>management accounts</u>.</p>	<p>18(3) Recruit <u>professional accountants</u>/train civil servants to use modern accounting systems so as to ensure proper design/execution of the system and interpretation of the results.</p>
<p>18(2) Place accounting responsibility well down the line (the "<u>cost centre</u>" approach as in DOE).</p>	<p>18(4) Similarly employ enough <u>ADP</u> staff to design/operate effective computer systems and apply new technology to office administration.</p>


9. There is a substantial harmony between the MCA's paper and both "classic good management practice" and "the various priorities that have been defined as the lasting reforms that are necessary to achieve effective systems of management in Government" (Sir Derek Rayner's letter of 1 March). Indeed, there is unprecedented activity in and by Government to reform financial management, whether arising out of central or departmental initiatives. For example:

- The roles of the central departments, "spending" departments, Accounting Officers, Principal Finance and Establishments Officers have all been re-defined, especially with regard to controlling public expenditure: this is in line with the "definition" argument.
- The centre itself has been re-organised so as to consolidate control over expenditure.
- The Treasury has taken an initiative - highly relevant to the MCA's paper - to establish

management accounting as the informing principle in the organisation of departments management.

- Departments themselves are already going down this road, eg DOE (MINIS and Joubert), MAFF (post-Coopers & Lybrand), MOD (post-Reeves).
- Internal audit is being strengthened and the Government's accountants are being re-organised.
- The training of financial managers is being much extended.


10. This year will see all the initiatives in hand brought together in a long-term strategy for reform. The "efficiency strategy" already agreed for 1982 - combining the scrutiny programme and three Government-wide reviews, of the management of large operations (eg the Prison Service, RAF Support Command), of running costs and of personnel work - is looking for practical and substantial contributions to change as some of the first steps in that direction.



HANDLING AND SEQUENCE OF EVENTS

Introduction

11. The MCA's diagnosis is much the same as yours and that of the central Ministers. So the need is (in Sir Derek Rayner's words) "not to identify what is wrong, but to harness the necessary resources to help bring about the desired reforms".



12. You might begin by thanking the MCA for their paper; by introducing your colleagues, and suggesting that Mr Banks should introduce his in a moment. You might then say that when the MCA have spoken to their paper, the Chief Secretary and the Chancellor of the Duchy can update them with developments in Whitehall (see below), after which there can be general discussion. You might also say that the purpose of the meeting

should be to help identify the PRACTICAL ACTIONS necessary to get the changes the MCA and the Government want.

MCA's comments on their paper

14. The MCA team would like to speak briefly as follows, if you agree:

- (1) Mr Banks: What is the MCA? Origins of the paper.
- (2) Mr Brocks: Why do we see the needs set out in the paper?
- (3) Mr Watts: What are the barriers to change?
- (4) Mr Hancock: What do we need to do first to get change?

15. The MCA will probably be looking for a piece of the action, a part in running/guiding the Government's "systematic campaign" (see below) and assignments in individual departments. This will no doubt figure in their opening statement, perhaps with some idea of cost (see below).

Discussion

16. In opening discussion, you might say that the Government is strongly committed to reform but that this cannot be done at large. It is a matter of addressing particular things, both methodology and people and deciding on the action needed to bring about practical changes. The theme of discussion might be this: What are the most important things to do now, in relation to both systems and organisation of financial management and financial managers and their specialist helpers? What would make the greatest difference fastest? How can it be achieved?

17. The Chief Secretary can describe the Treasury's proposal for a systematic campaign on management accounting (his minute to you of 5 March refers). This covers 18(1) and (2) of the MCA memorandum, ie delegation of responsibility and identification of cost centres.

18. The Chancellor of the Duchy can describe the "efficiency strategy" for 1982. Both she and the Chief Secretary can take questions on accountants and ADP, where the Treasury has responsibilities as to substance (what these staff do) and pay, the MPO as to personnel management, including recruitment and training.

19. On the involvement of the MCA and individual MCA and other consultancy firms, you might like to have these points in mind:

- (1) The MCA would almost certainly like to contribute in some way to the running/guidance of the Treasury campaign on management accounting. They may mention a "steering group" or something of that kind. You need to do little more than take delivery of this suggestion if made (on which the Chief Secretary may have views). Some sort of "steering" will be needed, but the best way of consulting the MCA might be to get them to nominate a panel of people who might be consulted ad hoc.
- (2) The MCA would have an obvious interest in departmental assignment work. This is a matter for departmental Ministers to decide on. Experience is a bit mixed. Coopers & Lybrand and Arthur Andersen have done a good job in MAFF and MOD, Touche Ross less well in DOI. Generally, consultants are better at diagnosis than at action (see Sir Derek Rayner's letter), although this is by no means an absolute rule.

- (3) What is certain is that management consultants are relatively expensive. The C&L assignment in MAFF cost £165,000, the Touche Ross assignment in DOI £200,000 - that is the price of 23 Rayner scrutinies. The C&L rates for example compare unfavourably with the rates for an Assistant Secretary or Principal, the customary grades of scrutiny officers:

<u>C&L</u>	<u>£</u>	<u>Civil Service</u>	<u>£</u>
Director	70 per hour	AS*	33 per hour
Partner	60 per hour	P	19.25 per hour
Supervising Consultant	375 per day	AS*	239.15 per day
		P	138.55 per day

* Including personal secretary

CONCLUSION

20. You might close the meeting by:
- (1) Thanking the MCA for their paper and their observations.
 - (2) Saying that you are encouraged to find so much commonality in their thinking and that of your colleagues and indicating your personal determination to press on with the cause of good management.
 - (3) Saying (if appropriate) that you have noted the MCA's interest in taking part in a "steering group" to put their/the Treasury's ideas into

effect. That will be taken seriously, although the arrangements for "steering" have yet to be finalised.

- (4) Saying (if appropriate) that you have also noted their interest in departmental assignments. That will be a matter for individual Ministers to decide on: you would be surprised if there was no place for management consultants. You attach particular importance to getting ACTION which would mean something different from the classic management consultancy assignment.

CP

C PRIESTLEY
15 March 1982

Encs: As indicated

READING LIST

For looking at again if there is time

- Mr Banks's letter and paper, 15 February
- Sir Derek Rayner's letter to Mr Rickett, 1 March
- The Chief Secretary's submission on the "management accounting" initiative, 5 March
- The Minister of Agriculture's letter on the Coopers & Lybrand review of financial management in MAFF, 9 March.

(This accepts the criticism that MAFF's arrangements should be more directed to the optimum allocation of resources, the definition and attainment of clear objectives and the measurement of performance and a prescription - much in line with the MCA's paper - for the definition of responsibility, accountability, policy objectives, and performance indicators, with associated changes in management information and planning, estimating and audit procedures.)

- The Secretary of State for Industry's minute on the Touche Ross review of financial management in DOI, 12 March.

(This is more guarded about the consultants' prescription, which Mr Jenkin found to a degree insensitive to the nature of a Government department, bureaucratic and costly in implementation. But he is accepting proposals for the strengthening of the machinery for financial control and of internal audit.)

For optional reference (notes prepared by MPO)

- Accountants in the Civil Service
- Automatic Data Processing (ADP) staff in the Civil Service
- Financial management training.



Treasury Chambers, Parliament Street, SW1P 3AG

W F S Rickett Esq
10 Downing Street
London SW1A 2AL

15 March 1982

Dear Willie,

MEETING WITH THE MCA ON 16 MARCH

The penultimate paragraph of Sir Derek Rayner's letter of 1 March suggested that we provide you with information on the cost of using consultants over, say, the last three years.

... Such information as is available centrally is set out in the attached table. You should note that the consultancy studies included in this list cover a wide range of Government activity. They are by no means limited to financial planning and control systems. So it does not follow that all or any of this work can be given up in favour of temporary secondments as suggested in the final paragraph of Sir Derek's letter. But it is clearly a point to be taken into account when departments assess how they will implement the work outlined in the Chief Secretary's minute of 5 March.

The cost of the MAFF study by Coopers and Lybrand was £165,000, the Touche Ross study in DOI cost £236,000 (both figures inclusive of VAT).

I am sending copies of this letter and enclosure to the recipients of Sir Derek Rayner's letter.

*Yours sincerely
Terry Mathews*

T F MATHEWS
Private Secretary

EMPLOYMENT OF CONSULTANTS IN GOVERNMENT

MANAGEMENT CONSULTANCY ASSIGNMENTS

(Excluding computer consultancy and the employment of consultants to supplement departmental teams).

	<u>1979</u>	<u>1980</u>	<u>1981</u> (provisional)
Number of assignments:-			
MCA firms	12	18	16
Other	<u>23</u>	<u>22</u>	<u>11</u>
Total	<u>35</u>	<u>40</u>	<u>27</u>
Cost of assignments:-		£'000s	
MCA firms	301	693	898
Other	<u>464</u>	<u>607</u>	<u>208</u>
Total	<u>765</u>	<u>1,300</u>	<u>1,106</u>



25.11.1952
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PRIME MINISTER

TOUCHE ROSS & CO : REVIEW OF FINANCIAL CONTROL IN THE
DEPARTMENT OF INDUSTRY

You will recall that Touche Ross & Co were engaged to review the financial control arrangements in my Department. Since they presented their report I have been considering their findings, drawing particularly on the expert assistance of John Wakeham. I now enclose a copy of the report and set out below my main conclusions.

2 Although it was not fully satisfactory in all respects, on balance I am sure that the engagement was worthwhile, both for my Department and also in that it may well have brought out some points of more general application for the Service. In respect of my Department I accept the main conclusions of the report, namely that (i) there is a need for stronger central machinery for financial control (though this will need to be reconciled with the desirability of increasing the individual accountability of line managers); the Management Information System should be extended and developed both for the needs of central control and to assist line management; and (ii) the methods of the internal audit branch should be improved. Indeed, although the report does not bring this out at all clearly, these are all directions in which the Department was already moving.

RESTRICTED



3 The main disappointment of the report is that Touche Ross have clearly failed adequately to understand the substantial differences between the operations of a Government Department and those of a commercial company. In particular I believe that they have given quite insufficient recognition to the heart of the process of Government - the role of Ministers. All this has led them to make detailed recommendations on organisation and resource management which are not soundly based and which could prove unworkable or excessively bureaucratic if implemented in the detailed form prescribed. In these areas we shall need to adapt the underlying ideas in the most effective way.

4 On organisation, while we fully accept the need for a strong central finance function my Permanent Secretary (as Accounting Officer) and I do not believe that it follows that the role of the Principal Finance Officer should be separated from that of Principal Establishment Officer. It is a false analogy, and disregards the role and function of Ministers, to see the PFO as the equivalent of a Finance Director in a commercial company. Moreover we believe that, Wardale considerations apart (and the Touche Ross proposal would imply the creation of an additional Deputy Secretary post), there are positive strengths in the PFO/PEO combination in that it brings together the responsibility for both money and manpower. Thus, at least for the time being,



we would not propose to adopt the radical change proposed by Touche Ross but to take other steps to ensure that the Head of the Finance Division has adequate status and authority. In reshaping the Finance Division itself we shall certainly want to build on the philosophy enunciated by Touche Ross, though we may not want to adopt their precise formulations.

5 In principle I wholly welcome Touche Ross's proposals for the development of a Management Information System for the Department. However we should be clear that what is envisaged is a very major undertaking. Touche Ross have declined to estimate the possible costs of introducing and running the kind of system they have in mind, but an estimate of upwards of £10M over the next few years may well not be too wide of the mark. However, fairly substantial expenditure on computer replacement will be needed in any event during this period. Another concomitant of the proposal is the deployment of skilled ADP staff; and indeed the availability of this scarce resource may well prove an ultimate constraint. Thus before we embark on the development of the new system we shall need to study very thoroughly what our essential information requirements are (taking into account the needs of the central Departments) and then to form a view on the resources we are prepared to commit to fulfil them. I could certainly not contemplate expenditure in this area being at the expense of funds for the support of industry.



6 In response to the report I have set the following immediate action in hand:

(a) A high level Steering Group of officials has been set up to manage the implementation of the report. Because my Department provides Common Services to the Department of Trade, for example in the areas of financial administration, management information and internal audit, the Group includes a senior representative from that Department. At Ministerial level I shall of course continue to take a close interest personally, looking to John Wakeham to assist me in this.

(b) The Resource Management Group proposed in the report has been established with the functions and membership recommended.

(c) A Project Management Team has been established to prepare detailed proposals for the new Management Information System and to be responsible for their implementation. We plan to engage expert Consultants to assist with part of this work.



(d) On the development of responsibility cost centres we envisage three pilot studies later this year, and preparation for these is well in hand. These studies will help to show how far responsibility for the resources they control can be placed on the shoulders of individual line managers.

(e) To meet the Touche Ross criticisms of the arrangements for project control my Permanent Secretary has issued an instruction to staff reiterating the need to maintain good standards of documentation, and a study is in train on the question of consistency between and within the various selective assistance schemes. Copies of the relevant sections of the report have been sent to the Scottish and Welsh Departments since the Touche Ross enquiry embraced their administration of selective assistance also.

We have ruled out, at least for the time being, the suggested creation of the post of Case Appraisal and Monitoring Reviewer since any benefit to be derived from it would seem far outweighed by the additional bureaucracy and delay in the Department's dealings with industry that would almost certainly result.

RESTRICTED



6.

(f) Since the internal audit branch serves both my Department and the Department of Trade, a joint Audit Committee has been established covering both Departments, under the chairmanship of Mr K J Sharp. One of the first tasks of the Committee will be the consideration of the Touche Ross recommendations. Their proposals on the application of the concept of 'materiality' to internal audit have potentially far-reaching implications not only for my Department but for Whitehall as a whole, and we shall of course keep Treasury closely in touch.

7 I am copying this minute to Geoffrey Howe, to Peter Walker (since a broadly parallel study was carried out in his Department by Coopers and Lybrand), and to George Younger, John Biffen, Nick Edwards and Janet Young.

PJ

PJ

Department of Industry
12 March 1982

RESTRICTED

File

250

Handwritten initials

FRONT DOOR

The following will be attending a meeting with the Prime Minister at 1545 on Tuesday 16 March.

Chancellor of the Duchy of Lancaster
Chief Secretary + 1 official

Sir Robert Armstrong)
Mr. John Cassels) Cabinet Office
Mr. Clive Priestley)

Mr. Philip Banks)
Mr. Ian Hancock) Management
Mr. Bernard Brocks) Consultants
Mr. Vincent Watts) Association

Handwritten mark

12 March 1982



MANAGEMENT
CONSULTANTS
ASSOCIATION
LIMITED (BY GUARANTEE)

23-24 CROMWELL PLACE LONDON SW7 2LG : TELEPHONE 01-584 7283

Registered No. 772318

Miss Caroline Stephens,
10 Downing Street
London

March 10, 1982

Dear Miss Stephens,

As agreed, during our recent telephone conversation, I am writing to confirm the names of the MCA party that will be meeting the Prime Minister on Tuesday 16 March at 3.45 pm.

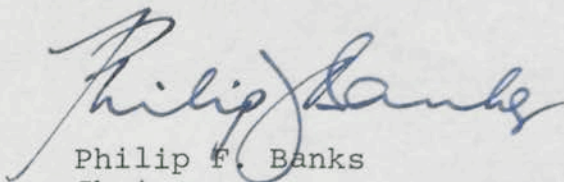
The names are:-

Philip F. Banks	Chairman MCA Council
Ian C.W. Hancock	Member of MCA Council
Bernard J. Brocks	Member of the MCA Public Sector Working Party
Vincent Watts	Member of the MCA Public Sector Working Party

On an accompanying sheet I have summarised very briefly some key facts regarding their company, position and recent central government experience.

Thank you for your assistance with our forthcoming meeting.

Yours sincerely,



Philip F. Banks
Chairman

Enc.
PFB:aoc

PHILIP F. BANKS

Managing Director
A.T. Kearney Limited

Kearney's recent consultancy assignments for Central Government Departments includes:-

Department of Industry and
Monopolies and Mergers Commission

IAN HANCOCK

Managing Director
Coopers & Lybrand Associates Limited

Coopers' recent consultancy assignments for Central Government Departments includes:-

Ministry of Agriculture Fisheries & Food
Central Policy Review Staff
Department of the Environment
Inland Revenue
Monopolies and Mergers Commission and
Department of Transport

BERNARD J. BROCKS

Executive Director
Price Waterhouse Associates

Price Waterhouse' recent consultancy assignments for Central Government Departments includes:-

Department of Environment
Department of Health & Social Security
Department of Transport
Foreign & Commonwealth Office
Manpower Services Commission
Home Office
H.M.S.O. and
Monopolies and Mergers Commission

Continued ...

VINCENT WATTS

Partner: Management Consultancy Division
Arthur Andersen Company

Arthur Andersen's recent consultancy assignments for Central Government Departments includes:-

The Treasury
Ministry of Defence
Department of Health & Social Security
Exchequer & Audit Department
Central Office of Information and
The Home Office

PFB:aoc
March 10, 1982
MCA

RECRUITMENT AND ORGANISATION OF ACCOUNTANTS

At present, some 1,050 qualified accountants in the Service, of whom 400 in specialised areas (Inland Revenue, Tax Inspectorate, Audit Services and the Insolvency Service).

The 380 in the Professional Accountant Class and the 270 in the Administration Group are to be brought together into an accountancy functional specialism on 1 July 1982. They will be associated with staff with a high level of accountancy expertise, although not a professional qualification. Have as a first step identified some 1,300 posts to be filled by these people, and an immediate need for about 100 more qualified people than we now have; expect these figures to increase in next few years, and to have doubled at least by 1992, by which year half or more will be held by qualified accountants. The Accountancy functional specialism will make it possible to manage careers of qualified and highly-experienced staff to best advantage, moving them onto general administrative work when desirable and enhancing career prospects. A Management Unit is being set up to co-ordinate career development.

Sources of qualified people:

at present recruitment - about 30 per annum

internal training - 50-75 per annum

planned recruitment - to be increased if possible (but we could not fill all our vacancies in 1984)

Internal training - to be doubled as soon as possible - target output of 100 per annum from 1987 rising quickly to 150 per annum (nb it takes 5 years to train an accountant).

EMPLOYMENT AND CAREER DEVELOPMENT OF ACCOUNTANTS

Firm commitment to increase number of professional accountants and enable them to have greater influence. About to get rid of the structural barriers inhibiting wider use of accountants in administration: on 1 July this year will set up accountancy functional specialism within the Administration Group. Will give enhanced career opportunities; able either to continue on specialised work or to move into generalist posts. Broader experience will improve prospects of rising to higher ranks. No longer a rigid distinction between accountants' work and generalists' work.

Recruitment of professionally qualified accountants with private sector experience will increase. In addition, training schemes will be significantly expanded.

Agree criticism in paragraph 13 of the Memorandum. Believe new measures will bring drastic improvement. Will continue to watch.

RECRUITMENT AND ORGANISATION OF ADP STAFF

There is an ADP functional specialism within the Administration Group comprising 6,800 people. In addition to fulfilling the basic needs of Government computing, the Service is always looking for ways to increase the efficiency of this Group and conducts an annual resource planning exercise to ensure that key posts in ADP are filled with people with the right degree of training and experience.

The functional specialism makes it possible for people who specialise in ADP in their earlier years to move into general administration later on. There are relatively few specifically ADP posts at Assistant Secretary level and above, but a background in ADP is of course valuable in many Service posts.

Staff are recruited into the Administration Group and normally trained within the Service. Most typically this involves some six-months initial intensive training to acquire programming and operational skills. Thereafter training is geared to more particular skill requirements such as systems analysis and design. Such training may be provided by manufacturers, departments or the Civil Service College and lead eventually to advanced courses in programming concepts and sponsored courses at Polytechnics for the professional examinations of the British Computer Society.

EMPLOYMENT AND CAREER DEVELOPMENT OF ADP STAFF

Memorandum notes correctly that the staff taken into ADP are generalist administrators: a functional specialism within the Administration Group, and specialists in administration (as paragraph 13 says that they should be). Gives departments flexibility to keep staff on ADP work for as long as desirable, promoting them from grade to grade if appropriate, whilst ensuring no barriers to movement from ADP to general administrative work or from general work to ADP. Flexibility of increasing importance as spread of new technology make it more difficult to differentiate ADP work from other administrative work.

Paragraph 14 grumbles that the most senior appointment in ADP field is at Assistant Secretary level. This is doubly wrong. First, highest grade in the Administration Group is Assistant Secretary, and generalists and/or members of functional specialism are both eligible for promotion to grades above. Secondly, there are a few posts in ADP field in more senior grades of Executive Director and Under Secretary. True that high-flyers are not attracted to more mundane posts in functional specialism but increasingly policy posts connected with ADP are regarded as good posts for young high-flyers. Increasingly staff at all levels being made aware of Information Technology and its importance.

THE TREASURY/MPO INITIATIVE ON FINANCIAL MANAGEMENT TRAINING

Training at College on financial subjects

a. increasing

	1979/80	1980/81
	Student numbers	
audit	249	447
accounting and financial management	<u>458</u>	<u>511</u>
	<u>707</u>	<u>958</u>

b. Change in Focus

previously mainly aimed at EO-SEOs and specialists

now new courses for Administration Trainees.

a new Senior Finance Course, primarily for
Principal Finance Officers present or future.

new courses on Project Appraisal (not included
in figures above).

senior seminars on Understanding Accounts and Value
for Money.

Training elsewhere.

Reviews in progress or in preparation of training for
full professional accountancy qualification and to
technician level.

Full-time courses to be expanded as far as possible.

Polytechnics to be used through day release/block release
as possible.

training methods, with numbers at 1 February 1981:

Full-time course for ICMA	42
Full-time training for ICA	10
Day release, block release or correspondence course study	219
	<u>271</u>

planned increase especially in full-time course for ICMA
and day release/block release.



From the Minister

PRIME MINISTER

Prime Minister, 2

This is really weekend reading, and will be useful background to your meeting with the Management Consultants Association. But you may wish to glance at it now since it tells an encouraging story.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

9 March 1982

*WM
10/3*

Weekend book please MB

FINANCIAL MANAGEMENT REVIEW BY COOPERS AND LYBRAND

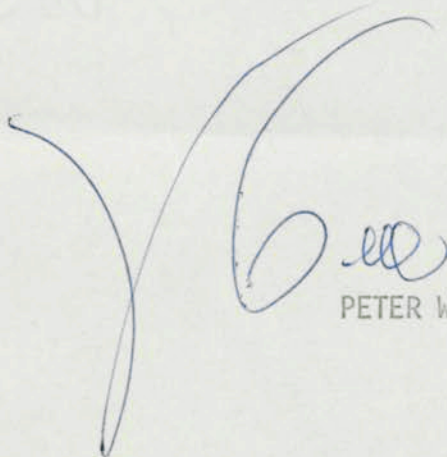
1. You have asked for a report on the study of my Department's financial planning and control systems which was carried out by Coopers and Lybrand.
2. The consultants were asked to examine the effectiveness and appropriateness of our financial planning, control and monitoring systems; to identify any significant shortcomings by comparison with the highest commercial standards and to note whether there are any features of Government operations calling for different standards; and to recommend any changes which appear desirable. Their approach was, first, to review briefly the whole Department and its systems; and then to look in depth at six major areas of the Ministry's work, including blocks of policy expenditure and also running costs, which together account for about 60 per cent of our expenditure. Given the tight timetable we had set them, they rightly saw their task as one of identifying the broad directions in which our systems should be improved, rather than of giving detailed prescription for change. In my view they did their work well. Their report (copy enclosed) is readable and well considered.
3. Their conclusions fall into two categories. First, they conclude that in general the Department's systems adequately safeguard the proper use of public funds and ensure compliance with Government financial procedures. This has habitually been seen as the primary function of financial control systems in the public service and I am not surprised that they find it to be done adequately.
4. Their main point, however, is that this is too narrow a view of the purpose of financial systems, and that financial management must concern itself more, as it does in the best run commercial concerns, with such concepts as the optimum allocation of resources, the definition and attainment of clear objectives and the measurement of performance. They comment that prevailing arrangements have not favoured this approach: senior management has tended to regard resource management as a relatively minor function by comparison with policy advice, management information has not been well geared to assist effective planning and control, and management responsibility and financial accountability have not

coincided to the extent that they should. Without necessarily endorsing all their criticisms, I do see some force in their general conclusion that the view habitually taken of the role of finance in management has been too restricted.

5. They make a number of recommendations designed to put this right and so to secure better value for money from the resources available to the Department. These comprehend four main themes:-
 - (i) Management responsibility should be redefined and financial accountability devolved so that it coincides as far as possible with management responsibility. In other words, line managers must be, and feel themselves to be, more directly responsible for the resources used in their fields.
 - (ii) Policy objectives should be more clearly defined, and indicators of performance developed so that achievements can be measured against objectives. The purpose here is to find ways of defining aims and measuring progress which can serve as a substitute for the commercial yardstick of profit.
 - (iii) Management information should be improved so as to help managers decide on the allocation of resources and measure performance more effectively.
 - (iv) Planning, estimating and audit procedures should be improved, and the disciplines and skills required for the finance function developed more widely in our managers.
6. I fully agree with the general thrust of these recommendations, as does my Permanent Secretary. The first of them is the most important and is indeed central to the whole approach. It amounts to a recommendation to let managers manage, with much less detailed central supervision of the traditional kind; but to impose a discipline on them by the measurement of their performance. The consultants made very clear their belief that there were too many external checks and that the right course was to restore financial authority, and with it financial accountability, to line management. This of course has its problems. The central Departments will always want and indeed need to maintain some degree of control over spending Departments; and within Departments there must always be a degree of central control over line management. But I agree with the consultants that there has been too much centralism and too much emphasis on uniformity of practice, that this has detracted from the role of line management, and that we must restore to line management genuine responsibility and accountability.
7. I have therefore given my Department's Management Board, chaired by the Permanent Secretary, authority to proceed immediately with the process of translating these general recommendations into detailed practice. The work is being steered by a sub-committee chaired by the Principal Finance Officer and supported by a small implementation team. The first task is to identify the major practical issues that arise in determining where responsibility and accountability should lie in a complex, multi-function department. The approach

adopted is to take three major and representative areas for pilot work: the Central Veterinary Laboratory, a large and discrete unit where the principles can probably be applied most readily; a Divisional Office, representing the whole of our regional structure, where the implementation of the principles may prove most complex; and one of our Advisory Services, representing the forty per cent of the Department which serves to advise and give technical help to the agricultural industry. These studies should show not merely how the principles can best be applied throughout the Department, but also how cost-effective financial management systems can best be developed; what the personnel and staffing consequences are likely to be; and, not least, where traditional financial constraints may need to be modified.

8. The implementation team are well into their study of the three areas and will be recommending a programme of action to the Management Board next month. They are being helped temporarily by Coopers and Lybrand, who are thus themselves learning something of the practical problems of putting their principles into operation, and of the substantial time-scale needed for doing it properly. But action is already being taken in particular areas. We have started to modify our computerised payments system so that it will be capable of producing the data needed for the financial system we shall be developing. We shall start taking into account the consultants' advice on planning the future allocation of resources during this year's public expenditure survey. And we shall be acting very shortly on the consultants' recommendations on internal audit. Throughout the process of implementation we shall of course liaise continuously with the Treasury and the Management and Personnel Office.
9. This exercise is a substantial one, which will not be completed quickly or without difficulty. But I am convinced that it is worthwhile. Government is not the same as industry or commerce and it will never be possible, nor would it be right, to reproduce exactly the systems, the motivations and the yardsticks that operate in the best of our businesses. But we can undoubtedly do more to develop concern for the optimum use of resources, systems for measuring resource use more effectively, and procedures and information which will help managers do their work more effectively. That is very well worth doing.
10. I am sending copies of this minute to the Chief Secretary, the Chancellor of the Duchy of Lancaster, the Secretary of State for Industry, Sir Robert Armstrong and Sir Derek Rayner.



PETER WALKER



10 MAR 1982

COPIED FROM
LONDON

402 ~~for information~~ M 13 CR
Telegrams
Marsponca London Telex.
Telephone: 01-935 4422

Michael House,
Baker Street,
London, W.1

From Sir Derek Rayner

Govt. Mach

1 March 1982

BANICS

Utre;
I understand that the Prime Minister is seeing the Chairman of Management Consultants Association this week. Unfortunately, I have only had the opportunity to study their letter to her over the weekend and I would like to make the following points before the meeting.

I very much agree with the contents of the letter and its attachment, as they propose classic good management practice. Much of the paper could indeed have been written from what has been said by myself and others to the Select Committee, speeches, and the various priorities that have been defined as the lasting reforms that are necessary to achieve effective system of management in Government. Their analysis in paragraph 12 of their report and their detail of actions required in paragraph 18 are therefore correct.

As you know, from a very inadequate base of knowledge substantial work was needed to establish the knowledge necessary to delegate directly to line management the responsibility for the resources they consume. For example, trading funds have been developed where appropriate (PSA Supplies and the Stationery Office), knowledge of other costs have been developed through such devices as repayment for accommodation and overheads, and the analysis of running costs.

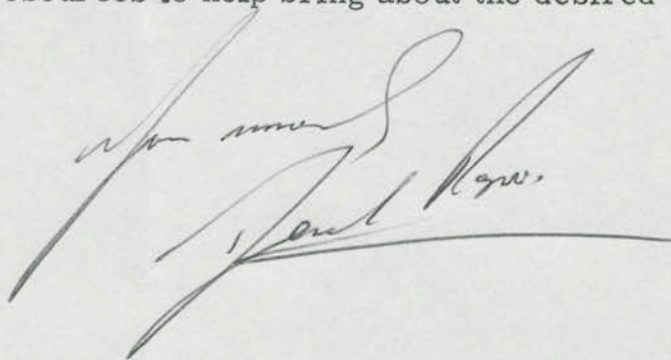
Even with this information, delegation will not be fully effective until there is adequate appraisal of performance and a robust internal audit system which makes accountability more than a paper exercise. The paper's views that there is need for substantial recruitment of professional accountants and extensive training of civil servants is fully understood. The problems in achieving these objectives will not be overcome until the career prospects are sufficiently attractive to recruit top calibre professional management accountants; and there is a determined effort to expand the relatively small base of knowledge that exists within the Service by substantial training programmes.

Management consultants can play an important part e.g. Arthur Anderson & Co in The Reeves Study of Financial Accountability in the MOD but they are an expensive resource and are no substitute by themselves for determination

by Ministers and senior civil servants to bring about the long term changes which have been so clearly identified by the Prime Minister.

Management consultants are not generally drawn from those who have an outstanding track record in running large organisations, and therefore their advice, whilst excellent in theory, cannot of itself bring about the action required in the many large businesses that make up Whitehall Departments. I do not know how much Government spends annually in using consultants. The sums must be large, and perhaps the Treasury can provide some information to your Office of fees paid out, say for each of the last three years. It would also be interesting to know how much it costs the Government to use Coopers and Lybrand in the Ministry of Agriculture, Fisheries and Food and Touche Ross in the Department of the Environment.

In a business environment it would be appropriate to devote part of the expenditure which is necessary to improve management skills by recruiting the appropriate talents and these usually command high salaries in the private sector. In a government environment the salary difficulty is probably best overcome by encouraging individual departments to employ for a period of say three years, individuals with the appropriate track record and talents. Such individuals could also then be accountable for the progress made in achieving reforms that the Prime Minister is determined to see. In brief, the need is not to identify what is wrong, but to harness the necessary resources to help bring about the desired reforms.

A handwritten signature in dark ink, appearing to read 'Paul Hogg', with a long horizontal flourish underneath.

Mr W Rickett
Private Secretary
10 Downing Street
LONDON S W 1

cc:

Mr D J Wright (Cabinet Office)
Mr J G Colman (Treasury)
Miss E Goodison (MPO)
Mr C Priestley (Cabinet Office)

1 MAR 1982

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10 DOWNING STREET

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From the Private Secretary

25 February, 1982

I attach a copy of a letter which I have written to Terry Matthews in the Chief Secretary's office, which I think explains itself.

You will see that the Prime Minister has asked for a report on the two assignments on financial management carried out last year at her request: the Coopers and Lybrand Study in your Department and the Touche Ross Study in the Department of Industry. I understand from Terry Matthews that it would be more appropriate if these reports came from you and from Richard Riley, rather than from the Treasury.

A meeting with the Management Consultants Association has now been arranged for 16 March, so it would be helpful if your reports could reach me by Friday, 12 March.

I am copying this letter to Terry Matthews.

W. F. S. RICKETT

Gareth Steel, Esq.,
Ministry of Agriculture, Fisheries and Food



10 DOWNING STREET

Note

Fixed for 1545, 16 march.



10 DOWNING STREET

From the Private Secretary

25 February 1982

We spoke this morning about the attached letter to the Prime Minister from Mr. Philip Banks, Chairman of the Management Consultants Association. He encloses a memorandum which his Association has prepared on how to improve managerial effectiveness in government.

The Prime Minister has seen this letter. She would like to meet Mr. Banks to discuss his memorandum. We will be arranging a meeting with the Chancellor of the Duchy, Sir Robert Armstrong, Sir Derek Rayner, Mr. Cassels and Mr. Priestley present. The Prime Minister would very much like a Treasury Minister and one official to join the meeting with Mr. Banks. Caroline Stephens, who will be arranging the meeting, will be in touch with you.

In my letter to you of 8 February about the scrutiny on the control of running costs, I mentioned that the Prime Minister would like a report on the two assignments on financial management carried out last year at her request: the Coopers and Lybrand Study in MAFF and the Touche Ross Study in DOT. It would be very useful if this report could reach the Prime Minister in time for her meeting with the MCA.

W. F. S. RICKETT

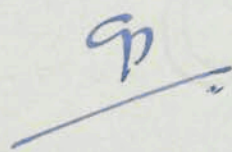
T.F. Mathews, Esq.,
Chief Secretary's Office.

Mr RICKETT

PM's MEETING WITH MANAGEMENT CONSULTANTS ASSOCIATION, 3 MARCH

I refer to your letter of yesterday to Mr Buckley. As so many of the issues raised by the MCA lie in the Treasury's province, you might think it sensible for the Treasury to be represented, by the Chief Secretary or the Minister of State (Commons), with a supporter. If you agree, perhaps you will stitch this up with the Treasury.

2. It is also relevant that in your letter of 8 February to Mr Mathews (the Chief Secretary's PS) you said that the PM would like a report on the two assignments on financial management carried out last year at her request - Coopers and Lybrand in MAFF and Touche Ross in DOE. I think that it would be helpful for the PM to have that report in good time for next Wednesday's meeting with the MCA, copy to us, please.


C PRIESTLEY
24 February 1982



24 FEB 1982
11 09 11
11 09 11

COMPTON



Yes
no

10 DOWNING STREET

Prime Minister

We have arranged a meeting
with Mr Banks, Chairman of
the Management Consultants
Association, for 3 March, as you
asked.

Sir Derek Rayner, Lady Young,
Robert Armstrong, Mr Carsels,
and Mr Priestley have been invited.
Since many of the issues raised by
the MCA concern the Treasury,
would you be content for the Chief
Secretary and one official from the
Treasury to be present?

W/M
24/2

E.R.

CAROLINE

Can you possibly arrange this meeting please?

So far Mr. Banks has only had a standard acknowledgement. When we have set up the meeting, we can write to him to confirm the arrangements. I do not see any need for a substantive reply to his letter at this stage.

WM

45 mins

23 February 1982



10 DOWNING STREET

From the Private Secretary

23 February 1982

I enclose a letter to the Prime Minister from Mr. Philip Banks, Chairman of the Management Consultants Association. He encloses a memorandum which his Association has prepared on how to improve managerial effectiveness in Government. He asks if he could meet the Prime Minister to discuss this with her.

The Prime Minister has seen this letter. She would like to meet Mr. Banks to discuss his memorandum. She would very much like the Chancellor of the Duchy to join her at this meeting, and hopes that Sir Robert Armstrong, Sir Derek Rayner, Mr. Cassels and Mr. Priestley can also be present. Caroline Stephens will be in touch with you to arrange a suitable time.

I am copying this to David Wright, Eleanor Goodison and Clive Priestley (Cabinet Office).

W. F. S. RICKETT

Jim Buckley, Esq.,
Office of the Chancellor of the Duchy of Lancaster.

Key
of this
ought to say in it
Please refer
I have
put the
papers to the pm.
22/2

MR RICKETT

lm
19/2

IMPROVING MANAGERIAL EFFECTIVENESS IN GOVERNMENT:
MANAGEMENT CONSULTANTS ASSOCIATION PAPER

Thank you for your note of 16 February and for the copy letter from the Chairman of the MCA, Mr Banks. I will consult Sir Derek Rayner about your suggestion that he should receive the MCA on the Prime Minister's behalf but my immediate reaction is this:

- (1) As the Prime Minister has often expressed the desire that management consultants should be brought in to help improve Government efficiency; as the Coopers and Lybrand (MAFF) and Touche Ross (DOE) exercises on financial management were carried out last year at her direct request; as the letter and paper are the result of consultancies in Government; and as their contents are foursquare with her policies for the Service (notably "lasting reforms" a la Rayner) I think that the Prime Minister herself:
 - should see the letter and paper;
 - should do so before the "costs" presentation next Wednesday; and
 - should consider whether receiving Mr Banks and two of his colleagues would advance her own knowledge of and deepen her own insight into Whitehall management. I think that it would.

- (2) There is some risk in diverting to an adviser a request made to a Minister.

2. I will let you have advice as soon as I can. In the meantime I am copying the papers, with my minute, to Mr Wright (CO), Mr Colman (Treasury) and Miss Goodison (MPO); and you and they might like to see the attached item from this morning's Times about Mr Banks.

SP

CLIVE PRIESTLEY

18 February 1982



19 FEB 1962

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CONFIDENTIAL



10 DOWNING STREET

PRIME MINISTER

Please copy the MCA letter to Sir D.R. & Mr. Banks. Lady Young should also see it.

Here is a letter from the Chairman of the Management Consultants Association. He encloses a memorandum on improving managerial effectiveness in government. It is interesting reading. What is more, it sets out an approach which is broadly similar to that promoted by Sir Derek Rayner and pursued in the Department of the Environment's scrutinies of running costs. This paper is therefore useful background to the presentation to be given by Mr. Heseltine next Wednesday.

Mr. Banks asks if you would receive him and one or two others from the MCA to discuss their approach. I think this would be useful. Agree?

The Prime Minister

19 February, 1982

I will see Mr. Banks with Sir Robert A. (MCA) 19/2/82. Mr. Banks. Lady Young.



Philip Banks: double act.

A double for A. T. Kearney

The appointment of Philip Banks (above) as chairman of the Management Consultants Association in succession to Martin Vandersteen of Arthur Andersen makes it a double this year for the consulting firm of A. T. Kearney.

Banks is managing director of the British end of Kearney, a worldwide firm with headquarters in Chicago. His predecessor as managing director was Walter Schroeder, who five years ago was also chairman of MCA. Schroeder is back in Chicago, but he is also chairman this year of MCA's American counterpart, the American Association of Consulting and Management Engineers.

Were it not Banks' elevation to Schroeder's job in London four years ago, Banks might have been Tory MP for Wrekin by now. He fought and lost that seat in the election before last, and stood down when he was offered the MDship at Kearney.

But Banks has not left the field entirely. He remains on the Tory candidacy list both as MP and MEP.

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Mr Philip BANKS

10 DOWNING STREET

From the Private Secretary

16 February 1982

I attach a letter to the Prime Minister from Mr. Philip Banks, Chairman of the Management Consultants Association. He encloses a memorandum which his Association has prepared on how to improve managerial effectiveness in Government. He asks if he could meet the Prime Minister to discuss this with her.

My initial reaction is that it would be more useful if Mr. Banks were to meet Sir Derek Rayner. Sir Derek could then report on the discussion to the Prime Minister. However, I should be grateful for your advice on how to deal with Mr. Banks' letter. It would be helpful to have this by 2 March.

W. F. S. RICKETT

Clive Priestley, Esq.,
Sir Derek Rayner's Office.

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16 February 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 15 February. This is receiving attention and a reply will be sent to you as soon as possible.

W F S RICKETT

Philip Banks, Esq.



**MANAGEMENT
CONSULTANTS
ASSOCIATION**

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The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

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15 February 1982

Dear Prime Minister,

IMPROVING MANAGERIAL EFFECTIVENESS IN GOVERNMENT

Following a number of management consultancy assignments in central government Departments, several member firms have expressed concern that established practices and attitudes within Departments prevent real progress being made towards overcoming certain fundamental weaknesses in central administration. We believe that clear and unambiguous policy decisions and Ministerial support at all levels are necessary to overcome these weaknesses and so create an environment which will promote and support a more cost-effective and better managed Civil Service in the long term.

We are aware of the many initiatives being made to improve efficiency and effectiveness in the public sector. We also see signs of a changing attitude towards more effective management in the Civil Service and an awakening appreciation of the role that 'management tools', such as management accounting, can play. If this change in attitude towards effective management can be made to take root, then a fundamental change of lasting benefit will have been achieved.

However, such a fundamental change could all too easily fail if attention is focused too much on methodology (that is, on the 'management tools') and on ad hoc exercises, at the expense of dealing with what we regard as the main issue of managerial responsibility and accountability. This issue centres on the need to ensure that:

- (1) Individual senior Civil Service managers have clearly allocated responsibilities and accountability
- (2) Resource responsibility and accountability are not separated from line management responsibility
- (3) There is clear delegation to subordinates
- (4) Every level has clear criteria for acceptable performance
- (5) The basic principles of responsibility and accountability are used in planning, reporting and monitoring.

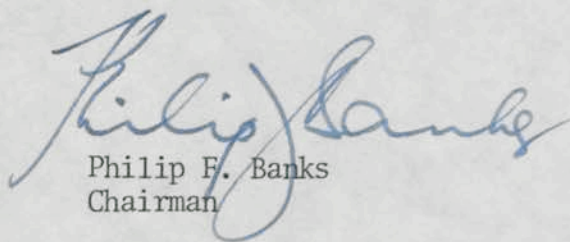
The Rt Hon Margaret Thatcher MP

15 February 1982

This issue has been discussed with senior civil servants in different Departments from Permanent Secretary down and many recognise these weaknesses but cannot see their way to bringing about the necessary fundamental changes.

In the attached memorandum, we have set out very briefly our views on these key matters. We hope that you will give us the opportunity to explain them to you directly and to develop further our 'outside' perspective of management in government. If so I should be happy to attend upon you together with two of my colleagues from other MCA firms.

Yours faithfully,


Philip F. Banks
Chairman

MANAGEMENT CONSULTANTS ASSOCIATION

MEMORANDUM ON IMPROVING MANAGERIAL EFFECTIVENESS IN GOVERNMENT

Introduction

- 1 Many member firms of the Management Consultants Association (MCA) have been engaged in carrying out management studies in various government departments, particularly since the present government came to power. In so doing they have built up a great deal of experience of government administration and recently this experience has been discussed between firms and compared with experiences gained in the private sector.
- 2 The view has emerged that the improvements suggested by consultant firms, and similarly we understand by Rayner Reviews, are likely to be limited in their effect by the present structure of managerial responsibility in the Civil Service. The underlying cause is the absence in most situations of an effective delegation of financial responsibility to line managers. In consequence there are significant areas of government activity and expenditure for which there is no clear-cut line management responsibility or accountability below head of department level for the continuing review of their worthwhileness, effectiveness or efficiency.
- 3 This absence of effective delegation of responsibility at line manager level frequently deprives government of one of the most important ingredients of management efficiency. There are several contributory causes, including the absence of managerial ethos, excessive reliance on the Vote Accounting System for financial control purposes and the consequential absence of subsidiary management accounting systems. The absence within departments of trained and experienced financial managers to direct and co-ordinate the finance function also contributes to the situation. The latter is a symptom of another fundamental weakness in government administration namely, the difficulty within present policies to recruit and retain staff with certain specialist qualifications and training.
- 4 Disquiet on the present situation is voiced because there does not appear to be the prospect of the present managerial structure or recruitment policy changing sufficiently rapidly in the foreseeable future unless the government deals with these matters as policy issues. We are of course aware of the initiatives already in process. MCA believes there are ways in which the government could overcome these shortcomings and that management techniques used in the private sector could be adapted in many situations to improve the efficiency of central government administration generally.

Government and the private sector

- 5 Government departments are subject to a range of requirements, external pressures and changing circumstances in a way which any commercial organisation, however large, is not. The management style of the Civil Service has been moulded by this, such that the skills traditionally most prized in a senior civil servant are those associated with policy advice and the ability to respond quickly to changing circumstances. As a result of this emphasis, officials tend to regard the management of resources as being very much subordinate to the policy decisions themselves. But attention to policy is also important in the private sector, the difference being that private organisations recognise that it is equally important to have adequate systems and procedures to enable policies to be administered effectively: therefore they are prepared to allocate a significant part of their top talent to administration.
- 6 The tendency to give less emphasis to the management of resources in government is reinforced both by the criteria by which a civil servant is appraised and by the separation of resource management responsibility - notably in respect of manpower and finance - from line management, whether the latter be responsible for programme formulation or for the execution of that policy. A feature of that separation is that a line manager frequently has little or no choice in, or control over, the resources nominally committed to his charge and use.
- 7 Furthermore, there is often separation of responsibility, first, between policy formulation and policy execution and, secondly, between the resources consumed by the policy itself and the administrative arrangements which deliver it. While some organisational separation of these functions may well be necessary, that does not justify the all too common absence of responsibility and accountability (other than at the highest level within departments) for the overall resource implications of individual policies and their administration.
- 8 Also in government there is always the difficulty of measuring the outputs. Whilst in the private sector the value of a product produced or service provided is measured by its profitability, which to some extent is a measure of its acceptability to the public, there is usually no similar measure for the services provided in the public sector and only subjective judgements can be made. Nevertheless those judgements are assisted by measures of performance or activity and by a knowledge of the full costs of providing the service and indeed are used in the private sector in the control of similar non profit making items, eg research.

Budgetary control

- 9 In a well run private sector organisation the central finance function (usually the finance director supported by the central accounts department) normally has overall responsibility for all accounting and financial management information systems. Effective financial control is achieved by integrated systems of statutory and management accounts, the latter

being based on principles of budgetary control through which individual line managers are personally committed to budgetary objectives and restraints. Such systems work because line managers recognise that their performance in adhering to budgets will have a significant bearing on their personal reputations and career prospects.

- 10 But in central government Principal Finance Officers (PFOs) have nothing like the same degree of control over the finance function, particularly for the design of management accounting information systems; frequently too line managers have little direct responsibility either for the compilation of budgets or for adhering to them. It is all too common for the PFOs themselves to compile and monitor budgets and for line managers to rely on the PFOs to let them know if the expenditure for which they are responsible shows signs of overrunning budget.
- 11 Furthermore the accounting system on which financial management is based is the Vote Accounting System which is analagous to the statutory accounts used in the private sector. In that sector the limitations of the statutory accounts required under the Companies Acts have long been recognised and day to day management relies on management reports prepared at weekly, monthly or quarterly intervals throughout the year. And these management accounts are generally designed to provide information relating to separately identifiable measures of performance for which individual managers can be held responsible.

Weaknesses of present approach

- 12 Changes in this philosophy are under way; witness the recent White Paper on 'Efficiency in the Civil Service' which refers extensively to management information systems and the need to sharpen responsibilities, the MINIS system in DOE and the draft guidelines on management accounting in government which it is understood are in course of preparation by the Treasury. And in any case the situation is not equally bad in all Departments or for all activities, Trading Funds in particular being better managed. But despite this and the good intentions there is in MCA's view a serious risk that the systems emanating from the present thinking will prove inadequate because:
- (1) Present allocations of management responsibility, including financial responsibility, are inadequate
 - (2) In consequence of (1) senior management in the Civil Service generally does not recognise the usefulness of management accounts; it tends therefore to be unreceptive to proposals for their introduction
 - (3) The systems so far devised by Departments (Trading Funds excepted) are often not comprehensive of all relevant costs, particularly staff costs and furthermore are not easily reconcilable to the Vote Accounting system: hence they often lack relevance, credibility and ultimately acceptability
 - (4) There is insufficient accounting expertise within government to ensure either the proper design of management accounting systems or the interpretation of their results.

Furthermore systems are developed on a 'piecemeal' basis, each with its own set of underlying concepts. Whilst systems clearly need to be modelled to meet the particular needs of individual Departments, it is important that they are developed along consistent lines so that their outputs, where appropriate, may be compared on an equal footing and the accounting principles on which they are prepared are universally understood and acknowledged.

Employment of specialist staff

- 13 In two particular disciplines, namely accounting and Automatic Data Processing (ADP), MCA firms have noted a significant lack of expertise in central Departments. This stems basically from the failure to recognise the need for specialists in administration as opposed to 'generalists' (the phenomenon identified by the Fulton Committee). We understand that there are no more than about 1,000 professionally trained accountants employed in the whole of central government and because of the system of remuneration and career prospects these accountants are not generally of a particularly high calibre. The low level of accounting expertise may well prevent the fulfilment of the information requirements described in the previous section of this memorandum. It must be a reflection of the relative unattractiveness of accounting careers in government that such a small number out of a total of 140,000 qualified members of the six recognised accounting bodies in the UK have employment there.
- 14 In ADP a similar situation applies, although numbers of ADP staff are reasonably high. However the staff taken into ADP come from the general administrative category and the most senior appointment to which they can aspire within the ADP field is at assistant secretary level. Thus this specialist area is unlikely to attract 'high flyers' with consequent detrimental effect on the quality of management. Furthermore, in consequence, few if any senior Civil Servants at the Under Secretary level and above will have had the benefit of any direct ADP experience in their careers.

Training and career development

- 15 MCA's experience has been that the ADP training and environment to which government staff are exposed are such that government ADP staff operate at rates of performance, particularly in the systems development field, which are significantly inferior to those of the better run organisations in the private sector. There is evidence to suggest that there is scope for manpower savings in this area if productivity could be improved to a level similar to that in the private sector and there would seem to be no good reason why this could not be achieved.
- 16 Furthermore there is often a lack of appreciation of the usefulness and potential of ADP techniques and of the application of the new technology. Extensive computer appreciation courses are required to familiarise senior and middle management with computer concepts and uses and to remove the apprehension with which many civil servants regard the prospect of any close association with these machines. And to cope

with the rapid advance in technology, updating courses are needed for those who have attended earlier courses.

- 17 Another unsatisfactory aspect of career development in the Civil Service is the practice of channelling the 'high flyers' almost exclusively through 'policy' type posts without giving them experience of large scale administration, eg handling large numbers of staff or being responsible for the management of large sums of money. Thus an important aspect of administration is usually missing from the experience of senior civil servants and, at the same time, the quality of management of large departments suffers from the absence of the fresh minds of 'high flyers' passing through them.

Actions required

- 18 In order to introduce an effective system of management in government it is necessary in MCA's view to:
- (1) Reorganise responsibilities by delegation to line management and thus motivate senior Civil Servants to use accounts as essential tools of modern management
 - (2) Identify appropriate divisions of Departmental expense and income which can be delegated directly to line managers, ie divide up the Vote Accounts, including staff costs, into meaningful inputs and outputs at levels low enough to enable accounting responsibility to be pinned on officers at appropriate levels, say, Principal and Assistant Secretary. Some Departments are already considering systems along these lines, eg DOE and the Joubert approach
 - (3) Acquire, as a permanent resource within government, adequate accounting expertise and experience to ensure the proper design and execution of the system and the interpretation of the results to the user. Substantial recruitment of professional accountants as well as extensive training of civil servants in the use of modern accounting systems would be necessary for this purpose
 - (4) Similarly acquire a permanent resource of ADP expertise and experience to design and operate effective computer systems and to make best use of the new technology in office administration generally.
- 19 There are thus major tasks to be undertaken and they will require a substantial effort first to accomplish a change in attitude by senior management, second to acquire the necessary expertise and third to design and operate the systems. A substantial training programme would also be necessary to educate senior and middle management in the proper use of accounting information. Because of the radical nature of the changes required, Ministerial support is likely to be needed to ensure its success.
- 20 MCA would welcome the opportunity of discussing these matters further and of explaining its ideas.

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I have spoken to Mr Priestley. We agreed to await the MCA's approach, and then suggest that Sir Robert Armstrong might see them as head of the MPO. wh 18/4

Mr ~~BICKETT~~

cc Sir Derek Rayner o/r
Mr Cassels

MANAGEMENT CONSULTANTS ASSOCIATION

You may like to have this warning that some time early in the New Year the Management Consultants Association (MCA) may ask to present to the Prime Minister a short memorandum containing their observations on public sector management. This would be based on their experience of assignment work in central and local government and the nationalised industries.

2. I have this from a Director of Price Waterhouse Associates, Mr B J Brocks, with whom I have had two conversations in the last few months. The second of these was on Monday when Mr Brocks was accompanied by three of his colleagues, including Mr E W Barnes. The latter is chairing a committee of MCA on public sector matters.

3. The public sector accounts for no more than 10-12% of management consultants' business. The MCA is of course hoping to increase this. While the purpose of an approach to the Prime Minister would not be that alone, the MCA hopes that it would do no harm.

4. I have explained the constitutional facts of life to Mr Brocks, namely that the award of contracts is a matter for departmental Ministers, not the PM. He and his colleagues are also aware that Sir Derek Rayner's regard for their profession is somewhat less than ecstatic. But they think that they could nonetheless offer the PM a useful perspective and point to some lines of inquiry.

5. I have also told Mr Brocks that given the pressures on the PM's time, there can be no guarantee that she herself would be able to receive people from the MCA and that she might ask someone else, possibly another Minister, to meet them instead.



6. I should add that while Mr Brocks and Mr Barnes are obviously well disposed and experienced, they do not seem the type to set the Thames on fire. But the MCA document might be helpful.

CP

C PRIESTLEY
17 November 1981

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