

PREM 19/777

PART 10 ends:-

W R to Priestley

PART 11 begins:-

with Departmental Sections All filed in  
special order.



805  
Sent  
back

10 DOWNING STREET

*From the Private Secretary*

MR. PRIESTLEY  
CABINET OFFICE

THE SCRUTINY PROGRAMME 1981: NORTHERN IRELAND EMPLOYMENT SERVICE

The Prime Minister was grateful for Sir Derek Rayner's minute of 9 February. She has noted the findings of the scrutiny, and has endorsed the action in hand to improve the efficiency and effectiveness of the Northern Ireland Employment Service. She agrees with Sir Derek that the outcome of the scrutiny reflects credit on those involved.

The Prime Minister has also noted that Sir Derek will be reporting to her further when the current scrutiny of the employment service in Great Britain is complete, both on the results of the scrutiny, and the implications it may have for Northern Ireland.

W. F. S. RICKETT

10 February 1982



Prime minister

PRIME MINISTER

MS

To note. This scrutiny will be controversial. The civil service unions have given the report a hostile reaction (para 8). The opposition will join these flames when the report is published (para 12).


THE SCRUTINY PROGRAMME 1981: NORTHERN IRELAND  
EMPLOYMENT SERVICE

WM  
9/2

This minute advises you of the outcome of the scrutiny of the Northern Ireland Employment Service, in which you asked me to take a particular interest on your behalf. I attach a summary of the scrutiny's findings and recommendations should you need it.


Findings and recommendations

2. In 1980 the Northern Ireland Employment Service had around 600 staff dealing with an average unemployment register of 100,000 and a flow of over 150,000 a year on to the register. At an annual cost of £5.6 million it achieved about 23,000 placings in employment and 10,000 placings to training schemes and the Youth Opportunities Programme.
3. The scrutiny looked at the objectives of the service and at the efficiency and effectiveness of the activities undertaken. It identified a need for better definition and greater clarification of role. The existing aims (which date from 1974) are generalised and open-ended.
4. In large measure, however, the recommendations show how, even given the relatively open-ended objectives, rationalisation of effort will enable the objectives to be met at less cost. In total the examining officers identified savings of £1.4 million a year. That represents a reduction of 18 per cent in staff (109 post). Examples of rationalisation include:

- 
- (1) adoption of voluntary registration for the unemployed (as is intended for Great Britain);
  - (2) switching the Employment Service marketing effort away from visits to employers towards more cost-effective telephone canvassing, mail shots etc;
  - (3) absorbing the proposed decentralisation of the executive recruitment service within existing resources of the provincial offices;
  - (4) reduced and better directed checking of training grant applications;
  - (5) delegation of responsibility in the management chain, enabling the top tiers to be slimmed by 7 (out of 27).

These recommendations account for around 60 per cent of the identified savings.

5. Two significant recommendations have implications for the stated objective of "assisting individuals to pursue their personal development and to increase the individual's opportunity to achieve his or her employment potential". They are that review interviews should not be held unless there is a specific training or job opportunity to be discussed; and that vacancy filling should be achieved to a larger degree by self-selection methods than by matching of individuals and jobs by the employment service officers. Particularly with the review interviews the examining officers felt that, in the present state of the labour market, the activity amounted only to going through the motions with little chance of success.



6. The scrutiny also recommends an improved service to young people from the careers section of the Employment Service. This would be brought about by:

- (1) more attention by the managers of Employment Offices to the quality of careers work carried out by their careers staff;
- (2) more attention to careers teaching in schools by teachers, and by the Inspectorate of Schools in Northern Ireland with a clear indication to schools that careers education matters;
- (3) selective interviewing only by the careers services, when the teacher, parent or pupil requests it;
- (4) retention of compulsory registration for those under 18 and review interviews to be on a more uniform basis.

#### Ministers decisions

7. Ministers have decided to implement a very large proportion of the recommendations. Savings will amount to slightly more than £1 million in staff costs and up to £0.4 million a year on advertising - though this latter amount will require consultation and persuasion.

8. After allowing for some flexibility in the precise implementation, there will be savings of 89 - 92 posts (15%), three-quarters of which will be achieved early in 1982 and the rest by 1983. The civil service unions have reacted in a hostile way. Adam Butler has seen the Staff Side representatives to explain the thinking behind it. There remains talk of non-cooperation but Ministers feel that the plan should now be announced in its final form and implemented.



9. In three important areas Ministers decided they cannot accept the recommendations in full:

- they judge that the Employment Service should continue to offer an equal service to all employers' vacancies and not to concentrate on those which are likely to be the "hard to fill";
- they see a need to continue review interviews - though more selectively than in the past;
- they would wish to retain an element of pre-selection for filling vacancies.


10. Ministers have also indicated that under Voluntary Registration it will be necessary to consider whether to introduce a similar test of availability for work as will apply in the rest of the United Kingdom - possibly entailing a handful of extra staff.

Comment

11. I judge the outcome to reflect credit on those involved. The report shows the staff concerned to be doing their best in difficult circumstances and I am confident that the recommendations will bring improved efficiency without serious damage to the effectiveness of the service.

12. When the report is published opponents of the government may seek to imply that the implementation of savings is a diminution in the extent to which the government cares about the problems of the unemployed. For, as the report puts it:

"Job creation can become confused with placement work; occupational counselling with frustrating review interviewing; and the elimination of



unnecessary or non-productive activities with  
the withdrawal of essential services".

The civil service unions may seek to fan such flames.

13. It will be important to emphasise that Ministers, the unemployed and the taxpayer have a shared interest in getting as much as they can for each pound of expenditure on the service. In this respect I accept the reasons why Ministers have decided to retain review interviews and pre-selection for filling vacancies on a selective basis but I have suggested that the head of the employment service should be required to keep a close watch on the efficiency and effectiveness of the retained activities. I believe the same watchfulness should be applied to the use of extra fraud inspectors.

14. A large scrutiny of the general employment service in Great Britain has just started. This will benefit from the experience in Northern Ireland. But it may also have specific and broad implications for the Northern Ireland service. For example, it may be instructive to look at the average cost of a placement in the two employment services and to see what comparisons can be drawn.

#### Conclusion

15. I invite you to take note of the scrutiny's findings and I commend to you the action in hand to improve efficiency and effectiveness in the Northern Ireland employment service. When the current scrutiny of the service in Great Britain is complete I shall report to you further on any implications for Northern Ireland.

  
DEREK RAYNER

9 February 1982



# CONFIDENTIAL

## PRÉCIS OF REPORT

### DEPARTMENT OF MANPOWER SERVICES

#### THE NORTHERN IRELAND EMPLOYMENT SERVICE

This scrutiny examined the organisation, systems and deployment of resources within the Northern Ireland Employment Service. The objective was to establish the level and nature of Service which would be most effective and which would give maximum value for money.

#### Magnitude/Scope of Scrutiny

The Employment Service is one of the major responsibilities of the Department of Manpower Services. Its main function is to satisfy the employment needs of individual workers seeking jobs and of individual employers seeking workers. It is at present dealing with an unemployment register of some 100,000 people, representing a flow on to the register of over 150,000 in the past year.

In 1980 there were some 23,000 placings in employment, through the efforts of some 600 staff. Almost 10,000 further placings were made to Government Training Centres, Attachment Training Schemes and the Youth Opportunities Programme. The estimated total staff cost for 1980-81, including accommodation and common services, was £5.6 million.

#### Current Situation and Problems

The Service is provided through a network of 27 main offices situated in the principal towns in Northern Ireland. The offices maintain occupational registers, mainly of unemployed persons but also those in employment who wish to change jobs. Particulars of training opportunities and posts vacant are displayed in the Service's offices and jobs are filled either by self-service (where a job-seeker, having seen a vacancy, requests submission) or by matching (where available vacancies are matched with job-seekers' requirements).

The activities of the Service have been directed in recent years towards achieving a larger and better share of the labour market, even to the

# CONFIDENTIAL

extent of competing directly with other means of recruitment. The economic justification for this approach by a public-financed body is slender, especially where vacancies could be filled by other agencies.

Almost 5000 marketing/development visits per annum are being made to employers with a view to obtaining vacancies. Many of these visits can no longer be shown to be cost-effective.

The extent to which the service should be involved with the unemployed on social grounds is imprecise. Staff are calling in the unemployed for review interviews, although they are not in a position to offer them jobs. Most staff consider these activities largely ineffective and, at most, of marginal social benefit.

As a condition for receiving benefit all unemployed persons are required to register with the Employment Service. This compulsory registration means dealing with a substantial proportion of registrants who would not otherwise use the Service. The time and effort devoted to these people is therefore largely wasted.

Employment Service staff are involved in time-consuming matching and submission activities, on jobs which could be filled easily and less expensively from self-service.

Careers Officers feel obliged to carry out activities in schools which are more appropriate to careers teachers. They are also critical of the contribution being made to careers guidance in many schools.

In certain cases, careers officers are "blanket interviewing" all school leavers, whether or not guidance has been requested. This is not the most effective use of the Careers Officers' time.

Over 7000 "non-development" visits to employers have been made in the past year. These were mainly concerned with the checking of claims for grant under various training schemes. This method of processing claims is demanding in terms of staff time and travelling expenses.

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Although there are 27 main offices throughout the Province, it is clear that the workload of some of these offices makes their retention on a full-time basis difficult to justify.

There is evidence of overlap in the roles and responsibilities of Office Managers and Area Managers. Each have indicated that additional responsibility and a wider span of control is both desirable and possible.

This scrutiny has been conducted at a time when unemployment is particularly high, with comparatively few vacancies to which registrants can be submitted. While this has certainly contributed to a feeling among some staff that the work is not as satisfying as it might be, this feeling has undoubtedly been exacerbated by some of the activities being carried out which are considered to be largely unproductive and not helpful in getting people into jobs.

## Recommendations

### a. Action

The report contains a number of detailed recommendations and suggestions for change. The main proposals are as follows:-

- i. Registration with the Employment Service should no longer be compulsory for unemployed persons over 18 years of age.
- ii. Registrants should not be called in for interview other than to make a specific offer of employment or training.
- iii. Marketing visits should be extremely selective. They should be specifically directed towards firms new to the locality or known to have recruitment difficulties. Development work should be monitored closely to ensure that the cost is justified by the benefits obtained.
- iv. As many vacancies as possible should be filled from self-service. Matching should only be used after an order has remained unfilled, or where, on the basis of experience, there will be a delay in obtaining submissions through self-selection.
- v. The Department of Education should have an Inspector with full-time responsibility for careers teaching in schools and should reiterate to Principals their responsibility in the field

# CONFIDENTIAL

of careers guidance. Further consideration should be given to the feasibility of making careers education a timetabled subject in its own right.

- vi. Careers guidance should be given by group methods initially, and by referral only, on an individual interview basis.
- vii. Checking of the various Training Scheme claims should be carried out in Employment Service Offices. In addition, a more selective checking procedure should be introduced.
- viii. The 6 Provincial Area Manager posts should be reduced to 2, each with responsibility for approximately half of the Province. Office Managers should be given more autonomy.
- ix. Work with professional and executive personnel should be totally integrated with normal Employment Service Office work.
- x. The Employment Service should act as a medium to reduce the cost to the public purse of public sector advertising.

## b. Further Study

1. A staff complementing exercise on Careers Officers once the recommendations have been implemented.

## Potential Savings

### a. Absolute

The implementation of these recommendations would result in an eventual reduction in staff complement by 109 posts and a saving of £0.95 million per annum. There would also be an annual saving of £0.06 million on reduced travelling and subsistence. Revised public sector advertising methods could contribute a further £0.40 million.

### b. Proportionate

18% of total costs.

## Cost of Scrutiny

£30,800.

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*I have spoken to John Kerr to explain why we are not pressing on Nott at this stage. WM 5/2*

*Govt Mach*

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

PRIME MINISTER

THE EFFICIENCY STRATEGY 1982: MINISTRY OF DEFENCE

I have seen Jerry Wiggin's letter of 18 December, John Nott's minute of 15 January, and Janet Young's minute of 25 January. My own view on the Ministry of Defence proposals for scrutinies this year is very similar to Janet's. The review of Defence R & D support services is proving very valuable, and I would not think it unreasonable that John Nott should be asked to apply similar techniques this year to at least one area of army or navy support. I suspect that the fairly fundamental questioning of the need to continue to carry out all current tasks, which is a feature of the technique, and the involvement of the central Departments, is more likely to bring results than the traditional internal reviews of complementing etc. which John Nott describes. Copies of this minute go to Janet Young and Derek Rayner.

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

(G.H.)

5 February 1982

15 FEB 1962



COMPTON



Wm  
2/2

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Michael Heseltine MP  
Secretary of State  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

2 February 1982

Dear Michael,

RAYNER SCRUTINY OF THE CUSTODY GUARD SERVICE

Thank you for sending me a copy of your letter of 14 January to Willie Whitelaw about the Custody Guard Service.

I am of course content for officials to discuss the changes you have in mind. However it is surely a necessary consequence of moving to repayment that departments should have a much bigger say in deciding how their own requirements are met. I should therefore like to reserve judgement on the change to repayment until it is clear what freedom of action can in practice be allowed.

I am copying this letter to the Prime Minister, other Cabinet colleagues and Sir Robert Armstrong.

Ever,  
Kuri







DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EP

The Rt Hon Michael Heseltine MP  
Secretary of State for the Environment  
Department of the Environment  
2 Marsham Street  
LONDON SW1

*✓ MHP*

29 January 1982

*Dear Michael*

RAYNER SCRUTINY OF THE PSA CUSTODY GUARD SERVICE

Thank you for the copy of your letter of 14 January to the Home Secretary about the provision of custody guard services for government buildings in Greater London.

My Department's use of the present PSA service is for the most part a joint common service arrangement with central DOE; although we do have PSA custody guards in the Metropolitan Traffic Area Office at Acton, a shared building in which we are the major occupiers.

I certainly support the proposals you outline in your letter and my officials will give urgent consideration to the more detailed propositions which I note will be coming to the Department following your people's discussion with the Cabinet Office Security Adviser.

I assume that appropriate funding arrangements will be made to cover the additional financial burden that will fall on Departments under the proposed changes. And should it not prove practicable to use private security firms at particular sites there could be manpower implications for us.

*Yours*

*David*  
DAVID HOWELL



21 FEB 1992

Mr Whitmore

Any comments on the draft at C  
before it is typed for your signature?

LM  
27/1

PRIME MINISTER

The Efficiency Strategy 1982: The Ministry of Defence

We have a slight problem with the Ministry of Defence over the scrutiny programme for this year.

Mr. Nott has offered (see his minute at Flag A):

- (a) to carry out scrutinies of the MOD's arrangements for dealing with Service and civilian pensions, and of the arrangements for the issue of Service pay.
- (b) To contribute to the programme of central reviews of the control of running costs in large executive units ("Resource Control Reviews") by offering reviews of RAF support and of the Meteorological Office.

Janet Young and Derek Rayner are well content with these proposals as far as they go. But both are very disappointed that Mr. Nott has been unable to offer a larger contribution to the Resource Control Reviews (see Janet Young's minute at Flag B). They hope that you will feel able to ask Mr. Nott to consider extending the resource control reviews in his Department into the areas of army and navy support. Sir Derek Rayner's Office suggest that Clive Whitmore should write to Mr. Nott's Office as at Flag C. Agree that Clive should write as drafted?

WR

Yes - ~~not~~

but leave for the  
time being  
not.

26 January 1982

CONFIDENTIAL

Mr Rickett ✓

Wm  
4/2



THE EFFICIENCY STRATEGY 1982: MINISTRY OF DEFENCE

This minute offers advice on those to the Prime Minister from the Secretary of State for Defence and the Chancellor of the Duchy of Lancaster of 15 and 25 January respectively and suggests a draft letter to Mr Omand (MOD).

BACKGROUND

2. The CDL's minute correctly recalls that her memorandum to the Prime Minister of 17 November last put MOD down for a substantial contribution to this year's programme of co-ordinated reviews of "resource control". (These reviews are most readily recognised, by the way, as reviews of how large, self-contained executive units are managed; other participants include the Prison and Coastguard Services.) The CDL's exact words were: "Defence (2)+ a small unit, possibly the Meteorological Office".

3. Mr Nott's letter to Lady Young of 26 November, copied to the PM, said that he was "entirely content with your plan subject to the details being settled in discussion with my department".

4. Thence arises much embarrassment for MOD officials. Apart from the quite acceptable offerings now made by Mr Nott (ie 2 scrutinies, of aspects of HM Forces and civilian pay and pension arrangements, and 2 resource control reviews, of RAF support command and the Meteorological Office), officials up to and including the Permanent Secretaries wanted Mr Nott to include in his minute resource control reviews of training in the Royal Navy and the Army. Officials believed that a resource control review, based heavily on the scrutiny technique, would have a cutting edge in such military areas which had so far remained resistant to thorough-going analysis.



5. Mr Nott's reaction, in which he remained firm, despite at least two applications of top-level blandishment (observed by us from afar with an acute sence of its irony, see below), is captured in para. 3 of his minute of 15 January. It is to a degree commendable and sympathetic: he is the Minister in charge of his department and he doesn't want people with far smaller responsibilities (MPO, Rayner et al) telling him how to do it. (Indeed, resistance to outsiders now appears to be a strongly marked feature of MOD management.)

6. Before I offer a draft reply to MOD, perhaps I might briefly recall their record in the scrutiny programme so far.

MOD RECORD

7. In one respect, this is quite respectable. MOD has so far undertaken 11 departmental scrutinies and taken part, with initial reluctance but thereafter with growing disbelief and embarrassment, in the Government-wide review of supporting services for R&D, now nearing completion. (Lady Young's minute of 25 January refers, at para. 4.) I attach a summary of these 12 exercises.

8. The record shows that, on the whole, MOD have taken a less self-critical look at themselves than DHSS, another big spender who have served us well. They have succeeded in keeping us away from large areas in which they would (naturally) prefer to wash their dirty linen in private. This is partly due also to the facts that MOD have undertaken numerous difficult exercises on their own and that it is not easy to get into areas directly under military management, especially so where the military's love of doing everything in threes might fear the intention to rationalise. To an important degree, therefore, Sir Frank Cooper has very sensibly used the scrutiny programme to edge his way into areas where his rule, as the civil head of MOD, does not easily run. Hence, too, the consternation of officials that, having almost buttoned Army

and Navy training into this year's programme, their Secretary of State has freed them from what promised to be a stringent, but fair exercise.

SUGGESTED REPLY

9. I think that some play can be made with the agreement of last November, but I would not overdo it. The better course is probably to try and persuade Mr Nott to include something else in the programme because all will benefit from it. This is the line taken by the attached draft which I think ought to go over Mr Whitmore's signature, and with which the Treasury (at my level) is content.

10. I need not say, I am sure, but will do so for the record, that it is essential that none of the information contained in paras. 4 and 5 above should get back to Mr Nott.

*P*

C PRIESTLEY  
26 January 1982

SUMMARY OF MOD SCRUTINIES etc

<u>Year</u>	<u>Subject</u>	<u>Savings</u>	<u>Comments</u>
1979	Supply of food to HM Forces	£0.3m pa + £3.5m once for all	Decision not yet taken on whether food supply should be transferred to NAAFI.
1980	The Claims Commission	£1.98m pa 79 posts	Net cost in years 1 & 2 Break even in year 3 Savings of £1m in year 4 Building up subsequently
	Secondary education overseas	£2.73m 228 posts (once for all cost of £0.23m)	To be achieved by 1983
	Economy in major new building works	-	A "systems/method" review.
	Inspection and audit	£1.35m pa 96 posts	New "Directorate-General of Management Audit", praised by PM
	Assisted travel schemes	£1.2m pa	-
1981	Defence Sales Organisation	-	In progress: we are struggling to keep this in the scrutiny programme
	Financial control	-	A "systems/method" review
	Group travel on duty by HM Forces personnel	Not quantifiable	
	Defence Telecommunications		In progress
	Dissemination of information		- do -
1981	Government-wide review of R&D Supporting Services	£8.7m pa 1070 posts	MOD said at outset that this exercise was not needed
1982	HM Forces and Civilian pension arrangements		Scrutiny
	HM Forces pay: arrangements for issue		Scrutiny
	RAF Support Command and individual training		Resource control review
	Meteorological Office		- do -

D Omand Esq  
Private Secretary to  
the Secretary of State for Defence

THE EFFICIENCY STRATEGY 1982

1. The Prime Minister was grateful for your Secretary of State's minute of 15 January, which she read with considerable sympathy.
2. The Prime Minister is <sup>happy</sup> well content with Mr Nott's proposal that there should be scrutines this year of your Ministry's arrangements for dealing with Service and civilian pensions and for the issue of Service pay. She thinks that these are both good subjects, well worth doing, which may turn out to have important implications for other aspects of Services management; she would like to be informed later whether this proves to be the case. She will be asking Sir Derek Rayner to take a particular interest in them both on her behalf.
3. The Prime Minister is also pleased with the proposals that RAF Support Command and individual training associated with it and the Meteorological Office should be included in the programme of Resource Control Reviews. She thinks both subjects excellent and looks forward to meeting the examining officers at the presentation on 24 February.
4. ~~The Prime Minister~~ has made two other comments. First, she noted your Secretary of State's reference to his



new Directorate-General of Management Audit, whose establishment last year she very much welcomed. She thinks that the Civil Service as a whole has much to learn from the work of the new Directorate and she hopes that opportunities for this can be provided from time to time.

*However,*

5. ~~Secondly~~, the Prime Minister thinks that - not least because your Ministry is now well on the way to being better equipped for the intensive examination of costly areas of work - there is much to be said for including one or two more expensive Service commands or functions in the Resource Control Review.

6. Mrs Thatcher thinks that this would accord with your Secretary of State's warm response to the Chancellor of the Duchy of Lancaster's minute to her of last November. She, also thinks that there would be a very real advantage, to the Government as a whole and to your Ministry, in extending the Resource Control Review to Army and Navy functions of a nature and size commensurate with those of RAF Support Command. This is because Defence expenditure accounts for such a large proportion of Government spending as a whole and because, being in the public eye on that account, it is especially desirable for Ministers to show that they are taking - in your Secretary of State's words - a "no holds barred" approach to related or comparable blocks of expenditure.

*The P - M - therefore hopes <sup>very much</sup> that your S - of - S - can agree to including extending the resource control review in this way.*

7. I am copying this letter to John Kerr (HM Treasury),  
Jim Buckley (MPO), David Wright and Clive Priestley (CO).

C A WHITMORE



10 DOWNING STREET

CF

Sir D Rayner's office  
will be submitting  
advice on all these  
minutes about the  
Security programme next  
week.

Wh

26/1



*Chancellor of the Duchy of Lancaster*

PRIME MINISTER

THE EFFICIENCY STRATEGY 1982 - MINISTRY OF DEFENCE

I think John Nott's minute to you of 15 January does not bring out what could be achieved by a further MOD contribution to the programme of resource control reviews, along the lines envisaged in our efficiency strategy.

He offers reviews of the support area of the Royal Air Force and of the Meteorological Office. Both are well worth doing and the central team for the resource control programme will be in touch with MOD to work up detailed proposals as soon as possible.

But I had counted on at least one other substantial review, for example in the areas of army and navy support which consume a large proportion of MOD's running costs. I had these areas in mind when I proposed in the paper on the efficiency strategy for 1982 circulated on 17 November that MOD should undertake two large resource control reviews in support areas for the services in addition to a smaller one such as the Meteorological Office. John did not dissent from that. The proposal for such a large contribution from MOD took account of the fact that MOD had not been pressed to participate in either of the two other centrally co-ordinated exercises in the 1982 programme (concerning departmental running costs and personnel management).

I am not of course suggesting that MOD would intend to do no work of their own in the areas of army and navy support. But the value added by central participation has been vividly illustrated by experience of the R & D support services review which Sir Derek Rayner is co-ordinating and which provides the model for resource control reviews. MOD were reluctant participants and in the early stages did not believe scope for significant improvement existed. In the event, there are likely to be recommendations for about 1000 staff savings, representing over 15% of the total staff reviewed and, equally important, clear lessons for improved management. I therefore strongly believe that at least one large area of army and/or naval support should be tackled as a resource control review.

CONFIDENTIAL

It would be extremely helpful if an early reply could be sent. There is no time to lose if a suitable study is to be brought successfully into the centrally co-ordinated programme of resource control reviews.

I am sending a copy of this minute to the Chancellor of the Exchequer and Sir Derek Rayner.

*Yours truly*

BARONESS YOUNG


25 January 1982

CONFIDENTIAL

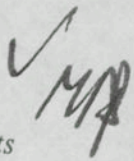
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Privy Council Office,  
Whitehall,  
London, SW1A 2AT



*With the Compliments*  
*of the*  
*Private Secretary*  
*to the*  
*Lord President of the Council*



Govt Mach



PRIVY COUNCIL OFFICE  
WHITEHALL, LONDON SW1A 2AT

19 January 1982

*Mr Lea,*

You wrote to me on 23 December about the question of transferring Parliamentary costs in respect of supplies from HMSO and the Central Computer and Telecommunications Agency from Departmental to House Votes.

I fully agree that we should make a further attempt to try and persuade the Parliamentary authorities to come into line with Departmental practice in this matter.

So far as the Commons is concerned, however, the final decision will primarily rest with the House of Commons Commission rather than with the House authorities. When they last considered this matter the Commission agreed to defer a decision on the transfer of House printing costs from the HMSO Vote to the House Vote, but arranged for a re-examination of the position to take place "in time for any change to be implemented in 1982-83". I have not yet seen the outcome of this, and, if you agree, I would propose in the first instance to have this matter raised, if necessary, at an early meeting of the Commission, and find out how matters now stand. If it transpires that the proposed re-examination has now been completed, but the Government's view is still not accepted by the Commission, we could then consider how we might, if necessary, press the matter further and deal with the related question of Parliamentary computer costs.

I am sending a copy of this letter to the recipients of yours.

*Francis Pym*  
*Mr Lea*

FRANCIS PYM

The Rt Hon Leon Brittan QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1P 3AG



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17 12 1971  
1000

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MO 4/4

PRIME MINISTERTHE EFFICIENCY STRATEGY 1982 - THE SCRUTINY PROGRAMME

You have asked for proposals for the 1982 scrutiny programme. I have been considering this in the light of my own strategy for improving efficiency in defence.

2. Over one third of the MOD civilian employees - of whom there are 223,000 - can now feel that their jobs are already under special study, and in many cases under direct threat given the ambitious targets we have set ourselves for reductions in civilian numbers. In picking subjects for Rayner studies I have therefore focused my attention on areas which have not so far fallen under the spotlight but which are nevertheless significant users of manpower. We employ up to 700 people administering Service and civilian pensions at an annual cost of £7.8m; and up to 3,700 staff administering Service pay and records at an annual cost of £55m. These are areas which should provide scope for rationalisation, greater use of computers and more efficient procedures (details in the customary form are annexed).

3. Your Private Secretary's letter also referred to resource control reviews. Resource control is of course just another name for management - and I have spent my time so far in the Ministry of Defence doing almost nothing else. Shutting three Dockyards, closing training, support and R&D establishments, cutting staff numbers, all in accordance with the defence policy we agreed in the summer, are the best ways I can think of for exercising resource control. I do not want to superimpose a new layer of bureaucracy on top of the work which management here has in hand under my direction and much of which is directed at implementation, since we are past the stage of study.



4. I do understand, however, how important it is that the Government should present a coherent strategy for achieving greater efficiency in the public sector as a whole, and I would certainly have no objection to associating two particular areas of my work with the Chancellor of the Duchy's programme, and renaming them "resource control reviews". These are:

- a. the support area of the Royal Air Force - including RAF Support Command and the individual training associated with it - where I have appointed a team to conduct a 'no holds barred' review of the way we support the RAF front line.
- b. the Meteorological Office which is a self-contained area under my responsibility consuming some £50m a year gross and employing about 3,900 staff. The review will look at all aspects of the way the Met Office does its business and its relations with its customers.

5. Another area where I think we can contribute to the overall strategy is in the new work we are doing on Management Audit where last year, following a Rayner scrutiny, I appointed a Director General to develop this concept as an extension of the existing work of central management services, internal audit and staff inspection. Audit teams will include a range of disciplines and will have the authority to look at all aspects of the parts of the organisation they are examining, including their tasks and the efficiency of their management.

6. I am copying this letter to the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster; and to Sir Derek Rayner and Sir Robert Armstrong.

Ministry of Defence

15th January 1982



SERVICE AND CIVILIAN PENSIONS

SUBJECT

MOD arrangements for dealing with service and civilian pensions.

COST

There are about 400 posts involved in the administration of service pensions and about 290 for civilian pensions, at an annual cost of some £5M and £2.8M respectively.<sup>(1)</sup> For 1981/82, service pensions are estimated to be some £164M, and civilian pensions some £249M.

REASONS FOR SELECTING THE SUBJECT

Service pensions are the same in each of the services for those of equivalent status and length of service but each Service has its own separate organisations for interpreting pensions policy and assessing individual pension entitlements, with some of the Services using computers for this task more extensively than others. In addition each Service makes its own arrangements for pension payments, with some using the PGO for this more than others. In view of the development of computerised awarding for civilian pensions, and the present collocation of pensions staff dealing with naval ratings, airmen and MOD civilian staff, a review of the arrangements for dealing with all MOD pensions is required to consider the scope for rationalisation and economy in this area.

Some reorganisation is already taking place in the Army area which the study will need to take into account. In particular, the study should assume the transfer to Glasgow in 1982/3 of the Army pension assessment office currently at Stanmore.

TERMS OF REFERENCE

To review the present arrangements within MOD for dealing with service and civilian pensions including policy work, case-work, assessment and payment and to recommend what improvements can be made.

Starting and Finishing Date

Starting date, second half January. Finishing date not yet known but aim to complete within 90 working days.

Examining Officer and Ministerial Reporting Arrangements

Mr M Clarke (Principal) heading Management Services team, reporting through 2nd PUS to the Parliamentary Under Secretary of State for the Armed Forces.

(1) Basic Staff costs plus accommodation and common services.



## SERVICE PAY

### SUBJECT

The present arrangements for the issue of service pay (excluding pay determination).

### COST

There are about 3,700 posts (excluding Headquarters policy posts) involved - about 1,000 on the pay task itself and the remainder on the associated personnel records system at an annual cost of some £54.8M.<sup>(1)</sup> Service pay for 1981/82 is estimated to be some £2,577M or 21% of the Defence Budget.

### REASONS FOR SELECTING THE SUBJECT

Service pay rates are basically the same for each of the Services but each Service has developed its own system for the issue of Service pay using different computer systems both for the basic pay task and for the maintenance of related personnel record systems. This area uses substantial staff resources. A review is required to consider what scope, if any, there is for greater economy in pay arrangements, taking into account the latest developments in computer technology. The review will also need to take into account the different operational environments in which each of the Services operates.

### TERMS OF REFERENCE

To review the present arrangements for the issue of service pay and the maintenance for that purpose of related service personnel records and to recommend what improvements can be made. Procedures for the determination of service pay rates are excluded from the review.

### STARTING AND FINISHING DATES

To follow Superannuation Study. Preliminary Survey will probably be required to establish more precisely scope of review, size and skills of scrutiny team and timescale of scrutiny.

(1) Basic staff costs plus accommodation and common services.

### Examining Officer and Reporting Arrangements

As for Superannuation Study.

010

(2)



Prime Minister

MUS 15/1

2 MARSHAM STREET  
LONDON SW1P 3EB

BF

My ref:

Your ref:

14 January 1982

Dear Home Secretary

RAYNER SCRUTINY OF THE CUSTODY GUARD SERVICE

I am writing to tell you of the outcome of a recent Rayner Scrutiny, undertaken by PSA, of the Custody Guard Service. The Service, which is provided by PSA, gives predominantly silent hours protection to 140 government buildings and sites in the Greater London area. It involves around 800 industrial staff and the annual wages bill is currently about £7 million.

The report, while broadly endorsing the service provided, made a number of recommendations for change in both funding arrangements and working practices. It recommended that Departments should be responsible for reviewing the level of service required and should be charged for the service provided. This latter recommendation will be met by including the cost of the Custody Service in the accommodation charge under the new repayment (PRS) arrangements that take effect in April next year. I have asked my officials to review the charges made to existing repayment clients.

The recommendations for changes in working practices and security arrangements are more complex and have to be considered within the framework of agreed national security standards and clients' operational requirements. These proposals include provision for Departments to consider using private sector security services, subject to the agreement of the Cabinet Office Security Adviser and to the extent that this can be done without causing redundancies in the Custody Guard Service. My officials have had discussions with the Security Adviser and they will shortly be putting forward detailed proposals for consideration by individual Departments. I hope that you and other Cabinet colleagues will agree that these discussions should be carried forward at official level and that your Department will be prepared to undertake the necessary review of procedures with the aim of reducing costs and improving the efficiency of the service provided. I have asked my officials to report progress by mid 1982.

Copies of this letter go to the Prime Minister and members of the Cabinet, and to Sir Robert Armstrong.

Yours sincerely,  
Helen Ghosh

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

15 JAN 1962







NEW ST. ANDREWS HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

WM  
8/2

The Rt Hon The Baroness Young  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Old Admiralty Building  
Whitehall  
LONDON  
SW1A 2AZ

*WR to see as these come in,  
but no action for No 10*

*MAD 14/1*

13 January 1982

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 11 December about the programme for 1982. I have now seen a copy of the letter of 15 December from the Private Secretary at No 10 addressed to Private Secretaries to Cabinet Ministers inviting Ministers to put forward departmental scrutinies. I think that it would be helpful if the Scottish Office could be added to the list of Departments in the last paragraph of the second page of Mr Whitmore's letter since I have formally agreed that we shall take part in the resource control review of the prison service.

The manpower demands for the Scottish Office of participating in two studies - the resource control review in prisons and the scrutiny of personnel work - will be substantial, and we may have a great deal of work still to do on the biggest of our scrutinies so far, that into the Schools Inspectorate. I do not therefore propose to submit a proposal for a separate departmental scrutiny for 1982 for the Scottish Office. I will put to the Prime Minister's Office a proposal for a scrutiny in one of the small departments for which I am responsible.

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

GEORGE YOUNGER

114 JAN 1962





gov H. Act. 2  
Prime Minister

This proposal may be resisted, but it is consistent with the Government's own internal improvements in accountability

MAD  
23/12/81

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster  
70 Whitehall  
London SW1A 2AS

23 December 1981

Dear Baroness Young,

This letter is to tell you of, and seek your support for, a change which has become imperative concerning the financial arrangements for certain supplies to Parliament.

As you know, it is Government policy to end the "allied service" method of providing departments with certain goods and services, eg stationery and other office supplies, computers, accommodation. We have moved to the repayment basis whereby the department requiring the supplies pays the supplying department. The cost thus appears where it should, that is, on the Vote of the department requiring the supplies. This makes departments recognise their responsibility for the demands they make for these services and appreciate their cost. Derek Rayner has taken a close interest in this change as a stimulus to efficiency and economy.

For Government departments supplies by HM Stationery Office and by the Central Computer & Telecommunications Agency have been on the repayment system since 1 April 1980. But supplies to the two Houses of Parliament still remain on the old allied service basis. This is now a unique anomaly, and wrong in principle. It means that special arrangements have to be made to cover Parliament's requirements, and these arrangements are not in accord with proper principles of financial control. For example, the Controller of the Stationery Office has to be accounting officer for expenditure ordered by others over which he has no control. Indeed, to the extent that the Houses of Parliament are separate from Government, the case for them paying for their supplies out of their own Vote is if anything stronger than in the case of supplies to actual Government Departments.

Officials have discussed the matter, but so far the authorities of the two Houses of Parliament have resisted the change to repayment. They have argued that having to control their own expenditure would be an additional burden for the two Houses, which are not

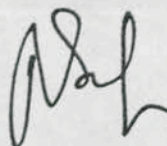
organised to do this sort of thing. Treasury officials believe that they exaggerate the burden, and would be happy to arrange for appropriate advice if necessary. In any event the main point is that, especially in view of our concern about the costs of Parliament, it is right that Parliament should become visibly responsible for what is supplied to it by Government agencies.

I am sure that the same change should now be made for supplies to the two Houses as is now in operation everywhere else, and that we must take effective action to this end. I have in mind that my Permanent Secretary should write on my behalf to the Clerk of the House of Commons and to the Clerk of the Parliaments, making clear that we are firmly of the view that a change of this kind is now necessary. But I write to you first, so as to be sure that the change proposed has your personal support, which I would like to be cited in the letter from my Permanent Secretary.

I am writing similarly to Francis Pym. <sup>attached.</sup>

Copies of this letter go to the Prime Minister and to Sir Robert Armstrong, and to Sir Derek Rayner.

yours sincerely



LEON BRITTAN

KP

(approved by the Chief Secretary  
and signed in his absence)

23 DEC 1967





Wm  
24/12

SECRETARY OF STATE FOR ENERGY  
THAMES HOUSE SOUTH  
MILLBANK LONDON SW1P 4QJ

01-211 6402

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Whitehall  
London SW1A 2AZ

22 December 1981

*Dear Chancellor of the Duchy*

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 11 December. I and my officials are keen to participate in the running costs review, not only for its intrinsic merits but because it should dovetail with our own efforts to reduce costs.

As a small department just over 1,000 strong it would be difficult to embark on a concurrent scrutiny involving a sponsor division and its nationalised industry, the more so since we are busily engaged in implementing a number of matters arising from the CPRS report on nationalised industries. Moreover, in each such Division (Coal, Gas and now Electricity) there are major tasks in hand or in prospect which militate against such a scrutiny at present.

However, I do not rule out either a consecutive, or a 1983 scrutiny, to supplement, or to follow, our participation in the 1982 running costs scrutiny and I hope to arrange a meeting to discuss the possibilities early in the New Year with Derek Rayner (who will I hope accept this letter as also acknowledging and responding to his letter of 11 December).

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

*Yours sincerely*

*Derek Lunley*

PP NIGEL LAWSON

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

23 DEC 1981  
11 12 1  
7 6 5 4 3 2  
10 11 12 1 2 3 4 5 6 7 8 9 10 11 12

W 2/12



MINISTRY OF DEFENCE

MAIN BUILDING WHITEHALL LONDON SW1A 2HB

Telephone 01-218 2394 (Direct Dialling)

01-218 9000 (Switchboard)

PARLIAMENTARY UNDER-SECRETARY OF STATE  
FOR THE ARMED FORCES

D/US of S(AF)/JW/6/1/0

18 December 1981

Sir Derek Rayner  
Cabinet Office  
70 Whitehall  
London  
SW1

*Dear Derek,*  
*will respond if required*

PROPOSED SCRUTINY OF DEFENCE ESTATE MANAGEMENT

On 11 August you wrote to Michael Heseltine with a copy to John Nott, proposing a joint Ministry of Defence/Property Services Agency scrutiny of the management of the defence estate.

I understand that at a meeting of Permanent Secretaries on 21 October you accepted Arthur Hockaday's explanation that in the light of other proposals for 1982 studies we and the Property Services Agency were not proposing to give this one priority, at any rate for 1982. Nevertheless I feel that as the Minister to whom John Nott has assigned the responsibility for ensuring the efficient management of the defence estate as a whole, it would be helpful if I were to summarise the various measures that we are pursuing to this end. Since the Ministry of Defence owns and manages the defence estate, with Property Services Agency acting as our agents on the acquisition, disposal etc of property, and since the costs of acquiring, managing or selling land are charged or credited to the Defence Budget, I think that it probably falls to a Ministry of Defence rather than a Department of the Environment Minister to reply to you.

While the Maintenance Economy Reviews concentrate on individual establishments, Ministry of Defence maintains continuous review of the defence estate against operational requirements and military redeployments. Our recent major defence programme reappraisal will release some assets for disposal in due course. Also, following the recommendations of the Jones/Butler Report to which you refer, we have arranged for land costs and receipts to be charged and credited to the individual Service Long Term Costing Target Headings. This will



provide a very useful incentive to the Services to give up, where they can, land they are not using fully, so that they can spend the money more usefully.

You will gather from all this that the furrow you wished to plough has already been fairly well tilled. Nevertheless, I am conscious that the savings from even a marginal further improvement in the efficiency of estate usage would bring useful aid to a hard-pressed Defence Budget, and I cannot disregard this prospect.

I am sending a copy of this letter to the Prime Minister, Geoffrey Howe, Michael Heseltine and Robert Armstrong.

*Yours ever*

*Jerry*

Jerry Wiggin

- 010
1. Mr RICKETT  
To see
  2. Mr GAFFIN

cc Mrs Gilmore (HM Tsy)  
Mr Wright (CO)  
Mr Colman (HM Tsy)  
Miss Goodison (MPO)



*ms*

Mr Leslie Chapman

1. You may like to know of the attached exchange of letters between Mr Leslie Chapman and Sir Derek Rayner. (To complete the story I also attach copies of the 1979 correspondence to which Mr Chapman refers.) Mr Chapman's book, which will be presented as a sequel to his very successful YOUR DISOBEDIENT SERVANT, will no doubt repeat his established view that the Rayner exercises are small beer and that what is wanted is a private army of inquisitors and investigators. Sir DR expects that it will get a lot of publicity.

2. The second book may have a new thesis: that while the Civil Service does not conspire against retrenchment and reform (as Mr Chapman once thought), it is incapable - through lack of habit, system and will - to manage central government economically and well; and that Ministers (and local elected representatives) are similarly incapable, partly because their instincts and much of their experience are about spending, not economy. That would be consistent with the line he was taking when we last spoke almost a year ago.

*CP*

C PRIESTLEY  
17 December 1981

2  
Prime Minister cc Mr Gaffin

To be aware of  
Mr Chapman's  
new book.

*WM 18/12*

Encs: As indicated

14th December, 1981

Dear Mr Chapman,

Thank you so much for your letter of the 7th December. Needless to say, I have no objection to the publication of the letters which we exchanged in 1979 and I thank you for your courtesy in seeking my view.

I note with interest and pleasure that you have completed a further book on public sector spending. May I wish you every success in this publication and hope that the message your investigations bring out will make a further contribution to improving better value for money and accountability within the public sector.

I wish you a happy Christmas and a successful New Year.

Yours sincerely

Derek Rayner

Mr. L. C. Chapman,  
Green Pastures,  
Blockley,  
Nr. Moreton-in-Marsh,  
GLOUCESTERSHIRE.

PASTURES  
BLOCKLEY  
NR. MORETON-IN-MARSH  
GLOUCESTERSHIRE  
TEL: BLOCKLEY 038 676 513

CAE CARADOG  
FFARMERS  
LLANWROA  
DYFED WALES  
TEL: PUMPSAINT 05585/504

7th December 1981

*Sir Derek Rayner*

I have recently completed a book on public sector spending and the opportunities which I believe have been missed for making reductions. Part of the book compares the early hopes (and promises) of the present administration with the disappointing realities, in both local and central government spending. The principal purpose of the book is to suggest ways in which controls over spending may be made more effective.

I am writing to ask for your agreement to the publication of the letters we exchanged in 1979 - two of yours, dated 29 June and 2 August, and mine dated 20 July.

Sir Derek Rayner,  
Michael House,  
Baker Street,  
LONDON W.1.

*Yours sincerely*  
*Leslie Chapman*



137 DEC 1981

2nd August, 1979

Thank you so much for your letter of the 20th July and your good wishes for the task which I have in hand.

The initial work that I have arranged is, as you know, to examine in depth with individuals working full-time to me but within the departments, some key aspects about how Government goes about its work, including accountability and promotional prospects for experienced 'Managers'. From the work already done it is likely that there will emerge some major tasks to be undertaken in the Autumn.

P. S. You will of course not be surprised to hear that the story you unfolded in your book is likely to be found elsewhere in Whitehall.

L. C. Chapman Esq. ,  
"Green Pastures",  
Blockley,  
Nr. Moreton-in-March, GLOS.

R. 24/7/29

"Green Pastures"  
Blockley  
Nr. Moreton-in-Marsh  
Gloucestershire

2 July 1979

Sir Derek Rayner

Thank you for your letter of the 29th June. My feeling that I could not, after all, help you with your assignment did not stem primarily from my desire to retain freedom of action. It is quite simply that I do not believe that the scale of effort, the techniques, or the organisation which you intend to use begin to match either the size or the nature of the problems you are tackling. Equally, I do not think that by any test, your suggestion that my contribution to all this should consist of one address to the individuals in the Departments who would be carrying out the investigations, bears any relationship to the "sharp edged job" which was the phrase you used more than once in this connection during our discussion.

I hope, as every taxpayer must, that I am completely wrong about this, and that you and your colleagues will have a resounding success. If this happens I shall hope to know about it early enough to be among the first to congratulate you.

All good wishes,

L.C. Chapman

Sir Derek Rayner  
Cabinet Office  
70 Whitehall  
London SW1A 2AS

Yours sincerely  
Lester C Chapman

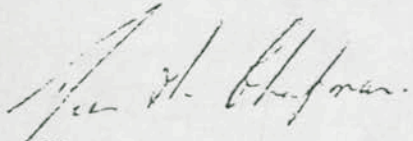


CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-930-5422xx 233 8224

29 June 1979

L C Chapman Esq  
Blockley  
Near Moreton-in-Marsh  
Gloucestershire

  
When we met last month, I undertook to write to you when I had carried further forward my consultations on and my thinking about my assignment from the Prime Minister. Considerable progress has now been made towards establishing in each of the major departments a study of an activity or function which might be unnecessary, or wasteful or too costly. Each of these studies will be carried out by an official of the department, working to a Minister and in consultation with me.

As Clive Priestley told you on the 'phone last week, I would have been very pleased if you had addressed these officials at my first meeting with them on 28 June, when I briefed them on the right approach to their work. I, and I am sure they, would have enjoyed and greatly benefited from having an account from your own lips of your success in promoting efficiency and eliminating waste.

As I understand it, you have such a strong reservation about my assignment and about the Government's approach to the questions of efficiency and waste that you felt that if you came to my meeting it would give a false impression to the wider audience which you are trying to help inform. I believe that the Government's initiatives will produce substantial benefits for the taxpayer in due time. Even so, I quite appreciate your desire for an unimpaired freedom of action.

Looking to the next stage of my work, I think that we can see ourselves as seeking the same ends and that you have elected to do so from a position of complete independence. If I have interpreted it correctly, perhaps we should agree to leave things on that footing for the time being?

All good wishes.

  
Derek Rayner





10 DOWNING STREET

Gruv much TMP

cc NIO	MAFF	D/IND	D/M
FCO	DOE	DOT	PSO
HMT	SO	MOT	CO (3)
DES	WO	CSO	Douglas Wass
LPO	DHSS	CAZ	CPR
MOD	LPSO	D/M	HO
			LCO

From the Principal Private Secretary

15 December 1981

Dear Private Secretary,

THE EFFICIENCY STRATEGY 1982 - THE SCRUTINY PROGRAMME

The Efficiency Strategy for 1982 recently agreed by Ministers envisages 20 - 25 further departmental scrutinies and three co-ordinated reviews for next year.

The Scrutiny Programme

bk. | I am writing to invite proposals for the scrutiny programme. Ministers are asked to send these to the Prime Minister by 15 January and to copy them to Sir Derek Rayner, whom the Prime Minister has asked to take an interest in all scrutinies. As with this year's programme, however, he will be asked to associate himself more closely with some scrutinies on her behalf than with others.

The Efficiency Programme as a whole will be at about the same level as this year. But the scrutiny programme will be smaller (20 - 25 compared to 40). It is specially important, therefore, that scrutiny topics are significant in terms of the activities and resources or policies of the department; the Prime Minister will have this in mind when considering their suitability for inclusion in the programme.

Ministers are invited to put forward at least one scrutiny and those in charge of the larger departments are invited to propose more than one. Proposals have already been accepted for the scrutiny of the General Employment Service provided by the MSC. Other proposals already made are:

- Arrangements for buying and holding land in Northern Ireland.
- The generation and use of written documents in MAFF.

The following areas also appear as strong candidates:

- Aspects of the administration of social security benefits/pensions not yet looked at.
- Regulatory and enforcement activities not yet fully examined.

/The work

ds

- The work of professional advisers.
- A relatively discrete policy function - the intention would not be to review the policy itself but to examine the policy-making process - looked at specially from the point of view of simplicity and cost of implementation.
- The conduct of relations between sponsoring divisions and nationalised industries.

Each proposal should contain brief information on:

- (1) Subject: the policy, function or activity to be examined.
- (2) Cost of carrying out the policy, function or activity.
- (3) Reasons for selecting the subject.
- (4) Terms of Reference.
- (5) Proposed starting and finishing date. (Considerable importance is attached to implementing decisions on the scrutiny within a year of its starting where that is possible and to beginning the work of implementation where it is not. Equally, it is desirable to plan the scrutiny and the follow-up to it in such a way as to avoid a long hiatus between the point at which the examination officer submits his report and implementation begins).
- (6) Names of examining officers, if known, and Ministerial reporting arrangements. (In selecting staff to conduct scrutinies, Ministers are asked to bear in mind the importance of putting examining officers of high quality in charge and the advantages for implementation if the examining officer remains involved in the scrutiny process through to the production of the action document.)

Work on scrutinies should not start before proposals have been agreed by the Prime Minister. The programme should begin early in the New Year, but there is no need for a common start date.

#### Co-ordinated reviews

The preparatory work necessary to begin the reviews foreshadowed in the Chancellor of the Duchy of Lancaster's minute to the Prime Minister of 17 November is in hand. There will be a presentation at 10 Downing Street on Wednesday 24 February (5 pm - 6.30 pm) for Ministers, Permanent Secretaries and examining officers taking part in the Resource Control Reviews and the Review of Running Costs, followed by a reception given by the Prime Minister (6.30 pm - 7.30 pm). Further information will be given shortly, but the Departments concerned - the Home Office, Foreign and Commonwealth Office, HM Treasury, Ministry of Defence, Education, Environment, Employment, Trade, Energy, Transport and MPO - may like to note the date and time now.

/The Rayner Office

The Rayner Office

Sir Derek Rayner will lead on the scrutiny programme and be associated with other work on the efficiency strategy. For the time being, his unit will continue to be located in the Cabinet Office. The intention is that it and the Management and Personnel Office will in due course join to form a single efficiency unit.

Sir Derek Rayner's Notes of Guidance for the scrutiny programme for examining officers will be revised and re-issued shortly. He himself will brief examining officers once appointed.

I am copying this letter to the Private Secretaries to all members of Cabinet and to Sir Derek Rayner, Sir Robert Armstrong, Sir Douglas Wass, Robin Ibbs and John Cassels. Ian Beesley (233 5029) and Lizzie Thoms (233 8550) in Sir Derek Rayner's office can provide further advice, if it is required.

*Yours sincerely,*

*Alvin Whinnam*

The Private Secretary



10 DOWNING STREET

Mr Whitby M.A.

The pm has seen several papers on the "efficiency strategy for 1982" recently. There are four main strands to the strategy

- Scrutinies of the control of running costs in 6-7 Departments
- Scrutinies of the control of resources in 4 or 5 large executive units (such as the Royal Mint)
- Scrutinies of personnel management in 3 or 4 Departments
- The programme of Departmental Scrutinies.

2 The attached is a draft for you to send to Departments commissioning suggestions for the Departmental Scrutinies. I do not think we need bother the pm with this. It does not raise points of substance, and Departments are expecting you to write.

WFSR 14/12

MR WHITMORE

cc Mr Cassels  
Mr Priestley  
Mr Wright

THE EFFICIENCY STRATEGY 1982-THE SCRUTINY PROGRAMME

The Chancellor of the Duchy of Lancaster announced the efficiency strategy for 1982 at the Treasury and Civil Service Select Committee on 9 December. Officials of the MPO and ourselves are now moving to set the individual components of the strategy in hand.

2. The next step is to invite Ministers to make their nominations for the 1982 scrutiny programme - which is one of the four main elements in the efficiency strategy. I attach a draft letter to private secretaries seeking proposals. The letter follows broadly the same pattern as last year's (which you sent out on 1 December) but gives a little more detail of how the scrutiny programme relates to the other elements in the strategy and brings recipients up to date on these other elements also.

3. The draft takes account of comments from our colleagues in the Treasury and the MPO.

*IB*  
IAN B BEESLEY

11 December 1981

DRAFT LETTER FROM MR WHITMORE TO PRIVATE SECRETARIES

December 1981

The Efficiency Strategy 1982 - the Scrutiny Programme

The Efficiency Strategy for 1982 recently agreed by Ministers envisages 20 - 25 further departmental scrutinies and 3 co-ordinated reviews for next year.

The Scrutiny Programme

2. I am writing to invite proposals for the scrutiny programme. Ministers are asked to send these to the Prime Minister by 15 January and to copy them to Sir Derek Rayner, whom the Prime Minister has asked to take an interest in all scrutinies. As with this year's programme, however, he will be asked to associate himself more closely with some scrutinies on her behalf than with others.
3. The Efficiency Programme as a whole will be at about the same level as this year. But the scrutiny programme will be smaller (20 - 25 compared to 40). It is specially important, therefore, that scrutiny topics are significant in terms of the activities and resources or policies of the department; the Prime Minister will have this in mind when considering their suitability for inclusion in the programme.
4. Ministers are invited to put forward at least one scrutiny and those in charge of the larger departments are invited to propose more than one. Proposals have already been accepted for the scrutiny of the General Employment Service provided by the MSC. Other proposals already made are:
  - Arrangements for buying and holding land in Northern Ireland.
  - The generation and use of written documents in MAFF.
5. The following areas also appear as strong candidates:
  - Aspects of the administration of social security benefits/pensions not yet looked at.
  - Regulatory and enforcement activities not yet fully examined.

- The work of professional advisers.
- A relatively discrete policy function - the intention would not be to review the policy itself but to examine the policy-making process - looked at specially from the point of view of simplicity and cost of implementation.
- The conduct of relations between sponsoring divisions and nationalised industries.

6. Each proposal should contain brief information on:

- (1) Subject: the policy, function or activity to be examined.
- (2) Cost of carrying out the policy, function or activity.
- (3) Reasons for selecting the subject.
- (4) Terms of Reference.
- (5) Proposed starting and finishing date. (Considerable importance is attached to implementing decisions on the scrutiny within a year of its starting where that is possible and to beginning the work of implementation where it is not. Equally, it is desirable to plan the scrutiny and the follow-up to it in such a way as to avoid a long hiatus between the point at which the examination officer submits his report and implementation begins).
- (6) Names of examining officers, if known, and Ministerial reporting arrangements. (In selecting staff to conduct scrutinies, Ministers are asked to bear in mind the importance of putting examining officers of high quality in charge and the advantages for implementation if the examining officer remains involved in the scrutiny process through to the production of the action document).

7. ~~It is requested that~~ <sup>may</sup> Work on scrutinies should not begin before proposals have been agreed by the Prime Minister. The programme should begin early in the New Year, but there is no need for a common start date.

#### Co-ordinated reviews

8. The preparatory work necessary to begin the reviews fore-shadowed in the Chancellor of the Duchy of Lancaster's minute to the Prime Minister of 17 November is in hand. ~~The central teams for the Resource Control Reviews and Personnel Reviews will include Ian Beesley (Sir Derek Rayner's Office, 233 5029) and Nick Gurney (MPO, 233 3742) from whom further details are available. That for the Running Costs Review will include Lizzie Thoms (Sir Derek Rayner's Office, 233 8550).~~

but I suggest his time and date should be noted in their diaries by  
of State and Permanent Secretaries of the Departments of Energy,  
Employment, Education, Trade, Transport,  
Environment, as well as the Home Office, Foreign Office,  
Treasury, Ministry of Defence, and MPO.

There will be a presentation at 10 Downing Street on  
Wednesday 24 February (5pm - 6.30pm) for Ministers, Permanent  
Secretaries and examining officers taking part in the Resource  
Control Reviews and the Review of Running Costs, followed by a  
reception given by the Prime Minister (6.30pm - 7.30pm). Further  
information will be given shortly.

The Rayner Office

9. Sir Derek Rayner will lead on the scrutiny programme and  
be associated with other work on the efficiency strategy. For  
the time being, his unit will continue to work out of the  
Cabinet Office. The intention is that it and the Management  
and Personnel Office will in due course join to form a single  
efficiency operation unit.

10. Sir Derek Rayner's Notes of Guidance for the scrutiny  
programme for examining officers will be revised and re-issued  
shortly. He himself will brief examining officers once appointed.

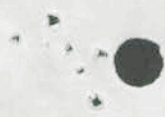
11. I am copying this letter to <sup>the</sup> Private Secretaries <sup>all</sup> members  
of Cabinet and of the Paymaster General and to Sir Derek Rayner,  
Sir Robert Armstrong, Sir Douglas Wass, ~~Mr~~ <sup>Mr</sup> Ibbs and ~~Mr~~ <sup>Mr</sup> Cassels. Ian  
Beesley (233 5029) and Lizzie Thoms (233 8550) in Sir Derek  
Rayner's office can provide further advice, if it is required.

~~C A WHITMORE~~

The British Security

but the departments concerned -  
the Home Office, FCO, Treasury,  
MOS, ~~Department of Education~~, Environment,  
Employment, Trade, Energy, Transport  
- MPO - may wish to note the  
date and time now.





14 DEC 1961

The inner part.



Chancellor of the Duchy of Lancaster

WR 14/12

Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 14400  
GTN 273 14400

11 December 1981

The Rt Hon Nigel Lawson MP  
Secretary of State for Energy  
Department of Energy  
Thames House South  
Millbank  
LONDON SW1P 4QJ

Dear Secretary of State

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 4 December. I was glad to see that you are content with the general line and direction of my proposals and that your Department will be ready to play its part in these.

I have noted what you say about your Department being able to make a contribution through either participating in the running costs review or undertaking a major departmental scrutiny, but not both. I am bound to say that I was hoping you would be able to take on both. You mention the problem of staff resources in this context. Might it not be possible for you to overcome this by arranging for the studies to run consecutively rather than concurrently or, alternatively, by looking to us for some assistance if absolutely necessary? I should be grateful if you would consider this further whilst Sir Donald Maitland is discussing with Sir Derek Rayner the kind of project you might undertake in next year's scrutiny programme. A final decision on your Department's contribution to the 1982 programme of efficiency work can then be taken in the light of the outcome of these discussions and of the replies to the invitation for proposals for next year's scrutinies which the Prime Minister's Office will shortly be issuing to departments.

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

Yours sincerely

*Douglas Board*  
(Assistant Private Secretary)

BARONESS YOUNG

(Approved by the Chancellor of the Duchy and signed in her absence)

1/10/50



174 DEC 1981

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Why/n

CABINET OFFICE

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

// December 1981

The Rt Hon Nigel Lawson MP

*Nigel Lawson*  
/

EFFICIENCY STRATEGY FOR 1982

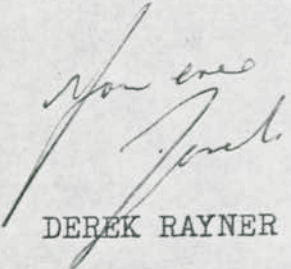
Thank you for sending me a copy of your letter of 1 December to Janet Young.

2. As you know, I do not underestimate the work which scrutinies and similar management investigations cause - not the least in finding good examining officers. And I am in no way in the business of harassing hard pressed departments.
3. In putting together the efficiency strategy for next year we had particular regard to the burdens for departments. We therefore tried to match the programme to the individual priorities of Ministers and their Permanent Secretaries for improving management in central government. In the light of our conversation of October about your intentions for the Department of Energy I had had in mind that if at all possible you might want to make progress across a reasonably wide front.
4. Your officials and mine are well on the way to working up a potentially fascinating scrutiny for 1982 into the way the department handles its relationship with the Electricity Board. We are not quite home yet but I think that we should be able to get something good and I would be sorry to see that possibility drop out of next year's programme. (It would, for example, tie in nicely with the conclusions of the discussion at E(NI) last week.)
5. The review of departmental running costs is of course also important because it gives the opportunity to make progress on financial management across a fairly wide front. Some departments have involved financial consultants already (eg DI, MAFF and DHSS) and others will join the co-ordinated review planned to start in March. For my part, I should welcome your participation here too - if you can manage it. It would be good to involve your people with the development of better financial management in the service generally and it would, I think, bring opportunities to influence at one time the way the department does business across a range of activities. An important part of the exercise, for example, will be to examine the structure of delegation and control within the department, and to look at where managerial accountability lies and how responsive it is to costs.

CONFIDENTIAL

6. I hope you might want, and feel able, to join in on both counts. If I can be of help over timing, or the provision of expert help in any way, I will do what I can.

7. I am copying this to recipients of yours.

  
DEREK RAYNER



14 DEC 1984

20/14/81



Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 4400  
GTN 273 4400

Chancellor of the Duchy of Lancaster

11 December 1981

The Rt Hon George Younger MP  
Secretary of State for Scotland  
Scottish Office  
Whitehall  
LONDON SW1A 2AU

*Dear Secretary of State*

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 27 November. I was glad to see that you agree in principle to your Department taking part in the resource control review in the prisons and in the study of personnel work. The former will be a particularly major task, and I am sure we shall benefit from your Department's involvement.

I have noted what you say about the difficulties in your having a departmental scrutiny in the Scottish Office next year. Perhaps we can return to this once we have a better idea of the size and composition of the 1982 programme. This will soon be available, since the Prime Minister's Office will shortly be inviting proposals from departments for next year's scrutinies.

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

*Yours sincerely*  
*Douglas Board*  
*(Assistant Private Secretary)*

BARONESS YOUNG

(Approved by the Chancellor of the Duchy and signed in her absence)

14-DEC-1993







Chancellor of the Duchy of Lancaster

LMV14/12

Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 { 4400  
GTN 273 }

11 December 1981

The Rt Hon Peter Walker MBE MP  
Minister of Agriculture, Fisheries and Food  
Whitehall Place  
LONDON SW1A 2HH

Dear Minister

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 27 November. I was glad to see that your department will be joining in the review of personnel work.

I have noted your suggested study of the use of written documents as your scrutiny for next year. As in previous years, the Prime Minister's Office will shortly be inviting proposals for 1982 departmental scrutinies, and the composition of the programme will be considered in the light of all the ideas then put forward.

I am sending a copy of this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

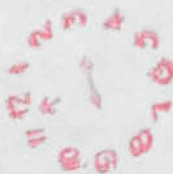
Yours sincerely

Douglas Board  
(Assistant Private Secretary)

BARONESS YOUNG

(approved by the Chancellor of the Duchy and signed in her absence)

14 DEC 1961



W<sup>m</sup> 14/12

6 PB's,



Chancellor of the Duchy of Lancaster

Management and Personnel Office  
Whitehall London SW1A 2AZ  
Telephone 01-273 4400  
GTN 273 4400

11 December 1981

The Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Education and Science  
Department of Education and Science  
Elizabeth House, York Road  
LONDON SE1 7PH

*Dear Secretary of State*

EFFICIENCY STRATEGY FOR 1982

Thank you for your letter of 4 December. I was grateful for your support for our programme of efficiency work and was glad to see that your Department will be taking part in the proposed review of running costs.

I have noted what you say about your not wanting to commit DES to a separate departmental scrutiny in 1982. Perhaps we can return to this once we have a better idea of the size and composition of next year's programme. This will soon be available, since the Prime Minister's Office will shortly be inviting proposals from departments for the 1982 scrutinies.

I am copying this letter to the Prime Minister, Sir Robert Armstrong and Sir Derek Rayner.

*Yours sincerely*

*Douglas Board*  
(Assistant Private Secretary)

BARONESS YOUNG

(Approved by the Chancellor of the Duchy and signed in her absence)

12/11/81



12/11/81



W 14/12 7 P.S.

Treasury Chambers, Parliament Street, SW1P 3AG

The Baroness Young  
Chancellor of the Duchy of Lancaster

*Norman Fowler*

11 December

STAFF INSPECTION IN CUSTOMS AND EXCISE: TRADE UNION  
NON CO-OPERATION CAMPAIGN

I have seen a copy of your letter to Norman Fowler of  
13 November.

Your referred in that letter to a current staff inspection problem in Customs and Excise. The problem was that the Customs and Excise Group of the Society of Civil and Public Servants issued instructions to their members not to cooperate with staff inspectors; this was frustrating current inspections. I am pleased to tell you that when Customs management made it clear that they were prepared to suspend staff who refused to cooperate in a staff inspection the Group changed their stance, and the inspections are now continuing satisfactorily with Treasury Staff Inspectors participating.

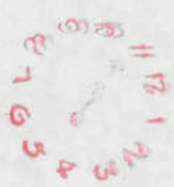
I am sending a copy of this letter to the Prime Minister and to Norman Fowler.

*Norman*

*Jock*

JOCK BRUCE-GARDYNE

-14 DEC 1981





6  
 9 DEC 1981  
 FILING INSTRUCTIONS  
 FILE No. ....

DEPARTMENT OF TRANSPORT  
 2 MARSHAM STREET LONDON SW1P 3EB

*cc Mr R. ... Gant Mach*  
*W 11/12*

MANAGEMENT: IN CONFIDENCE

The Rt Hon Baroness Young  
 Chancellor of the Duchy of Lancaster  
 Management and Personnel Office  
 Whitehall  
 LONDON SW1A 2AZ

CHANCELLOR OF THE DUCHY OF LANCASTER
<i>Mr Gurney</i>
PS <i>9</i> December 1981
PS - Second Perm Sec
LP (DB)
<i>Mr Fraser Mr Pettit Mr Chantbrown Mr Russell Mr Widding</i>

*Dec Jan*

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister on the Efficiency Strategy for 1982.

Your proposed programme seeks a contribution from my Department in two areas: Departmental scrutinies and the co-ordinated review of Departmental running costs. We would welcome a further Departmental scrutiny in 1982, and we are at present considering possible subjects and how the scrutiny work can best be fitted in with our own internal reviews and studies. As you suggest, we shall be in touch a little later on with our proposals.

As for the running cost review, we have already decided to implement a system of management accounting, concentrating on the main executive, common services, and support functions and with it a management information system compatible with the one on which DOE are working following their Rayner scrutiny of non-staff running costs. The management information system will be computerised and will apply comprehensively to the Department, i.e. including the policy directorates, and will be

MANAGEMENT: IN CONFIDENCE

of use both as a means of improving our estimating, monitoring and control of administration costs, including the setting of budgets, and as the basic financial back-up information system for management accounting. Though the circumstances of DTp are, of course, different from those of DOE, the fact that there are common services arrangements between the two Departments (including those affecting control of running costs) means that DTp has been in the best position to absorb the lessons of the DOE scrutiny. I wonder therefore if there would not be a real risk of duplication and delay if we now engaged in a specific Rayner exercise on this subject? We already have a team working out the details and they will be ready to report within three months. Perhaps the most sensible arrangement would be for my officials to keep Sir Derek Rayner closely in touch with this work.

I am copying this letter to Sir Derek Rayner and to Sir Robert Armstrong.

*h u*  
*David*

DAVID HOWELL



11 DEC 1981



Govt Mach



10 DOWNING STREET

From the Private Secretary

7 December 1981

The Prime Minister is grateful for colleagues' response to the efficiency strategy for 1982 outlined in the Chancellor of the Duchy of Lancaster's minute to her of 17 November. She hopes that progress can now be made as indicated in the paper.

Achievement of the strategy will, the Prime Minister believes, be an essential contribution to sustained improvement in the efficiency and effectiveness of central government. She thinks the strategy provides a positive presentation of the Government's intentions and offers best wishes for the Chancellor's evidence to the Treasury and Civil Service Select Committee on 9 December.

I am copying this to Private Secretaries to Ministers in Charge of Departments and to David Wright and Clive Priestley.

WR

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

JS



WNV  
8/12

2 pp

2 MARSHAM STREET  
LONDON SW1P 3EB

My ref: H/PSO/19336/81

Your ref:

MANAGEMENT - IN CONFIDENCE

7 December 1981

*See sheet*

### EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister on the Efficiency Strategy for 1982.

As you point out, the Rayner Scrutiny programme has already identified a high level of savings. We clearly need to build on what has been achieved and to maintain momentum by introducing a new programme for 1982. Your proposals appear to me to be aimed at the right areas and to achieve broadly the right balance. I am pleased to note that the work done in my Department on non-staff running costs is to form the basis for one of the co-ordinated reviews.

As for my Department's role in the 1982 programme, PSA will contribute in the Resources Control Review of Executive Operations and have already agreed with Sir Derek Rayner on the outline of a study of the workload and management of resources in PSA District Works Offices. We are now giving thought to the possibilities for Departmental scrutinies and we shall be in touch on this a little later on. The Department is, of course, committed to a large programme of internal reviews, mainly resulting from the MINIS procedure, and this will need to be taken into account in deciding the scrutinies we carry out.

Although your programme does not mention my Department in connection with the co-ordinated review of Personnel Management, the PSA, with its extensive field organisation, has already agreed to join in.

I am copying this letter to the Prime Minister, Sir Derek Rayner and to Sir Robert Armstrong.

*Yours ever*

MICHAEL HESELTINE

28 DEC 1964

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
ALEXANDER FLEMING HOUSE  
ELEPHANT AND CASTLE  
LONDON S.E.1

TELEPHONE: 01-407 5522

WR  
8/12

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster  
Civil Service Department  
Whitehall  
London  
SW1

15.7 DEC 1981

*Jan Zaret*

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister, with the proposals for the 1982 programme of scrutinies and reviews to increase efficiency.

I support the proposed programme, and my Department will participate as requested. There is, as you say, a heavy commitment already to carry through the results of previous scrutinies in this Department - which are part only of the programme of efficiency studies we have in hand. We will contribute to the further programme of departmental scrutinies next year - including further work in the benefits field; and we will take part in the study of personnel management work. We are not involved in the first set of resource control reviews, but are considering what contribution we might make to those later. As regards the projects for improving accountable management and control of running costs, Sir Derek has agreed that work we already have in hand should take precedence over participation in further studies.

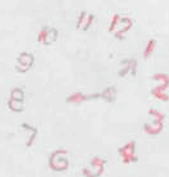
This adds up to a substantial amount of continuing and new work on improving efficiency, which is producing good results in terms of savings in money and staff. I endorse your intention of seeking a suitable opportunity in the near future to publicise this good work and take due credit for it.

I am copying this letter to the Prime Minister, Ministers in charge of Departments, Sir Derek Rayner and Sir Robert Armstrong.

*Jan Zaret*

NORMAN FOWLER

7 DEC 1981



7


MR RICKETT

THE EFFICIENCY STRATEGY 1982

The Chancellor of the Duchy's Office telephoned to say that they would find it helpful to have the Prime Minister's blessing for the Efficiency Strategy 1982 in the light of colleagues' comments; particularly if it could be given before the Chancellor of the Duchy appears before the Treasury and Civil Service Select Committee on 9 December.

2. There are still some Ministerial responses outstanding but I am assured by Mr Board in the Chancellor's Private Office that his contacts with the Ministers' Private Offices indicate a continuing run of agreement such as we've already had.

3. In the circumstances, therefore, you may wish advise supporting the Chancellor of the Duchy before her evidence to the Select Committee. I attach a draft Private Secretary's minute which seeks to do that.



IAN B BEESLEY

4 December 1981

Enc: Private Secretary's minute

DRAFT

The Private Secretary to the  
Chancellor of the Duchy of Lancaster

The Prime Minister is grateful for colleagues' response to the efficiency strategy for 1982 outlined in the Chancellor of the Duchy of Lancaster's minute to her of 17 November. She hopes that progress can now be made as indicated in the paper.

2. Achievement of the strategy will, the Prime Minister believes, be an essential contribution to sustained improvement in the efficiency and effectiveness of central government. She thinks the strategy provides a positive presentation of the Government's intentions and offers best wishes for the Chancellor's evidence to the Treasury and Civil Service Select Committee on 9 December.



4 DEC 1981





DEPARTMENT OF EDUCATION AND SCIENCE  
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH  
TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

*Wm  
4/12*

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Whitehall  
LONDON  
SW1A 2AZ

4 December 1981

*Dear Janet.*

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister. I support your proposals for our programme of efficiency work.

I welcome in particular the suggestion that DES should take part in the programme with a project on departmental running costs. I think that should be the main DES contribution next year. When the "Rayner" scrutinies were started it was agreed that DES and the then separate OAL should be considered together, with the latter occasionally having a scrutiny in place of DES. In fact this year we have run two scrutinies, as well as contributing to the review of statistical services. This, together with follow-up action, is a heavy burden on a relatively small department and I do not want at this stage to commit DES to a separate "departmental scrutiny" in 1982 under heading (1) of your minute.

I am copying this to the Prime Minister, other Ministers in charge of Departments, Sir Derek Rayner and Sir Robert Armstrong.

*Eric  
Kerr*

-4 DEC 1981



SUBJECT.



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returned to  
1/5. CC CO

10 DOWNING STREET

From the Principal Private Secretary

cc. Newbery etc.

PERSONAL AND CONFIDENTIAL

SIR DEREK RAYNER

THE EFFICIENCY OF CENTRAL GOVERNMENT

The Prime Minister met you and Sir Robert Armstrong this morning to discuss the matters raised in your minute of 29 November 1981 to her.

You said that since you had sent your minute, you had seen both the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong and they agreed with what you were recommending in your minute. You proposed that you should continue to be available to advise Ministers in the areas listed in paragraph five of your minute, but in future you would not be able to get as involved in the detail of the work on improving efficiency as you had done hitherto. Mr Cassels was already supervising the Rayner unit and he had now inherited from the Civil Service Department another Under Secretary command which had been working in the same area as the Rayner unit. It would make sense to bring these two commands together and to integrate them in a single unit. If this was not done the MPO's effort to improve efficiency would be divided, and departments would be confused and not know to whom to look in the MPO for guidance. As a result of the Prime Minister's initiatives in this area and the work of your unit over the last two and a half years, a great deal of energy had been released in departments whose staff were now much more actively seeking ways of improving efficiency. There was, however, a danger that much of this new enthusiasm would be dissipated on the wrong targets, unless a unit run and staffed by people working to your methods was available to direct it. It would not, however, be possible to set up the new integrated unit for some months, and in the meantime it was important that your present unit continued to operate, staffed and sited where it was now, and to carry forward its existing programme of work. When the integrated unit was brought into being, one of the two Under Secretary posts now in this area would need to be abolished. After integration you would continue to need staff support as described in paragraph ten of your minute.

AH

Sir Robert Armstrong added that he would be consulting you about any changes of personnel that might be needed when the integrated efficiency unit was set up, and he would, as necessary, seek the Prime Minister's approval for these.

The Prime Minister said that she agreed that your unit should continue in its present form for the time being and that, in due course, it should be integrated with the former CSD staff working on efficiency. She accepted that when this change took place, only one Under Secretary post would be needed in this area. She wished to be consulted about the staffing of the senior posts in the new unit when it was set up. She approved your proposals for your own staff support after integration, as set out in paragraph ten of your minute. She acknowledged that you would not be able in future to be so closely involved in the effort to improve the efficiency of central government but she warmly welcomed your readiness to continue to give advice in all the areas mentioned in paragraphs four and five of your minute.

I am sending a copy of this minute to Sir Robert Armstrong.

*JAW.*

2 December 1981

PRIME MINISTER

THE EFFICIENCY OF CENTRAL GOVERNMENT

This is the note I promised to send you in my minute of 5 November. I should like to discuss it with you when we meet on 1 December, if I may.

Personal points

2. I should like to comment on some of the staff who have been associated with my work - Messrs Cassels, Priestley and Allen. If I may say so, I am very glad that you told Cabinet on 12 November that Mr Cassels would continue to have the right of direct access to you and, subject to what is said below, I look forward to working with him.

Continuation of my assignment

3. Now you have re-organised the central departments, you will have your own views on how best to obtain advice. If you wish, I shall be glad to go on advising you direct and your Ministers. Even so, it might be sensible for us to set a term on my assignment, perhaps mid-1983, although the exact time of my going could be settled later.

Efficiency work in 1982

4. Ministers and the Civil Service have made good progress towards increasing the efficiency of central Government. But there is still a long way to go and it is essential to keep up the momentum. This is especially true of the lasting reforms intended to get at the underlying causes of poor management, including notably financial management. I should particularly like to lend my support to MPO and Treasury Ministers and their senior officials in this area.

5. I propose therefore that I should:

- (1) Help the MPO and the Treasury bring to fruition work on lasting reforms. (Here, as indicated

WV 112

Govt Mach

01 211 6402

The Rt Hon Baroness Young  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Whitehall  
London SW1

1 December 1981

*Stan Jones*

EFFICIENCY STRATEGY FOR 1982

Your minute to the Prime Minister of 17 November invited colleagues' agreement to your plan for scrutinies and reviews in 1982.

I am content with the general line and direction of your proposals. My Department will be ready to play its part in the strategy for 1982.

I am not clear whether you are looking to my Department to propose a separate Departmental scrutiny (under item 1 of your summary of proposals) in addition to our contribution to the running costs review. My Permanent Under Secretary has had some preliminary discussion with Sir Derek Rayner about the kind of project we might undertake in the next round. If our participation in the running costs scrutiny entailed a call on our staff resources of the normal kind, ie releasing a Principal for some 2-4 months, then I doubt whether we could take on a second scrutiny. As you know, we have only some 1150 people in this Department and no recognised management services capability. The load on the 60 or so Principals in the Department is already heavy.

In the light of this I hope you would agree to our contributing to the 1982 exercise either through our participation in the Departmental running costs scrutiny, or through the kind of scrutiny Sir Donald Maitland is discussing at present with Sir Derek Rayner, but not both.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong and Sir Derek Rayner.

*Stan Jones*  
*Erin*  
*Nigel*

NIGEL LAWSON

1-2 DEC 1988







*W 1/12*

CHANCELLOR OF THE  
DUCHY OF LANCASTER  
C *17*  
1-DEC1981  
FILING INSTRUCTIONS  
FILE No. ....

CHANCELLOR OF THE DUCHY OF LANCASTER
<i>Mr Gurney</i>
PS - Min of State PS - Perm Sec PS - Second Perm Sec LP (DB)
<i>Mr Frazer Mr Charlton Mr Widding Mr Russell Mr Pestell</i>

FCS/81/134

CHANCELLOR OF THE DUCHY OF LANCASTER

Efficiency Strategy for 1982

1. In your minute of 17 November to the Prime Minister, you invited comments on your proposals for further scrutinies and reviews as part of next year's efficiency strategy for the Civil Service.
2. The only item to which my Department is committed in your proposals is the review of Departmental running costs: item 3 in Appendix 1. We have been discussing our inclusion in this with your Department and Sir Derek Rayner's Office at official level. Our concern has been that methods of financial control appropriate to a centralised spending Department may not suit the DS/FCO which is spread around the world and is more exposed than others to exchange rate fluctuations, local inflation rates and so on. A move to giving overseas posts greater financial responsibility, which has its attractions, could be expensive in manpower terms if it meant staffing them all accordingly instead of concentrating the expertise at the centre. We have spelt our reservations out in more detail in the correspondence between officials. But on the understanding that they are taken properly into account I am content for us to be included in the proposed review.
3. As you know, we shall continue to contribute also to the programme of Departmental scrutinies - item 1 of your Appendix 1.

*C*

(CARRINGTON)

Foreign and Commonwealth Office

30 NOVEMBER 1981

*c. also Sir Derek Rayner  
Mr Rickett (No 10)*

PV



CHANCELLOR OF THE DUCHY OF LANCASTER  
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 FILE No. ....

Papers through

Wm 1/12

DEPARTMENT OF INDUSTRY  
 ASHDOWN HOUSE  
 123 VICTORIA STREET  
 LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
 SWITCHBOARD 01-212 7676

Secretary of State for Industry

30 November 1981

Baroness Young  
 Chancellor of the Duchy of  
 Lancaster  
 Admiralty Buildings  
 Whitehall  
 London SW1

CHANCELLOR OF THE DUCHY OF LANCASTER
Mr Gurney
PS Min of State
<del>PS - Perm Sec</del>
PS - Second Perm Sec
LP (DB)
Mr Fisher
Mr Chisholm
Mr Russell
Mr Wilding
Mr Postell

Dear Janet,

EFFICIENCY STRATEGY FOR 1982

I have seen your minute of 17 November to the Prime Minister. I am content with the programme of efficiency work which you have described and I shall be considering the scope for further departmental scrutinies in the Department of Industry.

I am copying this letter to Sir Derek Rayner and to Sir Robert Armstrong.

Your  
 Peter

C. also Mr Rickett (No 10)



10 DOWNING STREET

*From the Private Secretary*

MR. PRIESTLEY

CABINET OFFICE

CONTROL OF RUNNING COSTS: MEETING IN NO. 10

We spoke about Mr. Cassels' minute of 26 November. I attach a copy of the note that I put to the Prime Minister on this, which she has agreed. From our point of view, it would be best to hold this presentation and reception on the evening of Wednesday 24 February. I should be grateful if you could take account of this in drafting the letter for Mr. Whitmore to send to Departments on next year's scrutiny programme.

W. F. S. RICHETT

30 November 1981

Robert  
Sunderland



10 DOWNING STREET

W. Uye

① Wed 24 Feb  
1830 - 19.30

Wd you like  
me to -

a) Tell me 9.

b) .. Petrie

Douglas re

Dinning R.

Caroline et. 30/11

Not at this stage. The next step  
is for CAW to write to Depts about  
next years scrutiny programme  
and we will include a passage  
on this in his letter. Wm  
30/11

in your Minute to Ministers of 24 July, I think that it would be reasonable for you to look to Mr Cassels to make a substantial contribution.)

- (2) Provide overall leadership for the scrutiny programme in 1982.
- (3) Be associated with the Government-wide reviews in 1982 (ie of the management of self-contained executive units, the control of running costs and personnel work).

6. My intention would be to give as much as I could to the design, conduct and reporting of and follow-up to these exercises without getting caught up in the detail.

#### The MPO-Treasury working relationship

7. I am sure that the Ministers and senior officials concerned will want to make certain that this is well thought out. It will need to take sensible and robust forms and these can be developed as time goes on. I am hoping to meet the Chancellors of the Exchequer and the Duchy of Lancaster in January to offer some thoughts on this.

#### Staff support

8. There is a bit of sorting out to do here. My small unit will consist on Mr Allen's departure at the end of this month of an Under Secretary, an Assistant Secretary (Mr Beesley) and a Principal (Mrs Thoms), with secretarial and clerical support. It is supervised by Mr Cassels, who has also inherited from the CSD another Under Secretary command (Functions and Programmes, FP), which was set up to shadow and support me, as well as carrying out work on its own

account (including cost-cutting exercises), which it has done very well. Mr Cassels also has part of another ex-CSD command (Management and Organisation, M&O), which does some work in the "efficiency/management" area. It will I am sure make good sense to integrate these two commands with my unit and to reduce the number of senior posts involved in this work.

9. It will take a few weeks to work out how the integration should best be organised, but my own expectation would be that my chief of staff, Mr Priestley, would then continue with "efficiency/management" work in the MPO. My view is very firmly that my unit should remain in being in the meantime, staffed and sited as it is now. Under Mr Cassels's supervision on my behalf, it should complete the work in hand for this year and get that part of next year's strategy for which it is taking the lead on the road (ie the departmental scrutiny programme and the Government-wide reviews of running costs). Temporarily, it will work in parallel with FP, which is at present taking the lead in setting up the Government-wide reviews of executive units and of personnel work, in both of which my unit is participating.

10. I shall continue to need staff support after integration and should be grateful if you would authorise this. It would suit me best if I might continue to look to Mr Priestley and those of my present staff who remain after Mr Allen goes (Mr Beesley and Mrs Thoms) to work to and for me as the occasion requires. It might also be necessary for me to look for support to other MPO staff, but I do not foresee any difficulty about agreeing with Lady Young, Sir Robert Armstrong and Mr Cassels on this as the need arises.

11. Formally, the staff of the MPO will of course be "in line" to Mr Cassels, Sir Robert Armstrong, Lady Young and yourself. It might be thought that anyone who was also working for me would be placed in an invidious position in



the event of my disagreeing with MPO on policy or other matters. With some give and take however I would not expect that either MPO staff working for me or I myself would be in any serious difficulty.

12. I am copying this to Sir Robert Armstrong. I hope to have seen Lady Young at least briefly before seeing you.

Derek Rayner

29 November 1981

wm 20/11



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

*From the Minister*

The Baroness Young  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Whitehall  
London SW1A 2AZ

27 November 1981

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister.

I am happy to agree to your plan for scrutinies and reviews in so far as it affects my Department. We shall be glad to co-operate in the scrutiny of personnel work.

As to our departmental scrutiny for 1982, I propose a study of the use of written documents in my Department, in the hope of reducing their volume and cost. I discussed this with Derek Rayner last year and I know he found it interesting. I am enclosing the detailed proposal with this letter. I hope its results will be of interest to other Departments too. I cannot claim that it is a really major scrutiny, though it does have wide implications. But my Department is going to be very much occupied with putting into effect the recommendations of Coopers and Lybrand on financial planning, control and monitoring. These affect the whole way in which we organise ourselves for financial purposes, and I think it is more important to press on with this than to divert effort into an additional major scrutiny, which would inevitably cover some of the same ground.

I am sending a copy of this letter to the Prime Minister, Sir Derek Rayner and Sir Robert Armstrong.

PETER WALKER



a. Subject

The generation and use of written documents in MAFF.

b. Costs of the activity

To be established by the study.

c. Reasons for selecting this subject

The use of written documents is integral to the work of MAFF, but the daily weight of paper passing across the desks of Ministers and staff at all levels has become very burdensome. Entry to the EC has added a further dimension to the growth of paper, in view of the very large number of documents generated by the Council, the Commission and their respective services. The necessity for this weight of paper needs to be tested and challenged with a view to reducing the burden and streamlining the work of the Department without loss of control, public accountability, efficiency, reliability or any other necessary feature of Government activity.

d. Terms of reference

To examine selected posts and/or functions of MAFF in order

- (a) to identify the main purposes for which written documents are produced (or copied);

... / Sub para (b)

- (b) to consider whether and, if so, how the preparation, copying, circulation and storage of such documents could be reduced or made less costly;
- (c) to assess the financial and other advantages and disadvantages of the necessary changes; and
- (d) to make recommendations.

e. Proposed starting and finishing dates

Dates in 1982 to be determined dependent on availability of a suitable Scrutiny Officer.

f. Scrutiny officer and reporting arrangements

Examining officer - one Principal (to be selected), with appropriate support

Reporting arrangements - to the Minister of Agriculture, Fisheries and Food, in consultation with the Permanent Secretary MAFF and the Rayner Office. The report will be of interest to other Heads of Departments.

With the Compliments  
of the  
Secretary of State

Wh  
25/11

Scottish Office,  
Dover House,  
Whitehall,  
London, S.W.1 A 2AU



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*Wm 30/11*

The Rt Hon The Baroness Young  
Chancellor of the Duchy of Lancaster  
Civil Service Department  
Whitehall  
LONDON SW1

27 November 1981

*Dear Lady Young.*

EFFICIENCY STRATEGY FOR 1982

I agree for my interest with the overall programme for reviews and scrutinies in 1982 as set out in your minute of 17 November to the Prime Minister. Although a number of details remain to be settled on the scope and conduct of the two reviews in which it is proposed that the Scottish Office participate - the resource control review in the prisons and the scrutiny of personnel work - I agree in principle with what is proposed.

The manpower demands of participating in these two studies will, however, stretch our available resources and I hope therefore that you will agree that it is not necessary for me to submit a proposal for a Departmental scrutiny for 1982 for the Scottish Office. I am, however, considering a scrutiny in one of the small Departments for which I am responsible.

I am copying this letter to the Prime Minister, Sir Derek Rayner and Sir Robert Armstrong.

*Yours sincerely*

*M Stewart (Miss)*

(Approved by the Secretary of State and signed in his absence.)

30 NOV 1987 A

11 12 1 2 3 4  
0 5 6 7 8 9

Goyt Naeh

SWYDDFA GYMREIG  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)



WELSH OFFICE  
GWYDYR HOUSE  
WHITEHALL LONDON SW1A 2ER  
Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

MANAGEMENT IN CONFIDENCE

27<sup>th</sup> November 1981

*D. Jones*

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute of 17 November to the Prime Minister.

I agree with the underlying philosophy of your proposed strategy and I am content with your plan for its implementation. My Department will participate in the programme of Departmental scrutinies and I hope to submit a formal proposal shortly.

/ I am copying this letter to the Prime Minister and also to Sir Derek Rayner and Sir Robert Armstrong.

*J. a.*  
*Neil*

Baroness Young  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
LONDON

Mr WHITMORE

*MW*  
*MS*

cc Mr Buckley  
Mr Wright  
Miss Goodison

SIR DEREK RAYNER'S MEETING WITH THE PRIME MINISTER, 1 DECEMBER

1. Sir Derek Rayner has asked me to let you have the attached advance copy of a minute which he will be sending to the Prime Minister in preparation for their meeting on Tuesday evening.
2. Sir Derek does not return to London from Toronto until late tomorrow night but he wanted you to have the text for the weekend box. He has particularly asked me to let you know, in case there is any doubt, that the text is the result of two long phone calls from him to this office earlier this week.
3. Sir Derek himself will sign the text on Sunday and the top copy will be with you on Monday.

*Jean Sullivan*  
Jean Sullivan  
Personal Secretary to  
Sir Derek Rayner  
27 November 1981

Enc: Advance copy of Sir Derek Rayner's minute

PRIME MINISTER

THE EFFICIENCY OF CENTRAL GOVERNMENT

This is the note I promised to send you in my minute of 5 November. I should like to discuss it with you when we meet on 1 December, if I may.

Personal points

2. I should like to comment on some of the staff who have been associated with my work - Messrs Cassels, Priestley and Allen. If I may say so, I am very glad that you told Cabinet on 12 November that Mr Cassels would continue to have the right of direct access to you and, subject to what is said below, I look forward to working with him.

Continuation of my assignment

3. Now you have re-organised the central departments, you will have your own views on how best to obtain advice. If you wish, I shall be glad to go on advising you direct and your Ministers. Even so, it might be sensible for us to set a term on my assignment, perhaps mid-1983, although the exact time of my going could be settled later.

Efficiency work in 1982

4. Ministers and the Civil Service have made good progress towards increasing the efficiency of central Government. But there is still a long way to go and it is essential to keep up the momentum. This is especially true of the lasting reforms intended to get at the underlying causes of poor management, including notably financial management. I should particularly like to lend my support to MPO and Treasury Ministers and their senior officials in this area.

5. I propose therefore that I should:

- (1) Help the MPO and the Treasury bring to fruition work on lasting reforms. (Here, as indicated



in your Minute to Ministers of 24 July, I think that it would be reasonable for you to look to Mr Cassels to make a substantial contribution.)

- (2) Provide overall leadership for the scrutiny programme in 1982.
- (3) Be associated with the Government-wide reviews in 1982 (ie of the management of self-contained executive units, the control of running costs and personnel work).

6. My intention would be to give as much as I could to the design, conduct and reporting of and follow-up to these exercises without getting caught up in the detail.

#### The MPO-Treasury working relationship

7. I am sure that the Ministers and senior officials concerned will want to make certain that this is well thought out. It will need to take sensible and robust forms and these can be developed as time goes on. I am hoping to meet the Chancellors of the Exchequer and the Duchy of Lancaster in January to offer some thoughts on this.

#### Staff support

8. There is a bit of sorting out to do here. My small unit will consist on Mr Allen's departure at the end of this month of an Under Secretary, an Assistant Secretary (Mr Beesley) and a Principal (Mrs Thoms), with secretarial and clerical support. It is supervised by Mr Cassels, who has also inherited from the CSD another Under Secretary command (Functions and Programmes, FP), which was set up to shadow and support me, as well as carrying out work on its own

account (including cost-cutting exercises), which it has done very well. Mr Cassels also has part of another ex-CSD command (Management and Organisation, M&O), which does some work in the "efficiency/management" area. It will I am sure make good sense to integrate these two commands with my unit and to reduce the number of senior posts involved in this work.

9. It will take a few weeks to work out how the integration should best be organised, but my own expectation would be that my chief of staff, Mr Priestley, would then continue with "efficiency/management" work in the MPO. My view is very firmly that my unit should remain in being in the meantime, staffed and sited as it is now. Under Mr Cassels's supervision on my behalf, it should complete the work in hand for this year and get that part of next year's strategy for which it is taking the lead on the road (ie the departmental scrutiny programme and the Government-wide reviews of running costs). Temporarily, it will work in parallel with FP, which is at present taking the lead in setting up the Government-wide reviews of executive units and of personnel work, in both of which my unit is participating.

10. I shall continue to need staff support after integration and should be grateful if you would authorise this. It would suit me best if I might continue to look to Mr Priestley and those of my present staff who remain after Mr Allen goes (Mr Beesley and Mrs Thoms) to work to and for me as the occasion requires. It might also be necessary for me to look for support to other MPO staff, but I do not foresee any difficulty about agreeing with Lady Young, Sir Robert Armstrong and Mr Cassels on this as the need arises.

11. Formally, the staff of the MPO will of course be "in line" to Mr Cassels, Sir Robert Armstrong, Lady Young and yourself. It might be thought that anyone who was also working for me would be placed in an invidious position in

the event of my disagreeing with MPO on policy or other matters. With some give and take however I would not expect that either MPO staff working for me or I myself would be in any serious difficulty.

12. I am copying this to Sir Robert Armstrong. I hope to have seen Lady Young at least briefly before seeing you.

Derek Rayner

November 1981

CR 1/12



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 2111/3

MO 2/2/6

26th November 1981

*Dear Janet.*

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your minute to the Prime Minister of 17th November.

As you know, my department has played a very full part in past scrutinies and reviews, and we are very happy to play a similar part in the efficiency programme for 1982. I am accordingly entirely content with your plan subject to the details being settled in discussion with my department.

A copy of this letter goes to the Prime Minister, Ministers in charge of departments, to Sir Derek Rayner and to Sir Robert Armstrong.

*Yours ever  
John*

John Nott

The Rt Hon Baroness Young



NORTHERN IRELAND OFFICE  
GREAT GEORGE STREET,  
LONDON SW1P 3AJ

SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

*Wm  
27/11/81*

The Rt Hon The Baroness Young  
Chancellor of the Duchy of  
Lancaster  
Cabinet Office  
Whitehall  
LONDON SW1A 2AZ

26 November 1981

*John Jones*

EFFICIENCY STRATEGY 1982

I have seen a copy of your minute of 17 November to the Prime Minister, and I welcome the approach proposed to efficiency studies in 1982. We in Northern Ireland, in addition to contributing to the 'departmental' programme of reviews, will of course study with great interest the outcomes of the three co-ordinated programmes to see what lessons from them can be applied to Northern Ireland.

I am copying this letter to the recipients of yours.

*John Jones*

LM  
1/12



QUEEN ANNE'S GATE  
LONDON SW1H 9AT

26

26 NOV 1981

FILING INSTRUCTIONS

FILE No.

25 November 1981

Dear Janet:

EFFICIENCY STRATEGY FOR 1982

Thank you for sending me a copy of your submission of 17 November to the Prime Minister forwarding a proposed plan for scrutinies and reviews to be conducted in 1982.

I confirm that I am content that we should proceed on the basis of this plan.

I am sending copies of this letter to Sir Derek Rayner and Sir Robert Armstrong.

*Ms M  
Willie*

CHANCELLOR OF THE DUCHY OF LANCASTER
Mr Gurney
PS - Min of State
<del>PS - Perm Sec</del>
PS - Second Perm Sec
LP (PB) <input checked="" type="checkbox"/>
<del>The Baroness Young</del>
Mr Fraser
Mr Charkham
Mr Russell
Mr Pestell
Mr Wilding

c. also Mr Rickett (No 10)

WNV/12

cc Sir Derek Rayner

Mr Gurney  
PS/mos  
PS/2nd Perm Sec  
Mr Fraser  
Mr Chasche  
Mr Russell  
SWIA OPW  
Mr Pestell  
Mr Wilding



HOUSE OF LORDS,

CHANCELLOR OF THE  
DUCHY OF LANCASTER  
C 24  
25 NOV 1981  
FILING INSTRUCTIONS  
FILE No. ....

24 November 1981  
CDL (DB)

My dear Janet:

Efficiency Strategy for 1982

I have seen a copy of your minute of 17 November to the Prime Minister.

I agree the programme for scrutinies and reviews in 1982 which was attached to that minute, and in particular welcome the proposal to include my own Department among those whose personnel management is to be scrutinised.

Yrs:

The  
Baroness Young  
Chancellor of the Duchy of Lancaster  
Whitehall  
London SW1

C. also Mr Rickett (No 10)  
Sir Robert Armstrong

CHANCELLOR OF THE DUCHY OF LANCASTER  
 23 NOV 1981  
 FILING INSTRUCTIONS  
 FILE No. ....

*W 1/12*



*From the Secretary of State*

CHANCELLOR OF THE DUCHY OF LANCASTER  
 Mr Gurney  
 PS - Min of State (Tsy)  
~~PS - Perm Sec~~  
 PS - Second Perm Sec  
 LP (DB)  
 Mr Fraser  
 Mr Charkham  
 Mr Russell

also: Mr Wilding } Tsy  
 Mr Pestell }  
 23 November 1981

MANAGEMENT - IN CONFIDENCE

Baroness Young  
 Chancellor of the Duchy of Lancaster  
 Privy Council Office  
 Whitehall  
 London, SW1A 2AT

*Dear Janet,*

EFFICIENCY STRATEGY FOR 1982

I have seen your minute of 17 November to the Prime Minister and I am content with the programme of work which you propose for 1982. As I have already indicated to you and to Sir Derek Rayner, I agree to my Department's participation in the reviews of resource control (the Coastguard Service) and of Departmental running costs.

I am copying this letter to Sir Derek Rayner and Sir Robert Armstrong.

*Jm*

*John Biffen*

JOHN BIFFEN

MANAGEMENT - IN CONFIDENCE

*c. also Mr Rickett (No.10)*



SUMMARY OF PROPOSALS

1. Departmental Scrutinies
  - Number of scrutinies - 20 - 25
  - Contributing Departments - All, with certain agreed exceptions.
  - Timing - Bids will be invited towards the end of the year. Timing during 1982 to be agreed individually.
  - Estimated Cost - £400,000 - £500,000.
  
2. Resource Control Reviews of Executive Operations
  - Number of reviews - 6 - 7
  - Contributing Departments - Defence (2) + a smaller unit, possibly the Meteorological Office.  
Home Office - prisons.  
Environment (PSA works service)  
Trade (Coastguard service)  
Possibly the Royal Mint.
  - Timing - Planning to take place from now. Start early 1982.
  - Estimated Cost - £300,000.
  
3. Departmental Running Costs
  - Number of Projects - 6 - 7.
  - Contributing Departments - Foreign and Commonwealth Office  
Education and Science.  
Trade  
Transport  
Energy  
[Treasury and MPO]  
Employment.
  - Timing - Planning from now. Start in first half of 1982.
  - Estimated Cost - £200,000.
  
4. Personnel Management
  - Number of scrutinies - 8.
  - Contributing Departments - Home Office.  
Lord Chancellor's.  
Inland Revenue.  
Customs and Excise.  
Agriculture.  
Scottish Office.  
Social Services.  
Employment Group.
  - Timing - Planning from now to early 1982. Start - middle of 1982.
  - Estimated Cost - £250,000.

## OUTLINE OF THE EFFICIENCY PROGRAMME FOR 1982

(1) DEPARTMENTAL SCRUTINIES

The "scrutiny" approach has proved its value. We must aim to secure implementation of recommendations resulting from the work already in hand. There should continue to be a programme of departmental scrutinies in 1982 to help with the particular concerns of individual Ministers and their Permanent Secretaries. This should include some substantial scrutinies of administrative processes not yet covered and also a number of small departments. To allow for other new work and the follow-through of this year's programme we envisage fewer departmental scrutinies in 1982 - 20-25 as against about 40 in 1981.

2. Bids for inclusion in the next round of the scrutiny programme will be invited towards the end of the year, but there is no reason to delay them if they can be made earlier.

3. Some areas of work have already been identified for review, notably the employment service provided by the MSC. The following also appear strong candidates:

- aspects of the administration of social security benefits/pensions not yet looked at;
- regulatory and enforcement activities not yet fully examined;
- the work of professional advisers.  
(Scrutinies of information and publicity work in support of economic and industrial policies and of the use made of diplomatic service personnel serving overseas - deferred from 1981 - have already been arranged.)

(2) EXECUTIVE OPERATIONS (RESOURCE CONTROL REVIEWS)

4. The weight of scrutiny and other efficiency work has rightly been on simplifying administrative processes. But we need now to do more in and learn more about executive operations which are non-administrative in character. The resources used in such operations are large: an approximate estimate is 250-300,000 people and about £3,000 million a year.

5. The review this year of supporting services in R & D establishments has shown substantial scope for savings. Building on this we propose a programme of co-ordinated departmental scrutinies of the use and control of resources in the main blocks of non-administrative work. The aim would be to achieve immediate savings and improvements wherever possible and to identify and tackle obstacles to effective management. We think that 6 or 7 reviews should be carried out in 1982, with others to follow in later years.

6. We propose that the 1982 reviews include: two important areas of the Ministry of Defence (which has a large proportion of this kind of work); the prison service - already agreed by the Home Secretary, with a closely related review in the Scottish prison service under consideration; the coastguard service; and the PSA works service. In addition one or two smaller units (perhaps for example the Meteorological Office) and also possibly a trading service such as the Royal Mint should be included.

7. The reviews would start with such matters as specialist technical services, various kinds of administrative support, supplies, capital assets - including joint studies by the MPO and departments of some of the main supporting services, such as messengerial and typing services, stores and telecommunications. Examining officers would be required to consider in the light of their findings arrangements for allocating responsibility and accountability and, as necessary, to draw attention to any desirable changes in policy guidelines.

### (3) DEPARTMENTAL RUNNING COSTS

8. A scrutiny into the control of non-staff administrative expenditure already carried out for the Secretary of State for the Environment has confirmed the message coming out of the scrutiny programme generally - poor budgeting, a widespread lack of responsiveness to costs and a need for greater delegation of authority and control. The DOE scrutiny recommended a package of reform aimed at encouraging accountable management. It included a 'cost centre' approach to the budgeting, monitoring and control process which places greater responsibility on line managers; an information system to support this; and reviews designed to cut costs.

9. Against this background, we propose a co-ordinated programme of reviews whose aim will be to ensure that each department has the tools necessary to keep its running costs under proper control. The reviews must recognise that the circumstances of Departments are different and may call for different approaches, and that managers made accountable for running costs must have adequate means of influencing those costs including the freedom, within limits, to switch resources so as to meet targets. The reviews will draw on the outcome of the large number of related initiatives already taken in departments, experience of the annual scrutiny of running costs and the work of the Financial Management Co-ordination Group led by the Treasury. They will be complemented by the programme of resource control reviews of executive operations.

10. We propose specific exercises in 6 or 7 departments, some of whom have already expressed a particular desire to make a contribution. We would like to seek proposals from the Foreign Secretary, the Secretary of State for Education and Science, the Secretary of State for Trade, the Secretary of State for Transport, the Secretary of State for Energy and the Secretary of State for Employment. I will need to consider with the Chancellor of the Exchequer, in the light of the re-organisation of central departments, the plans which had been made for the CSD to contribute.

(4) PERSONNEL WORK

11. Personnel work is common to all departments, and by virtue of the size of the Civil Service many thousands of people are employed in this specialism. The quality of this work is crucially important for the efficient operation of Government.

12. We are already reviewing certain central policies and practices to see whether they can be carried out more economically and effectively. We have in mind to complement this work through about 8 scrutinies in departments. The thrust of this will be towards improving the quality of personnel management, especially as it affects the motivation and efficiency of staff, as well as reducing

bureaucratic and other unnecessary costs. We would hope to involve one or more people outside the Civil Service with relevant experience and knowledge in designing and carrying out the work.

13. The main focus of most of the scrutinies should, we suggest, be on departments' field organisations, but the issues uncovered, especially as they affect line managers and staff, would be followed through in HQ divisions and where appropriate the MPO or the Treasury.

14. We propose that each scrutiny should examine a core of key activities and selected other activities decided in consultation with each department concerned. The core activities would be:

- all aspects of staff appraisal and career management;
- recruitment, staff movements, resignation, retirement and redundancy.

Selected activities, each to be examined in a few departments only, might be:

- the administration of pay and other emoluments, travel, subsistence, removals, leave and hours;
- discipline (including security clearance of staff), medical referral arrangements and welfare;
- the handling of complaints and suggestions;
- management of accommodation, security and health and safety.

We do not propose the inclusion in this programme of:

- resourcing and audit activities such as complementing, staff inspection, work measurement and management services;
- training (except training in staff appraisal and selection);
- industrial relations.

15. We would like to seek contributions from the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer (in respect of the Inland Revenue and Customs and Excise), the Minister of Agriculture, the Secretary of State for Scotland, the Secretary of State for Social Services and the Secretary of State for Employment.

16. The best time to start field work will probably be from about mid-year. This will allow the present policy reviews to be taken further and the aftermath of the recent strike to pass, as well as helping to spread the load. But we shall have to get ahead with planning these exercises in discussion with departments now.

#### CONCLUSION

17. The total cost of the programme will be about £1m - £1 $\frac{1}{4}$ m - if anything slightly less than this year's. We judge that the return on investment for this effort will be well worth while.



Chancellor of the Duchy of Lancaster

The pm has already seen  
and agreed this minute.  
No need to put it to her  
at this stage. WH

11/64

PRIME MINISTER

Gore Mack

## EFFICIENCY STRATEGY FOR 1982

1. Our efforts to increase efficiency and reduce manpower in the Civil Service are beginning to bear fruit. Manpower is already down by 52,500, worth £370 million a year. In 1979 and 1980 by means of the scrutiny programme we identified potential savings of about £190 million a year (11,000 posts) and one-off savings of £28 million, with some consequent improvements in service to the public. Firm decisions which will secure £110 million in recurrent savings and all of the one-off savings suggested have already been made and a great deal of work has been, and will need to be, undertaken to give effect to them.

2. It is timely to consider where the thrust of further efficiency work should be directed to follow this through. We must continue to concentrate on achieving savings in practice, especially over the next 3 years, as well as identifying and extending good management practice. Work already in hand must be completed and - most important of all - decisions taken and implemented. But we also need a well-directed programme of new work. I am certain that this will pay off provided always that we continue to give the necessary political backing and to engage the full support of staff in carrying out the programme and implementing the resulting recommendations.

3. I have discussed the programme for 1982 with Sir Derek Rayner and we agree on the proposals set out in this minute.

4. The proposals cover both departmental scrutinies and co-ordinated reviews involving several departments. A summary list is at Appendix 1 and a fuller outline at Appendix 2, but the main elements are:

- (1) further departmental scrutinies, including a number continuing the drive to simplify schemes which affect the individual citizen;
- (2) a programme of 6 or 7 "resource control" reviews of important executive operations such as the prison service;
- (3) a similar number of projects to improve systems for estimating, monitoring and controlling the running costs of departments;
- (4) a close look at different aspects of personnel work in about 8 departments to examine both the quality of personnel management work and how economically it can be carried out.

MANAGEMENT IN CONFIDENCE

5. The success of work in this field in terms of both quantity and quality depends critically on the attitudes and motivation of staff in departments, and especially line managers. We believe that most effort on the "efficiency" front is and should remain departmental in origin and execution. We have therefore sought to pursue the subjects which we regard as important in ways which accord with the priorities of Departmental Ministers and their senior officials; to build on initiatives already taken; and to keep the programme as a whole if anything slightly smaller than in 1981. I, and my officials in the MPO, will exercise central oversight of this strategy.

6. There has been an encouraging preliminary response. It seems likely for example that substantial departmental scrutinies ((1) above) will be of continuing help in the employment and benefits field; that the new programme for resource control reviews of executive operations ((2) above) will assist in tackling long-standing problems over prison manpower and with the development of management audit in Defence; and that, with the two co-ordinated exercises on personnel and running costs ((3) and (4) above), we shall make real advances towards meeting a widely felt need to improve the quality and effectiveness of these two crucial aspects of management.

7. If colleagues agree to this strategy, I shall be seeking a suitable opportunity in the near future to publicise what we are doing. I believe it is important that we should take credit for all the work that will be going on. Naturally references to particular scrutinies would be agreed with the colleagues affected.

8. I am sending copies of this minute to Ministers in charge of departments. I invite them to agree the attached plan for scrutinies and reviews in 1982. Where indicated, the details can be settled in discussion with departments. I should be grateful for replies by 27 November.

9. A copy of this minute goes to Sir Derek Rayner, and also to Sir Robert Armstrong.

*Baroness Young*

BARONESS YOUNG  
17 November 1981



SUMMARY OF PROPOSALS

1. Departmental Scrutinies
  - Number of scrutinies - 20 - 25
  - Contributing Departments - All, with certain agreed exceptions.
  - Timing - Bids will be invited towards the end of the year. Timing during 1982 to be agreed individually.
  - Estimated Cost - £400,000 - £500,000.
  
2. Resource Control Reviews of Executive Operations
  - Number of reviews - 6 - 7
  - Contributing Departments - Defence (2) + a smaller unit, possibly the Meteorological Office.  
Home Office - prisons.  
Environment (PSA works service)  
Trade (Coastguard service)  
Possibly the Royal Mint.
  - Timing - Planning to take place from now  
Start early 1982.
  - Estimated Cost - £300,000.
  
3. Departmental Running Costs
  - Number of Projects - 6 - 7.
  - Contributing Departments - Foreign and Commonwealth Office  
Education and Science.  
Trade  
Transport  
Energy  
[Treasury and MPO]  
Employment.
  - Timing - Planning from now. Start in first half of 1982.
  - Estimated Cost - £200,000.
  
4. Personnel Management
  - Number of scrutinies - 8.
  - Contributing Departments - Home Office.  
Lord Chancellor's.  
Inland Revenue.  
Customs and Excise.  
Agriculture.  
Scottish Office.  
Social Services.  
Employment Group.
  - Timing - Planning from now to early 1982  
Start - middle of 1982.
  - Estimated Cost - £250,000.

## OUTLINE OF THE EFFICIENCY PROGRAMME FOR 1982

(1) DEPARTMENTAL SCRUTINIES

The "scrutiny" approach has proved its value. We must aim to secure implementation of recommendations resulting from the work already in hand. There should continue to be a programme of departmental scrutinies in 1982 to help with the particular concerns of individual Ministers and their Permanent Secretaries. This should include some substantial scrutinies of administrative processes not yet covered and also a number of small departments. To allow for other new work and the follow-through of this year's programme we envisage fewer departmental scrutinies in 1982 - 20-25 as against about 40 in 1981.

2. Bids for inclusion in the next round of the scrutiny programme will be invited towards the end of the year, but there is no reason to delay them if they can be made earlier.

3. Some areas of work have already been identified for review, notably the employment service provided by the MSC. The following also appear strong candidates:

- aspects of the administration of social security benefits/pensions not yet looked at;
- regulatory and enforcement activities not yet fully examined;
- the work of professional advisers.  
(Scrutinies of information and publicity work in support of economic and industrial policies and of the use made of diplomatic service personnel serving overseas - deferred from 1981 - have already been arranged.)

(2) EXECUTIVE OPERATIONS (RESOURCE CONTROL REVIEWS)

4. The weight of scrutiny and other efficiency work has rightly been on simplifying administrative processes. But we need now to do more in and learn more about executive operations which are non-administrative in character. The resources used in such operations are large: an approximate estimate is 250-300,000 people and about £3,000 million a year.

5. The review this year of supporting services in R & D establishments has shown substantial scope for savings. Building on this we propose a programme of co-ordinated departmental scrutinies of the use and control of resources in the main blocks of non-administrative work. The aim would be to achieve immediate savings and improvements wherever possible and to identify and tackle obstacles to effective management. We think that 6 or 7 reviews should be carried out in 1982, with others to follow in later years.

6. We propose that the 1982 reviews include: two important areas of the Ministry of Defence (which has a large proportion of this kind of work); the prison service - already agreed by the Home Secretary, with a closely related review in the Scottish prison service under consideration; the coastguard service; and the PSA works service. In addition one or two smaller units (perhaps for example the Meteorological Office) and also possibly a trading service such as the Royal Mint should be included.

7. The reviews would start with such matters as specialist technical services, various kinds of administrative support, supplies, capital assets - including joint studies by the MPO and departments of some of the main supporting services, such as messengerial and typing services, stores and telecommunications. Examining officers would be required to consider in the light of their findings arrangements for allocating responsibility and accountability and, as necessary, to draw attention to any desirable changes in policy guidelines.

### (3) DEPARTMENTAL RUNNING COSTS

8. A scrutiny into the control of non-staff administrative expenditure already carried out for the Secretary of State for the Environment has confirmed the message coming out of the scrutiny programme generally - poor budgeting, a widespread lack of responsiveness to costs and a need for greater delegation of authority and control. The DOE scrutiny recommended a package of reform aimed at encouraging accountable management. It included a 'cost centre' approach to the budgeting, monitoring and control process which places greater responsibility on line managers; an information system to support this; and reviews designed to cut costs.

9. Against this background, we propose a co-ordinated programme of reviews whose aim will be to ensure that each department has the tools necessary to keep its running costs under proper control. The reviews must recognise that the circumstances of Departments are different and may call for different approaches, and that managers made accountable for running costs must have adequate means of influencing those costs including the freedom, within limits, to switch resources so as to meet targets. The reviews will draw on the outcome of the large number of related initiatives already taken in departments, experience of the annual scrutiny of running costs and the work of the Financial Management Co-ordination Group led by the Treasury. They will be complemented by the programme of resource control reviews of executive operations.

10. We propose specific exercises in 6 or 7 departments, some of whom have already expressed a particular desire to make a contribution. We would like to seek proposals from the Foreign Secretary, the Secretary of State for Education and Science, the Secretary of State for Trade, the Secretary of State for Transport, the Secretary of State for Energy and the Secretary of State for Employment. I will need to consider with the Chancellor of the Exchequer, in the light of the re-organisation of central departments, the plans which had been made for the CSD to contribute.

(4) PERSONNEL WORK

11. Personnel work is common to all departments, and by virtue of the size of the Civil Service many thousands of people are employed in this specialism. The quality of this work is crucially important for the efficient operation of Government.

12. We are already reviewing certain central policies and practices to see whether they can be carried out more economically and effectively. We have in mind to complement this work through about 8 scrutinies in departments. The thrust of this will be towards improving the quality of personnel management, especially as it affects the motivation and efficiency of staff, as well as reducing

bureaucratic and other unnecessary costs. We would hope to involve one or more people outside the Civil Service with relevant experience and knowledge in designing and carrying out the work.

13. The main focus of most of the scrutinies should, we suggest, be on departments' field organisations, but the issues uncovered, especially as they affect line managers and staff, would be followed through in HQ divisions and where appropriate the MPO or the Treasury.

14. We propose that each scrutiny should examine a core of key activities and selected other activities decided in consultation with each department concerned. The core activities would be:

- all aspects of staff appraisal and career management;
- recruitment, staff movements, resignation, retirement and redundancy.

Selected activities, each to be examined in a few departments only, might be:

- the administration of pay and other emoluments, travel, subsistence, removals, leave and hours;
- discipline (including security clearance of staff), medical referral arrangements and welfare;
- the handling of complaints and suggestions;
- management of accommodation, security and health and safety.

We do not propose the inclusion in this programme of:

- resourcing and audit activities such as complementing, staff inspection, work measurement and management services;
- training (except training in staff appraisal and selection);
- industrial relations.

15. We would like to seek contributions from the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer (in respect of the Inland Revenue and Customs and Excise), the Minister of Agriculture, the Secretary of State for Scotland, the Secretary of State for Social Services and the Secretary of State for Employment.

16. The best time to start field work will probably be from about mid-year. This will allow the present policy reviews to be taken further and the aftermath of the recent strike to pass, as well as helping to spread the load. But we shall have to get ahead with planning these exercises in discussion with departments now.

#### CONCLUSION

17. The total cost of the programme will be about £1m - £1 $\frac{1}{4}$ m - if anything slightly less than this year's. We judge that the return on investment for this effort will be well worth while.

8 7 6 5 4 3 2 1 12 11 10 9

17 NOV 1981



Chancellor of the Duchy of Lancaster

*WV 10/11*  
*Govt Mach*  
Civil Service Department  
Whitehall London SW1A 2AZ  
Telephone 01-273 4400

13 November 1981

The Rt Hon Norman Fowler, MP  
Secretary of State for Social Services  
Alexander Fleming House  
Elephant and Castle  
LONDON SE1 6BY

*Dear Norman,*

COMPLEMENTS REVIEW OF DHSS LOCAL OFFICES - REVIEW OF GUIDELINES

Thank you for your letter of 6 November.

My officials kept me informed at each stage in the handling of the recent problems with the Society of Civil and Public Servants over staff inspection in your Department and I was very pleased to see the satisfactory outcome. As you say, it has meant that the Society has conceded on the two fundamental points of principle which we were concerned to safeguard.

I also agree that the firm but sensitive handling of this case should assist other departments if and when they face similar difficulties. There is in fact a current problem of a similar kind, also with the Society, in the Customs and Excise. Management there is taking a firm stand too and I hope that the matter can be satisfactorily resolved. My officials have already drawn the attention of Customs and Excise officials to the handling of the recent problems in your Department.

I am sending a copy of this letter to the Prime Minister. In view of the current difficulties in Customs and Excise, I am also sending a copy of this letter and of yours to the Chancellor of the Exchequer.

*Yours etc*  
*Janet*

BARONESS YOUNG





20  
Gov. Mach

10 DOWNING STREET

*From the Private Secretary*

9 November, 1981.

Efficiency Strategy for 1982

The Prime Minister was grateful for Lady Young's minute of 3 November. She is content for the Chancellor of the Duchy to minute colleagues as drafted, subject to the procedural amendments to the annexes that I discussed with you last Friday.

I am sending copies of this letter to John Kerr (HM Treasury), David Wright (Cabinet Office), and Clive Priestley (Sir Derek Rayner's Office).

W. F. S. RICKETT

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

MANAGEMENT IN CONFIDENCE

LB



DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
ALEXANDER FLEMING HOUSE  
ELEPHANT AND CASTLE LONDON SE1 6BY  
TELEPHONE 01-407 5522 EXT

wm 6/11  
Saw Mac

The Baroness Young  
Chancellor of the Duchy of Lancaster  
Privy Council Office  
Whitehall  
London SW1

6<sup>th</sup> November 1981

*Dear Janet.*

COMPLEMENTS REVIEW OF DHSS LOCAL OFFICES - REVIEW OF GUIDELINES

During the past few weeks my officials have been engaged with yours in dealing with the problems resulting from the decision, by the Society of Civil and Public Servants (SCPS) in this Department, to instruct their members neither to participate in the guidelines review when CSD staff inspectors were present nor to agree to be interviewed by CSD staff inspectors about the need for work to be carried out and the way it was organised.

As you now know, intensive negotiations with and pressure on the SCPS have led them to concede the two major points of principle at stake, namely, the right of the CSD to enter departments in order to satisfy themselves that effective systems of manpower control and complementing are being applied, and that an examination of the need for work and how it is organised is an integral part of staff inspection. For tactical reasons, my officials and yours judged it reasonable to concede that the part of the study relating to the need for and the organisation of work in local offices should be conducted separately from the guidelines review. That part will, therefore, be resumed in early December. The Union, for its part, has instructed its members not only to co-operate fully with this study but also with the guidelines review which is now continuing in accordance with the planned programme.

This major concession by the Union on the two points of principle represents a significant achievement which has been brought about by our willingness to stand firm and not to accede to Union pressures.

I know that your officials are pleased with the outcome, in establishing a precedent which will assist other Departments should they face similar difficulties, and I am grateful for their expression of warm appreciation of the firm and skilful handling of this dispute. All concerned seem to me to have done well.

I am sending a copy of this letter to the Prime Minister.

*Yours*

NORMAN FOWLER



Chancellor of the Duchy of Lancaster

PRIME MINISTER

EFFICIENCY STRATEGY FOR 1982

I have been discussing with Sir Derek Rayner the programme of centrally-led work to be undertaken in 1982. I now attach a draft minute which, with your agreement, I would like to send to you with copies to all Ministers in charge of Departments, seeking their support.

2. The programme envisages that departmental scrutinies will continue though at a somewhat lower level, and that in addition there should be three exercises each round a particular theme and with a central thrust. These would be aimed:

- at the control of resources in large executive operations like the prisons;
- at the running costs of departments; and
- at selected aspects of personnel management.

I am sure that this programme will not only keep up the momentum of efficiency work but help to give it a more lasting impact. The cost will be about £1m - £1 $\frac{1}{4}$ m, about the same as this year, or slightly less.

3. There has been a good deal of consultation between Sir Derek Rayner, my officials and Permanent Secretaries and I am hopeful that our colleagues will give it a warm welcome.

4. I will work out with Derek Rayner and in consultation with the Treasury arrangements for handling the three centrally directed exercises. I envisage that this will include, as on the statistics review and the current R & D support services review, the creation of small central teams which will include if possible some outside experience. Barney Hayhoe and I will want to take a particularly close interest in these three exercises and I suggest that, in concert with Derek Rayner, I report progress on them to you at appropriate stages during the year.

5. May I have your agreement to proceed, please?

6. I am copying this to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Derek Rayner.

Tanis Young

BARONESS YOUNG

3 November 1981

Sir Derek Rayner has agreed these proposals. But I think it would be a good idea to delete the references to the CSD from the annexes, given that Lady Young's minute will probably not issue till late next week. Agree that Lady Young should proceed on this basis?

Yes  
ms

wh  
5/11

DRAFT MINUTE TO THE PRIME MINISTER FROM THE CHANCELLOR  
OF THE DUCHY OF LANCASTER

EFFICIENCY STRATEGY FOR 1982

1. Our efforts to increase efficiency and reduce manpower in the Civil Service are beginning to bear fruit. Manpower is already down by 52,500 worth £370 million a year. In 1979 and 1980 by means of the scrutiny programme we identified potential savings of about £190 million a year (11,000 posts) and one-off savings of £28 million, with some consequent improvements in service to the public. Firm decisions which will secure £110 million in recurrent savings and all of the one-off savings suggested have already been made and a great deal of work has been, and will need to be, undertaken to give effect to them.

2. It is timely to consider where the thrust of further efficiency work should be directed to follow this through. We must continue to concentrate on achieving savings in practice, especially over the next 3 years, as well as identifying and extending good management practice. Work already in hand must be completed and - most important of all - decisions taken and implemented. But we also need a well-directed programme of new work. I am certain that this will pay off provided always that we continue to give the necessary political backing and to engage the full support of staff in carrying out the programme and implementing the resulting recommendations.

3. I have discussed the programme for 1982 with Sir Derek Rayner and we agree on the proposals set out in this minute.

4. The proposals cover both departmental scrutinies and co-ordinated reviews involving several departments. A summary list is at Appendix 1 and a fuller outline at Appendix 2, but the main elements are:

- (1) further departmental scrutinies, including a number continuing the drive to simplify schemes which affect the individual citizen;
- (2) a programme of 6 or 7 "resource control" reviews of important executive operations such as the prison service;
- (3) a similar number of projects to improve systems for estimating, monitoring and controlling the running costs of departments;
- (4) a close look at different aspects of personnel work in about 8 departments to examine both the quality of personnel management work and how economically it can be carried out.

5. The success of work in this field in terms of both quantity and quality depends critically on the attitudes and motivation of staff in departments, and especially line managers. We believe that most effort on the "efficiency" front is and should remain departmental in origin and execution. We have therefore sought to pursue the subjects which we regard as important in ways which accord with the priorities of Departmental Ministers and their senior officials;



SUMMARY OF PROPOSALS

1. Departmental Scrutinies

Number of scrutinies	-	20 - 25
Contributing Departments	-	All, with certain agreed exceptions.
Timing	-	Bids will be invited towards the end of the year. Timing during 1982 to be agreed individually.
Estimated Cost	-	£400,000 - £500,000.
  
2. Resource Control Reviews of Executive Operations

Number of reviews	-	6 - 7.
Contributing Departments	-	Defence (2) + a smaller unit, possibly the Meteorological Office. Home Office - prisons. Environment (PSA works service). Trade (Coastguard service). Possibly the Royal Mint.
Timing	-	Planning to take place from now. Start early 1982.
Estimated Cost	-	£300,000.
  
3. Departmental Running Costs

Number of Projects	-	6 - 7.
Contributing Departments	-	Foreign and Commonwealth Office. Education and Science. Trade. Transport. Energy. Civil Service Department. Employment.
Timing	-	Planning from now. Start in first half of 1982.
Estimated Cost	-	£200,000.
  
4. Personnel Management

Number of scrutinies	-	8.
Contributing Departments	-	Home Office. Lord Chancellor's. Inland Revenue. Customs and Excise. Agriculture. Scottish Office. Social Services. Employment Group.
Timing	-	Planning from now to early 1982. Start - middle of 1982.
Estimated Cost	-	£250,000.

OUTLINE OF THE EFFICIENCY PROGRAMME FOR 1982(1) DEPARTMENTAL SCRUTINIES

The "scrutiny" approach has proved its value. We must aim to secure implementation of recommendations resulting from the work already in hand. There should continue to be a programme of departmental scrutinies in 1982 to help with the particular concerns of individual Ministers and their Permanent Secretaries. This should include some substantial scrutinies of administrative processes not yet covered and also a number of small departments. To allow for other new work and the follow-through of this year's programme we envisage fewer departmental scrutinies in 1982 - 20-25 as against about 40 in 1981.

2. Ministers may wish to note that bids for inclusion in the next round of the scrutiny programme will be invited towards the end of the year, but there is no reason to delay them if they can be made earlier.

3. Some areas of work have already been identified for review, notably the employment service provided by the MSC. The following also appear strong candidates:

- aspects of the administration of social security benefits/pensions not yet looked at;
- regulatory and enforcement activities not yet fully examined;



- the work of professional advisers.

(Scrutinies of information and publicity work in support of economic and industrial policies and of the use made of diplomatic service personnel serving overseas - deferred from 1981 - have already been arranged.)

(2) EXECUTIVE OPERATIONS (RESOURCE CONTROL REVIEWS)

4. The weight of scrutiny and other efficiency work has rightly been on simplifying administrative processes. But we need now to do more in and learn more about executive operations which are non-administrative in character. The resources used in such operations are large: an approximate estimate is 250-300,000 people and about £3,000 million a year.

5. The review this year of supporting services in R & D establishments has shown substantial scope for savings. Building on this we propose a programme of co-ordinated departmental scrutinies of the use and control of resources in the main blocks of non-administrative work. The aim would be to achieve immediate savings and improvements wherever possible and to identify and tackle obstacles to effective management. We think that 6 or 7 reviews should be carried out in 1982, with others to follow in later years.

6. We propose that the 1982 reviews include: two important areas of the Ministry of Defence (which has a large proportion of this kind of work); the prison service - already agreed

by the Home Secretary, with a closely related review in the Scottish prison service under consideration; the coastguard service; and the PSA works service. In addition one or two smaller units (perhaps for example the Meteorological Office) and also possibly a trading service such as the Royal Mint should be included.

7. The reviews would start with such matters as specialist technical services, various kinds of administrative support, supplies, capital assets - including joint studies by the CSD and departments of some of the main supporting services, such as messengerial and typing services, stores and telecommunications. Examining officers would be required to consider in the light of their findings arrangements for allocating responsibility and accountability and, as necessary, to draw attention to any desirable changes in policy guidelines.

(3) DEPARTMENTAL RUNNING COSTS

8. A scrutiny into the control of non-staff administrative expenditure already carried out for the Secretary of State for the Environment has confirmed the message coming out of the scrutiny programme generally - poor budgeting, a widespread lack of responsiveness to costs and a need for greater delegation of authority and control. The DOE scrutiny recommended a package of reform aimed at encouraging accountable management. It included a 'cost centre' approach to the budgeting, monitoring and control process which places greater responsibility on line managers; an information system to support this; and reviews designed to cut costs.

~~CONFIDENTIAL - IN CONFIDENCE~~

9. Against this background, we propose a co-ordinated programme of reviews whose aim will be to ensure that each department has the tools necessary to keep its running costs under proper control. The reviews must recognise that the circumstances of Departments are different and may call for different approaches, and that managers made accountable for running costs must have adequate means of influencing those costs including the freedom, within limits, to switch resources so as to meet targets. The reviews will draw on the outcome of the large number of related initiatives already taken in departments, experience of the annual scrutiny of running costs and the work of the Financial Management Co-ordination Group led by the Treasury. They will be complemented by the programme of resource control reviews of executive operations.

10. We propose specific exercises in 6 or 7 departments, some of whom have already expressed a particular desire to make a contribution. We would like to seek proposals from the Secretary of State for Foreign Affairs, the Secretary of State for Education and Science, the Secretary of State for Trade, the Secretary of State for Transport, the Secretary of State for Energy and the Secretary of State for Employment. My own Department will contribute.

(4) PERSONNEL WORK

11. Personnel work is common to all departments, and by virtue of the size of the Civil Service many thousands of people are employed in this specialism. The quality of this work is crucially important for the efficient operation of Government.

12. The CSD and departments are already reviewing certain central policies and practices to see whether they can be carried out more economically and effectively. We have in mind to complement this work through about 8 scrutinies in departments. The thrust of this will be towards improving the quality of personnel management, especially as it affects the motivation and efficiency of staff, as well as reducing bureaucratic and other unnecessary costs. We would hope to involve one or more people outside the Civil Service with relevant experience and knowledge in designing and carrying out the work.

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14. We propose that each scrutiny should examine a core of key activities and selected other activities decided in consultation with each department concerned. The core activities would be:

- all aspects of staff appraisal and career management;
- recruitment, staff movements, resignation, retirement and redundancy.

Selected activities, each to be examined in a few departments only, might be:

- the administration of pay and other emoluments, travel, subsistence, removals, leave and hours;

- discipline (including security clearance of staff), medical referral arrangements and welfare;
- the handling of complaints and suggestions;
- management of accommodation, security and health and safety.

We do not propose the inclusion in this programme of:

- resourcing and audit activities such as complementing staff inspection, work measurement and management services;
- training (except training in staff appraisal and selection);
- industrial relations.

15. We would like to seek contributions from the Home Secretary, the Lord Chancellor, the Chancellor of the Exchequer (in respect of the Inland Revenue and Customs and Excise), the Minister of Agriculture, the Secretary of State for Scotland, the Secretary of State for Social Services and the Secretary of State for Employment.

16. The best time to start field work will probably be from about mid-year. This will allow the present policy reviews to be taken further and the aftermath of the recent strike to pass, as well as helping to spread the load. But we shall have to get ahead with planning these exercises in discussion with departments now.

CONCLUSION

17. The total cost of the programme will be about £1m - £1 $\frac{1}{2}$ m - if anything slightly less than this year's. We judge that the return on investment for this effort will be well worth while.



10 DOWNING STREET

HMT  
LPO  
DOE  
LWD  
TRADE  
CSO  
CDHO

JRH  
Gort Maching

Sir D Hayes

30 October 1981

From the Private Secretary

Financial Management in the Ministry of Defence

Thank you for your letter to Michael Scholar of 27 October. The Prime Minister was grateful for the consideration given by your Secretary of State to the points made in Clive Whitmore's letter of 21 September to David Omand.

The Prime Minister is glad that the position on the acceptance of recommendations is to be clarified as you indicate.

The Prime Minister finds the reasons for not giving the Systems Controllers "a more formal responsibility" for observing the cash limits on the Defence Procurement Vote somewhat elusive but doubts whether there is much between the Secretary of State and herself on this.

The Prime Minister can understand that, in a technical sense, the "responsibility" at issue rests with the Chief of Defence Procurement as Chief Executive and Accounting Officer; that it cannot be alienated by him; and that it would be misleading to give the impression that the Controllers had some authority of their own different from or independent of his.

Equally, however, it seems sensible for responsibility to be delegated down the management chain link by link so that the Controllers, as next in line, act for the Chief of Defence Procurement across the whole range of their duties: indeed, the arrangements now envisaged seem to provide for this since you say in the third paragraph of your letter that:

"The Vote Managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote Managers and the control of cash in their areas of responsibility."

That being so, the Prime Minister wonders whether paragraph 40 of the draft document makes rather heavy weather of the point in that it rejects the terms but not the spirit of the team's recommendations. She herself would prefer to see the point dealt with as in the second part of the third paragraph of your letter (i.e. after "stated").

/I am

CONFIDENTIAL

I am copying this to the recipients of your letter.

5000 F. S. NICRETT

N.H.R. Evans, Esq.  
Ministry of Defence

CONFIDENTIAL



gr/ R by the draft at  
C  
W 20/10

PRIME MINISTER

Financial management in the Ministry of Defence

You raised two points on the Report on financial management in the Ministry of Defence that Mr. Nott proposes to publish. Mr. Nott has considered your comments, and the reply from his office is at Flag A.

The first was that you felt the text should include an indication of when Ministers expect to take decisions on the more detailed recommendations of the Study. Mr. Nott has agreed to this. The text will now indicate the Department's intention to review progress, and, where appropriate, take decisions on these recommendations by January 1982.

The second point was that you could not understand why Mr. Nott had appeared to have rejected the Report's recommendation that formal responsibility for observing the cash limit on the defence procurement vote should be devolved to the Systems Controllers. Reading the letter from Mr. Nott's office, it appears that the difference between you and Mr. Nott on this point is now merely a matter of words. The minute from Mr. Priestley at Flag B explains this. Briefly, the MOD appear to be arguing that they have decided to devolve financial responsibility to the level below the Systems Controllers. Mr. Priestley points out that if this is in fact the case, the Systems Controllers will in practice be unable to avoid taking some responsibility themselves. He suggests that I write to Mr. Nott's office along the lines of the draft at Flag C, and I think this sets out the position quite clearly. Agree that I should write as drafted?

W 20/10

W 20/10

29 October 1981

Mr SCHOLAR

FINANCIAL MANAGEMENT IN MOD

1. I attach a possible draft letter for your signature to Mr Evans in response to his letter to Mr ~~Whitmore~~<sup>you</sup> of yesterday. For background, you may like to refer to my minutes to Mr Whitmore of 18 and 22 September.
2. I have had a word on the phone with Mr Bryars, the DUS (Finance and Budget) in MOD. He agrees with me that all that is now between Mr Nott and the PM is a matter of words. Of course, it is highly unlikely that Mr Nott himself attaches any importance to the effort being made by some people in MOD to avoid making the Systems Controllers responsible for observing the cash limits. Although Mr Bryars was too loyal to say so, I think he feels, as I certainly do, that MOD has had a fit of the silly Billies over this.
3. What has happened is that people in MOD, I do not know who, have bent over backwards to avoid making the Controllers more clearly responsible for what goes on beneath them. In the end, it is quite clear from paragraph 3 of Mr Evans's letter, MOD has had to face up to the fact that in a sensible world, and in line with normal theories of delegation, there is no way in which the Controllers can be left out of the management line descending from the Chief of Defence Procurement to the Vote managers down below. So it is now a matter of justifying what was, I suspect, a rather petulant and hasty rejection of the team's recommendations.
4. The way MOD have got themselves off this hook is to pretend that the team was recommending that the Controllers should be given an independent authority. I am sure that this was not in their mind.
5. The Prime Minister may feel that the draft letter I am suggesting is too technical and "non-Prime Ministerial" to be acceptable. If she does, I hope she will accept it as in part at least a brief. If she wanted to shorten the

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text you could cut out the little sermon on the technical aspects of "responsibility" and restrict the text to the reference to Mr Evans's letter and the penultimate paragraph of the draft.

*C.P.*

C PRIESTLEY  
28 October 1981

Enc: Draft letter to N H R Evans Esq

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Copies to:

DRAFT LETTER TO:

N H R Evans Esq  
Ministry of Defence

J O Kerr Esq, HM Tsy  
David Hayhoe Esq, Lord President's  
Office  
David Edmonds Esq, DOE  
Ian Ellison Esq, DOI  
John Rhodes Esq, DOT  
Terry Mathews Esq, HM Tsy  
J Buckley Esq, CSD  
D J Wright Esq, Cabinet Office  
C Priestley Esq, Cabinet Office

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

*Thank you for your letter to Michael Scherer of 27 October.*

1. *∟* The Prime Minister was grateful for the consideration given by your Secretary of State to the points made in Clive Whitmore's letter of 21 September to David Omand.
2. The Prime Minister is glad that the position on the acceptance of recommendations is to be clarified as you indicate.
3. The Prime Minister finds the reasons for not giving the Systems Controllers "a more formal responsibility" for observing the cash limits on the Defence Procurement Vote somewhat elusive but doubts whether there is much between the Secretary of State and herself on this.
4. The Prime Minister can understand that, in a technical sense, the "responsibility" at issue rests with the Chief of Defence Procurement as Chief Executive and Accounting Officer; that it cannot be alienated by him; and that it would be misleading to give the impression that the Controllers had some authority of their own different from or independent of his.

Equally, however,

5. < it seems sensible for responsibility to be delegated down the management chain link by link so that the Controllers, as next in line, act for the Chief of Defence Procurement across the whole range of their duties: indeed, the arrangements now envisaged seem to provide for this since you say in the third paragraph of your letter that:

"The Vote Managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote Managers and the control of cash in their areas of responsibility."

6. That being so, the Prime Minister wonders whether paragraph 40 of the draft document makes rather heavy weather of the point in that it rejects the terms but not the spirit of the team's recommendations. She herself would prefer to see the point dealt with as in the second part of the <sup>third</sup> first paragraph of your letter (ie after "stated").

7. I am copying this to the <sup>recipients of your letter</sup> ~~earlier copy~~ addressees.

~~W~~ SCHOLAR W F S RICKETT

CONFIDENTIAL



MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~938 7022~~ 218 2111/3

MO 8

27th October 1981

*Dear Michael,*

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

Mr Nott has seen Clive Whitmore's letter of 21st September conveying the Prime Minister's comments on his minute of 14th September and the draft document for publication enclosed with it.

The Prime Minister asked for two points to be considered before the text of the document is put in final form. My Secretary of State notes the Prime Minister's view that it would be worth including in the last few paragraphs of the text an indication of when Ministers expect to take decisions on the more detailed recommendations of the Study. He agrees with this. Paragraph 42 will now indicate the Department's intention to review progress and, where appropriate, take decisions on these recommendations by January 1982. We cannot at this stage guarantee to have decided our position on all the recommendations by that date, since at least one (that relating to the insertion of new clauses into contracts) will require extensive (and possibly protracted) discussions with industry. But overall we are nevertheless making progress. Two of the detailed recommendations (those relating to monitoring outstanding contract liability and the institution of a new analytical unit) have already been accepted and are now being given practical effect.

Mr Nott has noted the Prime Minister's observations upon the report's recommendation that responsibility for observing the cash limit on the Ministry's equipment procurement Vote (Vote 2) and controlling expenditure to achieve this should be placed on Systems Controllers. He has asked me to point out that he is indeed "enthusiastic" about placing a responsibility for cash control down to the lowest realistic level - and this has already been done. The point is that he does not think it would be right to accept the report's recommendation in the way it has been stated. As he sees it, the object of taking weight off the shoulders of the Chief of Defence Procurement has been achieved by the new arrangements for making cash allocations to managers below the level of Controller, and he attaches great importance to this. The Vote managers answer to the Chief of Defence Procurement through the Controllers, to whom the Chief of Defence Procurement looks to supervise the actions of Vote managers and the control of cash in their areas of responsibility. These arrangements have been reinforced and put on a more formal footing by the Chief of Defence Procurement this year.

M Scholar Esq

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Mr Nott has, however, asked that the reference to this issue in the open government document should be made rather clearer - as it is apparent that it could lead to a misunderstanding of the new arrangements. I enclose a copy of the revised version of the relevant paragraph (paragraph 40) and of two other paragraphs (paragraph 42 and 43) where changes have been made (and are indicated by underlining).

Mr Nott very much welcomes the Prime Minister's remarks about greater flexibility between years.

We will try to avoid the word "Controllerate".

Copies of this letter go to the recipients of Clive's.

*Yours sincerely  
Nick Evans*

(N H R EVANS)

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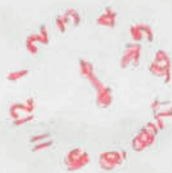
40. A number of changes have been made in these directions. Managers have been notified of their cash allocations in 1981/82 and told of their responsibility to monitor and control cash against them. Although central management of the defence budget will still allow one area to help out another in the event of difficulty, the onus is now more clearly on managers to keep their expenditure within allocations without assuming relief from elsewhere. The working of these arrangements will be kept under review. But at this stage it is not proposed to place on Systems Controllers, as recommended in the Report, a more formal responsibility for observing the cash limit on the Defence Procurement Vote, Vote 2. Cash allocations have been made in Vote 2 as in other Votes, and here as elsewhere managers at all levels will be required to keep expenditure within allocations and initiate corrective action when this is necessary. Responsibility for keeping total expenditure on the Vote within the cash limit rests with the Chief of Defence Procurement as Accounting Officer for Vote 2. He will nevertheless continue to look to the Systems Controllers for authoritative advice on the forecasting and control of expenditure in their areas of responsibility; and arrangements for regular consultation with Controllers on each forecast of outturn have been instituted by the Chief of Defence Procurement for 1981/82. Throughout the defence budget it is intended to consolidate and develop the devolution to managers of responsibility to control expenditure within cash allocations. At present responsibility rests at different levels in the Department. The plan will be to devolve it as far as practicable. Experience in the current year will help to show how far the process can sensibly be carried.



42. The more detailed recommendations of the study (4-8) relate to the means of achieving these broader objectives. They are being evaluated in detail and some decisions have been taken. We intend to review progress and take further decisions as appropriate in January 1982. The Department has reservations about the scope for identifying and activating savings and addback opportunities within the financial year. (Recommendation 4) It is clearly part of good management to identify and exploit this kind of flexibility as much as possible. But there are problems about the lead time before new commitments produce new expenditure and about knock-on effects in later years; and addback exercises by their nature are not conducive to tight control and discipline. There is a point beyond which flexibility between years in cash rather than purchase of commodities makes better sense. A study is being made of computer support for systems controllerates (Recommendation 6) and of the profiling of expenditure (Recommendation 5). Recommendations 7 and 8 have been generally accepted and a new control unit is now being established broadly to carry out the tasks identified in the Report. More use is being made of statistical assistance in analysing expenditure trends and guidance on industrial performance and capacity and on current and forecast economic activity is being made available as a background to the preparation of Estimates. Work flowing from these recommendations, notably the profiling of expenditure could call for much increased staff effort. The limit of what can be done within available staff resources is likely to make choice between priorities unavoidable. Some existing activities may have to be given up if we are to move quickly in the directions recommended by the report.

43. The report proposed one set of additional instruments of direct control of expenditure (as opposed to improvements in arrangements for estimating and monitoring). This is the new contractual conditions summarised in Recommendation 9. Consideration is being given to the case for specifying earliest acceptable delivery dates in contracts, and how best to introduce contractual procedures which will give the department tighter control over the time of delivery of goods and the rate of contractors' billing. Controlling cash flow within strict cash limits in a way which will not inhibit the search for maximum value for money is a difficult challenge, and the Department will continue to search for new methods of control which will serve both these objectives.

27 OCT 1981



Sir Derek Rayner

NOTE/I have spoken to Clive Preece. Sir Derek has decided he cannot take this on. I suggested that if Mr Larsen returned to the way cc Mr Pattison  
that Sir Derek should Mr Cassels  
consult Sir Ian Dewart.  
WM 29/10

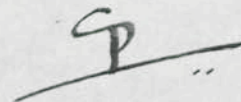
TREASURY AND CS COMMITTEE ENQUIRY INTO CS EFFICIENCY AND EFFECTIVENESS

1. I attach a copy letter from Mr Larsen, the Clerk to the TCSC. It is self-explanatory.
2. As Mr Larsen says, he rang me last week to ask whether you would be willing to help the Bray Sub-Committee by commenting on the replies to the questionnaire to certain departments on their efficiency and effectiveness. It was sent to DOI, DHSS, DOE (including PSA), MOD, IR, C&E and DE (including the DE Group). Mr Larsen has now sent me copies of all but the MOD reply; they add up to several pounds weight of paper; and he indicated when we spoke that the Sub-Committee was rather daunted by the prospect of slogging through the returns. I attach the DHSS reply for you to see as one example.
3. Mr Larsen asks whether it would be appropriate and feasible for you to help the Sub-Committee. When he rang, I gave him some off-the-cuff reactions to the "appropriateness" question, namely that
  - you are an adviser to the Executive and if you were to advise the legislature you would need your Minister's (the PM's) approval; and
  - you would not want to do anything that could reasonably be interpreted by the departments concerned as back-stabbing, given the effort you had had to put into building up their confidence.
4. The feasibility question is serious. It would be potty to expect you to read your way through all the material provided by departments, or indeed to believe that you had. Your staff will need to read the material as time allows because it contains

some very interesting stuff, for example on subjects as various as management services, "professionalism", the impact of Raynerism (Question 22, rather a sniffy set of answers here) and incentives to good management.

5. My preliminary view is that it would be feasible for you to respond to particular questions raised by the TCSC, whether in writing or in person, but that it is not<sup>a</sup> practical proposition to expect you to get through all the paper and comment at large.

6. Whether it would be appropriate for you to do so depends partly on your wishes but mainly on those of Ministers, in this case the PM and the Leader of the House. If you were willing in principle to help as suggested in para. 5, I should need to obtain an opinion from their offices. This minute is copied to Mr Pattison for information, but if he wants to comment at this stage his views will be welcome.



C PRIESTLEY

27 October 1981

Enc: Copy letter from Mr Larsen  
DHSS reply



COMMITTEE OFFICE  
HOUSE OF COMMONS  
LONDON SW1A 0AA  
01-219 5767 (Direct Line)  
01-219 3000 (Switchboard)

TREASURY AND CIVIL SERVICE COMMITTEE

22nd October 1981

Dear Clive

Enquiry into efficiency and effectiveness in the Civil Service

We spoke on the telephone and I said I would send you a set of the replies we have had from Departments to our questionnaire. They are enclosed together with a copy of the questionnaire (TR(Sub CS)133-139) and TR(Sub CS)128). The Sub-Committee which is carrying out the enquiry thought that Sir Derek Rayner should be given the opportunity of commenting on the replies. The Sub-Committee would value Sir Derek's views and I should be grateful if you would consider whether it would be appropriate and feasible for him to help the Sub-Committee in this way.

*Yours sincerely*

*C.A. Larsen*

C.A. Larsen

Clive Priestley Esq.,  
Prime Minister's Office  
70 Whitehall  
London SW1

27 OCT 1991

0 1 2 3  
4 5 6 7 8 9

*no comment WM 26/10*

cc for information

✓ Mr Rickett  
Mr Cassels  
Mr Beesley  
Mr Allen  
Mrs Thoms

Sir Derek Rayner

CENTRAL CO-ORDINATION OF EXERCISES IN THE "EFFICIENCY STRATEGY",  
1982

1. Please see the attached minute to me from Mr Russell (CSD), which brings to a head the long deferred issue of how the various exercises in next year's strategy should be handled.
2. Mr Russell, who is of course unaware of other possible developments, envisages that he would advise the CDL to put proposals to the Prime Minister on co-ordination when submitting the draft paper on the strategy. It is perhaps unlikely that CDL would agree to do so in the circumstances, but one cannot be sure of that.
3. In brief, Mr Russell proposes that:
  - (1) We should run the departmental scrutiny programme, as before.
  - (2) He should run the reviews of executive units, in liaison with Mr Cassels.
  - (3) We should run the reviews of systems for controlling running costs.
  - (4) Mr Hayhoe should run the review of personnel management work, supported by Mr Fraser who would liaise with Mr Cassels.
4. Obviously, we have no difficulty with (1) and (3) above. We can live with (4), especially if what is described is the wish of Mr Hayhoe and Mr Fraser - although



we are far from certain that it is. Quite frankly, we cannot live with (3). And if there is no option but to let Mr Russell have a response at this point, I think that we should have to say that (3) would be run by Mr Cassels in line with the Prime Minister's Minute to Ministers of 24 July about his appointment.

5. I have revised Mr Russell's note in the shape of a possible Annex to a piece by the CDL for inclusion in a minute to the Prime Minister. This too is attached. I should be glad to know what you and Mr Cassels think. I am sending the papers to Mr Rickett at this stage so that he is informed and can comment if he wishes to.

6. Mr Russell also asks about our nominees for the various exercises. I suggest Mr Beesley for "executive units" and "personnel work" and Mrs Thoms for "running costs". This must be subject to review as the work of the year wears on and of course takes no account of the possibility that, in any case, the whole scene may be changed in a twinkling of an eye.

CP

C PRIESTLEY  
23 October 1981

Encs: Minute from Mr Russell, 20 October  
Draft Annex  
Draft section of possible minute by CDL

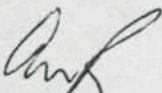
MR PRIESTLEY

We had a brief word about tying up the remaining loose ends on the arrangements for handling the work in the efficiency strategy for 1982 at the centre, assuming that the paper emerges from tomorrow's discussion of Permanent Secretaries reasonably unscathed.

2. We agreed that the best way forward would be for me to send you a draft of a note on handling which, subject to any comments your side might have, we would put to the Chancellor of the Duchy for her approval with the suggestion that she in turn would mention the proposed arrangements to the Prime Minister when submitting the paper on the strategy.

3. As you will see, there are still a number of blanks for names to be filled in for both the central teams on running costs projects and the personnel review. On the personnel review, I think that the FP member will probably be Mr Davis' successor (I hope Mr Stott). I will try to get a name from the Personnel Management Divisions as soon as possible and also from the Treasury for the team on running costs projects. Are you able yet to say who will be your team member for the running costs projects and whether you will want a team member on the personnel review - and if so who will that be?

4. Subject to the outcome of tomorrow morning's meeting, it would be nice if we could get the paper (modified as necessary) to the Chancellor of the Duchy by the end of the week or certainly very early next. It would be enormously helpful if we could at the same time put to her a note of the handling arrangements. I would be grateful, therefore, if you could manage an early comment. I would be happy to have a word on the 'phone if there is any point of clarification needed.



A W RUSSELL  
20 OCTOBER 1981

Note

Spoke Mr. Ricketts, who thought that the CDL would be well advised to consult the PM on the circulation of the strategy paper. I will see what "co-ordination", as he has suggested that the PM would not mind paper all to do.

2

21.10.81

HANDLING OF WORK IN THE EFFICIENCY STRATEGY, 1982 AT THE CENTRE

Progress of all work within the strategy will be kept under review by CSD and Sir Derek Rayner's Unit; and they will be responsible for preparing reports on progress from time to time throughout the year for the Chancellor of the Duchy and Sir Derek Rayner. <sup>who</sup> They will wish to consider whether to draw any points to the attention of the Prime Minister.

2. The four main components of the strategy will be handled as follows :

a. Departmental scrutiny programme - the arrangements will remain unchanged.

b. Programme of resource control reviews - a central team in CSD consisting of Mr Gurney (FP1), Mr Beesley (Sir Derek Rayner's office) and an accountant (if possible on loan from one of the participating departments) will co-ordinate work on the reviews and will produce regular reports on progress (the first by September) to [be submitted to] CSD Ministers and Sir Derek Rayner. These reports will draw out general lessons as they emerge and make recommendations accordingly. The team will draw on specialist assignment officers, mainly from the Functions and Programmes Divisions, whose Head, Mr Russell, will exercise [general] oversight. In this, he will liaise closely with Mr Cassels. <sup>note MRC's general direction?</sup>

c. Running costs projects - a central team [in the Treasury] consisting of [ ], Treasury, [ ], CSD and [ ], Sir Derek Rayner's office will co-ordinate the departmental projects. They will work under the general direction of Sir Derek Rayner [Mr Cassels], <sup>Sir Derek R.</sup> who will send a central report on the exercise as a whole to the Prime Minister, the Chancellor of the Exchequer and the Chancellor of the Duchy by end October. This will summarise the work in the participating departments, draw out more general lessons of wider application and make recommendations accordingly.

together with SE DP

(L) → d. Personnel review - the Minister of State, CSD, will be  
 in overall charge supported by Mr Angus Fraser, CSD, who will  
 direct a central team consisting of [ ],  
 FP, [ ], PM and an AS/Principal  
 on loan from one of the participating departments. If  
 possible, someone with experience of personnel management  
 outside the service will be associated. Mr Fraser will liaise  
 closely <sup>throughout</sup> [at each stage of] the review with Mr Cassels. A central  
 report on the review dealing with service-wide issues will be  
 submitted about the end of the year by the Minister of State  
 → <sup>jointly with</sup> ~~after consultation with~~ Sir Derek Rayner to the Prime Minister  
 and the Chancellor of the Duchy.

DR?

ANNEX

DETAILED ARRANGEMENT FOR CENTRAL CO-ORDINATION

1. The four components of the centrally-inspired "efficiency strategy" for 1982 will be handled as follows.

Departmental scrutiny programme

2. The arrangements already made in 1979-81 will remain unchanged, ie Sir Derek Rayner's unit, now headed at official level by Mr J S Cassels, Second Permanent Secretary, will take the lead. It will take a close interest in such scrutinies as are designated as of particular interest to the Prime Minister. The unit will seek assistance as necessary, on the same basis as before, from the CPRS, CSD and HM Treasury.

Government-wide programme of reviews of self-contained executive units

3. This programme will begin in and go on beyond 1982. It is to a degree a rolling programme, unlike reviews of the same or similar functions across government which have been begun and completed in one year. The programme will be co-ordinated by a central team working under the general direction of Mr Cassels. The team will consist of two Assistant Secretaries, Mr N B J Gurney (FP1, CSD) and Mr I B Beesley (Sir Derek Rayner's Office), and of an accountant, who will be sought from one of the participating departments. The team will draw as necessary on specialist assignments officers, for example from the Functions and Programmes and Staff Inspection Divisions of CSD, whose head,

Mr A W Russell, will generally oversee the quality of their work and otherwise contribute as necessary. The central team will make such reports on progress and such more general reports as are needed; these will be submitted by Mr Cassels to Ministers as appropriate.

Government-wide review of systems for the control of running costs

4. The review will be co-ordinated by a central team working under the general direction of Mr Cassels. The team will consist of \_\_\_\_\_, HM Treasury, \_\_\_\_\_, CSD and Mrs E Thoms (Sir Derek Rayner's Office). Sir Derek Rayner will aim to send a central report on the exercise as a whole to the Prime Minister, the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster by end-October 1982. This will summarise the work in the participating departments, draw out more general points of wider application and make recommendations accordingly.

The Government-wide review of personnel management

5. The review will be co-ordinated by a central team working under the general direction of Mr A M Fraser, Deputy Secretary, CSD, who will liaise closely with Mr Cassels throughout the review. The Minister of State, CSD, will be in overall charge. The central team will consist of Mr I B Beesley (Sir Derek Rayner's Office), \_\_\_\_\_ and \_\_\_\_\_ from FP1 and Personnel Management Divisions, CSD and an Assistant Secretary or Principal, who will be sought from

one of the participating departments. The Minister of State will report to the Prime Minister and Chancellor of the Duchy of Lancaster at about the end of 1982.

DRAFT FOR POSSIBLE INCLUSION IN A MINUTE FROM THE CDL TO THE  
PRIME MINISTER

CENTRAL CO-ORDINATION

1. You told Ministers in your Minute of 24 July that Sir Derek Rayner would continue to provide overall leadership for the scrutiny programme and for Government-wide reviews like that of statistical services. The arrangements I envisage for central co-ordination take account of this, as also of your agreement that Sir Derek Rayner should now spend less time in Whitehall and of Mr Cassels's appointment.
  
2. I should like one of the reviews however to be generally supervised by the Minister of State. This will be a new departure, but I think well justified by the importance of the subject I have in mind, namely personnel management work. Mr Hayhoe would be supported on this by one of my Deputy Secretaries, Mr A M Fraser, who would liaise closely throughout with Mr Cassels.
  
3. The advice of Sir Derek Rayner would be sought on the design, conduct and outcome of this exercise.
  
4. For the rest, I envisage that:
  - (1) The departmental scrutiny programme should be run from Sir Derek Rayner's office with support from here, the Treasury and CPRS, as before.



(2) The Government-wide reviews of self-contained executive units and of systems for controlling running costs should be co-ordinated by Mr Cassels, with support from here and the Treasury.

[5. Fuller details are given in the Annex, should you wish to have them.]

6. Sir Derek Rayner and I believe that it would be wise to seek help from outside the Service as part of the reviews of managing executive operations, controlling resource costs and personnel work. This is being sought now.

NOTE FOR THE FILE

cc ✓ Mr Rickett  
Miss Kelley (HM Tsy)  
Mr A W Russell (CSD)  
Mr Wasserman (CPRS)

SCRUTINY OF HM INSPECTORATES OF SCHOOLS

1. I took a call from Sir James Hamilton's office today to the effect that it would not now be possible for DES to forward a reply to Sir Derek Rayner's observations on the scrutiny report next week, as the Welsh Secretary has asked Sir Keith Joseph for a meeting to discuss the issues. The Scottish Secretary would also take part. It would be a week or so before the meeting could take place and a reply be sent.

2. I noted this and said that the PM's office would be informed.

*C*

C PRIESTLEY

23 October 1981

*ps.  
wm  
20/10*

See March  
Scrutiny

1. MR. WHITMORE *Thurs 7. 11.1 21.11*

2. MR. RICKETT  
*Thurs 7. 11.1 21.11*

The meeting to discuss scrutiny of departmental running costs which was to have been next Tuesday, is now on Wednesday 11 November at 1100.

I have invited the Secretary of State for the Environment, Mr. John Cassels and officials from CSD and Treasury.

*ES.*

21 October 1981

520  
MR INGHAM

cc for information:

Mr Hoskyns (No 10)  
Mr Scholar (No 10) ✓  
Mr Hills (CSD)  
Mr Gregson (CO)

SCRUTINY OF INFORMATION & PUBLICITY WORK ON ECONOMIC, INDUSTRIAL  
AND EMPLOYMENT MATTERS

With the agreement of the Ministers concerned, the Department of Employment (including the MSC), Industry and Trade (including the British Overseas Trade Board), Treasury and FCO are taking part in the above scrutiny, which has the following terms of reference:

"In relation to the objectives of the government's economic, industrial and employment policies, to examine the provision for information and publicity purposes in this field having regard to their cost and the effectiveness and efficiency with which they operate; and to pay particular attention to any areas of overlap".

2. The scrutiny is being conducted by a Principal in CSD, Mr Peter Hills, with the assistance of an AS from the Australian Department of the Prime Minister and Cabinet, an HEO(A) from Trade and an HEO from DE. Mr Hills is of course maintaining contact with the DG of the COI, Mr Groves.
3. Mr Hills has just been to see me to discuss a first draft of his study plan. I suggested to him that it will be helpful for him to have a talk with you, or with someone in your office, as he is likely to obtain there the best overview of the subject he is likely to find. Mr Hills will accordingly be getting in touch with you in the fairly near future to see whether he can talk to you or Mr Gaffin.
4. I have also suggested to Mr Hills that he should have a word with Mr Gregson (Cabinet Office) or one of his staff. I should be grateful if Mr Gregson would kindly take his copy of this minute as early warning of that possibility.
5. One of the things Mr Hills may want to discuss with you is the possible value which he might derive from talking to a few Fleet Street journalists who are in a position to give him a considered view of the relevant aspects of the GIS from their perspective. You might like to have this in mind.
6. Should you wish an early message to go to Mr Hills he is on 273 4047.

C  
C PRIESTLEY

13 October 1981

233 8550

14 OCT 1981

11 12 1 2 3 4  
5 6 7 8 9

018  
Mr RICKETT *d/r*

*of Only Clerk  
Govt Machinery*

RAYNER UNIT: ACCOMMODATION

Mr Cassels takes office here on 1 October. Our dispositions will then be:

<u>Name</u>	<u>Room</u>	<u>Telephone</u>
Sir Derek Rayner	301	233 8224
Mr J S Cassels	301	233 8224
Mr C Priestley	306	233 8550
Miss J W Sullivan (SPS)	302	233 6185
Mr I B Beesley	204	233 5029
Mrs J Craig (PS)	204A	233 7132
Mr D R Allen	306	233 8550
Mrs E Thoms	203	233 7671
Mr M C Caldon	306	233 8550

C

C Priestley  
25 September 1981

Circulation: Treasury: Mr Kerr, Mr Mathews, Mr Michael, Mr Ridley,  
Mr Taylor, Mr Barratt, Mr Littler, Mr Butler.

CSD: Mr Buckley, Mr Carter, Mr Colman, Mr Fraser,  
Mr Wilding, Mr le Cheminant, Mr Russell,  
Mr Towers.

Cabinet Mr Wright, Mr Spence, Mr Bailey,  
Office: Mr Wasserman

CONFIDENTIAL

Mr WHITMORE

*HWJ*  
*22/9*



*Govt*  
*Mad*

FINANCIAL MANAGEMENT IN MOD

*May B attached*

Sir Derek Rayner has seen my minute to you of 18 September. He wishes you to know that he very strongly agrees with the reference to making the Systems Controllers responsible for observing the Cash Limit and has drawn my attention to the treatment of a related point of principle in his 1971 report. Government Organisation for Defence Procurement and Civil Aerospace (Cmd. 4641). I am sure that he will welcome the vigour of your letter to MOD of yesterday.

2. The point of principle on which Sir DR rested many of his proposals for the Procurement Executive and which, initially at least, was adopted in his organisation was that of "fully accountable units of management".
3. With that in view, authority and responsibility were concentrated at the Controller level for all activities in such a particular area as the development and production of land, sea or air systems - and the process was to be continued down each controllerate. The Systems Controllers would be accounting officers for their own Vote and the Chief Executive the accounting officer for the Vote covering HQ administration, R&D and research.
4. After Sir DR ceased to be the Chief Executive, I understand that the Systems Controllers ceased to be accounting officers. Thus it is that the Reeves report on financial control procedures describes a situation which, in some respects at least, has reverted to what it was before the Rayner report of 1971.
5. "Controllerates", unhappily, stem from the 1971 White Paper.

*C*

C PRIESTLEY

22 September 1981







10 DOWNING STREET

*From the Principal Private Secretary*

cc: HMT  
LPO  
DOE  
DO1  
DOT  
CSO, HMT  
21 September 1981

CSO

Co

Sir J. Rayner's office, Co

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

The Prime Minister was grateful for your Secretary of State's minute of 14 September and for a sight of the draft document for publication which Nick Evans sent with his letter of 17 September to Tim Lankester.

The Prime Minister is very pleased that Mr. Nott has found the report of the study of financial control procedures thorough and constructive and looks forward to being informed in due course of the findings of the study of financial responsibilities and accountability. She attaches particular importance to clarifying responsibilities for control and management and to making cash the medium of control at all levels.

The Prime Minister welcomes your Secretary of State's intention to publish the document but would like him to consider the following two points before the text is finalised.

First, she agrees that the candour of the analysis should not be regarded as an obstacle to publication. But she thinks that as the report may arouse Parliamentary and other interest, it is worth including in the last few paragraphs of the text a reasonably firm indication of when Ministers expect to take decisions on the more detailed recommendations of the study. The Prime Minister thinks that it is particularly important to get working relationships with contractors (paragraph 43) onto a footing which is fair to the Ministry, suppliers and the taxpayer.

Second, the Prime Minister does not understand why Mr. Nott has not enthusiastically adopted the report's recommendation that formal responsibility for observing the cash limit on the Defence Procurement Vote (Vote 2) should be placed on the Systems Controllers (paragraphs 26 and 40 of the draft). The report suggests that one of the main weaknesses of the arrangements examined was that responsibility for avoiding overspending rested on the shoulders of too few senior officers, including the Chief of Defence Procurement. It appears vital to the Prime Minister that in such a large system of financial management a delegation should be made to the next tier in the way recommended by the report. This would be consistent with and assist the intended wider devolution of responsibility lower down (paragraph 40). Yet at present the draft document for publication rejects this key recommendation with virtually no explanation.

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/ Finally,

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Finally, the Prime Minister sympathises with your Secretary of State's references to annuality. She would welcome progress towards greater flexibility between years, provided that it did not substitute for other measures to increase further the efficacy of procurement processes and that it was consistent with the wider objectives of public expenditure control.

On a point of detail, Mr. Nott may like to know that the Prime Minister commented in passing:

"Can we not find a better word than 'controllerates'.  
Where does it come from? It is awful."

I am sending copies of this letter to John Kerr (HM Treasury), David Heyhoe (Lord President's Office), David Edmonds (Department of the Environment), Ian Ellison (Department of Industry), John Rhodes (Department of Trade), Terry Mathews (Chief Secretary's Office, HM Treasury), Jim Buckley (Civil Service Department), David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office).

CAW

David Omand, Esq.,  
Ministry of Defence.

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B

Mr WHITMORE



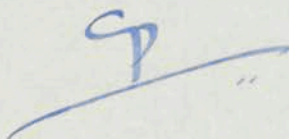
FINANCIAL MANAGEMENT IN MOD

1. I have now read the draft document for publication promised in Mr Nott's minute to the Prime Minister of 14 September. I attach a possible letter for you to send to his office on her behalf. It is largely self-explanatory, but see below. I have restricted it to points which it is reasonable to suppose that the Prime Minister would have picked up.
  
2. The minute and draft together indicate broadly satisfactory responses to the Reeves study of expenditure control, which resulted in a masterly report. I have already sent you a copy of Sir Derek Rayner's comments on it. But it is clear that MOD have specifically if inexplicably rejected one of the two central recommendations made by the team, namely that  
  
"responsibility for observing the cash limit, and if necessary controlling spending within it, should in the systems area be placed squarely on the Systems Controllers and should be written into their charters where these exist" (Report, para. 709; draft paras. 26 and 40).
  
3. The reasons for the recommendation are given in para. 503 while possible counter-arguments are dealt with in paras. 710-715, attached. The reasons for the rejection are not stated, but I guess that it has to do with the fact that the Systems Controllers, as senior Service officers, have a dual allegiance, as immediate deputies of the Chief of Defence Procurement within the Procurement Executive and as members of the single Service Boards where they have close professional and personal links with Service colleagues who are their main customers.
  
4. Rejection does not offer a robust solution to the defects identified by the Reeves team. It is also somewhat paradoxical.

It will leave the CDP with an absurdly heavy personal responsibility and the Systems Controllers in a curious limbo between the CDP with his Accounting Officer responsibilities on the one side and subordinate managers with their clarified responsibilities on the other (draft para. 40). This should not go without challenge - but if you think it is not a "Prime Minister-like" point we will do our best with it here.

*! agree.*  
*I think it is.*  
*I have suggested a slightly different way of dealing with the point in the draft letter itself.*

5. The team's other central recommendation is that all finance staff should monitor and control spending during the year in terms of cash. I think that this is sufficiently secured by the Secretary of State's response to the report and, indeed, I understand that a good many changes have been made since the report was submitted.



C PRIESTLEY  
18 September 1981

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*Omama.*

LETTER FROM MR WHITMORE TO THE PRIVATE SECRETARY TO THE SECRETARY OF STATE FOR DEFENCE

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

1. The Prime Minister was grateful for your Secretary of State's minute of 14 September and for a sight of the draft document for publication which <sup>Nick Evans</sup> was later sent to her. *with his letter of 17<sup>th</sup> Sept to Tim Barker.*

2. The Prime Minister ~~welcomes the fact that the study of financial control procedures was commissioned, is very~~ <sup>Mr NOK</sup> pleased that your Secretary of State has found ~~it~~ thorough and constructive and looks forward to being informed in due course of the findings of the ~~second~~ <sup>and subsequent</sup> study of financial responsibilities. She attaches particular importance to clarifying responsibilities for control and management and to making cash the medium of control at all levels.

*The report of the study of financial control procedures*

3. The Prime Minister ~~is content for~~ <sup>welcomes the study of which's intention to publish</sup> the document, ~~to be published,~~ but would like your Secretary of State <sup>him</sup> to consider the following two points before the text is finalised.

4. First, ~~the Prime Minister~~ <sup>she</sup> agrees that the candour of the analysis should not be regarded as an obstacle to publication. But she thinks that, as the report may arouse Parliamentary and other interest, it is worth including in the last few paragraphs of the text a reasonably firm indication of when Ministers expect to take decisions on the more detailed ~~the~~ recommendations of the study. The Prime Minister

thinks that it is particularly important to get working relationships with contractors (para. 43) onto a footing which is fair to the Ministry, suppliers and the taxpayer.

~~Simply does not~~

5. Secondly, the Prime Minister ~~thinks that there might be substantial advantage in adopting~~ <sup>understand why ~~the~~ ~~has~~ ~~not~~ ~~enthusiastically~~ ~~adopted~~</sup> the report's recommendation that formal responsibility for observing the cash limit on the Defence Procurement Vote (Vote 2) should be placed on the Systems Controllers (paras. 26 and 40 of the draft). The report suggests that one of the main weaknesses of the arrangements examined was that responsibility for avoiding overspending rested on the shoulders of too few senior officers, including the Chief of Defence Procurement. It appears <sup>vital</sup> to the Prime Minister that ~~it would be prudent~~ <sup>is vital</sup> in such a large system of financial management ~~to make~~ <sup>should be made</sup> a delegation to the next tier in the way recommended by the report. This would be consistent with and assist the intended wider devolution of responsibility lower down (para. 40). <sup>Yet at present the key document for publication rejects this key recommendation with virtually no explanation.</sup>

6. Finally, the Prime Minister sympathises with your Secretary of State's references to annuality. She would welcome progress towards greater flexibility between years, provided that it did not substitute for other measures to increase further the efficacy of procurement processes and that it was consistent with the wider objectives of public expenditure control.

<sup>On a point of detail, I think may like to know what the P.M. commented in passing:-</sup>

7. "Can we not find a better word than 'controllers'. Where does it come from? It is awful."

Prime Minister  
I don't  
whether it  
would be  
credible to  
offer this  
comment in his  
form in your  
name. Instead  
I suggest that  
we say that you  
have noted that  
this key recommend-  
ation is rejected  
in the document  
to be published  
and that you  
think it might be  
wise for more  
explanation to  
be set out in  
the document  
than is the case  
now. Agree?

8  
7. I am sending copies of this letter to John Kerr (Treasury),  
David Heyhoe (Lord President's Office), David Edmonds (DOE),  
Ian Ellison (DOI), John Rhodes (Department of Trade),  
Terry Matthews (Treasury), Jim Buckley (CSD), David Wright  
and Clive Priestley (Cabinet Office).

C A WHITMORE

502. We asked those we spoke to to tell us what they believed they were controlling once 1980-81 had begun. The finance staffs at Assistant Secretary and Principal level were clear that they and the project managers with whom they worked had authority to spend up to their share of the programme, ie A in the diagram - which in practice would be enhanced by the actual rate of inflation, resulting in the figure at D. There were differences of emphasis. Some felt no responsibility to contain expenditure even within the programme figure; they should of course report any excesses as soon as foreseen, but would wait to be told what action if any to take. Others felt they had this responsibility; one, the Director General Weapons (Naval), wrote to his major contractors in July asking them to ensure that they did not spend more than the programme. Others were uneasy about the looseness of the system, and in one or two cases were applying cash limit controls informally on their own initiative.

503. We asked the Controllers and their AUSs where if anywhere responsibility lay for ensuring during the year that the block-adjusted Estimate - the figure at B - was not exceeded, and from five out of six received the answer that it did not lie with them but was a matter for central MOD decision. The exception was a Controller who said he accepted responsibility for keeping within the block-adjusted Estimate provided the cash limit enhancement was adequate. Among the majority there were again differences of emphasis. Some made the point that to cut spending during the year meant making choices involving Service priorities, on which the Service customer must have the determining voice; this ruled out unilateral action by Controllers. One Controller told us that he would have welcomed a clear mandate to take action in face of the emerging overspend. But the five were agreed that, as a question of fact, they were not responsible for conforming to the block-adjusted Estimate; as one AUS put it, his Controller was not obliged to consume his own smoke.

504. There remains the third figure, the cash limit itself - C in the diagram. The fact that it is a block cash limit means that MOD remains free to vary its priorities during the year, as long as the overall cash limit is not exceeded, and that the cash limit enhancement is regarded as a central pool of cash to be allocated wherever it is most needed. Thus a sector of the programme experiencing higher inflation than expected, or overspending in volume, can be given a large allocation, while a sector with lower inflation and/or a volume underspend may need none at all. Allocation of the cash limit enhancement rests with the centre of MOD: initially the PFO and his staff, ultimately the FPMG.

505. Written internal guidance on these matters is sparse, but what material does exist makes it clear that SFOs are meant to control volume while cash is monitored and controlled by the centre. DUS(FB) re-affirmed this in relation to 1980-81 in a minute written in January 1980. What is not clear from the written record is whether the majority of Controllers and AUSs are correct in believing that they are not responsible for living within the block-adjusted Estimate. The truth is probably that in the years of underspending either it did not matter, or action to boost spending was initiated by the centre; once MOD began to overspend the tendency to look to the centre for the broader view persisted, and was encouraged by the arrival of cash limits, which came under central control both in theory and in practice.



706. Those conditions have now gone and we are in a new era. Volume underspending has gone dramatically into reverse, at least for the time being, in all three Controllerates at once. Cash control has eclipsed volume control in Ministers' economic policy. Since 1979-80 cash limits have been subsumed in the Estimates voted by Parliament; the printed page shows how much cash Parliament believes is being devoted to each item. Rapid and efficient procurement of defence equipment remains an important objective, as does minimising project costs; but keeping within the annual cash limit has assumed overriding importance.

→ 707. Viewed against this new background the defects of the present system of control are plain to see. Responsibility for taking action to avoid overspending rests on a very few pairs of senior shoulders: those of DUS(FB) and above him, PUS, CDP, the Chiefs of Staff and the Secretary of State. Project and finance staffs in the PE dealing with the various types of equipment are working to programme totals which are at two removes from the published Estimates themselves and on a different price base. Not all of them feel obliged to act on their own initiative to keep within even these figures. Because the figures are at Survey prices they tend to regard subsequent inflation as an allowable extra, even though it may be greater than allowed for in the cash limit. The Controllers and their AUSs who decide on the level of block adjustment have no responsibility to act if it proves to be unjustified. The whole emphasis is on monitoring and reporting - from the finance branches to the systems AUSs and from them to the centre - rather than on action. The strain is taken by the topmost level of management rather than by the system as a whole.

✓ 708. In our view this structure of responsibilities is not only vague and confusing in itself but also inadequate for the task. The timescale for cash control is short; with over 90% of the year's procurement programme committed before 1 April it is impossible to counter a major trend towards overspending unless it is identified quickly and decisions on offsetting measures are taken quickly. A fully co-ordinated response is unavailing if it comes too late.

✓ 709. Our two central recommendations are designed to bring greater clarity and effectiveness to the control task. The first is that responsibility for observing the cash limit, and if necessary controlling spending to keep within it, should in the systems area be placed squarely on the Systems Controllers and should be written into their charters where these exist. The second is that, irrespective of whether this responsibility is delegated further, all finance staffs should monitor and control spending during the year in terms of cash, -ie at outturn instead of Survey prices.

710. These changes would bring substantial benefits. The attention of all concerned with spending would be focussed on cash, rather than on volume which is of only secondary relevance to in-year spend; it would no longer be open to PE staff at all levels, as it is at present, to regard any inadequacy in the cash limit enhancement as someone else's problem. Action to counter overspending would be taken more quickly and effectively by the Controllers acting on their own initiative than it can be by the FPMG who are some distance further up the reporting chain and must in any case achieve a consensus before acting. The Controllers' accountability for the accuracy of their block adjustment judgements

would be sharpened; although they are already responsible for this, under our proposal the onus would be on them to make good the consequences of any mistake. By the same token they and their AUSs would have a sharper incentive than at present to insist on accurate forecasts of outturn in their areas.

711. In testing out these ideas on senior staff and discussing them among ourselves we encountered a number of objections. The first is that to sub-divide the cash limit in this way would be to sacrifice the flexibility bestowed by the block cash limit concept, and thus make underspend more likely. This is the issue raised in paragraph 2 of our terms of reference. It seems to us that the advantage of the block cash limit lies solely in this flexibility. It is a major advantage, but we do not see why acceptance of our proposals should mean sacrificing it. MOD would remain free to offset underspending on one Vote against overspending on another. In practical terms it would still be open to a Controller faced with a developing overspend to ask his Service Board colleagues whether they could help him out by making economies in, say, Service manpower or logistics support. It would still be possible for one Controller to help bail out another; the FPMG could still review the outturn on a defence-wide basis. The crucial difference from the present position is that the Controllers would be self-starting instead of awaiting instructions. While hoping for and seeking outside relief they could not assume it, and the onus would be on them to keep within their cash limit even if no help were forthcoming.

712. A second objection is that the Controller as supplier cannot decide where cuts should fall since this is the prerogative of the Service customer. This argument seems to us to discount too much of the standing and experience of the Controllers themselves, who are officers of 3- or 4-star rank in their own Services and colleagues of their respective Chiefs and Vice-Chiefs of Staff on the Service Board concerned. We take it for granted that in cutting back spending to keep within his cash limit a Controller would take Staff and secretariat advice at whatever level was appropriate. In cases of difficulty we consider the guiding rule should be that the Controller should have the right and duty to specify the level of savings required and satisfy himself that the measures proposed would achieve that level; the Chief or Vice-Chief of Staff should state the military priorities governing the choice of savings; and in a last resort, failing such guidance within a reasonable timescale, the Controller should have the right and duty to make his own choice of measures in order to ensure that the required savings are realised during the year.

713. A third objection is the operational difficulty discussed in Chapter 3 of translating the equipment programme from Survey into cash limits prices when the cash limit enhancement is settled so late in the day (November or December). This is no doubt one reason why the cash limit is regarded as primarily the PFO's affair. The fact that the cash limit enhancement arrives late on the scene is not in our view a good reason for Vote 2 managers to ignore its existence during the year; the problems it brings have to be faced some time, and the sooner they are faced the better. But in any case the changes in PESC procedures announced in the Chancellor's recent Budget statement largely remove this objection. If expenditure plans for 1982-83 are to be discussed from the outset in terms of the cash available for that year, it seems to us that Vote managers not only can but must take account of the cash limits dimension through-out the scrutiny

of Estimates. Although there will no doubt be a difficult learning process, once it has been completed in-year control should be simpler because all financial managers will be working to cash figures which are familiar to them.

714. There remains the question whether, if the Controllers are made responsible for living within the cash limit, they should sub-delegate this responsibility down their chain of command and if so how far. The case for sub-delegation rests on effectiveness; the case against rests on flexibility. Unless the Controller sub-delegates he may be faced with a situation in which his immediate subordinates the Directors General, and all their subordinates down to project manager level, are collectively planning to overspend to the extent of the block adjustment. By sub-delegating he would ensure from the outset that those below him were working to the same end and thus reduce the risk of an overspend too big to eliminate. In doing so however he might run into the opposite danger of overkill. By constraining all his subordinates to keep within cash sub-limits he should logically provoke an underspend, since overshooting would be forbidden but some would undershoot. This would argue for a looser regime under which Directors-General would be free to overspend against their cash allocation unless the Controller told them not to.

715. When we put this point to the Controllers their reactions were different. One said that he would sub-delegate the cash limit down to Project Director level; another said that he would not sub-delegate at all; the third had not at that time reached a final view but has since introduced arrangements for sub-allocation to Directors General. We think that if block adjustments were to remain at their present level Controllers would certainly need to sub-delegate to some degree in order to be sure of keeping within their cash limits. This however raises the wider question of the size of and justification for block adjustments.

#### Block adjustments

716. The present rationale for block adjustments is basically that the project manager who prepares the Estimates line item sees only his own project and cannot allow for wider influences on spending - the industrial environment, the level of civilian demand which may compete with his project, administrative bottlenecks and so forth. His view of his own project may be distorted by optimism; he may ask for more cash than he needs. The Controller and his AUS can take the wider view. By applying a discount on a block basis they reduce the Estimates bid to a realistic level while leaving each project manager free to do his best.

✓ 717. Self-evidently this rationale contains some truth; but the high level of  
✓ block adjustments in recent years is in our view a symptom of weakness. The task  
✓ of preparing Estimates is supposed to be the same at all levels, from Controller  
to the lowliest project manager: to estimate cash flow in the year ahead.  
✓ Controllers should not have to compensate for unrealism or tactical bidding on  
the part of their own staff. If Controllers have so little faith in the project  
✓ estimates that they have to discount them by 10-30%, something is amiss. The  
fact that block adjustments of that size have proved to be justified, until this  
✓ year, makes the situation worse because it suggests that the process feeds on  
itself. As long as high block adjustments are tolerated project managers have

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MINISTRY OF DEFENCE  
MAIN BUILDING WHITEHALL LONDON SW1  
Telephone 01-~~938 702X~~ 218 2111/3

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17th September 1981

*Dear Tim,*

FINANCIAL MANAGEMENT IN THE MINISTRY OF DEFENCE

In his minute to the Prime Minister of 14th September on this subject my Secretary of State mentioned that a copy of the open government document which the MOD intended to issue would be sent to your office. It is now attached. Copies also go to the Private Secretaries of the Ministers who received Mr Nott's minute, *+ Sir R. Armstrong + Sir D. Rayner.*

*Yours sincerely  
Nick Evans*

(N H R EVANS)

T P Lankester Esq

MINISTRY OF DEFENCE  
MAJL BUILDING WHITEHALL LONDON SW1



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STUDY OF THE CONTROL OF EXPENDITUREI INTRODUCTION

1. A study of control of expenditure in the Ministry was set in hand in December 1980, with the approval of the then Secretary of State for Defence, because of serious concern about the substantial overspend against the 1980/81 defence budget and cash limit which at that time appeared in prospect. Its object was to review arrangements for monitoring expenditure and forecasting its outturn, for providing explanations of variations from estimates and cash limits and for controlling expenditure against cash limits. It was undertaken by two officials of the Ministry of Defence, Mr W D Reeves and Mr B P Shillito, and two qualified chartered accountants from the firm of Arthur Anderson & Co, Mr V C Watts and Mr E R Dolby. The full terms of reference of the study are at Annex A.
  
2. The study concentrated mainly on the sea, land and air systems areas of Defence Vote 2. The study team consulted widely within MOD, and held discussions or corresponded with officials of the Treasury, the Civil Service Department, the Department of Industry and Department of the Environment. They also received guidance from Sir Derek Rayner. Their report was submitted on 31 March 1981.
  
3. Part II of this document contains a summary by Mr Reeves of his group's report. Part III sets out the Ministry's views on the report's recommendations and describes the action being taken on them.

II SUMMARY OF THE REPORT ON THE CONTROL OF EXPENDITURE

4. The combined total of the four cash-limited Defence Votes originally submitted to Parliament in March 1980 was £10125M; a year later it stood at £10755M, an increase of £630M. About one-third of the increase (£218M) was for forces and civilian pay awards in 1980 which could not be quantified when the original Estimates were presented. A further net £150M represented a deliberate increase in the cash limit in August 1980 made in the light of international circumstances and in recognition of the priority given by the Government to defence. The balance of some £260M represented estimated overspending against the revised cash limit, which in Parliamentary terms had been legitimised by the voting of a Spring Supplementary Estimate.<sup>(1)</sup>

(1) Notwithstanding the increase in the cash limit and the measures, including the moratorium, on uncommitted expenditure taken to restrain spending, the Ministry could not rule out a further overspend against the revised cash limit and accordingly took a Spring Supplementary Estimate. They did so in the knowledge that it would not be until well after the end of the financial year that their success in restraining spending could be measured. This was the position reached when the Report was submitted in March 1981. In fact by August 1981 it was established that the overspending against the reused cash limit was £64M. Part II of this document makes no further mention of this late development; see however Part III, paragraph 38.



5. The 1980-81 position contrasted with a long and fairly consistent history of underspending against volume on the defence budget. ("Against volume" means in terms of Survey prices, ie those prevailing in the September before the beginning of the financial year). Since 1964-65 there have been volume underspends in all but two years, 1970-71 and 1971-72, prior to 1980-81 itself. Since 1976-77 however, volume controls have been supplemented by cash limits. For the first two years the defence cash limit was underspent; in the two following years it was overspent by £74M and £62M respectively. (A cash limit overspend can co-exist with a volume underspend because the allowance for inflation included in the former is insufficient and/or because the cash limit is net of a reduction to compensate for past overspending).

6. In their report the study team noted that the previous Government had placed the defence budget on a rising trend in response to the NATO target of 3% annual real growth in defence spending for members of the Alliance. At the same time MOD was engaged in trying to restore momentum to a programme which had stagnated during the Defence Review of 1974 and subsequent cuts in the defence budget. All three Services were encouraged to build up their programmes. However, when the 1979 Long Term Costing (LTC 79) was completed early in that year, MOD's forecast of total spending in 1980-81 was found to exceed the financial target by no more than 1.25%. All recent experience suggested that with the passage of time this excess would be eroded and eventually turn into an underspend. Nevertheless in 1980-81 itself successive forecasts of outturn, at monthly or bi-monthly intervals, showed a rising trend of overspend, with a slight decline at end-August and end-September, but reaching a peak at end-December and falling back to the end-November level at end-January. In its analysis of the end-November forecast on which the Spring Supplementary Estimate was based the report noted that:

a. Of the forecast overspend of £630M against the original cash limit, some £480M was for pay and price increases. Of this some £370M had been regularised by an increase in the cash limit, leaving about £110M of pay and price increases uncovered.

b. On Defence Votes other than Vote 2 (Defence Procurement - ie equipment) the outturn in volume terms would have been close to the Estimate had it not been deliberately cut by £225M as a result of measures described in the next paragraph.

c. The problem lay on Vote 2. Despite cuts assessed at nearly £150M during the year the forecast outturn exceeded the original estimate by £380M in volume terms.

7. Once the forecast overspend was diagnosed vigorous measures were taken to reduce it. Two tranches of saving measures, totalling £160M and £100M in cash terms, were approved in July and a third (eventually totalling £90M) the following month. A moratorium on uncommitted expenditure was announced in August; any exceptions required Ministerial approval. This was succeeded in November by a regime of stringent discipline limiting the undertaking of new commitments until the end of the financial year. In March 1981 the total effect of all these savings measures was assessed at £400M in cash terms. But for these measures the overspend would have been higher.

8. The report concluded that the main causes of the 1980-81 overspend were a substantial build-up of MOD's contractual commitments over previous years; insufficient pruning of the programme at the stage of Estimates preparation; the recession, which released industrial capacity and thus both enabled and encouraged contractors to put more effort into defence work; and the fact that the defence programme was too inflexible to counteract fully an overspend on this scale once it was forecast. Secondary causes may have included some increase in the capacity of the defence industries in recent years and prompter presentation of bills by defence contractors, spurred on by high interest rates.

#### MOD's System of Estimating, Monitoring and Forecasting

9. The report commented that in-year monitoring, forecasting and control cannot be divorced from the prior activities of financial planning and preparing Estimates; and went on to describe the main features of MOD's organisation and systems for these operations.

10. The defence budget consists of the five Defence Votes (plus some minor additions), of which Votes 1, 2, 4 and 5 are cash-limited. In practice these are managed as a single cash limit; an overspend on one or more Votes is permissible as long as the aggregate total is not exceeded. The four Votes have different Accounting Officers (AOs). The two biggest Votes in money terms are Vote 1 (forces and civilian pay, stores, supplies etc), for which the Permanent Under-Secretary (PUS) is AO, and Vote 2, for which the Chief of Defence Procurement (CDP) is AO. AOs are responsible through their Minister (in this case the Secretary of State for Defence) to Parliament for the proper management of their Votes, including conforming to the Vote totals.

Where there is more than one AO in a Department the PUS is responsible for financial procedures across the Department; thus in MOD the PUS has concurrent responsibility for Vote 2. All AOs are advised by the Principal Finance Officer (PFO), who in MOD is a Deputy Secretary.

11. Commitment of resources rests with the three Service Boards - Admiralty, Army and Air Force - in conformity with broad defence policy laid down centrally. The military members of each Board include not only the Chief of Staff of the Service concerned but also a Systems Controller, for sea, land and air systems respectively. These senior officers are members of the Procurement Executive (PE), which is an integral part of MOD, and are accountable to its head, CDP; they head organisations known as the Systems Controllerates. Together the three Systems Controllers disposed of £3.37 billion in 1980-81 original Estimates, representing 84% of Vote 2. Each Systems Controller receives financial and administrative advice from an Under-Secretary. The latter also owe allegiance, in their capacity of Senior Finance Officers, to the PFO, who in addition has his own direct staff responsible for co-ordination of Estimates and in-year forecasts of outturn, as well as accounting and the payment of bills.

12. MOD's basic planning document is the annual Long Term Costing (LTC) , with a 10-year coverage of which the first year is the Estimates year immediately ahead. Preparation of Estimates moves in step with the Public Expenditure Survey (PESC), which is orchestrated by the Treasury. Estimates are originally prepared at Survey prices (see paragraph 5 above) and can only be translated into cash limits at a comparatively late stage (December and January) when the conversion factors from Survey to forecast outturn prices have been decided by Ministers and circulated by the Treasury.

13. An important feature of MOD's preparation of Estimates is the "block adjustment". This is a discount applied to the aggregate cost of programmes in the expectation, based on past experience that problems as yet unforeseen will prevent the estimate from being spent in full. In 1980-81 Estimates block adjustments in the systems areas (ie the budgets of the Systems Controllers) averaged 19.4%.

14. The report commented that these procedures resulted in the existence of three money figures for any given expenditure which were of interest to different people:

- a. The cost of the programme at Survey prices. Project managers were authorised to spend up to this level during the year.
- b. The Estimate at Survey prices after block adjustment. This was less than a. by the amount of the block adjustment (the 19.4% just mentioned).
- c. The cash limit. This was b. increased by the cash limit enhancement factors received from the Treasury, and formed part of published Estimates.

15. The report noted that in-year forecasts of outturn are of two main kinds. Firstly there are the monthly or bi-monthly "departmental forecasts" (see paragraph 6 above) which are prepared by the finance officers supporting project, commodity and personnel managers. Secondly there are the monthly analyses of payments from the Paymaster General's Office (the Financial Information System, or FIS), which by extrapolation are used to project outturn. There are also various supplementary projections.

Performance of the Forecasting System 1980-81

16. The report concluded that, while MOD expected from the beginning that there would be an overspend against the cash limit, its scale was not appreciated for some time - though the inflation component of the overspend on Vote 2 was assessed with fair accuracy from the beginning. The FIS projections were unfortunately distorted by the effects of the Civil Service strike in April-June 1979, which had slowed down bill-paying and made extrapolations based on that year's experience unreliable. However a different form of analysis, based on cumulative monthly expenditure expressed as a proportion of final outturn (for past years) or the cash limit (for 1980-81) indicated by the end of May that spending had moved into a higher gear. An alternative presentation, based on three-monthly averages and thus avoiding the distortion caused by the 1979 strike, would have told a similar story. In both cases the sharp acceleration of spending would have been noticeable by end-April 1980 and unmistakable by end-May. Analysis of the number and value of bills paid by MOD's office at Liverpool, as described in detail in the report, would have provided confirmation. The report concluded that, while the sea-change in the pattern of defence equipment production and spending which occurred in 1980-81 was perhaps unforeseeable, once it did occur MOD might have appreciated its scale more quickly if the analyses of FIS and bill-paying data just described had been prepared.

Constraints on the Control of Expenditure

17. The report identified three constraints which limit MOD's discretion to vary its rate of spending in order to keep within cash limits. The first is the annual

character of the cash limits themselves, which are tied strictly to financial years with no provision for overspends or underspends to be carried forward. Since 1979-80 cash limits have been absorbed into Parliamentary Estimates, thus in effect giving their annuality statutory force. The second constraint lies in the statutory rules, going back to the Exchequer Audit Department Act 1866, which require that liabilities which have matured and whose payment has been authorised before the end of the year must be paid immediately and charged against the Votes of that year, and that payments may be neither postponed nor advanced. Taking these constraints together, and given the margin of error which unavoidably exists in forecasting equipment and stores expenditure between 4 and 16 months ahead (ie at the time Estimates are beginning to take final shape), it must follow logically that, to be certain of conforming to the cash limit, MOD must aim to undershoot it to the extent of margin of error. In other words MOD must plan for an underspend. This conclusion is obviously unwelcome to MOD since it conflicts with the objective of using to the full the money voted by Parliament for defence. Although the concept of cash limits as originally published envisaged the need to allow limited flexibility between successive financial years in cases where the timing of expenditure could not be controlled with precision, the operational rules made no provision for this. The problem was examined by the Public Accounts Committee in 1980, but so far the conventions remain unchanged.

18. The third constraint lies in the contractual commitments entered into by MOD itself. During the late 1970s these increased considerably; over the three systems areas outstanding contractual liability (OCL) rose from £2.85 billion in March 1977 to £6.5 billion in March 1980, a 51% increase at constant prices. MOD's contracts staff are charged with obtaining the best value for money. They have no responsibility for deciding what should be purchased or when, nor are

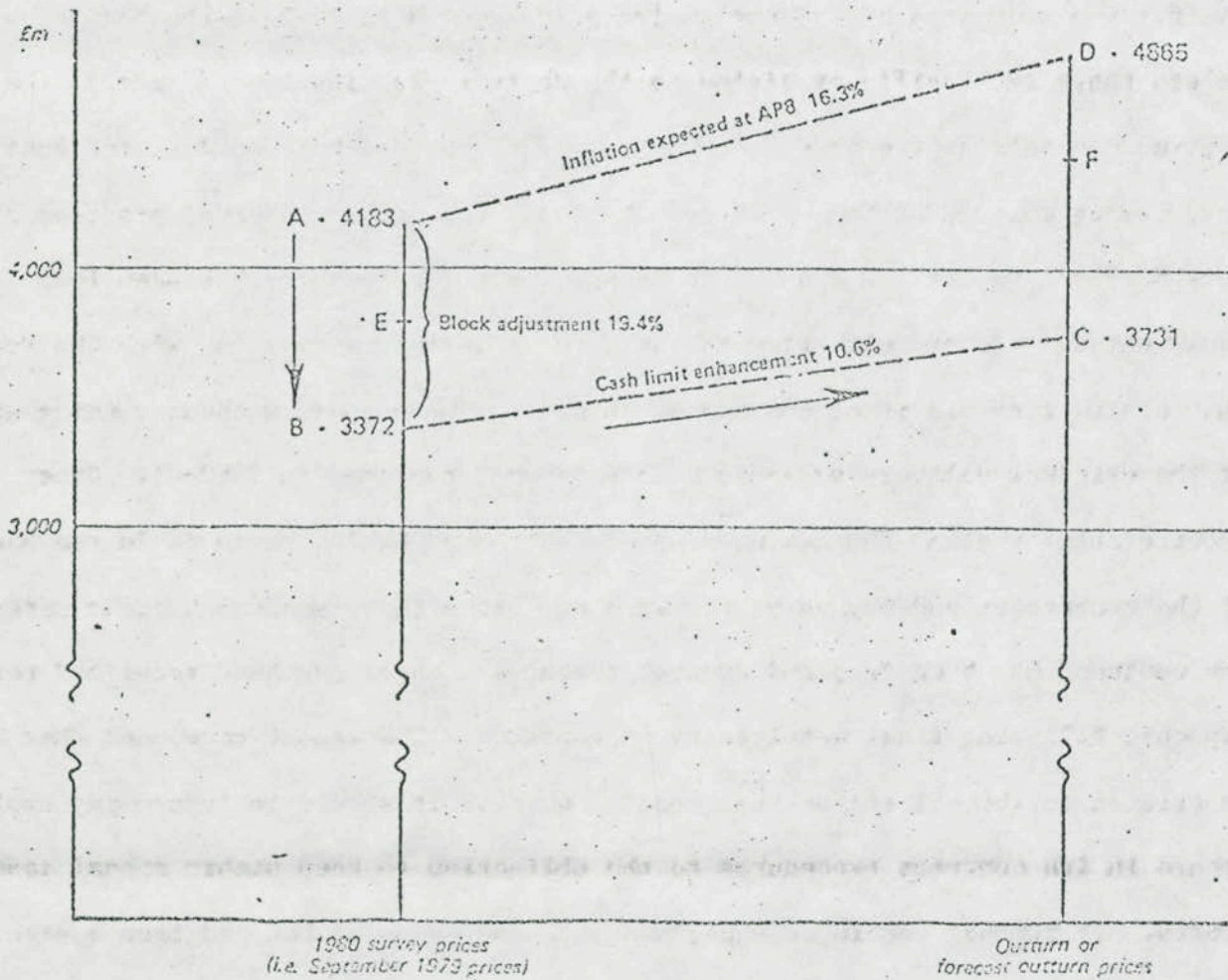
they responsible for aligning contractual liability with annual budgets. The terms of contract which MOD negotiates with its suppliers do not directly govern MOD's cash flow, though they influence it indirectly; for example, a production contract will specify a delivery date or dates, which if adhered to will give rise to a bill soon afterwards, and for bigger projects a sequence of stage payments or progress payments along the way. The report noted, however, that this was of limited value for predicting cash flow, and even less for controlling it, for two main reasons. Firstly, incentive contracts work on the basis that, unless there is specific provision to the contrary (a minority of cases), the contractor is left free to deploy his resources in what he considers the best way, taking account of his other commitments. This makes physical progress of work hard to predict. Secondly, in recent years the tendency has been for equipment and stores deliveries to run late, sometimes very late, with the result that contractors can if circumstances change put on a spurt without running ahead of the original delivery schedule. This is what happened in 1980-81. Other uncertainties include the timing of presentation of bills, which is in the hands of the contractor and may vary; the wage and price increases which occur after the contract has been let; and special features such as overhead rates and terminal payments following final settlements on contracts. The report concluded that MOD's experience in 1980-81 raised the question whether it should in future pay explicit regard in its contract procedures to the obligation to keep within annual cash limits. It further concluded that, since the build-up of OCL had been a significant factor in creating the risk of a sudden upsurge of work and billing demands which had in fact materialised in 1980-81, the size and composition of OCL should be monitored and analysed more systematically than at present.



Control of Expenditure - Objectives and Performance

19. The report expressed the estimating process diagrammatically as follows.  
 (AP8 = end-November).

ORIGINAL DEFENCE VOTE 2 1980 - 81 - Sea, land and air systems



- A = programme
- B = block-adjusted estimate
- C = cash limit
- D = 'A' enhanced by inflation which has actually occurred
- E = AP8 forecast at 1980 Survey prices - £3796m
- F = AP8 forecast at forecast outturn prices - £4403m

The sequence of preparing Estimates is from A to B to C (see paragraph 14 above).

20. The study team attempted to establish how staff at various levels perceived their responsibilities for controlling spending during the year. The general picture which emerged was that project managers and the finance staff working with them mostly believed that they had authority to spend up to their share of the programme (A in the diagram), which would in practice be enhanced by the actual rate of inflation (D in the diagram). There was a widespread view that responsibility for observing the cash limit (C in the diagram) rested with the centre of MOD: initially the PFO and his staff, ultimately the AOs in consultation with the Chiefs of Staff. This was justified on the argument that central management of the cash limit enabled the cash limit enhancement (the difference between B and C in the diagram) to be treated as a central pool of cash to be allocated wherever it was most needed; this could most conveniently be done from the centre. The report noted that it was not clear who was responsible for adhering to the block adjusted estimate at Survey prices (B in the diagram): in other words for ensuring that the block adjustment assessed during the preparation of Estimates was in fact achieved. In general the Systems Controllerates tended to look to the centre of MOD for this.

21. The study team concluded that MOD's achievement in securing savings of some £400M during 1980-81 through deliberate measures to limit the overspend was impressive by any standards. Nevertheless the cash control system had been ineffective in relation to Vote 2. The Treasury told the study team that the overspend had conflicted with the Government's economic objectives. From the Armed Forces' point of view, while the high level of spending on Vote 2 had brought some benefits in terms of increased production, these gains were offset by the cuts measures in terms of delayed orders, reduced activity levels, cuts in stocks

of fuel, stores and supplies, delays in the works programme and so forth. The savings measures had also had an adverse effect on the defence industries. The report concluded that more effective controls on in-year spending were needed to safeguard against a repetition of an overspend on the 1980-81 scale and the inconveniences which it brought in its train.

### Outside Practice

22. The study team examined whether organisations outside central government faced problems comparable with those of MOD in running a large procurement programme, within an inflexible annual budget. (Within central government the scale of MOD's problem is unique, since defence accounts for about 80% of central government purchasing but only 17% of expenditure). For private sector companies, while the need to live at all times within the finance available to them is a matter of life or death, the precise amount of annual cash flow is seldom critical. Unspent balances and borrowings are carried forward from year to year as a matter of routine. Although their forecasting is liable to be upset by business uncertainties they can respond more flexibly: by obtaining additional finance within prudent limits, by delaying payment of debts or by offering customers cash inducements to settle their bills quickly. Nationalised industries are cash-limited only as regards their external finance. Although they are ultimately underwritten by central government, the fact that they operate commercially gives them various forms of flexibility not available to MOD, in particular an independent source of finance, freedom to carry forward cash balances from year to year and freedom to time payments according to commercial criteria. In addition, since April 1981 they have been given a facility to carry forward cash limit overspends, but not under-spends; from year to year subject to a limit of 1% of the sum of turnover and fixed capital expenditure. Local authorities work on the basis of accrual accounting,

which reduces uncertainty about the timing of recording revenue and expenditure; they have independent sources of revenue in the form of rates, rents and charges; they may carry forward cash balances from year to year; they may borrow short-term for limited purposes, with repayment not required until 3 months into the following year; and for capital expenditure they have the ability to defer borrowing until the money is needed, and as a result of recent legislation the right to transfer up to 10% of their capital budget from the current year to the next year or vice versa. Regional Health Authorities may carry forward to the next year under-spending of up to 1% of their revenue allocations and up to 10% of their capital allocations. Overseas, within their different constitutional and financial frameworks the Defence Departments of our NATO Allies seem in general to be less rigidly confined to annual budgets than the UK; this applies to the USA, France, the Federal Republic of Germany, the Netherlands, Belgium, Norway and Italy.

23. The Arthur Andersen & Co members of the study team compared financial control practice in MOD with that of large commercial organisations in the private and public sectors. As a broad generalisation they found that the high priority given by business organisations to responding successfully to changing requirements was less evident in MOD, which in their view may have gone a little too far in insulating its managers from financial uncertainty. Symptoms of this were an elaborate reporting chain and the use of Survey prices as the basis of control even though these were out of date by the time the financial year began. They were struck by the long administrative lead times for stores procurement in MOD, and by an absence of emphasis on keeping the programme flexible and responsive to emerging trends of over- or under-spending. From their limited conversations they were also struck by MOD project managers' tolerant attitude towards substantial slippage in delivery dates.

The Study Team's Proposals

24. The study team diagnosed four shortcomings requiring solution: unreliability of the departmental forecast of outturn, mainly because it was based on inadequate information; neglect of certain secondary but significant indicators of spending trends; looseness in the relationship between MOD's contractual commitments and the financial resources available to it year by year; and above all an unsatisfactory definition of responsibilities within MOD for controlling annual spending, resulting in inconsistency and uncertainty in the perceptions of staff at various levels and in different parts of the organisation.

25. These shortcomings required a range of remedies. The first was a clear definition of what MOD's in-year control of expenditure should be trying to achieve. The report noted the incompatibility between the Treasury's view that MOD must if necessary aim to underspend in order to avoid overspending, and MOD's commitment to taut estimating and maximum efficiency of spending and its strong motivation to make full use of the resources for defence approved by Ministers and Parliament in order to strengthen the forces and improve their equipment. However, experience in 1980-81 had shown that the margin of uncertainty in predicting expenditure was greater than had previously been supposed. The study team were not convinced that this was a temporary aberration from a normal pattern of underspending which would soon reassert itself. They accordingly attempted their own definition of the objectives of financial control in MOD in order of priority. The first priority objective should be to ensure that the defence block cash limit is not overspent in any year. The second priority objective should be to achieve the first objective in a way which maximises the defence capability and value for money obtained and, consistent with this, minimises underspending.

26. The study team concluded that it was a basic weakness that, although the defence cash limit is a control total, relatively few finance staffs in MOD focus on it. This might have been justified in the early experimental years of cash limits, which were also years of underspending; but the situation had now changed, and the defects of the system were apparent. Responsibility for taking action to avoid overspending rested on a very few pairs of senior shoulders: those of the PFO and above him PUS, CDP, the Chiefs of Staff and the Secretary of State. Project and finance staffs in the PE were working to programme totals which were at two removes from the published Estimates themselves and on a different price base. The study team accordingly recommended that responsibility for observing the cash limit, and if necessary controlling spending to keep within it, should in the systems areas be placed on the Systems Controllers; and that all finance staffs should monitor and control spending during the year in terms of cash, ie at outturn instead of Survey prices. The study team were unconvinced by the objections that to sub-divide the cash limit in this way would be to sacrifice the flexibility bestowed by the block cash limit concept, thus making underspending more likely; or that to give the Controllers this responsibility would usurp the prerogative of the Service customer to decide where cuts should fall. They noted that their recommendations would be operationally easier to implement under the revised PESC procedures announced in the Chancellor of the Exchequer's March 1981 Budget statement, whereby in future the Government's expenditure plans would be discussed from the outset in terms of cash available for the coming year.

27. The study team also concluded that the high level of block adjustments in recent years had weakened financial control by encouraging lax estimating and, more important, concealing from programme managers the significance of the acceleration of payments in 1980-81. Because the block adjustment was so large most project managers perceived themselves as underspending against their programmes at a time

when the central management of MOD was grappling with a major overspend against the cash limit. The study team noted that block adjustments would be much reduced in 1981-82, but concluded that for later years it was necessary to go further. They accordingly recommended that it should be established as a ground rule of MOD estimating that no Systems Controller's programme should be block adjusted by more than 2.5% for the Estimates year. They judged this figure to be broadly in line with the flexibility available to reduce spending on Vote 2 during the year, short of emergency measures such as a moratorium. The size of the block adjustment would thus be commensurate with the flexibility available to reduce spending in-year, instead of greatly exceeding it. The study team rejected the objections raised that project managers would inevitably over-estimate and that an arbitrary limit on block adjustments would guarantee underspending. They recognised that there was some force in the objection that project managers at present lacked the necessary basis of knowledge for discounting their estimates to allow for future uncertainties, but considered that this difficulty could be substantially reduced by providing them with better information.

28. The study team noted that, in theory at least, in-year flexibility to curb or boost spending ought to provide the perfect reconciliation between the Treasury's insistence on observance of the cash limit and MOD's reluctance to underspend. They recognised that flexibility was necessarily limited by the high degree of commitment of funds before the financial year begins, but considered that MOD could almost certainly achieve substantial increases in flexibility by deliberately setting out to create it through advance planning by project managers and commodity managers. They accordingly recommended that a system should be devised to identify savings and addback opportunities before the start of the year and to monitor and control their use during the year. Some of these measures should be controlled centrally, others at project manager level.

29. The report contained a number of recommendations designed to improve the accuracy of outturn forecasts. The study team noted that, at the time Sketch Estimates (in effect the first departmental forecast of outturn) were prepared, staff were required to forecast outturn between 6 and 18 months ahead and before they could predict with any accuracy the outturn for the current year. The study team concluded that forecasting could be improved by breaking the estimate into smaller time-slices, as is normal practice in the private sector. Profiling should be done on a quarterly basis, looking six or seven quarters ahead; thus the current year's outturn and Sketch Estimates for the following year could be surveyed as a continuum. Outturn in past quarters should be compared with the profile, and the comparison used to throw light on the profiles for the coming quarters. The value of profiling would be enhanced by sub-dividing the quarterly figures into a monthly profile at the beginning of the financial year. MOD's requirements for financial information from contractors should be reviewed with profiling in mind; the report recommended a further study to define MOD's needs in this regard. Profiling should be introduced in 1981-82 using simplified procedures which could be expanded in 1982-83 into a formal unified system.

30. The study team noted that many staff engaged in financial forecasting found the volume of data too great to handle by manual means. A number of them had developed or were developing ideas for computer assistance. The report recommended that this work should be co-ordinated and expedited through the commissioning of a study to design and outline the main components of a scheme for computer support for finance staff in the PE and to recommend priorities for its orderly development.

31. The report recommended that statistics of FIS data and the value of bills paid, which might have given earlier warning of the emerging overspend in 1980-81 (see paragraph 16 above), should be prepared on a regular basis and made available to those



concerned with the departmental forecast. Some technical adjustments would be necessary. In addition, in view of the link between the state of the economy and the rate of defence spending which was once again demonstrated by 1980-81 experience, assessments of economic prospects should be regularly prepared and circulated as background to this preparation of estimates.

32. The report recommended that MOD's outstanding contractual liability (OCL) should be regularly monitored and its size and composition analysed, the results being brought to the attention of all levels of management. In particular, efforts should be devoted to translating MOD's total OCL at any given time into a pattern of annual cash flow for the future.

33. The study team identified a number of tasks which in their view should be carried out to improve the quality of MOD's forecasting and monitoring of expenditure. Apart from the analysis of FIS and bill-paying data and the analysis and monitoring of OCL these included economic advice and a study of material emanating from the PE's Accountancy Services division, who are in close touch with the costs of industry. In addition, under an agreement reached earlier this year, MOD's major contractors have undertaken to submit quarterly profiles of the amounts for which they intend to bill MOD in the future; analysis of these would be valuable. The report recommended that a new unit should be set up in the PE to undertake all these analytical tasks and provide a common source of advice to finance staffs in the Controllerates. The unit could be very small, but it should if possible combine statistical, economic, administrative and operational research skills, together with contracts expertise.

34. Commenting on MOD's contract procedures, the study team observed that many of MOD's forecasting difficulties stemmed from slippage of delivery dates which could increase or decrease substantially and unpredictably without ever disappearing. While the ideal remedy was for contractors to deliver on time, some degree of slippage unfortunately had to be accepted as a fact of life. This being so, MOD's aim should be to try to narrow the time-frame within which it could be called upon to make payments. From this point of view different types of contract presented different problems. The report recommended that, where a contract called for payment on delivery, MOD should specify a starting date (or "not before" date) for delivery and should establish clearly in the contract its own right to refuse acceptance or payment any earlier than this. The contract should contain provision for a new "not earlier" date to be specified, to protect MOD against sudden acceleration of demands for payment, in the event of major slippage occurring. In the case of contracts eligible for stage payments (ie due at pre-determined stages of the work) or progress payments (ie due at regular intervals of time, usually monthly) the objective should be essentially the same, namely to relate MOD's payment obligations more closely to its ability to pay within annual cash limits. The study team attempted to define the ideal characteristics of a contract which would secure this objective. It should enable MOD to specify, before or during each year, the maximum amount it could afford to pay on that contract in that year. A generous ceiling could be set in time of underspend and a tight ceiling only when there was a danger of overspend. In this way MOD would be assured that the contractor's calls for cash would not exceed the funds available, but the contractor would be free to make more rapid progress if a general underspending made additional funds available. However, various constraints necessitated a selective approach and the report suggested alternatives for these cases where such a scheme was impracticable. For contracts

involving stage payments they recommended a "stage payments time schedule", whereby the contract document would contain a schedule of "not earlier" dates for payments for each stage of work. The schedules should be revised in the event of significant slippage on projects. In the case of contracts calling for progress payments a "progress payments profile" should be introduced. This would involve writing into the contract the total anticipated payment in each year of the contract, together with a condition giving MOD the right to withhold payment for expenditure at a faster rate than that specified. It would be implicit in both the schemes just described that the controller concerned should relate the schedule or profile to the availability of annual funds. The team recognised that staffing constraints in MOD might make it necessary to confine these arrangements to contracts above a certain level of value.

#### Wider Implications of the Study Team's Proposals

35. The study team recognised that their proposals would inevitably mean more work in MOD, thus conflicting with the current drive to cut civilian staff and aggravating the overstretch which, as was evident during the team's visits and discussions, was already being suffered by finance staffs. This indicated a need to reduce the finance workload elsewhere if at all possible.

36. The report noted that, if its recommendations were accepted and proved effective, MOD's former propensity to underspend could return. This in the study team's view presented a challenge to both the Treasury and to Parliament, since it could not be part of the intention of either that a substantial slice of the funds approved by Ministers and the House of Commons for defence should be returned to the Exchequer at the end of the year as a matter of routine. The study team suggested that new

ways should be explored of ensuring that voted funds were spent in the year in which they were granted by Parliament, not only through undertaking new purchases but also by accelerating the rate of payment for existing commitments and possibly also the timing of bringing existing payments to account. To be of any value such changes would need to be genuinely flexible according to circumstances; a new set of inflexible rules would merely replace one rigidity with another. The study team envisaged an arrangement whereby, where commitments are prefunded, MOD could in a year of underspend apply to the Treasury and Parliament to charge to Vote some part of the advances already made, explicitly for the purpose of reducing underspend. PESC provision would be unaffected because MOD would merely be spending more of its approved budget; the PSBR would be unaffected because the money would have been paid anyway. While amendment of the 1866 Act might be necessary, Parliamentary control would not suffer if the proposals were presented squarely to Parliament. The study team suggested that this idea deserved serious examination, together with other proposals with the same object.

37. Finally, the report recognised that its proposals for better forecasting and changes in the terms of contracts would affect the defence industries. The study team did not however consider that they would lay unreasonable demands or constraints upon them, and expressed the view that MOD was entitled to expect the co-operation of its suppliers in helping to manage its cash flow, bearing in mind the benefits which industry was obtaining from defence work in hard times.

#### SUMMARY OF THE REPORT'S CONCLUSIONS AND RECOMMENDATIONS

##### Conclusions

1. The first priority objective of financial control in MOD is to ensure that the defence block cash limit is not overspent in any year. The second

priority objective is to achieve the first objective in a way which maximises the defence capability and value for money obtained and, consistent with this, minimises underspending.

2. There is confusion in the systems controllerates as to the control total for expenditure in the financial year. This is due in the main to the imposition of large block adjustments, coupled with instructions to project managers to work to their programmes expressed at Survey prices before block adjustment. It is a widely held view in the systems controllerates, supported by formal instructions, that they are not responsible for the control of expenditure within cash limits.
3. Departmental forecasts of outturn in 1980-81 have been inadequate.
4. Information was available in MOD which was not used by those preparing forecasts and which would have given earlier warning of the size of the impending overspend in 1980-81.
5. Insufficient attention is paid within MOD to the search for items which can be procured in greater or lesser quantity with an early effect on cash flow and can therefore be used to give a degree of in-year flexibility. This is in marked contrast to outside practice where managers respond quickly to changed circumstances. Administrative lead times on stores procurement in MOD compare unfavourably with practice in industry.
6. Present contractual procedures do not give MOD control over the timing of delivery of goods or the rate of billing. There is inadequate information from contractors of their billing intentions.

7. Outstanding contractual liability, which can be a useful indicator of future expenditure levels, had been rising steadily over the last few years up to the beginning of 1980-81.
8. Annuality restrictions bear more severely on UK central government, and on defence in particular, than on local government, nationalised industries, regional health authorities and the majority of NATO governments.

#### Recommendations

1. Responsibility for observing the cash limit, and controlling expenditure to achieve this, should be placed on Systems Controllers.
2. All monitoring and control of expenditure should be against cash (ie forecast outturn prices) rather than against Survey prices.
3. Systems controllerates' block adjustments should be limited to a maximum of 2.5% in the Estimates year.
4. A system should be devised to identify savings and adback opportunities before the start of the year and to monitor and control their use during the year. Some of these should be controlled centrally, others at project manager level.
5. In order to improve forecasting, quarterly profiles of expected expenditure should be prepared. This should be done initially in 1981-82 using simplified procedures which can be expanded in 1982-83 into a formal unified system.

6. A study should be commissioned to devise a scheme for computer support for systems controllerates.
7. Outstanding contractual liability should be monitored and analysed.
8. A new unit should be set up in the PE to give a common service to all controllerates covering analysis of FIS data, bill payments, cash profiles from contractors, OCL, material from PDAS, risk, and economic relationships affecting procurement.
9. Future contracts should where possible specify earliest delivery dates. Delivery schedules and the timing of stage payments should be revised if slippage occurs. There should also be constraints on stage and progress payments. These changes should be applied to existing contracts so far as this is sensible and attainable.
10. All the above recommendations should be implemented immediately with the exception of recommendation 3 which should be implemented for 1982-83 Estimates.

### III THE MINISTRY'S VIEWS AND ACTION BEING TAKEN

38. The analysis on which the Report was based covered the period up to end January 1981 when, as indicated in the Spring Supplementary Estimates, an overspend of about £260M against the revised cash limit was being forecast. In the event the actual overspend of £64M is nearly £200M less, perhaps a fitting commentary on a year in which accurate forecasting was very difficult, partly because of circumstances outside the control of the MOD and partly because the incidence of measures

taken to restrain expenditure was not easy to predict. From the outset a large overspend, exceeding £500M, against the original cash limit was predicted. Early analysis of cash flow figures conducted by the established method of comparison with expenditure profiles of a number of previous years, rather than a three term average, suggested the possibility of a somewhat larger overspend. But there were other factors at work eg a measure of catching up after the engineering and steel strikes which might have been expected to produce an initial surge in expenditure falling away later. In short the judgements facing those producing forecasts were somewhat more difficult than the analysis in the Report might suggest. Some further glosses on the Report would also be justified in the light of the actual out-turn.

39. Nevertheless the general thrust of the Study's conclusions and recommendations remains valid and is accepted by the Ministry. In particular the Ministry supports the conclusions that the responsibility of managers to control expenditure within the cash limit has required clearer definition and emphasis and that much greater stress should be placed on monitoring and control of expenditure in terms of current cash. It accepts the objective of improving estimating and forecasting to a point which will allow a move to much smaller block adjustments than have been used in the past and it endorses the study's view of the way in which the present annuality restrictions bear upon defence expenditure.

40. A number of changes have been made in these directions. Managers have been notified of their cash allocations in 1981/82 and told of their responsibility to monitor and control cash against them. Although central management of the defence budget will still allow one area to help out another in the event of difficulty, the onus is now more clearly on managers to keep their expenditure within allocations without assuming relief from elsewhere. The Department does not consider,



however, that formal responsibility for observing the cash limit on Vote 2 should be placed on Systems Controllers. Cash allocations have been made in Vote 2 as in other Votes, and here as elsewhere managers at all levels must accept responsibility for keeping expenditure within allocations and initiating corrective action when this is necessary. Nevertheless the Chief of Defence Procurement as Accounting Officer for Vote 2 will continue to look to the Systems Controllers for authoritative advice on the forecasting and control of expenditure in their areas of responsibility; and arrangements for more formal consultations with Controllers on each forecast of outturn have been instituted by the Chief of Defence Procurement for 1981/82. Throughout the defence budget it is intended to consolidate and develop the devolution to managers of responsibility to control expenditure within cash allocations. At present responsibility rests at different levels in the Department. The plan will be to devolve it as far as practicable. Experience in the current year will help to show how far the process can sensibly be carried.

41. The recommendation that Systems' controllerate block adjustments should be limited to a maximum of 2.5% in the Estimates year presents a stiff challenge to the Department. Block adjustments are a method of adjusting the programme for realism and have been applied at various levels. Up to 1979/80 the actual outturn of expenditure each year has shown large block adjustments to have been broadly justified. In 1980/81 the block adjustments were found to be too great in prevailing economic circumstances. The aim must be to make estimates of expenditure on individual projects and services as realistic as possible, and to improve estimating and forecasting techniques with this object in view. But some adjustment to take account of factors not evident to individual managers will continue to be necessary particularly in areas of expenditure on large numbers of relatively small projects. For 1982/83 an upper limit of 2.5% on the central element of block adjustments has nevertheless been set as an aim.

42. The more detailed recommendations of the study (4-8) relate to the means of achieving these broader objectives. They are being evaluated in detail. The Department has reservations about the scope for identifying and activating savings and addback opportunities within the financial year. (Recommendation 4). It is clearly part of good management to identify and exploit this kind of flexibility as much as possible. But there are problems about the lead time before new commitments produce new expenditure and about knock-on effects in later years; and addback exercises by their nature are not conducive to tight control and discipline. There is a point beyond which flexibility between years in cash rather than purchase of commodities makes better sense. A study is being made of computer support for systems controllerates (Recommendation 6) and of the profiling of expenditure (Recommendation 5). A study is also being carried out of the best means of providing to managers the range of information referred to in Recommendation 8, including a more detailed analysis of outstanding contract liability (Recommendation 7). On its completion a decision will be taken on the setting up of a new unit in the Procurement Executive. Meanwhile more use is being made of statistical assistance in analysing expenditure trends and guidance on industrial performance and capacity and on current and forecast economic activity will be circulated as a background to the preparation of Estimates. Work flowing from these recommendations, notably the profiling of expenditure could call for much increased staff effort. The limit of what can be done within available staff resources is likely to make choice between priorities unavoidable. Some existing activities may have to be given up if we are to move quickly in the directions recommended by the report.

43. The report proposes one set of additional instruments of direct control of expenditure (as opposed to improvements in arrangements for estimating and monitoring). This is the new contractual conditions summarised in Recommendation

9. Consideration is being given to the case for specifying earliest delivery in contracts, where possible, and to introducing contractual procedures which will give the department tighter control over the timing of delivery of goods and the rate of contractors' billing. No decisions have yet been taken. Controlling cash flow within strict cash limits in a way which will not inhibit the search for maximum value for money is a difficult challenge, and the Department will continue to search for new methods of control which will serve both these objectives.

44. The same challenge is posed by the study's first conclusion that avoidance of overspending cash limits should be treated as the first priority objective of financial control. This conclusion is consistent with Government policy but its implications for efficient management and value for money in a programme as large and complex for defence are clearly brought out in paragraph 36 of the summary of the study. Improvement of estimating performance and procedures for control of cash flow must be the Department's first objective. But we agree with the view of the study about the contribution to efficient management of voted expenditure which would be made by some relaxation of annuality rules and greater end year flexibility. Consideration of this will continue.

ANNEX A

The Terms of reference for the study were as follows:

"1. The object of the study will be:-

a. to review the present arrangements for monitoring expenditure, for forecasting the outturn, and for providing explanations of variations, both in volume and cash, from estimates and cash limits during the course of the financial year;

b. to review the present arrangements for controlling expenditure against cash limits and the efficacy of available control measures;

c. to propose improvements.

2. At 1b the study should take full account of the advantages of the block cash limit concept from which are derived the present arrangements for central monitoring and control of cash flow and which allows maximum flexibility for adjustments to be made on a defence basis during the financial year. But the case for applying the cash limit discipline to particular vote or management areas should also be considered.

3. Particular attention should be given to expenditure on goods and services supplied by industry, and to the problems of forecasting and control in changing economic circumstances, which may affect industry's performance of defence work. The present policy and practice of block adjustment should be reviewed, and account taken of the examination being given within the Department to the introduction of cash limits for firms as a means of controlling industrial capacity paid for by the defence budget and any scheme that may emerge.
  
4. The study should seek to establish to what extent the objective of value for money and the control of cash flow against an annual limit may necessarily be in conflict in the procurement area. It should consider whether there are trade-offs between these objectives and whether there is scope and need for change to align ordering and contracts policy and the system of annual control of cash flow more closely. Account should be taken of the present arrangements for project management in the Procurement Executive, of the way in which the Department's procurement and contract procedures contribute to the objective of securing maximum value for money and of the effect of drastic programme cuts and/or continuing uncertainty about the future programme.
  
5. Continuation of the PES, supply and cash limits systems and of the present rules for government accounting should be assumed but changes in these areas may be recommended. In particular account should be taken of the consideration which has already been given, within the Department and elsewhere to flexibility between financial years and of the extent to which innovations in this area might permit improved effective control over expenditure.

6. Account should be taken of the work so far done to analyse and quantify the reasons for the forecast overspend against the defence cash limit in 1980/81.
  
7. The study is to be completed by 31 March 1981".

PART \_\_\_\_\_ ends:-

C Priestly to CAW 16.9.81

PART 10 begins:-

MON to Tu tacks 17.9.81.

