

PREM 19/1252



FILE DA



10 DOWNING STREET

From the Private Secretary

9 November 1984

Dear Paul,

Government Purchasing

The Prime Minister was grateful for Lord Gowrie's minute of 7 November about the next steps in taking forward the report on Government purchasing.

The Prime Minister has approved a revised version of the foreword for her signature. This I enclose. She is also content with the proposals for a Written Answer on Monday 10 December, and for publication the following day. I should be grateful if you could submit a draft Question and Answer for the Prime Minister's consideration, in good time.

I am sending copies of this letter to Richard Mottram (Ministry of Defence), John Ballard (Department of the Environment), Dinah Nichols (Department of Transport), Richard Broadbent (Chief Secretary's Office), Stewart Eldon (Baroness Young's Office, FCO), Edmund Hosker (Norman Lamont's Office, DTI), Michael McCulloch (Timothy Raison's Office, FCO), Christopher Evans (Antony Newton's Office, DHSS), Jim Acton (David Waddington's Office, Home Office), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

Yours ever,  
David.

David Barclay

Paul Thomas, Esq.,  
Chancellor of the Duchy of Lancaster's Office.

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PART 16 ends:-

DB to PM 20.11.84

PART 17 begins:-

Robm lbb to pm 22/11/84



Prime Minister<sup>(4)</sup>

The three recommendations make very good sense. It is far too difficult at present for line managers to get hold of straightforward cheap equipment which they know could improve efficiency. The controls were desireal when computers were much more expensive.

Agree that Lord Gowrie should send the report to Departments?

Yes

JMS  
25/11





Chancellor of the Duchy of Lancaster

PRIME MINISTER

SUPPORTING SERVICES FOR ADMINISTRATIVE WORK

... In 1983 Ministers in 6 Departments commissioned scrutinies of particular areas of administrative work and its supporting services. These studies formed part of the central efficiency programme. The work is now complete and I attach a copy of the central team's final report.

Examining officers identified immediate opportunities for savings worth £1.5 million a year in the limited areas they studied. And the possibility of saving a further £7 million a year from using information technology to streamline other administrative operations was found in the Home Office alone.

It would be unwise to assume that the same level of saving is necessarily available elsewhere. But the findings indicate how important it is for departments to have a clear strategy for their deployment of the new technology (as the Central Computer and Telecommunications Agency have been pressing them to adopt). And they suggest that the contribution of information technology to the drive for better value for money needs to be increased by:

- (1) making line managers responsible for the costs of computers as well as of their other resources so that they can take the initiative in obtaining the systems they need to save money and improve services;
- (2) making sure those who advise line managers on efficiency are able to guide them on the opportunities of new technology too; and
- (3) looking outside the main body of ADP staff for help in getting new systems into place quickly, including making more use of the private sector.

The report does not call for any special central initiative. Instead it points to the ways in which departments should now be using the financial management systems they have been developing to ensure that value for money is being achieved in this area. And it highlights the need for the sort of support for line managers recommended by Robin Ibbs in his report on Consultancy, Inspection and Review. So I suggest that you ask me to send the report to Ministers in charge of departments and, where necessary, to help them put these principles into effect.

I am copying this minute to Barney Hayhoe and to Sir Robin Ibbs.

GOWRIE  
19 November 1984



REVIEW OF SUPPORTING SERVICES FOR ADMINISTRATIVE WORK

CENTRAL REPORT

This report summarises the findings of the Review of Supporting Services for Administrative Work. It draws out the general themes which emerged in the detailed studies and recommends action to be taken through the development and use of the work already in progress under the FMI.

2. The report draws on information from six special scrutinies commissioned by departments in 1983. These examined the handling and use of information in particular administrative operations:

| <u>Department</u>               | <u>Area Examined</u>                                                                 |
|---------------------------------|--------------------------------------------------------------------------------------|
| HM Customs & Excise             | Selected Headquarters Offices                                                        |
| Employment                      | Job Release Scheme and Industrial Tribunals                                          |
| Environment                     | Regional Offices                                                                     |
| Home Office                     | Probation and Magistrates' Courts; Information Technology throughout the department. |
| Inland Revenue                  | Capital Taxes Office                                                                 |
| Management and Personnel Office | Civil Service Commission                                                             |

3. Two other 1983 scrutinies - the Review of the CCTA and the Generation and Use of Paper in the Welsh Office - were concerned with related areas but did not form part of the main review. The evidence from other scrutinies and reviews has also contributed to the conclusions of this report.

4. We received evidence from the Council of Civil Service Unions which has been taken into account by examining officers during their work and in this report.



5. Most of the broad themes are familiar: they are common to previous reviews and to the work on the Financial Management Initiative. But they are still important - and the progress on implementing the FMI now gives a good framework for further action.

#### THE COSTS INVOLVED

6. It is difficult to isolate the costs of supporting services within the cost of administration as a whole. Many of the supporting services are concerned with information handling, yet even senior staff have to handle and organise information as well as take decisions on it. But one can say that about 260,000 civil servants are in grades or functional groups wholly or largely concerned with handling information and supporting administration. They include clerks, typists, messengers, paperkeepers, photocopier operators, librarians, and computer programmers and operators. They cost about £1800 million a year. In addition we spend about £230 million a year on administrative computer equipment and services.

#### WHAT THE SCRUTINIES FOUND

7. The scrutinies concentrated on finding practical ways of improving the efficiency and effectiveness of specific operations and their supporting services. The opportunities they found to improve value for money arose where there was still:

**(1) Lack of clarity about objectives, priorities and standards of service**

For instance the scrutiny in HM Customs and Excise found that unnecessary work by the Translation Service could be avoided if customer divisions were asked to specify whether a quick translation of the gist would be sufficient or whether a full and accurate translation was required. The scrutiny at the Civil Service Commission showed that effectiveness was impaired because the reprographic unit was providing a different level of service to that justified by the needs of the work. In the Welsh Office less cost-effective methods were used because not all customer divisions were aware of the quality and speed of service that the central reprographic unit could provide.



## **(2) Duplication of information**

For instance DOE regional offices supply data for central records but the scrutiny found that, because they have no ready means of accessing these records, they keep their own records as well. The Inland Revenue scrutiny found that 6 records covering a range of information about individual Capital Transfer Tax cases were kept for different purposes.

## **(3) Information kept for too long**

For instance in the Civil Service Commission competition files were retained for 15 years, whereas the scrutiny found that on the evidence of actual usage 3 years would be sufficient, saving £30,000 a year in storage costs. In HM Customs and Excise the scrutiny found that routine casework files were seldom referred to after action was complete and retention for 2 rather than 5 years would be adequate.

## **(4) Obstacles to the use of Information Technology**

All the departments examined have substantial ADP operations. Yet all six scrutinies pointed to places where the further application of IT could cut costs and improve services. For instance the DOE scrutiny showed how the introduction of IT in regional offices could save over £200,000 a year net on administrative work costing £2.6 million and, at the same time, improve the effectiveness of central government's dealing with local authorities. The Home Office scrutiny showed the scope for substantial savings (estimated as up to £7 million a year) from the application of small-scale information technology to common functions throughout the department.

But the scrutinies also highlighted two barriers to faster progress: the framework of controls and the deployment of resources.



Commenting on the arrangements for advice on and procurement of information technology the examining officer in the Home Office concluded:

"There is a set of procedures, precautions and justification mechanisms originally devised for large ADP systems sometimes out of all proportion to the prospective investment in modern technology. The result has been to stifle the growth of IT and in consequence limit the benefits accruing to the Office."

and the DOE examining team described the outcome of the procedures as follows:

"The result is in practice a 'disabling' rather than an 'enabling' process, as potential users of IT find themselves steering a path through a complex process of consultation and liaison with these separate groups (with unforeseen problems tending to emerge at each stage) before being sure that they have covered all relevant aspects. Even after authorisation, procurement of equipment and implementation of systems can be unnecessarily time-consuming."

The scrutinies also showed that ADP staff were already heavily committed to existing work. But they also possess some of the skills needed to implement new IT systems successfully. In the Home Office ADP Unit 51 out of 82 staff engaged in systems analysis and programming were committed to maintenance and small enhancements of existing systems. In the Department of Employment the scrutiny found that savings of £175,000 a year in the administration of job release payments were being foregone because there were insufficient ADP staff to make the changes to the computer program.



## WHAT NEEDS TO BE DONE

8. Building on the progress already made by departments the scrutinies in this review made specific recommendations for management action in the departmental operations concerned. These were estimated to produce direct savings of £1,506,500, with scope for further estimated savings of £7,260,000 from further potential applications of information technology in the departments concerned. The findings of the individual scrutinies were:

| <u>Department</u>                  | <u>Available<br/>Now</u> | <u>Further<br/>Opportunities</u> |
|------------------------------------|--------------------------|----------------------------------|
| Customs and Excise                 | £268,000                 |                                  |
| Employment                         | £455,000                 |                                  |
| Environment                        | £200,000                 | Unquantified                     |
| Home Office                        | £400,000                 | £7,000,000                       |
| Inland Revenue                     | £68,500                  | £260,000                         |
| Management and Personnel<br>Office | £115,000                 |                                  |

9. In addition the scrutinies have given the departmental Ministers concerned pointers to wider action needed in their departments to improve information handling further. For instance:

- the Home Office report recommends changes in the way support on information technology is made available to line managers;
- the Department of the Environment report recommends an information technology strategy to improve the operations of the department's regional offices and to ensure that decision-takers there and headquarters have better access to relevant information; and
- the Department of Employment report recommends ways in which information handling and storage policies should be tackled within the Department's developing management systems.



10. It would be wrong to assume on the evidence of these scrutinies that the scope for improvement they have found necessarily exists on a wider scale. But they do show what is needed to allow line managers to make the right choices about support services and to get best value for money from administrative work. Three particular requirements stand out:

#### 1. Standards of Service

11. The Financial Management Initiative stresses the importance of managers having "a clear view of their objectives and means to assess outputs and performance in relation to those objectives." For all managers the economical and efficient use of resources will be a major objective. But an administrative support operation does not exist in isolation: it enables the performance of the main administrative activities in the department. To each business in the department other aspects of service, such as accuracy, speed and ability to respond to requirements may be as important as cost if it is to deliver the overall administrative product efficiently and effectively. Different businesses may require different levels of service. The scrutinies have shown what can go wrong when there is a mismatch between the standard of service provided and the standard that is needed or expected. This suggests that **targets for standards of service should be forming an important part of the annual objectives of each support unit and that the service provided should be monitored against these targets.**

12. Making the standard of service more explicit will benefit both the provider and each consumer: the provider because it gives him clearer objectives and guidance on the priorities expected of him; and the consumer because it gives him a firmer basis on which to plan his own work and on which to judge whether he is getting value for money. Moreover including consideration of standards of service in annual budget- and objective-setting will focus attention on any mismatches of priorities and help apportion the accountability for getting the overall job done among those who will be contributing to it. And, as advances in technology offer new ways of doing administrative work, having standard of service targets will assist the evaluation of investment options.



13. The primary responsibility for drawing up standards of service and monitoring them rests with the managers of the supporting services - in consultation of course with their customers. For good managers this will really mean making more explicit existing processes of finding out what the customer needs and providing it. Where support is provided by an agency outside the department it is just as important to be clear about the standard of service that is expected. Some work is already in hand - for instance it is part of CCTA's response to the FMI to develop performance indicators such as unit costs and throughput times for its procurement work on behalf of departments.

## 2. The conditions for change

14. It is central to the Government's policy for Financial Management that line managers are best placed to seek better value for money in their operations. In part it is knowing that his performance will be assessed in terms of what improvements he has introduced that should focus the manager's attention on where the soft spots lie and where the scope for change is. But the manager is also influenced by:

- (1) The signals he receives about what can be changed and the support he will get if he changes it. For instance reductions in record keeping are unlikely to occur unless he is confident that the inevitably higher degree of risk if there is a complaint is acceptable.
- (2) The practical information he has about how improvements can be made. Wide circulations of general information do not give much assistance; but good evidence from other people in a similar position can be invaluable; and internal consultancy services have a vital role in identifying and communicating best practice. For instance the DOE scrutiny in this review found that adopting the best combination of existing local practices in all the offices could yield over 20% economies in each of two major activities. DHSS have produced a booklet for their local social security offices giving a wide range of examples of successful local initiatives.



### 3. Making good use of information technology

15. Taking advantage of the potential benefits of information technology will have a major impact on the cost and quality of administrative work in Government.

16. Significant progress has already been made in simplifying and reducing controls on IT expenditure and projects. CCTA has already delegated substantial authority to departments; the CCTA Review proposed devolving more responsibilities. Most departments now have an Information Technology strategy to provide a framework for developments. The implementation of the FMI is encouraging line managers to look at the way their resources are distributed. And Information Technology is becoming more integrated into day-to-day administrative operations. All this suggests that **expenditure on IT should increasingly be seen as just another cost and, in line with other running costs (particularly staff), responsibility for it delegated to line managers.** Like other costs line managers would still have to be conscious of overall departmental policies (eg its IT strategy) and, as for any other investment, to be able to demonstrate its financial and technical viability according to the cost and the risk involved. **But spending on IT is no exception to the principle that the line manager is in the best position to deploy all the resources to get the job done most effectively.**

17. The responsibility for ensuring that departmental controls help rather than hinder the development of IT systems rests with the chairman of the departmental IT strategy committee. He is well placed to view information as one of the department's resources. It is his job to ensure that the department's IT strategy is targetted at, and sets priorities for, improving the management of this resource. And it is also he who must strike the balance between central controls that ensure that the department's IT strategy is carried through and the freedom for line managers to take action to obtain the systems they need to get their tasks done most efficiently.

18. One yardstick of effectiveness is the extent to which any necessary controls catch potentially risky proposals while allowing straightforward cases to get straightforward treatment. For instance the existance of a clear IT strategy and of a well-developed budget centre system allowed the DOE examining officer in this review to conclude that decisions about whether to



purchase a small microcomputer should be delegated to budget-holders themselves. (The choice would be from a limited range to ensure compatibility with other small machines, with the department's larger systems and with its IT strategy as a whole.)

19. Providing the resources to implement the burgeoning range of IT applications in government will also be a challenge to departments over the coming years. Partly this is a matter of total skilled resources: staff in the ADP functional specialism are already hard-pressed to keep existing systems running and to implement the highest priority new systems. But the scrutinies have also pointed to the importance, as IT becomes more integrated into the office itself, of providing more and closer IT support to line managers. **Options open to chairmen of departmental IT strategy committees include:**

- (1) Making more use of the private sector, particularly to cope with peaks in the work and to accelerate the achievement of savings already identified.
- (2) Making more use of software packages (particularly now that line managers are starting to get the management systems and the pressure for improvement that allows them to trade off functions for cost and availability).
- (3) Developing 'Small Systems Groups' or their equivalent to provide support to IT users in particular businesses within the department (as, for instance, has been done in the Ministry of Defence and, in a similar form, for the Prison Department within the Home Office).
- (4) Making more use of staff currently outside the ADP functional specialism.

20. This last point needs expansion. Over 50% of our EO entrants are graduates. Staff outside the Administration Group have relevant IT skills (to which both Home Office and Department of Environment scrutinies in this review have pointed). And there is an increasing level of IT awareness within and outside the civil service. So there must be a seam of untapped aptitude within the Civil Service which could be developed to help bring small systems into early use. It would be wrong to think that we could do without the core of professional skills from the functional specialism: but there is scope for building up an intermediate level



of expertise to help departments through this period of rapid change. The examples of the CCTA/MPO Quick Applications Methodology (which allows line managers, with brief training, to identify and evaluate potential uses of small systems in their own command) and the mix of administrative and technical skills in some small systems groups show ways in which this can work.

### Action

21. Action on these issues in departments will be through making use of existing (or developing) procedures and management systems rather than creating new ones. In particular, the development of activity plans and budgets for those in charge of support services can and should be used rigorously to secure the kinds of improvements indicated in this report. The key questions top management need to ask to help this happen are:

- (1) To what extent are quantified standards of service included in the targets of the supporting services? How are the targets set? How are they monitored?
- (2) What steps have been taken to signal to line managers the support from the top for making changes if the benefits outweigh the increase in risks?
- (3) How do line managers obtain information on practical steps they can take to improve value for money? Who is responsible for seeing that best practice is passed on to others in similar positions? How is effectiveness judged?
- (4) To what extent does responsibility and control for information technology line up with the strategy of the department, under the FMI, for responsibility and control of other running costs? Does this ensure managers can make tradeoffs between IT and other expenditure?
- (5) How does the department intend to deploy its ADP and other staff to ensure the prompt implementation of cost-effective IT systems so that savings and other benefits are secured at the earliest opportunity? To what extent is the development of IT supply-limited?

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CABINET OFFICE

*From the Chancellor of the  
Duchy of Lancaster*  
Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

19 November 1984

*Dear Peter,*

GOVERNMENT PURCHASING

I enclose a copy of a letter I have sent today to Ministers in charge of departments, other than those that participated in our meeting on 29 October at which we discussed the central team's report on Government Purchasing. The letter brings departments up to date on developments and commissions action documents from them.

... A copy of the amended version of the report is enclosed for each of the departments for which you are responsible. I should be grateful if Ministers in charge of the departments that participated in the review could similarly set in hand the preparation of action documents.

We need quickly to identify an individual in each department responsible for follow-up action so that we can keep everyone abreast of developments on the setting up of the Central Purchasing Unit, publication etc.

I am copying this letter to the **Prime Minister**, Leon Brittan, Sir Geoffrey Howe, Michael Heseltine, Patrick Jenkin, Nicholas Ridley, Norman Fowler, Norman Lamont, Timothy Raison, Sir Robin Ibbes and Sir Robert Armstrong.

*Louis,  
Gowrie*

GOWRIE



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21 NOV 1984





## CABINET OFFICE

From the Chancellor of the  
Duchy of Lancaster

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
2 Marsham Street  
LONDON SW1P 3EB

19 November 1984

*Dear Mr Ridley,*

*when  
done  
2/1*

## GOVERNMENT PURCHASING

Thank you for your letter of 14 November and for your support in implementing this important report.

I noted what you said at the Prime Minister's meeting about the improvements you have introduced in your department's dealings with contractors and consultants and that these have led to better value for money. This is a useful start in making the savings we are all seeking.

I am sure also you will want to continue seeking further improvements. I found one fact in the report of the Departmental study very striking. On a sample of contracts for roads, the final costs were on average 27% higher than the tender accepted. There always will be unforeseen circumstances which increase costs above the tender price but, on the face of it, there does seem to be scope for reducing the additional expenses. Your examining officer did, of course, recommend a number of ways in which this could be achieved. I am sure you will be looking for a continuing reduction in these costs. Once the Central Purchasing Unit is established I shall suggest to them that they contact your officials direct to see what help they can offer on this.

I am copying this letter to the Prime Minister, Leon Brittan, Michael Heseltine, Patrick Jenkin, Peter Rees, Janet Young, Norman Lamont, Timothy Raison, Tony Newton, Sir Robert Armstrong and Sir Robin Ibbs.

*Laws,  
Guy*

GOWRIE



Raynes



74 NOV 1984





CABINET OFFICE

*From the Chancellor of the  
Duchy of Lancaster*  
Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries  
and Food  
1 Whitehall Place  
LONDON SW1A 2HH

19 November 1984

*Dear Michael,*

GOVERNMENT PURCHASING

The purpose of this letter is to bring you up to date with respect to the multi-department review of Contract and Procurement Procedures and to invite you to set in hand the preparation of an action document on the recommendations of the report of the central review team. A copy of their report is enclosed for each of the departments for which you are responsible.

Background

The multi-department review formed part of our 1983 Efficiency Programme, announced to Parliament on 20 December 1982. The review was carried out by means of separate scrutiny-type studies in 9 departments, co-ordinated by a small team of officials in the MPO. Their report draws out the common lessons of the departmental studies and recommends a programme of action designed to secure improvements in government purchasing across all departments.

An ad hoc group of the Ministers whose departments took part in the review, meeting under the chairmanship of the Prime Minister, approved the report of the central team on 29 October. In particular it was agreed:- that the report should be published; that Ministers in charge of departments should draw up action documents by April 1985 showing how they propose to implement the recommendations of the report; that a small Central Purchasing Unit should be set up to encourage and



monitor departmental implementation; and that, as an overall guideline target, departments should aim to achieve a 5% improvement in the value for money they obtain from their expenditure on purchasing by April 1987.

Action Documents

As usual with these multi-departmental reviews, each department that has responsibility for the function reviewed is required to prepare an action document setting out how they propose to implement the recommendations of the central report. In the case of purchasing, all departments are involved as all have responsibilities for the purchase of goods and services such as stationery and office supplies, travel, consultancy services, postal services etc and many have responsibility for other direct purchases. Some departments will buy all their goods and services through the central government procurement agencies (the CCTA, Crown Suppliers, HMSO, PSA and COI). The report makes clear, however, that departments are ultimately responsible for the value for money they obtain even if they purchase primarily through the agencies; the recommendations of the report apply as much therefore to such departments as to those that might more readily identify themselves as "buying" departments.

... Most of the report's recommendations are directed at departments generally; a few are more specific. I attach an annex listing those recommendations for which responsibility for implementation falls to specific named departments.

The Prime Minister has asked that action documents should be prepared by April 1985. Work is already in hand to finalise the arrangements for the staffing of the Central Purchasing Unit. In the meantime, the central review team in MPO will remain in existence to help and advise departments on the preparation of their action documents. It would be helpful if the individual you choose to be responsible for following-up action on the review in your department could contact the head of the team (Mr R B Brown, ME1 Division, MPO on 01-233-3080) so that we can develop a network of official level contacts as soon as possible.

Publication

We are currently aiming to publish the report through HMSO on Tuesday 11 December. Publication will be announced in a PQ by the Prime Minister on 10 December.

MPO officials will be briefing the Council of Civil Service Unions on the contents of the report in the week before it is published. However, in order to minimise the risk of leaks, I should be grateful if you could treat the report as "Management



# MANAGEMENT IN CONFIDENCE

in Confidence" until it is actually published. This means that your officials will not be able to discuss the contents of the report or the action they propose to take on it with your Departmental Trade Union Side before 12 December. Nonetheless, given that the timetable for the preparation of action documents is already quite tight, I hope that officials can start to prepare a response in advance of that date.

## Non-Departmental Public Bodies

Ministers in charge of departments that sponsor non-departmental public bodies (NDPBs) will want to consider how far similar action should be sought from those bodies. This will need to be monitored and, in due course, reported back to the Central Purchasing Unit. Again, however, given the risk of leaks it would be best to delay action vis-à-vis NDPBs until the report is published.

## Summary

Ministers in charge of departments are asked:

- to commission action documents on the report from each of the departments for which they are responsible;
- to identify an individual in each department to be responsible for following-up the report. The MPO should be informed of this contact point as soon as possible,
- to delay discussing the contents of the report with Trade Union Sides until it is published;
- to consider how far follow-up action should be sought from NDPBs and to commission such action after publication of the report.

I am copying this letter to all Ministers in charge of departments.

*Yours,  
Guy*

GOWRIE



COPY LIST: PRIVATE SECRETARIES TO:-

Prime Minister

Lord President of the Council

Lord Chancellor

Secretary of State for Foreign and Commonwealth  
Affairs

Secretary of State for the Home Department

Chancellor of the Exchequer

Secretary of State for Education and Science

Secretary of State for Energy

Secretary of State for Defence

Secretary of State for Scotland

Secretary of State for Wales

Secretary of State for the Environment

Secretary of State for Social Services

Secretary of State for Trade and Industry

Secretary of State for Employment

Minister of Agriculture, Fisheries and Food

Secretary of State for Transport

Secretary of State for Northern Ireland

Attorney General

Minister for Overseas Development

Lord Advocate



ANNEX

RECOMMENDATIONS FOR WHICH RESPONSIBILITY FOR IMPLEMENTATION  
FALLS TO SPECIFIC DEPARTMENTS

| Recommendation<br>Number | Responsible department(s)      |
|--------------------------|--------------------------------|
| 15, 18                   | Cabinet Office (MPO)           |
| 23, 29                   | Central Purchasing Unit        |
| 25, 28                   | HMSO, CCTA, Crown Suppliers    |
| 27                       | Cabinet Office and HM Treasury |





DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Lord Gowrie  
Chancellor of the Duchy of Lancaster  
Management and Personnel Office  
Great George Street  
LONDON  
SW1P 3AL

14 November 1984

*nbp  
DMS  
157*

*Dear Lord*

#### GOVERNMENT PURCHASING

The action agreed at the Prime Minister's meeting on 29 October should lead to significant improvements. My Department will play its part fully.

But I must underline what I said at the meeting about the purchasing of "roads". I have introduced new approaches to our dealings with consultants and contractors designed to get the full benefit of competition in securing value for money in both new building and the maintenance of roads. I shall of course continue to look for improvements. I do not think however, that there is scope for further major savings, and the figure of £68m quoted in the report is wholly unreliable. Some aspects of the roads programme do of course involve procurement in a more conventional sense and this will be rigorously examined along with my Department's other procurement as part of the new exercise. I also said at the Prime Minister's meeting that I would expect to take advantage of any extra savings obtainable in the roads programme to build more roads.

I am copying this to the Prime Minister, Leon Brittan, Michael Heseltine, Patrick Jenkin, Peter Rees, Janet Young, Norman Lamont, Timothy Raison, Tony Newton, Sir Robin Ibbs and Sir Robert Armstrong.

*Nicholas Ridley*

NICHOLAS RIDLEY



MR BARCLAY

*Ibbs*  
*15/10*

Efficiency: Discussion with Sir Robin Ibbs

Many thanks for your useful brief. Sir Robin Ibbs said that he wanted to have a word with me about where the efficiency exercise had got to and how he could make the best of future meetings with Departments. He said that the scrutinies were still generating enthusiasm and useful savings. But he detected less support among officials with the Ministers' efforts to achieve economy. He asked whether I had any suggestions about ways in which he could give a push to the cause.

On the meetings with Departments, I said that on the basis of what had happened so far I saw two potential gains and one danger. The two gains were that meetings forced Ministers in Charge of Departments to look periodically at the question of efficiency in order to report to the Prime Minister; and the meetings could end with remits to Sir Robin Ibbs to follow up, and report on, aspects which he wanted to pursue. The danger was that the Prime Minister might use them as occasions for general rather than specific complaints. The latter had happened to some extent with the meeting with the DTI although I thought that a very useful message had been delivered, which reflected the sincere feelings of the Prime Minister. But I said that in general it would help the Prime Minister if the briefs could direct her to particular points which the Efficiency Unit wanted a remit to follow up with the Department.

On the general state of the efficiency crusade, I said that I was surprised to hear that officials were less sympathetic to the Prime Minister's message. In the early



days of her first administration, there had been a lot of opposition, but I thought that the Prime Minister's general message about improving efficiency in the economy was now much more widely accepted. What I detected was that Ministers were suffering from "second-administration itis", i.e. they were losing their fresh first collective vigour and being taken over by their Departments. I said that the Prime Minister had felt with great disappointment during a recent public expenditure round that Ministers were not seriously prepared to solve their problems by getting more money out of the public expenditure allocated to them. If Sir Robin Ibbes wanted to suggest that the Prime Minister gave another push to the efficiency mission by either sending round a minute or - probably better - sending Sir Robin Ibbes himself round to talk to individual Ministers to express this view, it would certainly represent the Prime Minister's true feelings.

I attach a copy of a letter which I wrote to Sir Robin Ibbes dealing with two specific points which I promised to follow up.

R.R.B.

14 November 1984



PERSONAL



10 DOWNING STREET

*From the Principal Private Secretary*

14 November 1984

This is the answer to the two points which I said that I would follow up this morning.

There are no areas of administrative efficiency specifically affecting the Scottish Office with which the Prime Minister has recently been concerned. Two policy issues affecting expenditure are the allocation of public expenditure resources to the Scottish Office by 'regional formula' by which the Scottish Office do better than they should and the Welsh Office worse: the Scottish Secretary is, I think, sympathetic to the idea that this proportional advantage for Scotland should be scaled down provided that he can avoid the political difficulty of appearing to do so. The second is whether the Scottish Office should have a separate unit for seeking inward investment, which operates in competition with the Department of Trade and Industry, or should join forces with them. There have been policy papers on both matters and I hope that these two references are enough to enable your people to trace them: if they need any further help, please will they let me know.

As regards Anthony Rawlinson, I have looked up the papers, which came in during August while I was on holiday. It is true that the Prime Minister was not enthusiastic about it, mainly I think because the suggestion was that Sir Anthony Rawlinson should head a new small unit on this subject - and she did not want any more units. But I am sure that she would be in favour of the subject being looked at.

E. E. R. BUTLER

Sir Robin Ibbs

PERSONAL





10 DOWNING STREET

*From the Private Secretary*

14 November 1984

FOREWORD FOR REPORT ON GOVERNMENT PURCHASING

Many thanks for your letter of 13 November.

If possible I should be grateful if HMSO could manage with cards which the Prime Minister has signed in blue, rather than black, since these are available "from stock". I enclose three, as you ask.

If it is absolutely essential to have specimen signatures in black ink, perhaps you would let me know. I should need to trouble the Prime Minister specially.

David Barclay

Christopher Cloke, Esq.,  
Management and Personnel Office.





Management and Personnel Office  
Whitehall London SW1A 2AZ

Telephone (Direct dialling) 01-273  
GTN 273 (Switchboard) 01-273 3000

233 4173

Your reference

Our reference

Date

13 November 1984

Foreword for report on Govt. Purchasing.

Dear David,

We spoke earlier today about the foreword to our report on government purchasing.

The text of the foreword is to be set in the same typeface as the rest of the report, so I will not need to take up your kind offer to have it typed on No. 10 letterpaper.

However HMSO have agreed that it would add a personal touch if the foreword had the Prime Minister's signature under it.

X I therefore need three specimen signatures in black ink (felt-tip pen is apparently good for reproducing from) on a plain sheet of white paper.

I should be grateful if you could arrange this and send them to me in Rm 62/3, M.P.O. Govt. Offices, Gt. George St.

Yours ever,

Christopher Cloke.

OK Have we got any black signature cards - see X?

10/11  
14/11



Re - PM's Personal Minute of 9 October

file

SP

OK

Ministers in Charge of  
Depts.



10 DOWNING STREET

From the Private Secretary

7 November 1984

We have received the attached minute from a member of MOD staff. I leave it to you to judge how best to deal with but you might like to consider a gentle reminder to its originator that there are other ways of airing such views than in rather impolite minutes to the Prime Minister's office!

Tim Flesher

Desmond

→ D J Bowen, Esq.  
Ministry of Defence



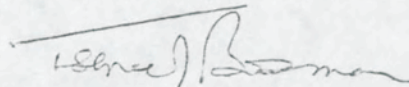
LOOSE MINUTE

6 November 1984

APS/Prime Minister

I have recently seen a copy of the Prime Minister's Personal Minute of 9 October to Ministers in charge of Departments and am surprised to see that the unauthorised disclosure of its contents should be considered to be "prejudicial to the interests of the nation." Knowledge of the minute's intent would, I suggest, be more likely to be in the nation's interest than not.

What is certain is that the handling of the minute and its copies throughout Departments, in accordance with the rules for handling classified papers, will have imposed an additional burden on the Service.



T J BOSMAN  
Pol C2/C3  
Ministry of Defence (Procurement  
Executive)  
Room 419 St George's Court  
14 New Oxford Street

632 5879



MR. BUTLER

SEMINARS ON EFFICIENCY

I attach the main papers on the Prime Minister's efficiency seminars, for your meeting with Sir Robin Ibbs tomorrow.

You asked for my views. In sum, I think the meetings as presently constituted serve too narrow a purpose to justify the amount of Prime Ministerial time they consume. I suggest that the agenda is widened, to include an appraisal of the overall balance of a Department's effort, and eventually the balance between Departments.

The efficiency of any given activity is measured by the ratio of input to output (or to put it another way, value for money). The current seminars are intended to review the scope for improving that ratio in selected areas of Departmental activity. As such, I think they are a sledgehammer to crack a nut. The seminars do not address two questions which are arguably more important than efficiency per se:

- (i) Is the current level of output the optimum level, viewing each activity as a separate entity?
- (ii) Is the balance between different activities the optimum balance, given an overall constraint on a Department's resources?

Under the FMI, departments are expected increasingly to review the overall balance of their activities. But apart from the Treasury's eagle eye, there is no mechanism for looking at the balance between departments. This is an important function, which the Prime Minister's seminars could begin to address.

Sir Robin Ibbs may not welcome changes on these lines because they appear to play into the hands of the Treasury. But there is no point in the Prime Minister giving up a lot of time to meetings which avoid the most important issues.

A footnote: do you really need to attend and minute all these meetings yourself? I am not complaining (quite the contrary!) - but I do wonder whether they are not rather a burden on your time, as well as the Prime Minister's.

*Ibbs*  
13 November, 1984.





FROM; CHIEF SECRETARY  
DATE; 9 November 1984

PRIME MINISTER

*nbpm  
Dud  
12.11*

**GOVERNMENT PURCHASING**

The Chancellor of the Duchy sent me a copy of his minute of 7 November, with a draft foreword and minor amendments to the text of the MPO report, and proposals for its publication next month.

2 I am content with the draft foreword. I note that the decision about where to put the new central purchasing unit has still to be taken, and I understand that officials are now preparing to advise you.

3 I have no comments on the amendments to the text, or on the general shape of the arrangements for publication. Because of our responsibility for public purchasing policy, I think it will be important for the Treasury to be represented at the Press Conference.

4 Copies of this minute go to Grey Gowrie, Michael Heseltine, Patrick Jenkin, Nicholas Ridley, Janet Young, Norman Lamont, Timothy Raison, Tony Newton, David Waddington, Robert Armstrong and Robin Ibbs.

**PETER REES**



Rayner  
P. K.

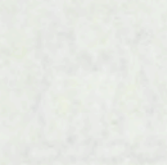


12 NOV 1984



CONFIDENTIAL

SECRET



CONFIDENTIAL



DRAFT FOREWORD

Government purchasing is very big business. Each year, quite apart from military spending, departments spend more than £7,500 million pounds of taxpayers' money on an enormous variety of goods and services. Getting the best value for that money is crucial - whether we are buying computer systems, furniture or paper clips.

This report shows clearly that there is room for improvement in the purchasing methods of Government departments: improvements which save money, provide better value for the money that has to be spent, and raise the effectiveness and efficiency of the public service.

I welcome the report and am grateful to its authors. I have asked departments to draw up firm proposals for implementing the conclusions reached, and I have agreed to the setting up of a central purchasing unit. The unit's job will be to help and advise individual departments in work which the Government collectively considers most important.





Chancellor of the Duchy of Lancaster

Prime Minister<sup>(1)</sup>

Agree: (i) Foreword at A?  
(ii) publication arrangements  
set out below?

Yes ✓

DMS  
8/11

PRIME MINISTER

GOVERNMENT PURCHASING

At the meeting on 29 October to discuss the central team's report on Government Purchasing I undertook to prepare a foreword to the report, to inform colleagues of changes to be made to the text before publication and to seek colleagues' agreement to the proposed arrangements for publication.

... 2. A draft foreword, for inclusion in the report over your name, is attached at Annex A.

... 3. A list of the amendments to be made to the report as a result of discussion at the meeting is at Annex B.

4. On publication, the earliest HMSO can prepare and distribute the final version of the report is the second week of December. I therefore propose, subject to agreement, the following timetables:

Monday 10 December

- arranged written PQ, for answer by you, announcing publication the following day; (draft to follow)
- MPO officials to speak to the Council of Civil Service Unions and provide them with embargoed copies of the report.

Tuesday 11 December

- (morning) Press Conference with selected correspondents. I propose to chair this;
- MPO to issue Press Notice;
- copies of report to be available through HMSO.

5. In order not to delay action on the report pending publication, I propose to write to Ministers in charge of departments as soon as possible, enclosing a classified photocopy of the amended report and inviting them to set in hand the preparation of action documents. While this increases the risk of a leak of our conclusions, I think it is necessary if we are to achieve results in the timescale we have set ourselves.



6. To meet the deadline of 12 December, which is in effect the last practicable publication date before the Christmas recess, we need to get the final text to HMSO by 9 November. Unless I have heard to the contrary from colleagues by that date, I shall assume that the proposed changes to the text are acceptable. I apologise for the tight timescale.

7. I should be grateful for your agreement to the foreword and to the publication arrangements set out above.

8. Copies of this minute go to Michael Heseltine, Patrick Jenkin, Nicholas Ridley, Peter Rees, Janet Young, Norman Lamont, Timothy Raison, Tony Newton, David Waddington, Robert Armstrong and Robin Ibbs.

GOWRIE  
7 November 1984



DRAFT FOREWORD

Government purchasing is very big business. Each year, quite apart from military spending, departments spend more than £7,500 million pounds of taxpayers' money on an enormous variety of goods and services. Getting the best value for that money is crucial - whether we are buying computer systems, furniture or paper clips.

This report shows clearly that there is room for improvement in the purchasing methods of Government departments: improvements which save money, provide better value for the money that has to be spent, and raise the effectiveness and efficiency of the public service.

I welcome the report and am grateful to its authors. I have asked departments to draw up firm proposals for implementing the conclusions reached, and I have agreed to the setting up of a central purchasing unit. The unit's job will be to help and advise individual departments in work which the Government collectively considers most important.





Amendments to Government Purchasing

- Para 1.12 3rd line delete "...and of the savings estimated to result from them..."
- 7.16 2nd line delete "£300,000" insert "£400,000"
- 7.20 8th line delete "£5 million" insert "£10 million".
- 7.25 8th line delete "1986" insert "1985".

Annex B For each departmental summary delete in the table the lines entitled "Potential savings" and "As percentage"; and, where appropriate, delete footnotes and commentaries relating to these headings.

In the FCO list of main recommendations delete in the penultimate recommendation  
"...of 2 per cent on quoted prices under £1000 rising to 5 per cent on contracts over £50,000;"

In the DHSS list of main recommendations delete in the last two recommendations "of 5 per cent" and "of 10 per cent".



MR. TURNBULL

1983-84 SCRUTINY OF RUNNING COSTS

The Prime Minister has agreed to the draft Question and Answer on Departmental running costs which was attached to Richard Broadbent's letter of 29 October (below).

The Prime Minister has marked the papers "put in Cabinet PESC folder". I am not sure whether such a folder exists - but perhaps you could keep the papers by you for use as appropriate.

*Drub*

30 October 1984



Prime Minister (1)

Put in Cabinet's PESC folder



The figures were not good, and suggested a pre-occupation with systems rather than results. But there is no point in trying to suppress them.

Treasury Chambers, Parliament Street, SW1P 3AG  
D Barclay Esq  
Private Secretary  
No. 10 Downing Street  
London SW1

29 October 1984

Agree Q and A for the Chief Secretary, as attached?

Dear David

Yes

amb  
29/10

1983-84 SCRUTINY OF RUNNING COSTS

As you know, the Chief Secretary reported to the Prime Minister on the 1983-84 scrutiny of departmental running costs on 30 July.

2 In previous years the results of the annual scrutiny have been published by means of an arranged Parliamentary Question. Two MPs, Mr Ralph Howell (Conservative North Norfolk) and Mr Peter Thurnham (Conservative Bolton NE) have in the past asked for the latest figures. It seems sensible to publish the 1983-84 scrutiny results in the same way although, as the Prime Minister commented, the figures are disappointing. Not to do so voluntarily would lead inevitably to Mr Howell tabling a Question to extract them. A draft Parliamentary Question and the Hansard extract showing last year's question are attached.

3 The Chief Secretary is inclined also to publish the results of the further analysis suggested by Mr Heseltine in his letter of 7 September to the Chief Secretary. But a final decision must await completion of the further work. As Mr Fowler commented in his letter of 15 October, most departments will have been affected by special factors in the past few years, and we shall need to be sure a sensible series of figures can be constructed for publication. For the time being, therefore, the Chief Secretary does not propose to refer to the further work in progress.

4 A copy of this letter goes to the Private Secretaries of other members of the Cabinet, Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office).

Yours sincerely  
Richard Broadbent

R J BROADBENT  
Private Secretary



DRAFT QUESTION

To ask Mr Chancellor of the Exchequer, what measures are being taken to improve control of the running costs of Government departments; and what are the latest figures available broken down by department, wages and salaries, personnel overheads, accommodation costs, office services and other services.

DRAFT ANSWER

The table below shows how running costs have increased since the Government took office:

|                             | 1979-80<br>to<br>1980-81 | 1980-81<br>to<br>1981-82 | 1981-82<br>to<br>1982-83  | 1982-83<br>to<br>1983-84 |
|-----------------------------|--------------------------|--------------------------|---------------------------|--------------------------|
| Running costs               | 19.2                     | 11.5                     | 9.4*<br>(7.6 excl<br>MOD) | 6.3*<br>(6.9 excl MOD)   |
| Inflation<br>(GDP deflator) | 18.7                     | 9.9                      | 6.8                       | 4.7                      |

\* Figures for 1982-83 for the Ministry of Defence are distorted by the Falklands conflict.

Comparison between 1982-83 and 1983-84 is complicated by factors outside departments control: especially changes in the basis of accommodation costs and an increased notional allowance for pensions. Correcting for these factors reduces the figure of 6.9 per cent to about 5.5 per cent.

Ministers are continuing to take a personal interest in <sup>Controlling</sup> the costs of their departments and savings of £60 M per annum have been



identified from a wide variety of measures including up to £22M per annum from a review of staffing allowances in the unemployment benefit service, £12M per annum from contracting out cleaning and catering in the Ministry of Defence, and £4M per annum from a new method for collecting and delivering mail in the Department of Health and Social Security.

The following table shows forecast outturn for 1983-84 for each department. The figures for the Ministry of Defence cover military and civilian running costs which cannot be separated with precision.



## GROSS RUNNING COSTS - 1983-84 FORECAST OUTTURN

|                                                          | Wages and salaries |                          | Personal overheads |                          | Accommodation costs |                          | Office services |                          | Other services |                          | Total running costs |
|----------------------------------------------------------|--------------------|--------------------------|--------------------|--------------------------|---------------------|--------------------------|-----------------|--------------------------|----------------|--------------------------|---------------------|
|                                                          | EM                 | % of total running costs | EM                 | % of total running costs | EM                  | % of total running costs | EM              | % of total running costs | EM             | % of total running costs | EM                  |
| Ministry of Defence (including Armed Forces)             | 6043.7             | 69.6                     | 597.0              | 6.9                      | 1655.6              | 19.1                     | 218.6           | 2.5                      | 165.1          | 1.9                      | 8680.1              |
| Foreign and Commonwealth Office                          | 197.0              | 54.3                     | 27.9               | 7.7                      | 54.8                | 23.4                     | 42.6            | 11.7                     | 10.4           | 2.9                      | 362.7               |
| Overseas Development Administration                      | 24.4               | 57.3                     | 2.1                | 5.0                      | 7.5                 | 17.5                     | 3.7             | 8.7                      | 4.9            | 11.5                     | 42.6                |
| Ministry of Agriculture, Fisheries and Food              | 138.8              | 66.6                     | 13.8               | 6.6                      | 41.1                | 19.7                     | 12.6            | 6.0                      | 2.1            | 1.0                      | 208.4               |
| Department of Energy                                     | 16.2               | 52.3                     | 1.3                | 4.2                      | 6.0                 | 19.3                     | 5.9             | 19.1                     | 1.6            | 5.1                      | 31.0                |
| Department of Trade and Industry                         | 159.9              | 60.7                     | 7.9                | 3.0                      | 54.0                | 20.5                     | 33.6            | 12.7                     | 8.2            | 3.1                      | 236.6               |
| Department of Employment                                 | 246.9              | 72.1                     | 8.5                | 2.5                      | 55.9                | 16.3                     | 25.6            | 7.5                      | 5.8            | 1.7                      | 342.7               |
| Manpower Services Commission                             | 216.5              | 64.7                     | 11.0               | 3.3                      | 60.2                | 18.0                     | 40.0            | 11.9                     | 6.9            | 2.1                      | 334.6               |
| Department of Transport                                  | 141.1              | 54.0                     | 8.8                | 3.4                      | 33.0                | 12.6                     | 29.0            | 11.1                     | 49.5           | 18.9                     | 261.4               |
| Department of the Environment                            | 97.1               | 60.1                     | 5.2                | 3.2                      | 34.9                | 21.6                     | 16.9            | 10.5                     | 7.4            | 4.6                      | 161.6               |
| Property Services Agency (excluding Supplies)            | 320.7              | 66.7                     | 13.5               | 2.8                      | 35.7                | 7.4                      | 17.3            | 3.6                      | 93.9           | 19.5                     | 481.1               |
| Home Office                                              | 517.2              | 78.5                     | 26.5               | 4.0                      | 68.5                | 10.4                     | 23.9            | 3.6                      | 22.3           | 3.4                      | 658.5               |
| Lord Chancellor's Department                             | 114.2              | 63.9                     | 6.8                | 3.8                      | 39.2                | 21.9                     | 15.5            | 3.6                      | 3.2            | 1.8                      | 178.9               |
| Department of Education and Science                      | 33.8               | 64.9                     | 2.9                | 5.6                      | 10.3                | 19.7                     | 4.5             | 8.6                      | 0.6            | 1.2                      | 52.2                |
| Department of Health & Social Security                   | 826.4              | 58.2                     | 25.2               | 1.8                      | 142.6               | 10.0                     | 115.1           | 8.1                      | 311.8          | 21.9                     | 1421.1              |
| Her Majesty's Treasury (including CISCOS)                | 46.2               | 67.6                     | 2.0                | 2.9                      | 9.6                 | 14.1                     | 5.4             | 7.9                      | 5.2            | 7.6                      | 68.3                |
| Customs & Excise                                         | 284.2              | 75.6                     | 18.0               | 4.8                      | 45.7                | 12.1                     | 22.3            | 5.9                      | 5.8            | 1.5                      | 375.9               |
| Inland Revenue                                           | 672.9              | 74.6                     | 19.4               | 2.1                      | 128.9               | 14.3                     | 63.9            | 7.1                      | 17.1           | 1.9                      | 902.2               |
| Department of National Savings                           | 61.7               | 41.1                     | 1.2                | 0.2                      | 10.7                | 7.1                      | 22.4            | 14.9                     | 54.4           | 36.2                     | 150.4               |
| Cabinet Office                                           | 23.9               | 48.8                     | 2.6                | 5.4                      | 11.8                | 24.1                     | 7.3             | 14.9                     | 3.4            | 6.8                      | 49.0                |
| Paymaster General's Office                               | 7.0                | 56.3                     | 0.1                | 0.2                      | 1.2                 | 9.6                      | 2.1             | 17.3                     | 2.0            | 15.9                     | 12.4                |
| Scottish Office                                          | 120.6              | 72.9                     | 6.4                | 3.9                      | 24.6                | 14.9                     | 9.4             | 5.7                      | 4.4            | 2.6                      | 165.4               |
| Welsh Office                                             | 24.3               | 58.4                     | 1.5                | 3.6                      | 5.7                 | 13.8                     | 3.2             | 7.6                      | 6.9            | 16.6                     | 41.6                |
| Northern Ireland Office and Northern Ireland Departments | 328.6              | 77.9                     | 15.9               | 3.8                      | 35.1                | 8.3                      | 18.5            | 4.4                      | 23.6           | 5.6                      | 421.8               |
| <b>TOTAL MAIN DEPARTMENTS</b>                            | <b>10663.3</b>     | <b>68.1</b>              | <b>825.5</b>       | <b>5.3</b>               | <b>2602.6</b>       | <b>16.6</b>              | <b>759.3</b>    | <b>4.8</b>               | <b>816.5</b>   | <b>5.2</b>               | <b>15667.5</b>      |
| <b>TOTAL OTHER DEPARTMENTS</b>                           | <b>260.1</b>       | <b>68.0</b>              | <b>17.0</b>        | <b>4.4</b>               | <b>56.2</b>         | <b>14.7</b>              | <b>26.6</b>     | <b>7.0</b>               | <b>22.8</b>    | <b>6.0</b>               | <b>382.4</b>        |
| <b>TOTAL ALL DEPARTMENTS</b>                             | <b>10923.4</b>     | <b>68.1</b>              | <b>842.5</b>       | <b>5.2</b>               | <b>2658.8</b>       | <b>16.6</b>              | <b>785.9</b>    | <b>4.9</b>               | <b>839.3</b>   | <b>5.2</b>               | <b>16049.9</b>      |

KE calculations are based on actual not rounded figures

## Notes

- Wages and Salaries - Wages, salaries, overtime payments, employers' National Insurance contributions and notional cost of accruing liability for pensions of serving staff;  
 Personnel Overheads - Travel, subsistence, removals, entertainment, catering support, protective clothing and training;  
 Accommodation Costs - Rates, heating, lighting, utilities, furniture and fittings, and notional market rental values for Crown and leased property;  
 Office Services - Postage, telecommunications, stationery, printing, binding, publications, library services, current expenditure on computers, office machinery and vehicles, and publicity and advertising;  
 Other Costs - Services provided by the Post Office, other agencies, and other departments.



Extract from Hansard: 25<sup>th</sup> October 1983

Volume 47, Number 34

Columns 76 to 78 Written Answers.

#### Government Departments (Costs)

Mr. Beaumont-Dark asked the Chancellor of the Exchequer what measures are being taken to improve control of the running costs of Government Departments; and what are the latest figures available broken down by Department, wages and salaries, personnel overheads, accommodation costs, office services and other services.

Mr. Peter Rees: The following table shows that, if allowance is made for additional expenditure caused by the Falklands conflict, the trend is towards a lower rate of increase in the running costs of Government Departments.

|                             | Percentage increase   |                       |                               |
|-----------------------------|-----------------------|-----------------------|-------------------------------|
|                             | 1979-80<br>to 1980-81 | 1980-81<br>to 1981-82 | 1981-82<br>to 1982-83         |
| Running costs               | 19.2                  | 11.5                  | 9.4<br>(7.6 excluding<br>MOD) |
| Inflation (GDP<br>deflator) | 17.7                  | 10.3                  | 7.1                           |

Comparison between 1981-82 and 1982-83 is complicated by factors outside Departments' control: the decrease in the national insurance surcharge, an increased notional allowance for pensions, and changes in the basis of accommodation costs. Correcting for these factors reduces the figure of 7.6 per cent. to about 7.3 per cent.

Running costs tend to increase steadily unless a determined effort is made to check them. Ministers are therefore taking a personal interest in the costs of their Departments and this is supplemented by an annual service-wide scrutiny carried out by the Treasury. This scrutiny has revealed a wide range of many individually small but useful improvements which have helped to contain the growth of expenditure.

The following tables show outturn for 1981-82 and forecast outturn for 1982-83 for each Department. The figures for the Ministry of Defence cover military and civilian running costs which cannot be separated with precision and for 1982-83 include additional expenditure due to the Falklands conflict.



## Gross Running Costs—1981-82

Ountion

| Department                                               | Wages and Salaries |                                   | Personnel Overheads |                                   | Accommodation Costs |                                   | Office Services |                                   | Other Services |                                   | Total Running Costs |
|----------------------------------------------------------|--------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|-----------------|-----------------------------------|----------------|-----------------------------------|---------------------|
|                                                          | £ million          | Percentage of total running costs | £ million           | Percentage of total running costs | £ million           | Percentage of total running costs | £ million       | Percentage of total running costs | £ million      | Percentage of total running costs |                     |
| Ministry of Defence (including Armed Forces)             | 5,444.4            | 73.5                              | 430.8               | 5.8                               | 1,245.8             | 16.8                              | 154.6           | 2.1                               | 131.0          | 1.8                               | 7,406.6             |
| Foreign and Commonwealth Office                          | 167.9              | 57.6                              | 23.6                | 8.1                               | 58.3                | 20.0                              | 21.4            | 7.3                               | 20.5           | 7.0                               | 291.6               |
| Overseas Development Administration                      | 22.9               | 58.2                              | 2.2                 | 5.5                               | 6.0                 | 15.2                              | 3.3             | 8.3                               | 5.0            | 12.7                              | 39.3                |
| Ministry of Agriculture, Fisheries and Food              | 127.9              | 71.6                              | 11.5                | 6.4                               | 26.7                | 14.9                              | 11.3            | 6.3                               | 1.2            | 0.7                               | 178.6               |
| Department of Industry                                   | 89.4               | 68.3                              | 4.0                 | 3.1                               | 21.2                | 16.2                              | 10.8            | 8.2                               | 5.4            | 4.1                               | 130.9               |
| Department of Energy                                     | 14.8               | 56.2                              | 1.1                 | 4.1                               | 3.8                 | 14.5                              | 2.1             | 7.9                               | 4.5            | 17.2                              | 26.3                |
| Department of Trade                                      | 74.4               | 47.8                              | 3.0                 | 2.1                               | 35.7                | 22.9                              | 12.9            | 8.3                               | 29.2           | 18.8                              | 155.5               |
| Department of Employment                                 | 207.2              | 77.2                              | 6.4                 | 2.4                               | 32.7                | 12.2                              | 17.5            | 6.5                               | 4.8            | 1.8                               | 268.5               |
| Manpower Services Commission                             | 195.3              | 65.8                              | 9.2                 | 3.1                               | 54.8                | 18.5                              | 31.3            | 10.5                              | 6.1            | 2.0                               | 296.7               |
| Department of Transport                                  | 114.4              | 52.4                              | 5.5                 | 2.5                               | 10.9                | 17.4                              | 10.9            | 8.0                               | 57.1           | 26.2                              | 218.3               |
| Department of the Environment                            | 104.8              | 68.0                              | 5.2                 | 3.4                               | 22.4                | 14.5                              | 14.9            | 9.7                               | 6.8            | 4.4                               | 154.2               |
| Property Services Agency                                 | 302.8              | 70.0                              | 13.8                | 3.2                               | 43.7                | 10.1                              | 11.0            | 2.6                               | 61.2           | 14.1                              | 432.5               |
| Home Office                                              | 445.8              | 85.4                              | 19.1                | 3.7                               | 23.8                | 4.6                               | 21.1            | 4.0                               | 12.5           | 2.4                               | 523.3               |
| Lord Chancellor's Department                             | 97.1               | 65.7                              | 5.4                 | 3.6                               | 29.0                | 19.6                              | 12.6            | 8.5                               | 3.7            | 2.5                               | 147.8               |
| Department of Education and Science                      | 30.6               | 69.4                              | 2.4                 | 5.3                               | 7.7                 | 17.6                              | 3.0             | 6.9                               | 0.3            | 0.7                               | 44.0                |
| Department of Health and Social Security                 | 742.4              | 59.4                              | 21.8                | 1.7                               | 114.4               | 9.2                               | 97.8            | 7.8                               | 272.5          | 21.8                              | 1,245.9             |
| Her Majesty's Treasury                                   | 43.4               | 69.6                              | 1.6                 | 2.6                               | 7.3                 | 11.6                              | 3.6             | 5.8                               | 6.5            | 10.4                              | 62.3                |
| Customs and Excise                                       | 259.7              | 77.1                              | 16.9                | 5.0                               | 38.2                | 11.3                              | 16.8            | 5.0                               | 5.3            | 1.6                               | 336.8               |
| Inland Revenue                                           | 595.5              | 75.2                              | 15.2                | 1.9                               | 111.5               | 14.1                              | 55.9            | 7.1                               | 13.6           | 1.7                               | 791.7               |
| Department of National Savings                           | 60.5               | 38.4                              | 0.7                 | 0.5                               | 8.5                 | 5.4                               | 20.6            | 13.1                              | 67.1           | 42.6                              | 157.5               |
| Management and Personnel Office                          | 14.7               | 48.3                              | 2.0                 | 6.4                               | 5.7                 | 18.6                              | 3.8             | 12.5                              | 4.3            | 14.2                              | 30.5                |
| Paymaster General's Office                               | 6.4                | 57.2                              | 0.0                 | 0.4                               | 1.0                 | 9.0                               | 2.1             | 19.0                              | 1.6            | 14.5                              | 11.2                |
| Scottish Office                                          | 110.3              | 72.6                              | 5.0                 | 3.3                               | 23.7                | 15.6                              | 8.1             | 5.3                               | 4.8            | 3.2                               | 151.9               |
| Welsh Office                                             | 23.3               | 54.1                              | 1.2                 | 2.8                               | 3.3                 | 7.6                               | 3.4             | 7.9                               | 11.8           | 27.5                              | 43.0                |
| Northern Ireland Departments and Northern Ireland Office | 281.1              | 78.7                              | 14.5                | 4.1                               | 24.0                | 6.7                               | 18.4            | 5.1                               | 19.3           | 5.4                               | 357.4               |
| <b>Total Main Departments</b>                            | <b>9,577.1</b>     | <b>70.9</b>                       | <b>622.3</b>        | <b>4.6</b>                        | <b>1,972.9</b>      | <b>14.6</b>                       | <b>575.6</b>    | <b>4.3</b>                        | <b>756.3</b>   | <b>5.6</b>                        | <b>13,504.3</b>     |
| <b>Total Other Departments</b>                           | <b>245.5</b>       | <b>65.8</b>                       | <b>13.9</b>         | <b>3.6</b>                        | <b>54.9</b>         | <b>14.1</b>                       | <b>26.2</b>     | <b>6.7</b>                        | <b>37.9</b>    | <b>9.8</b>                        | <b>388.4</b>        |
| <b>TOTAL ALL DEPARTMENTS</b>                             | <b>9,822.6</b>     | <b>70.8</b>                       | <b>636.2</b>        | <b>4.6</b>                        | <b>2,027.8</b>      | <b>14.6</b>                       | <b>601.8</b>    | <b>4.3</b>                        | <b>794.2</b>   | <b>5.7</b>                        | <b>13,892.7</b>     |

NB Calculations are based on actual not rounded figures.

## Gross Running Costs—1982-83 Forecast Ountion

| Department                                               | Wages and Salaries |                                   | Personnel Overheads |                                   | Accommodation costs |                                   | Office Services |                                   | Other Services |                                   | Total Running Costs |
|----------------------------------------------------------|--------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|-----------------|-----------------------------------|----------------|-----------------------------------|---------------------|
|                                                          | £ million          | Percentage of total running costs | £ million           | Percentage of total running costs | £ million           | Percentage of total running costs | £ million       | Percentage of total running costs | £ million      | Percentage of total running costs |                     |
| Ministry of Defence (including Armed Forces)             | 5,759.9            | 70.1                              | 593.0               | 7.2                               | 1,517.9             | 18.5                              | 185.6           | 2.3                               | 158.8          | 1.9                               | 8,215.1             |
| Foreign and Commonwealth Office                          | 178.8              | 54.4                              | 25.0                | 7.6                               | 74.9                | 22.8                              | 26.3            | 8.0                               | 23.4           | 7.1                               | 328.5               |
| Overseas Development Administration                      | 23.8               | 58.8                              | 2.0                 | 4.9                               | 6.8                 | 16.8                              | 3.3             | 8.1                               | 4.7            | 11.6                              | 40.5                |
| Ministry of Agriculture, Fisheries and Food              | 133.2              | 69.9                              | 12.5                | 6.6                               | 29.7                | 15.6                              | 13.4            | 7.0                               | 1.7            | 0.9                               | 190.6               |
| Department of Industry                                   | 92.5               | 66.2                              | 4.6                 | 3.3                               | 23.3                | 16.7                              | 12.0            | 8.6                               | 7.3            | 5.2                               | 139.8               |
| Department of Energy                                     | 14.7               | 56.1                              | 1.2                 | 4.6                               | 5.5                 | 21.0                              | 2.4             | 9.2                               | 2.6            | 9.9                               | 26.2                |
| Department of Trade                                      | 78.7               | 48.6                              | 4.0                 | 2.5                               | 39.7                | 24.5                              | 13.1            | 8.1                               | 26.3           | 16.3                              | 161.8               |
| Department of Employment                                 | 230.6              | 76.1                              | 8.1                 | 2.7                               | 35.9                | 11.9                              | 23.3            | 7.7                               | 5.0            | 1.7                               | 302.9               |
| Manpower Services Commission                             | 208.5              | 64.4                              | 11.5                | 3.5                               | 54.4                | 18.3                              | 37.1            | 11.5                              | 7.5            | 2.3                               | 324.0               |
| Department of Transport                                  | 119.0              | 54.1                              | 6.5                 | 3.0                               | 25.9                | 11.8                              | 24.1            | 10.9                              | 44.5           | 20.2                              | 220.0               |
| Department of the Environment                            | 100.2              | 64.9                              | 5.4                 | 3.5                               | 24.7                | 16.0                              | 15.6            | 10.1                              | 8.2            | 5.3                               | 154.2               |
| Property Services Agency                                 | 314.1              | 67.7                              | 14.4                | 3.1                               | 48.8                | 10.5                              | 14.2            | 3.1                               | 72.6           | 15.6                              | 464.2               |
| Home Office                                              | 492.0              | 84.6                              | 22.1                | 3.8                               | 29.4                | 5.1                               | 24.7            | 4.2                               | 13.5           | 2.3                               | 581.7               |
| Lord Chancellor's Department                             | 106.0              | 65.6                              | 6.2                 | 3.8                               | 32.0                | 19.8                              | 13.8            | 8.5                               | 3.5            | 2.2                               | 161.6               |
| Department of Education and Science                      | 31.9               | 66.6                              | 2.8                 | 5.8                               | 9.2                 | 19.2                              | 3.6             | 7.5                               | 0.4            | 0.8                               | 47.9                |
| Department of Health and Social Security                 | 791.0              | 57.9                              | 23.5                | 1.7                               | 127.3               | 9.3                               | 116.2           | 8.5                               | 308.0          | 22.5                              | 1,366.1             |
| Her Majesty's Treasury                                   | 45.5               | 67.5                              | 1.7                 | 2.5                               | 8.7                 | 12.9                              | 3.7             | 5.5                               | 7.9            | 11.7                              | 67.4                |
| Customs and Excise                                       | 271.5              | 75.7                              | 18.2                | 5.1                               | 42.9                | 12.0                              | 20.4            | 5.7                               | 5.7            | 1.6                               | 358.7               |
| Inland Revenue                                           | 640.4              | 74.4                              | 19.1                | 2.2                               | 123.5               | 14.4                              | 61.2            | 7.1                               | 16.3           | 1.9                               | 860.5               |
| Department of National Savings                           | 62.2               | 40.9                              | 0.9                 | 0.6                               | 10.1                | 6.4                               | 21.8            | 14.3                              | 57.2           | 37.6                              | 152.1               |
| Management and Personnel Office                          | 15.5               | 45.2                              | 2.2                 | 6.4                               | 6.7                 | 19.5                              | 4.7             | 13.7                              | 5.2            | 15.2                              | 34.3                |
| Paymaster General's Office                               | 6.8                | 56.2                              | 0.1                 | 0.8                               | 1.1                 | 9.1                               | 2.3             | 19.0                              | 1.8            | 14.9                              | 12.1                |
| Scottish Office                                          | 116.6              | 72.2                              | 5.8                 | 3.6                               | 25.3                | 15.7                              | 8.4             | 5.2                               | 5.4            | 3.3                               | 161.6               |
| Welsh Office                                             | 24.0               | 53.6                              | 1.2                 | 2.7                               | 3.6                 | 8.0                               | 3.6             | 8.0                               | 12.4           | 27.7                              | 44.8                |
| Northern Ireland Departments and Northern Ireland Office | 300.1              | 78.0                              | 14.7                | 3.8                               | 29.1                | 7.6                               | 20.1            | 5.2                               | 20.9           | 5.4                               | 384.9               |
| <b>Total Main Departments</b>                            | <b>10,156.5</b>    | <b>68.6</b>                       | <b>806.7</b>        | <b>5.4</b>                        | <b>2,341.4</b>      | <b>15.8</b>                       | <b>674.9</b>    | <b>4.6</b>                        | <b>820.8</b>   | <b>5.5</b>                        | <b>14,810.5</b>     |
| <b>Total Other Departments</b>                           | <b>271.3</b>       | <b>68.6</b>                       | <b>14.0</b>         | <b>3.5</b>                        | <b>62.5</b>         | <b>15.8</b>                       | <b>28.1</b>     | <b>7.1</b>                        | <b>19.4</b>    | <b>4.9</b>                        | <b>395.4</b>        |
| <b>TOTAL ALL DEPARTMENTS</b>                             | <b>10,427.8</b>    | <b>68.6</b>                       | <b>820.7</b>        | <b>5.4</b>                        | <b>2,403.9</b>      | <b>15.8</b>                       | <b>703.0</b>    | <b>4.6</b>                        | <b>840.2</b>   | <b>5.5</b>                        | <b>15,196.9</b>     |

NB Calculations are based on actual not rounded figures.

## Notes:

Wages and salaries = wages, salaries, overtime payments, employers' national insurance contributions, and notional cost of accruing liability for pensions of serving staff.

Personnel overheads = travel, subsistence, removals, entertainment, catering support, protective clothing and training.

Accommodation costs = rates, heating, lighting, unlines, furniture and fittings, and notional market rental values for Crown and leased property.

Office services = postage, telecommunications, photocopying, printing, binding, publications, laundry services, current expenditure on computers, office machinery and vehicles, and publicity and advertising.

Other costs = services provided by the Post Office, other agencies, and other Departments.

The coverage of the tables above differs from that table relating to provision for 1981-82 which was published in the Official Report c. 112 on 2 March 1982. These tables include more staff in Northern Ireland Departments and some additional payments to other Government Departments. The coverage of accommodation costs in the Home Office has also been changed.



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10 DOWNING STREET

From the Private Secretary

30 October 1984

cc MOD  
DOE  
DTp  
CSec  
Min/FCO  
Min/DTI  
ODA  
Min/DHSS

Min/HO  
Sir R. Ibbs  
RTA.

GOVERNMENT PURCHASING

The Prime Minister chaired a meeting on 29 October to consider the report on Government Purchasing which Lord Gowrie circulated to colleagues with his letter of 29 August to the Chancellor of the Exchequer. Those present in addition to the Chancellor of the Duchy were the Secretaries of State for Defence, the Environment, and Transport, the Chief Secretary, Lady Young, Mr Lamont, Mr Raison, Mr Newton, Mr Waddington, Sir Robin Ibbs and Sir Robert Armstrong.

Introducing the report Lord Gowrie said that its recommendations had to be seen in the widest context. The Government was committed to obtaining the best possible value for money from public expenditure, and to improving staff motivation and performance (especially through the Financial Management Initiative). Against this background, the report showed that Government buying lagged behind best practice in the private sector, and it proposed changes in methods and attitudes which could produce savings of the order of £400 million over the first two years.

Members of the central team gave a brief presentation of the report's findings and recommendations. In discussion the following points were made:

- (i) There was a strong case for establishing a small Central Purchasing Unit (CPU), with private sector representation, and a limited life. It was however important that the Unit should confine itself to an advisory and "catalytic" role, and that it should not become either a purchasing agency or a source of unwelcome demands for information.
- (ii) Those senior industrialists who had been consulted had supported the report's

JR



analysis, including the estimated savings and the recommendation in favour of establishing a CPU.

- (iii) Although the report spoke in terms of savings, it could be argued that at least some of the money freed by improved purchasing could be used to increase volume within agreed cash allocations. This issue would need to be resolved case by case, but should not be allowed to obscure or divert the pursuit for better value for money.
- (iv) There was undoubtedly scope for similar improvement in local authority purchasing. But the Audit Commission provided a mechanism for raising standards, and it would be inappropriate for the CPU to become involved.
- (v) While doubts had been expressed by some senior managers about the wisdom of having a new civil service specialism in purchasing, the traditional approach - which combined rapid turnover of staff with the posting of generalists - left Government Departments at a disadvantage when dealing with suppliers.
- (vi) It was disturbing that earlier studies, which had foreshadowed much of the team's findings, had produced so little in terms of practical results. Good purchasing was fundamental to good management, and it was to be hoped that the emphasis on action documents, target setting and monitoring, together with the influence of the CPU, would produce a better outcome.
- (vii) The timescale proposed in implementing the report was a generous one, given the enormous sums of money at stake and the extent to which requirements were already overdue. The aim should be to get Departmental targets in place by 1 April 1985.
- (viii) The overall target saving of 5 per cent over the first two years was not ambitious, but it was acceptable bearing in mind the limitations imposed on some



Departments by existing contracts.

Summing up the discussion the Prime Minister said that the meeting congratulated those involved in the preparation of the report. Their work showed clearly that Government Purchasing methods lagged behind best practice in the private sector. Action should now be set in hand to remedy the position as soon as possible. A Central Purchasing Unit should be established in line with the report's recommendations. It should be staffed both by secondees from the private sector and by civil servants. An overall target of 5 per cent savings over the first two years should be set, and improved upon if possible. Departments should be invited to prepare action documents as proposed in the report, but the timescale should be accelerated to allow individual targets to be in place by 1 April 1985. The report should be published, together with a brief Government response, subject to further consideration of the appendices. Lord Gowrie was invited to clear detailed proposals on publication in correspondence. For the time being at least, individual departmental targets should not be published.

Finally the Prime Minister agreed to write a foreword to the published version of the report. I should be grateful for a draft in due course.

I am sending copies of this letter to the Private Secretaries to those who attended the meeting.

(David Barclay)

Paul Thomas, Esq.,  
Lord Gowrie's Office.



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

30 October 1984

1983-84 Scrutiny of Running Costs

Thank you for your letter of 29 October about the 1983-84 scrutiny of departmental running costs.

Subject to the views of colleagues, the Prime Minister is content with the draft Question and answer which was attached to your letter.

You may like to consider adding the word "controlling" between "in" and "the" in the first line of the penultimate paragraph.

I am sending copies of this letter to Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office) but not to the other recipients of your letter.

(David Barclay)

R.J. Broadbent, Esq.,  
H.M. Treasury.

CONFIDENTIAL

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10 DOWNING STREET

*From the Private Secretary*

29 October 1984

Review of Support Services for Research and  
Development

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The Prime Minister considered over the weekend the Chancellor of the Duchy's minute of 23 October in which he reported progress on implementing the 1981/82 review of support services for research and development.

The Prime Minister has noted with satisfaction the savings which have already been made and endorses the three proposals for follow-up action. She agrees that Lord Gowrie should now write to colleagues along the lines of the draft submitted with his minute.

I am sending copies of this letter to Sir Robin Ibbs and Richard Hatfield (Cabinet Office).

David Barclay

Paul Thomas, Esq.,  
Chancellor of the Duchy of Lancaster's Office,

BTG



PRIME MINISTER

The three points for action which Lord Gowrie refers to are:

- (i) Departments to apply lessons to research establishments which did not take part directly in the review.
- (ii) Departments to apply Cabinet Office guidelines on productivity schemes for industrial workers and other (less significant) support services.
- (iii) Cabinet Office to conduct a management audit of selected establishments in 1986/87.

Agree letter from Lord Gowrie at Flag A?

*amb*

26 October, 1984

*Yes not*





Prime Minister

There is some hard-hitting advice in the papers below, from the Policy Unit and Sir Robin Ibbes.

DMS  
29.10

Ref. A084/2835

PRIME MINISTER

You have called a meeting on 29 October to discuss with Lord Gowrie, other Ministers and Sir Robin Ibbes the report of a multi-Department review of Government purchasing. Papers for the meeting are -

(i) the report (sent with Lord Gowrie's minute of 3 August);  
and

(ii) the paper (an extended agenda) circulated with Lord Gowrie's letter of 29 August to colleagues.

2. The main proposals (summarised in Lord Gowrie's minute of 3 August) are that -

(a) Departments should act to achieve substantial savings in public purchasing costs, particularly through: better knowledge of and contact with suppliers; use of performance specifications; better organisation, procedures and planning; and improved training.

(b) A Central Purchasing Unit (CPU) should be set up to help and advise, and as a catalyst for change.

(c) To ensure potential savings are realised, Departments should agree savings targets with the CPU.

#### THE ISSUES

3. Lord Gowrie's agenda lists five questions for discussion -

(i) whether Ministers accept the central finding that Government attitudes and methods lag significantly behind good private sector practice, and must be improved;





- (ii) assuming that the central finding is accepted, the timescale for commissioning departmental action documents;
- (iii) the role of a Central Purchasing Unit;
- (iv) the importance of targets for cost saving; their level; and whether they should be published;
- (v) timing of publication of the report, and presentation.

MAIN POINTS FOR DISCUSSION

4. Question (i): The Treasury have generally endorsed the report, and no Department has challenged the central finding as such. But there are likely to be reservations about:-

the need to take account of departmental differences, in implementing the report; and

the assessment of potential savings.

On the first point, Lord Gowrie is likely to suggest that the need for flexibility in particular circumstances be considered when drawing up an action document. Discussion of the second point can best be taken under (iv).

*But see  
Policy Unit  
views.*

*DMB  
26/10*

5. Question (ii): Given the complexity of the recommendations the suggestion that six rather than the usual three months be allowed to prepare action documents seems right. This would enable the CPU, if approved, to advise Departments on preparation.

6. The Home Secretary has suggested a need to resolve certain issues centrally before commissioning action documents. Relevant recommendations - apart from the CPU - are those for a functional specialism for purchasing, and supply, and for pay incentive schemes for buying staff. A similar argument might be advanced





for delay while the common service agencies complete their recommended reviews of pricing and supply policy. But these seem insufficient grounds for delaying the search for improvements. The process needs in any event to be an iterative one, with Departments learning from their own and others' experience, assisted by the CPU, as work proceeds.

7. Question (iii): The report recommends that a small CPU, headed by a senior private sector procurement specialist, be set up by January 1985, initially for three years. Annex H to the report suggests its main functions should be to:

monitor Departments' achievements, reporting to you annually;

advise Departments on implementation of improvements, and on purchasing practice;

review departmental procurement plans to identify where co-ordinated purchasing could increase market strength;

set up contracts in some cases;

agree targets for departmental savings.

8. Given the radical changes sought, the case for a small central unit with strong outside representation and with a limited life seems well made. Such a unit could prove a valuable source of practical advice, based on outside experience; and would help ensure that the need for change is firmly communicated at all levels. But an important question for discussion is whether it would be right for a CPU to set up contracts. This would cut across responsibilities of departmental accounting officers. In any case the CPU would be able to offer such a service for only a few years. For analogous reasons departmental targets (if accepted) should be agreed formally with the Treasury, perhaps with a presumption that CPU advice would normally be accepted. The Chief Secretary can be expected to argue on these lines.





9. Annex H to the report suggests three options for location of a CPU: Treasury, Cabinet Office or an independent unit. I doubt whether an independent unit of this size makes sense. A case can be made for location either in the Treasury or in the Cabinet Office. I suggest that you decide this independently of the meeting, taking account of decisions reached on the Unit's role and any points colleagues make. I will advise separately on this following the meeting.

10. Question (iv): The report recommends adoption by April 1986 of departmental cost savings targets, and a report to you on achievements by June 1987. Colleagues are likely to challenge the suggested central "guidance" of 5 per cent real savings over two years. Departmental targets against which progress can be monitored are obviously important. The Chancellor of the Duchy is not proposing publication of these. The question whether any central guideline should be published is sensitive and controversial. The argument in favour is that it would provide an additional spur to action. Arguments against are that:

success would be judged in relation to the target, rather than actual achievement;

there would be pressure for disclosure of departmental targets, which could damage negotiating positions.

You will wish to decide in the light of colleagues' views.

11. Question (v): The presumption is clearly in favour of publishing the report. (This is the norm following multi-Department reviews, and Parliament know of the review.) On timing, the choice is between publishing now or delaying for completion of departmental action documents. The risk of leaks, and the needs to brief trades unions, and recruit for a CPU (if approved), all argue for early publication.





12. You will wish to seek colleagues' views on presentation. It will be important to avoid implying that changes will be at industry's expense; that the risk of impropriety will be increased; or that public purchasing policy will be affected (eg in favour of a "buy British regardless" policy).

## HANDLING

13. I suggest you begin by inviting the Chancellor of the Duchy to present the report's conclusions. His suggested agenda (paragraph 3) can conveniently be followed.

14. You might wish to invite comments and contributions broadly as follows:

Question (i): colleagues to comment. Chancellor of the Duchy and Chief Secretary to respond as appropriate.

Question (ii): colleagues to comment, Chancellor to respond as appropriate.

Question (iii): you might wish to indicate support for a CPU to advise and assist Departments; invite the Chief Secretary, and other colleagues if they wish, to comment on its role; and finally invite the Chancellor of the Duchy to draw up terms of reference and agree them with colleagues. You might possibly also wish to invite comments on a CPU's location, while reserving the issue for later decision.

Question (iv): Chancellor of the Duchy to introduce; Chief Secretary and other colleagues to respond. You will want to look to Sir Robin Ibbs particularly to comment on the setting of targets.

Question (v): you might wish to invite colleagues to agree to early publication; and seek views on presentation.





CONCLUSIONS

15. Decisions are required on:

- (a) the need for concerted action to improve public purchasing;
- (b) timing of preparation of action documents;
- (c) whether a CPU is justified and, if so, its broad role (detailed terms of reference, and location, would be for later decision);
- (d) whether Departments should adopt savings targets; whether a 5 per cent central "guideline" is appropriate (or whether the figure should be reviewed in the light of action programmes); whether any guideline should be published;
- (e) whether the report itself should be published; if so when; and how it should be presented.

RTA

ROBERT ARMSTRONG

26 October 1984



**CONFIDENTIAL**



*Handwritten mark*

PRIME MINISTER

MEETING ON GOVERNMENT PURCHASING - 29 OCTOBER 1984

Your meeting on 29 October will start with a presentation by the authors of the report. I have discussed the report with them. In my view, if the substantial benefits that are available are to be achieved the key points to settle during the subsequent discussion are:

1. How to get action from departments.

This report shows that the government's overall approach to purchasing, worth an estimated £7600 million a year, is insufficiently directed to getting value for money. I understand that Michael Heseltine's efficiency adviser, Peter Levene, has found the same situation for warlike goods and services. Departments need to be asked to establish plans for action. I see no good argument for delay.

2. How to put pressure on departments to make explicit savings.

The best way is to establish that you expect tangible improvement. A 5% target for savings over two years (worth over £400 million a year) would be a worthwhile but not overambitious start. From my business experience this target is feasible.

3. How to help those who must deliver the improvements.

The proposed small Central Purchasing Unit has a key part in this. It is essential that it should contain at least one person from the private sector with first class experience of buying. Its effect will be greater if it can have some direct involvement in selective buying.

4. How to get credit for what we are doing and encourage a more business-like approach in public purchasing more widely.

It is more difficult for departments to ignore uncomfortable findings if they are made public. Implementation of improvements is often more rapid if there is the risk otherwise of embarrassing questions. I would favour publication of the report and a statement of the government's response.

I have one further comment. There are other actions which are complementary to the suggestions in the report: for example, Michael Heseltine's plans to widen the scope for competitive tendering in Defence. But as this report shows, competitive tendering is not enough unless it is done better than is often the case in government, including Defence.

I am copying this to Lord Gowrie and to Sir Robert Armstrong.

*Handwritten signature*

ROBIN IBBS  
26 October 1984



Mufated 27/10

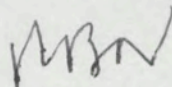
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PRIME MINISTER.

26 October 1984

GOVERNMENT PURCHASING.

1. The formation of a Central Purchasing Unit is a key recommendation of this report if a more expert approach to Government purchasing is to be achieved. But technical standards and quality, a subject inadequately articulated at many levels nationally in spite of recent initiatives, is a critical component of this approach.
2. I endorse the recommendations on standards and quality with the proviso that in the case of 2.10 "good enough for the job" is not interpreted as "lowest short term cost". Government purchasing, because of its sheer size, can do much to improve standards and quality of the technological products of industry, through reference to appropriate quality assurance and certification schemes.
3. A prime reason why standards initiatives by Government in recent years has yielded little is the out-of-date institutionalised procedures for devising standards - I am told there are 3000 BSI Committees! In spite of, or perhaps because of this, we are still way behind the German DIN system. Questions need to be asked about the appropriateness of the British Standards Institution and its methods in modern standards-making, in relation to an increasingly competitive world market.



Robin B NICHOLSON  
Chief Scientific Adviser



PRIME MINISTER.

26 October 1984

## GOVERNMENT PURCHASING.

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3. A prime reason why standards initiatives by Government in recent years has yielded little is the out-of-date institutionalised procedures for devising standards - I am told there are 3000 BSI Committees! In spite of, or perhaps because of this, we are still way behind the German DIN system. Questions need to be asked about the appropriateness of the British Standards Institution and its methods in modern standards-making, in relation to an increasingly competitive world market.

Robin B NICHOLSON  
Chief Scientific Adviser



GOVERNMENT PURCHASING

This is an excellent report which we fully support. 1982 public expenditure on non-warlike goods and services was £7,600 million. The team estimate that improved purchasing could produce an annual saving of over 5%, worth £400 million a year. We think this is cautious. £1,000 million could be achieved if all the team's recommendations are followed through.

Implementation

A small Central Purchasing Unit (CPU) reporting to a Minister and designed to help departments improve their purchasing is a good idea. It would agree specific action programmes with departments with detailed completion dates and performance targets.

Government stocks are conservatively estimated at £5,000 million or eight months usage. The team are looking for a 2% improvement. We believe that at the very least a 50% reduction is required. This would mean still holding four months stocks compared to an average of one or two months in industry generally. Even allowing for the need to hold some non-warlike strategic materials this still seems generous. A halving of the stocks would yield a once off saving of £2,500 million! It could also save £100 million annually in stocking costs.

To make these savings we need mini-computers using near standard programme packages and providing on-line screens throughout Government. Speedy implementation would require that individual computers be introduced at departmental or sectional level rather than a single grand Whitehall scheme.



The team put a lot of weight on post-tender negotiation as a way to produce keener prices. This must be right, but negotiation can do more for us than this. On large projects we should start the negotiation in advance of the tender - perhaps only have a pre-qualifying tender round, followed by negotiation with at least two suppliers. Once in negotiation we must nibble away at the offer; go for free delivery, fixed price, penalties for late delivery, extended credit, and of course reduced price.

The team recommend that buying should be treated as a specialism, that duties and responsibilities should be clearly defined and that price and performance targets be set supported by merit pay. These are sensible steps. However, they propose that 1½ years should be allowed for departments to establish these targets and to implement most of the other recommendations.

We would propose that you should introduce targets forthwith and have most other recommendations in train by April 1985. This will be difficult, but is necessary if impetus is to be maintained and savings made. Departments should be asked to save 5% on all new contracts as from today. This is possible. (I have done it in companies I have run).

*Peter Warry*

PETER WARRY

*17600  
billion*



CC: OPPS  
MASTR

File OR



10 DOWNING STREET

cc: Cabinet  
+ LOD  
Lords Whips  
CWO.  
LAD  
MA  
TF

THE PRIME MINISTER

Personal Minute

No. M.13

MINISTERS IN CHARGE OF DEPARTMENTS

We have made good progress since 1979 in reducing the number of advisory and other public bodies, and I am grateful for the efforts colleagues have put into the review arrangements.

The reviews have served us less well in delivering value for money in the bodies which remain. I therefore very much welcome the new programme of improvements in the financial management of these bodies which colleagues will be putting in hand under the general direction of the Chancellor of the Duchy of Lancaster and the Chief Secretary. We know from experience however that it is all too easy for programmes of this kind to produce little more than jargon and bureaucracy. I hope colleagues will be able to give their personal commitment to this new exercise and so ensure that their departments and the bodies concerned concentrate their efforts not on creating systems but on using them to secure real and early improvements in performance.

*Margaret Thatcher*

25 October, 1984

574





10 DOWNING STREET

(3)  
PRIME MINISTER

M. 13.

Could you please re-sign  
this minute?

The first paragraph has been slightly altered by the removal of the words "which had long since ceased to serve any useful purpose for the taxpayer". While this must undoubtedly have been true of some bodies, it might on reflection seem a bit hard on others. The substance of the argument is unaffected.

*Dubs*

24 October 1984



Draft Question

To ask the Prime Minister whether it remains her policy to keep the numbers and spending of non-departmental public bodies under tight control; and whether she will ensure that the drive for increased efficiency and effectiveness in the civil service is followed through by similar action in public bodies.

Draft Answer

Yes. We shall continue to keep all non-departmental public bodies under regular scrutiny to ensure that they and their programmes give value for money. We shall resist pressures for new bodies unless we are convinced that a non-departmental body is the most appropriate way to do a particular task.

Substantial savings have already been made. Since 1979 we have wound up or substantially reduced the expenditure of nearly 700 such bodies, saving some £118m a year. But there is more to be done. A recent report by the Cabinet Office/Treasury Financial Management Unit, copies of which are being placed in the Library, shows that some bodies need better systems for defining their objectives, setting targets and assessing achievements. Over the next two years therefore Departments will be looking, in collaboration with the management of their sponsored bodies, at the scope for improving management and control systems and practices. The main programme of work should be completed by April 1987.

with the aim of producing progressive improvements in performance.





Chancellor of the Duchy of Lancaster

PRIME MINISTER

REVIEW OF SUPPORT SERVICES FOR RESEARCH AND DEVELOPMENT: PROGRESS REPORT

This minute reports progress on implementing the recommendations of the 1981/82 review of support services for research and development under the guidance of Lord Rayner. The review covered such things as workshops, stores, transport, typing and messengerial services and how to control their cost. Lord Rayner estimated the possible savings from the review as £15 million a year and £7 million once for all.

... The attached short report by officials shows that departments have already made savings of £8.8 million a year and 1060 posts, based on the recommendations of the review. Although this falls short of the original estimated savings, additional savings have been made bringing the total up to £14.8 million a year and 1889 posts with £2.4 million and 138 posts in prospect. This is good progress. The annexes record departmental action in detail - I do not think you need do more than dip into these. Capital savings have proved harder to realise, but £3.3 million has been saved or is in firm prospect, and a further £3.3 million is still under consideration. *(outside the original recommendations)*

Outstanding action will be taken up in the context of the Financial Management Initiative. The report proposes that my officials carry out a management audit starting in 1986 to investigate the effect of the changes brought about by the review. I support this idea which will allow us to test the success of the review and its follow-up. I suggest that you endorse the three proposals for action in the report. If you accept them, you may wish me to write to Ministers most concerned with the review, on the lines of the attached draft.

I am copying this minute and enclosures to Sir Robert Armstrong and Sir Robin Ibbs.

*geg*

GOWRIE  
23 October 1984



DRAFT LETTER FROM LORD GOWRIE TO SECRETARY OF STATE FOR DEFENCE

REVIEW OF RESEARCH AND DEVELOPMENT SUPPORT SERVICES:  
PROGRESS REPORT

... The Prime Minister has asked me to send you the attached report by officials on progress in implementing the recommendations of this review.

The Prime Minister was pleased to see that good progress has been made in your department and in the others which participated in the review. Important savings have been realised. Many of the recommendations of Lord Rayner's central report have been put into practice. Further work is in hand in the context of the FMI.

Nevertheless it is important to keep up the momentum. The Prime Minister has asked me to draw to your attention the two points recommended for departmental action and, in particular, she would be grateful if you and other colleagues would co-operate in a management audit in 1986/87 to examine the effect of the changes brought about by the review.

I am copying this letter to the Secretaries of State for the Environment, Transport, Trade and Industry, the Minister of Agriculture and the Minister for Overseas Development, all of whose departments participated in the review, and to Sir Robert Armstrong and Sir Robin Ibbs.





## PROGRESS REPORT ON THE REVIEW OF SUPPORT SERVICES IN RESEARCH AND DEVELOPMENT AND ALLIED SCIENTIFIC ESTABLISHMENTS

### Introduction

In 1981 six departments carried out a review of support services for research and development under the guidance of Lord Rayner. They were:

Ministry of Agriculture, Fisheries and Food (MAFF)  
Ministry of Defence (MOD)  
Department of the Environment (DOE)  
Department of Industry (DTI)  
Overseas Development Administration (ODA)  
Department of Transport (DTp)

The Prime Minister approved a central report by Lord Rayner in June 1982. A summary of his recommendations is at Annex A. This report describes progress since then and makes suggestions for future follow-up to the review.

### Implementation of Departmental Reports

2. Savings made (£14.8m) or in firm prospect (£2.5m) in the departments which took part in the review exceed those recommended, in spite of some savings rejected or found to be unobtainable. A few recommendations are still under consideration. Some others, such as major rationalizations of land and buildings, while accepted are bound to take time to bring about. Table 1 summarizes the savings made. Further details are at Annex B.

Table 1: Implementation of Savings

|                                        | £m (annual)       | Posts  | £m (one-off) |
|----------------------------------------|-------------------|--------|--------------|
| Savings Recommended                    | 14.2 <sup>1</sup> | 1518   | 6.6          |
| Savings Made at 1/4/84                 | 8.8               | 1059.5 | 1.9          |
| Additional Savings made at 1/4/84      | 6.1               | 829.5  | -            |
| Firm Savings in Prospect <sup>2</sup>  | 2.4               | 138.5  | 1.4          |
| Savings under Consideration            | 2.1               | 299    | 3.3          |
| Savings Rejected or Unobtainable       | 2.1               | 128    | -            |
| Total Savings Made or in Firm Prospect | 17.3              | 2030   | 3.3          |

<sup>1</sup>All figures are at 1981/82 prices.

<sup>2</sup>Includes some additional savings in prospect.



3. Examples of savings made are:

- more than half of aircraft servicing at Royal Aircraft Establishment and Aeroplane and Armament Experimental Establishment contracted out. Saving: £1.2m p.a. and 175 posts;
- buildings and storage vacated by Transport and Road Research Laboratory. Saving: £0.3m p.a.
- income from Building Research Establishment's Advisory Service increased by £94,000 to £244,000 pa. Target for 1984/85: £272,000;
- expected saving of at least 52 support posts at Tropical Development and Research Institute by 1 April 1986;
- cleaning contracted out in DTI establishments. Saving: nearly £0.1m p.a. and over 50 posts;
- responsibility for accommodation assumed by Director of Central Veterinary Laboratory with introduction of Property Repayment Services system. Saving: more than £0.5m in current year. An example of what can be done if Directors take responsibility for their own affairs.

**Implementation of Lord Rayner's Central Report**

4. Table 2 summarizes progress on the main points of Lord Rayner's central report. Further details are at Annex C.



**Table 2: Implementation of Central Recommendations**

| Recommendation                                                                                                                                                                                                                          | Action                                                                                                                                                                 | Timetable                                                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|
| <p>2<br/>(review of arrangements for reporting progress in R&amp;D to Ministers)</p>                                                                                                                                                    | <p>All departments: reviews have been completed. Ministers and Permanent Secretaries now have the opportunity to review progress regularly.</p>                        |                                                                                                                              |
| <p>3<br/>("charter" for Directors of establishments)</p>                                                                                                                                                                                | <p>MAFF: to be pursued in context of FMI<br/>MOD: implemented<br/>DOE: implemented<br/>DTI: implemented<br/>ODA: implemented<br/>DTp: draft charter in preparation</p> | <p>Target: 1/4/85<br/><br/>To be presented to Ministers shortly</p>                                                          |
| <p>5-8<br/>(delegation of authority to Directors for efficient management, charging of costs to research projects, research establishments to be priority areas for FMI and scientific staff to be responsible for value for money)</p> | <p>Progress in all departments linked with progress on FMI generally. Research establishments made cost centres as follows:</p>                                        | <p>Target: 1/4/85<br/>Two stages: 1/4/85 and 1/4/86 (trial under way)<br/>1/4/83<br/>1/4/84<br/>No target set<br/>1/4/83</p> |
|                                                                                                                                                                                                                                         | <p>Other developments:</p>                                                                                                                                             |                                                                                                                              |
|                                                                                                                                                                                                                                         | <p>MAFF: management information system to permit disaggregation of establishment budgets.</p>                                                                          | <p>Target: 1/4/85</p>                                                                                                        |
|                                                                                                                                                                                                                                         | <p>MOD: delegated powers to Directors go back at least to 1972. Existing costing systems will be improved.</p>                                                         | <p>1985/86</p>                                                                                                               |
|                                                                                                                                                                                                                                         | <p>DOE: computerized project/management accounting system now in place. Mechanisms and procedures for full charging to be explored.</p>                                | <p>1984/85</p>                                                                                                               |



Table 2 continued

| Recommendation                                                                             | Action                                                                                                                                 | Timetable      |
|--------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 5-8 continued                                                                              | DTI: full economic costs charged to customers.<br><br>DTp: full charging for all projects now possible.                                |                |
| 11<br>(reinvestment of savings from greater efficiency)                                    | Scheme for carrying forward capital underspend up to 5% to next financial year.                                                        | 1/4/84 onwards |
|                                                                                            | Incentive schemes to encourage disposal of surplus assets, eg Research Councils have been able to keep 50% of proceeds of asset sales. | 1/4/83         |
| 12<br>(an examination of the criteria used in the recruitment and training of specialists) | Two departmental schemes for technological generalists developed.                                                                      |                |



## Wider Implementation

5. Departments have "read across" the review's recommendations to establishments which did not take part in the review itself. The following departments and other bodies have taken similar action:

Department of Agriculture and Fisheries, Scotland  
Research Councils  
Health and Safety Executive  
Forestry Commission  
British Museum (Natural History)

This has led to further savings of at least £1m p.a., 80 posts and £0.8m once for all. Details are at Annex D.

### Further work

6. The evidence in this report shows that departments have produced savings of £14.8 million and 1889 posts already, with £2.5 million and 138 posts in prospect. Research establishments must now maintain and build on the improvements made. For example:

**Action: departments should search for further opportunities for "read-across" to research establishments which did not participate in the review.**

7. Another example of further action: Cabinet Office (MPO) has issued a number of management guidelines which are relevant to support services in research establishments. These include stores, transport, messengers, telecommunications and typing. Further guidelines are to be issued covering reprographics, stocktaking, industrial productivity pay schemes (all due by June 1985), postal services and workshops (by June 1986).

**Action: departments and research establishments should apply these guidelines.**

8. In view of departments' achievements, I do not propose another progress report next year. The work now in hand on implementing the FMI in research establishments should begin to bear fruit in the next couple of years. I believe therefore that it would be appropriate to report progress in 1986/87 by which time the new arrangements will have settled down.

**Action: a team from Cabinet Office (MPO) with support from departments as appropriate should visit a sample of research establishments in 1986 to determine exactly what changes have been brought about and their results. The team should include some establishments which did not participate in the original review and examples of the whole range of support services. They should consider the effects of specific recommendations of the review along with other work on the efficiency and effectiveness of support services and the impact of the FMI. They should also aim to pinpoint further areas for action in order to secure even better value for money.**

Miss E M Goodison  
October 1984



REVIEW OF R & D SUPPORT SERVICES : LORD RAYNER'S RECOMMENDATIONS

1. ...that Ministers seek full Action Documents...and that annexed to each should be a programme showing how other areas of support in R & D establishments for which the Minister is responsible are to be organised upon similar lines.
2. ...that the Permanent Secretary in each relevant Department should examine, in consultation with Chief Scientists as appropriate ..., the practical value of current arrangements for reporting to Ministers on technical and financial progress and the value for money obtained.
3. ...that with the appropriate Ministers' approval, Permanent Secretaries should give the Director of each establishment a "charter" which sets out the objectives and scope of his establishment for the foreseeable future.
4. ...that one of the functions of the audit procedures of the department should be to watch out for any tendencies in the establishments to widen the scope of activities beyond the Minister's objectives.
5. ...that with the Minister's approval the Permanent Secretary ... should include in each Director's "charter" formal delegation of authority for running the establishment efficiently.
6. ...[it should] be the Director's job to ensure that the scientific work of his establishment is properly approved and relevant to his Minister's needs, that the Minister's priorities are met at the required professional standard, and that productivity is improved and costs held to the essential ... he should involve scientific line management in meeting all these requirements. In particular, he should seek to adopt commercial practice in charging all the costs of the establishment which fall on the Department's Votes (including accommodation when PSA repayment starts) to individual research projects on the basis of the services they currently consume. Research project managers should have budgets agreed by him and be responsible to him for the use they make of those budgets.



7. ...departments should treat the relevant establishments in this review as priority action [for implementation of the principles of the Financial Management Initiative] - if necessary as experiments before wider decisions are taken.
8. ...that scientific staff should be responsible for their proposals and Secretariat staff should conduct, on the Director's behalf, deeper investigations of value for money on a highly selective sample of cases; and Headquarters should concentrate on controlling total budgets or major blocks within them, not on the many small items.
9. ...that each establishment should designate a senior manager who will have responsibility for clarifying and co-ordinating land and accommodation use and works and maintenance costs. He should also be charged with the continuing task of holding down accommodation costs and will provide a focus for contacts with major contractors and with the managers of the Government Estate.
10. ...PSA should seek to define with the establishments concerned those types of specialised building and maintenance work where the Director is likely to be best placed to specify and obtain what is required. For the other types of work which PSA will continue to provide as part of its management of the Government Estate, defined target levels of service should be agreed between PSA and its clients.
11. ...the Treasury should consider with Departments how arrangements can be made to encourage Departments to reinvest more from savings achieved by greater efficiency to further increase efficiency and effectiveness, reduce running costs and improve staff motivation.
12. ...MPO should examine the criteria currently used in the recruitment and training of scientists and other specialists to assess whether they adequately reflect the need for a robust mix of those with potential for management and high level administration and those who are out and out researchers.



REVIEW OF R&D SUPPORT SERVICES : IMPLEMENTATION

SECTION I IMPLEMENTATION OF DEPARTMENTAL REPORT IN THE MINISTRY OF AGRICULTURE, FISHERIES AND FOOD : CENTRAL VETERINARY LABORATORY

SECTION IA INTRODUCTION : R&D IN MAFF GENERALLY

1. The Ministry has a number of large and small establishments at which R&D is carried out, usually together with other activities, eg statutory and service/advisory functions. The total cost of these establishments in 1983/84 was about £56m (1981/82 £54m). The manpower committed at 1 April 1984 was 2753 (1 April 1981 3049½). A brief description of the Ministry's R&D establishments is at Annex A.

SECTION IB : TABLES AND NARRATIVE ON CVL REPORT

2. The tables at Annex B show the savings in research support services resulting from the CVL Report.

3. Annex 1 to Lord Rayner's report identified two main areas for savings at CVL - too many services in-house and over provision of services/too much bureaucracy. As regards the first, the in-house production of animals at CVL has been reduced in line with the Rayner review recommendations and is now <sup>at</sup> confined to those animals which cannot be purchased from outside/competitive prices or where animals of the required specification cannot be obtained externally. The main continuing in-house production is of sheep : CVL requires not only a particular breed of sheep which produces lambs throughout the year, but also lambs of specific disease and parasite free status. Early enquiries suggested that these criteria were too stringent for commercial sheep producers and that it would be uneconomic for private specialists to supply CVL, but an outside supplier has now been found, and a contract is being negotiated. Financial savings will be minimal, but 2 posts will be saved. About seventy percent of the savings shown in Table 1 of Annex B as rejected/unobtainable reflect a substantial over-estimate by the Scrutiny officer of the savings obtainable by reducing in-house animal production.



4. The scrutiny officer also noted the need to review the case for continuing in-house tuberculin production - although he then proceeded to include in his recommended savings a once for all saving of £3.3 million and an annual saving of £192,000 which assumed that the review led to in-house production being stopped. The £3.3 million once for all saving represents over 80% of the saving shown in column 1 of Annex B Table 2. The recommended review has been carried out and has indicated that if CVL obtains the contract to supply the Irish Government, new production facilities should be worthwhile. For the time being, while negotiations with the Irish Government continue, the Scrutiny officer's estimates of the savings to be made/<sup>are</sup> included in Annex B as under consideration.

5. Cleaning and security at CVL have been contracted out with a saving somewhat larger than the Scrutiny officer had foreseen as possible. Similarly, the savings from sales of land are likely to exceed the Scrutiny officer's assessment. A detailed internal appraisal concluded that about 225 acres (rather than the 141 acres recommended) should be sold. The sale of 126 acres of mainly low grade land has already realised £237,000. The sale of the remaining moderate grade land (approx 100 acres), has been deferred until towards the end of 1984, pending the outcome of the investigations into any development potential it may have. With no development potential, the sale should realise in excess of £150,000; the value with development potential will depend on the type, extent, and the timing, of potential development. The amount realisable cannot therefore yet be estimated beyond regarding the non-development value as a minimum. In the meantime, the grazing has been let for 6 months at £39 per acre, producing a receipt of almost £4,000.

6. The achievement of most of the other recommended/<sup>savings</sup> expected to arise from ending the over-provision of services/too much bureaucracy, depends on management and accountability changes, the full implementation of which has to be linked to progress in implementing the Government's Financial Management Initiative (FMI) in MAFF as a whole. Pending this, a few of the Scrutiny officer's recommended savings concerned with Library services, photography and stationery are categorised as still under consideration for purposes of Annex 3. The Director of CVL will, however, take responsibility in 1985/86 for resources employed at the laboratory. Development of the necessary information systems will facilitate the identification of



the costs of specific projects and the pursuit of value for money. So far only the cost of experimental animals is charged on actual use basis to individual research projects, but a computerised project costing system, which will form the basis for a management accounting system and will allow all support costs to be charged to individual projects on an actual use basis is now being tested and will be fully integrated with MAFF management accounting information system (MAIS). Meanwhile/<sup>with</sup>the advent of the Property Repayment Services System, the Director has already assumed responsibility for maintenance, equipment, administrative and liaison costs and for new works under £100,000. It would not be feasible for him to assume responsibility for specialised building projects valued at over £100,000 as was implied by the figures quoted in the Scrutiny officer's recommendation since projects of this magnitude require consideration at departmental level with competing projects. Nonetheless, the saving of £ $\frac{1}{2}$  million (at 1980/81 prices) that the Scrutiny officer foresaw as possible with the transfer of these responsibilities to the Director has been more than achieved in the current year.

7. Savings have also been achieved by reducing stock holdings, simplifying procedures and cutting staff in the CVL stores by 6. The messenger service has been cut by 2 $\frac{1}{2}$  posts and, on telecommunications, a first-year saving of £2,700 (including  $\frac{1}{2}$  Telephonist post) has been achieved with annual savings thereafter of £4,900, somewhat larger than the Scrutiny officer's assessment of what was possible.



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

Brief Description of R&D Establishments

1. CENTRAL VETERINARY LABORATORY

Main Features: Total Cost 1983/4 £14.2 m (1981/2 £14.6 m)  
Manpower 712½ (1/4/81 804)  
Main site at Weybridge 33 acres, plus  
outlying farms, totalling approximately  
454 acres. Outstations at Reading and  
Lasswade, near Edinburgh.

The Central Veterinary Laboratory supports Government policy on animal health through research, development and testing directed towards the diagnosis and control of animal diseases. The Laboratory's resources are applied about equally to R&D and statutory and service functions.

2. LABORATORIES OF DIRECTORATE OF FISHERIES RESEARCH

Main Features: Total Cost 1983/4 £11.4 m (1981/2 £9.2m)  
Manpower 437 (1/4/81 484)  
Main Laboratory site at Lowestoft 4 acres.  
Outstationed laboratories at Burnham,  
Weymouth and Conwy (totalling 3 acres)  
and Store at Grimsby (1,6000 square feet).

The Directorate carries out necessary research and other scientific services to support Government policy on fisheries management in England and Wales, and to fulfill the Minister's responsibilities for regulation of waste disposal to the marine environment. This latter activity (in all but its regulatory aspects) is carried out for radio-active material on a national basis with Scottish and Welsh Offices and Channel Island States as additional customers. About 40% of resources are devoted to R&D.

3. TORRY RESEARCH STATION

Main Features: Total Cost 1983/4 £3.4 m (1981/2 £3.1 m)  
Manpower 132½ (1/4/81 157)  
Site at Aberdeen 2½ acres. Outstation at  
Hull closed on 30 June 1984.



Torry Research Station investigates and gives advice on the handling and processing of fish. Resources are applied in the proportion 80 : 20 to R&D and advice respectively. The main customers are the fish industry: Government, official bodies, consumers and users of fish.

#### 4. SLOUGH LABORATORY AND ASSOCIATED WORPLESDON AND TOLWORTH LABORATORIES

Main Features: Total Cost 1983/4 £5.8 m (1981/2 £5.1 m)  
Manpower 232½ (1/4/81 268)  
Main site at Slough 12½ acres, plus associated laboratories at Tolworth (2½ acres) and Worplesdon (4½ acres). Outstations at Norwich, Welshpool and Woodchester Park totalling 3 acres.

The Slough Laboratory and associated laboratories support Government policies on animal health, animal and crop production, the quality of stored agricultural products and wildlife conservation. The work is largely R&D in the field of vertebrate and invertebrate pest control.

#### 5. HARPENDEN LABORATORY

Main Features: Total cost 1983/4 £2.3 m (1981/2 £2.3 m)  
Manpower 128½ (1/4/81 128½)  
Site totalling 5 acres at Harpenden.

The Harpenden Laboratory is concerned with plant health and the control of pests and diseases in growing crops. This involves work on alien and domestic plant pests and diseases and on health standards for planting material; surveys of pest and disease incidents and damage; and the registration of pesticides, surveys of their use and monitoring of pesticide residues. The latter work includes development of analytical techniques for pesticides and assessments of operator risk. About 40% of the Laboratory's resources are devoted to R&D.



#### 6. FOOD SCIENCE LABORATORY

Main Features: Total cost 1983/4 £1.2 m (1981/2 £1.1 m)  
Manpower 51½ (1/4/81 56)  
Three Laboratories, one at Romney Street,  
London and two in Norwich (total area  
22,500 square feet).

The Food Science Laboratory undertakes research and surveillance work on food matters, primarily in the field of food safety, in support of Government policy in relation to the food industry and the safety of food. The Laboratory's resources are approximately equally divided between R&D and surveillance, the latter including technical management of the Strategic Food Stockpile.

#### 7. EXPERIMENTAL HUSBANDRY FARMS AND EXPERIMENTAL HORTICULTURE STATIONS

Main Features: Total cost 1983/4 £13.8 m gross, £9.6 m net of realisations from sales of produce (1981/2 gross £12.0 m, net £8.3 m)  
Manpower 636½ (1/4/81 699)  
Twelve Experimental Husbandry Farms (including 2 in Wales) totalling 12,800 acres; and seven Experimental Horticulture Stations covering 1,200 acres.

These Experimental Husbandry Farms and Experimental Horticulture Stations generate new information on methods of agricultural and horticultural production by evaluating and developing the results of research and by undertaking detailed crop and animal production experiments. The resources are devoted almost exclusively to R&D work and supporting common services.

#### 8. VETERINARY INVESTIGATION SERVICE

Main Features: Total cost 1983/4 £7.6 m (1981/2 £6.5 m)  
Manpower 395 (1/4/81 425)  
The laboratories of the Veterinary Investigation Service are located at 24 sites throughout England and Wales, 4 of which have paddocks up to 1 hectare for holding animals submitted by practising veterinary surgeons or for experimental R&D work.



The Veterinary Investigation Service provides laboratory support for the national disease eradication and control schemes carried out by the State Veterinary Service. It provides a diagnostic, advisory and consultancy service to farmers through practising veterinary surgeons, collects national disease surveillance data on which R&D and control strategies are based and promotes knowledge of the results of research on the control of animal disease among veterinary surgeons and farmers. Disease investigations usually in collaboration with the Central Veterinary Laboratory and ARC Institutes form part of the Ministry's R&D effort and account for about 10% of the resources used by the Veterinary Investigation Service.

9. RESEARCH UNITS IN THE LAND AND WATER SERVICE (FARM BUILDINGS GROUP AND FIELD DRAINAGE EXPERIMENTAL UNIT)

Main Features: Total cost 1983/4 £0.44 m (1981/2 £0.55 m)  
Manpower 27 (1/4/81 28)

The Farm Buildings Group has a laboratory and workshop in a building at Reading University. The Field Drainage Experimental Unit has accommodation, including a laboratory, at Anstey Hall, Trumpington, Cambridge. The total area is 8,600 square feet.

The Farm Buildings Group undertakes applied research and development on buildings used for the production of animals and crops. The Field Drainage Experimental Unit conducts investigatory work on farm drainage. Both Units have a role in support of policy and generate new information to support the advisory role of LAWS. The resource of both units are deployed in the proportion 60 : 40 to R&D and promotion/servicing respectively.



TABLE 1 : ANNUAL SAVINGS IN R&amp;D SUPPORT SERVICES

| Col. 1                     |          | Col. 2                        |          | Col. 3                                   |          | Col. 4                          |          | Col. 5                             |          | Col. 6                              |          |
|----------------------------|----------|-------------------------------|----------|------------------------------------------|----------|---------------------------------|----------|------------------------------------|----------|-------------------------------------|----------|
| <u>Savings Recommended</u> |          | <u>Savings Made at 1/4/84</u> |          | <u>Additional Savings Made at 1/4/84</u> |          | <u>Firm Savings In Prospect</u> |          | <u>Savings Under Cosnideration</u> |          | <u>Savings Unavailable/Rejected</u> |          |
| £                          | Manpower | £                             | Manpower | £                                        | Manpower | £                               | Manpower | £                                  | Manpower | £                                   | Manpower |
| 1,423,600                  | 85       | 790,475                       | 43       | 51,800                                   | 8½       | 13,000                          | 2        | 344,800                            | 16       | 294,125                             | 24       |
|                            |          | (55%)                         | (50%)    | (3.6%)                                   | (10%)    | (1%)                            | (2.3%)   | (24%)                              | (19%)    | (20%)                               | (29%)    |



TABLE 2 : ONCE-FOR-ALL SAVINGS IN R&amp;D SUPPORT SERVICES

| Col. 1                     |          | Col. 2                        |          | Col. 3                                   |          | Col. 4                          |          | Col. 5                             |          | Col. 6                              |          |
|----------------------------|----------|-------------------------------|----------|------------------------------------------|----------|---------------------------------|----------|------------------------------------|----------|-------------------------------------|----------|
| <u>Savings Recommended</u> |          | <u>Savings Made at 1/4/84</u> |          | <u>Additional Savings Made at 1/4/84</u> |          | <u>Firm Savings in Prospect</u> |          | <u>Savings Under Consideration</u> |          | <u>Savings Unavailable/Rejected</u> |          |
| £                          | Manpower | £                             | Manpower | £                                        | Manpower | £                               | Manpower | £                                  | Manpower | £                                   | Manpower |
| 3,906,000                  | -        | 437,000<br>(11.2%)            | -        | -                                        | -        | 154,000<br>(4%)                 | -        | 3,300,000<br>(84.4%)               | -        | 15,000<br>(0.4%)                    | -        |



THE MOD RESEARCH AND DEVELOPMENT ORGANISATION

Management and Organisation

1. The MOD Research and Development Organisation is headed by the Controller of Establishments Research and Nuclear (CERN) whose principal responsibilities include the direction of the defence research programme and the management of the research and development establishments.

2. The R & D Establishments were restructured in April 1984: the three Sea Systems Research Establishments (the Admiralty Marine Technology Establishment, Admiralty Surface Weapons Establishment and Admiralty Underwater Weapons Establishment) were combined to form a unified Admiralty Research Establishment; similarly, the three Land Systems Establishments (the Royal Armaments Research and Development Establishment, Military Vehicles Engineering Establishment and part of the Procurement Executive Rocket Motors Establishment) were combined, the new establishment being titled RARDE. The remaining sections of PERME were transferred to the Royal Ordnance Factory Organisation. The overall effect of these changes was to reduce the number of establishments from 11 to 7, and it is expected that they will produce significant improvements in management and the efficient deployment of resources.

3. The 7 establishments and their headquarters are as follows:



Aeroplane and Armament Experimental Establishment: Boscombe Down  
Admiralty Research Establishment: Portsdown  
Atomic Weapons Research Establishment: Aldermaston  
Chemical Defence Establishment: Porton Down  
Royal Aircraft Establishment: Farnborough  
Royal Armament Research and Development Establishment: Fort Halstead  
Royal Signals and Radar Establishment: Malvern

#### Research and Development Activities

4. The MOD R & D organisation has responsibilities throughout the cycle of equipment procurement: the main effort is directed to ~~basic~~ research, but scientific and technical support is also provided in the formulation of systems concepts, and at subsequent stages such as development and post design work leading to the improvement of equipment already in service. This work covers a broad spectrum of activities, often in highly advanced "state of the art" technologies.

5. Following the recommendations of the Strathcona report in June 1980, substantial progress has been made in the devolution to industry of project work (design, development, project support and post design services), permitting the R & D Establishments to place greater emphasis on innovative long term and systems research. Defence research is divided into fourteen major fields, covering specific functional areas (eg guided weapons, military vehicles, electronics systems); each is under the control of a major field leader, who is either the Director of an Establishment or a senior member of his staff. In addition to the research work that they undertake themselves, the establishments manage extramural research programmes undertaken in industry and the universities.



Manpower Resources

6. The manpower resources consumed by the Defence R & D Establishments at April 1984 are shown below, compared with those which applied in April 1981, the baseline for the Payner Review of R & D support services.

|          | <u>April 1981</u> | <u>April 1984</u> |
|----------|-------------------|-------------------|
| Manpower | 25,771            | 23,303            |

7. The reduction in manpower reflects, in addition to the savings arising from the Rayner Review, the effects of other factors which have come into play during this period. These include organisational and managerial changes, and the implementation of the Strathcona report, leading to greater devolution to industry and the increased use of contractors for the provision of domestic and technical support.



## IMPLEMENTATION OF THE RAYNER REVIEW IN MOD

1. The Departmental studies in MOD were undertaken in 1981 and covered seven major support areas: transport; reprographics; stores; messengers; aircraft servicing; secretaries departments; (by Dr Miles), and, in a slightly later timescale, workshops (by Mr Evans). The reports included a large number of detailed recommendations and estimates of the manpower savings which might be achieved. Action documents were prepared, and approved by MOD Ministers, showing these recommendations with a target date in each case.

2. Action has proceeded on the basis of these documents to implement the recommendations of the review both in MOD headquarters and at establishments. While action remains to be completed on some recommendations, and there are examples of over and under achievement within individual study areas, the total saving of 1098 employees proposed by the MOD reports has been achieved at 1 April 1984, and some additional savings have been made. Details are shown in Annex D. The savings which have been made have been achieved partly by the use of the methods recommended in the reports, partly by adaptations of these recommendations and partly by other means (such as, for example, organisational changes). Thus, Annex D reflects the total reductions in strengths in the relevant support areas between April 1981 and April 1984. It is possible to state that the Rayner review has given substantial additional impetus and direction to the economy drive in MOD.



3. Comments on the individual areas are as follows; with the proposed staff savings shown in brackets:

a. Transport (80). These recommendations are principally concerned with the scope for making greater use of commercial hire vehicles in preference to, for example, the use of private cars on duty (attracting payment of MMA) and of coaches for the movement of large numbers of personnel. These recommendations have been implemented at most establishments (for example, through the introduction of self-drive hire schemes), although two establishments are still considering detailed cost comparisons. The proposed staff savings have been fully achieved, and some additional savings made.

b. Reprographics(20). The total recommended savings have been achieved, principally through a change to more efficient electro static copiers, and a reduction in the number of dispersed photocopiers (but see (d.) below).

c. Stores (516). The Miles study of stores relied on extrapolation of the results obtained at the relatively few Establishments visited in order to produce the total saving for the R & D stores area as a whole. Because there were substantial doubts as to the validity of this method, especially when applied to Establishments fulfilling diverse roles and possessing distinctive features (such as their geographical layout, affecting in turn the requirement for dispersed stores



holdings) it was decided that the MOD Inspectorate of Establishments should undertake a series of inspections to examine stores departments in greater detail than had been possible in the Miles Study. Although this follow-up process is not yet complete (in the sense that actions remain to be undertaken on certain of these reports) it has become clear that the savings projected in the Miles report were optimistic and cannot be fully achieved. Nevertheless, a substantial and worthwhile saving of 254 posts has been achieved, and there is the prospect of further savings when the follow-up studies have been fully implemented.

d. Messengers (100). Savings have been achieved at almost all establishments through the reduction in the number of daily messengers' rounds, the adjustment of hours to provide a better match with local mail deliveries and other measures such as bulk mail drops. However, there is some shortfall against the proposed saving, to some extent at least because a reduction in the number of messengers is incompatible with the Miles report recommendation that the number of dispersed photocopiers should be reduced: where this has occurred, it has not been possible to cut messenger services to the full extent proposed because of the need to maintain an adequate link between dispersed locations and central reprographic pools.

e. Aircraft Servicing(110). The RAE and A & AEE have found it possible to contract out a substantial proportion of their aircraft servicing work, producing staff savings in excess of those proposed in the Miles report. Further contracting out is under consideration.



f. Secretaries Departments (152). The Miles report recommended that savings could be made by better control of practices and procedures, centralisation of tasks, more collocation and sharing of administrative staff, greater use of office technology, and the elimination of unnecessary tasks. Reviews were undertaken by all establishments and significant savings, in excess of those proposed, have been achieved. Further savings are in prospect through the further progressive implementation of these recommendations.

g. Workshops (120). The Evans report on workshops recommended that more work should be contracted out, that facilities should be rationalised between establishments and that some facilities should be closed. There has been a substantial saving, well in excess of that recommended, at the establishments visited. Further savings may be expected from the follow-up study of workshops at establishments not visited by the

Evans team: the report of this further study is expected shortly

4. In toto Annex D shows that in the support areas studied by Miles and Evans staff savings of 1495 have been made by 1 April 1984 (with about 100 further savings either firmly in prospect or under study), against savings proposed in the reports of 1098. Now that most Establishments have completed the majority of the actions they are required to take as a consequence of the Miles and Evans reports and have reported to CERN Headquarters, action is proceeding to examine the establishments' reports centrally with a view to determining whether any further savings might be achieved by "reading across" the action taken at one establishment to another. It is possible that a few further savings may result, but it should be borne in mind that this process is likely to be a lengthy one, and that functional and organisational differences render any direct comparison between estab-



RAYNER REVIEW - R&D SUPPORT SERVICES 1.4.84

| AREA                    | 1 SAVINGS PROPOSED |          | 2 SAVINGS MADE |             | 3 ADDITIONAL SAVINGS MADE |             | 4 FIRM SAVINGS IN PROSPECT |           | 5 SAVINGS/REJECTED UNOBTAINABLE |           | 6 SAVINGS UNDER CONSIDERATION |            |
|-------------------------|--------------------|----------|----------------|-------------|---------------------------|-------------|----------------------------|-----------|---------------------------------|-----------|-------------------------------|------------|
|                         | £K                 | MANPOWER | £K             | MANPOWER    | £K                        | MANPOWER    | £K                         | MANPOWER  | £K                              | MANPOWER  | £K                            | MANPOWER   |
| TRANSPORT               | 850                | 80       | 850            | 80<br>100%  | 468                       | 44<br>55%   | 43                         | 4<br>5%   |                                 |           |                               |            |
| REPROGRAPHICS           | 120                | 20       | 120            | 20<br>100%  | 216                       | 36<br>180%  | 12                         | 2<br>10%  |                                 |           | 72                            | 12<br>60%  |
| STORES                  | 3160               | 516      | 1556           | 254<br>49%  | -                         | -           | 214                        | 35<br>7%  |                                 |           | 1390                          | 227<br>44% |
| MESSENGERS              | 490                | 100      | 382            | 78<br>78%   | -                         | -           | 29                         | 6<br>6%   | 79                              | 16<br>16% |                               |            |
| AIRCRAFT SERVICING      | 750                | 110      | 750            | 110<br>100% | 443                       | 65<br>59%   | -                          | -         |                                 |           |                               |            |
| SECRETARIES DEPARTMENTS | 1300               | 152      | 1300           | 152<br>100% | 1574                      | 184<br>121% | 68                         | 8<br>5%   |                                 |           | 85                            | 30<br>7%   |
| WORKSHOPS               | 808                | 120      | 808            | 120<br>100% | 2370                      | 352<br>293% | 101                        | 15<br>12% |                                 |           | 40                            | 6<br>5%    |
| TOTAL                   | 7478               | 1098     | 5766           | 814<br>77%  | 5071                      | 681<br>62%  | 467                        | 70<br>6%  | 79                              | 16<br>1%  | 1587                          | 255<br>21% |

NOTE: 1. All prices at 1981/2 levels.

2. Further saving made of £1.5M on inventory expenditure.



DEPARTMENT OF THE ENVIRONMENT

REVIEW OF R AND D SUPPORT SERVICES: IMPLEMENTATION

I. Implementation of Departmental Report

B. Implementation Progress Report: Building Research Establishment

1. The figures in the Table and quoted below are annual savings using 1981/82 and 1 April 1981 baselines and price levels to provide consistency with the original report. These annual savings are net of costs of contracting out work to the private sector, but do not allow for once-for-all costs of actions. The main contribution to these is likely to be the cost of buildings to accommodate PRL staff at Garston (see 3 below). There have been changes in demand for support services since the Rayner Review due to reactions to and changes in the Research Programme. It is difficult therefore to make precise comparisons and this must throw considerable doubt on the validity of the exercise as the original baseline recedes further. Progress in the implementation under each of the main sources of savings identified pp26, 27, Annex 1 of Lord Rayner's report is as follows.

2. Unrealistic charges

BRE accepted that a wider range of its Advisory work should be charged for and new procedures have been implemented to ensure this. During 1983/84 income from the Advisory Service increased by £94k to a level of £244k and the target income for 1984/85 has been set at £272k, bringing it to the level suggested by the Review. A scheme under which BRE publications (with the exception of promotional material) will be sold rather than, in part, distributed free has been agreed within the Department and is now being discussed with Treasury. The scheme envisages greater responsibility passing to BRE for the administration of a feasible subscription scheme for BRE leaflet output with HMSO retained as publisher of books. The scheme is planned to start on 1 October and it is projected that, after 3 years income and expenditure will be in balance at ca £363k (Review figure £315k). Responses to the more straightforward Advisory Service enquiries will be made in terms of sales of publications.

3. Waste of Land and Buildings

Detailed design work is now in hand on the accommodation to accommodate PRL research at Garston, it having been decided to proceed with the move although the costs estimated in a detailed feasibility study of accommodation requirements (mainly specialised laboratory facilities) are much higher than estimated in the Review (Building work £3.3M + VAT, other transfer costs £1.1M). Transfer is planned over the first half of 1987. With savings of 19 support posts overall savings of ca £350k p.a. have been confirmed and substantial 'management' benefits from closer integration of the research programme are envisaged. The proposed Maintenance Economy Review has been completed (see below). This has indicated the possibility of making greater use of accommodation at FRS. Further studies of this and of the best use of sites at Cardington are in hand.



#### 4. Too many services in-house

Cleaning services were contracted out in March 1983 yielding a saving during 1983/84 of £94k. Contracting out of site security began March 1984 with an estimated net annual saving of £80k. The Rayner Review also recommended that 'feasible' work should be contracted out from the engineering workshops. The Departmental response considered that the estimate of savings were excessive and BRE were instructed to carry out a detailed study. It has been concluded that contracting out to replace natural wastage of staff, but avoiding redundancy payments, is an appropriate economic and operational strategy for a limited number of service functions. These functions are different from those proposed in Rayner Review but, in the longer term, similar staff savings (bearing in mind the change in workload) are likely to be made. Savings of accommodation for use, after refurbishment, by PRL, have been made as a result of rationalisation rather than contracting out from engineering workshops.

#### 5. Over provision of services

The recommended savings and in some cases more, have been achieved by centralisation and rationalisation of Typing, Personnel, Finances, Stores and Library Services. Natural wastage has allowed this to be carried out without any redundancy. The level of service has been reduced to a level which is considered to be the viable minimum.

#### 6. Maintenance and running costs

The Review considered that BRE (and particularly BRS) maintenance and running costs are excessive and recommended a possible saving of £124k p.a., and proposed a Maintenance Economy Review (MER). This has demonstrated that current maintenance and running costs are reasonable compared with a wide range of similar research establishments. The Rayner target savings are therefore unavailable. There is no evidence that the transfer of a small proportion of maintenance costs into BRE's responsibility has resulted in significant savings.

#### 7. Other recommendations

These fall broadly under 4 sub-headings

- (a) Project costing - a full project costing/management accounting scheme has been introduced, within which all significant service and support costs are allocated to projects and cost centre financial management is improved.
- (b) Procedures - it was recommended that procedures related to purchasing, staff management, approval of publications, purchase of computers, financial control be streamlined. The situation is kept under review, only minor changes have been made to date in particular the possibilities of virement have been clarified. A wider range of PSA services is now paid for direct under PRS. Consideration is being given to BRE being given responsibility wider than the norm. (A proposal reheated in the MER.)



- (c) Organisation of Services - the senior management of services has been changed with economy. The organisational structure spelled out in the departmental response is now being implemented and, as agreed, a study of the project engineering section at TRRL has been made.
- (d) Service efficiency - recommendations have been followed. The Typing Pool has been included in a study of the need for word processing facilities, and word processors are to be introduced shortly at all major stations. Some further staff savings may be possible as a result.

#### 8. Savings under consideration

The possibility of hiring the Lecture Theatre to outside bodies remains, though, in the light of the limited associated services in comparison with conference centres and hotels, it is considered somewhat remote. The studies of accommodation at FRS and Cardington, arising as a result of the MER may indicate savings, previously not mentioned, to be achieved.



BRE INFORMATION UNDER ITEM IA OF IMPLEMENTATION OF DEPARTMENTAL REPORT

|                           | £           |
|---------------------------|-------------|
| 1. BRE Gross Cost 1983/84 | 13,441,315* |
| Appropriations in Aid     | 2,642,834   |
| BRE Net Cost              | 10,798,481  |

Expenditure by DOE (provision of buildings, works, Services) and by HMSO (printing, stationery) estimated at between £2M and £2.5M.

2. Total BRE staff in post 1 April 1984 was 788½; (627 NI plus 161½ I).

3. Total areas of land and buildings on BRE sites at BRS Garston FRS Borehamwood, PRL Princes Risborough, and Scottish Laboratory East Kilbride are

|           |   |                  |
|-----------|---|------------------|
| Land      | - | 121 acres        |
| Buildings | - | 85,500 sq metres |

\*It should be noted that the expenditure figures remain provisional and may be subject to small adjustments.



TABLE: SAVINGS IN R & D SUPPORT SERVICES

| Col. 1                                                                   |          | Col. 2                 |          | Col. 3                            |          | Col. 4                   |          | Col. 5                      |          | Col. 6                       |          |
|--------------------------------------------------------------------------|----------|------------------------|----------|-----------------------------------|----------|--------------------------|----------|-----------------------------|----------|------------------------------|----------|
| Savings Recommended                                                      |          | Savings Made at 1/4/84 |          | Additional Savings Made at 1/4/84 |          | Firm Savings in Prospect |          | Savings Under Consideration |          | Savings Unavailable/Rejected |          |
| £                                                                        | Manpower | £                      | Manpower | £                                 | Manpower | £                        | Manpower | £                           | Manpower | £                            | Manpower |
| 1.7M                                                                     | 116      |                        |          |                                   |          |                          |          |                             |          |                              |          |
| Firm savings 81/82                                                       |          | (28%)                  | (59%)    | (14%)                             | (29%)    | (52%)                    | (37%)    | (1.4%)                      |          | (21.5%)                      | (13%)    |
| 82/83 under or for immediate consideration in Departmental response were |          |                        |          |                                   |          |                          |          |                             |          |                              |          |
| 350k                                                                     | 69½      | 469                    | 68½      | 245k                              | 33½      | 878k                     | 43       | 25k                         |          | 365k                         | 15½      |



REVIEW OF R & D SUPPORT SERVICES:  
IMPLEMENTATION IN THE DEPARTMENT OF TRADE AND INDUSTRY

PROGRESS REPORT TO THE MPO

Activities of DTI Research Establishments

The Department of Trade and Industry has four Research Establishments: the National Physical Laboratory (NPL) at Teddington, Warren Spring Laboratory (WSL) at Stevenage the National Engineering Laboratory (NEL) at East Kilbride and the Laboratory of the Government Chemist (LGC) in London.

2. NPL is the UK National Standards Laboratory. It develops and disseminates the metrological standards on which all the measurements of Industry, Commerce and Government ultimately depend. It also has programmes in the key fields of Engineering Materials and Information Technology. It also pursues research and promotes the uptake of these technologies by UK industry. WSL conducts research in atmospheric pollution and marine pollution, largely for other Departments, and into material procurement and recycling technology, bulk materials, handling and control, largely for the process industries. NEL carries out research, development, design consultancy and testing in most branches of mechanical engineering. LGC provides a comprehensive analytical service to government Departments, public institutions, local authorities and official international organisations, and carries out certain statutory function.

3. Comparative data of resources deployed at the establishments are annexed, and summarised below:

|                    | Staff in post |        | Net running costs (£000)       |                          |                          |
|--------------------|---------------|--------|--------------------------------|--------------------------|--------------------------|
|                    | 1.4.81        | 1.4.84 | 1981/82<br>(no PRS<br>charged) | 1983/84<br>excluding PRS | 1983/84<br>including PRS |
| All establishments | 2,411½        | 2,141½ | £22,714                        | £25,957                  | £34,105                  |

Over three years, staff have been reduced by 11.2%; and, excluding the property repayment system charge in 1983/84, running costs increased by 14.3% between 1981/82 and 1983/84.

Summary of Savings Achieved

4. The attached table sets out the savings achieved and those in prospect which flow directly or indirectly from implementation of the central and Departmental reports. Although only two REs were subject to scrutiny (NPL and WSL) the conclusions were applied to the other two REs. The table shows that the savings achieved and in prospect are larger than the practicable amount of savings identified, both in terms of expenditure and manpower as the following summary shows:



|                            | <u>£000 pa</u> | <u>Staff</u> |
|----------------------------|----------------|--------------|
| Savings recommended        | 1400           | 90           |
| Less unavailable/rejected  | <u>648</u>     | <u>21</u>    |
|                            | <u>752</u>     | <u>69</u>    |
| Recommended savings made   | 336            | 65½          |
| Additional savings made    | 275            | 60½          |
| Firm savings in prospect   | <u>548</u>     | <u>2½</u>    |
| Total savings              | <u>1159</u>    | <u>128½</u>  |
| Savings under considerable | 60             | 6½           |

#### Accommodation

5. The Rayner review target of £638,000 was drawn from anticipated savings at the National Physical Laboratory. Of that sum £385,000 is a firm saving in prospect because savings will eventually accrue as space is released to other users at the Teddington site. However the timing of these savings depends primarily on the PSA being able to devote adequate resources to NPL's smaller building projects. The remaining £250,000 was, however, incorrectly identified because it referred to an area not occupied by NPL: it has therefore been counted in the table as "savings unavailable".

#### Overprovision of Services/Too Much Bureaucracy

6. Significant savings in finance and manpower have been achieved in this area in all REs but particularly at NPL where the number of messenger posts has been reduced. Certain other savings at NPL have however proved to be unavailable: an investigation carried out by the Department's management services team showed that only a smaller reduction in staff than that recommended in the review was practicable. Nonetheless, staff inspection with O & M support work later this year will review the position.

7. Savings from computerisation have not been attributed to the report, largely because it has been overtaken by an extensive computerisation programme - the development of a Research Establishments Management Information System (REMIS) - which will cover existing procedures such as inventory control: it is expected to be operational by mid 1985 (see para 16).

#### Too many Services In-House

8. Savings in manpower and costs have also been made with contracting out services wherever this has been feasible. At NPL for example, security and cleaning services have been contracted out; in addition photographic and workshop activities have been put on a 'bought-in' basis where appropriate. Cleaning



at WSL have been contracted out. Cleaning at NEL also been contracted out, although the security services have been retained in-house on the advice of the MPO. Reviews of engineering services at NPL and NEL will be undertaken this year as part of the Departmental staff inspection and O & M programme in a joint DTI/MPO study, although savings in the workshops have already been made.

9. Paragraphs 10 to 16 sets out the further efficiency work being carried out in REs.

#### Related Work Programme in REs during 1984

10. There is a considerable amount of work planned, or in progress at REs which will contribute further to the efficiency of the REs which in some measure was the objective of the Departmental report on NPL and WSL Support Services.

11. **Staff inspections.** Partial staff inspections of NEL and NPL, with O & M involvement, are to be undertaken, beginning at NEL in June 1984, with the NPL inspection following. The inspections will concentrate upon the support services within the organisations and upon posts with responsibility for management of staff and resources. The objective is to ensure that these parts of the Laboratories' work are carried out with maximum cost-effectiveness, applying normal staff inspection criteria. The inspection will provide an opportunity to monitor the effect of implementation of recommendations in Lord Rayner's Review.

12. **Further O & M Work.** Following Management Services Reviews of Messengers and the Divisional General Offices at NPL which were undertaken as a consequence of the Darnbrough Report, and in addition to O & M involvement in the staff inspections described above, further work has been and will be undertaken by the O & M Unit. An O & M team undertook a review of inventory control in Autumn 1983 at NPL and extended this work to the remaining Research Establishments. The conclusions of the review were endorsed by the MPO and the Department's Internal Auditors, and the Department's Accounts Branch are issuing a revised Accounting Memorandum. Some of the report's recommendations have already been implemented throughout the Research Establishments, and the rest will follow upon the issue of the Accounting Memorandum.

13. A member of the O & M Unit working as part of the computer system design team is about to start work on the analysis and design of clerical procedures for a common management information system for all four Research Establishments (see below).

14. In addition to working with the staff inspectors at NEL and NPL, an O & M assignment officer will take part with two assignment officers from the MPO in a review of engineering services. The reviews will be produced as individual reports on NEL and NPL but will also contribute to a wider review aimed at the formulation of Management Guidelines to be published by MPO in eighteen months time.



15. During the course of work at NPL and NEL the O & M assignment officer will pay particular attention to administrative checking procedures with a view to eliminating unnecessary checking. The results of any findings will be "read across" to the other two establishments.

#### Research Establishments Management Information System (REMIS)

16. A computer study has been started with the objective of introducing an Administrative computerised project management and financial management system to serve the needs of the Research Establishments. A detailed review of users' requirements has been completed and progress is being made. A Detailed User Specification (DUS) has been agreed and work on the design stage has started. The development stage will follow and implementation is planned for mid-1985. At WSL the question of using a computer for stores management has been subsumed in the examination of the administrative computer needs in this REMIS project. Potential savings in the Darnbrough Report are therefore being pursued in the context of this wider approach.

MSM 2  
14 June 1984



## RUNNING COSTS IN 1983/84

Note: 1. PRS charges were not payable in 1981/2 and 1983/84 forecast figures have been shown both with and without PRS.

2. DoE Capital Vote, Major Works expenditure data is unavailable for 1983/84. It has therefore been excluded from 1981/82 data:

## EXPENDITURE

|     | £K (1983/84 Forecast Outturn) |                   |               |
|-----|-------------------------------|-------------------|---------------|
|     | (a) including PRS             | (b) excluding PRS | £K (1981/82)  |
|     | NPL                           | 22,617            | 19,457        |
| WSL | 6,308                         | 5,333             | 4,800         |
| NEL | 14,943                        | 11,929            | 11,185        |
| LGC | 6,462                         | 5,463             | 5,196         |
|     | <u>50,330</u>                 | <u>42,182</u>     | <u>38,003</u> |

## INCOME

|     | £K (1983/84 Forecast Outturn) |                   | £K (1981/82)  |
|-----|-------------------------------|-------------------|---------------|
|     | (a) including PRS             | (b) excluding PRS |               |
| NPL | 3,114                         |                   | 2,149         |
| WSL | 3,726                         |                   | 3,959         |
| NEL | 3,640                         |                   | 3,210         |
| LGC | 5,683                         |                   | 5,971         |
|     | <u>16,163</u>                 |                   | <u>15,289</u> |

## NET RUNNING COSTS

|     | £K (1983/84 Forecast Outturn) |                   | £K (1981/82)  |
|-----|-------------------------------|-------------------|---------------|
|     | (a) including PRS             | (b) excluding PRS |               |
|     | NPL                           | 19,503            | 16,343        |
| WSL | 2,582                         | 1,607             | 841           |
| NEL | 11,303                        | 8,289             | 7,975         |
| LGC | 779                           | - 220             | - 775         |
|     | <u>34,167</u>                 | <u>26,019</u>     | <u>22,714</u> |



The number of staff in post at 1 April 1984 was:

|       | 1.4.84 | 1.4.81 |
|-------|--------|--------|
| NPL   | 831    | 925    |
| WSL   | 310    | 356.5  |
| NEL   | 651.5  | 740    |
| LGC   | 349    | 390    |
|       | <hr/>  | <hr/>  |
| TOTAL | 2141.5 | 2411.5 |



TABLE: SAVINGS IN R &amp; D SUPPORT SERVICES

TABLE A

| COL 1<br>SAVINGS RECOMMENDED<br>IN SCRUTINY REPORT |          | COL 2<br>SCRUTINY SAVINGS<br>MADE AT 1.4.84 |               | COL 3<br>ADDITIONAL SAVINGS<br>(including "read<br>across") MADE AT<br>1.4.84 |               | COL 4<br>FIRM SAVINGS IN<br>PROSPECT<br>(including "read<br>across") |             | COL 5<br>SAVINGS UNDER<br>CONSIDERATION<br>(including "read<br>across") |             | COL 6<br>SCRUTINY SAVINGS<br>UNAVAILABLE/REJECTED |             |
|----------------------------------------------------|----------|---------------------------------------------|---------------|-------------------------------------------------------------------------------|---------------|----------------------------------------------------------------------|-------------|-------------------------------------------------------------------------|-------------|---------------------------------------------------|-------------|
| £K pa                                              | Manpower | £K pa                                       | Manpower      | £K pa                                                                         | Manpower      | £K pa                                                                | Manpower    | £K pa                                                                   | Manpower    | £K pa                                             | Manpower    |
| 1400                                               | 90       | 336<br>(24%)                                | 65.5<br>(73%) | 275<br>(20%)                                                                  | 60.5<br>(67%) | 548<br>(39%)                                                         | 2.5<br>(3%) | 60<br>(4%)                                                              | 6.5<br>(7%) | 648<br>(46%)                                      | 21<br>(23%) |



REVIEW OF R&D SUPPORT SERVICES: IMPLEMENTATION

I. IMPLEMENTATION OF DEPARTMENTAL REPORT

A. Introduction

ODA's Research Activities

Within the limits of its resources the Administration sponsors and supports a programme of research aimed at gathering new knowledge and evolving new techniques directly related to the needs of developing countries. The emphasis is on research likely to be of practical use in a reasonable period of time and special priority is given to R&D of direct relevance to the poorer sectors of the poorer countries. Expenditure on research development (R&D) during 1981/82 was £16m and for 1983/84 is estimated at £18.6m (1.7% of the cost of Britain's aid programme as a whole). R&D expenditure has three major components:-

i. Work funded from the research and development subhead of the Overseas Aid Vote. This is the source of grants for research projects carried out on a contract basis by individual researchers or teams, usually based on universities or similar institutions. Expenditure under this subhead in 1981/82 was £5m and is estimated at £5.2m for 1983/84.

ii. Support to international centres undertaking R&D on the problems of the developing countries. £2.9m was allocated for this purpose in 1981/82. The allocation was £4.0m in 1983/84.

iii. Support to British scientific establishments, including the Scientific Units of the ODA. The ODA contributes to the recurrent costs of over 30 centres in Britain which give scientific and technical help to the developing countries. In 1981/82 £7.2m of ODA money was spent by these centres on R&D. The comparable figure in 1983/84 is estimated as £9.4m.

2. In 1981/82 the ODA had two Scientific Units with a substantial R&D element. These were:-

i. The Tropical Products Institute (TPI) concerned with agricultural,



animal, fisheries and forest products at the harvest stage and after. It carried out R&D on the use, handling, processing, quality control, preservation and storage of harvested natural resources and their residues. Its expenditure for 1981/82 was £4.792m, of which 57% was for R&D.

ii. The Centre for Overseas Pest Research (COPR) carried out R&D in the control of insect pests. Its expenditure for 1981/82 was £2.384m of which 50% was for R&D.

Corresponding figures for 1983/84 for TDRI were £7.669m of which approximately 50% was for R&D.

ODA's in-house Research Establishments' Running Costs 1981/82 and 1982/83

Since the Review TPI and COPR have been amalgamated as the Tropical Development and Research Institute (TDRI). This amalgamation took place on 1 April 1983. For the purposes of this progress report the units are regarded as one. The 1981/82 financial baseline figures for the combined Units' running costs were shown in the departmental study report as £8.1m (TPI £6.0m; COPR £2.5m) based on a calculation of actual and notional figures in 1980/81. Those figures, in 1981 prices, have now been recalculated as £9.0m (TPI £6.0m; COPR £2.7m) as the 1981/82 total costs. The manpower figures for 1981/82 were stated as 417. Comparable figures for 1983/84 total running costs, actual and notional, and staff in post figures at 1 April 1984 are shown in the following table:-

|                       | 1981/82      | 1983/84      | <u>£000 in 1981 prices</u><br>Percentage Reduction |
|-----------------------|--------------|--------------|----------------------------------------------------|
| Total running costs   | <u>8,760</u> | <u>7,686</u> | 12.3%                                              |
|                       | 1.4.81       | 1.4.84       |                                                    |
| Departmental Manpower | 417          | 371          | 11.0%                                              |

B. Implementation Progress Report

1. The Annex shows savings in Research Support Services at TDRI. The figures in column 2 of the table are the annual savings arising from the dropping



of support posts as recommended in the study (15.5) up to 1 April 1984 (£134,000) and savings in General and Administrative expenditure in 1983/84 (£401,000).

2. The figures in column 3 represent the annual savings from the dropping of an additional 32.5 support posts by 1.4.84. The figures in column 4 of the table are those firm manpower and other annual cost savings expected to be achieved in support areas by 1.4.86.

3. As to column 5, there are now only four recommendations (33, 35, 36 and 44) which are still under consideration. (32 have been implemented or are in the course of implementation). Recommendation 44 corresponds to Lord Rayner's Main Report recommendations 5 & 6 (internal delegation of financial responsibility). This is recognised to be highly desirable in principle but it has also to be recognised that the Director is currently integrating two Establishments; strengthening and amalgamating two financial management systems; and introducing a major organisational change with the commissioning of two-thirds of his total resources. Substantial line delegation must await a greater degree of stability than now exists.

4. Overall, the annual financial savings proposed (£475,000) can be compared with a net total of annual savings made or in prospect of £904,000. Compared with support manpower savings proposed of 23 posts, ODA is planning a reduction of at least 52 such posts by 1 April 1986.

5. The savings summarised in the table are those arising from recommendations which Lord Rayner's report classified as "Over-provision of services". Other important recommendations in the Departmental Study were those relating to the improvement of the units' costing systems so that a judgement could be made of the value of competing claims on aid funds. A new project costing system based on that agreed for the purposes of Part II of the Departmental Study has been adopted. The Director of the new Institute has been given his "charter" making clear his responsibility for managing his programme efficiently.

6. Lord Rayner's report's Annex 1 - ODA, mentioned further work being undertaken to compare the costs of scientific work at the units with those of outside organisations. This further study covered a relatively small sample of the work of the units and it recommended that a fundamental review of



the units was required. Such a review had meanwhile been set in hand and the conclusions of this were agreed in correspondence with Lord Rayner in August/September 1982 and, apart from a decision on relocation, are now being implemented. The two units have been amalgamated. The new unit's terms of reference require it to concentrate on those areas in which it has a comparative advantage in terms of experience, knowledge and cost-effectiveness. "Commissioning" has introduced a formal customer/contractor relationship and strengthened the project oriented approach. Two-thirds of the work has been commissioned for 1984/85. As for relocation a preliminary cost-benefit study shows a clear advantage in relocating outside London. PSA expects to complete a feasibility study in August 1984. This is analysing three possible sites, the work required at each, costs and timing.



TABLE: SAVINGS IN R & D SUPPORT SERVICES

| Col. 1<br>Savings Recommended |          | Col. 2<br>Savings Made<br>at 1.4.84 |               | Col. 3<br>Additional Savings<br>Made at 1.4.84 |                | Col. 3<br>Firm Savings<br>in Prospect |          | Col. 3<br>Savings Under<br>Consideration |              | Col.<br>Savings<br>Unavailable/Rejected |           |
|-------------------------------|----------|-------------------------------------|---------------|------------------------------------------------|----------------|---------------------------------------|----------|------------------------------------------|--------------|-----------------------------------------|-----------|
| £                             | Manpower | £                                   | Manpower      | £                                              | Manpower       | £                                     | Manpower | £                                        | Manpower     | £                                       | Manpower  |
| 475000                        | 23       | 535000<br>(113%)                    | 15.5<br>(67%) | 275000<br>(58%)                                | 32.5<br>(141%) | Recommended<br>72000                  | 2        | 56000<br>(12%)                           | 5.5<br>(24%) | 3000<br>(0.6%)                          | 0<br>(0%) |
|                               |          |                                     |               |                                                |                | Additional<br>22000                   | 2        |                                          |              |                                         |           |
|                               |          |                                     |               |                                                |                | Total<br>94000                        | 4        |                                          |              |                                         |           |
|                               |          |                                     |               |                                                |                | (20%)                                 | (17%)    |                                          |              |                                         |           |



DEPARTMENT OF TRANSPORT

1. Implementation of Departmental Report

A. Introduction

The research programme of the Department of Transport comprehends four main headings: Highways, Safety, Transport Systems and, since last summer, Shipping and Aviation. This last category falls outside the scope of this paper, since it was in no way included in the Rayner review.

**Highways** - Research in this area supports the Government's expenditure on the design, construction and maintenance of roads and bridges, and on means of helping traffic flow more smoothly.

**Safety** - As human error contributes to more than 90% of road accidents, a major object of research in this area is to identify effective ways of persuading people to behave more safely when using the roads, whether as drivers, passengers or pedestrians.

**Transport Systems** - Research in this area investigates the planning and operation of the road, rail and ports systems, and their effects on people and their environment. This area includes substantial joint programmes with British Railways (£4,519K) and London Transport (£2,800K).

The total gross expenditure on the Department's R & D programme in 1983/84 was £30,670K. Staff in post at TRRL (including its Scottish branch in East Lothian) was 805½ on 1 April 1981; this figure fell to 728 by 1 April 1982, to 693 at 1 April 1983 and to 627½ at 1 April 1984.



## B. IMPLEMENTATION NARRATIVE FOR TRRL

1. **Waste of Land and Buildings:** Steady progress on vacating buildings on the main site at Crowthorne and storage at Culham has been maintained and savings of £371K have already been made. Savings of £37K are firmly in prospect for 1984/85: £100K is unobtainable due to an underestimation by the Study Team of costs of re-accommodation of staff, and provision of specialist research facilities.

2. **Too Many Services In-House:** Savings of £171K, 23 posts, have already been made. A further savings of 13 posts (£38K) is in prospect, arising mainly from privatisation of Security Services.

Now that Ministers have approved pricing of TRRL publications to ensure their full cost recovery, savings of £150K are in prospect in 1984/85 and some £300K in each subsequent year. Three extra staff are required to administer this new policy, but their costs will be fully recovered. This supercedes the Study Team's proposals for a quarterly Journal of Road Research (which is impractical and unsuitable for dissemination of the output from the Department's Research Programme) and the associated savings of £268K.

Savings of 17 posts on Publications work is not possible (over-estimate by Study Team); pending resolution with MPO of the extent to which workshops services can be cost-effectively bought in 16 posts are in suspense. But overall complement at TRRL has been reduced to such an extent since the Rayner Review in 1981, that this latter figure may be lower.

3. **Over-Provision of Services:** Savings of £150K and 29 posts have already been made; further savings of £39K and 3½ posts are in prospect for 1984/85. Additional savings of £50K have already been made by reducing the amount of cleaning required under contract.

Savings of £399K and 18½ posts proposed by the Study Team are not possible because:

a. The Study Team estimated an income of £270K from Computer Services by hiring out surplus capacity. This was an over-estimate; computer capacity is fully utilised, resulting in a notional income of £100K to DTp. £170K of the Study Teams proposed savings is thus unobtainable.

b. Savings of £5K on returns from released office space and £5K from the removal of CCTA levies are under consideration, but the latter cannot be achieved without a change in Civil Service procedure.

c. Suggestions for saving £32K and 4 posts in Finance Section are rejected because the Study Team did not recognise the legal and financial complexities involved in many R&D contracts; procedures used at TRRL are those operated throughout the Service in the interests of public accountability.



d. Savings of £135K (14½ posts) distributed among Safety and Accommodation, Photographic, Stores, Messengers and Gardeners are rejected on the basis of incorrect assumptions about work load, the extent to which services can be rationalised and the higher cost of buying in such services.

4. The savings unobtainable or rejected (£767K and 51½ posts) are offset to a large extent by additional savings and firm savings in prospect (£598K and 30 posts) mainly outside those envisaged by the Study Team. All savings are broadly net of implementation costs.

TRRL

June 1984



TABLE: SAVINGS IN R & D SUPPORT SERVICES

| Col. 1              |          | Col. 2                 |          | Col. 3                            |          | Col. 4                   |          | Col. 5                      |          | Col. 6                       |          |
|---------------------|----------|------------------------|----------|-----------------------------------|----------|--------------------------|----------|-----------------------------|----------|------------------------------|----------|
| Savings Recommended |          | Savings Made at 1/4/84 |          | Additional Savings Made at 1/4/84 |          | Firm Savings in Prospect |          | Savings Under Consideration |          | Savings Unavailable/Rejected |          |
| £k                  | Manpower | £k                     | Manpower | £k                                | Manpower | £k                       | Manpower | £k                          | Manpower | £k                           | Manpower |
| 1742                | 106      | 891                    | 53       | 146                               | 13½      | 452                      | 17       | 10                          | 16*      | 767                          | 51½      |
|                     |          | (51%)                  | (50%)    | (8%)                              | (13%)    | (26%)                    | (16%)    | (0.6%)                      | (15%)    | (44%)                        | (49%)    |

With minor exceptions, all figures above are annual savings as from 1.4.84. Savings achieved each year prior to that were, by definition, lower but increasing each year as Rayner recommendations were implemented.

\* only 14 in post at 1/6/84 reducing to 11.



## SECTION II IMPLEMENTATION OF LORD RAYNER'S CENTRAL REPORT

8. Action taken by MAFF to implement the recommendations in Section 4 of Lord Rayner's Report is as follows:-

## Recommendation 2

The arrangements for monitoring research and development have been reviewed and amended, in particular to provide for systematic submissions to the Minister himself about the progress and results of the cycles of research reviews. The arrangements co-ordinate all agricultural, food and fish research and development commissioned by Government whether this is carried out in MAFF, DAFS OR ARC establishments or elsewhere. Following the report of the House of Commons Agriculture Committee, 1982/83 Session, on Organisation and Financing of Agricultural Research and Development, the Government has announced that it is establishing a new Priorities Board which will advise, United Kingdom-wide, the four Agriculture Departments and the Agricultural and Food Research Council, on research and development priorities in agriculture and food and on the allocation of their research budgets. The Board will be small, with an independent chairman and a majority of independent members, but including the Minister's Chief Scientific Adviser, the Secretary of the AFRC and the DAFS Scientific Adviser. The DANI and WOAD will appoint assessors to the Board. There will thus be a functional link between the Board and the bodies managing the research programmes. The Commodity Committees, which currently give independent industry advice in relation to our four-yearly reviews of each sector of agriculture and food R&D, will continue their work. The Ministry's commissioning arrangements with the AFRC have also been revised. Programmes in specific areas will be commissioned by the Ministry and financially managed between the Ministry and AFRC headquarters whilst on the detailed progress of research, Ministry scientists will deal directly with the scientists concerned at the institutes, enabling the institutes to keep in touch with the Ministry about the progress of work and any need for change.

## Recommendations 3 and 5-8

The substance of these recommendations is being secured by work within MAFF under the FMI. Heads of Scientific Establishments will have clearly stated objectives, the achievement of which will be delegated to them together with the necessary resources. Objectives set and resources committed will be drawn together and reported to Ministers through the MINIM system. A fully developed management information system will permit accurate disaggregation of an establishment's budget, though close attention will need to be paid to cost effectiveness in carrying out such disaggregation.

## Recommendation 4

This recommendation has been accepted by MAFF. There will be



a clearer identification of objectives as a direct consequence of the follow up work to the FMI: this will facilitate closer surveillance of an establishment's activities. Audit staff (and other central management staff such as staff inspectors) have a role in this surveillance. In addition the Chief Scientists Group carry out regular scientific audits of the work at MAFF's various research establishments.

Recommendation 9 and 10

All heads of scientific establishments have designated a senior manager to be responsible for co-ordinating and clarifying accommodation requirements to PSA.

MINISTRY OF AGRICULTURE, FISHERIES AND  
FOOD

JUNE 1984



## IMPLEMENTATION OF LORD RAYNER'S CENTRAL REPORT

1. Action has been taken by the MOD on the 12 recommendations in Lord Rayner's central report to the Prime Minister as follows.

Recommendation 1. Implemented: Action documents were prepared and approved by MOD Ministers.

Recommendation 2. Implemented. There are formal procedures to enable Ministers to consider and evaluate the progress of the more important Defence R & D projects. These procedures are based on stage by stage approvals - successively feasibility study, project definition and full development - and no project proceeds until progress so far has been evaluated and the next stage specifically authorised. If in addition the project breaches set time and/or cost tolerances, it must be re-submitted for Ministerial approval. A review of these arrangements in 1981 confirmed that they were satisfactory in principle though a number of detailed proposals for improvements have subsequently been implemented. Additionally arrangements are being made for an annual report to Ministers on the overall research programme and the work of the Establishments.

Recommendations 3 and 5. Implemented. Charters have been issued to Directors (and also Secretaries) of research and development establishments.

Recommendation 4. Implemented. Appropriate instructions have been issued to the Department's internal audit organisation.

Recommendations 6, 7 and 8. Not yet implemented. All are subject to the introduction in MOD of executive responsibility budgets. Following a trial at one R & D Establishment, ERB's will be introduced at the remainder from 1 April 1985 (it is possible that one or two establishments may not be able to introduce responsibility budgets until April 1986). It is anticipated that the full introduction of responsibility budgets at CERN establishments will meet the requirements of all three recommendations.

Recommendation 9. Implemented. Establishment Directors have been instructed to ensure that overall responsibility for lands and accommodation matters is allocated to an individual at about Board of Management level (it is accepted that detailed day-to-day management will need to be delegated).

Recommendation 10. Not yet implemented. Trials are in progress elsewhere in the Ministry of Defence in which Commanding Officers have been given direct responsibility for minor works under £1K. The outcome of these trials (which will be completed in October 1984) will determine whether this concept is introduced at R & D establishments.



## II IMPLEMENTATION OF LORD RAYNER'S CENTRAL REPORT

The actions taken by the Department to implement the recommendation of Lord Rayner's central report are outlined below.

### RECOMMENDATION 2

At present the research programme is submitted to Ministers annually for approval. A statement of technical and financial progress to date is included. In addition, a general statement of results together with a financial summary is published in the annual research and development report, which is approved by Ministers. A further aid to monitoring is that programme formulation has been dispersed to individual customer directorates and research results are directly available to these directorates.

Procedures for assisting value for money from research have been considered in the light of a study commissioned by the Permanent Secretary. Two main measures will be adopted; firstly a research management information system covering all DOE research will be set up, which will enable up-to-date reports on technical and financial progress to be available for Ministers as required; secondly, procedures are being established for conducting regular research audits of selected groups of research projects over brief periods (2-4 months) spanning such aspects as the adequacy of research management, the usefulness of the results and the value-for-money obtained.

### RECOMMENDATION 3

Following detailed consultations between the Director BRE, and customer and finance divisions, a charter has been issued. A copy is attached.

### RECOMMENDATION 4

For BRE this is largely done already through Ministers' approval of the programme each year. Control will be strengthened through the Director's Charter, which sets out the scope and objective explicitly, and through the requirement that the Director should give Ministers an annual report.

### RECOMMENDATION 5

The charter places this responsibility firmly on the Directors.

### RECOMMENDATION 6

During 1982/83 a new system of project/management accounting was introduced within BRE. This was fully operational, and computerised, for 1983/84. The initial objective is to provide a much more detailed and comprehensive allocation of costs to projects or cost centres, improved budgeting, greater cost consciousness, and wider responsibility to line managers for the various elements of project costs. This will provide the information necessary for a move to full recharging, the mechanisms and procedures for which are to be explored during this year.

### RECOMMENDATION 7

The new MAXIS system of cost centre budgeting and control came into operation in DOE(C) on 1 April 1983. In view of the development of BRE's own system of cost control (c.f recommendation 6) BRE will form a single large cost centre for the purposes of MAXIS, more detailed information for internal control purposes being provided by BRE's system.



RECOMMENDATION 8

BRE already has substantial financial delegations, and the Director is broadly satisfied with the position. The Director's Charter sets out the extent of the Director's scope to vire between expenditure categories.

RECOMMEDNATION 9

The Deputy Director BRE has been designated.



D. Watson

## CHARTER FOR DIRECTOR, BRE

These instructions are given to you in your capacity as Director of the Building Research Establishment. The present scope, objectives and principal activities of the Establishment are attached at Annex 1 and will be subject to review from time to time.

You are responsible for all the work undertaken by the Establishment. You must ensure that this work is within the scope of BRE as defined in these instructions; that it is executed to appropriate professional standards; and that full regard is paid to financial propriety, economy and efficiency. You must also ensure that BRE's research and technical advisory capacity is maintained. You must take full account of specific instructions which you may receive from time to time from Ministers, the Chief Scientist or myself. You must take account of the advice provided by such bodies as Ministers may appoint for that purpose.

For each financial year, you should consult and agree with the Principal Finance Officer and the Principal Establishments Officer a financial and manpower budget for the Establishment consistent with the appropriate public expenditure provision and with the allocation in the Department's manpower budgets. It will then be your responsibility to manage these resources within the agreed budget so as to carry out the Establishment's programme in accordance with paragraph 2. You will be directly and personally accountable to me as Accounting Officer for the manner in which you discharge this responsibility.

You should formulate annually a programme which covers the next year in detail and indicates the implication of that proposed activity for the succeeding two years. This will be subject to approval by Ministers. It should cover all the research work to be carried out by the Establishment, but should distinguish:

- a. work proposed to be carried out on behalf of customer commands in the Department of the Environment including the PSA;
- b. work proposed to be carried out on behalf of other government departments;
- c. work proposed to be carried out on behalf of other customers (whether non-Exchequer bodies or private sector bodies or individuals), and the prospects for additional work on a short-term, opportunity basis;

In addition, the programme may include:

- a. work proposed in order to maintain the Establishment's capability to meet its objectives and to enable it to respond to future customer requirements;
- b. work of a general advisory nature, and work in the nature of promotion or dissemination of government policies or research results.

Work in the last two categories will normally be agreed with and carried out on behalf of customer commands in the Department of the Environment including the PSA, and the arrangements under which such work is planned will be a matter for direct negotiation. It will, however, be open to you to specify unilaterally in your annual programme, should you deem it necessary, a certain amount of work in these categories which you consider to be essential to maintain BRE's research and technical advisory capacity.



You should indicate the proposed distribution of expenditure and of staff effort between the various categories of work, and distinguish between work in progress and proposals for new work. For work in progress the programme should indicate technical and financial progress to date.

In formulating the programme it should be assumed that all work for other government departments and outside customers must be carried out under contracts providing for full cost recovery, and that advisory and information services should likewise be subject to full cost recovery except where this requirement has specifically been waived.

Specific provision for the net expenditure (ie gross expenditure less receipts from other government departments and outside customers) of the Establishment is made within the Department's programmes in the Public Expenditure Survey. The Department's manpower budget likewise makes specific provision for the staffing of the Establishment. The Establishment's research programme should be formulated so as to be consistent with these provisions, and the allocation of resources to the agreed research programmes should be agreed with the relevant customers. It should be your aim to move to a situation where all research projects, whether for DOE, other government departments or other customers should be charged at their full cost, taking into account the appropriate proportion of all relevant overheads.

Once the programme is approved, it will be your responsibility to carry it forward. You may make adjustments to methods, timescales and the detailed content of projects on your own authority in the interests of economy and efficiency, and in the light of availability of resources, but subject always to the following requirements:

- a. you should ensure the proper discharge of the Establishment's liabilities under contracts with outside customers and other government departments;
- b. you should consult DOE including PSA customers if and as soon as circumstances arise which are likely to justify or necessitate significant changes in the nature or timing of projects which they have sponsored;
- c. you may adjust the programme to admit minor additional contractual liabilities in relation to non-DOE/PSA customers, but only after assessing the effect on the programme for DOE and PSA customers, and obtaining their agreement where this would be significant. Ministerial approval must be obtained to the addition of major new commitments to outside customers in the course of the programme.
- d. you should not incorporate new DOE funded work (other than exploratory studies to test the feasibility of new approaches or to probe potential new fields) into the on-going programme without specific Ministerial approval;
- e. you should at all times keep customers informed as to the technical and financial progress of work that they are sponsoring.

These instructions, while setting out general principles, do not seek to regulate in detail all aspects of the Establishment's relationships with DOE customer commands. There will, for example, be considerable liaison in drawing up both customer and BRE programmes, and special arrangements may be agreed with individual customers. Such matters are for direct discussion between BRE and DOE customers, subject to Ministerial approvals where appropriate.



You should also consult with the Principal Finance Officer and the Principal Establishments Officer to ensure that financial and contractual procedures and personnel management policies within the Establishment accord with overall Departmental standards and that they are consistent with requirements laid down by the Treasury or the Management and Personnel Office and with agreements with the Trade Union Side, whether at National or Departmental level. Subject to this, the manner in which you exercise the responsibility conferred by paragraph 3 above is for you to decide and in order to enable you to exercise this responsibility effectively the financial delegations are set out in Annex 2.

You will in addition be responsible for ensuring that the Establishment's work is carried out with due regard to the need for efficiency, economy and the avoidance of waste, and for encouraging cost-consciousness in all your staff. For this purpose it will be essential that line managers are fully informed of the costs arising from their work and decisions, and are themselves responsible for controlling those costs. You should institute and maintain a management system based on the cost-centre approach in which clear lines of responsibility for financial control apply at all management levels both in research and support services.

You should appoint a senior manager with specific responsibility for ensuring that the Establishment's accommodation and land requirements are continuously reviewed and kept to a minimum.

You should make an annual report to me of the steps taken during the year to ensure the Establishment's efficiency and effectiveness. In particular, you should provide in respect of projects completed during each year, an account of how their duration, cost and achievement compared with what was estimated when they were approved, and how the results are being applied. Such reports should be in a form consistent with whatever arrangements are currently in force for monitoring the effectiveness and value for money of research projects.



George Moseley

28 November 1983

cc. PS/Mr Gow  
Dr Holdgate  
Mr Harrop  
Mr Johnston  
Mr Ennals  
Mr McIndoe  
Mr Jeanes  
Mr Routh  
Mr Crane  
Miss Tindale  
Mr Hopkins  
Mr Robson  
Miss Prest



## INSTRUCTIONS FOR DIRECTOR BUILDING RESEARCH ESTABLISHMENT

## SCOPE

1. BRE is a national centre for research into buildings and related fields, for the provision of technical advice based on that research, and for the interpretation and dissemination of information arising from that research.
2. The Principal areas of present research are:-
  - i. Studies of the regimes in which buildings, components, materials and associated systems for buildings must perform satisfactorily both in UK and appropriate overseas countries; the performance in use required; means of achieving, specifying, guaranteeing and maintaining that performance with particular reference to health and safety of people in and around buildings, conservation of energy and natural resources, and economy.
  - ii. The economies of and processes involved in the management of the construction activity including the prediction of needs and problems of supply of materials and other resources.
  - iii. The economics and statistics of, detection of and protection from fire in buildings; the behaviour of structures, assemblies and materials in fire and the resulting hazards.
  - iv. Impact of industrial chemicals upon the environment and development of means of control; geotechnical and material aspects of containment and disposal of radioactive waste.
  - v. Studies of the behaviour of the ground under loading conditions imposed by buildings, other structures and retained water; the performance required of earth structures and means of achieving, specifying, guaranteeing and maintaining that performance.
3. The scope of BRE will be subject to review from time to time.

## OBJECTIVES

4. To provide a high quality research and technical advisory capability to act:
  - i. as a principal contractor to DOE for scientific research and technical advice on subjects for which that Department is responsible.
  - ii. when called upon, as collaborator and contributor to the development and execution of DOE policy;
  - iii. on repayment terms, as a contractor to other government departments and to the construction community generally for scientific research and technical advice;

in order to support improvements in the environment and encourage responsible innovation, development and improved performance by the construction and other relevant industries.



## PRINCIPAL ACTIVITIES

5. The following lists describe broadly the main activities to be carried out at the BRE. It is not intended to be exhaustive, nor to be interpreted rigidly. The intention is to describe what are the prime activities of the Establishment, and to distinguish these from other activities which may be carried out for the BRE by other agencies.

### In Pursuit of Objective i you should:

- a. contribute to the formulation of customer programmes to ensure that customers are well advised on the future possible problems and research opportunities in their fields, and on the resources required to meet their needs;
- b. undertake research programmes as agreed with the customers (including the management of extra-mural research);
- c. publish, whenever possible, the results in the scientific literature, and contribute to conferences etc so as to ensure that BRE's work is subject to peer scrutiny;
- d. respond to specific requests for advice when called upon;
- e. bring to the attention of relevant officials and Ministers, where appropriate, technical developments of importance, and make proposals for research in areas where no specific customer is established (ie in relation to emerging needs);
- f. keep fully aware of technological development in other countries where this may benefit UK;

### In Pursuit of Objective-ii you should:

- a. contribute to the development of policy by attendance at committees, providing review papers etc;
- b. represent DOE policy as specified by policy directorates, as agreed;
- c. disseminate results of research by publications, films, exhibitions, patents, licensing etc;
- d. contribute to the development of British and International Standards through service on technical committees, and codes of Professional and Industrial Institutions and Associations;
- e. assist British Board of Agreement in providing advice, undertaking specific studies either on repayment or as agreed by appropriate customers;
- f. contribute through advice, providing lecturers, arranging occasional courses (on repayment terms) to the training and education of practitioners and the improvement of lecturers in the field.

### In Pursuit of Objective iii you should:

- a. initiate and develop proposals for research for potential customers;



b. undertake research commissioned by OGD and private sector customers on the basis of agreed contracts;

c. provide advisory service to industry, local authorities and building owners and occupiers;

d. promote BRE expertise and services in UK and abroad as appropriate to the scale of activity agreed.

1983



## Implementation of Lord Rayner's Central Report

Action taken to implement Lord Rayner's Central Report to the Prime Minister is set out below.

### Recommendation 1

Implemented Action Documents for the two REs scrutinised, and for the two "read across" REs were approved by the Minister of State for Industry (Mr Baker) in October 1982.

### Recommendation 2

Implemented Sir Peter Carey, the then Permanent Secretary, submitted a comprehensive review report to Ministers on 14 January 1983. The review, augmented by presentations by each RE, was accepted by the Minister of State for Industry.

### Recommendations 3 and 5

Implementation in hand. This is a formalisation of existing practice and current management developments. Charter has now been agreed and was issued to Directors on 17 August. A copy is attached.

### Recommendation 4

Implemented Existing practice.

### Recommendation 6

Implemented The general principle is in practice in all REs. The REs charge customers economic costs based. For work of wider national benefit costs are attributed and controlled on the basis set out in the Rothschild Report: 'A framework for Government Research and Development' (1972).

### Recommendation 7

Implemented Following a successful pilot study at LGC, all REs were designated as Responsibility Cost Centres from 1 April 1984.



Each Director is therefore responsible for operating his RE within agreed delegated manpower and financial budgets.

RECOMMENDATION 8

Implemented Existing practice within REs. In addition, selected parts of the R & D programme are examined by a headquarters Assessment Unit which reports to the relevant Requirements Board, thereby ensuring control over major blocks of budget. The Department has set up an Evaluation Working Group to consider, across all its activities, how evaluation work can be strengthened.

RECOMMENDATION 9

Implemented Existing Practice. Each RE already has a designated Senior Manager responsible for accommodation.



THE DEPARTMENT OF TRADE AND INDUSTRY  
RESEARCH ESTABLISHMENTS' DIRECTORS' CHARTER

1 On a regular basis, the Directors of the Department's Research Establishments will submit the work programmes of their Establishment to the Chief Engineer and Scientist, Permanent Secretary and Ministers for approval.

2 They will give first priority to work that is required of them by statute and to work that supports Government functions such as regulation and planning, and the development and dissemination of measurement standards.

3 Their work will be consistent with the aims of the Department of Trade and Industry.

4 They will conduct their programmes on the basis of a customer/contractor relationship. Customers for their work may be the Department of Trade and Industry, other Government Departments, international organisations such as the European Commission and ESA, industry and universities. The balance of work for these groups of customers will be agreed with the Chief Engineer and Scientist. The Establishments will be given targets for the income to be earned from external customers by technology transfer and by technical and scientific problem solving within the constraints imposed by paragraph 2 above.

5 Other Government Departments will be charged full economic costs for work unless specific Departmental policy justifies an element of subsidy. External customers will be charged for work at the market price which will normally not be less than full economic cost. The Establishments' income on a year by year basis from external customers will always be equal or greater than the full economic costs incurred.



6 Work which is paid for from the Department's Science and Technology Vote will normally be agreed by the Department's Requirements Boards. Proposals for research programmes will show the duration and cost of the programme and the staff resources needed. They will set out specific objectives for the work and show how these are related to the Department's aims. Programmes will provide for periodic reviews of progress against an agreed timescale. A date will be agreed for completion of the work and Directors will report to Boards on the outcome of the programme.

7 Directors will make every effort to ensure that the results of their Establishments' work are disseminated and exploited and programme proposals will give details of plans for the way in which this is to be achieved. Directors will have an agreed budget for general publicity for their work.

8 Up to 10% of the full economic cost of the Establishment may be devoted to research which underlies its general remit. The work programme will be determined by the Director who will report on the programme annually to the Chief Engineer and Scientist and the Permanent Secretary. The cost of this general research will be recovered by adding an appropriate surcharge to all other projects.

9 The Establishment staff complement will be agreed with the Chief Engineer and Scientist and the Permanent Secretary on a regular basis. Directors will have regard to the need to maintain the capability of their staff to contribute to the wider needs of the Department including Headquarters.

10 Directors will contribute to the Department's annual report on Science and Technology. They will separately report to the Chief Engineer and Scientist on the steps they have taken to maintain and improve the efficient operation of their Establishments.

Chief Engineer & Scientist

17 August 1984



## II. IMPLEMENTATION OF LORD RAYNER'S CENTRAL REPORT

### RECOMMENDATION 2

The Minister for Overseas Development has arranged for a report to be made to him each year on the R&D programme, giving the information indicated in paragraph 4.10 of Lord Rayner's report.

### RECOMMENDATION 3

The Director of the amalgamated TPI/COPR (the Tropical Development and Research Institute) received such a charter on his appointment with effect from 1 April 1983. A copy is attached.

### RECOMMENDATION 4

The responsible Under Secretary/Chief Natural Resources Adviser and the responsible Management Division in ODA have primary responsibility for this. Internal Audit will continue to review activities and procedures to ensure compliance with the 'charter' and annual programme as well as value-for-money aspects.

### RECOMMENDATION 5

Control over the work programme of the new Unit is now exercised through a new system for commissioning work which makes more explicit the customer/contractor relationship. The Director of the new Unit has a 'charter' which makes clear his responsibility for managing his programme efficiently and the financial authority within which he will operate.

### RECOMMENDATIONS 6 & 7

The Director, in consultation with ODA, is required to develop a system for increasing the responsibility delegated to managers of individual research projects. As part of this, taking account of ODA's work on cost centres in response to the Financial Management Initiative, information for full costing of research projects will be generated and the scope for increasing budget holders' control over the range of costs will be carefully considered.



RECOMMENDATION 8

Progress will be made on this once the new Unit has been stabilised.

RECOMMENDATIONS 9 & 10

Under the PRS arrangements the Director now has such control. This is in principle advantageous although the arrangements impose some additional administrative problems when the Institute occupies 10 scattered sites with much specialised building. The Director has specified to PSA his future accommodation needs on relocation and a PSA feasibility study is in hand. It is due to be provided at the end of August 1984.

Overseas Development Administration

June 1984





OVERSEAS DEVELOPMENT ADMINISTRATION

ELAND HOUSE

STAG PLACE LONDON SW1E 5DH

Telephone 01-213 4819

Sir William Ryrice KCB

*Permanent Secretary*

28 March 1983

Dr Malcolm Thain  
Tropical Products Institute  
127 Clerkenwell Road  
London EC1R 5DB

*Dear Malcolm,*

I am writing to convey formally your instructions on appointment as Director of the TDRI. The Terms of Reference for the Institute are those approved by the Minister. The text is attached to this letter (Annex 1).

2. You are personally accountable for all the work undertaken by the Institute. Only work covered by the Institute's Terms of Reference should be carried out. You are required to ensure that it is executed to appropriate professional standards and with full regard to financial propriety, economy and efficiency.
3. The programme of work will be agreed annually with the Chief Natural Resources Adviser, subject to approval by the Minister. When submitting your programme for approval you should show when each project started, the technical and financial objectives at the time; the technical and financial progress to date; the estimated expenditure to completion and the degree to which technical objectives are expected to be met. For projects completed during the year you should give an account of how their duration, cost and achievement compared with what was estimated when they were approved, and how the results are being applied. For new project proposals you should provide the technical and financial objectives, intended duration, cost and phasing.
4. Any work which you take on for international organisations, other public bodies or private industry should be justifiable within the agreed objectives of your programme and should not constitute more than 10% of your programme in overall manpower terms without prior written authorisation. You will be accountable for ensuring that charges are raised on the customers which reflect the full costs.
5. As Accounting Officer I have responsibility for the financial well-being of the Department. I delegate to you the responsibilities set out in the attached Financial Accounting and Administrative Procedures Notice (Annex 2) in respect of your Institute. You

/are





are thus personally accountable for ensuring that the Institute's work is carried out within cash limits and with due regard to the need for economy, efficiency and the avoidance of waste. The Internal Audit Unit will include the Institute in its reviews.

6. The cash limits to which I refer in the immediately preceding paragraph will be conveyed to you annually. Meanwhile you should assume a decrease of 14% in your financial provision from 1 April 1983 to 1 April 1986, and a comparable and staged reduction in core manpower from 416 to 358 over this period.

7. In my capacity as Permanent Head of the ODA I must remain ultimately responsible for all matters relating to staff management, including promotions, recruitment and discipline. Your staff will continue to be governed by the detailed rules and regulations in the Civil Service Pay and Conditions Code. It is my intention however, that as much day-to-day authority as possible should be exercised directly by you, in consultation with the Principal Establishment Officer who will review with you such specific delegations as may be practicable.

8. I retain responsibility for rent and major works in the buildings occupied by the Institute but it is my intention to delegate to you, through the Chief Natural Resources Adviser, authority for some accommodation matters.

9. The Administrative Secretary and his staff have training and experience with which they can assist you in discharging your responsibilities. You should consult them on all matters touching the Accounting Officer responsibilities. But whether or not you accept their advice the responsibility for decisions is yours.

10. You are accountable for encouraging cost consciousness in all your staff. The importance of securing value for money should be understood by all as part of day-to-day management. You should aim to delegate authority as far down the line management chain as is consistent with the capabilities of individual staff members. Such delegations should be made so that those concerned are clearly accountable to you. The role of the Administrative Secretary in explaining and advising on financial matters should not detract from the responsibilities of line managers.

11. You are required to contribute to the annual review of the Department's R and D programme.





12. At the same time you should make an annual report to me, through the Chief Natural Resources Adviser, on the improvements in the Institute's efficiency and effectiveness which have been made during the year.

*Yours sincerely,*

*Bill Law*



## TERMS OF REFERENCE OF TROPICAL DEVELOPMENT AND RESEARCH INSTITUTE

The Tropical Development and Research Institute is established under the UK Aid Programme to contribute to economic advance in developing countries through work on Renewable Natural Resources in the fields of post-harvest technology and pest and vector management. The Institute will deal mainly with tropical plants and animals. Its activities will centre on food production and preservation and animal foodstuffs but will also include some non-food cash crops of particular importance to developing countries.

The Institute will apply science, technology and economics to the solution of problems in the above fields; provide relevant training and information services in the UK or the recipient country as appropriate and advise overseas governments and other agencies in those fields.

As post-harvest technology and pest and vector management are broad and varied subjects, the Institute will concentrate its activities in those areas where it has comparative advantage in terms of experience, knowledge and cost-effectiveness.

The Institute will co-operate closely with government organisations, universities and industry in developing countries, the UK and other industrialised countries and with multilateral and bilateral aid agencies.

Requests from governments of developing countries which qualify for British aid will be channelled through the Overseas Development Administration which may commission the Institute to do the work if it lies within the scope of the terms of reference and if resources are available. In addition, the Institute may, subject to the claims on its resources commissioned by ODA, accept contracts from multilateral aid agencies and other organisations for relevant work on behalf of developing countries.



2. Implementation of Central Report

RECOMMENDATION 2

1. At present Ministers are involved in the DTp research programme at three stages:

- i. In approving the programme for a forthcoming financial year in advance;
- ii. In authorising specific projects which are referred to them during the year;
- iii. Through reports either on the significant findings of major studies or on the outcome of the programme as a whole.

Approval of Programme

2. The first of these activities indicates the overall dimensions of the programme, the balance between its components, and in annexes the detailed proposals. Ministers are specifically consulted about any outstanding issues and their attention drawn to points of major policy significance. After endorsement the programme is translated by the Controller of R&D into practical proposals for action.

Authorisation of Specific Projects

3. From time to time customers encounter gaps in the information available to them which they believe should be filled by specific research projects. Ministers may also request that the Department undertakes research as a result of policy reviews. Under such circumstances proposals for specific projects are likely to come forward and be passed to Ministers. A similar specific submission is made whenever Ministers query particular components of the overall research programme, or where an issue is of such importance as to merit this treatment.



## Reports

4. The machinery for reporting back to Ministers on progress in the course of R&D projects and the value for money obtained is the least complete element in our system.

Ministers are specifically advised of the outcome of projects in which they have indicated particular interest or where the results are important enough to be brought to their attention in any event. There is not however at present a procedure for analysing and reporting back in an audit sense.

5. The Department has recently (in 1982) initiated a very limited series of research audits in order to assess for ourselves the extent to which elements in the programme have met expectations, satisfied customers and provided good value for money. These however are concerned with selected topics rather than broad programme areas.

6. As a consequence of recommendation 2, the Chairmen of the three Research Requirement Committees, through which the Department's research programme is formulated, prepared a report for Ministers in the autumn of 1983 on the work done during 1982-83. It is presently envisaged that such reports will be arranged in policy areas, stating the objectives of the work, the results (including the negative findings where these constituted a valid result of exploratory research) and the implementation of results. It is also proposed that the work could identify future research topics and should point out that forethought in planning research programmes enables policy developments to be made.

### RECOMMENDATION 3

A draft Charter is being prepared and will be presented to Ministers shortly.

### RECOMMENDATION 4

The Department has recently (in 1982) initiated a series of research audits in order to assess for ourselves the extent



to which elements in the programme have met expectations, customers and provided good value for money. RRC review procedures also meet this recommendation.

**RECOMMENDATION 5**

The Charter will place this responsibility firmly on the Director.

**RECOMMENDATION 6**

Full recharging for all research projects is now possible under the Financial Information System.

**RECOMMENDATION 7**

The new MAXIS system of cost centre budgeting and control came into operation across the Department on 1 April 1983.

**RECOMMENDATION 8**

This recommendation is in accord with current procedures. Customers are involved in the definition of major blocks of expenditure in the form of the Subject Area Groups, with individual spending units (Agreed Programme Units) being the responsibility of TRRL.

**RECOMMENDATION 9**

Mr T Barrett (Superintending Engineer) has been designated to deal with PSA and minimise accommodation costs.

**RECOMMENDATION 10**

The nominated senior manager (see Rec 9) will pursue this.



**RECOMMENDATIONS 9 & 10**

PSA has fulfilled its remit to implement **recommendation 9** of the central report. We have now gauged the effects of implementing this recommendation and the consensus amongst our Regions is that the appointment of a senior manager to clarify and co-ordinate establishments' requirements and priorities for land and accommodation has proved to be a major aid to the proper planning and carrying out of works services. It also reflects a resolve on the part of establishments to maintain a proper control over demands for works services.

2. As regards **recommendation 10** of the central report, a total of 8 PSA Regions have now concluded discussions with their research establishments on the demarcation of specialised work and target levels of service. As to the effects of implementing this recommendation, the Regions report that, where they have been agreed, establishments are satisfactorily exercising their increased delegations of responsibility for specialised building and maintenance work. Any teething problems have been settled at local level, and on the whole the new arrangements are proving beneficial to both PSA and the R&D establishments.

3. Eastern Region have now examined in depth 5 of their 8 specialised establishments, but no final decisions will be taken until all the laboratories have been examined and the detailed recommendations discussed by senior management. North West Region have drafted a detailed agreement with their one major establishment, the HSE Explosion and Flame Laboratories at Buxton, and they are hopeful that it will be formally endorsed within the next month or so. These 2 Regions have been asked to make every effort to conclude the discussions by 30 September 1984.

4. Examples of new demarcations include:

(i) South-East Region have agreed that the Home Office's Scientific Research and Development Branch at Langhurst should take over responsibility for the installation of certain types of equipment or structures;

(ii) the MAFF Fisheries Laboratory at Conway where PSA Wales have agreed that minor temporary plumbing and electrical work associated with specific R&D projects can be carried out by the establishment staff.



## RECOMMENDATION 11

The Treasury considered that the most effective single step which might be taken to meet the Team's recommendations would be the introduction of a degree of end-year flexibility on capital and defence procurement expenditure. A scheme of this kind was announced by the Chancellor on 7 July 1983. Under the scheme, departments can carry forward underspends of cash limited capital expenditure of up to a maximum of 5 per cent. The scheme should act as an added incentive to investment in greater efficiency by ensuring that (within the 5 per cent limit) capital funds unspent at the end of the year remain available for departments' use. The first carry forward of underspends under the scheme, from 1983/84 to 1984/85 was announced recently. The total was £282 m, but only about £2.5 m of this was for support services such as accommodation, computers and office machinery. As yet it is too soon to assess the impact of the scheme on the management of capital programmes but the results will be monitored carefully over the next year or so in order to consider whether any further incentives are required.

2. It is also open to departments at any time to make proposals to the Treasury for incentive schemes to encourage the disposal of surplus assets. In such cases it may be agreed that departments may retain some of the proceeds of asset sales with a benefit both to the Exchequer and to the programme concerned.
3. These schemes do not cover current expenditure savings from greater efficiency.



## RECOMMENDATION 12

Cabinet Office (MPO) have consulted senior scientists and technologists, who are convinced that MPO should continue to recruit to their areas principally on the basis of specialist skills. In the early part of their careers such specialists work almost exclusively in their chosen field and it would be counter-productive in terms of recruitment to change this practice. Senior scientists are convinced that future senior management should continue to be recruited by this method and have also stated that any change in the selection criteria which appeared to stress managerial skills at the expense of research ability could discourage some able scientists from joining the Service.

2. The principal initiative on training has been to ensure that departments review in depth their arrangements for the selection and training of scientists in order to groom technological generalists for higher posts in the Service. The first Progress Report on the Scheme was circulated in July 1984 and described the progress achieved by departments and research councils since the summer of 1982. Senior scientists have advised the Cabinet Office that the requirements of the scheme, laid down in GC/211, have essentially been met. But only two formal departmental schemes have been developed and it has not yet proved possible to quantify progress. In the next two years it is intended to pay particular attention to the quantified monitoring of the scheme to allow the second Progress Report, planned for 1986, to be more positively based.

3. As far as the Professional and Technology (P&T) Group is concerned, departments have agreed in principle that, where a formal technological generalist scheme has been developed for scientists, consideration will be given to the admission of P&T grades to the scheme.

4. Meanwhile the Senior Professional Administration Scheme (SPATS) continues to fulfil a useful function in providing the best specialists with training experience in administration work. The scheme has attracted an exceptionally high number of nominations this year.

5. The extension of unified grading to Senior Principal Scientific Officer level (now grade 6) has meant that previous members of the Science Group at this level have the opportunity to obtain experience of a wider range of managerial and administrative posts. The effects are being monitored by the Cabinet Office (MPO). Unified grading is expected to affect scientists and technologists serving in departmental headquarters rather than in R&D establishments because of the larger number of alternative posts available at the centre.



## WIDER IMPLEMENTATION

The principles of the review's recommendations have been applied in other departments and non-departmental public bodies through related scrutinies and through action in direct response to the general conclusions of the review.

### Related Scrutinies

- (i) Fisheries Research and Development (MAFF). This scrutiny was carried out in 1981 in parallel with the review, covering wider issues as well as support services. Annual savings of £421,000 and 20 posts, with £790,000 once for all had been made at 1 April 1984. A further £1.235m pa, 53 posts and £56,000 once for all is in firm prospect. Savings of £17,500 pa and 9 posts have been made by contracting out cleaning at the Lowestoft laboratory and arrangements have been made for the Torry Research Station and the DAFS Marine Laboratory to share the use of an electron microscope.
- (ii) Fisheries Research and Development (Department of Agriculture and Fisheries, Scotland). This scrutiny also took place in 1981. Annual savings of £197,000 and 27 posts had been made at 1 April 1984, with a further £326,000 pa and 35 posts in prospect by 1 April 1985. The research vessel "Explorer" has been withdrawn from service; savings have been made in vehicles; and the project costing system is being refined by the introduction of records of time spent on each project.
- (iii) Forensic Science Service (Home Office). This was the third scrutiny in 1981 alongside the main review. Savings of £338,000 pa and 33 posts had been realized at 1 April 1984 with a further £326,000 pa and 4 posts in prospect by 1 April 1986. Formal job descriptions have been issued to laboratory directors, stressing their responsibility for efficiency and effectiveness and for the cost-effective use of resources.
- (iv) Research Councils. In 1982/83 the four Research Councils with research facilities (Agricultural Research Council, Natural Environment Research Council, Medical Research Council and Science and Engineering Research Council) carried out a review, co-ordinated by DES and MPO, of selected support services. Savings of £3.3m pa, 211 posts and £5.3m once for all were identified in the areas of stores, workshops, libraries and estate management. The report on the review recommended that Heads of Research Councils should improve



arrangements for management audit and project costing, include value for money in their reviews of research projects and, with DES, explore the scope for greater co-operation within and between Councils on support services. Research Councils are now taking action on the accepted recommendations.

(v) The results of the review have also been taken into account in a scrutiny of the Agricultural Science Service (MAFF), which has just been completed, and in a scrutiny of the Veterinary Investigation Service, which is under way.

#### Other bodies

(i) Health and Safety Executive. On the initiative of the Director General, an internal review of support services in the Research and Laboratory Services Division was undertaken in 1982/83.

Progress to date is as follows:

Short term accommodation changes: The contraction to one floor of Steel City House, Sheffield was completed in January 1984.

Medium term accommodation changes: An investment appraisal and case for the relocation of the Cricklewood laboratories in Sheffield is at present with the Minister.

Transport: The review was completed in December 1983. Recommendations were that:

- the size of the vehicle fleet should be reduced. This will be achieved over a period when vehicles would normally be considered for replacement.
- that no employees should be retained whose duties consist wholly of driving. This involves four drivers currently employed and discussions are in hand with industrial trade union side representatives.
- that the usage and deployment of vehicles in sections should be reviewed by the managers of the Sheffield and Buxton sites during the course of 1984.



Registry: A review of procedures and systems has been undertaken and the central registry at HSE Headquarters has been consulted. Consideration has been given to the opportunity for computerisation. Some simplifications to procedures have been identified but the practicability of computerisation has yet fully to be investigated. Further progress will be dependent on staff resource availability.

Wages Computerisation: The Department of Employment's Central Pay Office will take on the responsibility for the calculation of the wages of industrial staff in Sheffield and Buxton. Their target date is April 1985. RLSD considered the possibility of local computerisation for the interim period but this was rejected on cost grounds.

Personnel Sections: The personnel function in Divisional Office has been redefined and savings of one-half EO and one-half CO posts have been made.

Computerisation of Purchasing Function: A feasibility study has been delayed in favour of a rationalisation of the purchasing function in RLSD. The function is in the course of being centralised at Sheffield and this will result in the saving of two CO posts. The purchasing procedure is about to be overhauled following which the opportunity for computerisation will again be pursued.

Research Planning Section: A review of this section will be initiated as soon as staff resources allow.

Other topics are to some extent inter-related. The improvements in the staffing and structure of the stores at Buxton are linked to flexibility in other support grades. Prudent management has resulted in the adoption of wide job descriptions by non-industrial support staff (eg, storekeepers, porters/messengers, telephonists, security guards) resulting in the saving of one post. With regard to industrial grades, discussions are well in hand with TU Side representatives over the future role and duties of experimental worker grades. The attribution of indirect costs to research projects will be considered as personnel record and financial management information systems are developed. A computer-based system of time recording is being introduced from 1 April 1984 which will be capable of identifying the direct effort put into each research project of activity in support of HSE. Following the delegation of financial management to the Head of Division, financial information is being gathered in a form which will enable some ascription to be made of the indirect support to direct staff effort.



(ii) Forestry Commission. Action has been taken in many areas in response to the recommendations of the review's central report as detailed below. Unfortunately, the Commission cannot provide an overall assessment of changes in output or expenditure as a result of the recommendations owing to difficulties of commensurability.

Recommendation 2 Accounting information to the year ending 31 March 1984 is now coming forward and expenditure by project group, one or more of which are the responsibility of a project leader, will be calculated retrospectively. In addition, output measures are being tested for such jobs as Drawing Office tasks and Silviculture Branches' field experiment operations.

The Commission is in the process of shifting its central data processing function for financial and general management purposes for the Scottish Office Computing Service to its own in-house computer. Programs for identifying expenditure on vehicles and machinery (VME) used by other management units in the Commission could not be altered in the course of 1983-84 to accommodate the needs of this Division. Manual computation of R & D expenditure on VME has therefore been carried out and the resulting data will be used in the retrospective view of 1983-84 expenditure by Branch and project group and in predetermined cost calculations for the current year. A fully operational computer system will be installed by 1/4/85 following revision of existing VME financial control programs.

Improved arrangements have been made for the leasing of equipment under test and appraisal by Work Study Branch, a second word processor has been purchased and emphasis has been laid on the importance of completing experiment closure reports in timely fashion.

Recommendation 3 A revised job specification for the Director R & D Division, has been adopted. It is also relevant to record that job descriptions for the two Chief Research Officers have also been revised and will be adopted shortly. In addition, job descriptions of Heads of Branches and of project leaders have been more tightly drawn to include target dates for specified publications.

Charging has been instituted in the area of advisory visits connected with arboriculture. Charges are already made for courses or individual lectures provided for commercial operators.

Recommendation 6 Final Accounts for 1982-83 by Branch have been compiled to include the services of Statistics Branches' analysis and computing and of



Research Information Section; this procedure replaces the past practice of regarding service functions as activities in their own right.

Recommendation 8 Work on modelling growth of tree crops shows promise of economies in the preparation of tabular guides to management. Further work is in hand to exploit more fully existing data, for example, relating crop growth to site factors, and to economise on the volume of growing stock data required for management purposes.

Further developments Those planned are largely in the field of project assessment, and concern ex post appraisals and the introduction of the discipline of formal assessments of future benefits of research before a new project is sanctioned. Closer attention will also be paid to the need for maintaining old experiments.

(iii) British Museum (Natural History). As a result of the Museum's Internal Audit team including in its tasks that of checking that Museum departments are adhering to objectives laid down by the Trustees, there has been a general tightening up on the activities and operations of the departments reviewed by the Internal Auditor so far. In particular, in the areas of the Publications Section, the provision of photocopying, photographic and electron microscope services to outside customers, and the operation of the Central Workshops, the stricter checking of activities against policy guidelines and the greater efficiency in operational procedures following recommendations by the Internal Auditor, have led to significant savings in expenditure and staff effort.

It is difficult to prove conclusively that savings have followed exclusively as a result of the implementation of particular recommendations or to quantify savings precisely but the Museum estimates that net savings, (after the deduction of the cost of Internal Audit) of the order of £60,000 per annum at 1983 prices will accrue as a result of the Internal Auditor's activities over the period April 1983 to March 1984.

In the area of financial management arrangements, the Museum has now computerised its accounting operation so that more detailed information on expenditure is available to management more quickly; through instruction on the principles and application of investment appraisal (including a series of seminars on the subject conducted at the Museum by staff of the Civil Service College) has been given to Museum staff, including scientists, with a liability to initiate expenditure proposals; the Museum has plans to expand the scope of its internal audit team so that it covers organisation and methods and manpower as well as finance and systems audit.





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10 DOWNING STREET

*From the Private Secretary*

22 October, 1984.

Dear Paul,

Non-Departmental Public Bodies

The Prime Minister was grateful for Lord Gowrie's minute of 15 October proposing a new initiative to obtain better value for money from those quangos and other public bodies which have been retained.

The Prime Minister welcomes Lord Gowrie's proposals, and will be minuting her colleagues about them. She also agrees that they should be announced as soon as possible, and we will be in touch with you about the arrangements.

I am sending copies of this letter to the Private Secretaries to Ministers in charge of Departments, Janet Lewis-Jones (Lord President's Office), Richard Broadbent (Chief Secretary's Office, HM Treasury), Mike Corcoran (Mr. Hayhoe's Office, HM Treasury), Ian Beesley (Sir Robin Ibbs' Office), and Richard Hatfield (Cabinet Office).

Yours ever,

David

David Barclay

Paul Thomas, Esq.,  
Office of the Chancellor of the Duchy of Lancaster.





10 DOWNING STREET

From the Private Secretary

22 October, 1984.

JD  
Dear Paul,

The Prime Minister considered over the weekend Lord Gowrie's two minutes of 15 October about changes in the quango and other public body review arrangements.

The Prime Minister is content with what is proposed. She is willing to send a personal minute to colleagues as Lord Gowrie recommends, although in slightly different terms from the draft you supplied. I enclose the text which the Prime Minister has approved. The minute will issue shortly.

The Prime Minister was also content with the draft Question and Answer which Lord Gowrie supplied, subject to the addition of the following words at the end of the penultimate sentence:-

"with the aim of producing progressive improvements in performance."

We are arranging for the Question to be answered as soon as possible after the minute has issued, and will keep you in touch on the timing.

I enclose a more formal letter giving the Prime Minister's approval to Lord Gowrie's proposals, which has been circulated more widely than this one.

Yours ever,  
David

David Barclay

Paul Thomas, Esq.,  
Office of the Chancellor of the Duchy of Lancaster.



cc Mr Alison  
Mr Flesher

CHARLOTTE

Non-Departmental Public Bodies

The Prime Minister has approved the attached Question and Answer about non-departmental public bodies. She wishes it to issue as soon as possible after her personal minute on this subject has been despatched.

Could you please arrange accordingly, keeping Lord Gowrie's Office in touch? You will see from the last paragraph of Lord Gowrie's longer minute of 15 October that he suggests that the Question might be tabled by Sir Philip Holland. Subject to any views to the contrary from Mr. Alison or Mr. Flesher, I suggest we take up this idea.

*DMB*

22 October, 1984.



*Personal*



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000

Direct Dialling 01-233 .....

Sir Peter Middleton KCB  
Permanent Secretary

18/10.

Dear Robin,

If you would like a little background to the arguments which led to the PM's meeting yesterday - and which were largely resolved out of court - you might like to glance at the attached minute.

Yours etc,  
*Peter*



**CONFIDENTIAL**

From: SIR PETER MIDDLETON  
Date: 5 October 1984

CHIEF SECRETARY

cc Chancellor  
Mr Bailey  
Mr A Wilson  
Mr Anson  
Mr Byatt  
Miss Brown  
Mr Spackman  
Mr Willis

VALUE FOR MONEY

"If you intend to have any limit put on expenditure, it is high time that you should be on your guard against efficiency ..... In the mouth of a Minister who wants to find excuses for a great increase in public burdens, it is a plea that ought not to be admitted without a great deal of carefulness".

W E Gladstone

I see that Robin Ibbs has written to you about taking forward his ideas on value for money on public expenditure. He and the Treasury ought in our view to be strong natural allies in keeping down expenditure and getting value for money. But as you know we are apprehensive about the effects of his activities. Perhaps I could explain why.

2. Robin Ibbs is planning to have a further round of talks with departmental Ministers later this year, both to review performance against the targets which he discussed with them for this year, and to ask what targets the Ministers propose



to set for next year. Such targets will also be on the agenda of the Prime Minister's seminars with individual Ministers; I gather that a further 4 - 6 seminars are planned for the coming year. It is good that he is offering to talk to you about the way in which he should set about this. But we need to make sure that there is a real meeting of minds before he begins.

3. As I understand Government policy, controlling public expenditure and rolling back the frontiers of the state are prime objects of policy. This means containing and indeed reversing the pressure to seek increased expenditure.

4. Value for money is also important. First the efficient use of expenditure is an element in the Government's attempt to improve the supply side of the economy. Second we need savings from increased efficiency in order to have any chance of meeting the Government's overall expenditure objectives.

5. If therefore we are talking about better value from a reduced amount of money, there would be no need for argument. The whole of the Government's central organisation would be devoted to searching for the savings necessary to reduce expenditure. It would be trying simultaneously to contain the growth of public sector output and providing this at minimum cost. Control of public expenditure and value for money are not separate subjects. They are aspects of the same thing. And they must be made to support each other.

6. It is here where Ibbs could be a danger to us. He sees that public expenditure control is unpopular. So he tries to divorce value for money from it. The Cabinet Office to which he is attached support him in this for reasons about which I am not clear. This is bound to produce a weakening in the forces of the centre because their energies are dissipated in treating two related things as though they are separate.

7. This situation is positively dangerous if the two forces pull in opposite directions. This happens very easily. Any spending department would prefer something called value for money to reducing expenditure if it thought there was a chance that



they could be regarded as alternatives. But Ibbs believes that only really provide incentives to managers to be efficient if those concerned can keep some of the efficiency gains to increase their particular bit of output. Whatever one thinks of this as a piece of psychology - and I come back to that in a minute - as a piece of arithmetic it is not likely to result in either much rolling back of the frontiers of the state or a more efficient allocation of resources within a fixed cash total.

8. The net result of this approach is to provide departments with an argument to use against the Treasury. Expenditure control can be made to look like an arbitrary process which cuts across another elaborately conceived set of targets. Public expenditure control is hard enough already without having to put up with this. It is for Ministers to judge their priorities as a collective matter. 'Incentives' cannot be adduced as a reason for not doing this. Whatever the result it is the job of management to achieve maximum value for money. They cannot be allowed to argue that they will not do this if they do not have the 'incentive' of increased output because Ministers have decided that some other programme should have priority.

9. Furthermore, Robin Ibbs is inclined to talk about changing the Civil Service culture in a general sort of way which seems superficially attractive. And this Government does, I have always believed, want to bring about a cultural change. But the Government is not like ICI, trying to increase its market share. It is trying to do exactly the reverse.

10. The cultural change which you want to effect is to encourage spending departments to believe that reducing expenditure is a great virtue, that their efforts should be bent in this direction and that contributing to such a reduction by efficient management would be a double virtue. I assume that this is still Treasury Ministers' objective. If so, it must be accepted that value for money targets are part of the expenditure control process - not something which the expenditure control process threatens and



which causes Ministers to withdraw co-operation (see the second paragraph of Ibbs' letter which shows that he has still not digested the message in the Chancellor's letter of 4 July following your dinner in June). Indeed it was this sort of thinking and advice which led to the Treasury being excluded from the Prime Minister's value for money seminars even though value for money is an integral Treasury responsibility. These seminars constitute a prime example of a lost opportunity.

11. This does not mean that there is no place for soundly conceived proposals to "spend to save", or, for example, to allow spending authorities to spend part or all of the receipts if they exceed their planned level of asset sales. This kind of incentive was not ruled out in the Chancellor's letter of 4 July, but the scope for it - as he pointed out - is limited by the overall public expenditure constraint.

12. Moreover, in a more general way, we often say that a department wishing to increase expenditure in-year on one particular service must find off-setting reductions within its programme. In this way a department can often divert extra efficiency savings to some purpose of its own choosing. But its ability to do this cannot be absolute - and certainly not if the Reserve already looks likely to be exceeded.

13. I cannot believe that Ibbs, as a businessman, does not share the Treasury's desire to reduce the tax burden on industry and the citizen. Greater efficiency is one way of facilitating this. So the Treasury and the Efficiency Unit are basically on the same side. I hope that a real effort can be made to persuade Ibbs to see this, and that we shall both be less effective if either sees the other as a threat. The Chancellor's letter of 4 July offered a basis for this co-operation which I hope he could fully accept. In practice this means:

- (a) The Survey must continue to set public expenditure totals and allocations which the country can afford and which are consistent with the Government's objective of reducing the tax burden. Performance targets must not be framed in such a way as to hinder this process.



- (b) Once such departmental allocations have been made, they should be allocated to line managers in such a way that the department's total expenditure does not exceed its allocation. This means having an adequate departmental reserve and/or flexibility to deal with contingencies.
- (c) Performance targets should be expressed in terms of better ratios of output to input, rather than in terms of absolute levels of output, which would risk putting upward pressure on cash allocations.
- (d) Where a department succeeds in getting more than expected in a year from a given amount of cash, it may well in practice (short of some July crisis) be able to improve some other departmental service.
- (e) But it cannot then expect to have a prescriptive right to that benefit in perpetuity. The whole purpose of an annual survey is to enable Ministers to decide their priority between that department, or some other department, or reducing taxation. One cannot allow incentives to create a permanent distortion in such priorities. And in present circumstances, the Treasury is bound to press the case for lower taxation, and hence lower overall spending. If others were equally seized of the need for this, without needing incentives to seek efficiency, we could have a more rational debate of this whole subject.

14. Sorry about a rather long minute, but I want to get this right. The organisation of the centre to deal with efficiency matters and the indeterminate role of the MPO is a matter to which I will return after a little further consultation.



P E MIDDLETON









As Peter and I mentioned, we shall be preparing in earnest in August for Peter's September bilaterals with the spending Ministers. Any further ideas you may have about issues we could raise then will be most welcome.

*Yours  
Nigel*

NIGEL LAWSON



F R.

Mr. Barclay File

MR BUTLER

Government Purchasing

Sir Peter Middleton would like to attend the meeting arranged for 29 October on Government Purchasing. The subject is the Efficiency Unit's recommendations in favour of more commercial procedures.

Nine Ministers are due to attend the meeting, including the major spending Ministers, and the Chief Secretary. Sir Robert Armstrong and Sir Robin Ibbs have been invited, but so far no other officials.

I can understand why Sir Peter would like to be present, but I foresee difficulties unless we also invite other Permanent Secretaries such as Sir Clive Whitmore and Sir Kenneth Stowe.

To avoid the meeting getting out of hand, I should like to hold the line <sup>at</sup> ~~that~~ no officials except the Cabinet Secretary. Would you be content with that?

oms

18 October 1984





10 DOWNING STREET

*From the Private Secretary*

18 October 1984

VALUE FOR MONEY IN GOVERNMENT

Your Secretary of State will recall that, following Sir Robin Ibbs's presentation to Cabinet Ministers on 10 May, the Prime Minister said that she had it in mind to hold a series of small "value for money" seminars. The intention is for Ministers to describe examples of how value for money in operations or programmes has been improved in the past year and what improvements are planned.

The Prime Minister would be grateful if, as part of this continuing programme, your Secretary of State could take part in a seminar on Tuesday 27 November at 1700. I understand that this date and time is convenient for your Secretary of State, who would be invited to describe his recent improvements in value for money and his targets for future improvements.

The Prime Minister is keen to keep the sessions small, but your Secretary of State might want to be accompanied by his Permanent Secretary. The discussions are quite separate from the current PES round, and apart from the Prime Minister, the only others present will be Sir Robin Ibbs, Sir Robert Armstrong and Robin Butler.

The Prime Minister hopes that your Secretary of State will speak for up to 15 minutes, roughly half to display the main value for money improvements actually achieved in the past year and roughly half to explain what is going to be achieved. She appreciates that the presentation will be selective - time will prevent a complete coverage of all Scottish Office business - and hopes that attention can be concentrated particularly on transport and agriculture. We are setting aside about 30 minutes for the subsequent discussion.



I am sending copies of this letter to Richard Hatfield  
(Cabinet Office) and to Sir Robin Ibbs.

David Barclay

John Graham, Esq.,  
Scottish Office.





Chancellor of the Duchy of Lancaster

PRIME MINISTER

CENO

Peter Rees and I have been considering the effectiveness of the arrangements for reviewing quangos and other public bodies on which I report to you each year. The reviews have produced impressive results. Since 1979 we have abolished, rationalised or substantially cut the spending of nearly 700 bodies, producing annual savings of nearly £120m. But abolitions are declining and the review process has become such a routine in some departments that we are missing what is arguably the now more important target of value for money in the bodies themselves.

The 440 executive bodies employ over 200,000 staff and last year spent over £5bn. of government grants. That would put them towards the top of the manpower and expenditure league if they were a single department, and one in which we should expect significant progress by now in using new management systems and setting efficiency targets. But when the Financial Management Unit looked at a selection of bodies recently they found that the FMI had hardly touched the surface of many of them. Some bodies still lack proper mechanisms for defining objectives, setting targets and assessing what they are actually achieving. Even the arrangements for forecasting and controlling expenditure are poor.

We therefore propose what would in effect be an FMI for quangos and other public bodies. Our detailed proposals are set out at Annex 1. Departments would agree with the Treasury a programme for reviewing and improving the financial management systems of their major bodies by April 1987. The aim would be to put the bodies in a better position to secure value for money, and sponsor Departments to see that they do. In some cases this would build on work departments and bodies have already set in hand, in others it would be a new start. Departments should start using the new systems to produce tangible benefits as soon as they are installed. Sir Robin Ibbs - who supports the new proposals - suggests that Ministers should aim for practical results from 1985-6 onwards, from when at least the more important bodies should be expected to have targets for improving value for money year by year.

Colleagues have welcomed the proposed change in emphasis and are generally content with the suggested timetable. (One case where we do need to make an exception is the Scottish Office, who sponsor an exceptionally large number of quangos, and would therefore find it difficult to get systems in place and in use in all their bodies by the target date. We think they should aim to cover the most important and the largest spenders by the target date.)

This new programme of work would be offset by changes in the existing review regime. We still need regular and centrally monitored reviews of the case for the continued existence of each body, the functions it carries out, the scope for privatisation, and so on. Pressures for new quangos are always with us. If we

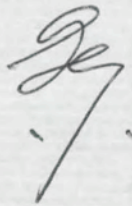


relax we could find the numbers rising again, which would run counter to our general aim of cutting the size of the public sector. But we can simplify the existing arrangements, because departments' reviews of financial management should ask many of the same questions, and provide sharper answers.

We would report progress on both fronts to you from time to time, with the first report in mid 1986. We could at that stage review the need for central reporting in the light of progress with the financial management work.

... If you agree this new approach, you might like to announce it when Parliament reassembles, in the form of the attached PQ. The draft - which has been agreed by colleagues - would give us an opportunity to reaffirm our tough policy on quangos and take credit for the substantial savings so far achieved. You might like to invite Sir Philip Holland to table the PQ, given his long-standing interest in quango policy.

I am copying this minute to Ministers in charge of departments, and to Willie Whitelaw, Peter Rees, Barney Hayhoe, Sir Robin Ibbs and Sir Robert Armstrong.



GOWRIE  
15 October 1984



## NON-DEPARTMENTAL PUBLIC BODIES: PROPOSED CHANGES IN REVIEW ARRANGEMENTS

Note by the Cabinet Office and the Treasury

Present arrangements

1. The Cabinet Office (MPO) guide to NDPBs provides for two, linked, review cycles:

(i) Financial reviews, focusing on each body's financial system, internal controls, and arrangements for forecasting and monitoring expenditure. Reviews - which have not been centrally co-ordinated - should be carried out every 3 to 5 years, according to whether the body receives more or less than 50 per cent Exchequer funding.

(ii) General or "Pliatzky" reviews, with objectives similar to the original Pliatzky scrutiny: namely to consider each body's continuing justification and role; and to examine economy of administration and scope for savings. For executive and judicial bodies the Guide recommends a 3-5 year cycle, linked to financial reviews. In practice Departments have worked to a centrally-co-ordinated 5-year programme. Advisory bodies are reviewed annually.

Recent review results: reasons for considering change

2. As in 1982, the 1983 round of reviews led to relatively few quango reductions. Five advisory bodies were abolished (compared with 8 advisory and 2 executive bodies last year). A further ~~2~~<sup>1</sup> advisory bodies disappeared following decisions taken independently of review. A few reviews led to amendment of a body's constitution, and/or to resource savings. (Details are attached.) Overall, the 1983 results confirm the impression gained last year that most "dead wood" has been cut out; there seems no reason to expect more numerous abolitions in the next few years.



3. A valuable innovation in 1983 was action by a number of departments - in some cases assisted by the Financial Management Unit (FMU) - to use reviews to consider how better systems and skills could be brought to bear to strengthen the management of their quangos. Some substantial exercises of this kind were as follows:

- A study has been completed of the financial management of, and within, the Science and Engineering Research Council. DES are acting to apply the recommendations to all the Research Councils, with significant results expected in 1985.
- DOE have reviewed their financial management in relation to 18 bodies (including the 2 regional water authorities and 2 urban development corporations). A programme of improvement work is going forward, and progress in achieving targets will be reported to Ministers for their annual review meetings with the bodies' Chairmen.
- Scottish Office have piloted arrangements for financial scrutiny on the lines of the financial management initiative for Government departments, through reviews of the Scottish Sports Council and the Scottish Council of Educational Technology.

More recently, the Office of Arts and Libraries have invited the national museums and galleries, and other sponsored bodies, to collaborate in a 2-year programme to explore scope for improvements in working relationships and in the bodies' own management systems.

4. The FMU drew on their experience of participating in Departmental reviews to produce a report on "The Implications of FMI for the Sponsorship of NDPBs". Key conclusions included the following:



(i) Some bodies lack adequate mechanisms for defining objectives, setting targets, and assessing what they are actually achieving.

Arrangements for forecasting and controlling expenditure could also in many instances be improved. It follows that there is considerable scope for adopting improved management practices designed to ensure good value for money.

(ii) There is some confusion, and overlap, between the objectives of financial and "Pliatzky" reviews. Even taken together the two systems do not cover fully or sharply enough all the questions raised by the Financial Management Initiative.

#### Proposed changes

5. The rationale for present arrangements was described by the Prime Minister in the House of Commons on 3 December 1980 as follows:

"We shall keep all existing bodies under regular scrutiny. Those which continue to undertake valuable work and remain appropriate will be retained but we shall keep under close control the money which the Government spends on them. Whenever bodies are no longer needed they will be wound up ....."

6. This dual purpose of reviews - to examine basic justification and value for money - still seems valid. But present arrangements need to be brought up to date with the drive for better management and greater efficiency in the Civil Service. There should be more emphasis in future on specific actions to improve the quality of quangos' financial management, and Departments'



capacity to oversee this. To achieve this, we propose that the present financial reviews, and economy and efficiency aspects of Pliatzky reviews, should be subsumed in a system of wider "financial management surveys" based on FMI principles. The other "Pliatzky" questions - justification, and policy framework - would also continue to be posed, separately where necessary.

7. Financial Management Surveys. The questions to be covered are indicated in the "FMI check-list", included in the FMU report. This would be for selective use by Departments who would need to focus on priority areas for review, taking account of the varying circumstances of their bodies. These would include, for example any statutory provisions governing the body's relationship with Government and its operational autonomy. The detailed approach to planning surveys should also be flexible. In some cases the bodies themselves could be expected to do most of the work. In other cases Departments would have to play a larger role, although reviews would still need to be planned and carried out in close co-operation with the bodies concerned. Unless they saw themselves as willing partners, full commitment to necessary improvements might be difficult to achieve. In all cases, the intention is that the approach should in principle be similar to that adopted by Departments in reviewing their own systems and procedures in the light of the FMI. Surveys would need to look both at bodies' internal financial management and at the relationship with their sponsor Departments. The aim would be to produce specific plans designed to put NDPBs in a better position to secure good value for money and sponsor Departments to satisfy themselves that this is happening. Adequate systems once in place, their continuing effectiveness could be monitored through less intensive reviews from time to time.



8. The first step should be for each Department to draw up a timetable of financial management surveys. In determining the order of priorities, criteria would include the NDPB's total expenditure, the amount of Government funding it receives, and other factors such as charges to the public or contingent liabilities. Priorities would also need to be decided in the light of the availability of resources to carry out reviews, both in departments and in the NDPBs. Departments with very many bodies would, on the whole, take longer to survey them all. The timetable should also take account of any work programmes already existing which cover financial management in these bodies; surveys should be tailored as far as possible to fit in with such plans, rather than requiring changes to be made to work which is already planned. The final timetables which departments agree with the Treasury should, however, provide for reviews of all major bodies to be completed by April 1987, with a significant number completed by April 1986. The aim would be to begin realising the benefits of improved systems - in terms of better value for money - from 1985/6 onwards.

#### Policy Reviews

9. Specific arrangements would continue to be needed for the present to ensure that the justification for each body, its broad structure, functions and objectives and its relationship with its sponsor department, are regularly re-examined - the basic "Pliatzky" concept. Central guidance would be issued in the form of key questions to be posed.

10. Pliatzky reviews of executive bodies and tribunal systems have hitherto been largely self-contained exercises carried out on a 5-year "rolling" timetable. Increasingly, however, Departments will find it most convenient



to pose the questions during wider Departmental reviews. Where a financial management survey is planned for a particular body it will normally be sensible to integrate the "policy review" process with that. Other opportunities to trigger reviews will include the top management systems which are increasingly being used to select programmes for review and to commission efficiency scrutinies.

11. To encourage this approach, departments would not in future be asked to agree to a separate programme of policy reviews. Instead, they should be invited to inform the central Departments, before each review period, which bodies they expected to be covered by the various kinds of review activity mentioned above; and to confirm that the opportunity would be taken to pose those of the policy questions which are relevant.

12. In practice this approach means planning more provisionally, and to a shorter timescale, than under "Pliatzky". The gain would be greater realism, flexibility and economy. Duplication of demands on limited review resources should be avoided. Central departments would as now monitor in broad terms the quality of the policy review process, and overall results (ie reflecting answers to relevant policy questions) would be reported annually to the Prime Minister.

13. Experience suggests that the present requirement for annual reviews of advisory bodies is too frequent. Circumstances typically change little in such a short time, so that inevitably the approach tends to become superficial. We therefore propose changing to a 3-year review cycle. Precise arrangements would need to be agreed with the central departments - and would vary between Departments - but results would be included in the annual report to the Prime Minister.



## Implementation

14. Departments would be asked to submit to the central departments by November 30:

(i) a programme of financial management surveys covering the period to 1.4.87, indicating which would be completed in the first year (ie by 1.4.86);

(ii) a list of executive bodies and tribunals to be subject to policy review during the corresponding periods. This would normally be as part of wider review activity, as discussed above. In addition Departments should say how they propose to tackle reviews of advisory bodies during the two periods, bearing in mind the need to cover all such bodies by 1.4.88.

15. Where the two types of review are not actually integrated, the aim should be to achieve closest possible co-ordination between planning for Financial Management Surveys and for the policy review process. Wherever possible the central Departments would consider sponsor Departments' proposals in parallel, and respond jointly.

## Report to the Prime Minister

16. The first report to the Prime Minister would be made in mid-1986, describing the results of review activity up to 1.4.86. (In other words it would cover a period rather longer than a year; thereafter, there would be annual reports, corresponding with financial years.) The 1986 report would recommend whether to amend the system, or to roll it forward, largely unchanged, for 1987/88.



1. EXECUTIVE BODIES AND TRIBUNAL SYSTEMS

Reviews carried out (total 51):

Ministry of Agriculture, Fisheries and Food (3)

Apple and Pear Development Council

\*Eggs Authority

Milk and Dairies Tribunals (England)

Office of Arts and Libraries (3)

British Museum

Crafts Council

Sir John Soane's Museum

Department of Education and Science (5)

Council for National Academic Awards

Science and Engineering Research Council

Central Bureau for Educational Visits and Exchanges

National Youth Bureau

Genetic Manipulation Advisory Group

Department of Employment (4)

Advisory, Conciliation and Arbitration Service

Central Arbitration Committee

Employment Appeal Tribunal

Industrial Tribunals

Department of the Environment (1)

London Housing Staff Commission

Foreign and Commonwealth Office Overseas and Development Administration (3)

Foreign Compensation Commission

Marshall Aid Commemoration Commission

Crown Agents

Department of Health and Social Security (6)

Council for Postgraduate Medical Education (England and Wales)

Medical Boards

Medical Appeal Tribunals

National Biological Standards Board

NHS Tribunal

Public Health Laboratory Service Board (England and Wales)

Home Office (4)

\*Commission for Racial Equality

\*Equal Opportunities Commission

Police Disciplinary (Senior Officers) Tribunal

Police Appeals Tribunals

Lord Chancellor's Department (2)

Pensions Appeal Tribunal

Lands Tribunal



Northern Ireland Departments (5)

Compensation Appeals Tribunal

Compensation Tribunal for Loss of Employment through Civil Threat

Tribunal under Article 5 of the Health and Personal Social Service Order 1972

NI Arts Council

NI Council for Educational Development

Scottish Office (10)

Crofters Commission

Edinburgh New Town Conservation Committee

Glenrothes New Town Development Corporation

Newbattle Abbey College - Board of Governors

River Purification Boards

Scottish Council for Educational Technology

Scottish Council for Research in Education

Scottish Crop Research Institute

Scottish Institute of Agricultural Engineering

Scottish Sports Council

Department of Trade and Industry (1)

English Industrial Estates Corporation

Department of Transport (1)

Transport Tribunal

Welsh Office (3)

Development Board for Rural Wales

Sports Council for Wales

Welsh Development Agency

Decisions on rationalisation short of abolition

Cost savings pa  
£m

1. Genetic Manipulation Advisory Group (DES)  
Reconstituted as the Advisory Committee on Genetic Manipulation and responsibility transferred to DEM.  
The Committee will advise the Health and Safety Commission and Ministers rather than, as formally, merely "maintaining contact" with other interested departments while reporting to DES. -
2. Central Bureau for Educational Visits and Exchanges (DES) rising to  
Scope identified for management improvements and 0.35  
significant expenditure and staff savings.



Decisions to abolish

No abolitions were decided as a result of reviews. Decisions were however taken independently of the review to wind up the following bodies (not included on the preceding list):

|                                                                              | Cost savings pa<br>£m |
|------------------------------------------------------------------------------|-----------------------|
| 1. Land Settlement Association (MAFF)                                        | 1.000                 |
| 2. National Water Council<br>Water Space Amenity Commission } (DOE)          | 0.610                 |
| 3. Toplis and Harding (Middle East) Ltd (FCO)                                | 0.003                 |
| 4. Committee of Management of the School for<br>Dental Therapists Ltd (DHSS) | 0.645                 |
| 5. Manmade Fibres Producing Industry Training<br>Board (NIO & Depts)         | 0.007                 |

2. ADVISORY BODIES

All existing advisory bodies were reviewed (apart from those with a finite life or where a decision had already been taken to abolish). They numbered 1,074 on 1.4.83. Bodies abolished or reconstituted as a result of 1983 decisions are listed below. (Unless otherwise stated, the decision was to abolish. Only where bodies are marked \* were decisions as a result of review.)

|                                                                                                                                   | Cost savings pa<br>£m |
|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| <u>MAFF</u>                                                                                                                       |                       |
| 1. Committee on the Artificial Insemination of Cattle                                                                             | 0.016                 |
| 2. Food Standards Committee and Food Additives and<br>Contaminants Committee - amalgamated to form the<br>Food Advisory Committee | -                     |
| 3. Joint Consultative Organisation for Research<br>and Development in Agriculture and Food                                        | -                     |
| 4. Kew Scientific Advisory Panel                                                                                                  | 0.001                 |
| 5. Scientific Panel for Fertilisers and Feedingstuffs<br>(Method of Analysis)                                                     | 0.006                 |
| 6. Wakehurst Place Consultative Panel                                                                                             | -                     |
| <u>DEm</u>                                                                                                                        |                       |
| * 7. Careers Service Advisory Council for England                                                                                 | 0.009                 |



|                                                                                                                                                                                                          | Cost savings pa<br>£m             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| <u>DOE</u>                                                                                                                                                                                               |                                   |
| 8. Building Research Establishment Advisory Committee                                                                                                                                                    | -                                 |
| <u>FCO</u>                                                                                                                                                                                               |                                   |
| 9. Advisory Committee on Selection of Low-Priced Books                                                                                                                                                   | -                                 |
| <u>DHSS</u>                                                                                                                                                                                              |                                   |
| * 10. Advisory Group on Cardiothoracic Equipment                                                                                                                                                         | } )<br>} )<br>} )<br>} )<br>0.009 |
| * 11. Advisory Panel on Anaesthetic Equipment                                                                                                                                                            |                                   |
| * 12. Advisory Committee on Audiological Equipment                                                                                                                                                       |                                   |
| * 13. Advisory Panel on Orthopaedic Implants                                                                                                                                                             |                                   |
| 14. Committee on Radiation from Radioactive Medicinal Products                                                                                                                                           | -                                 |
| 15. Joint Committee on the Medical Aspects of Water Quality                                                                                                                                              | 0.015                             |
| 16. Laser Safety Working Party                                                                                                                                                                           | 0.005                             |
| 17. Pacemaker Advisory Group                                                                                                                                                                             | 0.001                             |
| <u>HO</u>                                                                                                                                                                                                |                                   |
| 18. Joint Committee for Refugees from Vietnam                                                                                                                                                            | 0.024                             |
| 19. One New Town Licensed Premises Committee                                                                                                                                                             | -                                 |
| <u>LCD</u>                                                                                                                                                                                               |                                   |
| * 20. Advisory Council on Public Records - Membership broadened to include scientists and social scientists. Effectiveness will be improved by the Department in future proposing more topics for advice | -                                 |
| <u>NIO and Depts</u>                                                                                                                                                                                     |                                   |
| * 21. Central Medical Advisory Committee - reconstituted with a smaller membership and more effective infrastructure                                                                                     | -                                 |
| * 22. Central Nursing Advisory Committee - effectiveness increased by simplified structure                                                                                                               | -                                 |



|                                                                                                                                                                                                                                                                                | Cost savings pa<br>£m |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| 23. Disablement Advisory Committees (7) -<br>to be renamed Committees for the Employment<br>of Disabled People and reduced to 3.                                                                                                                                               | -                     |
| <br><u>S0</u>                                                                                                                                                                                                                                                                  |                       |
| 24. Council for Tertiary Education in Scotland - wound up<br>in December 1983 to be replaced by Scottish Tertiary<br>Education Advisory Council, which would have a wider<br>remit including the Scottish universities, and<br>collaborating with bodies in England and Wales. | -                     |
| 25. Scottish Advisory Committee to Central Council for<br>Education and Training in Social Work                                                                                                                                                                                | -                     |
| <br><u>DTI</u>                                                                                                                                                                                                                                                                 |                       |
| 26. Advisory Committee on Wireless Telegraphy                                                                                                                                                                                                                                  | -                     |
| 27. London Transport Users' Consultative Committee -<br>reconstituted as the London Regional Passenger<br>Committee                                                                                                                                                            | -                     |
| <br><u>W0</u>                                                                                                                                                                                                                                                                  |                       |
| 28. Welsh Nurse Training Committee                                                                                                                                                                                                                                             | -                     |





Chancellor of the Duchy of Lancaster

Prime Minister

cc/0

Had Gowrie proposes a change of emphasis from "quango hunting" to improving the efficiency of those that remain. The idea is to apply the principles of the FMI, without the bureaucracy. Colleagues are content. Agree Personal Minute at A, and statement at B?

PRIME MINISTER

(Flag C)

I have minuted you today, copying to colleagues, about changes in the quango and other public body review arrangements, and their public announcement. I am writing separately about how, if you agree them, the new arrangements might be "launched" to Ministers in charge of departments and their sponsored non-departmental public bodies (NDPBs).

Dub 19/10

Carrying through the improvement programmes will need time, care and hard work. In particular we shall need commitment from NDPBs themselves. Unless they see themselves as willing partners, little real improvement can be expected.

It would be particularly helpful in this respect if the changes could be seen to have your full personal backing. One way of demonstrating this would be for you to write to colleagues, as you did when launching the original Financial Management Initiative. I realise this kind of procedure should be used only sparingly, but I think it would be justified on this occasion. I attach a draft you might use for the purpose. If, however, you preferred, the Chief Secretary and I might write jointly on your behalf.

Colleagues will need to start work quickly if the full programme is to be completed by April 1987. I suggest that, if you agree the arrangements, we should write immediately to confirm them - following up with a public announcement, by PQ, when Parliament resumes.:

Gowrie

Yes not

GOWRIE

15 October 1984





*was*

**DEPARTMENT OF HEALTH & SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1

*in paper  
Dubs  
16/9*

15 October 1984

*Rees Peter*

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

I was interested to see Michael Heseltine's letter of 7 September suggesting a comparative analysis of performance in controlling running costs. The figures would need to be interpreted with some care, as most Departments will have been affected by special factors over the past few years even if not quite on the scale of the MOD figures. It would also be important to supplement them with some indication of output, as running costs in themselves are not very revealing. With these cautions, however, I feel the exercise could prove instructive, and that it should be discussed further.

I am sending copies to Cabinet colleagues, Sir Robin Ibbs and Sir Robert Armstrong.

*Rees*

*Norman Fowler*

NORMAN FOWLER



GOVT MAIL: Rayner P416

11 5 OCT 1964







File

PRIME MINISTER

**THE URBAN PROGRAMME**

You will recall that the Efficiency Unit was involved in a scrutiny to secure better value for money from the Urban Programme. That scrutiny concluded that the management of the Programme needed to be improved and options were put forward for achieving this. Because of the evidence that conventional inter-departmental co-operation had not resulted in effective performance I favoured option D - the creation of a new agency to give single minded attention to the Urban Programme. You subsequently asked Robert Armstrong to make recommendations on improved management arrangements. I understand that he will be reporting to MISC 104 in two weeks' time.

For the meeting of MISC 104 this Tuesday, Patrick Jenkin has provided a paper [MISC 104(84)4] which proposes some polishing of the same inter-departmental structure that has hitherto been unsatisfactory. Many of the words are fine but nothing is quantified and the proposals lack executive urge, the quality which the scrutiny showed was missing. Annex B shows good intent but the fundamental weakness is well exemplified by the final sentence of paragraph 12 of the paper. This follows a proposal that "...colleagues should be asked to consider in detail the ways in which their own programmes are relevant... and whether they could be made more effective." It then says "Their conclusions could form the basis for further discussion." The need is for greater action not further discussion.

I believe it would be a mistake to accept these proposals next Tuesday and that decision on this aspect should await Robert Armstrong's recommendations in two weeks' time.

A further disturbing feature of the papers you are to consider on Tuesday is the absence of specific targets indicating what will be achieved. The emphasis is on expenditure and general intentions; there are no numerical targets and no timetable for such things as jobs created, land reclaimed, etc. I suggest that whoever is given the management responsibility should be required to provide, before the next financial year begins and as a condition of having the money, some very clear quantified targets of what he intends to achieve and by when.

I am copying this to Robert Armstrong.

60% C.P.

ROBIN IBBS

12 October 1984





CABINET OFFICE

~~From the Minister of State~~

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE  
Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

12 October 1984

*n h pur  
Dubs  
17/10*

*Dear Peter,*

1983/84 SCRUTINY OF RUNNING COSTS

Michael Heseltine copied to me his letter of 7 September in which he suggested a further analysis of running costs over a number of years and I have since seen your reply of 24 September. I also think such an analysis would be very useful and was therefore pleased to learn that work on this is now in hand.

My only hesitation relates to treatment of capital costs. While I see Michael's point about how the varying incidence of capital expenditure could distort the analysis, I think that we should include the information somehow because more and more capital expenditure is being delegated to line managers to be controlled alongside other related running costs. Perhaps, the best way might be to enter it separately, below the line, so to speak.

I am copying this letter to Cabinet colleagues, Sir Robin Ibbes and Sir Robert Armstrong.

*Gowrie,*  
*[Signature]*

GOWRIE



Rayner Pt 16

17 OCT 1984

12 1 2 3  
4 5 6 7 8 9

17 OCT 1984



CC NO



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

From the Minister

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1

WBM  
J

9 October 1984

DEVELOPMENT OF THE PRS SYSTEM

I have seen recent contributions to the correspondence on this subject and would just like to register my agreement with a point made by a number of colleagues and most recently by Norman Fowler in his letter of 19 September viz the assessment of market rents.

I agree with Patrick Jenkin that it would be wrong to set up any heavy bureaucratic procedures for the purpose but I do feel that there should be some opportunity for a Department to question any figures set by PSA that do not seem reasonable. This is no doubt a point which can be followed up in the further discussions at official level to which Grey Gowrie refers.

I am sending a copy of this letter of the Prime Minister, members of the Cabinet, other Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

MICHAEL JOPLING



Rogner A 16



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R 8 2 6  
2  
H 2 H

1001 1006 -



Prime Minister ①  
Agree Scottish Office next? →

(You will want to concentrate on the running of the Department rather than the public expenditure formula)

Yes  
CCND  
S/P...  
RTA  
11/10  
ms

PRIME MINISTER

VALUE FOR MONEY SEMINARS

It is now nearly three months since you had the first seminar with Leon Brittan and Norman Tebbit to discuss their plans for improving value for money. In the Home Office in particular my impression is that the result has been to keep up the momentum for substantial improvement and I am hopeful that we will soon see ambitious targets for doing better across a good range of Home Office functions. I am in touch with Sir Brian Cubbon about carrying the discussion forward into action and will report back to you later.

GR  
Pse type  
letter attached.  
ms  
18/10

In the case of the DTI the seminar revealed a worrying state of affairs on financial support for industry. I do not believe it is right to identify problems of this kind and to do nothing about them. When I have studied the additional material Sir Brian Hayes promised - and which has recently arrived - I will come back with a further proposal in this area.

Meanwhile I suggest it would be useful to plan a second seminar for around the end of this month. I realise that the public expenditure storm is likely still to be blowing but it is important to keep up the momentum for value for money improvements and especially to emphasise that action on this cannot be avoided through public expenditure horse-trading.

I have discussed this with Sir Robert Armstrong and our preferred choice would be the Scottish Office. We make this suggestion for four reasons:

1. The formula by which Scottish public expenditure is determined provides for comparable increases to England irrespective of whether the need is there or not.
2. Public expenditure per capita of population is significantly higher in Scotland than in England.
3. The five departments that make up the Scottish Office cover a wide range of spending programmes.
4. Willingness to look for improvements through scrutinies has been patchy (less than 1% of running costs saved) and I detect no real enthusiasm for doing more.

In view of the spread of spending to be covered I am sure that you should not seek to deal with another department on this occasion.

If you agree, I enclose a draft private secretary letter inviting the Secretary of State for Scotland to the next seminar.

I am copying this to Sir Robert Armstrong.

ROBIN IBBS  
3 October 1984



As part of this continuing programme,  
The PM would be grateful if, as your Secretary of State could take part in a seminar on Tuesday 27 November at 1700. ~~Your~~

DRAFT PRIVATE SECRETARY LETTER TO MR YOUNGER'S PRIVATE SECRETARY

VALUE FOR MONEY IN GOVERNMENT

I understand that this date and time is convenient for your SOFs, who would be invited to

Your Secretary of State will recall that, following Sir Robin Ibbs's presentation to Cabinet Ministers on 10 May, the Prime Minister said that she had it in mind to hold a series of small "value for money" seminars. The intention would be for Ministers <sup>in</sup> and their Permanent Secretaries to describe examples of how value for money in operations or programmes had been improved in the past year and what improvements <sup>are planned</sup> they were planning.

~~# The first seminar was held~~

The Prime Minister started the discussions in July, with sessions involving the Home Secretary and the Secretary of State for Trade and Industry. She intends to continue the series with a further session, to be held at [ ] on [ ], at which she would be grateful if your Secretary of State would describe his recent improvements in value for money and his targets for future improvements.

The Prime Minister is keen to keep the sessions small, but your Secretary of State might want to be accompanied by his Permanent Secretary. The discussions are <sup>quite separate from the current PFS round,</sup> not to be seen as part of the public expenditure negotiations, and apart from the Prime Minister, the only others present will be Sir Robin Ibbs, Sir Robert Armstrong and Robin Butler.

The Prime Minister hopes that your Secretary of State will speak for up to 15 minutes, roughly half to display the main value for money improvements actually achieved in the past year and roughly half to explain what is going to be achieved. She appreciates that the presentation will be selective - time will prevent a complete coverage of all Scottish Office business - and hopes that attention <sup>can</sup> will be concentrated particularly on transport and agriculture. ~~This would be followed by a further 30 minutes of discussion.~~ <sup>We are setting aside about 30 minutes for the subsequent</sup>

I am sending copies of this letter to Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.





2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

8 October 1984

Dear Grey,

W  
9/10

DEVELOPMENT OF THE PRS SYSTEM

Thank you for your letter of 6 September, commenting on my letter of 2 August to Peter Rees. Since I wrote, there have also been letters from Paul Channon, George Younger, Norman Fowler and Tom King.

I agree with you that officials need to consider further a number of the issues arising from this correspondence, and the fact that we are not contemplating significant changes in the PRS arrangements until 1986-87 will allow time for this. The Inter-Departmental Committee on PRS will be meeting as soon as possible to pursue outstanding points, though membership of this is, as you know, confined to a few major "customer" departments, and other departments will need to be consulted on the wider issues involved.

On the specific question of rents, you suggested that Peter Rees and I might set out the arguments more clearly for those departments which continue to be concerned about the change to individually assessed market rents. The first point I would make is that, in line with Derek Rayner's recommendations, the PRS arrangements were set up on the basis of market, rather than actual, rents, and Departments were funded accordingly. (PSA's net PES provision does of course take account of the excess of rent receipts over rents actually paid out.) All that is envisaged is that from 1986-87 rents will be assessed on the basis of individual buildings rather than on the basis of regional averages. As Norman Fowler recognises in his letter to Peter Rees of 19 September, market rents are necessary to make departments aware of the full opportunity cost of the accommodation they occupy. Charging actual rents in payment for leasehold properties, where these are below current market levels because of long leases, would distort decisions about the use of accommodation and lead to uneconomical use of the estate. It would be necessary in any event to continue to assess market rents for Crown buildings. The use of actual rents for leased buildings would, therefore, introduce anomalies as between Crown and leased buildings. It would clearly be a nonsense if Departments were required to pay less for a leased building than a comparable Crown building.

I can confirm your understanding that, once individual market rents are in operation, PSA's intention is to review assessed rents on a rolling basis every 5 years, so that only 20% of buildings will be



re-assessed each year. As to the validity of PSA's assessments, my view remains that formal procedures for challenge and arbitration would not be justified. But I take Norman Fowler's point that Departments should have an opportunity to query figures that seem unreasonable, and I see no difficulty about arranging this where necessary through the channels of communication which already exist between PSA and occupying Departments.

I am copying this letter to the Prime Minister, Members of the Cabinet and other Ministers in charge of Departments, Sir Robert Armstrong and Sir Robin Ibbs.

*Yours ever  
Patrick*

PATRICK JENKIN



Pages 18/16





JU256

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422  
SWITCHBOARD 01-215 7877

4 October 1984

Sir Robin Ibbs  
Efficiency Unit  
70 Whitehall  
London SW1

*R Robin,*

All members of the team scrutinising administrative and legislative burdens on business have now been nominated. You will wish to know the terms of reference and timing I have in mind for the study.

2 In the light of the suggestions in your letter of 6 August to David Trippier, I propose that the terms of reference should be -

" To review, within the framework of Government policy on taxation and public expenditure, the burden imposed on business by administrative and legislative requirements of central and local government, with particular reference to smaller businesses;

to ask: -

- what are the areas in which reductions in compliance costs would make the biggest difference to business, especially to small firms;
- what are the main obstacles to securing a substantial reduction in these costs;
- what areas of regulation should be amended;
- how compliance costs should be monitored and kept under control."

3 In pursuing this remit the team propose to:-

- a take as "given" existing Government policies on taxation and public expenditure (so they will not recommend options involving significant additions to public expenditure; or substantial changes in the incidence or levels of taxation; or in national insurance rates);





- b link the work to the wider "cost consciousness" and "better management" objectives underlying the FMI;
- c have regard throughout to the cumulative impact of requirements which may hitherto have been considered individually and in isolation;
- d place the primary emphasis on small firms.

4 The focus of the scrutiny will be on the scope for reducing compliance costs by eliminating, simplifying or otherwise modifying existing requirements. In assessing this, account will of course have to be taken of the benefits which such requirements produce for the community as a whole and/or for business itself.

5 Where appropriate, the scrutiny will look at the role of Government advice and assistance in helping firms cope with requirements more easily. Other kinds of support for business will lie largely outside its scope (regional assistance, for example, the Youth Training Scheme, public purchasing and so on). But the team should, I think, be free to touch on the detailed application of any support schemes which their discussions with business suggest may make life unnecessarily difficult for applicant firms.

6 Smaller firms see the employment protection legislation as one of the major "administrative and legislative" burdens. This is, of course, a sensitive area at present. But it would be difficult to leave it entirely out of the scrutiny - not least because I frankly do not see how we could explain such an omission to business and other outside interests concerned.

7 I think therefore that the scrutiny should examine the cost of compliance with employment protection law on the lines envisaged in its terms of reference. But decisions on the scope and timing of any changes in employees' existing rights should be taken on the basis of the separate exercise which Tom King has set in hand, as agreed at the Prime Minister's meeting on 24 July. I hope the scrutiny will make a positive contribution to that work.

8 As to the timing of the scrutiny, I hope that the seven "Departmental" studies (within Inland Revenue, Customs, Home Office, DoE, DHSS, DEm, and my own Department) will be completed by Friday 21 December; and that the report on wider lessons will be completed by Friday 25 January 1985. In other words, the aim is to complete the whole exercise within the normal 90-day scrutiny time limit. That will be very tight indeed - so it is all the more important for colleagues to give this work the priority and backing it deserves.





9 I am copying this letter to the Prime Minister, Nigel Lawson, Leon Brittan, Patrick Jenkin, Tom King, Norman Fowler, David Young, Grey Gowrie and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a stylized initial 'N' followed by the name 'Norman' written in a cursive script.

NORMAN TEBBIT





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

1 October 1984

Sir Robin Ibbs  
Efficiency Unit  
70 Whitehall  
LONDON SW1

*John B. B.*

*N/S PM  
or  
3/10*

#### SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

I have seen your letter of 6 August and David Trippier's of 21 August about this proposed inter-departmental scrutiny. I am sorry not to have replied sooner but I can now confirm that both Customs and Inland Revenue will contribute to this and have selected scrutiny officers. I understand that it has also been agreed that a Treasury official from one of our Industry divisions should attend meetings of the Central Team where this is appropriate.

I am sure that both Revenue Departments will be able to make a worthwhile contribution to this examination of the inter-action between business and Government. As you know, much has already been done in the tax field. We have introduced many measures to improve the fiscal and administrative climate for new and expanding businesses and work continues. I am, however, taking it that all those involved accept that the scrutiny will not cover budgetary matters affecting the burden of tax on small firms; these are, of course, under continuous review as part of the Budget process.

There have also been substantial achievements on the procedural side which have eased the compliance burden on employers. Simplifications in the income tax system such as MIRAS have reduced the number of coding alterations employers have to make. The scrutiny may want to look at procedures. But it should be understood that any recommendations for major changes may be difficult to implement in the short term, as the Revenue are now committed to introducing a fully computerised PAYE system across the country over the next three years. The timetable for this is tight, but achieving it is crucial to meeting the Revenue's manpower target at April 1988 and we must not do anything which might jeopardise the timetable.

I ought also to sound the warning note that VAT, despite its high profile, may not be very fertile ground for scrutiny, mainly because we are so much constrained by EC legislation. This is not to suggest that VAT be excluded from the scope of the scrutiny, but simply to say that some of the most attractive options have in the past proved incapable of achievement because of our European commitments.

We have already identified two main specific areas that the Inland Revenue scrutiny should cover:





a. Presentation to employers of their role in operating PAYE. If this is done effectively, it should benefit them, the Revenue and the flow of tax to the Exchequer. There is scope for a review of the method of communication and the material currently used to see if it best meets the needs of employers. The central team may like to follow this up and go on to consider whether there is duplication of information between Departments and scope for issuing information from different Departments at one point.

b. There are some areas of interest to traders as taxpayers in their own right where the Revenue have as yet published little information. These concern control visits to traders' premises and procedures in investigations to determine the amount of tax due. Work is in hand on drafting but the scrutiny could advise on how best to present this material to help traders. Again, there could be a central theme here on the way Departments publicise their practices in visits and investigation.

Customs and Excise agree that these are useful areas for study. So far as communication with employers/traders is concerned, however, you will wish to bear in mind the possible overlap between this scrutiny and the one already under way about the handling of enquiries from the public. As regards traders' rights, Customs and Excise have now sent to print their notice about control visits to traders' premises ("Visits by VAT officers"), which sets out in simple terms what to expect when the VAT officer calls and the trader's rights and obligations.

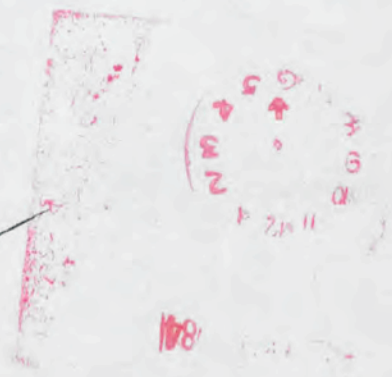
The scrutiny team will need to take account of the fact that we already have under review the recommendations of the Committee under Lord Keith of Kinkel, which was charged to enquire into the enforcement powers of the Revenue Departments "having regard both to the need to ensure compliance with the law and to avoid excessive burdens upon taxpayers" (Cmnd 8822 and 9120: the Final Report, on Customs' matters only, is at the printers). The recommendations relating to VAT are to be the subject of legislation in the 1985 Finance Bill and there would be no advantage in the scrutineer attempting to cover this ground again. The Inland Revenue are now consulting with the representative bodies on the recommendations. This is a lengthy report requiring detailed consideration and I doubt if the scrutiny could cover all this ground satisfactorily in the time available. The group of proposals concerning a code of practice (paragraph 4b above) is, however, self-contained and does not depend upon legislation. If the central team require more briefing on the follow-up work to the Keith Report, the Revenue and Customs will provide it.

I am copying this letter to the Prime Minister, Leon Brittan, Patrick Jenkin, Norman Fowler, Norman Tebbit, Tom King, Grey Gowrie and Sir Robert Armstrong.

NIGEL LAWSON

*Nigel Lawson*

*Gov M...  
R...  
12/16*







Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Heseltine MP  
Secretary of State for Defence  
Ministry of Defence  
Main Building  
Whitehall  
London  
SW1A 2HB

24 September 1984

*Michael Heseltine*

*mbp  
DMS  
25/9*

#### 1983-84 SCRUTINY OF RUNNING COSTS

Thank you for your letter of 7 September. I welcome your support for the work done for the 1983-84 scrutiny of departmental running costs. I think, too, that your suggestion that the Treasury should produce an analysis of running costs showing the trend of expenditure over a period of years is most helpful and work on this is now in hand.

2 You mention that the Ministry of Defence figures cannot readily be compared with those of other Departments because, among other reasons, the figures were inflated in some years by military expenditure arising from the Falklands conflict. Similar issues apply for other Departments; for example in 1981 the UK had the Presidency of the European Communities and expenditure on entertainment in the Foreign and Commonwealth Office was consequently inflated. Nevertheless, these are not, as you say, major objections, although they underline the need to interpret the figures with care.

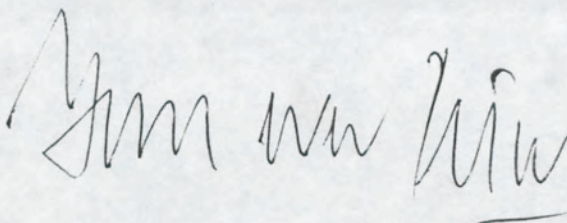
3 Turning to your suggestion on how the figures should be analysed, there are some difficulties. Information on running costs has up till now been collected manually rather than as part of the Treasury's systems for collecting information on expenditure in PES and Estimates; perhaps partly in consequence Departments have provided running costs information with a slightly different coverage from one scrutiny to the next. In consequence, comparisons between information collected in successive scrutinies will need to be treated with particular care. To meet these difficulties our analysis will give trend information only for the four years 1981-82, 1982-83, 1983-84 and 1984-85 Estimates provision. As you may know, officials here are currently making arrangements to collect running costs information from Departments as a routine part of PES and Estimates; so we hope to avoid these problems in future.



To minimise the workload and avoid further problems of changed coverage I propose to use provisional outturn for 1983-84 rather than approaching Departments for final outturn figures.

4 Aside from these minor points I accept your suggestions for the form of the analysis and I will circulate it to you and others as soon as possible.

5 I am sending copies of this minute to Cabinet colleagues, Sir Robin Ibbs and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Peter Rees', written in a cursive style.

PETER REES



layus

25 SEP 1984

12 3 5

10 10





Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....  
Switchboard 01-213 3000

The Rt Hon Margaret Thatcher MP  
House of Commons  
LONDON  
SW1A 0AA

*BF* | *B/F with pu comment* *a no*  
*AT 26/9* *4*  
Prime Minister:  
Policy Unit have no  
comments. As you will  
recall, this strategy has  
been attached by labour  
but its quite debatable  
21 September 1984

*DM*  
*mt*  
*3/10.*  
*A*  
*mt*

**THE FUTURE DEVELOPMENT OF THE JOBCENTRE NETWORK**

As you will probably know, in April the Manpower Services Commission unanimously approved a broad strategy for the future development of the Jobcentre network which had been drawn up by senior management in the employment service. The Government subsequently endorsed this strategy. During the summer, interested parties have been consulted about detailed draft proposals for each area of the country, as a basis for final decisions in the autumn. I thought it might be helpful if I summarised briefly the main elements of the strategy and why the Government is backing it.

The strategy involves an increase in the number of jobcentre outlets (from about 1,000 at present to perhaps 1,100 or more) thus improving access to the service for many people.

It brings in an enhanced use of new technology to provide a quicker and more effective service to employers and people looking for jobs, which requires fewer staff.

It leads to the further rationalisation of some services (such as training applications, specialist advice etc) by concentrating these in main Jobcentres in each area.

Finally, it makes a commitment to maintain services for the disabled and the long-term unemployed at least at their present levels.





I hope you will agree that this strategy accords well with the Government's overall aims for the public sector. It offers the prospect of significant staff savings which will contribute to the continuing reduction in the number of civil servants, and corresponding financial savings for the taxpayer. (The initial proposals envisaged overall savings of about 1,400 staff and £12m per annum by 1988). These savings will be achieved largely by improvements in efficiency and cost effectiveness. There will, of course, be changes in the way in which services are organised and delivered, but the overall level of service is expected to remain much as at present, with about the same number of people found jobs each year. And there are important commitments to those who most need assistance. Streamlining of the service will mean that our aim of getting better value for taxpayers' money can be achieved without the need for understandably unpopular closures of Jobcentres, particularly smaller offices in rural areas. The central activity of the Employment Service, a vacancy display and filling service staffed by Employment Service staff will be maintained in existing locations as well as being introduced in a number of areas not at present served.

Of course there has been some predictable opposition to the proposals, particularly from trade unions representing staff working in Jobcentres. Some of the initial media reports presented a highly misleading picture of widespread closures and cuts in services, with Jobcentres being replaced by displays in supermarkets. You may have received representations against proposals to reduce staffing levels and withdraw certain specialised services from Jobcentres in your constituency. The truth is that staff savings will be achieved predominately by the elimination of routine clerical work through the introduction of modern technology and by centralising specialised services which will enable these to be provided more effectively to the minority of Jobcentre users who need them.

To put the changes into perspective, the reduction in staff amounts to about 4% a year over the period of implementation. This is no greater than that which has been achieved in recent years through other measures to improve efficiency such as the introduction of voluntary registration at Jobcentres for benefit claimants. It is also well below recent rates of natural wastage which average 7%. On the basis of these plans, by 1988 Jobcentres will employ about 7,000 staff compared with about 11,500 in 1980 - a reduction of some 40% in 8 years with no marked effect on the number of vacancies filled. But these changes have not adversely affected Jobcentres' performance in helping employers fill their vacancies and people find jobs. Some 1.65 million vacancies





were filled in 1983/84 compared with 1.53 million in 1980/81 and the total has increased by over 5% in each of the last two years. There are already substantial differences in the range and level of services available between individual jobcentres. The new plans are intended to reflect the differing requirements of different areas whilst maintaining an accessible network which is efficient and gives full value for money.

I hope that this letter sets out our strategy and the reasons behind it.

*2*  
*u*  
*u*





DEPARTMENT OF HEALTH AND SOCIAL SECURITY  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

Sir Robin Ibbs  
Efficiency Unit  
70 Whitehall  
London  
SW1A 2AS

*nbpm  
bms  
24/9*

*September 21st.*

*Dear Robin.*

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

Thank you for sending me a copy of your letter of 6 August to David Trippier. My Department will be happy to participate and our scrutineer is Mrs Evelyn Somerville, who I know is already in touch with Mr Chivers at your Unit and with Mr Brecknell at the Department of Trade and Industry.

Given our involvement in several new scrutinies between now and the end of the year, we have, as I mentioned in my letter to you of 16 August, had to re-think the proposed Autumn start for the liable relatives scrutiny. I think that our participation in the scrutiny of administrative and legislative burdens must take priority and, as I mentioned, there are strong arguments for not embarking on liable relatives until the scrutineers can take account of the outcome of the current reviews of both supplementary benefit and benefits for children and young people. I hope that you will find this proposal acceptable.

I am copying this letter to the Prime Minister, Norman Tebbit, Nigel Lawson, Leon Brittan, Patrick Jenkin, Tom King, Grey Gowrie and Sir Robert Armstrong.

*Yours  
Norman Fowler*

NORMAN FOWLER



Hayes

24 SEP 1984

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

Hayes  
2/9/84

*[Faint, illegible handwritten text and markings, possibly bleed-through from the reverse side of the page.]*





u AD

**DEPARTMENT OF HEALTH AND SOCIAL SECURITY**  
Alexander Fleming House, Elephant & Castle, London SE1 6BY  
Telephone 01-407 5522

*From the Secretary of State for Social Services*

The Rt Hon Peter Rees QC MP  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
LONDON SW1

*Peter Rees*

*not pm.  
Date 24/9*  
*September 10*

DEVELOPMENT OF THE PRS SYSTEM

I have seen Patrick Jenkin's letter of 2 August to you and the replies from Paul Channon, George Younger and Grey Gowrie.

I can see that the balance of advantage lies in getting as close to market rents as possible - because this makes Departments more conscious of true costs. If this system were adopted, however, I would wish to be assured that any consequential increase in our payments under PRS would be fully reflected in a PES transfer. And while I agree with Patrick Jenkin that we do not want any very formal procedure for challenge and arbitration, I would hope that market rents would not be set by PSA without any opportunity for Departments to query figures that seem unreasonable.

If Departments were given more control of decisions on what work should be done, that would go some way to resolving the difficulties over Departments knowing how maintenance money is spent, but I would not welcome any arrangement which asks Departments to pick up the bill for expenditure determined between the PSA and the Treasury without any reference to Departments and in isolation from the question of funding the expenditure.

While I welcome the possibility of local discussion helping in the formulation of a three year programme, there is still a need for central consultation on the overall charges and programme. In the end, Departments are to be charged and it does not help that the PRS arrangements leave Departments no option but to pay and yet have very little say in how the money is allocated or information on what is actually spent.

It seems essential that officials from client Departments should join in the discussions which lead up to the three year programme and to any additional commitment Departments may be asked to accept.

I am copying this to the Prime Minister, members of the Cabinet and other Ministers in charge of Departments and to Sir Robin Armstrong and Sir Robin Ibbs.

*Yours etc.*

*Norman Fowler*  
NORMAN FOWLER



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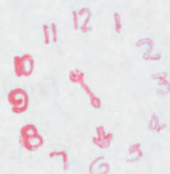
24 SEP 1984

UNITED STATES DEPARTMENT OF JUSTICE

FEDERAL BUREAU OF INVESTIGATION

Washington, D.C. 20535

Telephone (202) 512-2000



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CCNY

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000  
DIRECT DIALLING 01-218 6169

MO 2/2/6

7<sup>th</sup> September 1984

not for DMB  
10/9

*See Peter*

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

-PTIS

I was interested to see your minute of 30th July to the Prime Minister and the accompanying report on the 1983/84 scrutiny of Departmental running costs. I suggest, however, that the value of the report would be enhanced if a supplementary analysis could be undertaken.

Annex A to the report shows the running costs of each Department but only for one year, 1983/84; consequently it does not give us any clear idea of how Departments compare in terms of their performance in controlling running costs. I believe it would be useful therefore to produce an analytical table which would enable us to see the trend of expenditure over a period of years. I recognise, of course, that we have pointed out from time to time that because of the wide-ranging nature of the activities which are represented in the MOD input to the scrutiny the figures which we provide cannot readily be compared with those of other Departments whose inputs tend to be limited to "the cost of running a Department of State" (and this difficulty is, of course, acknowledged by implication in the report). Nevertheless I would not regard this as a major objection to what I am proposing, provided that due allowance was made for the fact that our figures have been inflated by military expenditure arising from the Falklands conflict. It would after all be the trend in expenditure rather than the total of each Department's running costs which would provide the basis for comparison.

The Rt Hon Peter Rees QC MP





On the face of it, it should be possible to cover the period 1979/80 to 1983/84; and so far as 1983/84 is concerned Departments should now be in a position to use final outturn figures rather than the provisional figures which were included in the scrutiny returns. I suggest that, as in the report, the analysis should involve the use of gross figures (on a common price base) but that all capital expenditure should be excluded on the grounds that the incidence of such expenditure can distort an assessment of the trend in running costs. In addition, allowance would need to be made for the special factors mentioned in paragraph 3 of the report, including the introduction of the PRS arrangements on 1st April 1983. As regards the categorisation of expenditure it would probably not make sense to go down as far as the lowest level of diagggregation which has figured in the scrutiny since I understand that there has been a certain amount of reclassification over the years. For this reason it might be preferable to work on the basis of the general categories which appear in Annex A to the report, though I think there would be merit in breaking down the Wages and Salaries category into its constituent parts.

I hope that this "performance indicator" approach will commend itself to you and will not be seen by other Departmental Ministers as presenting any major problem, bearing in mind that virtually all the material required already exists.

I am sending copies of this minute to Cabinet colleagues, Lord Gowrie, Sir Robin Ibbs and Sir Robert Armstrong.

Yes  
MHS

Michael Heseltine



GOVT Mach R 16

Layner





CCW

## CABINET OFFICE

From the Minister of State

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

Great George Street

London SW1P 3AL

Telephone 01-233 8610

The Rt Hon Patrick Jenkin MP  
Secretary of State for the Environment  
2 Marsham Street  
LONDON SW1P 3EB

6 September 1984

abpm  
JMS  
12/9

*Len Petic*

### DEVELOPMENT OF THE PRS SYSTEM

Thank you for sending me a copy of your letter of 2 August to Peter Rees. I have also seen Paul Channon's letter of 13 August and George Younger's of 28 August commenting further.

It seems to me that while we have broad agreement on the direction in which we want the PRS system to develop, some of the details continue to cause anxiety to Ministers in charge of departments. The question of whether individually assessed rents should be based invariably on market rents as assessed by PSA, or on actual rents where these are available, is a case in point. I think it would be helpful if you and Peter Rees could set out the arguments more clearly for departments which are worried by this point.

In any case I believe with Paul Channon and George Younger that all the questions in the most recent correspondence require further examination and discussion at official level. As you know, a multi-department review of the management of civil accommodation by departments has now started, co-ordinated by my officials. The central report from this review should be available next Spring. Evidence may well come out of this which we ought to take into account before reaching final decisions. We have agreed, for example, that individually assessed rents will not be introduced until 1986/87, so there is time to consider the details of the system further.

All these matters are also proper to the official level inter-departmental committee on PRS. I feel they might be



fruitfully discussed in that forum before we take the present correspondence any further.

On a point of detail in George Younger's letter, my understanding is that PSA intend to review assessed rents on a rolling basis every five years, so that only 20% of buildings will be reassessed each year. Can you confirm this?

I am copying this letter to the Prime Minister, members of the Cabinet and other Ministers in charge of departments, Sir Robert Armstrong and Sir Robin Ibbs.

*2nd 7/11*  
*9/11*

LORD GOWRIE



Goat Mach Pt 16

Rayner.





SOT

10 DOWNING STREET

*From the Private Secretary*

3 September 1984

Government Purchasing

Mary Brown wrote to me on 31 August to suggest that the meeting which the Prime Minister will be holding on Government purchasing might begin with a short presentation by the central team.

I am sure that the Prime Minister would find such a presentation helpful, and I will contact Bob Brown as Mary suggested. We will be in touch with your office, and with the offices of other Ministers concerned, to fix a day and time for the meeting.

I am sending a copy of this letter to Sir Robin Ibbs, who supported the idea of a presentation in his minute to the Prime Minister of 24 August.

David Barclay

Paul Thomas, Esq.,  
Management and Personnel Office

ECU



B.R.

MRS. RYDER

Mr Barclay  
Monday 29<sup>th</sup> Oct  
at 14.30.  
CR  
419.

GOVERNMENT PURCHASING

Could you very kindly arrange the meeting on the above some time in the next six weeks or so. We should allow up to 1½ hours, and invite the following:

- Chancellor of the Exchequer *x chief Sec*
- Foreign and Commonwealth Secretary *x Min*
- Home Secretary ✓
- Secretary of State for Defence ✓
- Secretary of State for Social Services *x Min*
- Secretary of State for the Environment ✓
- Secretary of State for Trade and Industry *x Min?*
- Secretary of State for Transport ✓
- Lord Gowrie ✓
- Sir Robert Armstrong ✓
- Sir Robin Ibbs *834.4444 x 3842 ✓*

We could take substitutes from the Foreign Office, the Home Office, and Transport, but not from the others unless absolutely essential.

If you could very kindly let me know when the meeting has been arranged, I need to telephone the Cabinet Office about the arrangements for a presentation at the start of the meeting.

*Dms*

Note: *Spoke to Mr Brown (Cabinet Office) who will call a week or so before to arrange a time to visit the Cabinet Room. He will provide all AV equipment etc.*

*Dms*  
4/9





CABINET OFFICE

510 .  
① OK to purchase /cc M  
② fire entry.

Db  
SJS

From the Minister of State

Lord Gowrie

David Barclay Esq  
Private Secretary  
10 Downing Street

MANAGEMENT AND PERSONNEL OFFICE

Great George Street  
London SW1P 3AL  
Telephone 01-233 8610

31 August 1984

Dear David,

GOVERNMENT PURCHASING

We spoke a short time ago about this report and how the proposed meeting of Ministers should be handled.

Lord Gowrie thinks the Prime Minister and her colleagues would find it helpful to have a short presentation, lasting about 15 minutes, by the central team. This would describe the main findings, and the evidence on which they are based. The presentation would help remind Ministers both of the potential gains to be made by implementing the report and the main issues to be discussed. Lord Gowrie feels this would give a useful start to the meeting and provide a brief opportunity for Ministers to question the team on any points which are unclear. I understand that Sir Robin Ibbs has also suggested the idea of a presentation.

If the Prime Minister agrees to this, you may like to discuss the arrangements directly with Bob Brown, the team leader (233 3080). The presentation would be computer-based and that means some preparation time and the use of facilities in the meeting room.

Yours sincerely,  
Mary.

MRS M E BROWN  
Private Secretary



CABINET OFFICE

MANAGEMENT AND PERSONNEL UNIT  
Cabinet Office  
London SW1A 2HQ  
Telephone 01-219 2400

From the Director of the  
Civil Service Commission

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11

31 AUG 1984





DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 3781

GTN 215

(Switchboard) 215 7877

From the Parliamentary Under Secretary  
of State for Industry

Sir Robin Ibbs  
Efficiency Unit  
70 Whitehall  
LONDON SW1A 2AS

AT 3/9  
1) Mr Turnbull: to see  
2) pa

31 August 1984

DWS  
3/9

Dear Robin,

This is to let you and others concerned know that I have decided to appoint Nigel Brecknell, an Assistant Secretary in the Department, to co-ordinate the inter-departmental scrutiny of administrative and legislative burdens and to be responsible for the DTI domestic report which will form part of this scrutiny. Mr Brecknell will be getting in touch shortly with Mr Chivers in the Efficiency Unit and should be able to devote himself full-time to the scrutiny from around the middle of September.

I am sending copies of this letter to the Chancellor of the Exchequer and the Secretaries of State for the Home Department, Environment, Employment and Social Services all of whose Departments will be engaged in the scrutiny. Copies also go for information to the Prime Minister, Lord Gowrie and Sir Robert Armstrong.

cc Prime Minister  
Chancellor of the Exchequer  
SoS Home Office  
SoS DoEnv  
SoS DoEmp  
SoS DHSS  
Lord Gowrie  
Sir Robert Armstrong

Yours ever  
David

DAVID TRIPPIER

PS/SoS  
PS/Sir Brian Hayes  
PS/Sir Anthony Rawlinson  
Mr Cooper PE&FO  
Mr Simpson MSM2  
Dr Morton PM1  
Mr Ledsome PM  
(with papers)





## CABINET OFFICE

*From the Minister of State*

Lord Gowrie

MANAGEMENT AND PERSONNEL OFFICE

Great George Street

London SW1P 3AL

Telephone 01-233 8610

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Parliament Street

29 August 1984

*Dear Nigel,*

### GOVERNMENT PURCHASING

... The Prime Minister has asked me to circulate to you and relevant colleagues the attached report on government purchasing of non-warlike goods and services, prior to a meeting to decide how best to make progress with the recommendations. The report argues that if we adopt the best private sector practice in this field it should be possible to save more than £400 million a year from better value for money in purchases and from improving procedures.

These are important potential savings and will be welcome. But to secure savings of this magnitude depends on changing attitudes throughout departmental purchasing and on the commitment of senior officials to making the new practices work. This will require concerted effort particularly by departments. The Prime Minister wishes to discuss with colleagues certain key issues of general importance prior to commissioning action on the report. At her request I have prepared the attached paper setting them out.

... Carrying through the recommendations will help stimulate competitiveness in British industry. Better planning by government departments, greater reliance by them on the vigour and resourcefulness of the private sector and closer co-operation with firms on such things as specifications and future needs will help ensure that the Government's purchasing power is used to support and encourage industry as well as getting better value for money for departments. Sir Robin Ibbs has consulted a number of leading industrialists on a personal basis about the report's contents. All have welcomed its general thrust.



I am copying this letter and enclosure to the Prime Minister, the Foreign Secretary, the Home Secretary, the Secretaries of State for Defence, Social Services, Environment, Trade and Industry and Transport and to Sir Robert Armstrong and Sir Robin Ibbs.

*Yours,*

*T/eg  
2*

LORD GOWRIE



## GOVERNMENT PURCHASING OF NON-WARLIKE GOODS AND SERVICE

1. The report suggests that savings of at least £400 million a year can be achieved through improvements in the effectiveness of government departments' purchasing, storage and distribution of non-warlike goods and services. What this requires is for departments to push ahead with a package of improvements to:

- improve and make better use of information on what is bought and on suppliers. This should lead to more business-like purchasing;
- specify goods and services in such a way as to improve value for money (for example, by specifying what is good enough for the job rather than the best possible and by making greater use of internationally accepted standards);
- liaise more closely with suppliers to identify mutually beneficial economies of production and supply;
- improve the organisation of purchasing and supply and clarify roles and responsibilities for securing value for money;
- provide purchasing staff with the training, experience (in the form of exchanges with the private sector) and incentive to enable them to achieve maximum value for money; and
- improve the efficiency of purchasing procedures (which will make available the staff and financial resources needed to improve the effectiveness of government procurement)

2. The main decision for colleagues is whether we accept the broad thrust of the findings that central government attitudes and methods in this area now lag significantly behind good private sector practice and cannot be allowed to continue unchanged. The evidence on this relates to:

- specifications that do not put value for money at the forefront (chapter 2);
- fragmented demand, lack of attention to on-costs such as storage and distribution, repairs and reliability (chapter 3);
- reluctance to enter into commercial dialogue with potential suppliers (chapter 3);
- unclear responsibilities in contracts (chapter 4);
- excessive paperwork, ineffective delegations and controls, inappropriate levels of service by the purchasing organisation and poor management information (chapter 5); and
- insufficient recognition of the importance of good purchasing (chapter 6).

If we do accept these findings the report presents a package of measures to remedy the position.



ACTION BY DEPARTMENTS

3. scrutiny The normal procedure is for all departments to prepare detailed plans of action in response to the recommendations in the reports about their domestic arrangements and the recommendations in the overall report. These are discussed with central departments before being finalised, usually within three months of being commissioned. Because this is a wide-ranging report we should consider extending the period for departments to prepare these documents to, say, six months.

Colleagues will want to discuss:

- the timescale for commissioning departmental action documents.

ACTION AT THE CENTREThe Central Purchasing Unit (CPU)

4. The report recommends establishing a Central Purchasing Unit as a source of help and advice and to act as a catalyst in bringing about the major change in approach and attitude envisaged. The Unit's roles and responsibilities are described in paragraphs 7.10 - 7.16 and Annex H of the report. It would be headed by an experienced private sector purchaser.

Colleagues will want to discuss:

- the role envisaged for a Central Purchasing Unit.

Targets

5. The report recommends that an important aspect of changing attitudes and providing incentives to better performance is for departments to set individual savings targets (paragraphs 7.17 - 7.26) and agree these with the Central Purchasing Unit. Such targets are common in the private sector but will largely be a new departure for government purchasing organisations. They are not intended to be rigid and uniform.

6. It is not sensible to have a single target applicable to all departments. Nonetheless, the report suggests that savings of well over 5 per cent of the total cost of purchasing are readily achievable. That should be only a first step. The private sector has made improvements year after year and departments should be able to set further progressive savings targets as they improve purchasing performance.

7. Savings are also to be had from reductions in stockholdings, which are generally too high because of poor purchasing decisions in the past. A move towards greater use of direct delivery call-off contracts, largely obviating the need for stocks to be held by departments, should result in substantial savings even if slightly higher initial prices may have to be paid in obtaining these. In setting targets, all the costs of purchasing (prices, administration and such things as storage and distribution) will have to be taken into account.



8. It would be best not to publish the departmental targets. They will be an internal and confidential component of negotiations with suppliers. Also, published targets could be used against the Government politically if there was a shortfall, however small, in savings achieved.

Colleagues will want to discuss:

- the importance of targets in securing better value;
- whether an overall target of 5% improvement after two years (worth about £400 million) is sufficiently ambitious but realistic;
- whether the departmental targets should be made public.

#### PUBLICATION

9. We will be expected to publish the overall report as we have all other of this type in the past. The review was announced to Parliament on 20 December 1982. Its existence is well known outside Government circles and industry will wish to know its outcome. (In particular the CBI were consulted early in the review and they will expect action to be taken - especially in the light of their recent publication "Efficiency and the Public Service" which supports the kind of approach put forward in this report.)

10. There is a case for delaying until we are clear about our response to the detailed recommendations. But a full response will not be possible until early next year when departmental action documents are complete. In preparing these, departments will have to circulate the report widely and will be obliged to consult the trade unions. The risk of a leak must be high. In addition, if it is agreed to establish a Central Purchasing Unit, there would be advantage in having it in operation by the time departmental action documents are being considered. That means an early public announcement of the decisions so that the necessary recruitment is put in train.

11. All this points to publication as soon as possible after the recess. By then departments will have had time to reach a preliminary view of the recommendations and these could be reflected, perhaps in a foreword.

12. The presentation of the report needs careful consideration. Our supporters and industry are likely to welcome the proposed reforms in principle and the potential savings. However, there may be worries that the changes are to be made at the expense of industry and that the different approach to buying which is advocated could lead to lower standards of probity in the public sector purchasing. Neither of these allegations have foundation but we need to be prepared to rebut them robustly.

Colleagues will want to discuss

- the timing of publication
- presentation.



## GOVERNMENT PURCHASING: SUMMARY

Central government departments spend around £7,600 million a year on non-warlike goods and services. The report examines the way in which departments buy these goods and services.

2. The report's main conclusion is that the overall costs of purchasing can be reduced substantially. It recommends that departments set targets for savings. If the package of measures advocated in the report are applied to all areas of non-warlike government purchasing, the report concludes that savings of at least £400 million ought to be achievable.
3. Some of these savings will flow from improvements in the efficiency of purchasing arrangements. In particular, the process can be streamlined by reducing paperwork, less double-checking greater delegation of authority and a clearer definition of the level of service to be provided by purchasing organizations to operational divisions. Savings can also be made by reductions in stockholdings, many of which are too high because of poor purchasing decisions made in the past.
4. By far the bulk of the improvements will come from government paying less for what it buys. There are three ways in which this can be done. First, departments need to promote industrial innovation and competitiveness by relying more on performance specifications rather than on detailed descriptions of the goods and services required. Allied to this is the need to adopt internationally accepted standards, which will help industry to compete in international markets.
5. Second, there should be better planning. At present departments generally do not use the available information on what they buy to determine where greater effort needs to be made or where the benefits of aggregation of demand can be exploited.
6. Third, departments should improve their knowledge of suppliers and the market. This involves giving more information to suppliers about future needs, discussing with them what is available to meet those needs and, if necessary, explaining to them why their bids for government business have not been accepted. Government buyers have traditionally adopted an arms-length approach to purchasing.



Various techniques used by the private sector, such as product analysis, post-tender negotiation and price targets, should be practised by departments.

7. Improvements in purchasing depend on having the right staff. The report makes recommendations aimed at improving the expertise of staff through identifying the right talent, through secondments to the private sector and by better training. Purchasing staff also need greater motivation. The report proposes establishing performance targets and awarding financial incentives to staff who exceed their targets.

8. The management structure of purchasing needs to be clarified. In particular there needs to be a formal statement of the roles and responsibilities of both the buying department and the end-user (the individual who requires the goods or services to be bought for operational purposes). Within departments there should be a single person designated as director of procurement and supply who will have responsibility for ensuring that the procurement organization gets value for money. He should also be responsible for the efficiency of the purchasing organization and for the probity of its dealing with suppliers. In larger departments the director should preferably have proven practical experience in the private sector.

9. A central focus for good purchasing practice is needed in central government. The report proposes the establishment of a small central purchasing unit (CPU), to be headed by someone from the private sector. In addition to providing advice to departments the CPU would also agree savings targets with them and report annually to the Prime Minister on progress in implementing the report.

10. The report makes some recommendations on the three agencies which took part in the review (Crown Suppliers, HMSO and CCTA). These are aimed at developing the relationship between the agencies and departments so that the former provide an adequate level of service to the latter. Ultimately the strategy could lead to departments being untied from the agencies.



11. The proposals in the report will help government obtain better value for money. At the same time they should help industry become more competitive. The conclusions confirm the principles of the Public Purchasing Initiative. They also show the importance of implementing the principles of the Financial Management Initiative in departments. Implementation of the recommendations will make a practical contribution to the development of the FMI.



MANAGEMENT IN CONFIDENCE

CABINET OFFICE  
Management and Personnel Office

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# Government Purchasing

Report to the Prime Minister  
July 1984

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MANAGEMENT IN CONFIDENCE







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LIST OF ABBREVIATIONS

|               |                                                                   |
|---------------|-------------------------------------------------------------------|
| AP (Division) | Commercial Accounting, Contracts and Purchasing Policy (Division) |
| BS            | British Standard                                                  |
| BSI           | British Standards Institution                                     |
| CCTA          | Central Computer and Telecommunications Agency                    |
| Cmnd          | Command Paper                                                     |
| COI           | Central Office of Information                                     |
| CPU           | Central Purchasing Unit                                           |
| DHSS          | Department of Health and Social Security                          |
| DIN           | Deutsches Institut für Normung<br>(West German Standard)          |
| DOE           | Department of the Environment                                     |
| DTI           | Department of Trade and Industry                                  |
| EC            | European Community                                                |
| EO            | Executive Officer                                                 |
| FCO           | Foreign and Commonwealth Office                                   |
| FMI           | Financial Management Initiative                                   |
| GATT          | General Agreement on Tariffs and Trade                            |
| HEO           | Higher Executive Officer                                          |
| HMSO          | Her Majesty's Stationery Office                                   |
| HMT           | Her Majesty's Treasury                                            |
| IPS           | Institute of Purchasing and Supply                                |
| MOD           | Ministry of Defence                                               |
| MPO           | Management and Personnel Office                                   |
| NATO          | North Atlantic Treaty Organisation                                |
| NEDO          | National Economic Development Office                              |
| NHS           | National Health Service                                           |
| ODA           | Overseas Development Administration                               |
| PPI           | Public Purchasing Initiative                                      |
| PSA           | Property Services Agency                                          |
| SVOC          | Small Value Order Cells                                           |
| UK            | United Kingdom                                                    |
| US            | United States                                                     |



CHAPTER 1: INTRODUCTION

1.1 The 1983 Efficiency Programme included a multi-department review of government contract and procurement procedures. Our report sets out the main findings and makes recommendations aimed at:

- ensuring clear responsibilities for purchasing;
- establishing more efficient procedures for purchasing; and
- obtaining better value for money in what government buys.

1.2 Government departments need to buy certain goods and services to carry out their business. Procurement provides the means of meeting these needs from external sources of supply.

1.3 All departments have a procurement organisation. In a small department, where the main requirements are for stationery and office requisites, procurement may be the responsibility of the Clerk of Stationery or the Office Services Division. At the other end of the scale the procurement organisation may be large, such as the Ministry of Defence's formal Procurement Executive, and/or diffuse, such as the many Home Office units with authority to purchase locally.

1.4 The procurement organisation has two primary objectives:

- to provide end-users with what they need, when they need it, at the lowest cost; and
- to provide the Accounting Officer, and through him Parliament and the taxpayer, with value for money from expenditure on procurement.

These objectives should not conflict if the purchasing process is properly organised.

1.5 It is estimated that central government departments spent around £14,900 million\* on goods and services in 1982. Of this, £7,300 million was spent by MOD on warlike equipment. This is subject to a separate study by MOD this year and was thus not included in our review. Around 12 per cent of all central government departments' expenditure on goods and services is spent through the central agencies (HMSO, CCTA, COI, Crown Suppliers, PSA).

1.6 Government buys a wide range of goods and services, for example, paper, vehicles, large computer installations and roads. Unit costs vary widely: computer tape head cleaners are ten a penny while a major computer installation such as the DHSS local office project can cost as much as £700 million over a number of years. Within this broad range there are some groups of goods and services on which government spends in aggregate more than £100 million a year; for example, travel and subsistence and Post Office, GIRO and bank charges.

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\*Excluding expenditure on the wages, salaries and employers' national insurance contributions of government purchasing staff; and including gross domestic fixed capital formation. Source: Central Statistical Office.



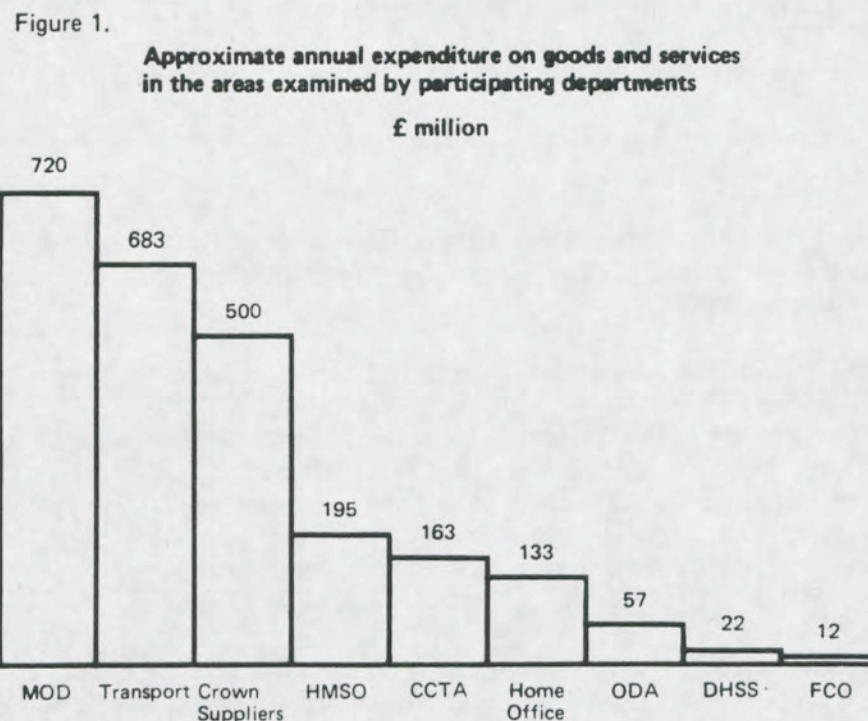
## MANAGEMENT IN CONFIDENCE

1.7 The review's terms of reference were:

"To examine critically the procedures and organisations by means of which the procurement of a sample of goods, services and works is undertaken, monitored and controlled by government departments; and to make recommendations to improve the efficiency and effectiveness of such procedures and organisations both in the areas examined and, as appropriate, more widely."

1.8 Nine departments took part in the review (Defence, Transport, Crown Suppliers, Her Majesty's Stationery Office, Central Computer and Telecommunications Agency, Home Office, Overseas Development Administration, Department of Health and Social Security, and the Foreign and Commonwealth Office). They appointed examining officers to carry out scrutinies of specific areas of purchasing. Of the £7,600 million spent by central government departments on goods and services (excluding MOD warlike equipment, the NHS and other central government bodies), the review examined expenditure of around £2,500 million and the work of several thousand staff.

Figure 1 shows the coverage by participating department:



Departments buy some goods and services using call-off contracts arranged by another department. Expenditure on these goods and services is allocated in figure 1 to the department responsible for letting the contract.

### Conduct of the review

1.9 Examining officers used the scrutiny technique. In particular they went to see the work being done to question those involved in buying. They visited a sample of suppliers to get their views on government buying practice. They also visited a range of private sector companies and nationalised industries to find out how they buy goods and services.



## MANAGEMENT IN CONFIDENCE

1.10 The review involved much hard work by the examining officers and their helpers. It also involved much time on the part of officials carrying out purchasing who willingly explained to examining officers their work, problems and ideas. We are grateful to all who contributed their time and effort to this review and to the departmental studies. Annex A lists those who discussed aspects of the review with us.

### Cost of review

1.11 The central part of the review cost around £75,000. The individual studies cost in total around £225,000, excluding the time of staff consulted in departments.

### Findings of examining officers

1.12 Examining officers identified ways in which departments could reduce the costs of procurement and achieve further savings through getting keener prices. Details of their recommendations, and of the savings estimated to result from them, are in Annex B.

### Central team findings

1.13 Our main finding is that the overall costs of acquiring non-warlike goods and services can be reduced substantially by a combination of a number of changes in government purchasing and supply procedures. We propose that departments set specific targets to reduce these costs within three years. Applied to all non-warlike government purchasing we believe that savings of over £400 million a year are achievable. This represents over five per cent of the annual expenditure on goods and services.

1.14 Some savings will flow from streamlining purchasing arrangements. Some will come through a more effective supply process, particularly through reductions in storage and distribution costs. In addition, price savings will be achieved by co-operation with industry through better planning of purchasing, through closer liaison between purchaser and supplier and through ensuring that specifications are better tuned to what the market can provide. We believe that our recommendations will help government obtain better value for money and, at the same time, help industry become more competitive. Our conclusions confirm the principles of the Public Purchasing Initiative (PPI) launched in 1980 to improve the competitiveness of industry and should help the operation of it in practice.

1.15 Our findings show the importance of implementing the principles underlying the Financial Management Initiative (FMI) to all activities in departments.<sup>1</sup> We identify the need to clarify responsibilities, to delegate appropriately, to make available the necessary information and to provide proper training for purchasing staff. Implementing our recommendations will thus make a practical contribution to the development of the FMI and will show how application of its principles can result in greater effectiveness.

1.16 Examining officers praised the hard work of departmental procurement staff. We endorse that from our own impressions gained on visits with examining officers. Generally, procurement staff at all levels do the job they are asked to do diligently. However, it is implicit in many of our recommendations that at present they are often not given the right job to do. Many of them are aware of the limitations of government procurement and some have themselves proposed ways of improving value for money. Many are keen to take on broader responsibility for securing greater value for money.

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<sup>1</sup> *Efficiency and Effectiveness in the Civil Service* Cmnd 8616, HMSO, 1982.



**The central report**

1.17 This report is about getting better value for money. A wide range of factors influence value for money in procurement. The "money" involved is the total of the price paid, the cost of the procurement itself, and any other on-costs (storage and distribution, consumables, spares and maintenance, servicing, replacement etc). Quality is an equally important consideration which may be reflected in direct costs. A full list of the factors relevant to value for money in procurement is shown in the Public Purchasing Policy Guidelines published by the Treasury in 1981. These are reproduced at Annex C.

1.18 Our report examines in turn a range of factors that influence the value for money obtained by government departments in procurement. Chapters 2, 3 and 4 deal with the specification of what is needed, the process of securing a supplier and a price, and the conclusion of a suitable contract. Chapter 5 covers the administration of procurement. In each of these chapters we assess the evidence of the departmental examining officers and recommend changes directed at helping departments reduce the overall costs of procurement. In Chapter 6 we examine how to increase the effectiveness of government purchasing by improving the performance of staff. Chapter 7 considers how the changes we identify can be carried through at all levels in the purchasing and supply organisations of departments. Finally in Chapters 8 and 9 we consider the implications of our proposals for the three central procurement agencies which took part in the review and for government policies relating to procurement.



### CHAPTER 2: DEFINING THE REQUIREMENT

2.1 The first step in the purchasing process is to decide what to buy. End-users are responsible and accountable for achieving a range of operational objectives. Thus they must be responsible for specifying the goods and services they need in order to achieve these objectives effectively.

2.2 The ODA report gives an example of what can go wrong if responsibility for specifying the requirement is taken away from the end-user:

- in issuing invitations to tender for a fisheries project in the Sudan, the Crown Agents disregarded specifications drawn up by the ODA project leader in the Sudan and substituted their own. As a result, a cold store - an integral part of the project - failed to cope with the tropical climate.

2.3 The HMSO report gives an example of what can happen when responsibilities are unclear:

- a recent HMSO review found that less expensive paper qualities were likely to be suitable for 85 per cent of print jobs reviewed. Using those, subject to their acceptability to end-users, would cost nearly 12 per cent less, a saving of the order of £400,000 a year.

Here, the end-users (in departments) seemed unaware of their responsibility, in the light of appropriate technical advice, to determine the quality of the paper used for departmental publications and hence the costs of them. We believe that this is because departments are not clear about the relative responsibilities of departments and agencies such as HMSO.

2.4 The end-user's choice of specification has an important influence on value for money. If the requirement is under-specified, the goods or services will fail to support operational objectives. Money will be wasted or further, unplanned, expenditure will be required to put things right. If the requirement is over-specified, more than necessary will be paid for the goods or services needed.

2.5 End-users are responsible for balancing performance against costs. But there are other value for money considerations in deciding on the specification. In particular, value for money can be improved by:

- maximising economies of production and supply;
- making greater use of performance specifications that encourage innovation and competition among suppliers; and
- making greater use of internationally accepted standards.

To benefit fully from these factors, there needs to be knowledge and understanding of the appropriate market and the suppliers within it. It is unreasonable to expect end-users to understand the markets with which they may have only infrequent contact. We see the responsibility for obtaining, maintaining and disseminating this information as being clearly that of the procurement organisation.

2.6 Evidence from examining officers' reports, from our discussions with the private sector and from responses to our questionnaire shows that government departments give insufficient weight to these considerations. They are thereby not getting best value for money. Two examples illustrate this:



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- the CCTA report shows that, in spite of CCTA setting up running contracts and streamlined procedures for the purchase of micro computers, over 90 per cent of departmental requirements are expressed in terms of non-standard packages. This indicates that either departments ignore the benefits from the call-off arrangement or CCTA, in setting up these arrangements, has not taken full account of departmental needs;
- a company that supplies MOD sent us details of the prices for certain goods that they quoted to MOD compared with the prices they would charge for almost identical items if MOD were to drop apparently inessential additions to the standard product. The MOD requirements added as much as 50 per cent to the price of the standard item.

2.7 To maximise economies of scale and to take advantage of available discounts, departments need to meet as many of their requirements as they can with standard or proprietary products. They also need to eliminate inessential differences between the requirements of end-users. The procurement organisation thus needs to encourage end-users to move towards common products. One private sector company told us that separate divisions of that company had for years been buying valves of an identical engineering specification but painted in different colours. By combining specifications additional discounts were secured from their supplier without affecting the product's performance. We believe that similar scope for using common specifications exists both within and between government departments.

2.8 Performance specifications tend to give better value for money than detailed specifications because suppliers can use their initiative and specialist knowledge to meet the end-user's need at minimum cost. However it may be necessary in some circumstances to supplement performance specifications with detailed specifications - for example, the quality of material to be used - to ensure the end-users' needs are met.

2.9 It is government policy, set out in Cmnd 8621,<sup>1</sup> that those in central government responsible for drawing up specifications should encourage reliance on standards, whether British or foreign, which hold sway in world markets. As the White Paper says:

"reducing the multiplicity of procurement specifications and relating the requirements instead to standards promotes industrial efficiency ... and increases profitability and productivity."

All of this helps to increase value for money for the purchaser.

2.10 To secure the benefits deriving from reducing inessential differences between specifications, from making greater use of performance specifications and from using international standards more fully, procurement staff must take a more active role in helping end-users to determine specifications. In MOD, the examining team found a number of instances where contracts staff had secured alterations to specifications to meet end-users' requirements at less cost. This should be encouraged in all departments and put on a formal footing. **We recommend (Recommendation 1) that procurement staff should be clearly empowered, where they can propose alternatives that they consider will provide better value for money, to challenge specifications set by end-users.** At the end of the day the end-user, or his line of command, must

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*Standards, Quality and International Competitiveness* Cmnd 8621, HMSO, 1982.



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have the final say but must reach the decision on specification in the full knowledge of the alternatives available.

2.11 We also recommend (Recommendation 2) that the senior manager in each departmental procurement organisation should set in hand a rolling review of specifications as new contracts come forward or as old contracts come up for renewal. Procurement staff should challenge any specifications that, in their view, make insufficient use of internationally accepted standards. The senior manager should set targets and a timetable for reducing the number of detailed departmental or other non-standard specifications, should promote the use of performance specifications and should monitor the organisation's achievements in these respects.

2.12 The procurement organisation's market knowledge should enable it to advise end-users on possible specification changes which would get better value for money. It should be expected to be conversant with standards (where appropriate) and should indicate to end-users the most appropriate ones for particular items. It would be required to represent the department on relevant BSI and other standards committees to present and promote the department's commercial interests.

2.13 One cautionary note: standards do not replace the need for expertise. It is necessary to understand what lies behind them. One private sector company we visited described standards as the tool of a poor engineer. While that is an oversimplification, we believe that government as a major purchaser should not simply rely on existing standards. Rather, departments should use and promote good standards to improve value for money and competitiveness. This is particularly so when existing standards are not yet internationally accepted. Government is then in the position to influence the standard to be adopted.



CHAPTER 3: METHOD OF PROCUREMENT

3.1 Once the end-user, in consultation with the purchasing organisation, has determined what is required, it is necessary to define the most appropriate method of procurement.

3.2 There are several distinct methods of procurement open to government. For example:

- purchasing low-value goods from local shops or stockists by cash or other arrangements;
- obtaining oral quotations;
- obtaining written quotations;
- inviting tenders from a range of suppliers against a formally issued specification;
- extensive formal tendering such as characterises the letting of a contract for a stretch of motorway or a major computer installation.

3.3 In each case the purchaser has to determine how many suppliers to invite to quote or to tender. The purchaser has also to determine the level (central, regional or local) at which it is best to let the contract. This level is independent of that at which goods and services are actually acquired. It may, for example, be sensible to allow a regional procurement organisation which has particular expertise to arrange and let a contract from which other regional and local units, including those from other departments, can call off supplies.

3.4 Determining the most effective method of procurement will depend on:

- what is being procured and its value;
- when and where it is required; and
- the range of suppliers capable of meeting the requirement.

All these factors need to be considered in advance if the procurement method is to maximise value for money. Responsibility for choosing the most appropriate method should lie with the procurement organisation in the light of these factors and in consultation with end-users.

3.5 We examine below, with examples from examining officers' reports, what can be done to improve value for money by adopting methods of procurement appropriate to the purchases being made.

**Aggregating demand**

3.6 The quality of planning in purchasing can have a major impact on value for money. For example:

- the MOD examining team considered that savings could be achieved in the government's expenditure on standard vehicles, such as cars or vans, if departments were to plan their annual requirements in



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advance and seek to reduce the spread and variety of models they purchase. If a further saving of only 1 per cent can be achieved, savings of £250,000 are in prospect;

- MOD has a central call-off contract for white loaves. They buy bread at about 6p per loaf less than the Home Office does. Between them, the two departments buy 5 million loaves a year. If the Home Office tapped the MOD contract or secured similar terms, they could reduce their expenditure on bread by 14 per cent a year.

3.7 To determine whether aggregating demand would be beneficial, purchasing organisations need to know in advance the likely requirements of end-users. Examining officers are critical of the quality of planning in government purchasing. The amount, detail and quality of information necessary to decide on the best method of procurement varies considerably. Departments do not prepare adequate plans in support of the following year's procurement budget; and there are often no useable records of the types of goods purchased in the past. If procurement organisations are to be able to decide how best to meet end-users' needs and to secure the best deal from the market, they must have this information in advance. **We therefore recommend (Recommendation 3) that the senior procurement manager in each department should draw up plans on a continuing basis, derived from past needs and forecast information from end-users, showing what goods and services are to be bought.**

3.8 Initially these plans can only be broad indications of intended purchases. Even that should help the purchasing organisation to identify areas where aggregation would be beneficial and areas where buying effort should be concentrated. Goods and services should then be divided into three broad categories:

- i. those where greatest value for money could be achieved by central contracts. Here, the position would be that the local manager could only buy elsewhere if he could demonstrate that taking advantage of a better deal would not undermine the overall benefits from a central contract (class A goods and services);
- ii. those which could be bought locally, regionally or centrally, where there might be, for example, a target price; if the local manager could obtain a better deal taking account of any additional procurement costs he should be free to buy locally (class B goods and services); and
- iii. those that can be bought at less overall cost locally, where the size of the purchase does not justify central purchasing or where local knowledge is of greatest importance (class C goods and services).

In determining how much effort to put into setting up contracts for goods and services, the procurement organisation should concentrate on class A and B goods, broadly following the 20/80 rule (that is, concentrating on the 20 per cent of goods by volume which are likely to represent 80 per cent by value). However, factors other than the volume of goods bought will influence both the categorisation of goods and decisions on where most buying effort should be put. These factors might include the need to have a high level of quality assurance or the need to support a company which has invested in order to meet a government contract.

3.9 Planning of purchasing needs to take place inter-departmentally as well as departmentally to ensure that, where appropriate, the government's purchasing power is used to maximum advantage. Smaller departments should be able to benefit from the aggregation of government orders. Aggregation of total government demand was



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the principle behind the formation of the three agencies covered by this review. But a central oversight is required to ensure that inter-departmental aggregation is pursued wherever - and only wherever - benefits can be achieved. We discuss how best to organise this central role in Chapter 7.

3.10 A further aspect of planning is the need to look at longer-term requirements. The purchasing organisation can then inform suppliers of these and, where appropriate, discuss with them how best to meet these needs. This helps suppliers to judge whether to invest to develop products to meet these needs and enables them to bring to departments' attention existing products which might meet such needs. Forward planning will also help the purchasing organisation to prepare for future work, for example, by collecting information on products for which there is to be an upsurge of demand. Procurement plans should thus include a note of identifiable major requirements and known changes in trends for future years.

### Strategy

3.11 Once the procurement organisation knows what it has to buy it can plan the most effective method of procurement in consultation with end-users. Time to plan is important. Procurement which is flexible over timing is likely to produce better value for money than that which is rigid. It is ineffective to expect buying staff to set up contracts at short notice - it is expensive for government and disruptive to industry.

3.12 Examining officers' reports provide a number of examples where the choice of an inappropriate method of procurement has reduced value for money:

- an example from the report on the Home Office shows the effect of failing to recognise a product's market. The prison industries purchase a particular variety of hardwood which is produced only in the Philippines. Purchases are made from importers in the UK by standard tender procedures three times a year. The total annual cost is £783,000. Two features of the tender procedures have the effect of increasing the price paid. The first is that tender invitations are sent to several UK and EC importers, who must all refer back to the source suppliers in the Philippines to calculate their prices. This gives the source suppliers an exaggerated impression of demand; as supply is limited, the price goes up. The second is that the importer is required to quote a firm price in sterling, whereas the price he pays to the source supplier is fixed in \$US. He therefore builds an allowance into the price to cover himself for adverse trends in exchange rates. The changes recommended by the examining officer are estimated to result in savings of the order of 10 per cent of annual costs;
- the FCO report describes the new system for purchasing tyres. It used to be sufficient to know the tyre size and to go to the local stockist. Now that the tyres are purchased centrally by MOD, the NATO code has to be consulted and an Army form completed. The tyres come by National Carrier from Bicester and the bill from Liverpool. Because it all takes some time, 8 to 10 months stocks are kept in store by the FCO at Hanslope Park;
- another example comes from the ODA report. An architect on a one-year assignment to Tuvalu needed some basic draughtsman's office equipment, worth about £1,000. The architect stated that he could have obtained quotations for all the 19 items from three retail



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outlets within walking distance of his UK office. He also believed that most of the items could have been bought off the shelf in Suva (Fiji) at comparable net prices. The Crown Agents went out to formal tender. As a result it cost £2,700 (cost of equipment plus Crown Agents' charges and freight charges) to buy £1,000 of goods and ship them to Tuvalu. And by the time all the goods arrived the architect had left.

3.13 These examples show that it is important that the method of procurement is appropriate to the goods or services being acquired. The impact of all on-costs needs to be considered at an early stage in the planning of the procurement. **We therefore recommend (Recommendation 4) that the purchasing organisation and end-users agree a procurement strategy for all procurements.** For small purchases, this would normally be proposed by the end-user as part of his request for procurement action. Such a proposal would be deemed to be agreed by the procurement organisation unless specifically challenged. For larger procurements, the strategy might need to be formally discussed and agreed between the end-user and the procurement organisation. We outline the key components of such a strategy, in the context of a unified contract control document, in Annex D.

3.14 An important element in the development of any procurement strategy will be the assessment of on-costs, which must in particular take full account of the lifetime cost of the goods procured. Lifetime costings and investment appraisals are essential for all major procurements other than where the goods being bought have a very limited shelf-life. At the planning stage these analyses make an important contribution to decisions on what to acquire and the most appropriate method of acquiring it. At a later stage, they are of great value in establishing the relative ranking of individual bids, taking account of such aspects as the costs of different methods of procurement (for example supplier stocking versus departmental stocking). In this respect, these techniques can be of use even when smaller purchases are being made. The Treasury issued guidance to departments to help them conduct such appraisals in 1981.<sup>1</sup> This year the Treasury issued supplementary guidance which should help improve the application of this methodology.<sup>2</sup>

3.15 To obtain best value for money it may be necessary to incur higher initial costs. The longer-term implications of buying are often given insufficient weight in government because of the financial pressures imposed by a rigid annual cash budget. A recent relaxation of the annuality rules should allow departments more flexibility to take account of lifetime costing. Better procurement planning should also help. **We recommend (Recommendation 5) that lifetime costings and investment appraisals should be used to determine which products to buy. Departments should take account of value for money opportunities along with other relevant considerations in the annual public expenditure decision process and in ordering their priorities during the year. If the sums involved are significant and long-term value for money is barred by departments' annual cash restrictions, the Treasury should seek to accommodate them in the interests of securing better value for money.**

3.16 The cost of stocking what is bought needs to be given careful consideration. Call-off arrangements, particularly if they include direct delivery from supplier to end-user, can have significant advantages in reducing the overall costs of acquiring goods, even if they lead to marginally higher prices.

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<sup>1</sup> *Investment Appraisal in the Public Sector: A technical Guide for Government Departments* HM Treasury, 1981.

<sup>2</sup> *Further guidance on the appraisal of public purchasing decisions* HM Treasury, 1984.



3.17 Excessive stocking is often a direct consequence of purchasing policy. A number of studies of stores carried out by MPO have shown that overstocking is prevalent, in terms both of the number of lines held and the numbers of items held in each line, compared to actual demand. Various studies in the private sector calculate the cost of holding stock to be about 20 per cent of its purchase price. Some studies in government departments have shown a much higher cost. The Treasury ascribe a 5 per cent opportunity cost alone to money tied up in stock. In addition, account must be taken of other overheads such as storage costs, transport and distribution costs, stock deterioration, obsolescence and loss. The MPO have issued management guidelines on stores to streamline and improve the effectiveness of storekeeping.<sup>1</sup> **We commend these to departments.**

3.18 To strike the best deal the procurement organisation needs to know and take account of the on-costs. It must actively keep abreast of developments in supply arrangements (such as consignment stocking). We consider that to be effective the procurement and supply (for example stores and distribution) organisations need to be in the same line management chain. **We recommend (Recommendation 6) that in formulating the roles and responsibilities of the procurement organisation (see paragraph 7.4) the Accounting Officer should include supply organisations with the aim of integrating the management structures of the two organisations if this has not already been done.** If there are sound operational reasons for brigading supply functions separately from procurement, the Accounting Officer should satisfy himself that organisational arrangements are adequate to ensure that due account is taken of all the on-costs of procurement at the planning stage.

3.19 It should be the personal responsibility of the senior manager in charge of procurement and supply to integrate purchasing and supply; to improve efficiency and effectiveness, for example by ensuring that the guidelines on stores are implemented; and to co-ordinate the activities of purchasing and supply to maximise value for money for the taxpayer.

#### Targeting prices

3.20 Pre-contract work should also include the setting of a target price by the end-user in consultation with the procurement organisation. Estimating a price should ensure that the buying organisation considers the underlying performance and cost assumptions of a contract. It should provide a better basis for evaluating tenders and challenging assumptions made by suppliers. Clearly the amount of work put into estimating a target price will depend on the value of the contract. Where the value is low, it may not be necessary to do more than assume the previous purchase price of the goods. Where the value is high, a great deal of work, involving analyses of raw material prices and costs of the manufacturing process, may be needed.

3.21 One private sector company we visited incorporated target prices as a formal component of their contract procedures. Targets strengthen financial control and encourage buyers to get behind suppliers' bids. **We recommend (Recommendation 7) that achievable target prices should be agreed between the procurement organisation and end-users in respect of all contracts.** The end-user should agree a target price with the purchasing organisation early in the development of the procurement strategy (see Annex D). The procurement organisation should aim to better the target price.

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<sup>1</sup> *Stores management guidelines*, Cabinet Office (MPO), November 1983.



Suppliers

3.22 Once the method of procurement is decided, a supplier has to be selected. In choosing a supplier the aim should be to maximise the value for money obtained from the total package offered by those who bid for the contract.

3.23 Some examining officers were critical of the quality of the information held on suppliers. Existing records mainly derive from the approved lists drawn up by departments and from the outcome of tendering procedures. However, the information is not readily available; nor does it have the kind of detail which the private sector holds on its suppliers and, in some cases, its suppliers' suppliers. For example, the ODA report pointed out that:

- the Crown Agents placed more than £100,000 worth of business with 72 separate suppliers in at least one of the last three years: 22 of these obtained orders to the value of over £1 million in one or more of those years. The Crown Agents have not sought to negotiate any special terms as a result of the volume of business placed with these suppliers on the grounds that it represents very little by way of repeat orders for the same items. The German equivalent of the Crown Agents does, however, negotiate with its largest 100-150 suppliers and has achieved discounts of up to 30 per cent of the value of contracts.

3.24 The range of suppliers invited to bid for government business can also have an impact on the value for money obtained. For example, the Home Office report indicates how value for money can be increased in appropriate circumstances by inviting more suppliers to tender:

- in the Directorate of Works a special effort was mounted, through advertising and contact with trade associations, to recruit new contractors. The improved standard of competition achieved a reduction of some 8 per cent on overall prices paid by the Department.

3.25 There is evidence in some departments that new applications to go on approved lists have been rejected because departments believe that competition among suppliers already on their lists is sufficient to secure value for money. This can prevent departments from getting better deals from potentially competitive new suppliers. To overcome this **we recommend (Recommendation 8) that the senior procurement and supply manager in each department reviews all approved lists by April 1986 and subjects them to continuing review thereafter.** Firms which are not up to the mark (in terms of consistently not tendering, or having frequently missed delivery dates, or of providing goods below standard quality despite warnings) should be deleted from lists and new applicants should be added. Where possible each invitation to tender should include one firm which has not previously been invited to tender. By this means, and by always inviting a sufficient number of firms to tender, the tendering process will become more competitive.

3.26 One of the first steps in achieving good value for money is to make certain that the supplier has the capability for making goods or providing services of the required quality. Certification schemes based on BS 5750 can provide such assurance and are a central plank in the Government's National Quality Campaign. BS 5750 is a standard for the assessment of suppliers' quality management systems. It is divided into three levels of sophistication. The highest one incorporates the possibility of assessing a manufacturer's capability for designing, manufacturing and installing its products. The lowest one relates only to the inspection of final products and is



therefore applicable only to simple items. In assessing suppliers, both for inclusion in approved lists and for shortlisting for individual contracts, departments should promote the adoption of BS 5750 and, where appropriate, give due preference to suppliers who have achieved certification to an appropriate level.

3.27 Many private sector companies have close relationships with suppliers which lead to long-term and mutually beneficial arrangements. There can be advantages in establishing long-term contracts. For example, a firm may wish to make a capital investment in order to provide goods required by government at a more competitive price in the longer term. Continuity of supply may be an important consideration in placing a contract, and to ensure that may mean placing a long-term contract. In circumstances like these the procurement organisation should analyse fully the costs involved and award long-term contracts where appropriate.

3.28 It is important that the procurement organisation's management collects and analyses information on contracts placed with individual suppliers. They can then be alert to the possibility of relationships between buyers and suppliers developing to the stage where they might influence, or be seen to influence, purchasing decisions in a way that could affect the value for money obtained. It is also important that, where possible, departments discourage firms from becoming over-dependent on government business. One private sector company we spoke to spread its business so that no supplier relied on the company for more than thirty per cent of its turnover. That kind of absolute rule may not be applicable for certain specialised government procurements. But we consider that if any one department accounts for more than thirty per cent of a supplier's turnover, management should consider seeking alternative suppliers. This will avoid the possibility of being held to ransom by the supplier and the potentially difficult situation in which, by changing its needs, a department risks bankrupting a firm. It will also encourage new firms and encourage existing firms to diversify.

### **De-briefing**

3.29 Unsuccessful tenderers will want to know why their bid failed and this information can be passed to them without breaching commercial confidentiality. Doing this helps potential suppliers improve their performance so that their future bids will be more competitive. The responsibility for de-briefing unsuccessful suppliers lies with the procurement organisation, in consultation with the end-user. The procurement organisation should take the initiative, perhaps by the inclusion of standard clauses in replies to unsuccessful tenderers.

### **Competitive tendering**

3.30 Traditionally it has been assumed that the process of competitive tendering of itself ensures that the prices bid by potential suppliers represent the best value for money for departments. The report of the MOD examining team provides evidence that this is not axiomatically true.

3.31 In November 1983, at the suggestion of the examining team, MOD undertook an experiment in post-tender negotiation prior to the award of contracts. The existing purchasing staff telephoned the supplier who had already been selected under the existing departmental tender procedures as offering the best value for money. Their aim was to test whether, before awarding the contract and without incurring disproportionate expense to the department, further negotiation with the chosen supplier might result in improvements in the package as a whole.

3.32 The experiment did not ask staff to consider reduced specifications as a trade-off for price reductions. The ground rules suggested the use of the following tactics as a basis for negotiating price reductions with suppliers:



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- a. volume of business placed with company;
- b. any apparently undue increases from previous prices;
- c. if other than the lowest price tender had been selected because of other factors in the deal, could the successful tenderer be persuaded to equal (or better) the price of the lowest bid?

Savings of £193,000 were secured on contracts valued at over £20 million for a cost in staff time of £1,220. Price reductions achieved ranged from nil to as much as 9 per cent. Given that the experiment was conducted from scratch, that no meetings were held with suppliers, that the information base available was limited and that the buyers had little or no experience or training in negotiation techniques, the results are a tribute to the staff involved.

3.33 Further evidence that competitive tendering is no guarantee of best value for money comes from our discussions with the private sector. Nearly all the companies visited saw receiving the bids in response to a competitive tender not as the end of the purchasing process but as one stage in it. And there is evidence in the way in which foreign countries approach government purchasing which argues that a planned approach provides better value for money. For example, the ODA examining officer reported that:

- in West Germany a single procurement agency buys both for government departments and for the government's aid agency (equivalent to ODA). They have compared prices obtained for the same product at the same time on the one hand under the government procurement procedures (which do not permit negotiation on price) and on the other hand under the aid procurement procedures (which do). Prices paid under the government procedures are invariably higher, of the order of 10 per cent or more.

3.34 Post-tender negotiation provides the opportunity for the buyer and supplier to negotiate the finer points of the contract and to examine ways to reduce costs for mutual benefit. The supplier is no longer vying with competitors. As the contract is secure, subject to successful negotiation, the supplier is able to enter into frank and open discussions with the buyer and, where necessary, his suppliers and sub-contractors. As evidence of the benefits that can accrue to both purchaser and supplier from post-tender negotiation we quote from the response of one large company to our questionnaire (Annex E):

"Private sector buyers have the flexibility to negotiate an overall package of procurement with suppliers for their mutual benefit. Buyers benefit in terms of price and security of supply and service. Suppliers benefit by negotiating to optimise their manufacturing and distribution resources."

3.35 One company we visited stressed that it was just before the letting of a contract that the procurement organisation needed to put most effort into securing the best deal. This company would, for instance, seek in negotiation to secure firm commitments to spares availability and the arrangements for stocking and supplying spares. It is essential that these aspects are tied up before the contract is let. After that point, the negotiating position of the purchaser is much weaker.

3.36 If post-tender negotiation is to be successful, buying staff must be trained in negotiating skills. Some departments expressed the fear that once suppliers recognised that the successful tenderer would be subjected to post-tender negotiation they would increase their original tender prices. While this tactic is obvious we do



not believe that it will happen in practice as long as the procurement process itself maximises the benefits of the competitive nature of the market. In addition, we are not advocating that government relies on competitive tendering alone to produce good value for money but relies on skilled buyers supported by comprehensive procurement information. **We recommend (Recommendation 9) that, for individual contracts where the buying organisation considers that the benefits will justify the effort, they should introduce post-tender negotiation into their buying procedures.**

3.37 Sometimes negotiations will fail to improve the overall deal. On the basis of the information available, the procurement organisation should be able to assess if the result is reasonable or not. If the procurement organisation considers that it has still not obtained best value for money it has the option of retendering. It is possible that suppliers will resist improving their original bids knowing that departments will rarely have the time or the resources to retender. But this is equally true in private sector procurement. We believe that the key is for purchasing organisations to establish good working relationships with potential suppliers so that the post-tender negotiation becomes one in which the purchasing organisation and the supplier co-operate in reducing costs and improving the overall deal.

3.38 Our proposals above may lead to an increase in complaints from suppliers who fail to win in the competitive tender and hence do not get the opportunity to negotiate. Buyers will therefore need carefully to record decisions and any follow-up action taken, both to answer subsequent queries and for audit purposes. Departments will need to be robust in pointing out to aggrieved suppliers that they need to put in their best offer at the tendering stage. It would be inappropriate for departments to seek to negotiate with a range of tenderers after bids have been opened: that might appear to constitute a "Dutch auction" and would be damaging both to suppliers and to the credibility of government procurement.



### CHAPTER 4: CONCLUDING APPROPRIATE CONTRACTUAL ARRANGEMENTS

4.1 Having selected a supplier, the next stage is to let a contract. All procurement is governed by contracts. These can be very informal such as those covering, under the umbrella of the Sale of Goods Act, the local purchase of low-value goods. Or they can be very detailed and formal, for example the contracts that cover the procurement of goods and services in support of a major construction or computer project.

4.2 On major projects, such as a computer project described in the CCTA report, careful consideration needs to be given to the implications of enforcing the contract. (In the CCTA case enforcement would have meant completely restarting a half-completed project.) Most procurement, however, is more straightforward and there is no reason not to exact contract penalties. Nonetheless, the FCO examining officer found that in a sample of contracts studied suppliers' delivery performance was particularly weak and failures to meet contract dates were rarely followed up. In DHSS, the examining officer commended one procurement branch that had recently negotiated penalty clauses in which 1 per cent of the price would be forfeited by the supplier for every working day's delay in delivery. Delivery performance had improved markedly.

4.3 The purpose of the contract is formally (and legally) to allocate responsibilities and risks between the purchaser and the supplier. The acceptance of risks or responsibilities by suppliers implies a cost or a potential cost which they will almost certainly reflect in their price. HMSO and many private companies procure many proprietary supplies under cover solely of the Sale of Goods Act. It is clear that the more straightforward the contract, the better the value for money that is likely to be obtained.

4.4 Government departments use a number of standard contracts which are of variable quality. Clarity is a contract's strength, obscurity its weakness. Securing good enforceable contracts is a specialised task. We believe that the responsibility for drawing up the contract and enforcing it should lie with the purchasing organisation.

4.5 Contracts which include scope for variation should be avoided if at all possible. However, particularly in times of world inflation, high financing costs and fluctuating demand some contracts will need to take account of variable factors. In such circumstances, the procurement organisation must take full account of, and control to the maximum extent, the impact of these variable factors in drawing up the conditions of the contract to ensure that better value for money is achieved. **We recommend (Recommendation 10) that the senior procurement manager in each department should review by April 1986 their contract documentation with the aim of making conditions more specific, clarifying risks and responsibilities and improving the form and wording.** This does not necessarily mean more complicated contracts. Indeed there is much to be said for simplifying them and relying as far as possible on the Sale of Goods Act or good quality standard contracts. Departmental Forms Units may be able to help clarify the form and wording of contracts.

#### Risk

4.6 One of the objectives of the purchasing procedure is to minimise the uncertainty inherent in acquiring what is needed, by when and at what cost. This level of risk varies between contracts. In a simple contract to purchase a well-tried proprietary item the risks are small. End-users are able to define clearly what is required to meet their needs; supply should be straightforward; and the contract price



is fixed. In other types of contracts, for example for computers and motorway construction, the uncertainty throughout the procurement and supply process is much greater.

4.7 These risks must be minimised if best value for money is to be obtained. Where uncertainty exists, the need for defining clear responsibilities, setting specifications, using investment appraisal techniques, targeting prices and having firm enforceable contracts increases in importance.

4.8 For example, in project work end-users need to take a much more active part in the procurement process. To minimise uncertainty they need to determine and define clearly how to meet their operational needs at least cost. The end-user will need to have the necessary expertise to set specifications and to assess the life-time costings of alternative options. In specialised areas, the end-user will need to be able to assess directly the technical competence of potential suppliers and the feasibility and costs of their project proposals. He will need therefore to acquaint himself with the specialist market, with appropriate support from the procurement organisation. The end-user will need to have a particularly close working relationship with the procurement organisation whose main responsibility will be to minimise contractual risks. In these projects, the terms of the negotiated contract will be fundamental to the achievement of value for money. Also, given that project work often spans a number of years, there is need for both the end-user and the procurement organisation to monitor contracts carefully to ensure compliance. The implications of these responsibilities in contract work are spelt out in more detail in Annex D.



### CHAPTER 5: ADMINISTRATION OF PROCUREMENT

5.1 Examining officers found that many departments are unaware of the administrative costs of purchasing. Such information is progressively improving as departments introduce and refine their management information systems. Nevertheless, information is not readily available on the cost of purchasing, and this is indicative of the relatively low level of importance departments attach to purchasing. We estimate from the limited information in the departmental reports that the total cost of administering all departments' non-warlike purchasing is over £100 million a year.

5.2 Examining officers' reports identify a number of ways of improving the efficiency of procurement activities in departments. These measures will result in savings overall in the areas examined of some 10 per cent of the estimated administrative costs (see Annex B). The inefficiencies identified arise from:

- excessive paperwork;
- ineffective delegations and controls; and
- inappropriate levels of service.

We examine each of these themes in more detail below.

#### Excessive paperwork

5.3 Paperwork gives rise to a range of administrative costs. In particular there are the costs associated with completing, copying and moving documents to those who need the information and the costs of acting on the information once received. Individually these costs are small, but in aggregate they amount to significant sums.

5.4 At present some paperwork is inevitable. In particular departments and suppliers generally want hard copies of orders, contracts, delivery notes, invoices and payments. Modern technology is already beginning to make an impact even in these areas: for example, MOD's contractors are encouraged to accept payment by means of direct credit transfers on magnetic tape, and the Department of Transport will also be able from April 1985 to pay contractors by this means. However, most communications in the procurement process are internal signals from one part of the department to another, passing information, seeking approvals or authority for action, or accounting for expenditure. Separately, this same information may need to be stored, aggregated, manipulated and brought forward in support of procurement and management control. It is necessary to limit the information to the essential and to ensure that it is handled cost-effectively.

5.5 A number of the examining officers' reports point to the benefits that would stem from computerisation:

- the HMSO examining team commended management's efforts to introduce new technology to assist print buying staff in estimating, ordering, progress chasing, examining invoices, registering suppliers, etc. In addition, the department were employing consultants to determine a strategy for computerising other parts of their supply operation. This should result in significant staff savings over the next few years.



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- the FCO examining officer has estimated that the introduction of a micro-computer costing £20,000 in the Technical Procurement Section of Communications Division would result in staff savings of £39,000 per annum.

5.6 Computerisation offers considerable scope for doing these activities both more efficiently and more effectively. We return to this in Chapter 7.

### **Inappropriate delegations and controls**

5.7 Financial limits on delegated authorities to individual officers vary widely between departments.

5.8 In setting levels of delegation two factors have to be borne in mind. For maximum efficiency the work should be delegated to the most junior level that can do the work effectively. But considerations of accountability will tend to reduce the level of delegation in order to ensure that decisions which have financial or operational repercussions are taken at a sufficiently high level. Getting the balance right is a matter of fine judgement. Levels of delegation cannot be determined solely in terms of financial limits. High value purchases do not necessarily imply high levels of risk; nor need they dictate a need for complex contracts. Levels must reflect the circumstances of each department, the skills and experience of their staff and the complexity of the procurement.

5.9 Staff in central government are spending the taxpayers' money. It is right that they should be held fully accountable for the exercise of this trust. This affects decisions about delegation levels because there is a perceived need to check people's work to ensure propriety. But often senior management assume that approving a certain proportion of orders provides an adequate check. On its own, it does not. Often the upshot is that the manager sees only individual cases and not the wider context of what is being done.

5.10 Most examining officers found evidence of inappropriate levels of delegation and confusion between accountability and control. For example:

- in Crown Suppliers, above a certain delegation level at least two signatures are needed for authority to issue invitations to tender to specific companies; only two cases were discovered in which the senior officer changed the range of suppliers invited to tender;
- in the FCO Communications Division, the finance section checks invoices four times before payment;
- in Transport, contractors' bills must be paid within 28 days of presentation: thereafter the department will incur interest charges. The consultant engineer certifies the amount to be paid to the contractor. This is the sum the department legally must pay. Any errors are corrected in subsequent payments. Despite this, it was found that some Regional Offices were making a series of detailed checks on technical aspects before passing the invoices to the payment section. In the payment process the information from the certificates is transcribed twice. It is a tribute to the staff that despite this system the number of late payments is negligible.

5.11 The effect of excessive double-checking is directly to increase costs and delay action. Senior staff become burdened with unnecessary work and junior staff become demotivated if they are used as post boxes and not given real responsibility.



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In all purchasing organisations it is a matter of managerial judgement as to the balance between the risk of impropriety and the cost of preventing it. In government the acceptable level of risk is generally lower than in the private sector. Effective systems of internal control need to reflect this level of risk.

5.12 Some checking is necessary. But ineffective double-checking and attention to detail at the expense of attention to major issues can become commonplace and lead to the inefficient use of staff. It is also frustrating for them. It is hardly surprising, for example, that Regional Directors of Transport should be resentful of having to seek headquarters' approval for all increases in expenditure over £50,000. The examining officer has concluded that this check adds no value.

5.13 As the Wardale Report on the PSA made clear, mechanistic checking of decision-making is ineffective. What is needed is an information and control system that assures managers that the framework of delegation and accountability is working satisfactorily and providing adequate assurance of propriety. In this context Wardale says:

"... a disproportionate amount of time and expense is incurred in operating the current systems of control, and a more cost effective approach could be adopted without any significant decrease in the levels of control. Indeed, if accompanied by more appropriate management information we believe a more effective control would be achieved."<sup>1</sup>

5.14 Effective management control relies on a strong management structure, supported by effective management information, which requires managers to accept responsibilities. Managers' responsibilities must be clearly defined and managers have to be fully aware of the implications of their approval - for example, approving the initial financial allocation; specifying the goods; determining the terms of the contract; awarding the contract; receiving and checking the condition of the goods; and approving settlement. A typical purchase system is set out in Annex F.

5.15 Departments must decide appropriate authority levels having regard to such things as the nature of the goods being purchased; the risks involved, both financial and in not meeting the operational needs of the end-user; and the expertise of buying staff. We consider, as a guideline, that if 10 per cent or more of a person's work (by quantity, not value) needs to be referred to higher management there is a strong case for reviewing the levels of delegated authority. Current levels may be appropriate. But the evidence of this review suggests in general that the level of authority may need revision or the staff responsible for the work may be of the wrong grade. **We recommend (Recommendation 11) that the senior procurement manager in each department reviews by April 1986 the personal levels of authority delegated to staff, having regard to appropriate criteria such as those described above and to formally delegated management responsibilities.** This review should seek to retain only the minimum number of approval checks consistent with the need for propriety (paragraph 5.11). These approvals need to be recorded. We include at Annex D an example of a contract control document - based on one used in the private sector - which departments may wish to adapt for this purpose.

### Levels of service

5.16 Examining officers' reports indicate that the service nature of procurement organisations has been given too little recognition. The levels of service expected of the procurement organisation are rarely made explicit. Even more rarely are the

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<sup>1</sup> Wardale Enquiry: Final report to the Secretary of State for the Environment PSA, 1983, p43.



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levels of service related to such factors as operational urgency, cost, speed and commercial market forces. Procurement organisations have felt tied by rules and regulations which have been seen as preventing them from improving efficiency and end-users have come to accept an inappropriate level of service.

5.17 For example:

- the FCO examining officer identified 17 separate steps between the arrival of a requisition in the purchasing organisation and the despatch of an order to a supplier and as many as 24 steps if the stores section wanted to re-order stores. Partly as a result of the backlogs that had built up in the purchasing organisation, 36 per cent of the requisitions received in the purchasing organisation (51 per cent by value) were marked by end-users as needing priority action. In the examining officer's view the "priority" designation was being used to jump the queue in the procurement section rather than to alert the procurement section and the supplier to the need for prompt action to meet unexpected operational needs.
- in reporting on the difficulties experienced in procuring drawing office equipment for an architectural adviser on assignment to Tuvalu (see paragraph 3.12), the ODA examining officer commented that "as the project was handled, no-one in ODA at any time had any inkling of how long the equipment was going to take to arrive. The architectural adviser assumed that because it was basic equipment that could be bought in a shop, it would be bought and despatched with very little fuss or delay. The EO was following the rules, and again had no estimate of the timescale. The Crown Agents were not dealing with the end-user; and were unaware of his leaving date."

5.18 Procedures need to be streamlined to secure better value for money. For example, MOD's Small Value Order Cells (SVOC) manage to turn round most orders in 24 hours. The MOD team have recommended that the SVOC approach be implemented more widely throughout their department. Other examining officers have made similar recommendations designed to streamline purchasing procedures in their own departments.

5.19 End-users need to know what levels of service they can expect from the purchasing organisation. All too often line managers accept a poor level of service because of ill-defined responsibilities. In particular it is necessary to define what the procurement organisation requires from end-users, and by when, if it is to make an effective purchase. Within these constraints the procurement organisation should undertake that the agreed specification, target delivery date and target price will be met; that it will seek to improve the target price; and that it will satisfy the information requirements of the end-user. **We recommend (Recommendation 12) that the senior procurement manager agrees in writing with end-users by April 1986 service agreements defining the levels of service which the procurement organisation will provide.** He or she should be responsible for the performance of the purchasing organisation as measured against the service agreements.

5.20 To draw up these service agreements, all government departments will have to review the management structure and responsibilities of their present procurement organisations to determine whether the needs of end-users are being met. Service agreements will provide a framework for the operational responsibilities between the purchasing organisation and end-users. They will need to reflect the different types of procurement that can be undertaken. They may be specific to individual end-users or they may be department-wide.



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### Management information

5.21 The key to assessing whether the terms of the service agreements are being met is the right information being available to the procurement organisation. This must enable managers to measure and control the effectiveness of the purchasing organisation and the performance of the staff in it. They should, for example, be able to derive statistics on:

- the number of orders placed;
- the type of product or service purchased;
- the price paid compared with the target price;
- suppliers used; and
- delivery and quality performance.

Ratios can be developed from these statistics to provide management with performance information on the organisation. Appropriate measures might be the cost of the procurement organisation in relation to the throughput of orders (by number and value); the ratio between orders placed and late deliveries; performance as against the terms of the service agreement; stock ratios; actual prices as compared with target prices; etc. The information should also enable management to check on the progress of particular orders and to identify where problems have arisen or are likely to arise.

5.22 We have made a number of recommendations designed to give purchasing staff greater flexibility and responsibility. This needs to be matched, as noted in paragraphs 5.7 - 5.15 above, by monitoring and control systems that provide for effective management. The management information system must both deter and assist in the detection of any potential impropriety.

5.23 **We recommend (Recommendation 13) that the senior procurement manager and his senior line management agree the basis of, and firm plans for developing, appropriate management controls for procurement, by April 1986.** Some of the required information may be available from existing financial management systems. But it will need to be extended and to be available on a timely basis to support day-to-day management.

5.24 The management and procurement information systems (see paragraphs 3.7 and 3.25) will share a common database - the only differences between the systems will be the purposes for which information is extracted. The management information system, as well as supporting immediate line management, will need to underpin the budgetary and review functions of departmental top management systems being developed in the context of the FMI.



### CHAPTER 6: MOTIVATION

6.1 Getting better value for money in government procurement depends on the staff involved. We compared the way in which the private sector and government manage the purchasing function. Private sector companies regard their purchasing department as an integral part of their operations. Their profitability depends on getting value for money for what they buy, whether it be goods for resale in a retail chain, the components needed for a manufacturing process or the goods and services making up a major construction project.

6.2 Four main themes ran through our discussions with private companies:

- buying is a career where people develop expertise in negotiation, markets and products over a number of years. In some areas the specialism encompasses the whole of the supply process and in others buying and selling are seen as part of the same career structure;
- identifying the right people for buying is important. Once picked, they need thorough training if they are to be fully effective;
- buying staff are set high but achievable performance targets. There are financial rewards for reaching these targets; and
- the buying department has a high status in the organisation. Staff are well motivated to perform effectively.

The private sector regards these factors as important in obtaining effective and efficient performance from their purchasing departments. We believe that in government buying these factors should be given similar prominence.

6.3 At present only a few departments treat buying as a specialism. In most, it is often just another posting. The training given is mainly on-the-job and, except in a few areas, performance targets are not set. In general, buying is not regarded as a high status job and, in consequence, the staff are not as highly motivated as they could be. Our report advocates increased and clearer responsibilities to help improve both status and motivation. Purchasing staff will see that their job is important and that senior management regard it as a valuable part of the department's work. But more needs to be done and it needs to be done urgently.

6.4 To effect change quickly, and to keep up to date with the best private sector practice, we consider it essential that departmental procurement staff have relevant private sector experience. Arrangements for the interchange of civil servants with industry and commerce already exist. **We therefore recommend (Recommendation 14) that the senior procurement manager in each department sets up a specific programme within these arrangements to recruit or second buying staff from the private sector, and a specific programme of secondments to the private sector, by no later than April 1986.** The need for this experience is particularly important at senior levels in the purchasing and supply organisation.

6.5 A first step to attract and retain the right people in buying is to identify staff with a talent for the job. Senior procurement managers should be required to set out for establishment divisions the qualities needed by staff involved in purchasing, drawing as necessary on private sector experience. We also believe that government should recognise buying as a specialism and structure the purchasing and supply activities of departments to promote career development. Initially this may



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involve keeping people in purchasing and supply organisations for longer than is currently usual in most departments. The aim should be to reach the position where staff in government purchasing organisations regard themselves as buyers rather than as generalist civil servants.

6.6 However, few departments have procurement organisations large enough to provide a career path for buyers. And there is a need to associate buying and supply closely so that people pursuing such a career gain experience and training in the whole procurement process. We therefore believe that, in the longer term, career paths will need to be across departments, as occurs in other functional specialisms. There are a range of possible patterns, from an arrangement akin to those for government accountants to the creation of a separate professional group. **We recommend (Recommendation 15) that the Cabinet Office (MPO) in consultation with departments develops a functional specialism for purchasing and supply,** drawing as appropriate on experience within the private sector and within departments with a large purchasing organization such as the agencies or MOD. Specialisation should help to encourage greater movement in buying personnel between departments and the private sector. Greater co-ordination of career management should assist small departments for whom the full-scale implementation of our recommendations on secondments and training may be difficult to achieve in isolation.

6.7 Next, there is a need to provide training in basic buying skills and to provide courses to develop buying techniques and negotiation skills. Some private sector companies we visited sent their staff on courses run by the Institute of Purchasing and Supply (IPS) and some staff sit the IPS examinations. Others ran their own training in-house. No-one relied solely on on-the-job training. **We recommend (Recommendation 16) that the senior procurement manager in each department devises and initiates a training programme for staff involved in procurement by April 1986.** These programmes should be developed by departments' training divisions after consulting the staff involved and with the help of the Civil Service College and outside consultants as appropriate.

6.8 There is also a need to measure the performance of staff to determine whether better value for money is being obtained. Performance criteria need to take account of such things as price, quality and delivery time. The management information systems developed by departments must be designed to identify these and other key statistics (see paragraph 5.21). In the private sector a variety of performance measures are used. In one company we visited prices were the main criterion, with individual buyers being given targets related to inflation, the prices achieved by other companies in the group and the historical prices paid for the goods in question. In others, a global performance assessment was used, taking account of not only price but also level of service to end-users. Buying staff have to be involved in the process of determining such performance criteria.

6.9 We do not think that it is possible to lay down criteria which would apply in every department. In some areas, such as MOD's small value order cells, the major criterion may well be speed of service. In such an organisation a performance target related to the length of time taken to place an order might be most appropriate. Organisations may wish to place equal importance on quality and to assess performance on rejection rates. **We recommend (Recommendation 17) that the senior procurement manager, in consultation with the staff, draws up performance targets for individuals or groups of individuals by April 1986,** based on appropriate levels of service and on prices.

6.10 The performance of staff against these targets will be a measure of their achievements and, as such, will act as a strong motivator. However, we believe that, given the important role of buying staff in improving value for taxpayer's money, all



available means need to be used to stimulate high performance. We conclude that direct financial rewards for exceptional performance would be a useful addition to the other proposals we make. The nature of the reward may have to await the outcome of more general decisions on Civil Service merit pay. However, we believe that for buyers and, where appropriate, their supporting staff a scheme of non-pensionable bonuses would be appropriate. The schemes should be introduced on an experimental basis and the staff involved should be consulted on them. **We therefore recommend (Recommendation 18) that by April 1987 departments introduce incentive schemes for buying staff, based on performance targets and taking account of decisions on Civil Service merit pay generally.** Coupled with such schemes needs to be an acceptance that staff who find that they are unable to meet performance targets should be allowed to move to other work as soon as possible.

6.11 Another form of motivation is pressure from the end-user to provide a certain level of service. We consider this pressure is necessary to balance the cost of procurement against the value added by the buying staff. One company we visited operated a centralised buying section where end-users were charged a standard fee for each order placed. The buying organisation was required fully to recover its costs. This forced end-users to take account of the cost of the buying section's services and to challenge those costs. In turn, this put pressure on the buying organisation to improve efficiency, reduce costs and provide good value for money to end-users.

6.12 The costs of the purchasing organisation could be recovered by periodic transfers from the budgets of end-users, or by a percentage add-on to the price of the goods and services. Such repayment schemes need to take full account of the relationship between the end-user and the buying organisation, the amount being purchased and the effort put into the purchase by the buying organisation. We believe that in major procurement areas recognition of procurement costs by repayment would be beneficial. An internal repayment system needs to be carefully devised if the benefits are to outweigh the costs. Thus, while we think such a system should be introduced, we suggest that further work on the practical aspects needs to be undertaken. This would fall to those responsible for following up progress in implementing our report.



CHAPTER 7: MAKING THINGS HAPPEN

7.1 Our report shows that, overall, government procurement costs the taxpayer too much. Administration costs are too high; and the prices paid are often higher than necessary. What finally convinced us that government buying could be improved was a comparison with the private sector's approach to purchasing. While we are not able to comment on the absolute quality of private sector buying, we believe buying sections in the best of private sector companies are more active, better informed and better motivated than in government. There is a drive and energy that is uncommon in government purchasing organisations. Also there is an appreciation of the importance of the purchasing function which is largely absent at senior levels in government departments.

7.2 Purchasing is an important activity in government. It consumes about £14,900 million of government resources. It has to be effective if operational needs are to be met. Our report identifies a number of things that are wrong and recommends ways in which they can be put right. We conclude, however, that progress can only be achieved if the right management framework for making the changes exists.

7.3 We believe three important steps need to be taken:

- roles and responsibilities need to be clearly defined;
- a single individual in each department needs to take personal responsibility for making the changes happen; and
- a central focus for procurement practice throughout government needs to be established.

**Roles and responsibilities**

7.4 We believe there is a need first and foremost to ensure that end-users and procurement organisations understand their roles and responsibilities. Our report will help in this. But these roles need also to be formally prescribed and promulgated by departments to all concerned. **We therefore recommend (Recommendation 19) that the Accounting Officer, together with the senior manager responsible for procurement in each department, develops a formal statement of the roles and responsibilities of the departmental procurement organisation and ensures that this statement is communicated to all staff both in the procurement organisation and in spending divisions by October 1985.**

7.5 Throughout our report we have identified the main responsibilities of the purchasing organisation and the end-user. Annex G lists these.

**Director of procurement and supply**

7.6 There is a need for an individual to take personal responsibility for making the changes happen. **We recommend (Recommendation 20) that the Accounting Officer of each department appoint or designate a director of procurement and supply to take on these responsibilities.** This should happen before July 1985. The grade of the person appointed will depend on the level and complexity of purchasing in each department.

7.7 The director's operational aim will be to meet the needs of end-users and secure improvements in value for money. His or her main priority will be to make



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progress in improving the efficiency and effectiveness of the procurement organisation. We have set target dates for making the necessary changes. The director will be required to report progress on implementation on a regular basis to senior line management and centrally.

7.8 Other tasks for the departmental director arise from our earlier recommendations on the roles and responsibilities of the procurement organisation (listed in Annex G). The list is not exhaustive. The nature and amount of goods and services bought differs from department to department. In the light of these variations, directors will have to define the details of their own jobs and they should have the discretion to do so within the framework of the formal statement recommended in paragraph 7.4.

7.9 In recognition of the vital contribution of good buying to profitability, the private sector's approach to purchasing has developed a great deal over the last 10 to 15 years. It is crucial that senior purchasing staff in government departments have comparable skills and experience in order to deal with the private sector on equal terms. We therefore consider it desirable that the director of procurement and supply should have recent commercial experience in buying.

### Central co-ordination

7.10 At present, the main focus for procurement in the central departments is AP Division in the Treasury. It is responsible primarily for procurement policy, though it issues some practical advice on such matters as investment appraisal.<sup>1</sup> In addition, the Department of Trade and Industry is responsible for promoting the Public Purchasing Initiative. It is clear from the evidence in our report, however, that a central focus wholly devoted to procurement practice is needed. Such a central reference point is necessary in order to gain the full benefits from our recommendations, to change the culture of government buying and to provide the necessary support to departmental directors of procurement and supply.

7.11 **We therefore recommend (Recommendation 21) that the Prime Minister approves the establishment of a small central purchasing unit (CPU).** This should be in business by January 1985. The CPU should be set up initially for a period of three years, after which the need for its continuing existence should be reviewed. The unit's objective would be to develop and secure increased effectiveness in purchasing and supply throughout central government within this three-year period.

7.12 To achieve this it will need to encourage and monitor progress based on the action documents departments will produce in response to our recommendations. The progress reports of departmental directors of procurement and supply should be submitted to the CPU for incorporation into a central progress report to the Prime Minister (see paragraph 7.25).

7.13 Another key task of the unit would be to provide advice on good buying practice to departments. It will also need to co-ordinate inter-departmental aggregation, nominating lead buying departments as appropriate. These, and the other tasks for the unit which derive from our recommendations, are listed in Annex H.

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<sup>1</sup> *Investment Appraisal in the Public Sector: A technical Guide for Government Departments* HM Treasury, 1981.  
*Further guidance on the appraisal of public purchasing decisions* HM Treasury, 1984.



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7.14 The Central Purchasing Unit should consist of no more than five people with staff support. Its head should have direct access to ministers. As we stress throughout this report, buying is a speciality. Thus the CPU, to be credible, must contain proven practical expertise. The head and two other members of the unit should be seconded from the private sector, one experienced in contracts work. We have not been able to recommend where the unit should sit but in Annex H we consider a number of possibilities.

7.15 Consistent with the principles of the FMI, the unit should not detract from the independence of departments to buy what they want at the price they wish to pay. What it can do is help departments obtain better value for money in purchasing.

7.16 We estimate that the CPU's running costs, including salaries, support services and accommodation, will be around £300,000 a year. This is a small sum when set against the contribution the CPU can make to achieving the savings targets.

### Targets for savings

7.17 The implementation of our proposals for streamlining the procurement procedures, for reducing the size of stocks being acquired by departments and for obtaining better value for money in purchasing should achieve large savings. This is backed by the findings of individual examining officers. All of them pointed to scope for reductions both in the administrative costs of purchasing and in the prices paid for goods and services. Most set short-term targets for savings in their departments.

7.18 Many private sector companies set target reductions as a means of initiating progress. Once improvements are seen to be happening, the targets are refined so that the initial progress is consolidated and further improvements obtained. Using this approach private sector companies have considerably reduced their total purchasing costs in recent years. We believe that this approach should be adopted by departments.

7.19 Setting targets for savings in the procurement area is not straightforward. On administration costs it should be simple to demonstrate whether the streamlining we recommend has led to a reduction. Taking examining officers' reports as a whole, their recommendations for reducing administrative costs amount to around 10 per cent of current costs. Applied to all non-warlike purchasing we estimate that this would save over £10 million a year and we believe that this is achievable by March 1987.

7.20 Setting targets for reduced storage and distribution costs is more difficult, not least because many departments are unable to place a reliable valuation on the stocks they hold. Stockholding and distribution costs will be reduced by the greater use of call-off contracts. This, combined with the implementation by departments of the Cabinet Office (MPO) guidelines on stores,<sup>1</sup> should produce substantial savings. Government's non-warlike stockholdings are broadly estimated at £5,000 million. If these can be reduced by 2 per cent, a once-for-all saving of about £100 million is possible. In addition, this would attract annual savings of around £5 million mainly from reduced accommodation and staffing needs. A further, more detailed paper on this is being prepared by the Cabinet Office (MPO) and will be made available to departments to apply appropriate lessons to their own procedures and holdings.

7.21 We believe that, as a result of our recommendations on aggregation, specification, supplier development and competitive tendering, government

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<sup>1</sup> *Stores management guidelines*, Cabinet Office (MPO), November 1983.



departments can obtain better prices for the goods and services they buy. This is confirmed by the private sector, who have made similar improvements, and by examining officers' findings. Estimating how much by way of savings that will yield is difficult. First, the quantity of goods and services bought each year will vary. Second, specifications may change. Third, needs may change, for example, the Department of Transport may at some time choose to spend more on road maintenance and less on new highways.

7.22 It will also be difficult to measure how much keener are the prices achieved and whether they are achieved by the efforts of departments or by other factors. It is a hypothetical question as to what would have been the unit cost of a good if a more enlightened procurement practice had not been adopted. And, there may be some areas, such as information technology, where improvements in the design and manufacture of the goods could lead to price reductions without any effort on the part of a procurement organisation.

7.23 We believe that it is unrealistic to allot a single target on prices to everything bought by every department; or, indeed, to set the same price reduction target for each department. There are some industries where supply currently exceeds demand (for example construction and clothing). If that changes, getting any improvement in prices will be extremely difficult. The examining officers' reports show that departmental performance on prices varies greatly. For example, there is no doubt that the three agencies covered by the review obtain excellent prices for those goods they buy in bulk. Similarly MOD have probably obtained very good deals on some of their large orders, such as that for bread (see paragraph 3.6).

7.24 The evidence from departmental reports indicates that, broadly, a 5 per cent reduction in prices can be readily achieved by adopting some of the approaches we describe above. We believe that the strategy we outline will lead to savings in excess of this. The extent of the overall reduction lies anywhere between 5 per cent and 20 per cent of the amount spent on non-warlike goods and services. If it was 5 per cent the saving would be nearly £400 million, and if 20 per cent, over £1,500 million.

7.25 Targets must be set to secure savings in administration costs, storage costs and prices. The approach we propose is that departmental directors of procurement and supply should draw up such targets. For goods and services the target should stem from the departmental procurement plan and should be based on the unit costs of major items to be bought. For projects, criteria for success for specific procurements will have to be drawn up. **We recommend (Recommendation 22) that departments should draw up such targets and criteria for submission to, and agreement with, the CPU by April 1986.** The targets and criteria should be supplemented with a timetable showing when cost reductions are progressively to be achieved. They should identify separately the savings to be achieved by better administration, reduced on-costs (storage and distribution) and better prices.

7.26 Once the targets have been agreed with the CPU, in consultation with the Treasury, it will be necessary to monitor performance against them. Achieving the targets will only be possible if departments act to improve their purchasing organisations. The CPU should monitor these improvements. Expenditure divisions in the Treasury will be able to monitor achievement against the targets by assessment of departmental expenditure bids, in consultation with the CPU. As part of the monitoring function of the CPU, **we recommend (Recommendation 23) that the unit report to the Prime Minister by June 1986 on the steps taken by departments to set up the organisation to achieve savings; and by June 1987 further report to the Prime Minister on the success of departments in achieving their savings targets.**



### The costs of implementation

7.27 The recommendations for change made in our report are designed to improve the whole approach to government purchasing. To make purchasing more business-like will involve an investment both in the staff concerned and the systems needed to support them. Some departments have already established training schemes and are introducing computerisation into their purchasing organisations.

7.28 A particular problem could arise from the level of manpower required for purchasing. Some departments, particularly those identified as lead departments for aggregated purchases, may require additional manpower, though this would be offset by staff savings in other departments. There may be a need for limited additional resources to get the process of change under way. However, most of the examining officers have identified areas where staff reductions can be made, and we believe that other departments should be able to find similar economies. Part or all of these savings may need to be reinvested in more cost-effective procurement activities. If departments conclude that additional staff are needed to obtain better value for money, they should give priority to such demands in the context of the overall savings, both financial and manpower, to be achieved through implementation of our recommendations, and within government policy on manpower numbers.

7.29 A number of our recommendations are designed to improve the information available to buyers and their managers and to streamline the procurement process. Computers will have an important part to play in this, in particular:

- for procurement information databases;
- for management information databases;
- for information on suppliers;
- for internal communications (eg cataloguing, progress chasing), order processing and word processing (eg standard contracts).

7.30 The development and maintenance of these systems will require further investment. Each application will need to be considered separately and decisions taken on the basis of sound cost-benefit and investment appraisal analyses. In the private sector such investment has been shown to be necessary and worthwhile. The evidence of this review indicates that government should follow their example. **We recommend (Recommendation 24) that the director of procurement and supply in each department develops a strategy and has firm plans for the development of the necessary information, monitoring and control systems set out above by April 1986.** This will be a major task for most departments, requiring careful planning and a high degree of expertise.

7.31 The form and complexity of the information systems should have regard to the information needs of buyers and their managers. The systems will also need to have regard to other departments' systems. Compatibility between departments should help to ensure that government has the necessary information to plan central contracts and receives the full benefits of aggregation.

7.32 We believe that each of the changes we recommend would on their own lead to some improvement. But we have designed our proposals as a package to ensure the maximum improvement in value for money for the taxpayer. Only implementation of the whole package will secure anything like the savings we consider achievable.



CHAPTER 8: AGENCIES

8.1 Around 12 per cent (£1,700 million) of all central government departments' expenditure on goods and services is spent through the central agencies. Their performance, in terms of both efficiency and effectiveness, will thus have an important part to play if departments are to achieve their savings targets. This chapter deals specifically with the three agencies that took part in the review. (A general note on them is at Annex I). We make a number of recommendations to improve their effectiveness. What we say will have application to parts of the other agencies - for example the building maintenance divisions of PSA. Departments that sponsor the other agencies should consider the extent to which our recommendations are relevant to them.

8.2 The primary role of the three agencies is to arrange the purchase and supply of common goods and services to departments. The agencies define their operating objective as being to ensure that departments and government as a whole receive best value for money. Centralised procurement and supply helps to achieve this by taking advantage of:

- lower prices through aggregating requirements;
- high technical and buying expertise;
- efficient storage and distribution arrangements;
- lower administrative costs.

8.3 There is evidence that the three agencies get keen prices. In a study undertaken by the Ministry of Defence covering ten product areas, the products supplied by HMSO in nine of these cost less than quotes from alternative suppliers. And a number of price indicators devised by the Treasury and the agencies all show that average prices charged by the agencies are competitive.

8.4 The three reports reveal that the agencies have all gone some way to improve their buying organisations. Much of the improvement is along the lines described earlier in our report. For example, in HMSO print procurement the buyers have detailed knowledge of their potential suppliers' workload and are able to match jobs to suppliers' capacity with advantage both to the supplier and the department. CCTA have introduced personal levels of financial delegation. Crown Suppliers have commissioned a number of reviews which when implemented will improve their procurement and management information systems.

8.5 The review did not specifically cover the question of stores and distribution. However, Crown Suppliers have their own storage and distribution network and HMSO their own storage system. However, CCTA arrange all their contracts so that there is direct delivery from suppliers; and 65 per cent by value of Crown Suppliers' contracts and over 80 per cent by value of HMSO's are on a similar basis.

8.6 The review did not extend to consideration of whether overall administration costs are minimised through the use of central agencies. However, all three examining officers identified ways in which the efficiency of the purchasing organisations could be improved. These, together with our recommendations earlier in this report, should further increase the efficiency of the agencies.



### Effectiveness of the agencies

8.7 Central purchasing adds an extra link to the chain of supply as departments do not deal directly with suppliers. The extra link may add cost and delay to the process.

8.8 Departments are tied to both Crown Suppliers and CCTA, that is they are expected to buy the goods and services provided by the agencies from them or on contracts arranged by them. In the case of HMSO, there was formal untying in 1982, though HMSO then negotiated customer agreements with all but one department. These agreements are seen by departments as tying in all but name. However, even the exception, DOE, buys over 90 per cent of its stationery requirements from HMSO. In addition, both HMSO and Crown Suppliers do substantial business with public sector bodies not tied to them whether formally or through customer agreements. This evidence suggests that the combination of price charged and quality of service delivered by the agencies is good.

8.9 However, there is evidence in the HMSO report that the benefits of centralised purchasing are being to some extent dissipated. This is because HMSO will provide whatever is required in whatever quantity to departments. The administrative costs of processing small quantities or non-standard items are not wholly charged to departments. Instead they are spread over all the goods and services provided so that the high value, high volume commodities subsidise the administrative costs of small purchases.

8.10 This approach is also taken by the other two agencies. The examining officer in Crown Suppliers recommended that the level of departmental expenses (in essence the administrative costs passed on to departments) should be further refined in order better to reflect the true costs of supply. CCTA charge a single rate of 2½ per cent on all purchases up to £1 million and 1 per cent thereafter. The CCTA report recommends that a more logical basis of charging should be adopted to reflect the resources expended on different types of procurement.

8.11 We believe that the strength of the agencies lies not in providing a comprehensive service but in concentrating on those goods and services which are required in high volume by departments and on those goods and services where either the product (for example computers) or the procurement (for example printing) requires a high level of expertise best concentrated at the centre. The pricing structure should be refined to reflect this so that standard goods are available at very competitive prices and the price of non-standard goods reflects the full cost of purchasing and delivering them. Thus the strategy of the agencies should be based on their ability to make full use of economies of scale and the need to have a product range which will attract sufficient customers and sales to minimise on-costs. **We thus recommend (Recommendation 25) that the three agencies review fully both the range of products they supply and their price structures to enable them to meet this overall strategy.** The price structure could well include setting a price level for low volume non-standard goods at such a level as to discourage departments from buying such items from the agencies.

8.12 Departments need to plan their purchasing so as to enable the agencies to determine where and how they can best meet departmental requirements. The departmental procurement plans (recommended in paragraph 3.7) and the work of the CPU will provide the information needed to identify which goods are best bought under a central arrangement. Where appropriate such contracts would be arranged by the agencies. These plans should be backed up by consultation between departments and the agencies to identify those goods and services to be provided under central contracts.



8.13 In line with the categorisation described in paragraph 3.8 there are some goods and services which it makes sense for all departments to purchase through an agency unless they can demonstrate an economic case for not doing so (Class A). There are others for which a central contract is useful but need not prohibit departments buying elsewhere if a good deal is available (Class B). Having identified these, and the likely volume to be required, the agency will be required to negotiate the best possible contracts for each of the goods and services. However, in order to get best value for money it will be necessary for the agency to have some assurance of the degree of business to be conducted under a central contract. Thus departments will have to enter into some commitment to the contract. The nature of that commitment will vary depending on whether or not Class A or Class B goods and services are being bought.

8.14 We do not propose that the commitment be expressed in the form of customer agreements which are comprehensive and open-ended such as those that currently exist between HMSO and departments. Instead **we recommend (Recommendation 26) that the procurement organisations in departments set up supply and service agreements with the agencies by March 1987 to formalise their operational relationships.** These supply agreements will reflect the contracts which agencies arrange in terms of price, service and product specification. They will provide departments with a clear set of criteria against which to judge whether an alternative source of supply would be more cost-effective, even with the additional costs the department will incur in going it alone. For Class A goods and services, not signing the supply agreement would require justification on economic grounds.

8.15 Having committed itself by signing a supply agreement, a department will be able to withdraw:

- if it can demonstrate to the CPU that an alternative deal would be in the general interest (ie for Class A goods and services an economic case must be made before withdrawal); or
- if, in the case of class B goods, it can get a better deal elsewhere, merely reporting the fact to the CPU and agency; or
- if it can demonstrate to the CPU that its operational needs have changed such that the original contract can no longer satisfy them; and
- if it gives sufficient notice to the agency to allow it to attempt to renegotiate a better deal. (We suggest the notice should only be more than six months if the agency can demonstrate to the CPU that it will take longer than that to amend the contract.)

8.16 To determine whether or not an alternative supplier to an agency provides a better overall deal, departments need to know the total costs of purchasing, including their own administrative costs. Our earlier recommendations should ensure that increasingly they do. It is implicit in our proposals above that departments must have the freedom to use alternatives where justified. Thus, **we recommend (Recommendation 27) that departments are formally untied from Crown Suppliers and CCTA by April 1987.** This will have the additional benefit of providing the agencies with yet a further spur to improve their competitiveness.

8.17 In addition to providing the means of access to goods and services, the agencies also provide some goods and services directly to departments. For example, HMSO provides a forms storage and distribution service for departments, CCTA provide technical advice and Crown Suppliers provide a design and a car service. The review did not cover these activities.



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8.18 However, in our discussions with the private sector we noted that they took a different approach. For example, one large organisation did not directly involve itself in storage and distribution which was carried out for them by a company which specialises in it. Similarly another company needed to test paint; it took the view that that was not part of its business and contracted out the testing to a specialised organisation. We also note that, from April 1982, the distribution of goods from Crown Suppliers' stores has been contracted out.

8.19 There may well be scope for the agencies to adopt this approach more widely. There may be cases where the "in-house" service provided by the agencies delivers better value for money than contracting out would. Or it may be essential for operational needs to provide the service "in-house". We were, nonetheless, concerned that Crown Suppliers and HMSO felt it necessary to have large stores, though HMSO have recently effected a major reorganisation of theirs. We were also concerned that certain businesses carried on by the agencies could equally be provided by the private sector - for example, the car service provided by Crown Suppliers. We see the direct provision of these services as potentially detracting from the main objective of providing access to goods and services. Therefore **we recommend (Recommendation 28) that the three agencies collate such information as is already available on the relative cost-effectiveness of those activities not directly concerned in achieving this main objective; supplement it with such other information as is necessary; and present it to ministers in their sponsoring departments with recommendations on the feasibility of contracting out by March 1986.**

8.20 The examining officers in HMSO and Crown Suppliers considered whether the effectiveness of the agencies would be improved by a merger. Their conclusion was that the theoretical advantages - particularly in terms of developing a cadre of professional buyers - would be outweighed by the practical problems. We agree insofar as the agencies continue to carry out the diverse range of activities which they currently undertake.

8.21 However, the changes outlined above would mean that the agencies were mainly in the business of arranging contracts for goods and services which are common to all departments. Rationalisation on these lines may reduce the practical problems in achieving merger. This should be borne in mind by the heads of the agencies in implementing our recommendations. They, the head of the CPU and the central departments should review the scope for reducing the number of agencies once the new strategy outlined in this chapter is operating.



CHAPTER 9: GOVERNMENT POLICIES ON PROCUREMENT

9.1 This chapter considers four aspects of government policy which affect buying by departments:

- the Public Purchasing Initiative (PPI)
- small firms policy
- preferred suppliers
- EC and GATT rules

**The Public Purchasing Initiative (PPI)**

9.2 The guidelines for the PPI were promulgated by the Treasury in March 1981 and are reproduced at Annex C. Essentially, the policy is one of enlightened self-interest. It encourages departments to develop relationships with suppliers which will ensure that value for money is obtained by government and stimulate industrial competitiveness and innovation. The aims of the PPI are entirely consistent with the approach we have advocated in this report.

9.3 Examining officers found that the implementation of the PPI is, at best, patchy. In some departments, such as HMSO, a positive effort has been made to operate the policy and to interpret it to buying staff. In contrast, in some other departments implementation has consisted largely of circulating the Treasury guidelines. The guidelines are an excellent statement of philosophy, but they are not a comprehensive guide to action.

9.4 The recommendations which we make in earlier chapters are intended to improve the skills and expertise of buying staff to enable them to get better value for money in purchasing. They provide a framework for good practice in buying in much the same way as the PPI set out to do. It seems that up to now the PPI has been often regarded as something extra to be tagged onto the buying process rather than an integral part of it.

9.5 We consider it to be an important function of the proposed CPU to give guidance on good practice. This would incorporate the Treasury guidelines, but develop them as practical advice to buyers. It should also provide advice on the appropriate use of British and international standards and on the use of quality assurance standards. We envisage this guidance covering all aspects of the purchasing and supply process. It would need to be incorporated fully into departmental purchasing manuals. It should also serve as a basis for audit of purchasing and supply functions. **We recommend (Recommendation 29) that the CPU, in consultation with Treasury and DTI, prepare such guidance by April 1986.**

**Small firms policy**

9.6 It is government policy to encourage the development of small firms. One way of doing this is by improving access to government business. We do not interpret this as favouring small firms irrespective of their competitiveness.

9.7 Government does not hold central records of how much of its business is awarded to small firms. But there is evidence to suggest that a substantial amount of government purchases are supplied by this sector. For example, the examining officer in the Home Office found that 68 per cent of a small sample of suppliers employed fewer than 100 staff.



9.8 Some progress has been made in improving accessibility to government contracts. For example, the Treasury has recently reached agreement with departments on a standard form of factual enquiry, covering financial and general information, to be sent to potential new suppliers. Previously each department sought its own information with the result that a firm might receive a large number of questionnaires from different departments all seeking much the same information. The Minister for Small Firms announced in November 1982 that firms would no longer need to have approved status for the award of most government supplies contracts under £2,000 (now £10,000); that non-approved firms could bid for non-urgent supplies contracts above this level subject to their approval subsequently if successful; and that there would be a greater rotation of invitations to tender amongst firms on departments' lists. In addition, DTI has produced a booklet aimed at helping small firms to understand the procedures they may have to go through in order to get government business. The booklet gives a brief account of what departments buy and lists contact points. Some individual departments - MOD, PSA and HMSO - have produced more detailed booklets on their own purchasing procedures and requirements.

9.9 Small firms need to know what goods and services government buys now and may want to buy in the future. We were impressed by the efforts of one large private sector company to ensure that local firms in the areas in which they operated were aware of the opportunities available. This was done through production of a simple readable guide to the kind of goods the company purchased and how to get on its approved list. Some comparable booklet is needed to introduce government business to firms of all sizes. This need include no more than a list of the main goods and services bought by government together with which departments buy what, a list of contacts in departments and a copy of the factual questionnaire mentioned above. The booklet *Tendering for Government Contracts*, prepared by the Department of Industry and the Central Office of Information in 1981, meets this need in part. We consider that it should be expanded and regularly updated. The information required for this could be readily derived from departmental procurement plans. Since these procurement plans will be coming to CPU, the Unit should be consulted by DTI when they are preparing revisions of the booklet. Steps should be taken by DTI actively to promote the booklet throughout the small firms sector. This should help small firms to identify opportunities for government business. It may need to be supplemented by more detailed information distributed by individual departments.

9.10 At present a company wishing to sell the same goods to different departments generally needs to satisfy each department separately as to their fitness to be included as a potential supplier. As far as possible, approval by a department should represent approval by government. We see a role for the CPU in reducing paperwork both for the supplier and government by encouraging the use of inter-departmental approved lists and simpler, standardised procedures affecting small firms. This stresses the need for a co-ordinated approach to information systems.

9.11 Encouraging small firms to bid for government business will involve a small cost to departments. But even if only a small proportion of the new firms which apply to be added to approved lists are successful in securing a contract, the longer term savings to departments should outweigh the costs.

### **Preferred suppliers**

9.12 Sheltered workshops for handicapped people and prison workshops are designated priority suppliers. They are shown preference in the award of contracts and are given more favourable opportunities of supplying the widest possible range of goods. In brief, the system provides for priority suppliers to be awarded a proportion of contracts they have been unable to secure competitively. A similar preference is



## MANAGEMENT IN CONFIDENCE

given to firms in development areas. In neither case does this extend to a price preference. We do not question the validity of these policies. In both cases preference is subject to overriding consideration of value for money. Two departmental examining officers - in DHSS and Crown Suppliers - examined the effects of the policies in respect of preferred suppliers.

9.13 At present DHSS interpret Treasury guidelines as meaning that they are expected to award 25 per cent of their orders for wheelchairs to preferred suppliers. In effect, one supplier is guaranteed a share of the business even if it fails to tender the lowest price, the actual price of the order being fixed by reference to other suppliers' bids. The company is an established major wheelchair manufacturer. The current policy, however, gives it a more secure share of the market than its competitors. It also means that DHSS may be paying more for wheelchairs than it otherwise would.

9.14 On the other hand, the examining officer in Crown Suppliers found no evidence that the policy on preferred suppliers resulted in higher prices. There is evidence, however, that it added to the cost of procurement, mainly through poor delivery and the unusually high degree of supervision required for some of these suppliers. This additional cost cannot be quantified exactly, though the examining officer's report does give some illustrations of the additional staff time involved.

9.15 Like the DHSS examining officer, we believe that the implications of policies directed towards giving preference to suppliers need to be considered in the wider context of government purchasing. The issue is not the policies themselves but who should be paying for them and by what method. In line with the FMI, we believe that the departments sponsoring the policies should meet any additional costs. But these, as indicated above, are difficult to estimate at present. Using the information systems described in Chapter 7 departments should identify these costs and, if they feel that they are failing to get best value for money because of the application of the policies, they should inform the sponsoring department and consider taking up the case with the Treasury.

### EC and GATT rules

9.16 European Community Commission directives require that all UK Exchequer body and local authority supplies contracts worth more than £118,000 are advertised in the *Official Journal* so that European companies can tender for the job. The level is reviewed regularly. In the case of works contracts the level is set higher, currently £590,000. Similarly the GATT rules require all central government and Post Office contracts worth more than £104,000 to be advertised, so opening the tendering to international competition. There are exceptions to both arrangements, the most important of which relates to the purchase of military equipment.

9.17 In practice, examining officers found that the requirement to advertise internationally was, at most, a minor irritation adding on average 6 to 8 weeks to the tendering process. If departments consider that the cost or delay is a matter of concern they should raise the issue with AP Division in the Treasury. In a properly planned purchasing system, the procedure itself should not cause any difficulty. The procurement plan will identify purchases covered by these rules. The service agreements between end-users and the purchasing organisation will specify the lead-time needed to complete the required procedures. It is the responsibility of the end-user to start the purchasing process sufficiently early to guarantee that he can meet his requirements on time.

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R D J WRIGHT ) CABINET OFFICE (MPO)  
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T B MORRIS  
I F S TRUMPER  
July 1984



ACKNOWLEDGEMENTS

Outside companies visited

|                       |                                                                      |
|-----------------------|----------------------------------------------------------------------|
| British Airways       | Heathrow                                                             |
| British Oxygen Co Ltd | Brentford                                                            |
| Debenhams plc         | London                                                               |
| IBM (UK) Ltd          | Portsmouth (Havant and North Harbour), Greenock                      |
| ICI plc               | London, Billingham, Wilton                                           |
| Marks & Spencer plc   | London                                                               |
| National Coal Board   | Doncaster                                                            |
| Shell (UK) Ltd        | London (Shell-Mex House and Wellington House),<br>Aberdeen, Wilmslow |

Organisations

Association of Independent Businesses  
Confederation of British Industry  
Council of Civil Service Unions  
Institute of Purchasing and Supply  
National Audit Commission  
National Audit Office  
National Chamber of Trade  
National Economic Development Office

Others

Campbell Christie, Joint Chairman Office Equipment Sector Working Party,  
NEDC  
Gerald Frankel, Chairman British Micrographic Manufacturer's Association  
Erik Fischer and colleagues, State Purchasing Department, Copenhagen,  
Denmark.

The 68 companies, and the staff involved, who responded to our questionnaire.







**FOREIGN AND COMMONWEALTH OFFICE (FCO)**

**Area covered: Communications Division - technical equipment and supplies**

Examining Officer: Arthur Watson      Cost of study: £19,288

|                       | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|-----------------------|-------------|------------------------|-----------------|
| Value of area covered | 10 - 12     | 0.21                   | 22½             |
| Potential savings*    | 0.38        | 0.06                   | 8               |
| As percentage         | 3½%         | 29%                    | 36%             |

In addition £991,000 once-for-all savings are identified, of which £891,000 have already been achieved. From the stores area savings of seven posts (£43,200) were also identified.

\* Including savings from lower prices

**Main recommendations**

- procurement section responsibilities to be clarified and reaffirmed;
- clarification of service levels to be provided by procurement section; performance targets to be set; channel for end-users to challenge shortfalls in procurement section performance;
- reduction in unnecessary checking; delegation of authority for expenditure;
- procurement information to be improved;
- information on spares usage to be generated and used in lifetime costing analyses;
- delegation of routine work in procurement section; managers to concentrate on setting up call-off and running contracts to maximise benefits from aggregation;
- improved communications with suppliers;
- tender offers to be regarded as the starting point for further negotiation;
- enforcement of contracts;
- target price reduction of 2 per cent on quoted prices under £1,000 rising to 5 per cent on contracts over £50,000;
- revision of inter-departmental procurement service charges.



## MANAGEMENT IN CONFIDENCE

### DEPARTMENT OF HEALTH AND SOCIAL SECURITY (DHSS)

#### Area covered: Wheelchair purchase and repair

Examining Officer: Roy Cunningham    Cost of study: £13,000

|                        | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|------------------------|-------------|------------------------|-----------------|
| Value of area examined | 22          | 0.5**                  | 50              |
| Potential savings*     | 1.00        | UQ                     | UQ              |
| As percentage          | 4.5%        |                        |                 |

(A further £350,000 savings depend on policy changes)

\*Including savings from lower prices

\*\*Relates to purchasing staff only

#### Main recommendations

- rationalisation of the method of providing wheelchairs to disabled people having regard to the quality of service and value for money;
- better management information on the costs of spares and repairs;
- rationalisation of stores;
- increased use of call-off contracts;
- greater use of penalty clauses in contracts;
- greater use of investment appraisal and life-time costing technique;
- development of target prices to assess tender bids;
- closer understanding with industry to improve competitiveness of product, including
  - better timing of orders
  - greater use of performance specifications
  - longer term contracts;
- introduction of post-tender negotiation with successful tenderers;
- target of 5 per cent reduction in prices for wheelchairs in 1985;
- target of 10 per cent reduction in the present cost of repairs.



## MANAGEMENT IN CONFIDENCE

### OVERSEAS DEVELOPMENT ADMINISTRATION (ODA)

Area covered: Goods purchased under the Bilateral Aid Programme

Examining Officer: Mrs Judy White    Cost of study: £18,744

|                        | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|------------------------|-------------|------------------------|-----------------|
| Value of area examined | 57          | 3.1                    | Nil**           |
| Potential savings*     | 3.2         | 0.24                   |                 |
| As percentage          | 5.6%        | 7.6%                   |                 |

\*Including savings obtainable from lower prices

\*\* ODA use agents

#### Main recommendations

- procurement of goods under the Technical Co-operation Programme should be transferred from the Crown Agents to the ODA;
- delegation of responsibility to Technical Co-operation Officers for expenditure up to £1,000 on essential goods and services;
- streamlining of communications between ODA and Technical Co-operation Officers;
- Crown Agents should seek discounts on the basis of the volume of business placed with individual suppliers;
- competition amongst procurement agents under the capital aid procurement programme;
- Crown Agents should broaden range of invitations to tender;
- Crown Agents should negotiate with suppliers.



## MANAGEMENT IN CONFIDENCE

### HOME OFFICE (HO)

**Area covered: All Home Office direct procurement (ie excluding that by Police and Fire authorities)**

Examining Officer: Robert Fulton    Cost of study: £28,765

|                       | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|-----------------------|-------------|------------------------|-----------------|
| Value of area covered | 133         | 6.23                   | UQ              |
| Potential savings*    | 3.3         | 0.6                    | 50              |
| As percentage         | 2.5%        | 9.6%                   |                 |

\*Including savings obtainable from lower prices

#### Main recommendations

- rationalisation of authority levels;
- more streamlined procedures for small orders;
- greater flexibility in procurement methods to improve value for money;
- better central co-ordination of purchasing, including monitoring of national contracts;
- wider use of central contracts and better co-ordination with other government departments;
- information technology should be introduced on a comprehensive basis into purchasing and stock control;
- greater use should be made of investment appraisal techniques;
- greater use of suppliers in developing specifications;
- purchasing should be regarded as a specialised function, needing a postings policy that will encourage the development of expertise;
- more training for purchasing staff;
- the PPI should be integrated into a new set of purchasing rules emphasising the objective of "best value for money" over the present "cheapest to specification".



## MANAGEMENT IN CONFIDENCE

### CENTRAL COMPUTER AND TELECOMMUNICATIONS AGENCY (CCTA)

Area covered: Procurement and Contracts Division (purchase, rental and maintenance of computers)

Examining Officer: Andrew Partridge Cost of study: £13,418

|                       | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|-----------------------|-------------|------------------------|-----------------|
| Value of area covered | 163         | 1.62 **                | 125 †           |
| Potential savings*    | 8.25        | 0.275 (net)            | 26½             |
| As percentage         | 5%          | 17%                    | 21%             |

\*Including savings obtainable from lower prices

\*\* including £0.22 million in respect of finance staff

† including 25 from finance division

#### Main recommendations

- standing arrangements to be set up where cost effective;
- tender evaluation procedures to be streamlined;
- contracts to invoke liquidated damages for late delivery;
- performance indicators to be developed for procurement and contracts division;
- involvement of procurement and contracts division in departmental procurements to be reduced and more closely defined;
- departments to assume responsibility for post-contract discussions with suppliers;
- departments to take responsibility for payment of invoices;
- departments to take responsibility for contracts administered on their behalf by CCTA;
- costs of CCTA advice and support to be recovered on a basis more closely related to the effort involved from 1 April 1986.



## MANAGEMENT IN CONFIDENCE

### HER MAJESTY'S STATIONERY OFFICE (HMSO)

Area covered: Print Procurement and Supply (stationery, office machines etc)

Study Team: Mick Moore, Mike Cuming, Peter Standley

Cost of Study: £23,750

|                        | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|------------------------|-------------|------------------------|-----------------|
| Value of area examined | 195         | 3.1                    | 336 †           |
| Potential savings*     | UQ **       | 0.5                    | 60              |
| As percentage          |             | 16.1%                  | 17.9%           |

† Number of staff with powers to sign purchase orders

\* Including savings obtainable from lower prices

\*\*Unquantified but at least several hundred thousand pounds

#### Main recommendations

- clarify responsibilities with customers for procurement and supply and rationalise authority levels;
- extend use of call-off and period contracts;
- greater use of information technology throughout purchasing;
- increase use of performance specifications;
- refine specifications to meet more closely end-users' requirements, in particular review quality of printing paper;
- better training for buying staff and greater motivation for better performance;
- experiment with the use of post-tender negotiation during 1984;
- improve performance indicators on prices offered to departments and on the effectiveness of buyers;
- rationalisation of the range of goods and services made available by HMSO, displayed in a more comprehensive catalogue;
- review customer agreements with departments;
- refinement of prices to support more clearly the marketing strategy;
- rationalization of products supplied jointly by HMSO, Crown Suppliers and CCTA;



## MANAGEMENT IN CONFIDENCE

### CROWN SUPPLIERS (CS) (PSA SUPPLIES UNTIL 18.1.84)

Area covered: All procurement

Examining Officer: William Chapman Cost of Study: £19,288

|                       | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|-----------------------|-------------|------------------------|-----------------|
| Value of area covered | 500         | 9.75                   | 520             |
| of which: fuel        | 283         | 0.5                    | 20              |
| Potential savings*    | 4           | UQ                     | UQ              |
| As percentage         | 0.8%        |                        |                 |

\* Potential saving of up to 2½ per cent on one-third of purchases from post-tender negotiation.

#### Main recommendations

- simplification in the tendering and contract procedures;
- reduce specifications where possible;
- introduce agreements between Crown Suppliers and departments to cover quantities required, delivery dates and target prices;
- make efforts to expand approved list by use of booklet for small firms;
- introduce "black mark" system for poor performance by suppliers;
- use information technology both to improve the list of approved suppliers and to provide management information;
- set up and monitor a three month experiment on post tender negotiation;
- introduce performance indicators for purchasing staff.



## MANAGEMENT IN CONFIDENCE

### DEPARTMENT OF TRANSPORT (DTp)

#### Area covered: Highways contracts

Examining Officer: Michael Endacott Cost of Study: £29,850

|                        | Spend**<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|------------------------|---------------|------------------------|-----------------|
| Value of area examined | 683           | 3.32                   | UQ              |
| Potential savings*     | 68            | 0.96                   | 67              |
| As percentage          | 10%           | 29%                    | -               |

\* Including savings from lower prices

\*\* Including consultants' fees

#### Main recommendations

- increase delegation to regional offices, in particular by eliminating unnecessary reference to headquarters;
- streamline checking procedures by application of new technology;
- improve feedback on contractor performance;
- eliminate redundant internal financial check procedures;
- set target construction costs and relate consultants' fees to achievement of them;
- experiment with inviting contractors to tender their own completion date proposals and cash flow requirements;
- contractors to specify unit costs for unforeseen variations before work commences;
- negotiate after tenders, where last minute specification changes so require, with only the lowest tenderer;
- adopt a more commercial attitude to contractors generally;
- economise in accommodation for site staff.



MINISTRY OF DEFENCE (MOD)

Area covered: Headquarters non-warlike purchasing

Study Team: Errol Grieve                      Cost of Study: £60,000  
Pat Doherty  
Alistair Parker  
Duncan O'Neil

|                        | Spend<br>£m | Staff/Admin Cost<br>£m | No. of<br>Staff |
|------------------------|-------------|------------------------|-----------------|
| Value of area examined | 720         | 4                      | 269             |
| Potential savings*     | 5 **        | 0.47                   | 44              |
| As percentage          | 0.7%        | 11.7%                  | 16.0%           |

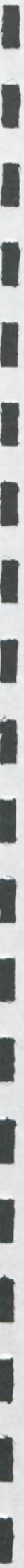
\* Including savings obtainable from lower prices

\*\* Savings of £190,000 were achieved by the date of the report. On the basis of these results there is potential for further savings which are in the range of £5 million (HQ non-warlike purchasing) to £14 million (all competitive tendering).

**Main recommendations**

- rationalisation of general stores purchasing between the three contracts directorates;
- establishment of additional small value order cells (SVOC) for purchase of appropriate ranges of general stores;
- greater co-ordination of requirements so that better aggregation of purchasing is achieved;
- wider use of existing enabling arrangements within MOD and by other departments;
- greater use of information technology throughout purchasing;
- greater exchange of information between departments about purchasing;
- more encouragement to contracts staff to challenge specifications;
- alternative training for contracts staff to be considered and evaluated;
- measures to increase competition;
- the experiment on post-tender negotiation should continue and be evaluated;
- clearer guidance on Public Purchasing Initiative.







**PUBLIC PURCHASING POLICY GUIDELINES**

**Note by the Treasury (issued 17 March 1981)**

1. Departments will know that the Government has recently reviewed its public purchasing policy.
2. The attached guidelines set out steps to be taken in pursuit of this policy. They also include a checklist of factors to be taken into account in reaching procurement decisions and a note on how these factors should be assessed in individual cases. Departments are requested to circulate these guidelines to purchasing officers at all levels and to incorporate them, as appropriate, into their internal contractual instructions. In doing so, departments should ensure that adequate arrangements are made to ensure that there is supervision, at an appropriately senior level, of these procedures and that, where necessary, the Treasury and/or the Department of Industry are consulted.
3. Reference is made in the guidelines to the Treasury's booklet, *Investment Appraisal and Discounting Techniques and the use of the Test Discount Rate in the Public Sector*.<sup>1</sup>
4. Departments are also requested to bring these guidelines to the attention of bodies for which they are responsible. The co-operation of local authorities and nationalised industries is also being invited in pursuit of the Government's objectives.

**PUBLIC PROCUREMENT POLICY: GUIDELINES**

1. It is the Government's policy that, as a matter of enlightened self-interest, public sector purchasers should use the influence their purchases give them to help develop the design, technology and competitiveness of their suppliers.
2. The procurement practices needed to ensure that the Government's policy has the maximum effect are as follows:
  - a. the adoption of a clarified "value for money" criterion;
  - b. the use of best purchasing practices in relations with suppliers;
  - c. clear instructions to public sector purchasers to ensure that the policy is carried out.

**Value for money**

3. The individual purchaser's objective is to purchase what is needed at the right time and in such a way as to ensure the best value for money. Value for money has sometimes been judged within the context of each individual purchase without taking into account the broader cumulative effect which public sector purchasing can have on the efficiency of suppliers.
4. Value for money should not be judged solely on the basis of the lowest initial cost. Design, reliability and maintainability, for example, will affect the total cost over the life of a product. Factors such as these may justify a higher initial

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<sup>1</sup> HM Treasury, 1981.



cost. Actions to promote the industrial viability and hence the trading competitiveness of suppliers can justify an additional initial cost or greater technological risk if over the longer term the purchaser expects to gain improved value for money.

5. The annex to these guidelines provides advice on the factors which may be relevant to individual decisions, and on how they should be assessed.

### ***Enlightened procurement procedures***

6. There are a number of practices which public purchasers can adopt. These include:

- a. early dialogues about possible requirements with potential suppliers (including the manufacturers of major components). Such dialogues are more likely to be relevant for large or important contracts, especially those incorporating new or improved technology than for low volume orders for everyday products;
- b. encouraging both product and process innovation;
- c. specifying requirements in performance terms rather than specifying detailed designs which take no account of other industrial applications;
- d. maintaining as far as practicable an even ordering pattern to allow efficient production planning;
- e. de-briefing suppliers on request (within the bounds of commercial confidentiality) when a major contract has been placed elsewhere, including the identification of specific deficiencies in bids.

### ***Dissemination***

7. The practices outlined in these guidelines are already part of best practices in both the public and private sectors. Economies of long-term benefit both to suppliers and to purchasers can be achieved through rationalised requirements, more organised volume production and through improvements in production planning. But the principles have not been applied widely enough. It is essential, therefore, that the approach set out in these guidelines becomes an integral part of procedures for the award of public sector contracts.

## **VALUE FOR MONEY: A CHECKLIST OF FACTORS RELEVANT TO PROCUREMENT DECISIONS**

### **Short-term considerations**

#### **1. STATUS OF FIRMS INVOLVED**

- Financial viability
- Design capability
- Production capacity
- Quality assurance status and track record
- Cost management arrangements and track record
- Delivery record



2. EQUIPMENT OFFERED

- Extent to which it meets *minimum* requirement
- Design/artistic qualities (where appropriate)
- Compatibility with equipment already in use
- "Extras" above minimum requirement which offer cost-effective advantage
- Scope for improvement or "stretch" by later modifications or "add ons" etc
- Conformity with standards (national, international, NATO etc)
- Scope for value engineering
- Reliability - proven record?
- Maintainability
- Defect reporting and rectification arrangements
- Repair/servicing arrangements

3. IMMEDIATE COST OF ACQUISITION

- Initial price
- Firmness of price (eg fixed, with or without variation of price, cost plus etc)
- Basis for agreeing prices on associated or follow-on orders
- Differences in cost escalation formula
- Foreign exchange risks and costs
- Payment terms (on delivery or progress/stage payments etc)
- Cost of financing interim payments
- Financial guarantee requirements
- Duties and taxes
- Credit terms
- Transport costs
- Installation costs
- Cost of working capital for stocks
- Discounting factors
- Differences in administrative cost (including overheads) to purchaser
- Warranties and technical guarantees offered
- Product liability arrangements
- Scope for, and cost of, accelerating or delaying procurement

4. DELIVERY

- Conformity with requirement
- Reliability of offer
- Operation and financial effects of earlier/later availability
- Cost and trade-offs with stockholding costs at various locations
- Liquidation of damages

Medium-term considerations

5. OPERATING COSTS

- Running costs
- Cost of spares - present and future
- Servicing and maintenance costs
- Storage and other support costs

6. PRODUCT SUPPORT

- Quality of after-sales facilities
- Ease of legal recourse to supplier



7. REPLACEMENT ARRANGEMENTS

- Receipts from eventual disposal
- Commitment to particular replacement equipment
- Replacement timeframe

Longer-term considerations

8. STRATEGIC AND STRUCTURAL

- Safeguarding of vital sources of supply
- Length of the supply chain and its vulnerability to disruption
- Offset considerations
- Effect of procurement on price, availability and competition for future supplies (eg arising from dumping or artificially depressed quotations) including, as appropriate, supplies for other public purchasers.

How these factors should be assessed in individual cases

In evaluating alternative tenders, departments should compare the costs and the receipts (or other benefits) of all those factors which can be quantified in money terms, as in an investment appraisal.<sup>1</sup> The detail, and the precision, of such calculations should reflect the size of the purchase. An elaborate analysis for relatively small contracts would not be appropriate. But contracts for major investments should be analysed in detail, possibly using sensitivity analysis.<sup>2</sup> At present the discount rate used by departments for comparing costs and benefits which will occur at different points in time is 5 per cent, taking today's prices as constant.

Calculations along these lines provide a comparison between tenders, at constant prices, of those factors which can be quantified. However there will also be factors relevant to a contract which cannot be quantified. Departments should decide, on a case by case basis, how the weight of such additional factors affects the balance between tenders. In those instances where such factors are considered to outweigh the difference between tenders, Departments should indicate clearly on file the nature of the factors which led them to take their purchasing decision.

In any cases of doubt about the industrial implications of individual contracts, departments might wish to consult sponsor divisions of the Department of Industry.

*Example A: Purchase of a piece of equipment with a life of 5 years*

- (1) All values expressed at constant prices
- (2) discount factors from Annex B of the Treasury booklet (5%)

|                       |                                |
|-----------------------|--------------------------------|
| Tender A initial cost | £100,000                       |
| cost of spares        | £10,000 a year in Years 2 to 5 |
| Tender B initial cost | £120,000                       |
| cost of spares        | £5,000 a year in Years 2 to 5  |

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<sup>1</sup>See two examples below. Further guidance on the approach to be used is available in the Treasury booklet *Investment Appraisal and Discounting Techniques, and the use of the Test Discount Rate in the Public Sector*.

<sup>2</sup>Sensitivity analysis involves no more than checking to see how sensitive the evaluation is to alternative assumptions. Its use is described in paragraph 19 of the Treasury booklet.



## MANAGEMENT IN CONFIDENCE

### Present Value of Tender A

|              |                          | £       |
|--------------|--------------------------|---------|
| Initial cost |                          | 100,000 |
| Spares       | £10,000 in Year 2 x .907 | 9,070   |
|              | £10,000 in Year 3 x .864 | 8,640   |
|              | £10,000 in Year 4 x .823 | 8,230   |
|              | £10,000 in Year 5 x .784 | 7,840   |
|              |                          | <hr/>   |
|              |                          | 133,780 |
|              |                          | <hr/>   |

### Present Value of Tender B

|              |                         |         |
|--------------|-------------------------|---------|
| Initial cost |                         | 120,000 |
| Spares       | £5,000 in Year 2 x .907 | 4,535   |
|              | £5,000 in Year 3 x .864 | 4,320   |
|              | £5,000 in Year 4 x .823 | 4,115   |
|              | £5,000 in Year 5 x .784 | 3,920   |
|              |                         | <hr/>   |
|              |                         | 136,890 |
|              |                         | <hr/>   |

Although the undiscounted values of both contracts (initial cost plus spares) are the same, Tender A is cheaper - allowing for the difference in timing of payments.

*Example B: Benefit at a later date equal to extra cost now*

What cost benefit would be required in each of Years 6 to 10 to equal payment of an extra £100,000 on a contract now?

Discount factors for Years 6-10 =  $.75 + .71 + .68 + .65 + .61 = 3.40$   
 $£100,000 \div 3.40 = £29,400$  in each year at present day prices







## CONTRACT CONTROL DOCUMENT

1. The purpose of a Contract Control Document is to clarify responsibilities to ensure that all necessary steps are completed prior to the issue of invitations to tender for a contract and to provide a record of authorities and approvals. It can also serve as a useful source of data for the procurement information and management information systems.
2. An example of a Contract Control Document, based in part on one used by a large private sector company, is at Appendix 1. This would need to be adapted to suit individual departments' requirements. At Appendix 2 is a copy of the Purchase Record form developed by the Home Office examining team: this provides an example of how the concept of the Contract Control Document might be adapted to provide a record of local purchase decisions in a widely dispersed purchasing organisation.
3. Departments will need to develop Contract Control Documents appropriate to the purchases they make. They may need to develop different control documents for different types of purchase: for example a purchase record on the lines of that at Appendix 2 may be sufficient for local purchasing, but more detailed documents may be required for large volume call-off contracts or for major project contracts. It is important that the control document suits the type of procurement being undertaken as well as the organisational arrangements for procurement within each department. The document at Appendix 1 is intended to serve as a model for departments' own documentation: it is not meant to be prescriptive.

**Key features of the model Contract Control Document**

4. Section 1 of the document provides basic background information on the procurement being undertaken. It identifies the sponsoring officer responsible for requesting the purchase (the "end-user" in the terms of the main body of this report) and describes the requirement. This section would be completed by the sponsoring officer.
5. Section 2 of the document outlines the financial backing for the purchase. A key feature of this section is the requirement on the sponsor, in consultation with the purchasing section, to estimate the price of the good or service requested prior to tender (2(b)) and to estimate the likely overall cost of the contract (2(c)). This places the onus on the sponsor and the purchasing organisation to quantify on-costs and likely variation costs before inviting tenders. These costs will influence the contract strategy adopted by the department. Section 2(d) of the document provides a record of the cost centre manager's approval of the commitment to spend the total contract cost at 2(c).
6. Section 3 of the document outlines the contract strategy. Again, the emphasis here is on ensuring that all necessary steps have been taken, decisions made and approvals given before inviting tenders. Section 3 would be completed by the sponsor in consultation with the purchasing organisation who, together, will recommend the contract strategy to senior management (3(i)) for approval (3(j)).
7. Parts 3(c), (d) and (e) require the sponsor and the purchasing organisation to determine in advance the basis upon which suppliers will be invited to tender. The sponsor is required to justify his reasons if he wishes to recommend single tender action or to invite tenders on a cost-plus price basis, either of which can have major repercussions on costs to the department.



8. At 3(f) the sponsor and purchasing organisation will be required in advance to assess the likely value of post-tender negotiation with the best bidder.

9. Before issuing invitations to tender, the sponsor should be required to indicate the basis upon which bids will be evaluated and compared. This evaluation plan will normally indicate the relative importance that will be attached to the main parameters of cost, quality and timeliness. Other considerations may also play an important part in evaluating bids and these should be indicated in this section of the document. It might, for example, in some circumstances be particularly important for the department to avoid the creation of a technical monopoly - in which case preference might be given to any acceptable bid from a new supplier. Or the department may wish to break up the contract in order to preserve a competitive manufacturing base.

10. Once the strategy has been approved by senior management, the procurement procedure progresses according to that strategy. Section 4 of the document provides a formal record of the proper conduct of the tender opening process, if appropriate.

11. Section 5 of the document summarises the recommendation to award the contract to a particular supplier or contractor and certifies the approval of the recommendation for action. At 5(b), the contract price is shown. Comparison of this price with the sponsor's pre-tender price at 2(b) will provide a measure of the effectiveness of the activities of the sponsor and the purchasing organisation. The sponsor is also required to indicate, in the light of tenders received, a revised estimate of the overall contract cost. Comparison of this figure with the pre-tender estimate at 2(c) will provide a measure of the effectiveness of the procurement strategy adopted.

12. Any increase over the pre-tender estimates would need to be justified to senior management. Similarly, if the post-tender price and estimated cost were significantly lower than the pre-tender estimates, management would need to investigate. Such a result might indicate failings in the estimating procedure or that, for whatever reason, the suppliers' bids did not fully reflect the department's needs. These figures therefore provide a useful means of assessing the procurement process as a whole and act as a spur to both the sponsor and the purchasing organisation to encourage them to consider all cost implications in advance of the tendering process.

13. If a contract is subject to variation clauses, senior management may wish to review the contract as it progresses. At Section 5(d) senior management, before approving the award of the contract, can indicate the level of expenditure at which they would require the contract to be reviewed and possibly, if appropriate, re-let.

#### **Other purposes**

14. The Contract Control Document, as described above, can prove a very useful tool for management control. As well as providing a basis for record-keeping in respect of individual contracts, it can also provide key inputs to the procurement and management information systems (this, for example, is one of the main purposes of the purchase record at Appendix 2). For example, if a series of purchases were to be placed by one sponsor with a particular supplier on a regular basis, or if a sponsor were repeatedly to propose letting contracts by single-tender action with one supplier, senior management would need to investigate whether this was prima facie evidence of the build-up of a technical monopoly. The contract control documents, by providing a summary of all aspects of the contract, can readily provide a source of useful data for the procurement and management information systems of the department.



Signatures

15. A completed Contract Control Document will contain many signatures. It is essential, for proper control and to protect those who sign, that departments make clear what these signatures denote. We think there is much to be said for attaching a clear statement of responsibilities to the Contract Control Document. We envisage this statement taking the following form:

"RESPONSIBILITIES

The **sponsor** signs to say:

- that the contract strategy and documents as prepared are consistent with his objectives as to time, cost, quality, and technical compatibility; and
- that all relevant internal functions have been consulted on technical matters and that all other relevant departmental procedures have been observed.

The **buyer** signs to say:

- that the contract documents as prepared are acceptable and consistent with the department's policies; that they allocate risks clearly as between the department and the supplier; and that the elements of the contract designed to protect the Exchequer's interest are enforceable;
- that the financial standing of the contractors invited to tender has been commercially evaluated as appropriate for the contract work envisaged; and
- that the commercial and financial basis for the contract strategy is supported as being likely to maximise value for money.

The **cost centre manager** signs to say:

- that he has obtained budget approval sufficient to cover the likely or actual commitment of expenditure.

If necessary (eg because the buyer lacks final authority at that level of expenditure) the **senior buyer** signs to say that he approves the contract strategy in the terms set out above for the buyer.

If necessary (eg because the senior buyer lacks the final authority at that level of expenditure), the **responsible officer in the Finance Section** would sign to say that he approves the contract strategy in the terms set out above for the buyer.

... etc"



Model Contract Control Document

Section 1 : Background

- (a) Contract Title .....
- (b) Contract No. ....
- (c) Project No. (if appropriate) .....
- (d) Originating Division .....
- (e) Responsible Officer (Sponsor) .....
- (f) Requirement (attach specification if appropriate) .....

Section 2 : Finance

- (a) Chargeable Cost Centre .....
  - (b) Sponsor's pre-contract estimate of tender price (not for disclosure to tenderers) : £ \_\_\_\_\_
  - (c) Sponsor's pre-contract estimate of overall contract cost (attach schedule of on-costs and variation costs as appropriate) : £ \_\_\_\_\_
  - (d) Commitment approved .....
- (Cost Centre Manager's signature)

Section 3 : Contract Strategy Please tick appropriate boxes

- (a) Sponsor's required delivery date : (earliest): ..... (latest): ..... (attach schedule if appropriate)
- (b) Issue of invitations to tender : (date) ..... Bids due in : (date) .....
- (c) Investment appraisal complete : (date) ..... File No. ....
- (d) Terms of supply : fixed price  cost plus  day works  other
- open tender  multiple tender  single tender
- purchase  hire  lease
- GC works 1  GC stores 1  Other call-off  direct supply  consignment
- (e) Sponsor's reason if single tender .....
- (f) Sponsor's reason if cost plus .....
- (g) Post-tender negotiation: Yes  No  Reasons .....



## MANAGEMENT IN CONFIDENCE

(h) Invitations to tender:

|   | Supplier | Code |   | Supplier | Code |
|---|----------|------|---|----------|------|
| 1 |          |      | 5 |          |      |
| 2 |          |      | 6 |          |      |
| 3 |          |      | 7 |          |      |
| 4 |          |      | 8 |          |      |

(i) Proposed basis for evaluation/comparison of bids .....

.....

(j) Contract strategy recommended .....

(sponsor's signature) (date)

.....

(buyer's signature) (date)

(k) Contract strategy approved .....

(senior buyer's signature) (date)

.....

(responsible officer, Finance) (date)

### Section 4 : Tender Opening

(a) Tenders recorded .....

(signature of responsible officer) (date)

### Section 5 : Recommendation

(a) Award contract to .....

(b) Contract price : £ ..... (c) Sponsor's estimated overall contract cost : £ ..... (d) Review limit : £ .....

(e) Recommended by : .....

(sponsor's signature) (date)

.....

(buyer's signature) (date)

.....

(responsible officer, Finance) (date)

.....

(other) (date)

(f) Approved by : .....

(cost centre manager's signature) (date)

.....

(senior buyer's signature) (date)

.....

(authorised signatory) (date)

(g) Contract awarded : (date) ..... ; by : .....

(signature of officer signing contract)

(h) Unsuccessful tenderers informed : (date) ..... ; by: .....

(signature of buyer)





CONTRACT/  
ORDER NO.

**PURCHASE RECORD**

**HOME OFFICE** (To be completed for all purchases over £500 not covered by existing contract and for all contracts with a labour element)

• When contract has been let, a copy of this form **must** be forwarded to Finance Division 2. The **original** should be retained on the tender file.

• Please tick  appropriate boxes

**A. CONTRACT**

File No.

Division/Directorate etc

Establishment

Description of goods, works or services:

Item Code

Quantity

Officer responsible for project

Officer responsible for purchase

**B. FINANCE**

Project officer's pre-tender estimate of contract value

£

Subhead

Head of Service

Accounting Code

Project Investment Appraisal

Yes

No

Date carried out

File reference

**C. PROCEDURE**

Contract period

Start

Finish

Contract Type

Firm price

Cost plus

Form of Contract

GC/Works/1

GC/Stores/1

Other

Special conditions:

Type of procedure

Formal tender

Written Quotation

No. of tenders/quotations invited



C. PROCEDURE (continued)

**MANAGEMENT IN CONFIDENCE**

•Although full explanations should be recorded on contracts file please outline reasons (if applicable) for:

(i) non-use of existing contract:

(ii) single-tender action:

| Issue of tenders:                 | Name | Grade | Date |
|-----------------------------------|------|-------|------|
| Proposed by:                      |      |       |      |
| Approved by:                      |      |       |      |
| Single tender action approved by: |      |       |      |
| Fin Div 2 approval by:            |      |       |      |

D. TENDER OPENING

Tenders opened by  and  Date

No of tenders received

E. EVALUATION & RECOMMENDATION

Award contract to  on grounds of:-

lowest cost  best delivery  best quality

Results of Investment appraisal (if applicable):

U.K. content  % Reasons if less than 100%:

Unit Price of items purchased (if applicable)

Consideration given to (i) Public Purchasing Initiative, (ii) Regional Policy, (iii) Small Firms Policies:

F. AWARD OF CONTRACT

|                            | Name | Grade                | Date                                      |
|----------------------------|------|----------------------|-------------------------------------------|
| Proposed by:               |      |                      |                                           |
| Approved by:               |      |                      |                                           |
| Fin Div 2 approval by:     |      |                      |                                           |
| Successful Tender accepted | Date | <input type="text"/> | Decline letters sent <input type="text"/> |







## ANALYSIS OF RESPONSE TO QUESTIONNAIRE

1. To obtain suppliers' views on government contract and procurement procedures the central team sent a questionnaire to 125 private sector companies. Sixty-eight companies (54 per cent) responded. These 68 companies supply departments with goods and services worth over £350 million a year.
2. The questions asked are shown below together with an analysis of the responses. We also invited suppliers to comment on their answers. Some suppliers - particularly those who expressed broad satisfaction with government procedures - made none. Others provided many useful views.
3. Drawing conclusions\*from so small a sample requires caution. For example, many comments apply solely to the Ministry of Defence since the sample reflected that department's role as the largest purchaser from industry in cash terms and probably product diversity. Moreover, all the responses were from companies who already supply or have supplied to the government.
4. Although most companies expressed reasonable satisfaction with government procedures the comments received reflect a remarkable consensus of views; particularly where we invited views on improvements to help both suppliers and the government reduce costs.
5. It is clear that many of the suggestions would lead to the government securing better value for the taxpayers' money and that suppliers would benefit too.
6. Many suppliers were critical of both the complexity and sheer volume of documentation (including forms) that they were required to deal with. They pointed out the high administrative costs that this incurs to both sides. Equally they found that locating staff who have the necessary responsibility and authority to make prompt decisions was a frustrating and time-consuming business. Some suppliers thought that slow decisions from departments were a direct result of having too many staff involved in the process.
7. In particular, there is a strong indication from the replies that a positive drive for better communication within and between departments, and between departments and suppliers, would bring mutual rewards. Improvements in communication may lead both buyer and seller to a better understanding of each others' needs and objectives and to the establishment of a more effective way of securing the maximum benefit to both sides.
8. Fifteen per cent of the companies responding thought that a change in government tendering procedures, allowing more room for discussion and negotiation, would be mutually advantageous.
9. A summary of the suppliers' responses to the wider questions asked is shown below with the main themes in bold type and companies' suggestions for improvement underneath.



## MANAGEMENT IN CONFIDENCE

### SUMMARY OF RESPONSES

#### Frequency of comment

- 51% **Difficulty in locating people who take decisions, decide specifications etc**  
Publish a directory indicating which departments are interested in particular products/services. Show who should be contacted together with their level of authority. Keep staff in jobs longer and, when replaced, give better hand-over briefing; let suppliers know of any changes. Create a forum that allows the presentation of new products and ideas.
- 31% **Administrative burden caused by the high volume and/or complexity of documents**  
Allow greater use of commercially acceptable documents, particularly invoices. Rationalise documents and forms and in particular reduce the practice of cross-referencing from one contract document to another.
- 31% **Too many products bought (and packaged) to high quality specifications unique to government. Altering an already established product's specification may incur costs disproportionate to the performance gain**  
Buy against performance criteria, not detailed specifications. Use internationally recognised standards where possible. Allow specification/performance flexibility where this significantly lowers costs. Avoid "gold-plating". Appreciate that special design features and specifications may inhibit a product's chances of success overseas.
- 28% **Poor planning, resulting in need for urgent supplies, loss of savings through not aggregating orders, specification/design changes during manufacture**  
Plan ahead, with suppliers if possible. Notify suppliers of tender requirements earlier. Make best use of savings available through aggregating orders and avoid the risk of minimum order charges. Freeze design and specification at start of contract.
- 18% **Delays in decision-making in (and between) departments**  
Reduce the number of people involved in the decision-making process. Improve inter-departmental liaison.
- 15% **Quality control and testing procedures**  
Avoid duplication. Leave the responsibility for quality control to manufacturers where track records are already proven. Encourage those less proficient in this area to improve. Make use of BS 5750.
- 15% **Tendering procedures inhibit negotiation**  
Allow negotiation, thereby creating a more flexible and mutually advantageous buyer/seller interface.
- 12% **Insufficient feedback on failed tenders, too much secrecy**  
De-brief unsuccessful tenderers in more detail. Avoid unnecessary secrecy (eg who won a contract).
- 9% **Slow agreement on prices by contracts sections, thereby incurring higher finance costs to suppliers and reduction of cash flow**  
Agree prices quickly, extend the use of progress/stage payments.
- 9% **All too often contracts seem to be awarded solely on price**  
Buy lowest cost, not price. Give other criteria appropriate consideration (eg past performance). Take long-term costs into account.



## MANAGEMENT IN CONFIDENCE QUESTIONNAIRE

### Procedures

- |                                                                                                                                                                        |                        |         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|---------|
| 1. Do you find that the procedures of government departments are significantly different from those of your other customers?                                           | Yes: 62%               | No: 35% |
| 2. If you answered yes to question 1, please give examples of how government procedures differ. Please say whether they make supply easier or more difficult.          | See summary Easier: 9% |         |
| 3. Do you think that any of the documents (for example forms) you have to deal with in order to obtain a government contract cause you or your staff unnecessary work? | Yes: 32%               | No: 66% |
| 4. If you answered yes to question 3 please give details of the documents you consider are unnecessarily time-consuming                                                | See summary            |         |

### Access

- |                                                                                                         |             |         |
|---------------------------------------------------------------------------------------------------------|-------------|---------|
| 5. Can you promote your company's products and ideas as widely as you would like in central government? | Yes: 60%    | No: 37% |
| 6. If you answered no to question 5 what obstacles have you come across?                                | See summary |         |

### Communications

- |                                                                                                                                                |             |         |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------|
| 7. It is the government's policy to promote good communications between government departments and suppliers. Do you think this is successful? | Yes: 74%    | No: 25% |
| 8. To enable you to quote effectively for contracts put out to tender, is the information provided sufficiently                                |             |         |
| - detailed?                                                                                                                                    | Yes: 87%    | No: 10% |
| - timely?                                                                                                                                      | Yes: 81%    | No: 16% |
| 9. Are decisions on contracts communicated to you promptly?                                                                                    | Yes: 74%    | No: 24% |
| 10. If you have answered no to questions 7, 8 or 9 please give examples of poor communications below, if possible.                             | See summary |         |

### Staff

- |                                                                        |          |        |
|------------------------------------------------------------------------|----------|--------|
| 11. In general do you find government procurement staff in departments |          |        |
| - knowledgeable on contract matters?                                   | Yes: 91% | No: 6% |
| - polite?                                                              | Yes: 98% | No: 1% |
| - responsive?                                                          | Yes: 91% | No: 7% |

### Payment

- |                                                                             |          |         |
|-----------------------------------------------------------------------------|----------|---------|
| 12. Does your company receive payment promptly from government departments? | Yes: 89% | No: 9%  |
| 13. Do you give early payment discounts to government?                      | Yes: 9%  | No: 91% |

### Background

- |                                                                                                      |                                                                       |
|------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| 14. Please list the government departments which your company supplies                               | MOD, HMSO, MAFF, COI, ODA, DOE, DHSS, DTP, HO, PSA, C&E, DEn, DI, IR. |
| 15. What was the approximate value of your company's sales to government in its last financial year? | Total of all companies who replied: £350 million                      |
| 16. What was your company's turnover in its last financial year?                                     | Varied between £½ million and £4 billion                              |

### Improvements

- |                                                                                                                             |               |
|-----------------------------------------------------------------------------------------------------------------------------|---------------|
| 17. Please list below any ideas you, as a supplier, may have on how procurement by government departments could be improved |               |
| - to reduce costs?                                                                                                          | ) see summary |
| - and to reduce the cost to the taxpayer?                                                                                   |               |



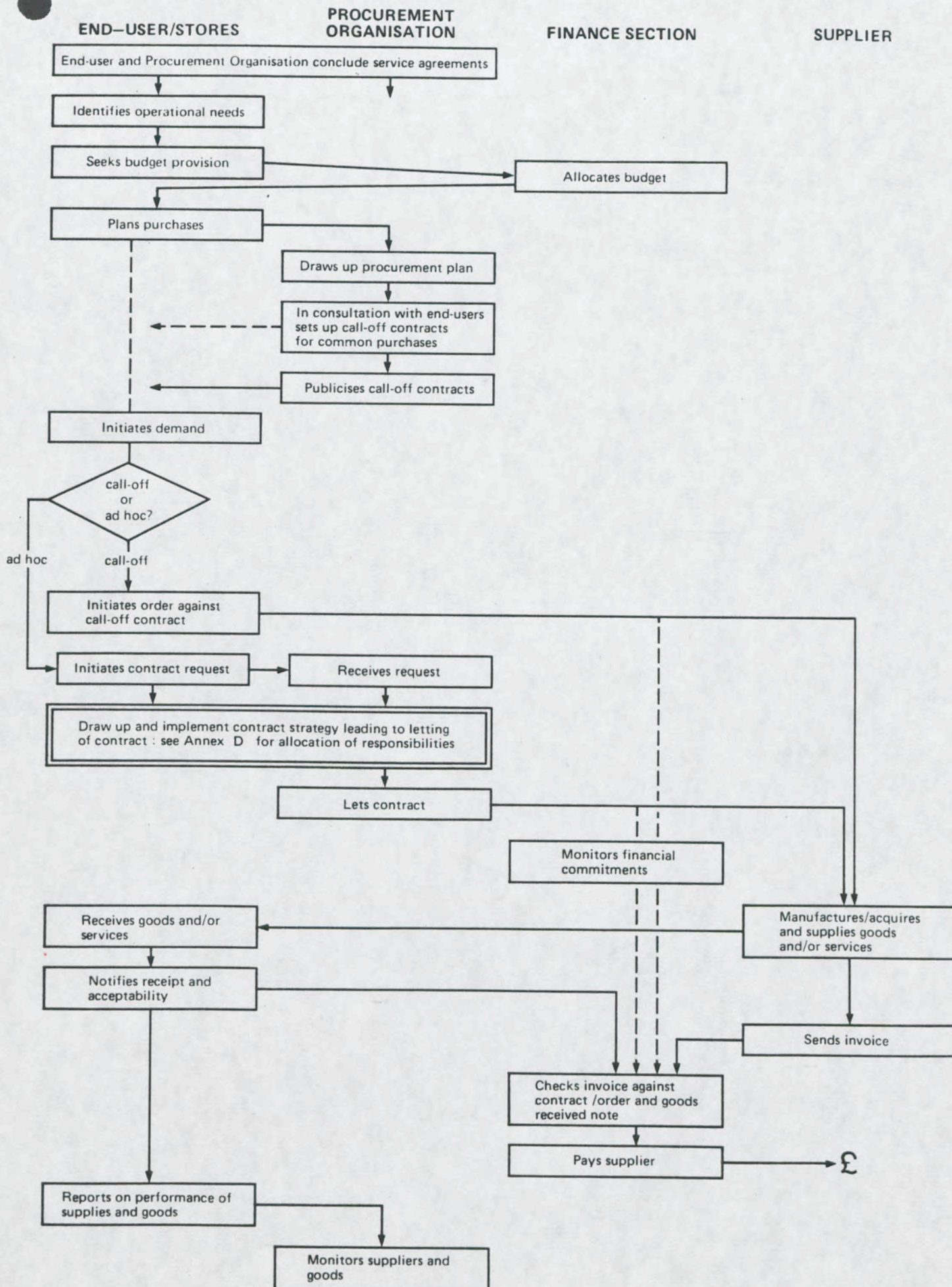




# MANAGEMENT IN CONFIDENCE

## TYPICAL PROCUREMENT ARRANGEMENTS, CHECKS AND RECORDS

ANNEX F









**ROLES AND RESPONSIBILITIES OF THE DEPARTMENTAL PROCUREMENT AND SUPPLY ORGANISATION AND END-USERS**

The first section of this Annex might form the basis of a formal job description for the departmental Director of Procurement and Supply. From it, the Accounting Officer might wish to derive annual performance targets for the Director of Procurement and Supply and his/her organisation.

**The procurement and supply organisation: responsibilities**

The aim of the departmental procurement and supply organisation is to provide end-users with access to the goods and services that they need, when they need them and at least cost. The organisation is responsible through the Principal Finance Officer to the Accounting Officer for maximising value for money in procurement and supply across the department and, by means of appropriate managerial and contractual arrangements, for protecting the Accounting Officer's interests in procurement.

The procurement and supply organisation will be responsible for the following:

- developing and maintaining appropriate procurement planning arrangements in order to identify common goods and services;
- providing information to potential suppliers on future requirements; discussing emerging needs and how these might best be met (including scope for collaboration between purchaser and supplier in developing new products); and discussing specifications with potential suppliers;
- negotiating contracts with suppliers;
- improving the efficiency and effectiveness of the procurement and supply organisation so as to minimise the overall cost of meeting end-users' requirements;
- concluding service agreements with end-users that clearly allocate responsibilities in procurement and commit the procurement organisation to pre-agreed levels of service;
- challenging non-standard end-user specifications, in order to minimise inessential differences between specifications; to maximise cost-effective commonalities amongst specifications; to encourage the use of standard products, performance specifications and internationally-acceptable standards; to achieve the most economical match between specification and operational need; and to achieve the most economical match between operational need and the ability of suppliers cost-effectively to meet that need;
- maintaining and reviewing approved lists;
- developing a close understanding of the markets from which the organisation buys goods and services in order to inform end-users of new potential suppliers and new developments, for example in manufacturing processes;



## MANAGEMENT IN CONFIDENCE

- promoting the adoption of BS5750, through giving preference where appropriate to suppliers who have achieved certification to an appropriate level;
- developing and maintaining an effective procurement information system which holds data on the department's historic, current and future procurement needs, together with information on suppliers who might be able to meet those needs;
- developing and maintaining a management information system for the procurement organisation that provides an effective basis for monitoring the performance of the organisation and of individuals within it;
- establishing contract control procedures that require setting pre-tender target prices; justifying exceptions to competitive tender arrangements; justifying action taken in the absence of an appropriately sophisticated investment appraisal; and predetermining the most appropriate contract strategy for each procurement;
- where appropriate, negotiating with the bidder of the most favourable competitive bid in order to secure a better overall deal for the department;
- informing end-users of centrally negotiated call-off contracts and authorising access to those contracts;
- arranging appropriate skill training for buyers;
- reviewing procurement and contract documentation in order to clarify responsibilities and risks.

### End-users: responsibilities

- forecasting future needs for goods and services as accurately as possible in the context of departmental procurement planning arrangements;
- specifying the goods and services required to meet operational needs;
- securing budget approval for, and funding, the purchase of goods and services;
- initiating demands sufficiently early to enable the procurement and supply organisation to secure best value for money;
- drawing up, in consultation with the procurement and supply organisation, an appropriate procurement strategy for each procurement;
- informing the procurement and supply organisation of orders placed against centrally negotiated call-off contracts;
- receiving and assessing goods and services purchased, and reporting on timeliness and quality to the procurement and supply organisation.



## CENTRAL PURCHASING UNIT (CPU)

## PRINCIPAL TASKS

1. **Monitoring Progress** (Chapter 7)

The task set by the report for departments is an enormous one. Their progress towards implementation of the 22 recommendations aimed at them has to be monitored. Departments will need encouragement and help to make the necessary changes. This will be the main task of the CPU.

The CPU will have to get alongside departments in order to assess what progress is being made. That information, together with formal statements by the departmental directors, will enable the head of the CPU to prepare annual reports to the Prime Minister on what is happening. These reports should not only record achievement, but should indicate areas where further effort or work are needed and, if necessary, make recommendations. We see the monitoring role as an active one, closely related to the CPU's advisory function.

2. **Advice** (Chapters 7 & 9)

The need for an injection of private sector expertise into government buying is a theme running through the report. It will be achieved in major departments by appointment or designation of a departmental director with private sector experience. In addition, departments will need help and advice on the practical aspects of buying. The CPU will be well placed to provide this.

Much of the advice given is likely to be informal, perhaps over the telephone. But where common problems arise the unit may wish to write formally to all government procurement organisations with practical help on these. The head of the CPU will wish to decide how to distribute such formal advice and may wish to consider the possibility of regular newsletters to purchasing organisations promulgating best practice.

Recommendation 29 concerns the issue of formal guidance to departments on the practical aspects of buying. It is envisaged this will incorporate and develop the practical aspects of the Treasury guidelines on the PPI and will give practical advice on the use of standards. The guidance should cover such things as the development of a procurement strategy, the use of competitive tendering etc. It should not be prescriptive.

3. **Targets** (Chapter 7)

Departments will be required to draw up targets for achieving savings in administration, stockholdings and prices; and criteria for success in specific projects. These are to be agreed with the CPU. This will be a priority task for the CPU. It will also be charged with reporting to the Prime Minister on progress towards achieving these targets.

4. **Aggregation** (Chapter 3)

The report identifies a need for inter-departmental planning in order to ensure that government gains maximum advantage from its buying power. The CPU should adopt a co-ordinating role. The departmental procurement plans (paragraph 3.7) should be



submitted to the CPU. The unit will analyse these to identify where departments are buying common goods and services not already supplied through the central agencies. To help in this, the CPU may want to establish a simple inter-departmental coding system, drawing on existing ones as appropriate. It should then identify a lead department, which in most cases will be obvious, and request them to draw up a call-off contract which can be used by other departments.

Where these contracts are major ones, particularly those involving post-tender negotiation, the CPU may wish to be involved in setting them up. This could involve working alongside the buying team in the lead department or, if the head of the CPU thought it important that his/her staff retained some practical buying experience, the unit itself might take on the task of setting up the contract.

5. **Standards** (Chapter 2)

Departmental procurement organisations are expected to be conversant with the appropriate standards and to represent the department on the relevant BSI and other standards committees. The White Paper, *Standards, Quality and International Competitiveness* (Cmnd 8621), requires those in central government responsible for drawing up specifications to use internationally accepted standards. In addition, where there are no internationally accepted standards users should work towards the adoption of British ones. There will be occasions on which a number of departments have an interest in the same standards. Co-ordination of their approach to the relevant standards committees is essential if government is to have maximum influence on the development of standards. The CPU should have the responsibility for nominating the lead department in such cases. There may be circumstances in which the CPU itself decides to take the lead and to attend the relevant committee. In determining where the lead should lie, the CPU should consult the relevant division in DTI.

6. **Procurement strategies** (Chapter 3)

Departments will be expected to draw up a framework for the preparation of detailed procurement strategies. The CPU should be available for consultation on this, though responsibility rests with departments. In the light of experience the CPU may wish to draw up guidelines.

7. **Service agreements** (Chapter 5)

Departmental directors of procurement and supply are required to agree with end-users the level of service to be expected. The CPU should be consulted and should advise on model forms of such agreements.

8. **Training of purchasing staff** (Chapter 6)

Departmental directors of procurement and supply are required to draw up a training programme for procurement staff. The CPU will be expected to give general guidance on this, in particular on the use of outside organisations to provide training. In addition, the Civil Service College will wish to devise appropriate courses and the CPU should be involved in this task. The private sector members of the unit will be expected to participate in any courses devised by the College. The CPU should also be involved in discussions with Cabinet Office (MPO) on the career management of procurement staff, including such things as succession planning of senior purchasing posts.



9. **Motivation and incentives** (Chapter 6)

The drawing up of performance targets for buying staff is a matter for individual departments in consultation with the staff involved. Individual departments, and different parts of the same organisation, may need to have different performance criteria. But it would be helpful for the CPU to collect information on the criteria adopted by departments with a view to developing guidelines.

The recommendation for bonus schemes for buying staff should be implemented departmentally on an experimental basis. The trials should be monitored centrally by the CPU in consultation with Cabinet Office (MPO).

10. **Repayment schemes** (Chapter 6)

The report advocates the use of internal repayment schemes as a means of motivating purchasing staff to improve performance. It recognises the practical difficulties of such an arrangement. Further work is suggested and this would fall to the CPU in consultation with the Treasury.

11. **The future of agencies** (Chapter 8)

The report suggests that further consideration should be given to the number of government central procurement agencies. It is proposed that the heads of the agencies, the head of the CPU and the central departments consider this once the recommendations in Chapter 8 have been implemented.

12. **Small firms** (Chapter 9)

From departmental procurement plans the CPU should be able to identify those major goods and services which government buy. This information should be passed to DTI to help them prepare revisions of *Tendering For Government Contracts*.<sup>1</sup> The unit should be consulted about the revisions generally. The unit should also promote and devise, in consultation with departments, simpler, standardised procedures and the use of common approved lists.

**RELATIONSHIPS WITH OTHER GOVERNMENT DEPARTMENTS**

13. The report envisages the CPU being a source of practical advice and help as well as a catalyst for change. It is not seen as a policy making body. The responsibilities for policy on government purchasing should remain with AP Division in the Treasury and with those divisions in DTI currently responsible for the PPI and standards.

14. The CPU's main concern will be with the purchasing organisations in departments but there needs to be close liaison between the CPU and Treasury and DTI in respect of purchasing policy. The CPU should be represented on the Purchasing Policy Committee chaired by Treasury. This is an inter-departmental group which considers policy and other matters relating to procurement. DTI hold regular meetings with NEDO, organisations representing the private sector, including small firms, and other departments on aspects of the PPI. The CPU should be involved in the main meetings.

15. The CPU will also have to develop close relations with Treasury expenditure divisions over the setting of departmental savings targets and over the manpower needs of procurement organisations.

---

<sup>1</sup> Prepared by the Department of Industry and the Central Office of Information, 1981.



THE POSITION OF THE CPU

16. The report comes to no conclusion about where the CPU should sit in Whitehall. Two main options are available - in one of the existing agencies or at the centre.

17. **Within an existing agency.** The unit could become part of one of the central procurement agencies - HMSO, CCTA, Crown Suppliers. The advantage of this would be that it would be in an organisation whose main business is to carry out effective purchasing. Thus the unit would be able to draw on a wide range of existing expertise.

18. The disadvantage would be that the agency and CPU will have different objectives. The CPU's main aim will be to promote change. The agencies' aim is to service the operational needs of departments and the wider role envisaged for the CPU could detract from this. The report proposes that the agencies concentrate on what they can do best - provide effective purchasing of large volume items - and should thus re-examine the other functions which they carry out at present. It would not be in line with that approach to add to the tasks of one of the agencies. Further, the report envisages the head of the CPU having direct access to senior ministers. If the unit is placed in an agency it would be expected that the head of the unit should report through the agency head to the responsible departmental minister. This could cause difficulties, for example, over the unit's responsibilities in regard to the future of the agencies. If the head of the agency in which the CPU was placed had different views from the unit's head over what should happen in the longer term to the agencies, resolution of these would be difficult if the unit head's immediate line manager was the agency head.

19. **Within the centre** (Treasury, Cabinet Office or an independent unit). The advantages of placing the unit in the centre are that it would be close to policy on purchasing in the Treasury; would fit in well with the traditional monitoring and audit role of Cabinet Office; and would have direct and easy access to senior ministers, as does the Prime Minister's adviser on efficiency. Further, some aspects of the CPU's work will involve helping to resolve conflicts between departments and that may best be done from the centre.

20. We conclude that the unit should be situated in the centre but have no strong views about where in the centre. That would be a matter for ministers to decide.



## AGENCIES

1. The central agencies - Her Majesty's Stationery Office, Crown Suppliers, Property Services Agency, Central Computer and Telecommunications Agency and Central Office of Information - arrange for the supply of common goods and services to government departments. During the year to 31 March 1983, it is estimated that departments as a whole spent about £1,700 million through these agencies; this represents about 12 per cent by value of all goods and services bought by government departments.

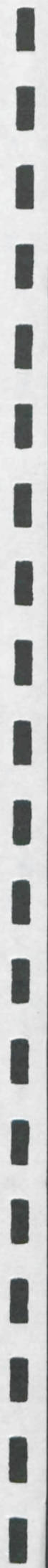
**Agencies in the Review**

2. HMSO supplies stationery, office machinery and printing. Crown Suppliers is the largest purchaser of road borne fuel in Europe; they also supply furniture and furnishings, mechanical and electrical equipment and associated services. CCTA purchase computers and telecommunications equipment. Crown Suppliers (then PSA (Supplies)) became a trading fund in 1976 and HMSO in 1980. The Treasury has set both these agencies a financial target of 5 per cent return (in current cost terms) on the average net assets employed. The CCTA is not a trading fund.

3. Departments are formally tied to Crown Suppliers and CCTA - that is, they are expected to buy the goods and services provided by the agencies only from them or on contracts arranged by them. In both cases however, certain relaxations have been introduced which allow departments to buy some low value goods from the most convenient source to them. In the case of HMSO there was formal untying in 1982. However, HMSO then negotiated customer agreements with all departments (except the Department of the Environment). These agreements effectively bind departments to HMSO for specified periods (varying with the product area in question). The argument for these agreements is that they help sustain the advantages of centralised purchasing and to protect the agency's long-term contracts with suppliers and printers. In theory, departments can withdraw from agreements if they can demonstrate to the Treasury that buying from elsewhere would not increase the overall cost to the Exchequer. According to the HMSO report, no department has made use of this provision to date, although a small number conducted market tests before entering into the customer agreements to ensure that HMSO's prices did represent the best available value for money.

4. Both HMSO and Crown Suppliers provide goods and services to public bodies other than government departments. These bodies include the local and health authorities and the nationalised industries. They are not tied in any way to the two agencies. In the year ending March 1983, 37 per cent of HMSO's sales and 40 per cent of Crown Suppliers' was to these customers. As a result of the recent review of CCTA, the agency will be withdrawing its activities on behalf of non-central government bodies.











MANAGEMENT IN CONFIDENCE



MANAGEMENT IN CONFIDENCE





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

The Rt Hon Patrick Jenkin MP  
Secretary of State for the  
Environment  
2 Marsham Street  
LONDON  
SW1P 3EB

*NB*  
*28<sup>th</sup>*  
28 August 1984

*Dear Patrick,*

DEVELOPMENT OF THE PRS SYSTEM

Thank you for sending me a copy of your letter of 2 August to Peter Rees in reply to his of 29 June about the development of the Property Repayment System. I am glad to see that there will be an opportunity before the 1985 Survey to consider both PES redistribution in respect of rent and rates payments and future resources for maintenance and minor new works.

I have also seen Paul Channon's reply to you of 13 August and endorse very strongly what he says. We seem to be getting further away all the time from the kind of commercial realities in relation to Departments' accommodation costs which I thought Derek Rayner had in mind when he recommended that PRS be introduced in the first place. Instead of being charged for the actual rent which PSA pays for our buildings we are to be asked to meet PSA's assessment of current market levels even for leasehold properties; and because PSA notifies its charges to us every year, our accommodation costs are to be assessed as if the rent in the lease was subject to annual review. The effect of that must be to subject Departments to higher charges than they would expect to pay under the normal commercial practice of 5 yearly rent reviews. I hope therefore you will be prepared to reconsider your proposal so far as leasehold properties are concerned before proceeding further.

It is really most unsatisfactory that programme budgets should be continually exposed to arbitrary demands from the PSA with no right of appeal. It was on those grounds that I and others took exception to your proposals earlier this year for funding the Agency's arrears of maintenance work. At the risk of adding further to the staff costs which the introduction and development of PRS caused, I would support Paul Channon's suggestion that there should be proper consideration and consultation with Departments at official level before decisions are taken about particular refinements of the scheme.

I am copying this letter to the Prime Minister, members of the Cabinet and other Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

*Yours ever,*  
*George.*



CONT MARCH  
Carpus





cc NO



DB o/r

PRIME MINISTER

GOVERNMENT PURCHASING

1. Your private secretary's letter of 7 August indicated that you would want me to be present when you discuss the recent report on government purchasing with colleagues.

2. The proposals in the report are quite radical and depend, crucially, on bringing central government practice more into line with that of the best private sector companies. This will not be easy and will meet resistance from within the civil service. But the prize is large and warrants a special effort to achieve it. Those who did the review estimate that a 5 per cent saving (worth £400 million per annum) could be attained over 2 years. And I have consulted a number of leading businessmen (including Lord Weinstock, Sir Terence Beckett and Lord Rayner) who all agree that the report is on the right lines and offers substantial savings.

3. The proposals are likely to meet subtle resistance aimed in part at avoiding the undoubted effort required to change comfortable buying habits and to turn round the purchasing arrangements. I believe it is important that when you and your colleagues meet to consider the report you should all start with a clear reminder of the potential benefits. I suggest you consider asking Lord Gowrie to arrange for the meeting to begin with a short presentation lasting, say, 10 minutes by the team that led the review. This would set in context subsequent discussion of the issues in Lord Gowrie's paper.

4. I am copying this minute to Sir Robert Armstrong only.

ROBIN IBBS

24 August 1984



Account Mach: Rayner P+16,



PRIME MINISTER

GOVERNMENT PURCHASING

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

23 AUG 1954

1. Your private secretary's letter of 7 August indicated that you would want to be kept informed when you discuss the present report on government purchasing with Ministers.

2. The proposals in the report are quite radical and demand, essentially, an entirely central government practice more in line with that of the best private sector companies. This will not be easy and will meet resistance from within the civil service. But the price is fairly low and warrants a careful effort to achieve it. Those who did the review estimate that a 5 per cent saving (worth £60 million per annum) could be obtained over 5 years. They have been consulted about the report and they will agree that the report is on the right lines and offers substantial savings.

3. The proposals are likely to meet some resistance aimed in part at avoiding the unneeded effort required to change controllable budget habits and to turn round the purchasing arrangements. I believe it is important that when you and your colleagues meet to consider the report you should all start with a clear reminder of the potential benefits. I suggest you consider asking Lord Gowrie to arrange for the meeting to begin with a short presentation lasting, say, 10 minutes by the team that led the review. This would set in context subsequent discussion of the issues in Lord Gowrie's paper.

4. I am copying this minute to Sir Robert Armstrong only.

FOUR FIVE





Department of the Environment  
2 Marsham Street London SW1P 3EB  
Telephone 01-212 7601

CCMS

Minister for Housing and Construction

24 AUG 1984

*Sen Robin,*

*File with DB*

My Ref: J/PSO/16029/84

*NORM  
Dr.*

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

You copied to Patrick Jenkin your letter of 6 August to David Trippier about the scrutiny of administrative and legislative burdens on industry which you are conducting.

In Patrick's absence, I am writing to say that we support entirely the case for the scrutiny and will readily make a contribution on the lines you have suggested. I have asked that the scope of the study within DOE should not be limited to the major area of planning controls but should cover other regulatory systems and any regimes of discretionary grant which have relevance to the needs of industry.

We are now in the process of identifying a scrutiny officer, and my officials will be in touch with yours very shortly to get our part of the review under way.

I am copying this letter to the Prime Minister, to Nigel Lawson, Leon Brittan, Norman Fowler, Norman Tebbit, Tom King, Grey Gowrie and Sir Robert Armstrong.

IAN GOW

Sir Robin Ibbs



Cost Mach: Rayner #16

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

23 AUG 1994



cc/10



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

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GTN 215 .....  
(Switchboard) 215 7877

From the Parliamentary Under Secretary  
of State for Industry

Sir Robin Ibbs  
Efficiency Unit  
70 Whitehall  
LONDON SW1A 2AS

*replan  
DMS  
21/8*

21 August 1984

Dear Sir Robin

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

Thank you for your letter of 6 August in which you set out proposals for how the scrutiny of administrative and legislative burdens is to take place. I shall be very glad to proceed on the basis you suggest. With your experience and guidance I hope we will now be able to make real progress in this area. The Secretary of State has been consulted and also supports your proposals.

I have two comments to make on the tasks of the scrutiny.

First, I would suggest that the team will not want to devote too much time to examining burdens in other countries on which we already have some information. A knowledge of our competitors' practices would of course be useful, but it would require more time and effort than is likely to be available. Within a limited timescale we should not divert too many resources from the main objective of the scrutiny in identifying the scope for reducing UK burdens.

Second, as a result of the review of burdens on small firms already carried out at my request in Small Firms Division, I can suggest particular areas of burden which the team may want to investigate further - both those procedures which appear to be the most onerous, and those which seem the most susceptible to change. I fully appreciate that the scrutiny team will not want to prejudge the issues. In offering some suggestions to the team at the outset I am only seeking to allow them to concentrate more speedily on the central issues. My officials will of course offer the scrutiny team whatever information they may require.



I have asked Sir Brian Hayes to nominate an Assistant Secretary of the right calibre to lead the scrutiny.

I am sending copies of this letter to the recipients of your's.

Yours ever  
David

DAVID TRIPPIER



Govt Mach: Raynes # 16.





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

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(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Patrick Jenkin MP  
Secretary of State for the  
Environment  
2 Marsham Street  
LONDON  
SW1

*nbfm*

*J.*

13 August 1984

*Dear Patrick,*

PROPERTY REPAYMENT SYSTEM

Thank you for sending Norman Tebbit a copy of your letter of 2 August in reply to Peter Rees' of 29 June, about the development of the Property Repayment System.

I hesitate to add to the extensive correspondence on this subject. I do appreciate your difficulties, but am concerned about the position that seems to have been reached.

The proposition, as I now understand it is -

1. Departments will be charged assessed rents on leasehold properties because actual rents would not reflect the "true" current costs of accommodation;
2. Departments will not be able to challenge the assessed market rents in any real sense; and
3. For practical and other reasons Departments are unlikely to have any major influence on the maintenance of their estate in the foreseeable future.

Taken with the realities of the present situation, whereby Departments are not in a position to rationalise their estate, and where the money available for maintaining the buildings they already have is apparently inadequate, I do find the whole Property Repayment System unnecessarily arbitrary and lacking in credibility. The System was designed to make Departments more aware of the real costs of their accommodation and to have some effective say in such matters. However, the present and proposed arrangements, whilst generating a great deal of work in my Department, are failing to satisfy that essential purpose: we have the worst of all worlds.





On the question of rents, for example, I note what you and Peter Rees have said about the virtues of assessed rents on leasehold and Crown properties. But, in the case of leasehold properties, I remain of the view that actual rents would be more realistic particularly where leases have been re-negotiated or let since the Property Repayment System was introduced.

The point of this letter, however, is to reiterate my view that Departments should not again be presented with a fait accompli on the details of running the Property Repayment System. While I strongly support the concept of a Repayment System its development needs very careful consideration by officials and I trust that there will be full consultation with Departments before particular ideas are either rejected or recommended to Ministers.

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

*Yours,*

PAUL CHANNON

*Paul*





FILE

107

10 DOWNING STREET

*From the Private Secretary*

8 August, 1984

This is just to record that the Prime Minister has seen and noted Sir Brian Cubbon's letter of 6 August about the role of the Prison Department central administration. She was grateful for this further information following the Home Office Efficiency Seminar on 10 July.

(Timothy Flesher)

H.S. Webber, Esq.,  
Home Office

18





de vss

10 DOWNING STREET

*From the Private Secretary*

7 August 1984

Government Purchasing

The Prime Minister was grateful for Lord Gowrie's minute of 3 August about the Cabinet Office review of Government purchasing.

The Prime Minister agrees that Lord Gowrie should now circulate the papers more widely, under cover of a letter setting out the main issues for discussion. She further agrees that, once this has been done, a meeting should be arranged under her chairmanship, and we will be in touch with your office, and with the offices of those Ministers mentioned in the penultimate paragraph of Lord Gowrie's minute, to find a time. The Prime Minister would also wish Sir Robert Armstrong and Sir Robin Ibbs to be present.

I am sending copies of this letter to Margaret O'Mara (HM Treasury), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

David Barclay

Mrs Mary Brown,  
Office of the Minister for the Arts.

NR



(1)  
PRIME MINISTER

Government Purchasing

I attach a minute from Lord Gowrie about the review of Government purchasing recently completed by the Cabinet Office.

There are big savings to be made - up to £400 million <sup>a year</sup> not counting what might be saved on "war-like" purchasing. But these savings would come from taking a tougher and more commercial line with suppliers. So there will be protests from those parts of industry who have been doing well (perhaps too well) out of supplying the Government.

The report raises two machinery of government issues, on which Sir Robert Armstrong will be letting you have advice:-

- (i) The establishment of a Central Purchasing Unit.
- (ii) The implications for Central Purchasing agencies such as HMSO, Crown Suppliers and CCTA.

As the next step, Lord Gowrie recommends a meeting under your chairmanship to discuss the report and its handling. The proposed attendance is:

+ Lord Gowrie  
Chancellor of the Exchequer  
Foreign Secretary  
Home Secretary  
Secretary of State for Defence  
Secretary of State for Social Services  
Secretary of State for the Environment  
Secretary of State for Trade and Industry  
Secretary of State for Transport  
Sir Robert Armstrong  
Sir Robin Ibbs

Content for us to set up such a meeting, and for Lord Gowrie to circulate the papers to colleagues?

6 August, 1984.

Yes ml  
DMS





HOME OFFICE  
QUEEN ANNE'S GATE  
LONDON SW1H 9AT

CCNO  
2

6 August 1984

SIR BRIAN CUBBON GCB  
PERMANENT UNDER-SECRETARY OF STATE

Prime Minister:

The largest blocks of Prison Department staff are:

- i) on personnel (about 220 staff dealing with 24,000 staff in prisons)
- ii) on individual prisoners casework which has expanded as the courts have expanded "prisoners rights"
- iii) on prison buildings + maintenance on which the Government has the biggest evm programme.

Dear Robin

EFFICIENCY SEMINAR : HOME OFFICE

At the meeting on 10 July the Prime Minister asked about the size of the central administration in the Home Office dealing with the Prison Service.

*This is not to say there is no scope for economies.*

.... I enclose a detailed note of the work done by the 840 people in the Prison Department in Central London.

All the staff mentioned in the note have been inspected by the Staff Inspectors since 1979. The Directorate of Works (see paragraphs 8 and 9) will be the next unit to be staff inspected.

DA  
7/8

You will see that very nearly all the architectural and design work is contracted out. In view of my ultimate responsibility as Accounting Officer, I must retain some professionals to control and develop the necessary expertise to monitor this outside work.

We are considering the best way of mounting a radical review of the personnel management function (paragraph 10) with particular reference to what need not be done in headquarters.

Yours ever  
Brian

F E R Butler Esq





## PRISON DEPARTMENT STAFF IN CENTRAL LONDON

1. The Prison Department staff in Central London number about 846 staff, out of a national prison service total of 27350. They are engaged on the following duties.

2. The Prisons Board, of 12 members (2 non-executive) is responsible for the strategic management of the system. It has a secretariat of 4. The Deputy Director General, at the head of a Unit of 9 staff, is responsible, through 4 Regional Directors, for the day-to-day line management of the 23611 staff working in Regional Offices and Prison Department outstations.

3. 35 staff are responsible for security and control matters, including Headquarters responsibility for arrangements to deal with emergencies such as riots. Other policy responsibilities include development of specific security and control measures, the transport of prisoners between establishments, the security of court accommodation and the prison dog service.

4. A Division of 125 staff deals with life sentence and parole cases. These staff have responsibility for managing the population of over 1900 life sentence prisoners and considering the case for their release or recall. They also consider about 23,500 cases of fixed term prisoners referred to the Home Secretary each year by Local Review Committees and the Parole Board.

5. All other matters relating to adult male inmates are handled by a Division comprising 57 staff. They are responsible for management of the population of about 400 confirmed or provisional Category A prisoners (ie those, including terrorists, who must not be permitted to escape), and for casework or petitions to the Home Secretary (currently running at about 3400 a year, not counting those which are dealt with by Regional Offices). A particular concern of this Division is the ever increasing amount of litigation by prisoners on prison issues, in the English courts and at Strasbourg.





6. A separate Division of 26 staff is responsible for policy and tactical management for the young offenders' and women's prison systems. In 1983, 31,300 male young offenders and 3,500 women and girls were received into custody under sentence.
  
7. There are 64 headquarters staff providing direction and supervision of medical services, education, physical education, psychological services and religion throughout the prison service. There is also a small coordinating unit (7 staff).
  
8. About 180 staff are concerned with the management and development of Prison Buildings, both the maintenance and repair of the existing estate and the major extensions or refurbishment taking place or planned at 90 existing establishments. The cost will be about £79 million in 1985/6. About 90% of design services are contracted out to the private sector at a cost in fees of around £10 million in 1984/85. All the corresponding building work is contracted out, together with a good deal of the other building work in prisons: the small direct labour force is based on prisons and regions and is used largely for maintenance and minor works and work on which inmates are employed.
  
9. In addition, a Central Engineering Section of 18 staff works on locking and special security systems; there is an Estates Section of 12 (covering the whole of the Home Office); a Training Section of 9 dealing with staff and inmate works training; an energy conservation group of 5 and a Health and Safety at work section of 5; both covering the whole of the Home Office; Finance and personnel and Administration account for a further 11 staff. [The Chief Architect's Branch and Directorate of Works also includes 40 staff working mainly on matters for which parts of the Home Office other than the Prison Department are responsible].





10. Personnel management of the prison service's 23380 staff based at outstations rests with about 221 Headquarters staff. These provide a central control of the recruitment of prison officers (over 1300 were recruited in 1983; this is due to increase on current plans); management of the service's training programme (with overall responsibility for the Prison Service College, 2 Officer Training Schools, and a Desk Training Unit at Leicester); career development and promotion (on average over 50 boards have to be held annually, with interviews of over 2,500 candidates); postings (over 3,200 annually); industrial relations; pay; superannuation (about 6300 cases) and conditions of service; management of over 9500 staff quarters; staff facilities; uniforms; and Health and Safety matters. About 50 staff are employed in the Prison Department's files registry (which processed 196,325 items in the year ending 30 May 1984) where a computerisation study is in train.

11. Manpower and financial policy and control account for a further 39 staff, with a further 8 being responsible for management of the Prison Department's strategy for introducing computerisation and information technology into the Prison Service.

3 August 1984



Gov March 4 Reunited & Pg 15







## EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries : 01-233 8412

Direct line : 01-233 7359

6 August 1984

David Trippier Esq MP  
Department of Trade and Industry

*Dear David,*

### SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

Following our talk on Wednesday about organisation of the scrutiny agreed at the Prime Minister's meeting of 24 July, I am writing to confirm how I see the way forward.

2. The task of the scrutiny will be to examine in relevant departments:

- (1) What the main obstacles are to reducing compliance costs substantially;
- (2) In which areas, modification, simplification or abolition of burdens would make the biggest difference to those contemplating starting business or expanding;
- (3) How far our competitors in Western Europe and the USA have fewer burdens;
- (4) In the light of (1)-(3) which areas of regulation it is most feasible to amend;
- (5) How, in future, compliance costs should be taken into account when new proposals are formulated and the burden of existing regulations etc kept under control.

and to draw together any wider lessons.

3. The exercise will be run on scrutiny lines. It is important that each Minister appoints an examining officer whose job is to conduct an investigation, following scrutiny principles, in the relevant department. (These principles are codified in our Notes of Guidance for the conduct of scrutinies and I am enclosing copies for you and other recipients in case you have not seen them.) The appropriate level for these examining officers is Principal or equivalent. Essential qualities are a questioning mind and an ability to propose solutions to problems.



4. I put great emphasis on having departmental reports prepared by departmental officials because government objectives pull in different directions (eg the revenue departments are under pressure in Parliament to tackle the black economy and that may mean more burdens on small business.) It is vital that the balance of compliance costs and other benefits, in each case, is struck in one place under one Minister and not aggravated by divisions between Departments. Hence, the output from the departmental contributions will be a short report on each department which will form part of a larger report on the exercise as a whole.

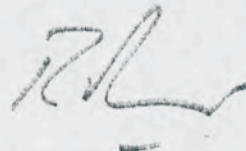
5. As compliance costs arise from a number of different sources in different departments, however, it will be necessary to take an overview of the position and to ensure proper co-ordination between the departmental studies. This will be done by a small central team, best led at Assistant Secretary level, which will work under my guidance and prepare a report for the Prime Minister on the lessons which span more than one department. As the Minister responsible for the welfare of small firms it is appropriate for you to appoint the Assistant Secretary. What is needed is not so much someone who knows about small firms already as someone who will look at these matters with a fresh eye and will be able to learn from the experience of the experts in this area and will relate closely to the examining officers in the individual departments. He would also be responsible for the DTI domestic report.

6. From the Efficiency Unit I will put Kit Chivers, an Assistant Secretary of considerable experience, to stay in close touch with the central team and to help them. Before he joined the Efficiency Unit, Mr Chivers led the recent scrutiny on the Urban Programme and is therefore well equipped to know the type of help required. But I should emphasise that his role will be to support the team and I regard it as absolutely vital that leadership should come from someone appointed by you as the responsible Minister.

7. On timing, we might look for examining officers to be appointed by the end of August and for the work to start in earnest in the first half of September, finishing by Christmas.

8. Departments we might look to to join the study are: the Inland Revenue and Customs & Excise, the Home Office, the DOE, the DHSS, and the Department of Employment Group. I am therefore copying this letter and enclosure to their Secretaries of State. The Chancellor of the Exchequer might also wish to provide a really bright Principal to join the central team. Copies also go, for information, to the Prime Minister, Norman Tebbit, Lord Gowrie and Sir Robert Armstrong.

*yours ever,*



Robin Ibbs



6 AUG 1984

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9 8



FILE

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10 DOWNING STREET

*From the Private Secretary*

6 August 1984

Dear John,

1983/84 Scrutiny of Departmental Running Costs

The Prime Minister considered over the weekend the Chief Secretary's minute of 30 July reporting on the 1983/84 annual scrutiny of departmental running costs.

The Prime Minister believes that the report reveals a disappointing lack of progress in controlling running costs to date. Now that more sophisticated management information systems are in place, they need to be used to inform decisions about what functions should and should not be carried out in central departments. The Prime Minister would stress that the most effective way to reduce running costs is for Government to reduce and simplify the tasks which it takes upon itself.

I am sending copies of this letter to Private Secretaries to members of the Cabinet, to Mary Brown (Lord Gowrie's Office) and to Richard Hatfield (Cabinet Office) and Sir Robin Ibbs.

Yours ever,

David

David Barclay

John Gieve, Esq.,  
Chief Secretary's Office.

da





Report on Govt. Purchasing in  
folders att. to file

## MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

GOVERNMENT PURCHASING

The 1983 Efficiency Programme included a multi-department review of Contract and Procurement Procedures. Scrutinies were carried out in nine separate departments, and the review was co-ordinated by a small central team in the Cabinet Office (MPO). I commend the very thorough job that has been done.

... I attach the central team's report, and a summary of their main findings and recommendations. But I strongly suggest that you read the full report: it makes interesting reading.

### MAIN CONCLUSIONS

The team recommend radical changes in departments' whole approach to buying. They believe that rigorous implementation of their recommendations across the whole of government non-warlike purchasing could result in savings of well over £400 million, or 5% of the current annual spend both on goods and services and on the administration of purchasing.

Some savings will come from streamlining procedures, reducing paperwork and cutting out unnecessary double-checking. Some will come from identifying and reducing the on-costs of procurement (particularly storage and distribution). The major savings, however, will come from getting down the prices government pays for the goods and services it buys. To achieve this the team recommends that departments:

- plan and organise purchasing in a way that will enable them to make fuller use of the government's considerable purchasing power
- establish closer liaison with suppliers and place greater reliance on their ability and resourcefulness to meet government needs in the most cost-effective way;
- use specifications which enable government to buy what is good enough for the job rather than the best possible.

These approaches will not only help government to get better value for money; they should also stimulate greater competitiveness in British industry.

Departments need to take steps to clarify the responsibilities of staff in the procurement process. The report recommends thorough training in buying methods; and the introduction of performance indicators and incentives.



## ISSUES

We need to tackle three particular issues at an early stage. First, the team recommend (paras 7.9-7.14 and Annex H of the report) the establishment of a Central Purchasing Unit. They see this as an essential catalyst in bringing about the major changes of approach envisaged in their report. I think you will want to accept the recommendation and take an early view on the location of the Unit. Annex H of the report sets out the three options on where the Unit should be situated and you will want to consider these in the light of advice from Sir Robert Armstrong.

Second, the team recommend (paras 7.15-7.24) that individual savings targets are set by departments and agreed with the centre. This approach is common in the private sector. I believe that, properly done, it is a technique we should adopt. Although, as the report says, it will be for departments to set their own targets, I am sure that you will wish to indicate to Ministers the broad levels of savings that they should aim to achieve. Initially that might be the 5% quoted in the report, to be achieved within the first 2 years. But I am confident that is only a start; we should expect further improvements year on year thereafter.

Third, we need to consider the role of the central purchasing agencies - especially HMSO, Crown Suppliers and CCTA. Chapter 8 of the report recommends changes to improve the quality of service provided by these agencies and to give departments greater freedom of choice. The team believe that implementation of this strategy would enable the number of central agencies to be reviewed by the end of the decade. Their proposals raise machinery of government issues and will need more detailed consideration in the context of the other work already being done on the agencies under Sir Robert Armstrong's direction.

## HANDLING

This is an important report with major implications for the relationship between government and its private sector suppliers. The bulk of the savings envisaged will come from reducing the real prices we pay for goods and services and from running down government stocks. Industry will be closely interested in the team's proposals - and there is bound to be alarm in some quarters. Robin Ibbs (who has been closely associated with this work throughout) has held confidential consultations on it with a number of leading industrialists. They welcomed the findings which were emerging as a clear exposition of good purchasing practice. They also welcomed the potential savings identified. Interestingly, the recent CBI report 'Efficiency and the Public Service' also identified procurement as an area in which improvements can be made and echoed many of the points in the central team's report. But expressions of general support are one thing; actually living



With a more aggressive and cost-conscious public sector purchaser is quite another. I do not for one moment suggest that we should hold back from achieving worthwhile savings on this account. But presentation will be very important.

As a next step, I recommend that you call a meeting with colleagues to consider the main issues raised by the report, and the question of publishing it. If you agree, I will write to you again, with copies to colleagues, setting out rather more fully the issues for discussion. I would suggest that the Chancellor of the Exchequer, the Foreign and Home Secretaries and the Secretaries of State for Defence, Social Services, Environment, Trade and Industry and Transport should be invited to such a meeting.

For the time being, I am copying this minute only to the Chancellor of the Exchequer, Sir Robert Armstrong and Sir Robin Ibbes.

*Ge*

LORD GOWRIE  
3 August 1984



## GOVERNMENT PURCHASING: SUMMARY

Central government departments spend around £7,600 million a year on non-warlike goods and services. The report examines the way in which departments buy these goods and services.

2. The report's main conclusion is that the overall costs of purchasing can be reduced substantially. It recommends that departments set targets for savings. If the package of measures advocated in the report are applied to all areas of non-warlike government purchasing, the report concludes that savings of at least £400 million ought to be achievable.

3. Some of these savings will flow from improvements in the efficiency of purchasing arrangements. In particular, the process can be streamlined by reducing paperwork, less double-checking greater delegation of authority and a clearer definition of the level of service to be provided by purchasing organizations to operational divisions. Savings can also be made by reductions in stockholdings, many of which are too high because of poor purchasing decisions made in the past.

4. By far the bulk of the improvements will come from government paying less for what it buys. There are three ways in which this can be done. First, departments need to promote industrial innovation and competitiveness by relying more on performance specifications rather than on detailed descriptions of the goods and services required. Allied to this is the need to adopt internationally accepted standards, which will help industry to compete in international markets.

5. Second, there should be better planning. At present departments generally do not use the available information on what they buy to determine where greater effort needs to be made or where the benefits of aggregation of demand can be exploited.

6. Third, departments should improve their knowledge of supplier and the market. This involves giving more information to suppliers about future needs, discussing with them what is available to meet those needs and, if necessary, explaining to them why their bids for government business have not been accepted. Government buyers have traditionally adopted an arms-length approach to purchasing.



Various techniques used by the private sector, such as product analysis, post-tender negotiation and price targets, should be practised by departments.

7. Improvements in purchasing depend on having the right staff. The report makes recommendations aimed at improving the expertise of staff through identifying the right talent, through secondments to the private sector and by better training. Purchasing staff also need greater motivation. The report proposes establishing performance targets and awarding financial incentives to staff who exceed their targets.

8. The management structure of purchasing needs to be clarified. In particular there needs to be a formal statement of the roles and responsibilities of both the buying department and the end-user (the individual who requires the goods or services to be bought for operational purposes). Within departments there should be a single person designated as director of procurement and supply who will have responsibility for ensuring that the procurement organization gets value for money. He should also be responsible for the efficiency of the purchasing organization and for the probity of its dealing with suppliers. In larger departments the director should preferably have proven practical experience in the private sector.

9. A central focus for good purchasing practice is needed in central government. The reports proposes the establishment of a small central purchasing unit (CPU), to be headed by someone from the private sector. In addition to providing advice to departments, the CPU would also agree savings targets with them and report annually to the Prime Minister on progress in implementing the report.

10. The report makes some recommendations on the three agencies which took part in the review (Crown Suppliers, HMSO and CCTA). These are aimed at developing the relationship between the agencies and departments so that the former provide an adequate level of service to the latter. Ultimately the strategy could lead to departments being untied from the agencies.



11. The proposals in the report will help government obtain better value for money. At the same time they should help industry become more competitive. The conclusions confirm the principles of the Public Purchasing Initiative. They also show the importance of implementing the principles of the Financial Management Initiative in departments. Implementation of the recommendations will make a practical contribution to the development of the FMI.



E.R.

PRIME MINISTER

*ms*

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

I attach Policy Unit advice on the minute circulated by the Chief Secretary on departmental running costs.

Agree a response which:

- (i) expresses disappointment about the lack of progress in controlling running costs so far.
- (ii) reminds departments that the most effective way of reducing running costs is for Government to reduce and simplify the tasks which it takes upon itself.

*Yes ms*

*Dub*

3 August 1984



CONFIDENTIAL

MR BARCLAY

3 August 1984

1983/84 SCRUTINY OF DEPARTMENTAL RUNNING COSTS

The running costs in 1983/84 of government departments amounted to £16,000 million of gross spending. Over the 5 years from 1979/80 there has been a substantial increase in real terms in the cost of running the central administration.

The savings identified in the commentaries are puny in relation to the total. The bulk of the expenditure is on manpower and pay, and most of the rest of the expenditure is a natural consequence of the manpower levels. Fewer people means less travelling and subsistence, less office accommodation, fewer phone calls and less paper.

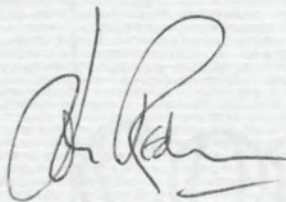
The message from all of the figures points in the same direction. The FMI has not yet had any visible impact, and now that the information has been assembled, it requires management decisions to be made about what is and is not essential work in central departments. Despite the rundown in manpower, so far no real savings have been achieved in the last 5 years. (Even adjusting for the change in accounting base at the beginning of 1983, there has still been a substantial real increase in costs over a 5-year period.)

CONFIDENTIAL



CONFIDENTIAL

The way to make an inroad into the administrative overhead comes through reducing the amount of regulation undertaken by government, simplifying the tax and benefit systems which are very labour-intensive, and reducing the substantial sponsorship rôles of government. If these things are done, then more exacting manpower targets could be set for the lifetime of this Parliament, and then you would find the administrative overhead did indeed decline. Without these decisions, the future is unlikely to be any better than the desultory experience of the past.



JOHN REDWOOD

CONFIDENTIAL



Rayner



Mr Barclay <sup>our</sup> 3/8

CIR Report

You may like to substitute the attached bound copy of the report for the typescript which accompanied Sir Robin 166's minute to the Prime Minister dated 27 July. The text is unchanged.

Charlotte Caplan

Efficiency Unit

3 August 1984



CONSULTANCY, INSPECTION  
AND REVIEW SERVICES  
IN GOVERNMENT DEPARTMENTS

REPORT BY THE EFFICIENCY UNIT

JULY 1984



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1. INTRODUCTION

1.1 Between September 1983 and March 1984 six departments carried out scrutinies of their internal consultancy, inspection and review (CIR) services. The departments were:

Ministry of Defence  
Department of Health and Social Security  
Property Services Agency  
Scottish Office  
Department of Trade and Industry  
HM Treasury

The terms of reference are set out in Annex 1.

1.2 The scrutiny teams looked at:

- the full-time services whose primary function is to improve the internal administration of departments. These are staff inspection, management services and internal audit. This was the main focus of the review;
- professional and semi-professional specialists such as operational researchers, computer specialists, accountants, economists and statisticians who advise on the effectiveness of operations and of programmes;
- the contribution of task forces set up to tackle specific reviews, including efficiency scrutinies;
- the use of external consultants.

The central team in the Efficiency Unit also carried out a survey by questionnaire of CIR resources and organisation across the whole Civil Service and looked at practice in the private sector.

1.3 This report uses the evidence from the departmental scrutinies as a basis on which to make recommendations about the ways in which departments should now be restructuring their consultancy, inspection and review services to support the management reforms which were initiated in May 1982\*.

1.4 The cost of the entire review was about £152,000.

---

\* "Financial Management", note to departments by the Treasury and MPO dated 17 May 1982; published as appendix 3 to "Effectiveness and Efficiency in the Civil Service", Cmnd 8616, HMSO, 1982



## 2. THE EXISTING ORGANISATION OF CIR SERVICES

2.1 Consultancy, inspection and review in departments involves about 5,000 staff and costs about £100m a year. The details of the organisation of CIR services are set out in:

- Annex 2: Staffing and cost;
- Annex 3: Functions of the four main services;
- Annex 4: Survey of existing services in all departments.

2.2 The CIR services are used in departments for three main purposes:

(a) to advise line managers on internal administration (for example O&M advice on re-organising a registry) or designing and running programmes (for example specialist advice on computerising benefit payments);

(b) to audit line management operations for top management to review the effectiveness of controls or value for money, for example through internal audit;

(c) to control the use of resources, for example setting new complements by means of staff inspection or vetting applications for new equipment, often with reference to centrally set standards.

2.3 The present CIR services may become involved in all or any of these purposes. For example staff inspection and management services units commonly contribute to all three. The precise use departments make of their CIR services depends on:

- the way the services are organised;
- the quality of their staff and the way they see their role;
- the demands made on them by customers;
- the interest and support they get from top management;
- prescription and guidance from the central departments.

2.4 These factors are inter-related. For example, a critical PAC report on internal audit in 1981\*, followed up by increased

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\* "Internal Audit in Central Government", 9th report from the Committee of Public Accounts, Session 1980-81, HMSO, 1981



prescription and guidance from the Treasury, stimulated top management concern in departments and led to greater independence of internal audit units, improved selection and training of staff and new working methods. The quality and effectiveness of CIR staff also influences the demands made on them - their work is to a large extent "quality-driven". The MOD scrutiny noted that, in the central management services unit:

"Virtually no assignments are now suitable for HEOs and an increasing number require full-time participation by Principals with SEO or HEO(D) assistance."

2.5 A notable common feature is that the fragmented organisation and specialised training of the different CIR services tends to isolate them from each other and focuses their attention on specific aspects of management rather than on the process of management as a whole. The DHSS scrutiny identified at least 20 separate units which contribute to CIR work. Despite this fragmentation, a general and increasing emphasis on improving value for money has led the work of different services to converge on many similar issues.

2.6 The departmental scrutiny teams all reported examples of sound and constructive work by CIR units. For example, the central management services unit in DHSS had estimated that the potential savings from its recommendations in 1982-83 were 1,540 posts. But the scrutiny teams also found evidence of:

- overlaps;
- gaps;
- confusion among customers as to what help was available;
- problems in monitoring effectiveness;
- lack of coherent planning.

2.7 Overlaps occurred when different CIR units carried out projects in the same work area within a short space of time:

"We found that issues relating to Statutory Sick Pay have been investigated by the Social Security Policy Inspectorate, five Regional Survey units and Internal Audit." (DHSS)

Overlaps of a different kind resulted from the focusing of attention on common issues:

- the Scottish Office report described an uneasy split of work on information technology between its computer services, management services and office services divisions;



- challenging "need for work" is a prescribed part of staff inspection, but is also an essential part of efficiency scrutinies and management services projects.
- all CIR services are concerned with performance indicators, but the examining teams found no evidence of a co-ordinated approach.

2.8 Gaps in coverage were noted mainly in:

- contributions to policy and programme review;
- the review of sponsored bodies;
- in the ability to mount multi-disciplinary audits to examine value for money in all aspects of the management of an operation or programme.

The DHSS team estimated that 99% of CIR capacity was devoted to the 3% of expenditure represented by administrative costs. MOD was the only department developing multi-disciplinary audits.

2.9 Many line managers are unsure about what specialist advice is available. For example:

"notwithstanding its effectiveness in specific parts of the Department the majority of DTI remains only very vaguely aware of the capabilities of the Operational Research Unit." (DTI).

"We found ..... a fair degree of uncertainty among line managers as to what is on offer from CIR and who to turn to for help with a particular problem." (DHSS)

2.10 Few of the CIR units monitored their own effectiveness.

"None of the capabilities could tell me the value added to PSA's operations as a result of their activities." (PSA).

"All three MS units regard their objectives as comprising increased operational efficiency and effectiveness, cost and manpower savings, improved management controls and more effective planning ... It is impossible to quantify their success in these respects." (MOD).

In many cases individual projects were neither costed nor subjected to any assessment of their success. There was some evidence of wide



variations in effectiveness, as measured, for example, by the extent to which recommendations were actually implemented and the time taken in implementation.

"Many assignments take longer than they should. In staff inspection, the average length of time between the start of an inspection and the publication of a report was eight months. Two reports on assignments conducted in 1982 have not yet been published ... where reports are available on the staff inspections carried out in 1982, I estimate that only 30% of these staff reductions have been implemented." (PSA)

2.11 With the exception of MOD, where a Management Audit Board co-ordinates most CIR work, the examining teams found central planning of the CIR services to be absent or inadequate. For example the DHSS Regional Directorate produced a "shopping list" of 51 areas of concern to HQ branches, but regional survey teams picked up only six of these:

"clearly the priorities of line management at regional level were not co-incident with those of headquarters, but this is not being picked up as an issue for concern and resolution in any central mechanism seeking to ensure that CIRC capacity is being used on those areas of highest departmental priority." (DHSS)

2.12 A vital element in central planning is the quality, experience and training of the staff in CIR units. The received wisdom is that staff, apart from professional specialists, do spells of three to five years before returning to line management posts where their skills will also be highly relevant. In practice senior staff tend to have spent far longer continuous spells on CIR work than this (Annex 4). The ability of the CIR services to change themselves and promote change in others must be influenced by a lack of fresh blood and fresh ideas. It is particularly worrying that in some departments there has been little staff turnover in internal audit, above the EO training grade, in spite of the heavily critical PAC report in 1981.

2.13 These problems led the examining teams to propose a number of changes. Annex 5 is a summary of each report's recommendations. They centre around:

- re-organisation to bring most of the CIR units together in one or two managerial groups; MOD have already established such a pattern and their scrutiny recommends its further development;
- new arrangements for co-ordinating CIR programmes and planning its longer term role;



- better control of individual projects through costing and assessment of effectiveness; use of risk analysis in audit planning;
- broader-based training for staff in the main CIR services, for example, training in basic O&M techniques, staff inspection techniques and microcomputer applications for all staff;
- attribution of costs to customers.

2.14 The survey of relevant practice in the private sector (summarised in Annex 6) provides a substantial contrast to the pattern found in the government departments. The picture is of limited, decentralised services whose work is largely led by the demands of line managers. Some differences are inevitable - businesses, even nationalised industries, are not accountable to Parliament as government departments are - but the survey's findings are significant, particularly now that management structures in departments are becoming in many ways more "business like". The remaining sections of this report concentrate on what these management changes will mean for the CIR services.



### 3. THE CHANGES IN CIVIL SERVICE MANAGEMENT

3.1 The departmental recommendations (paragraph 2.12) arose mainly from the evidence the examining teams collected of how CIR services operate at present. They are a sensible and practical approach to the deficiencies which were identified. However, these services have to operate in organisations which are in the process of substantial change. In the terms of reference for the scrutiny it was made clear that the teams should also look at the implications for the CIR services of the new structures which are being set up as a result of the Financial Management Initiative (FMI). This posed some difficulties for the scrutiny teams - departments are at different stages in implementing their FMI organisation and the teams found that line managers were far from clear about what the pattern of their responsibilities would be in the future.

3.2 The FMI has given shape and impetus to a change in management responsibilities that was already under way in parts of the Civil Service. The emphasis on lines of responsibility that are clear, objectives that are stated and agreed and activities that are monitored and assessed has encouraged the development of management structures on similar lines in many departments - for example:

- a top management group responsible for planning and allocating major resources on the basis of an annual review of functions, priorities and achievements (eg the Activity and Resource Management review in DTI; MINIS in MOD);
- annual budgets extending down each vertical line of command to individual cost centres (eg local offices in DHSS; Under Secretary commands in central Treasury);
- management information systems to enable managers to monitor their costs and outputs during the year.

3.3 The examining teams found these structures in place or in an advanced state of planning. But it was less clear to them whether line managers below the most senior levels fully understood what the changes meant for the way they do their jobs.

"Until the publication of Cmnd 9058\* (which has not been widely distributed in the Department) and the distribution in November 1983 of an office notice on Financial Management ... it is clear that the relationship between the various

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\* "Financial Management in Government Departments", Cmnd 9058, HMSO, September 1983



departmental activities and the government-wide FMI was really understood only by a small group at the centre of the Department ... Indeed, even now we suspect that at, say, Principal level the general understanding of the FMI remains hazy." (DTI)

3.4 The budget-setting process and the discipline of working to explicit targets within a set budget will provide top management with a new and powerful resource control system. The system not only provides a means of tightening financial controls, but should also provide a means of improving and monitoring the function of management year on year to produce continuing improvements in value for money in each management area.

3.5 Line managers will have more power to choose how to deploy their resources but will have to be more accountable for their achievements. This in itself means a substantial change in the approach and the skills line managers need to bring to their jobs. Managers at all levels have to see themselves as part of a dynamic process in which the challenge and re-appraisal of their own functions and resource needs will become a routine part of their job, not one to be left to central resource controllers or occasional external reviews.

3.6 The new controls and responsibilities of the FMI go wider than the management of running costs. For example, a recent review of the role of finance divisions in DOE\* concluded that day-to-day control of programme expenditure should be the responsibility of policy line divisions, while finance divisions should concentrate on central co-ordination with additional responsibility for challenging and auditing line management's performance. This report is mainly concerned with the central services in departments which deal with organisational and manpower issues; the DoE report suggests a similar approach to the finance organisation.

3.7 Departments are now beginning to develop the managerial skills and attitudes that will bring the new management systems to life. The budget and target setting process is at the heart of this. This process puts responsibility both for resource control and for achieving results firmly within the line of command from cost centres at one end to the top management group at the other. The development of managerial initiative and responsibility for value for money must be encouraged by redefining the central controls exercised by finance and establishments divisions to ensure that budgetary controls exercised down the line are real. At the same time the centre of departments will need to develop the capacity to monitor performance.

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\* "Review of the role of Finance Divisions in the Department of the Environment", Sally Booth and David Hampson, DOE, November 1983



3.8 The systems of control in departments go well beyond the scope of this review. But some of the CIR services affect the activities of line managers in a very direct and visible way. The way in which manpower and financial controls are handled - most notably the extent to which the budget setting process is regarded as a serious one - will be of crucial importance in encouraging line managers to accept that the primary responsibility for improved efficiency is theirs.

3.9 As a result of the FMI, line managers should become the main resource controllers once the size of their budget has been agreed and set. They will be responsible for organising their money and manpower, authorising and monitoring their own detailed complements and expenditure and, at the margins, they should be able to switch expenditure between manpower and other resources. Top management should be the internal resource allocators within the department. They should be responsible for determining how the department's total cash and manpower should be deployed between different functions, subject to the votes approved by Parliament. This shift in responsibilities will mean that the pattern of demand for CIR services will alter as the functions of the customers alter.

#### Line Management

3.10 Line managers will, for the first time, combine responsibility for management and policy development with responsibility for resource control. They will need training to ensure that the information used for their budgets is accurate and relevant. Their training should include:

- the rudiments of staff inspection and management skills, so that organisation, numbers and grading can be properly assessed;
- finance and budgeting;
- the use of new technology.

There is an important role for staff inspectors and management services staff working with training divisions to ensure that line managers are properly equipped to carry out their responsibilities.

3.11 The departmental scrutiny teams felt that, once this training had taken place, line managers could manage without the more routine external advice and inspection available now:

"The main source of expertise about a job lies, as has frequently been pointed out, in the people who actually do it; and once line managers have the knowledge, the powers and the



motivation to improve their performance, we think that for the most part they will prefer to use their own skills, and those of their staff, rather than call in outside CIRC experts."  
(DHSS)

However, in some circumstances, departmental CIR staff would continue to offer advantages of independent appraisal and an extra pair of hands when needed, as well as expertise not available in the line.

3.12 There is a good case for line managers heading large executive operations to develop some specialist support of their own, but they and other managers will still need access to specialist advice from time to time. Management services, staff inspection and computer advisory staff within departments should be able to provide much of the extra support line managers need, but it will have to be at an expert level.

3.13 All the departmental reports recommended grouping or closely co-ordinating the main advisory services. This opens the way to:

- ironing out the gaps and overlaps which the teams found;
- offering the line manager a single point for advice in identifying his problem and the skills needed to tackle it;
- providing the right mix of skills to deal with each issue.

The creation of a single unit to advise and support line management would also have the advantage of flexibility. A single unit which is responsible for meeting all demands for internal consultancy can adapt itself to fit changing needs in a way which separate units, organised to provide separate skills, cannot. While skills are supplied by separate units, the practitioners' own definition of what they are there to supply will tend to get in the way of matching their customers' real needs.

#### Top Management

3.14 The senior management of a department has a dual role. It includes the senior line managers each with continuing responsibility for his or her line management command. The development of the FMI has also given them a strategic role in planning and resource allocation for the department as a whole. This role requires them to act in a collegiate manner as a group, not as individuals, looking across all the operations of their department. The top management group will need to be certain that it has support staff with the right expertise to brief it collectively, to ensure that it can exercise a firm grip on departmental operations.



3.15 The organisation and the skills of the support staff will need to be capable of changing over time as the organisation of the department changes. The main functions of the support staff for top management should be to:

- encourage the development of the FMI in the department, and to plan future strategic initiatives;
- act as secretariat in the annual round of budget-setting and reviews;
- advise on the setting of objectives and targets;
- identify particular areas for detailed investigation, audit or scrutiny;
- carry out investigations.

3.16 The scrutiny teams found that these functions are at present split between different units dealing with the FMI, with policy planning, manpower allocation and other CIR services. There are obvious advantages in having as many of these functions as possible in a single unit which is directly responsible to top management. All the functions except detailed investigations could be done by a small central unit. It should be staffed at a sufficiently high level to ensure that the advice given to top management and discussions with line management are constructive and realistic.

3.17 Many departments have already developed a kind of central unit which provides support for the top management system. But the relationships between the FMI systems and the existing audit, staff inspection and management services activities are often far from clear.

3.18 There will be occasions when top management wants a particular area of a department investigated by someone outside the line management chain. In a small department this kind of investigative capacity might be provided from within a top management secretariat, but in the larger departments different skills and different mixes of skills will obviously be necessary. It is never easy to combine a requirement for a special investigation with the proper use of the expensive staff resources involved.

3.19 There are a number of possibilities:

- to develop a separate investigating unit within the top management unit;



- to draw on staff from the management support unit (and elsewhere) to carry out investigations on behalf of top management;
- to combine within a single unit all the functions of the secretariat, management support and audit.

3.20 Maintaining a separate field force of investigators working only to top management is unlikely to be an economical solution and risks perpetuating problems of overlap and duplication of effort. On the other hand, combining all the functions within a single unit could damage the relationship between line managers and the support function. Line managers may be reluctant to seek advice from staff who are also seen to be involved in the central budget-setting and review process. The second option will probably be preferable in most departments, though mounting large investigative assignments will need close co-ordination between the top management and line management support units.

3.21 The scrutiny teams recognised that there is a need to maintain the role of internal audit in giving independent assurance to the Accounting Officer that the internal controls within his department are adequate. The internal auditors tend to guard their professional independence fiercely; this independence is essential but should not be carried to organisational extremes. There is a need for internal audit's work programme to be properly co-ordinated with other activities and for internal auditors to contribute to other investigative or review work on behalf of top management.

#### The Central Departments

3.22 Both the Treasury and the MPO have a co-ordination role for the CIR services. The Treasury's Staff Inspection and Evaluation Division maintains close contact with departmental staff inspection units and monitors and issues guidance notes on professional aspects of staff inspection. A similar central function is performed for internal audit. The MPO is responsible for the co-ordination of management services.

3.23 The central departments should look critically at their role in relation to management support in departments. At present the centre has some 120 staff employed in the co-ordination and monitoring functions for staff inspection, management services and internal audit, plus a large proportion of the 500 staff in CCTA who perform similar functions on the ADP side. The central groups provide valuable co-ordination and a means of disseminating new techniques, skills and ideas as well as providing training. The development of a small management support unit at the centre, with close links with the



departments and with the Treasury and the MPO, may be the most sensible way of approaching the need for co-ordinating the centre's activities. It is particularly important in this area of the development of management skills that the centre should not be seen to be dragging its heels in developing its own organisation while encouraging departments to be more innovatory.



#### 4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Management in the Civil Service is undergoing substantial change. It is inevitable that the next few years will be a transitional period. It is impossible to be sure what will be the best arrangements for consultancy, inspection and review in each department. These services need to be ready to stimulate and encourage the change and to plan for the consequential changes within their own organisations as well as across their departments. The people doing CIR work will have a strong influence on the success of the management reforms which were begun in May 1982.

4.2 Line managers in the Civil Service still need to be informed and reassured about their future role. Senior management in departments must make a reality of the FMI principles which emphasise line management's real responsibility. This change is both the most important and the most difficult of the governments' management reforms. The existing culture is one in which civil servants have been trained to work to central procedures with relatively little scope for personal initiative or accountability. Line management must be told unequivocally what is expected of them, and the nature of their new responsibilities, in a way which is honest and unambiguous. It must be clear how accountability will flow through the line management chain, and that senior management gives a high priority to helping line managers to be successful.

4.3 The recommendations that follow are aimed at three main objectives:

- To ensure that line management understands the implications of the management changes that are under way;
- To plan and manage the CIR services to support these changes, starting immediately with the change to resource management by budget;
- To monitor and co-ordinate the changes in the central departments.

#### The Implications of the Management Changes

4.4 Ministers in charge of departments with their Permanent Secretaries should ensure that line managers throughout their department understand that:

- (a) the primary responsibility for resource management and control and for achieving improvements in value for money lies with line managers;



(b) the cycle of budget and target setting and review through the year will become the main method of monitoring, assessing and controlling line management's performance;

(c) line managers will be given the authority they need to discharge their responsibilities, in the expectation that their activities may be audited but that the control mechanism is the budget;

(d) there will be arrangements for line managers to be helped by specialists, within their own organisation, or within the department, or from outside;

(e) CIR staff (except for Internal Audit) will be accountable primarily for how far they have helped line management improve its performance.

#### Organisation of CIR Services

4.5 Detailed organisational structures cannot and should not be prescribed centrally. They must be designed by each department to fit its own structure. Some re-organisation will be inevitable and the pattern may differ between departments.

4.6 Ministers should seek proposals from their Permanent Secretaries, within the next six months, for action to re-organise their CIR services. Options to be considered should include:

(a) regrouping the existing specialists to create a multi-disciplinary management support group, including staff inspection, management services, operational research and computer experts, and with access to other specialists; this support group should provide expert advice to both line management and to the top management group;

(b) developing a small top management secretariat which works directly for the senior management group and can co-ordinate the investigations and scrutinies commissioned or authorised by that group. The secretariat should draw on whatever source of expertise, within or outside the department, is most appropriate for the work it commissions.

The heads of large executive organisations which have their own CIR services should also review them on the lines of sub-paragraph (a).



4.7 Recommendation (3) Internal audit should be maintained as an independent function, but internal auditors should work in close co-operation with the management support group. How best to organise this co-operation will vary from department to department. Hitherto a majority of departments have emphasised the independence of internal audit by keeping a separate unit. That has obvious merit, provided that co-ordination with work to improve value for money is satisfactory and there are no artificial barriers which hinder joint working with other services where appropriate. On the other hand, departments should be free to group internal audit with other functions where the Accounting Officer is satisfied that there are advantages in this and that the independence and central standards of internal audit will be maintained. These organisational arrangements should be further reviewed in three years time.

4.8 Recommendation (4) Career planning for internal audit and management support staff, outside the functional specialisms, should aim to ensure that spells of continuous service are no more than five years, and that managers in the group have real line management experience in addition to experience in their specialism.

#### The Transition to Budget-based Controls

4.9 Recommendation (5) For the next two years at least, the principal task of the management support group should be to handle the difficult period of change to resource control by budget. They will need to work directly with line managers and with training divisions to ensure that line managers have the resource control systems and the skills that they will need. Once the new budget structure is in place, the management support group should have the resources to develop as an expert advisory service for line management.

#### Investigations by Top Management

4.10 Recommendation (6) Work programmes for the services covered by this report should be approved by the senior management group. Investigations sponsored by senior management itself should concentrate on problem areas of wide significance. Although from time to time the senior management group may want to sample the position on a particular management issue, for example grading standards in one organisation of the department, it should not use its assignment staff for detailed second-guessing. These issues should be resolved as part of the budget-setting process and the responsibility for putting any deficiencies right should lie within the line.



4.11 One way of ensuring that line managers have an incentive to make efficiency improvements could be through a basic assumption of productivity growth reflected in the budgets. There may be transitional problems, but in the end, if there continue to be regular detailed inspections, the sense of responsibility that the FMI is intended to engender in line management will not emerge because line managers will not see themselves as having the final responsibility to seek improvements in value for money for themselves.

4.12 This report has not dealt with the responsibility for central resource control and budget-setting in departments. The roles of the PFO and PEO are already altering as management structures alter. In changing the role of the CIR services, senior management will obviously have to take into account these other changes to the finance and personnel functions, and ensure that the central organisation of the department is properly co-ordinated.

#### The Central Departments

4.13 The fundamental issue for the central departments, as for the centre within each department, is that to secure better control they must relax control of detail. That is a difficult thing to do. It is crucial, if the new style of management is to succeed, that the centre is seen to accept and fully endorse its principles. The key role here falls to the head of the Treasury and to the head of the Civil Service through their leadership of the service and their departments' sponsorship of Finance Officers and Establishment Officers respectively.

4.14 Recommendation (7) Treasury Ministers and the Minister of State (Privy Council Office) should jointly ensure that their departments:

(a) monitor all departments' progress including their own in putting this report's recommendations into effect and report on progress in July 1985 and July 1986;

(b) review by 31 December 1984 the organisation and roles of their central CIR services to ensure that they reflect developments in departments and, in particular, development of the multi-disciplinary approach recommended for departmental management support units; this will include their role in training, practical support and co-ordination, monitoring effectiveness and participation in individual assignments.



THE TERMS OF REFERENCE

1. The terms of reference for the departmental scrutinies were:

"to examine internal consultancy, inspection and review (CIR) capabilities to establish how well they meet current and foreseeable departmental needs, having regard to the Financial Management Initiative and service-wide requirements and standards. The review will consider in particular how well such capabilities provide:

- (1) assistance to senior management in reviewing and monitoring the execution of policy and the management of programmes;
- (2) monitoring, inspection and audit services to Accounting Officers to enable them to exercise "arm's length" controls over delegated management;
- (3) consultancy services to help line managers;
- (4) for the promotion of particular managerial practices and developments, such as information technology, and promulgating guidance and standards as appropriate;

The study will consider how best to meet such needs cost-effectively, and will make recommendations for improvement as appropriate."



## THE EXISTING CIR SERVICES - STAFFING AND COST

| <u>Function</u>                   | <u>Assignment Staff</u><br>(Main grade) | <u>Total Staff</u> | <u>basic staff cost (£m)</u> | <u>total cost (£m)</u> |
|-----------------------------------|-----------------------------------------|--------------------|------------------------------|------------------------|
| Internal Audit                    | 982<br>(HEO/EO*)                        | 1,308              | 17.9                         | 23.1                   |
| Staff Inspection                  | 415<br>(SEO/HEO)                        | 559                | 8.9                          | 12.4                   |
| Management Services               | 560<br>(SEO/HEO)                        | 778                | 12.0                         | 14.8                   |
| Operational Research              | 92<br>(SSO/HSO)                         | 139                | 2.6                          | 3.9                    |
| ADP Advisory Services **          | 833<br>(SEO/HEO)                        | 1,185              | 15.1                         | 18.9                   |
| Management Accountancy **         | 248<br>(Prin/SEO)                       | 519                | 6.1                          | 7.7                    |
| Statistics **                     | 297<br>(Prin equiv.)                    | 657                | 10.5                         | 13.9                   |
| Economics **                      | 165<br>(Prin equiv.)                    | 307                | 4.8                          | 6.0                    |
| Other<br>(eg scientific advisers) | 155                                     | 229                | 6.7                          | 9.8                    |
| Totals                            | 3,747                                   | 5,681              | 84.6                         | 110.5                  |

\* EO is a training grade for internal audit.

\*\* Figures for these functions may overstate the numbers of staff, particularly in support grades, who are involved in consultancy and review. They may include some staff engaged in other specialist activities such as collecting statistics, enhancing existing computer systems and routine accountancy work.



## ACTIVITIES OF THE FOUR MAIN CIR SERVICES

| <u>Function</u>     | <u>Mode of work</u>                                                                                                                                                                                                                                                                                                                                                        | <u>Customer</u>                                                                                                                                                                                                                                                                  | <u>Control</u>                                                                                                                                                                                                       | <u>Out-turn</u>                                                                                                                                               |
|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Staff Inspection    | Rapid method of work survey to assess need for work, organisation, staff numbers, grading.<br><br>Works on a fixed or partly selective cycle; sometimes acts at line management request.                                                                                                                                                                                   | 1) Treasury - for controlling manpower ceilings and grading standards.<br><br>2) Departmental top management - for adjusting complements.<br><br>3) Line managers - for deploying staff more efficiently                                                                         | 1) Treasury - through prescribed standards, annual report-back right of entry by SIED inspectors.<br>2) PEO                                                                                                          | In 1982 staff inspectors recommended net savings of 3,500 posts; actual savings of 2,700 (£30m a year) were agreed.                                           |
| Internal Audit      | 1) Identifies and evaluates internal control systems and compliance with them.<br><br>2) Routine checks on transactions (being phased out).<br><br>3) Value for money audit concentrating on aspects of effectiveness, efficiency and economy (increasing but not yet common).<br><br>Works on a fixed or partly selective cycle; some use of risk analysis for selection. | 1) Accounting Officer - to assure him of adequacy of controls and protect him against adverse external audit.<br><br>2) Line managers - advice on specific weaknesses in systems<br><br>3) National Audit Office - provides background for effective choice of NAO audit topics. | In theory AO (sometimes through an audit committee); day-to-day usually PEO. Treasury provides guidance on standards and training. PAC takes close interest.                                                         | Not usually measured. Qualitative criterion is degree of assurance that can be given to AO. The number of implemented recommendations is sometimes monitored. |
| Management Services | Uses mainly work study and O&M techniques to advise on organisation, procedures, office technology, forms design etc<br><br>Work planned mainly in response to customer demand.                                                                                                                                                                                            | 1) Departmental central management - to promote good management practice and review particular operations.<br><br>2) Line managers (mainly US/AS level) - to advise on improving efficiency of operations.                                                                       | PEO or PFO; but individual assignments may be wholly under control of customer. (MPO provides some guidance and specialist assistance when requested).                                                               | Seldom measured but where resulting cost savings are monitored, MS units are often shown to pay their way several times over.                                 |
| ADP Advisory        | Advice on scope for new technology and appraising and developing new systems.                                                                                                                                                                                                                                                                                              | Departmental and line management                                                                                                                                                                                                                                                 | 1) PEO or PFO<br><br>2) Treasury (CCTA) controls all procurement, controls level of delegation for spending on projects, sits on departmental IT strategy committees, prescribes standards eg on project management. | Not often measured, though long-term payoffs can be very large.                                                                                               |



## SURVEY OF EXISTING CIR SERVICES IN DEPARTMENTS

Introduction

1. In addition to the detailed investigations of six departments, a questionnaire survey was conducted into the current use of CIR services in the central government departments covered by the FMI. The purpose was to provide a broad picture of the scale, cost and organisation of existing CIR capabilities. Before this review, information was only available on some of the services concerned.

2. Questionnaires are blunt instruments; they provide breadth rather than depth. In interpreting the results of this survey two particular points need to be borne in mind.

- Departments were asked to respond on the basis of readily available information and not engage in substantial primary data collection.
- Defining the scope of the survey was difficult. While some capabilities such as internal audit, staff inspection and management services fall clearly within any definition of CIR, the extent to which other specialist resources are used for CIR purposes is less easy to define.

Main Findings

3. The main findings of this survey are:

(a) The supply of CIR services is significantly greater in terms of manpower and costs than was originally thought;

(b) The distribution of effort is more towards central control and assurance than performance improvement. The increasing scale of resources in the ADP area may be modifying this;

(c) There is little evidence of positive co-ordination of CIR work in relation to departmental objectives or line management needs;

(d) In total, departments are not large users of external consultants. But there is great diversity in their use. A few departments account for most of the expenditure on external consultants.

Staffing

4. Each department was asked to provide information about the numbers and the distribution of staff in CIR services. Annex 2 summarises the results.



5. The most significant figure in Annex 2 is the total number of staff. In the early stages of the review, informed guesses about the total numbers of staff engaged in CIR work put the total at about 3,000. The total of more than 5,500 may be due to the inclusion of support staff and the broad definition adopted. But excluding support staff still gives a total of over 4,000 management and assignment staff and a broad definition is appropriate in the context of the FMI.

6. There is a distinction between the services found in all, or virtually all departments and those which are not. The former category includes internal audit, staff inspection and management services. ADP advisory services are found in more than half the departments covered (18) but management accountancy (15), statistics (13), economics (11) and operational research (10) occur in less than half. There are also a few capabilities specific to particular departments.

7. In staff numbers, internal audit is closely followed by ADP advisory services. This is important for the future insofar as it reflects a relatively recent but substantial government commitment to developments in information technology. However, ADP is not established in all departments.

#### External Consultants

8. Departments were asked to indicate the extent to which they use external consultants. A few departments are heavy users, but most use outside consultants very little or not at all. The total expenditure on outside consultants is estimated at £15.5 million, of which £12.9 million is accounted for by DTI, PSA and DHSS. If anything, these figures are underestimates because not all departments separately record this type of expenditure. For example, DTI reported that some external consultancy work is borne on programme expenditure budgets.

#### Organisation and Accountability

9. There are strong similarities in the organisation of CIR services across departments. Virtually all staff are located in central units or in units subject to central co-ordination via PEO or PFO. Variations in the form of organisation are due mainly to differences in scale or geographical dispersion. Line management control is very much the exception.

#### Co-ordination and Planning

10. Only a minority of departments reported overall co-ordinating arrangements with regular planning meetings covering all CIR services. Independent planning was more common. Work programmes are developed by a combination of regular cycles of investigation, self selection of areas for scrutiny, responses to line management needs and investigations mounted as part of departmental planning.



## Value Added

11. Assessing value added by CIR services is difficult because of the indirect contribution they make to departmental performance. Nevertheless, performance is monitored and assessed in a number of ways including:

- cost savings;
- staff reductions;
- numbers of recommendations implemented;
- measureable increases in output;
- improved management controls.

Other criteria that were quoted infrequently were training and improved performance through read across from demonstration projects.

12. The results suggest that efforts to measure value for money are patchy. Measures of economy are more common than measures of efficiency or effectiveness. Measures are most developed in the management services, staff inspection and internal audit areas. There are systematic efforts in some, but not all departments, to evaluate the performance of ADP advisory services. Specific measures of performance in the areas of management accounting, operational research, economics and statistics are least frequent.

13. So far as it is possible to ascertain, performance criteria have been developed internally within CIR units. They are not based directly on client appraisals of performance.

## Recruitment, Training and Length of Service

14. The patterns of recruitment and training in CIR services contain few surprises. In management services and staff inspection, recruitment is through normal career postings or trawls with no specific required qualifications, but with good background in the department and preferably some line management experience. For internal audit, recruits to the training grade (EO) are selected on general aptitude, but for more senior posts internal audit experience (and increasingly qualification) is required.

15. The requirements for management accounting and ADP are more stringent. Trawls and career postings are open to people with relevant professional qualifications; ICA, ACA, ICMA, CIPFA, in the case of management accounting. ADP candidates must pass a test at an appropriate level. For recruits to both of these functions relevant experience prior to entry is required. For operational research,



economics and statistics, the normal path is direct entry with a relevant degree for professional qualifications. Relevant field experience is also considered desirable depending on the level of appointment.

16. Initial and in-service training for management services, staff inspection, internal audit, management accounting and ADP are provided through combinations of on-the-job training, departmental background courses and Civil Service College courses. Staff inspectors take the Treasury Staff Inspection course (nine days). Entrants to internal audit undertake a longer period of training. Completion of a course leading to the IIA professional qualification is now usually required (16 weeks of formal tuition spread over a two year programme).

17. The training needs of operational researchers, economists and statisticians are largely met at the pre-entry stage. However, they are expected to participate in relevant seminars and undertake some specific training at the Civil Service College or elsewhere.

18. Accurate data on length of service of existing staff proved difficult to assemble. Nevertheless the information available showed that conventional wisdom about length of service in CIR functions should be treated with scepticism. Where data proved difficult to obtain, respondents quoted the expected period of continuous service as about three to five years. But actual information revealed a different pattern.

19. The pattern is grade-related. Existing staff at EO and HEO levels have been in post on average for quite short periods of time, say, one to three years. Staff in Assignment Officer grades: HEO, SEO, Principal have been in post for longer than the expected period of three to five years. Staff in management posts at Senior Principal and Assistant Secretary levels often have substantially longer periods of continuous service: 10 to 15 years or more.

20. If further examination confirmed that senior staff tend to have stay longer in all CIR functions than the three to five year norm, personnel management arrangements should be reconsidered. Greater stability might justify a greater investment in training. On the other hand if, for motivational reasons and because CIR functions can act as a training ground for future line management, more rapid turnover were desired, changes in career development practice, if not in policy, are needed.



## MAIN RECOMMENDATIONS FROM THE DEPARTMENTAL SCRUTINIES

## A. DHSS

The main recommendations were (in summary):

1. Early steps should be taken to provide line managers, at appropriate levels, with an up-to-date and positive description of the CIR facilities on offer.
2. The Department should accelerate the process of viewing and managing its CIR services capacity as a whole, with a view to developing its capacity to respond to FMI needs as effectively as possible.
3. More positive steps should be taken to establish the cost-effectiveness of various CIR services and to build up or cut back the amount of this capacity as appropriate.
4. The number of man-years available to assist in programme review should be trebled, from about 10 to 30, subject to -
  - (a) ensuring that this resource is a capacity on which line management can draw, and is not treated as a substitute for line management's own responsibility for programme review;
  - (b) qualities of mind - particularly the ability to handle conceptual and numerical issues - being recognised as more relevant than formal professional qualifications;
  - (c) aiming to supplement this "programme CIR", whenever appropriate, with data-collecting and observational skills drawn from "administrative CIR" resources.
5. That the Department notes the need to continue to improve the quality of administrative CIR to meet the likely needs of the FMI.
6. The work of Management Services, Staff Inspection and Internal Audit should be planned as a whole with the aim of eliminating both overlaps and work of relatively low cost-effectiveness.
7. That the Department should aim to bring all its CIR as quickly as possible under the control and management of a single Under Secretary (or equivalent grade), with the aim of managing and monitoring CIR as a whole, making CIR fully responsive to the developing needs of the FMI, adjusting the amount of specific CIR resources in response to those developing needs, and encouraging the development of inter-disciplinary working wherever appropriate.



B. THE SCOTTISH OFFICE

The main recommendations were (in summary):

1. To merge staff inspection and management services into a Scottish Office Efficiency Unit whose staff would receive basic training in both disciplines. It would provide a comprehensive service to management aimed at improving efficiency and effectiveness, but would give up:
  - detailed work on new technology;
  - office equipment approvals;
  - work for fringe bodies except on behalf of sponsoring policy divisions.
2. To reduce staff on central complementing and grading functions.
3. To improve control of assignments eg prior costing, cost attribution, monitoring results.
4. To keep the Internal Audit Unit separate, but take specific steps to improve co-ordination with the efficiency unit.
5. To set up a new Information Technology Development Unit to operate as an agent of change by promoting and developing the use of new technology; to have a separate identity within the computer directorate, but to develop close links with the efficiency unit and basic expertise in management services techniques.
6. To develop policy and programme review within the PES and (along with efficiency work generally) within the management planning framework under direction of the Management Group; line managers to be responsible for policy and programme review work with a strengthened role for Finance Divisions in challenging and assisting them; available specialist assistance to be drawn to line managers' attention.
7. To co-ordinate all efficiency and review work under a single committee which would also keep under review the role and organisation of the CIR capabilities as the FMI develops.



C. DTI

The main recommendations (in summary) were for:

1. Closer liaison between all current CIR capabilities and better awareness of each other's skills.
2. Continuing improvement in recruitment and training standards, especially in management advisory services.
3. Better education of potential clients in the capabilities of internal CIR services.
4. Attribution of costs to clients wherever feasible, with any subsequent moves towards full repayment guided by Departmental studies already in train.
5. Pilot studies of the use of auditable manpower control systems by line management and, if these prove successful, extension of the practice to the whole Department, with the phasing out of traditional staff inspection in favour of selective systems audit based on best Internal Audit practice.
6. Placing full responsibility for the employment of consultants on line management, but with a strengthened central capability for advice on good practice and evaluation and for monitoring of total expenditure and trends.



D. MOD

The main recommendations (in summary) were that:

1. The direction of staff inspection units for all parts of the Department should be brought together under the Director General of Management Audit (DGMA) - at present only the Central Staffs and the Procurement Executive inspectorates are under the DGMA's control.
2. The DGMA should not be responsible for complementing or the allocation and control of manpower ceilings. These functions should become the responsibility of line management and their exercise should be co-ordinated by the part of the Department which is responsible for allocation and control of defence expenditure.
3. In the Headquarters and Procurement Executive areas, staff inspection, internal audit and management services should be integrated to form two Directorates of Audit and Consultancy. For the services in the field, on the other hand, these disciplines should for the time being remain separate.
4. The concept of Special Manpower Audit should be developed. Under this, selective efficiency scrutinies should be mounted into the utilisation, organisation and grading of manpower in comparable areas (eg catering, flying training, stores) across the department as a whole rather than within individual management areas.



E. PSA

The main recommendations were (in summary):

1. To establish a high level committee structure to control the implementation of future developments and systems in PSA, advise the Executive Board on priorities, staffing resources and levels of capital investment.
2. To organise all CIR activities so that they are co-ordinated at a level below the Chief Executive.
3. To set up a Directorate of Information Technology Services to provide a comprehensive, multi-disciplinary, consultancy service to line managers; and a capability to implement the computer and telecommunications strategy on which a consultant's report is expected shortly.
4. To develop plans for an audit and efficiency unit to be fully operational when certain key budgetary control systems are available and suitable staff have been recruited and trained.
5. To establish budgetary control concepts for CIR activities including charging clients for the services provided.
6. To determine and set annual performance targets by CIR management for its own staff so that better quantitative and qualitative measures of achievement can be established.



F. HM TREASURY

The main recommendations were (in summary):

1. Some complementing work at present done by Management Services Division which does not fit in with its consultancy and inspection role under the new financial management systems should be transferred to Finance Division.
2. CIR services should cost all individual assignments, and develop output measures for their own work, quantified wherever possible.
3. For as long as staff inspection continues in its present form, it should fully carry out that part of its terms of reference which requires it to test the need for work before advising on organisation, staffing and grading.
4. Managers of responsibility centres should in future be asked to include in their annual work programme returns, any bids they have for CIR assignments, so as to enable CIR services to plan their own work programme better.
5. The 2 main elements of CIR - Internal Audit and Management Service Division - should work more closely together in support of the PEFO and the Planning Board. The Head of Internal Audit should have his headquarters in the Parliament Street building.
6. The unit in Finance Division which services the Planning Board - the Treasury's top management committee - should form part of CIR and work directly to the PEFO.
7. The terms of reference of Management Services Division should be extended to include responsibility for supporting the PEFO in his roles as adviser to the Planning Board and as promoter of good management practice throughout the Department.
8. The head of Management Services Division should, ex officio, be a member of the top management boards of CCC, CCTA and CISCO. There should be two-way traffic in information and advice between his and the 3 organisations.
9. The Treasury should be linked with another of the Departments for which the Chancellor is responsible, so as to be able to borrow (on repayment) CIR capabilities which the Treasury needs but has not got. If the arrangement is successful, the link might be developed further, so as to provide better career prospects within CIR for staff in the small Treasury unit.



## COMPARATIVE SURVEY OF PRIVATE SECTOR PRACTICE

Introduction

1. As part of the CIR review, the central team conducted a survey of business practice. The purpose was to identify best business practice in the use of CIR services and draw from it lessons relevant to government.
2. The findings are based on confidential interviews with senior managers in a number of private businesses and nationalised concerns including Bass Charrington, British Rail, British Steel, IBM, ICI, Trust House Forte and Unilever, supplemented by information from other businesses, from Arthur Young, McClelland Moores, management consultants with public and private sector experience, and more general discussion with informants at the City University Business School and the London Business School.

The Role of CIR: Improving Performance and Assuring Accountability

3. Comparisons between management in business and government sometimes encounter difficulties because of differences in culture and context. However, in the case of CIR, the differences provide pointers to the role specialist services should play in implementing the FMI. CIR services are used in business and government to improve performance and assure accountability. Most of this report is devoted to improving performance which is the primary emphasis in business.
4. It must be borne in mind that there are grey areas between improving performance and assuring accountability. The special status of internal audit in assuring accountability is reflected in its independence of line management and a general practice of direct reporting to board level. But in business it also plays a role in safeguarding performance standards and reducing risks and may play an advisory role in designing control systems.
5. The basic attitude to the use of specialist services in business was summarised by one respondent as follows: "Nothing is perfect. We expect managers to be looking for ways of improving performance as part of their normal job and to call in specialist help when they need it."
6. Specialist help is deployed in two ways. Within an existing framework of policy and organisation it is used by line management to assist them in tightening up the day-to-day management of the business and to reduce or correct deviations from operating plans. This



depends on well developed planning, budgetary control and management information systems which prompt line management to take corrective action where needed and also to identify opportunities for improvement. Specialists can also have an important role in designing organisation structures and management systems.

7. There are significant differences among businesses in the use of specialist services, reflecting among other things, how diversified the business is and how interdependent are its component parts. Businesses are also more flexible and varied in the specialists they use. The nature of the business and the opportunities to improve performance are the critical determinants of specialists used.

8. Despite the diversity, three common themes emerged from interviews that are relevant to the future management of CIR in government departments.

(a) The use of services is demand-led.

(b) The supply of services is limited.

(c) There has been a shift to decentralised organisation aimed at making specialist services more responsive to line management.

In addition, business practice offers alternatives to the conventional model of the role of the centre as a source of detailed prescription.

A. Demand-led Use

9. People interviewed did not start from descriptions of resources currently committed by their business to CIR functions. They began with demand rather than supply. They stressed that the need for specialist services arose within the management process as line managers considered how to improve performance.

10. Demand is determined by managers at all levels in the course of setting objectives and attempting to achieve them. Specialist help is targeted on problem areas where managers responsible for achieving results feel there are significant opportunities for improving performance, or where important gaps or weaknesses in existing systems have been identified.

11. For example, expertise may be needed to deal with actual or anticipated deviations from planned output and cost levels. In the first instance it is for line management at the appropriate level to take corrective action. If they need specialised inputs to do so, it



is up to them to decide what skills are required and how to deploy them. They are also expected to take into account the cost of using specialists to help solve operational problems.

12. In addition to these trouble-shooting functions, CIR services play a part in diagnosing more general weaknesses in management systems beyond the competence of individual managers. This may involve efforts to simplify procedures, to develop measures of performance and to create key indicators which provide more appropriate and useful flows of information to management.

13. While line management responsibility for performance is a governing principle, specialists are not totally subordinate to line management. In some businesses, specialists have an acknowledged role in the formulation of objectives. Top management takes account of the views of specialists on the feasibility of objectives and the timescale of implementation before setting specific targets or initiating strategic changes.

#### B. Limited Capabilities

14. The supply of CIR services in the businesses investigated was limited and in some cases almost non-existent. In line with the cut-backs that have taken place in recent years there has been a trend towards scaling down the supply of specialist services. Differences in provision are attributable in part to variations in business characteristics. Although the evidence is not conclusive, businesses retaining the largest capabilities appeared to be those whose activities are more interdependent and less standardised. There is more scope for specialists to improve performance in those circumstances.

15. Limited capabilities reflect a trend towards reducing the size and importance of centralised corporate planning staffs. Responsibility for planning has been shifted to line management and decentralised. Limited capabilities therefore reflect an assumption that line management will not only keep the show on the road, but also identify where improvements in performance can be made and take the initiative in securing them.

#### C. Decentralised Organisation

16. Decentralised organisation of specialist services is consonant with, and partly reflects, the division of most large businesses into units defined around profit or cost centres. The main advantage of decentralisation is to provide an efficient and flexible way of matching supply to demand. Specialists are either integrated into the



line management structure or, if organised separately, the costs of their services are charged out to specific budgets. Often, they work in teams and task forces with line management.

17. The emphasis on decentralisation does not preclude the use of some specialists by top management. Particular types of expertise, for example financial, legal, tax or economic forecasting expertise are required primarily by top management. The design of new management systems, the introduction of new technology, organisation and management of major change are also functions which call for centrally located expertise.

18. Central capabilities are concerned with helping top management establish the framework within which line management operates and address longer term issues of business strategy. They do not provide a pool of common services that line management can draw on at will.

#### The Role of the Centre

19. As well as these implications for the internal organisation of departments, business practice is also relevant to the structuring of relations between the centre of government and departments. The conventional centre/periphery model is basically one of centrally promulgated standards with monitoring arrangements to assure compliance. But, particularly in the transitional phase of the FMI, ways are needed of promoting better management rather than regulating behaviour according to established standards.

20. Business practice offers alternative models which do not involve detailed central prescription or even a centrally located unit.

- A single advisory unit available to individual units on a contract basis is sometimes economical. The benefits are increased if it has a remit and the credibility to accelerate the introduction of, say, advanced information technologies more rapidly.
- An agency model is another alternative. One sub-unit is given a leadership role and acts as an agency on behalf of others which lack its expertise in for example purchasing or design. The agency may also acquire a training function.
- Another possibility is a specialist network which functions under the aegis of the centre, but with a wide measure of discretion. Where there is a need to produce a co-ordinated response to a general problem, such as establishing a common





2 MARSHAM STREET  
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My ref:

Your ref:

2 August 1984

*Wagon  
JMS  
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*Sea Chief Secretary*

DEVELOPMENT OF THE PRS SYSTEM

Thank you for your letter of 29 June.

As you say, we now have general agreement that individually assessed rents should be introduced in 1986-87, and I agree with you that these must be at current market levels in order to reflect the true cost of the property, freehold and leasehold, occupied by the Government. The effect of the change on individual departments' rent and rate payments should be known this autumn and we shall then be in a position to consider well before the start of the 1985 Survey whether any PES redistribution may be appropriate.

Before leaving the subject of rents, I should comment on the suggestion that Departments should be free to challenge the assessments. In the course of normal contact between Departments and PSA's estate surveyors no doubt questions will be asked and answered about the figures. But I should remind colleagues that whilst PRS introduces the main features of a repayment relationship into accommodation matters it is designed to do so without adding significantly to staff costs. It will be PSA's responsibility to ensure that its rent assessments reflect current market levels, and I do not think that the bureaucracy involved in formal procedures for challenge and arbitration would be justified.

I agree that we must come back to the subject of maintenance and minor new works before the 1985 Survey and look then at the wider issues which have been raised in this correspondence. Perhaps I can set out for colleagues' benefit more details of what work will be done in PSA in the remainder of 1984 in preparation for the further discussions which will be required.

As discussed earlier with the Treasury, PSA's proposals for maintenance in the 1985-86 Estimates will be founded on the preparation of a 3-year programme of work covering the period 1985-86 to 1987-88, incorporating a system of priorities, and identifying separately the individual, large projects which ought to be tackled in this period. My officials are currently in touch with yours to check that this meets Treasury views on what should be done.



I have also taken note of the comments by colleagues that they ought to know more of the content of the programme or even participate in its formation since they are paying for the work. There are practical difficulties involved here, since there are several thousand departmental occupations involved. However, it has always been the case that our programme takes account of occupants' requirements for work as well as PSA's assessment of what needs to be done, and accommodation officers have been told what work is going to be done in their buildings where this involves access by contractors and disturbance to occupants. We will be seeing if, at least for the larger buildings, the close liaison between PSA and Departments' local staff which already exists can be developed into participation in the formulation of the 3-year programme.

Several colleagues have gone further and suggested that they would want to link paying more to having control of decisions on what work should be done. The existing PRS minor works schemes has already been allotted about 25% of the funds PSA had for maintenance of the civil estate. If we were to go above the £1000 order limit we should start to get into areas where accommodation officers in the smaller offices at least might run into trouble if left to their own devices. However, we are now looking at internal decorations as a possible candidate for transfer to departments, either on the basis that the work can be ordered direct or, if this raises too many problems, that it can be ordered through PSA on the "traditional" repayment basis. I hope it will be possible to launch some trials of developments along these lines next year.

The proposals we put forward for 1986-87 and later years will reflect the further work I have described. Meanwhile, I should remind colleagues that for the moment, PSA's maintenance and minor new works programmes remain severely constrained by the present level of funding and, in the case of minor new works, the impact of VAT.

I am copying this letter to the **Prime Minister**, members of the Cabinet and other Ministers in charge of Departments and to Sir Robert Armstrong and Sir Robin Ibbs.

*Yours sincerely,*

*Atkinson*

for PATRICK JENKIN

*(agreed by the Secretary of State, and signed in his absence).*







CONFIDENTIAL



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*NPPM*  
*AS 4/8*

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Norman Fowler MP  
 Secretary of State  
 Department of Health and Social Security  
 Alexander Fleming House  
 Elephant & Castle  
 LONDON SE1 6BY

1 August 1984

*Norman*

**NHS RECRUITMENT ADVERTISING**

Thank you for sending me a copy of your letter of 27 July to Willie Whitelaw reporting the outcome of the negotiations with the publishers whose journals carry NHS recruitment advertising.

It is very encouraging to see that you have been able to secure an additional annual savings of flm.

In the light of that, and of the reduced estimates of savings from your original preferred option of the job register, I would no longer press you to go for the latter while you judge that the resultant row with the professions would not be worth the additional saving.

This decision must be conditional, as you note, on the savings actually being delivered. The option of the job register would remain. I think it would be sensible to review the position at the end of 1985.

I am sending copies of this letter to the recipients of yours and also to Grey Gowrie.

*Yours ever*  
*Peter Rees*

PETER REES

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10 DOWNING STREET

*From the Principal Private Secretary*

SIR ROBERT ARMSTRONG

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VALUE FOR MONEY SEMINAR: DEPARTMENT OF TRADE AND INDUSTRY

The Prime Minister completed today the seminar which she started with the Secretary of State for Trade and Industry on Tuesday 10 July, accompanied by Sir Anthony Rawlinson and Sir Brian Hayes. Sir Robin Ibbes, you and I were present. This minute covers the points discussed both on 10 July and today.

The Secretary of State said that he had written to Sir Robin Ibbes describing the mechanisms and formal systems being put in place in the Department of Trade and Industry to improve efficiency and effectiveness. His presentation covered four subjects - objectives and work programmes; FMI-related work; programme expenditure; and administrative expenditure.

On aims and programmes, the Secretary of State said that specific work programmes for each DTI division for the next twelve months had been introduced, and he was sharpening those which were indeterminate. These set specific objectives and there were six-monthly reviews of progress, which investigated whether targets had been attained and what needed to be done, for example by moving the right people to the right jobs. The Prime Minister asked how the targets were set: the Secretary of State said that he himself went through them in broad outline and Junior Ministers and Deputy Secretaries went through them in detail. Sir Robin Ibbes asked whether the objectives covered work to be done or improvements in value for money: the Secretary of State said that they concentrated mainly on the first but included the second, but that improvements in value for money could be identified separately if necessary.

On the FMI, the Secretary of State said that he was working on two principles - delegation and audit. Over half the DTI staff was in responsibility cost centres, where management had its own budgetary responsibilities, with corresponding

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responsibilities for improving efficiency. The Prime Minister asked whether local managers had targets for improvements in efficiency: Sir Brian Hayes said that, where this was possible, it was being done, for example by comparing the numbers of cases handled per unit of staff in regional offices.

The Secretary of State said that 2,500 staff had been trained on FMI and clear savings were already being achieved. The aim was now to extend a similar approach to central divisions in the Department. On audit, the task was to find out if managers were carrying out their responsibilities properly. Practitioners from Thompson McLintoch had been brought in to strengthen the DTI's Audit Unit while staff were being trained. In addition, Rayner scrutinies had reviewed areas covering nearly 50 per cent of the Department's manpower and 47 per cent of its programme expenditure.

On programme expenditure, the Secretary of State said that this was being looked at as tightly as administrative expenditure and had fallen overall by 29 per cent in real terms since 1978-79. There had been large changes in emphasis from support for nationalised industries to selective assistance; and to support for innovation. There had been a concentration on selective regional assistance which required extra staff but saved money, and greater emphasis on additionality. The maximum levels of grant for innovation had been reduced and in larger cases made subject to negotiation and forms of assistance which offered poor value for money had been cut out. Assistance was being rationalised under the headings of business and technical advisory services; support for innovation; support for industry and regional innovation; and the British Overseas Trade Board aid for exports.

The Prime Minister said that the areas of industrial sponsorship and assistance for innovation were the ones which concerned her most. She was doubtful whether the extent of the Department of Trade and Industry's sponsorship was justified and whether it was as closely related to additionality as it could be. She was also doubtful whether the staff in sponsorship divisions had the necessary commercial background and expertise. She recalled that she had originally been recommended to make 90 per cent grants under the Alvey scheme and that, following outside advice, the proportion had been reduced to 50 per cent. She also suggested that more needed to be done to co-ordinate assistance for innovation sponsored by the Department of Trade and Industry with the research carried out in universities, research councils, and industrial associations. Sir Robin Ibbs said that if a company thought it worthwhile to finance 75 per cent of the cost of a



project it would probably be prepared to finance 100 per cent. He asked whether, in the monitoring arrangements being made by the DTI to find out whether assistance had given value for money, there were systematic arrangements for trying to draw the lessons from different schemes. The Secretary of State quoted examples of companies involved in innovative work in competition with other countries, which would not have been able to stay in the race without assistance. He was taking a rigorous attitude towards proposals for assistance, and had recently withheld a paper on assistance for new materials technology. Greater emphasis had been placed on additionality, and in particular a distinction had been made between cash-rich companies and others in determining needs for assistance. As regards sponsorship, the demands could only be reduced if the work coming forward on things like EC directives, consumer protection, GATT and standards could be reduced. Sir Brian Hayes added that he would arrange for Sir Robin Ibbes to have a note of the work which the Department of Trade and Industry were doing on post-completion monitoring.

On administration, the Secretary of State said that between 1979 and 1984 there had been a 20 per cent reduction in Department of Trade and Industry numbers after adjusting for functions transferred to the Department of Transport. Between 1984 and 1988 some rise in numbers was expected, but there was in many cases a conflict between cutting numbers down and saving public expenditure. For example, the number of staff in the Companies Registration Office would increase by 100 but this would be more than offset by increased revenue. Extra staff were also required in order to save money by making industrial assistance more selective. The Prime Minister questioned whether the numbers in the Department needed to be so large in areas like sponsorship and consumer services. She asked what had been the change in the number of posts in Ministerial and Permanent Secretary offices: Sir Brian Hayes said that there had been a saving of 18 posts in ministerial offices and 8 posts in Permanent Secretary offices since 1979. The Secretary of State said that he would like less regulations to administer but while these were imposed, for example from Europe, staff were necessary to implement them. The Department had also operations imposed by other departments, for example the RIS which largely carried out Home Office policy.

Summing up the discussion, the Prime Minister said that she was still not satisfied that the attitude of the department was sufficiently rigorous towards industrial sponsorship and assistance. She detected signs of an attitude that nothing in industry would happen unless the Government supported it with money. She had questioned a number of proposals coming forward from the Department on these grounds. She hoped that the Secretary of State, with the assistance of



MANAGEMENT IN CONFIDENCE

-4-

Sir Robin Ibbs and his Unit, would continue to question rigorously the extent to which the department devoted staff and expenditure to support and regulation of industry.

I am copying this minute to Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office), Mary Brown (Lord Gowrie's Office), Sir Anthony Rawlinson, Sir Brian Hayes and Sir Robin Ibbs.

*David Butler*

PP

*Robin Butler*

1 August 1984

MANAGEMENT IN CONFIDENCE



PART 15 ends:-

CST to HM + att 30/7/84

PART 16 begins:-

FEBB to RTA (meeting record) 1/8/84



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