PREM 19/1516

PART 17

467

CONFIDENTIAL FILE

THE RIDLEY PROGRAMME

PROMOTION OF EFFICIENCY AND WASTE

THE SCRUTINY PROGRAMME

GOVERNMENT MACHINERY

PART 1 : MAY 197[illegible]

PART 17 : NOV. 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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Material used by official historian
DO NOT DESTROY

PREM 19/1516

PART 17 ends:-

55/Transport to 55/Env 30.4.85

PART 18 begins:-

CDL to 55/Environment 3.5.85

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Report to the Prime Minister by the Cabinet Office: Government Purchasing: a multi-department review of Government contract and procurement procedures
HMSO, December 1984 [ISBN 0 11 430002 X]

Signed P Wayland Date 4 February 2014

PREM Records Team

CC AO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

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

30 April 1985

NBPM

Dear Patrick

PROPERTY REPAYMENT SERVICES

Thank you for sending me a copy of your letter of 11 April to Peter Rees.

I argued in last year's round of exchanges on the development of PRS that Departments be given a much greater say in matters of accommodation; so I naturally welcome changes which are designed to achieve that objective. You make the point that a number of proposals are still to be fleshed out. On the basis of the information now available, I welcome the overall thrust of your proposals, but there are a number of points that still give me cause for concern.

The proposals set out in your fifth paragraph would, with the exception of the "safety valve", be PESC-neutral provided there is a commensurate reduction in the PRS accommodation charge. However, they are most unlikely to be neutral in terms of the additional manpower resources Departments will need. Drawing up contracts, assessing tenders, managing contracts, and bill paying will add significantly to workload. The impact of this will vary between Departments. Those with an estate concentrated in London with established full-time accommodation sections may be able to cope quite well. For Departments like mine, however, with a large number of small occupations dispersed over a large geographical area, the position would be very different. The majority of the provincial offices are

looked after by part-time accommodation officers who may well have no support staff and whose line managers are located in different offices some distance away. To expect them to cope with such a major transfer of responsibilities would scarcely be acceptable without a switch of manpower resources from PSA to Departments. This would in any event be necessary if the fitting out and refurbishing responsibilities were to include electrical and mechanical work in which Departmental accommodation staff have no expertise.

The "safety valve" would, of course, involve additional expenditure for Departments arising out of items that PSA might be expected to be funding. I would hope that this does not presage the introduction of a two-tier service in which PSA provides an absolute basic minimum and it is left to Departments to incur any other expenditure deemed to be necessary.

Your proposals to institute joint budgetting and planning between PSA and Departments also raises important resource questions. Firstly, will Departments be charged on the basis of the work actually carried out - as I believe they should - or will the present 'club' rules continue? There seems little point in moving to a system of planning based on actuals if charges are to be levied on some other basis. Secondly, this may have manpower resource implications for Departments.

I welcome your decision not to pursue the proposal to fund extra work on maintenance through higher PRS charges and endorse your point that this emphasises the need for adequate funds to enable PSA to meet its programme of essential maintenance work.

You also draw attention to the problems of relating rent charges to PES provision in the late 1980s. I think this problem would have been largely obviated if Departments were charged actual rather than market assessed rents, but this ground has already been well ploughed. As it is, the proposal to apply increases based on a standard factor may be the easiest way round the problem, but it is a move back into the realms of notionality from which we were hoping to escape.

It may be that when the details of your proposals have been firmed up they will allay many of the fears that I have expressed. In particular, I hope that they will clarify how these ad hoc developments in PRS fit in with long-term objectives for the relationship between PSA and individual Departments. The central management of the estate already causes difficulties between Departments and the PSA because of their different perceptions of interest. If additional responsibilities are to be delegated to Departments, they should be made fully accountable for their decisions and expenditure in these fields. It appears, however, that PSA expects to retain a large measure of control through the joint budgetting and planning machinery. There, it seems to me, could lie the seeds of further misunderstanding and delay which we should be striving to avoid.

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

Nicholas

NICHOLAS RIDLEY

GOVT. MACHINERY: Rayner : Pt 17.

CCMO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

MEA seen

29 April 1985

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

D Patrick,

DEVELOPMENT OF PRS

Thank you for sending me a copy of your letter of 11 April to Peter Rees about PRS.

2 Your proposals seem to go in the right direction but my immediate reaction is that they do not go far enough. They should, in my view, be considered in more detail before any decisions are taken and I certainly want to be clearer about their implications and whether the current Accomodation Scrutiny will be suggesting other options that we should consider. You acknowledged the need for this joint consideration and consultation in your letter of 8 October to Grey Gowrie. Accommodation is such an important element in Departmental running costs that it is vital we get arrangements on to a realistic, clearly understood and mutually acceptable basis, particularly with Peter Rees' own proposals that running costs should be the principal measure of administrative efficiency in the future.

3 What I would suggest is that the membership of the present inter-Departmental Committee should be enlarged to make it representative of the Departments included in the Scrutiny. This Committee might then be asked to study your, and other, proposals, together with related issues and the Scrutiny recommendations, and report back in sufficient time to meet the 1987/8 target date suggested in your letter.

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

Yours ever
Norman

NORMAN TEBBIT

JH3BPJ

GOVT. MACHINERY: Rayner : Pt 17.

-1 MAY 1985

10 DOWNING STREET

From the Private Secretary

29 April 1985

Cathie.
Can we arrange a slot for Ole Lou please, when diary permits.
Mark 3/5

VALUE FOR MONEY IN GOVERNMENT

Your Secretary of State will recall that when Sir Robin Ibbs gave a presentation to Cabinet Ministers on 10 May 1984 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 and their Permanent Secretaries to describe examples of how value for money in operations and programmes had been improved in the past year and what improvement they were planning.

Sessions have so far been held involving the Home Secretary, and the Secretary of State for Trade and Industry and the Secretary of State for Scotland. The Prime Minister intends to continue the series with a further session at which she would be grateful if your Secretary of State would cover the Department of Employment Group to describe his recent improvements in value for money and his targets for future improvements. I will shortly be getting in touch with you to arrange the meeting.

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 not to be seen as a starting point for the new round of 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 20 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. This would be followed by a further 40 minutes of discussion.

I am sending copies of this letter to Sir Robin Ibbs and to Sir Robert Armstrong.

MARK ADDISON

David Normington, Esq.,
Department of Employment.

1) Mr Butler IBRB Cal-type pl.

2) Prime Minister.

Agree to Employment taking the next value for money seminars?

MR ADDISON

VALUE FOR MONEY SEMINARS

Thank you for your letter telling us that the Prime Minister would prefer a seminar involving DHSS to be in the autumn.

I have discussed alternative participants with Sir Robin and we now recommend inviting Mr King to come in and talk about value for money improvements in the Employment Group (not just DE headquarters). The PES provision for 1985-86 is £3,250 million -which in itself is a large sum from which we ought to be looking for better value for money. The Group is also responsible for many government regulations and requirements which apply directly to employers and innovators.

During his round of discussions with Secretaries of State earlier this year about value for money targets for 1985-86 Sir Robin was told by Mr King that he wished to concentrate on those areas which have a large spend and which offer the best opportunities for improvement - but as yet we have not seen firm proposals. Invitation to discuss improvements at a seminar would be timely.

If the Prime Minister agrees with this suggestion, I enclose a draft letter of invitation for the Secretary of State for Employment.

I am copying this to Sir Robert Armstrong.

IAN B BEESLEY
26 April 1985

DRAFT PRIVATE SECRETARY LETTER TO:

D Normington Esq
Private Secretary to the
Secretary of State for Employment

VALUE FOR MONEY IN GOVERNMENT

Your Secretary of State will recall that when Sir Robin Ibbs gave a presentation to Cabinet Ministers on 10 May 1984 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 and their Permanent Secretaries to describe examples of how value for money in operations and programmes had been improved in the past year and what improvement they were planning.

Sessions have so far been held involving the Home Secretary, and the Secretary of State for Trade and Industry and the Secretary of State for Scotland. The Prime Minister 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 cover the Department of Employment Group to describe his recent improvements in value for money and his targets for future improvements. I will shortly be getting in touch with you to arrange the ~~time and date~~ meeting.

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 not to be seen as a starting point for the new round of 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 20 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, This would be followed by a further 40 minutes of discussion.

I am sending copies of this letter to Sir Robin Ibbs and to Sir Robert Armstrong.

Rayner : GOV. MACH. Pt 17

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

Capital Expenditure Contracts

The Prime Minister is concerned that there are still significant cost overruns and delays on a number of public sector construction and engineering contracts. She would be grateful if the Efficiency Unit, in consultation with other departments and the Head of the central unit on purchasing if appointed in time, could examine the evidence and consider what steps should be taken to tackle the problem. She would be grateful if attention could be given to the following:

(i) ensuring that the design problems are thought through before the contract is let;

(ii) ensuring that most contracts are put out to competitive tender;

(iii) securing the best balance between initial capital cost and subsequent maintenance costs;

(iv) whether over-specification is a common problem;

(v) responsibility for cost control after the contract is let.

The Prime Minister would be grateful if an initial report setting out the evidence and making proposals for tackling whatever problems are identified could be prepared in about two months.

I am copying this minute to Mr. Taylor (Home Office), Mrs. Lomax (HM Treasury), Miss Hodkinson (Department of Education and Science), Mr. Reidy (Department of Energy), Mr. Mottram (Ministry of Defence), Mr. Graham (Scottish Office), Mr. Jones (Welsh Office), Mr. Ballard (Department of the Environment), Mr. Godber (DHSS), Mr. Mogg (Department of Trade and Industry), Mr. Broadbent (Chief Secretary's Office), Mr. Allan (Department of Transport) and Mr. Hatfield (Cabinet Office).

(Andrew Turnbull)

23 April 1985

CONFIDENTIAL

Political Office - I know you had the Mandat, but do you have Marks letter?

CST

NO

NBPM

MEA ? NT

CIR PPS ?

CF? NO.

MR ADDISON

PRICE WATERHOUSE MANUAL

Thank you for your letter of 12 April with the Value for Money auditing manual which Price Waterhouse gave to the Prime Minister.

Most of the large consultancy companies produce this kind of thing. In the Efficiency Unit bookcase, for example, we have manuals from Price Waterhouse, the Audit Commission, Peat Marwick Mitchell, and we have been invited to be a member of the Audit Practices Committee for value for money work.

To be frank we have found the manuals of limited practical use but they do provide a useful point of reference for occasional checking on common professional practice in the consultancy world.

IB

IAN B BEESLEY
16 April 1985

Rayner : Govt Mach Pt 17

17 APR 1985

10 DOWNING STREET

CF.

Note for file. Steve Godber (DHSS) informed that no immediate prospect of a VFM seminar, but that I would be willing in due course to arrange a seminar in October.

BF

MinA 16/4

10 DOWNING STREET

From the Private Secretary

15 April 1985

VALUE FOR MONEY SEMINARS

The Prime Minister has considered your proposal that we should arrange the next seminar with DHSS.

She takes the view that, at present, DHSS has enough on its hands, though she would like to arrange such a seminar with them in October. Meanwhile, she would like the next session to be with another Department, and I shall be grateful for your advice on which it might be. I will alert DHSS to the fact that we will be seeking a date in October, and writing accordingly in due course.

(Mark Addison)

Ian Beesley, Esq.,
Efficiency Unit.

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

CF

I believe this was sent to us in error, and so, now, does LCO's office. So nfc. MAH 16/4

Mark Addison Esq
Private Secretary
10 Downing Street

12 April 1985

Dear Mark,

REVIEW OF SUPPORTING SERVICES FOR ADMINISTRATIVE WORK

On 3 December last (attached), the Chancellor of the Duchy of Lancaster circulated to Ministers in charge of departments a copy of the central team's report on the Review of Supporting Services for Administrative Work. He asked to be kept in touch with progress, suggesting as a first step, that a report be obtained from FMI support units.

I would be interested to know the essence of reports from FMI support units or the outcome of any other action you may have taken.

Yours,

John Bentley

PP PAUL THOMAS
Private Secretary

15 APR 1985

SRW

12 April 1985

At the recent local government conference, the Prime Minister expressed an interest in seeing the Value for Money Auditing Manual published by Price Waterhouse, which deals specifically with local government.

Price Waterhouse have now sent us a copy of the Manual, together with some other background material, which I attach. You may be the person best placed to make the most use of the document, if you have not already seen it, but if you think it would be more usefully sent elsewhere please let me know. I understand incidentally that Price Waterhouse will be letting us have amendments from time to time to keep the Manual up to date.

Mark Addison

Sir Robin Ibbs

cc NR

SECRETARY OF STATE FOR THE ENVIRONMENT

610

BF // Nick Owen is visiting 2.74

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

11 April 1985

Dear Chief Secretary

PROPERTY REPAYMENT SERVICES (PRS)

I have been taking a long hard look at the workings of PRS in the light of the development of the Financial Management Initiative and consequent pressures from a number of departments for more say in matters of accommodation. The purpose of this letter is to outline my conclusions and to deal with a number of issues which are of immediate relevance to the forthcoming Public Expenditure Survey.

I believe that the reasons which led us to endorse Derek Rayner's recommendations and embark on PRS remain valid. It was envisaged from the outset that we would need a system which not only made departments more conscious of the costs of accommodation but which could also be developed to promote an active and productive dialogue between PSA and client departments. The development of the FMI in departments has given added weight to this.

I remain convinced that central management of the estate is essential if we are to control the overall size and shape of the estate whilst meeting departments' operational requirements economically and effectively. Only in this way can we ensure that we seize every opportunity to minimise outgoings and realise the value of surplus assets by estate rationalisation, whilst preserving the value of our continuing operational investment (represented in 8,000 holdings and 13,000 departmental occupations) by timely preventive maintenance and good estate management. PRS provides an essential spur to departmental economy in the use of space, but without effective central management the potential savings to the Exchequer cannot be realised.

PSA cannot achieve this unaided. The active co-operation of client departments is needed and it is clear to me that this can only be obtained if there is a more open approach on the part of the Agency and client departments alike a greater sharing of information, a clearer understanding of respective roles, and more effective joint planning.

With this in view my officials have put forward a number of proposals to the Inter-Departmental Committee on PRS. These proposals would give departments financial responsibility to commission new works such as partitioning, fitting out and refurbishing; would introduce a "safety valve" to allow departments to order works items not exceeding £5,000 direct where PSA agrees that it has not the resources to act for them but can agree that the work should be done; would allow a greater measure of delegation on non-structural maintenance; and a delegation

on internal decoration, the precise nature of which we should better be able to judge when we have the result of the experiments to be undertaken in a number of departments starting this month.

Most important in my view is the proposal to institute joint budgetting and planning to enable PSA and local accommodation managers to share information on expenditure which they have incurred and plan to incur under their respective responsibilities. This means on PSA's part that it will provide information on actual and proposed maintenance expenditure on the properties occupied by departments and disclose relevant information about lease conditions in the context of their estate management and estate rationalisation plans. This approach has significant organisational and resource implications for PSA which will need careful consideration and the information systems will have to be devised in PSA and departments to make it work effectively.

The proposals need to be worked up in further detail at official level and I shall ensure that all client departments have a full opportunity to comment. It will take time for the necessary developments in information systems to be planned and implemented and, other than the delegation on internal decoration, which might come in 1986/87, I think that we are looking at 1987/88 before the package as a whole can be brought into effect. We should also take account of any relevant insights which the forthcoming Multi-Departmental Review of Accommodation may give us.

The changes outlined above would not in themselves require adjustements to PES provisions. They would be effected by a reduction in the Accommodation Charge which would leave more of the money already in Departments(PES provisions at their disposal for paying for work ordered by them. For the purpose of the 1985 Survey, and pending decisions on changes in responsibilities, I do not intend to pursue the proposals put forward last year to fund extra work on maintenance and minor new works through higher PRS charges. The unit rates will however need to be reviewed in the normal way to take account of changes in costs and areas occupied, and my officials will be circulating guidance on provisional figures to be used for 1986-87. The level of maintenance that can be financed in this way will of course fall well short of the requirements shown by the 3-year forward programme which PSA have prepared and discussed with your officials. I may accordingly need to present a bid for extra money for such work on behalf of all departments, as I did last year.

There remains the question of the PES consequentials of the change to individually assessed market rents for office and storage accommodation which will take place in 1986-87. This subject has been discussed in the Inter-Departmental Committee and I understand theCommittee's conclusion is that PES adjustments should be made so that departments (including PSA) are no better or worse off in 1986-87 than they would have been if there had been no change in the method of assessment. There is no difficulty in arranging for this as regards 1986-87 and the adjustments involved will not alter the public expenditure totals.

However, a problem arises in respect of later years. Following the introduction of the new rents in 1986-87, PSA will carry out 5-year rent reviews as is the normal commercial practice, the reviews being staggered so that roughly one-fifth of the estate is reviewed in 1987-88 and each year thereafter. The problem which then arises in the early years of the new system lies in relating rent charges to PES provision, since during the first cycle of reviews the rent increases would be lower than subsequently (because they would cover a period of less than 5 years since the last review). This could be dealt with either by adjusting the PES provisions for 1987-88 and subsequently, or by applying, in the intervening years between the 5-year reviews, annual rent increases based on a standard factor. I understand that you would much prefer the latter course, and I can go along with this.

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

pp PATRICK JENKIN

The Rt Hon Peter Rees QC MP

12 APR 1985

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

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

NBPM

4th April 1985

Dear Grey

I thought besides letting you have my response (sent separately on 2 April) to the reports on Government Purchasing and on Highways contracting procedures I ought to take up a point in your letter of 28 February.

You suggested we might commission a consultant to advise on the scope for setting targets in the road construction and maintenance targets. My other letter demonstrates the controls and targets we apply in the Road Programme. And we do employ consultants for specific tasks where we need outside expertise and/or an independent view. The system of accountable management we are adopting to govern the relationship between Headquarter and Regional Offices is based on a report by a consultant as well as drawing on advice from 4 private sector firms and a nationalised industry. Your officials have offered to widen those contacts for us to see what we could learn from cost controls and targets used in the process plant construction field. Also the National Audit Office is reviewing the way we manage the Road Programme.

I am therefore sure that we will be able to continue to refine the measures of performance on what we judge the efficiency of the Programme. My response of 2 April shows what we are already doing. I will certainly turn to future outside advice if and when I feel we need a further spur to our efforts.

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.

NICHOLAS RIDLEY

Prime Minister

I think DHSS would be a good one to do. We have not look at their administration recently and you have been concerned at, e.g., the number of doctors they employ.

FERB 14.4.

PRIME MINISTER

VALUE FOR MONEY SEMINARS

I attach a note from Ian Beesley suggesting that the next in the series of these seminars should be with the DHSS.

From one point of view, the timing seems right to help get the changes flowing from the Social Security Reviews off to the right start, and to keep up the pressure on the NHS. On the other hand, the DHSS patch seems to have been gone over fairly thoroughly recently, and I understand you have had several meetings with Mr. Fowler which have covered 'value-for-money' ground. Perhaps another Department, e.g., Employment, Environment, would be more suitable?

Content for me to set in hand arrangements for the next seminar? For DHSS, or another Department?

Yes - another Dept. D.H.S.S has enough on its hands already - we will 'do' them in October next

Mark Addison

4 April 1985

DRAFT PRIVATE SECRETARY LETTER TO:

S A Godber Esq
Private Secretary to the
Secretary of State for Social Services

VALUE FOR MONEY IN GOVERNMENT

Your Secretary of State will recall that when Sir Robin Ibbs gave a presentation to Cabinet Ministers on 10 May 1984 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 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 improvement they were planning.

Sessions have so far been held involving the Home Secretary, and the Secretary of State for Trade and Industry and the Secretary of State for Scotland. The Prime Minister ~~intends~~ would like to continue the series with a further session, ~~to be held at [ ] on [ ], at~~ , 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. I will be in touch to arrange a suitable time & date, probably mid-late May.

The Prime Minister is keen to keep the sessions small, but your Secretary of State might want to be accompanied by his Permanent Secretary and by the Chairman of the NHS Management Board. The discussions are not to be seen as a starting point for the new round of 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 20 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, This would be followed by a further 40 minutes of discussion.

I am sending copies of this letter to Sir Robin Ibbs and to Sir Robert Armstrong.

(58)

Cart Machinery : Rayne R17

3 APR 1985

MEA

EFFICIENCY UNIT

70 WHITEHALL, LONDON SW1A 2AS

Enquiries : 01-233 8412
Direct line : 01-233 7359

MR ADDISON

VALUE FOR MONEY SEMINARS

It is now just over four months since the Prime Minister had the last seminar with George Younger to assist his plans for improving value for money. My impression is that the seminar was successful and has stimulated a more urgent and positive approach in the Scottish Office to setting and achieving more precise and stretching targets.

I suggest it would now be useful to plan a third seminar for fairly soon after Easter. Our preferred choice would be the Department of Health and Social Security for three main reasons:

(1) Sir Kenneth Stowe is keen to show what the department is doing. The seminar would support and reinforce him and help to secure the positive involvement of the Secretary of State in value for money matters.

(2) On social security the department will be subject to sweeping changes with the impact of the social security reviews and widespread computerisation.

(3) The National Health Service is yet to come to terms with the Griffiths proposals. There are vast improvements to be had in the NHS yet the hiatus over the general manager job has contributed, in part, to a loss of pressure for an effective NHS scrutiny programme to realise the potential. We must re-assert the urgency.

If the Prime Minister agrees with the suggestion, I enclose a draft private secretary letter inviting the Secretary of State for Social Services to the next seminar.

I am copying this to Sir Robert Armstrong.

IB

IAN B BEESLEY
2 April 1985

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

2 April 1985

NBPM (await MISD response)

Dear Gray

RESPONSE TO THE REVIEW OF HIGHWAYS CONTRACTING PROCEDURES AND THE REPORT ON GOVERNMENT PURCHASING

I now enclose attached our action document on the Report on Highways Contract Procedures and our interim response and action document on the Report on Government Purchasing.

The former deals with the contractual aspects of our highway business and therefore can only convey part of the story. The scope for cost savings through changes in contractual methods and procedures is necessarily limited, but we are overall making big savings in our highway programme, and I attach a cover note to set the recommendations on controls in this wider setting.

We are making good progress with the review of my Department's non-roads purchasing arrangements and stores procedures to which the interim report relates. I have asked for the final report by 31 July.

The first stage of the study covers a representative cross-section (10%) of my Department's purchasing activities. The range, as I explained in my letter of 22 January, is extremely varied. The interim report contains recommendations relating to each area so far investigated, but action will depend on the final conclusions and recommendations. Once I have these, my aim will be to set clear reponsibilities, deadlines and value for money targets.

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.

Yours ever
Nicholas

NICHOLAS RIDLEY

-3 APR 1985

LM

RESPONSE TO THE REVIEW OF HIGHWAYS CONTRACTING PROCEDURES

BACKGROUND NOTE BY THE SECRETARY OF STATE FOR TRANSPORT

Review of Highways Contracting Procedures

1. Highways contracts were chosen for the DTp scrutiny because they represent the biggest single element in the Department's external expenditure - the Department spends some £700m a year on contracts with civil engineering contractors and some £80m with consulting engineers for design and supervision. The recommendations in the report reinforce action already under way within the FMI to obtain better value for money in the programme, to achieve economy and to improve output - quality and quantity.

Background to the report

2. The Department's record on the programme since 1980 is creditable. In spite of increasing material, land and labour prices, the cost of constructing a mile of motorway has decreased by some 10% in real terms. For all purpose trunk roads the cost per mile has similarly decreased. On major maintenance, the average cost per mile of renewal work has decreased in real terms by 20% from 1981-82 to 1984-85 (from £1.21m to £0.97m per mile for motorways and from £0.37m to £0.31m for all purpose trunk roads). Such measures which simply rely on average annual costs are crude. They do not reflect the widely varying costs of individual road lengths, which are dependent on local and physical characteristics. However they do provide an overall indication of steady progress and achievement. Mainly this has been attributable to competition in the industry and contractors' ability to improve their efficiency. But the Department has contributed significantly by managing the programme tightly and closely controlling the individual contracts within it.

3. Apart from the performance in terms of the actual cost per mile of new road and reconstruction, the standard to which roads are built and reconstructed has been improved, so that the period between major renewals will be longer in future. A new design for single carriageway roads has reduced their cost and made them more competitive with dual carriageways in certain ranges of traffic flow - both a clear gain in value for money terms. In addition, the introduction of improved traffic management techniques has significantly reduced delays at repair sites.

Action on the scrutiny

4. The scrutiny did not attempt to cover all aspects of the road construction programme. This paper comments first on some of the areas where, looking beyond the scrutiny, we are pursuing more cost effective control of the programme, and in paragraph 10 onwards on the action and new initiatives in hand which relate more directly to contractual procedures.

5. The main element in the Department's efforts to ensure value for money and overall effectiveness of the programme is to ensure that improvement schemes are only included in the programme if they will provide a healthy economic return, and/or bring about significant environmental benefit.

6. The design of all roads built by the Department is subject to rigorous economic appraisal, using a standard cost-benefit assessment (COBA) to estimate the benefits of new roads in terms of savings in vehicle operating costs, travelling time and accidents. It is also used to assess design standards and the relative rate of return on alternative design and route choices. In effect, the cost of each scheme in the national road programme is set against the projected economic benefits expressed in financial terms so that net benefit/cost ratio can be derived for each scheme.

7. Apart from a small number of schemes which have exceptional environmental benefits, new road schemes are required to achieve a minimum return of 7% in real terms. For the programme as a whole we are aiming at a return of over 10% compared with a required rate of return of 5% for public corporations. For this year and the next 3 years the programme should yield a return of 14%.

8. In addition to COBA, environmental considerations (which are not capable of financial/economic quantification) and public acceptability also play a significant part. The aim is to maximise both; any target for the National Roads Programme has to reflect this aim, and therefore maximising the economic benefits cannot be the sole objective.

9. The Department consistently seeks further refinement of the techniques for economic evaluation which have so far normally been employed on the assessment of inter-urban roads. A major current initiative is a special study by the Department's independent expert advisory committee assisted by consultants of methods of appraisal for urban road schemes involving complex traffic movements.

10. As to the report and contractual arrangements, the following initiatives bear directly on recommendations in the report:

- the Department has recently let contracts for motorway renewal work, on an experimental basis, in which the price paid is related to the time taken to complete the contract. The objective is to have it completed more quickly, so reducing traffic delays and thus achieve a saving in

overall costs in the national economy. The results of the first few schemes has been encouraging and quite a lot of time has been saved. We aim to let 10 contracts on this basis in 1985.

- since 1 January, the Department has changed to fee competition for the engagement of consultants who undertake project design and supervision. We will measure results, which are expected to show savings of about £400,000 compared with former standard fee scales over the first two years.
- following a report by one of our recently retired senior Engineers in October 1984, the Department is introducing a new system of accountable management to govern the relationship between Regional Offices and Headquarters. This will be operative on a trial basis for 1985/86 and extended to all Regions for the following year. It will include financial targets for the management of individual contracts to show how far cost estimates, tenders and outturn correlate. This will be linked to our target to achieve, over the next two/three years, a saving of 5% on increases in final costs over tender prices. An exercise is in hand on selected sites to analyse the incidence of variations and to formulate more specifically the programme for cost improvement in each year. The rate of improvement could be increased if agreement could be reached quickly to change the present variation of price threshold for construction contracts (see paragraph 12 below).

- A system of regional budgetting was introduced on a trial basis last year and is being brought into full operation for 1985/86. It will set a monthly profile of expenditure for each region related to the costs of individual projects and target dates. A further element will be the more systematic analysis of outturn costs and traffic forecasts.

- adjustments to specifications for pavements (bitumen and concrete) have been based on a trade-off between initial cost and subsequent costs of maintenance, to produce considerable net savings. The benefit/cost ratio of the new bitumen specification will be of the order of £1.2 for every £1 spent on the basis of a 7% test discount rate. For the new concrete specification, the ratio will be even higher - in a range of 4 : 1 to 10 : 1.

Methods of appraising design procedures and standards are subject to continuing scrutiny.

- following a recent report by management consultants we are introducing from 1985-86 a Code of Practice for the routine maintenance of motorways and all purpose trunk roads. This will enable us to achieve consistency of standards of routine maintenance among our agents and help to obtain better value for the money spent.

- If we can find the resources to avoid delayed repairs which become progressively more expensive, we should be able to reduce still further the average overall cost per mile. In these circumstances a target of a small improvement of 0.5% over each of the next two/three years should be achievable.

11. The great majority of the detailed recommendations in the report are being implemented. The annex shows the full list of 36 recommendations and the timing of their implementation. For ease these are grouped to bring out the main themes of organisation/delegation and the simplification of procedures. The first category will entail considerable organisational changes which are being considered by a joint working party with the Treasury (see paragraph 13 below). In the second category, nearly all recommendations are accepted for implementation, development, experiment or standardisation of procedures. Action has been taken, or is planned during the current year, in individual cases of acceptance. There are only three recommendations which are not accepted:-

3.18 The recommendation that all payments to contractors should be made on the penultimate day of the contractual payment period would involve departure from Standard Government accounting practice. Normal processing means that payments are in any case made towards the end of the contractual period.

3.11 We do not consider that Headquarters involvement in unusual contract action should be discontinuted because important issues may be included.

3.6 Greater regional delegation over selection of tenderers is expected to be achieved as part of the wider organisational review in progress but we consider delegation for schemes up to £7m in value to be unrealistic.

The new procedures introduced for consulting engineer commissions in January 1985, referred to above, subsume the scrutiny recommendations 3.22, 3.23 and 3.25.

Further action under consideration

12. Additional work is in hand as part of the on-going search for further efficiency and economy:

- agreement is awaited on proposals, made by Treasury in 1983, that construction contracts should be based on fixed unit prices over a two-year period rather than include inflation clauses in contracts of more than one year's duration. This would facilitate tighter control over costs and improve programme management.

- under the Standard Conditions of Contract the Engineer (usually the Department's consultant or agent) is accorded the role of arbitrating between contractor and Department on certain issues, for example on time and variations. We are reviewing the role of the Engineer supervising contracts to see how he can be made more directly accountable to the Department.
- there may be scope for enabling contractors to play a more significant part in providing cost effective solutions to design problems. We are working on arrangements for trial contracts on this basis in order to overcome the practical difficulties arising from the public consultation and inquiry processes and within the complex contractual relationships which exist on major civil engineering works.

13. The NAO is due to report shortly on a study of value for money in the road programme. We shall want to take account of the recommendations in our further work on the scrutiny report and other initiatives.

14. The Department is currently working with Treasury to review the arrangements for the management of expenditure falling on the Roads Vote to ensure that they promote cost effective decisions and their cost effective implementation. This arises from and embraces recommendations (3.20) and (3.21) in the scrutiny report. A tight timetable has been set for this. The Group will prepare by 31 July a list of specific recommendations and a realistic timetable for their implementation. This work is also directly linked to efforts to increase delegation and speed up the road programme as recommended by a NEDO working group.

15. I have dealt with these issues at length because I consider they warrant it. A number of targets are indicated - some are savings, others improvements in output and value for money terms. I believe they are realistic. The achievement of these levels of performance is, however, heavily dependent on outside factors which are not within my control, and sudden movements in material costs and contracting prices could change what is otherwise a good prospect.

ANNEX

DEPARTMENT OF TRANSPORT - REPORT OF THE REVIEW OF HIGHWAYS CONTRACT PROCEDURES

DEPARTMENTAL RESPONSE AND ACTION PLAN

INDEX OF RECOMMENDATIONS - GROUPED FOR EASE OF RESPONSE

1. ORGANISATIONAL AND PROCEDURAL

A	Organisation at HQ.	[3.19, 3.20, 3.21]
B	Organisation at ROs.	[3.1, 3.3, 3.4]
C	Procedures at ROs.	[3.5, 3.9, 3.10, 3.15, 3.16, 3.17, 3.18, 3.28]
D	Increased delegation to ROs.	[3.2, 3.6, 3.11, 3.12, 3.13]
E	Procedures between HQ and ROs.	[3.7, 3.8, 3.14]
F	Relationship with Agent Authorities.	[3.26]

2. CONTRACTUAL POLICIES AND PRACTICES SET BY HQ

G	Policy stance towards contractors.	[3.33]
H	Conditions of contract.	[3.27, 3.29, 3.30, 3.31]
J	Contracts practices.	[3.32, 3.35]
K	Phasing of invitations to tender.	[3.34]
L	Specification for REs offices etc.	[3.36]

3. CONSULTING ENGINEERS AGREEMENTS/FEES

M		[3.22, 3.23, 3.24, 3.25]

Department of Transport
April 1985

RECOMMENDATIONS		RESPONSE/ACTION PLAN
		Key: R = Responsibility.
1. ORGANISATION AND PROCEDURAL		
A. ORGANISATION AT HQ		
3.19 Management at Headquarters are currently considering splitting up ARC Division with work on Consultants agreements, etc, going to RPHP Division. Since these agreements are in fact contracts this work would be more appropriately housed in CON(H) Division (para 4.1.63).	3.19	Accept. Responsibility for policy on consultants commissions was transferred to Contracts (Highways) Division in January 1985, so that a consistent view can be taken on bought in services. R: Contracts (Highways) Division
3.20 The role of FH Division as operators of the commitment control system is now redundant. Other checks subsequently introduced provide sufficient safeguards. The FH role in ongoing checks of eg unusual contractual items is also redundant. Therefore, FH Division should be wound up with the functions requiring to continue being reallocated to FLPT or RPHP (para 4.1.78).	3.20)	
3.21 Similarly, the role of the Finance Inspection Team (part of FH) is now partly redundant and the functions should be combined with Internal Audit (para 4.1.82).	3.21)	More effective arrangements for the financial management of the road programme through increased delegation; consequential procedural and structural changes and new measures of output and performance are being developed. A Working Group with Treasury has been set up which will take account of a wide range of initiatives. The Group will report by July 1985. R: Dep Sec Roads and Traffic U/Sec, Finance
B. ORGANISATION AT RO's		
3.1 Managers should set objectives for Regional Offices with the aim of more closely matching workload and resources and bringing the output of all offices up to the average of the more productive. This would appear to offer scope, in the medium to long term, for an overall saving of about 50 staff, equivalent to a cost saving between £650,000 - £700,000 per annum (paragraph 4.1.9.).	3.1	A system of accountable management developed from a report by a consultant will be introduced for two Regions in 1985/86 and extended to all 9 Regional Offices from 1986/87. R: Dep Sec, Roads and Traffic
3.3 The role of the Controller of Administration in Regions should be further enhanced to include full responsibility for contractual and financial matters and to become the Accounting Officer's representative in the field (para 4.1.11).	3.3	See 3.20/3.21 above.
3.4 Once experience has been gained in the working of the enhanced role of Controllers of Administration, the appropriate grading for these posts should be reviewed (para 4.1.12).	3.4	See 3.20/3.21 above.

RECOMMENDATIONS		RESPONSE/ACTION PLAN
C.	PROCEDURES AT ROs	
3.5	It should be the aim to eliminate the need for Regional Office staff to carry out detailed checks of contract documents. As a first step, a common sense approach to the need to make minor grammatical amendments should be adopted (para 4.1.15). As a longer term solution, the Department should present its requirements in more easily assimilated form: the ideal solution would be to make the standard model documentation available on floppy disc for use in word processing equipment (para 4.1.17).	3.5 Accept. The Department is extending the use of word processors in both Regional Offices and HQ. Standard documents for use on word processors are available. R: Directors (Transport) Contracts (Highways) Division
3.9	There is a policy that all alterations, correction, etc, however minor, found necessary during a tender period must be communicated to tenderers forthwith. These changes have a disruptive effect on the preparation of tenders. Minor changes should be left to be dealt with by negotiation with the lowest tenderer before award, (para 4.1.32).	3.9 Accept. The Department aims to avoid making changes during the tender period. Any changes have to be justified exceptionally. This recommendation has been drawn to the attention of Directors (Transport). Clarified guidance will be included in the next revision of the Highways Manual. R: Contracts (Highways) Division
3.10	Some Regional Offices still carry out detailed checks of tenders received at the same time as the Consulting Engineers for the scheme are doing the same thing. This is unnecessary duplication (para 4.1.34).	3.10 The Department is concerned to avoid routine checking but the evidence is that significant points do arise as a result of selective checks. Clearer instructions on the basis of checking will be included in the next revision of the Highways Manual. R: Contracts (Highways) Division
3.15	Some Regions still carry out detailed pre-payment checks on the Certificate of Payment due to the Contractor each month. Legally these Certificates must be paid: payments should therefore be processed first with checking conducted afterwards (para 4.1.55).	3.15 Accept with the element of pre-payment checks described in para 4.1.55, comprising simple checks on arithmetic and on accurate completion. Post-payment checks will be carried out to provide safeguards on a basis to be decided by spot checks or/and by audit. Instructions will be issued. R: Directors (Transport) Finance Highways Division
3.16	Some Regions require their management engineers to certify the Certificates referred to above in terms which suggest they have detailed knowledge of every item referred to therein. In practice, engineers can only have a broad idea of the reasonableness of a Certificate and should only be asked to certify accordingly (para 4.1.56).	3.16 Accept in principle; RO staff will certify in line with their responsibilities. Post payment checks referred to above will provide safeguards. R: Directors (Transport) Finance Highways Division

RECOMMENDATIONS		RESPONSE/ACTION PLAN
C. PROCEDURES AT ROs (contd)		
3.17 At present, payment instructions are sent to the Payment Office by a wide variety of systems, some more reliable than others. Secure and fast transmission of payment instructions is important and electronic transfer should be investigated (para 4.1.58).	3.17	Accept. The possibilities are being examined during the computerisation of systems in Accounts B. R: Accounts Division
3.18 Payments are currently made by payable order as soon as they can be processed through the system. When a new computer soon to be installed permits, all payments to Contractors should be made by credit transfer on the penultimate day of the contractual payment period (para 4.1.60).	3.18	Not accepted. Payments will be made by Credit Transfer within the contractual payment period. This will normally mean payment towards the end of the allowable period, which accords with the practice of Government Accounting and the Epitome of Accounts. R: Accounts Division
3.28 At present it is accepted practice in some Regions only to carry out every third monthly site measurement in detail, approximating the other two. This practice saves site staff time and is recommended (para 4.4.7).	3.28	Accept. Regional Offices have been asked to ensure that Engineers adopt the recommended practice. R: Engineering Intelligence Division
D. INCREASED DELEGATION TO ROs		
3.2 There should be the maximum possible delegation to Regional Offices who should have control of their own budgets (para 4.1.10).	3.2	Accept. Regional Offices have been given delegated authority to administer the road programme within annual budget allocations. The outcome will be closer management within cash limits and fewer references to HQ. R: RPHP Division
3.6 The present system of centralised control of selective tender lists causes unnecessary communications between the Regions and Headquarters and is a potential cause of delay. Regions and Agents are asked to take part in the selection process but not given the information to make a meaningful contribution. Details of the Department's approved lists of Contractors should therefore be disseminated to Controllers of Administration in Regions, with periodic updating bulletins being issued (para 4.1.25). Selection of tenderers for schemes below £7 million in value should be delegated to Regions (para 4.1.26), with direct access to computer files if possible (para 4.1.28).	3.6	Not accepted as proposed. The proposal is not likely to lead to savings at present. The consideration of further delegations (see Recommendation 3.20 above) should lead to more decisions being taken at Regional level. R: Contracts (Highways) Division

RECOMMENDATIONS		RESPONSE/ACTION PLAN
3.11 At present, prior authority to accept a tender has to be sought by Region from Headquarters if prices are more than 5% higher than expected, or if it is proposed to take any other unusual contractual action. Headquarters involvement contributes little if anything to consideration of the case and should be discontinued (para 4.1.41).	3.11	The aim should be minimum HQ involvement. Regions are to be enabled to accept tenders up to 10% higher than expected, [redacted] HQ to be notified of the reasons. Other unusual contract acti[redacted] referred to in para 4.1.41 is of sufficient importance to continue the present HQ involvement. R: Contracts (Highways) Division Finance Highways Division
3.12 Proposed Variation Orders outside certain delegated limits have to be approved by Headquarters before issue. Subject to safeguards, this requirement should be dropped (para 4.1.44).	3.12	Accept. Safeguards are to be provided by notification of such approvals by Regions to HQ. R: Contract (Highways) Division Finance Highways Division
3.13 In passing on to Treasury requests for approval to extra-contractual actions not delegated to the Department, the aim should be to put the Region's case direct to the Treasury without additional Headquarters involvement (para 4.1.45).	3.13	Accept. Changes by HQ to regional submissions will be kept to a minimum, but HQ should ensure consistency of approach. Consideration of the scope for further delegation of authority (Recommendation 3.20 above) should reduce the number of references - R: Contracts (Highways) Division RPHP Division Finance Highways Division
E. PROCEDURES BETWEEN HQ AND ROs		
3.7 Arrangements should be made to exchange information on workloads, performance, etc between SDD, WO, PSA and DTp to guard against overloading, etc (para 4.1.29).	3.7	Accept. Other Departments have been contacted. There are already regular contacts with SDD and WO Highways Directorates. R: Contracts (Highways) Division
3.8 To improve information on the performance of contractors, annual reports should be obtained while construction is in progress (para 4.1.30).	3.8	Accept. The necessary instructions have been issued. R: Contracts (Highways) Division
3.14 The present system of monthly reporting on contracts involves 9 or 10 forms. There is duplication between them and some information sought is redundant or of little value. The system should be rationalised: a four-form format is suggested (para 4.1.52).	3.14	Accept with a view to devising improved procedures. Work on this is in hand with the aim of introducing simplified procedures this year. R: Contracts (Highways) Division

RECOMMENDATIONS	RESPONSE/ACTION PLAN
F. RELATIONSHIP WITH AGENT AUTHORITIES	
3.26 The system whereby Agent Authorities act as both Employer and Engineer under the contract for small improvement schemes and all maintenance schemes means that the work is not under the Department's control, and the system for funding Agents in advance leads to persistent over-advance-funding. The Department should therefore adopt the Employer role (and thus be responsible for paying the Contractor) for all improvement and maintenance contracts save the smallest. And, since detailed Departmental involvement in the smaller schemes is of dubious value, these should be left as far as possible to Agent Authorities (paras 4.3.6 and 4.3.7).	3.26 The objective is accepted. Regional Offices will be ensuring that advance funding reflects a realistic view of likely commitments. R: Directors (Transport)
2. CONTRACTUAL POLICIES AND PRACTICES SET BY HQ	
G. POLICY STANCE TOWARDS CONTRACTORS	
3.33 The Department naturally wishes to be seen to be fair in its dealings with Contractors but has taken this to the point where it is taken advantage of. A much more commercial attitude to Contractors would bring rewards by way of improved quality of work and reduced costs.	3.33 The Department already takes a commercial attitude to contractors in pursuing the aim of achieving best value for money. As a major client for the construction industry the Department takes care to spread tender opportunities to stimulate competition; selection takes account of all aspects of performance. R: Contracts (Highways) Division
H. CONDITIONS OF CONTRACT	
3.27 The ICE Conditions of Contract have been condemned by independent commentators as pro-Contractor and in a number of instances are unfair to the Employer. The Department should review the Conditions to prepare a set of appropriate amendments and require these to be incorporated in the contracts (para 4.4.6).	3.27 The Department keeps the detailed operation of the Conditions of Contract under continuous review. The role of the independent Engineer under the ICE Conditions is being examined already and proposals should go to Ministers by May 1985. R: Contracts (Highways) Division Engineering Intelligence Division
3.29 Contractors have represented that their financing costs, and thus tender costs, would be materially reduced if fortnightly rather than monthly payments could be made. An experiment is accordingly recommended (para 4.4.9).	3.29 Accept as an experiment. Tenders for a number of contracts will be sought on alternative basis of fortnightly or monthly payments during 1985/86. R: Contracts (Highways) Division

RECOMMENDATIONS		RESPONSE/ACTION PLAN
3.30 Independent research has indicated that financial benefits flow from permitting Contractors to fix their own completion periods. To evaluate tenders, cash flow projections are sought and reduced to net present values. An experiment along these lines is recommended (para 4.4.15).	3.30	Accept. The Department plans to devise a suitable experiment to test the recommendations on a major scheme. Completion on both time and cost has been introduced as an experiment for motorway maintenance contracts. R: Contracts (Highways) Division
3.31 If the experiment mentioned in the preceding paragraph succeeds, the idea could be extended to prescribe maximum monthly payments in the contract related to the cash flow projections. This would assist in controlling expenditure against cash limits (para 4.4.14).	3.31	Accept. R: Contracts (Highways) Division
J. CONTRACTS PRACTICES		
3.32 Claims arising from unforeseen ground conditions account for about two-thirds by value of all claims: evaluation of them is expensive of both time and resources. Evaluation would be easier and the scope for "claimsmanship" much reduced if successful tenderers were required to give full details of the make-up of their earthworks rates (para 4.4.27).	3.32	This proposal is to be discussed with the FCEC and ACE (at meetings to be arranged). R: Contracts (Highways) Division
3.35 Contractors object to the Department's present practice of going back to the 3 lowest tenderers where prices need to be reassessed for any reason. This causes problems as the tenderers are frequently by then aware of each others prices. Only the lowest tenderer should normally be approached in such instances (para 5.3).	3.35	Accept in principle, but where 3 lowest tenders are close it may be advisable to consult those tenderers in the Department's best interests. R: Contracts (Highways) Division
K. PHASING OF INVITATIONS TO TENDER		
3.34 Contractors suggest that the present uneven flow of tender enquiries causes bottlenecks in Estimating Departments. A more even flow would reduce tendering costs: there is no objection to advance tendering as long as a start date is specified and kept to (para 5.3).	3.34	Accept that an even flow of tender enquiries is desirable. The Department's concern must also be with the commencement and completion of schemes as quickly and efficiently as possible. R: RPHP Division
L. SPECIFICATION FOR RE'S OFFICES ETC		
3.36 Contractors suggest that the standards of provision of facilities for Resident Engineers and site staff are unduly lavish, and new equipment is always required for site laboratories and the like. Economies could be made by eg reducing space standards and accepting good used equipment (para 5.3).	3.36	There is no evidence of lavish facilities being provided but the position will be checked regularly. New equipment is not always used for site laboratories etc. Guidance will be provided to Engineers and contractors by June 1985. R: Contracts (Highways) Division Engineering Intelligence Division

RECOMMENDATIONS	RESPONSE/ACTION PLAN
3. CONSULTING ENGINEERS AGREEMENTS/FEES	
M. CONSULTING ENGINEERS AGREEMENTS/FEES	
3.22 Despite the safeguards afforded by the professional integrity of Consulting Engineers, the fee arrangements under which they are reimbursed lack any self-disciplining element. An experiment should be conducted with a fee system incorporating such an element (para 4.2.5).	3.22) The new model agreements for the employment of Consulting Engineers were approved at the beginning of 1985. After taking account of various options, including the recommendations in this Report, the fee arrangements adopted are considered the most practicable, and with the element of competition, some savings are
3.23 The present system of including sums awarded on claims in the figure on which ad valorem fees are calculated is potentially unfair to both Consultants and the Department. Claims work should be paid for on a time basis (par 4.2.6).	3.23) expected. Payments for claims work are included in the ad valorem fee. R: Contracts (Highways) Division
3.24 Detailed checks of Consultants' time-based fee claims, and expenses accounts, are not cost-effective and should be dropped in favour of random spot checks.	3.24 Accept. Standard procedures are to be introduced from the beginning of 1985/86 covering arithmetical checks and confirmation of time worked with occasional random in depth checks. R: Contracts (Highways) Division Finance Highways Division
3.25 At present, the Department directly controls the number of site staff employed, but at the same time responsibility for the adequacy of the service given rests with the Consultants. The ad valorem fee should be enhanced to cover site staff costs, with the Consultants responsible for the exact level of provision (para 4.2.12).	3.25 The Department approves the level of site staff and reimburses the Consultants separately. This ensures that the Consultant is paid for maintaining a proper service. No change in this procedure has been included in the new arrangements, but there will be a competitive element for on-costs. R: Contracts (Highways) Division

INTERIM RESPONSE AND ACTION DOCUMENT

	Comments
Recommendation 1 We recommend 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.	Accept. Efforts are made to draw up specifications so that the best value for money is obtained. Contracts proposals are subject to challenge by the procurement organisation or finance branches. The review will make recommendations relating to other parts of the department.
Recommendation 2 We also recommend 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.	Accept. Limited application to DTp as, by and large, contracts are for "one-off" projects/supply. Where similar repeat contracts are involved, managers responsible for specifications will take this action.
Recommendation 3 We therefore recommend 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.	Accept. This is already done for new road construction contracts and for road maintenance contracts. The review will consider appropriate arrangements for other parts of the department.
Recommendation 4 We therefore recommend that the purchasing organisation and end-users agree a procurement strategy for all procurements.	Accept. This happens on the highways side of the department. The review will consider appropriate arrangements for other parts of the department.
Recommendation 5 We recommend 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.	Accept. Where relevant, such an appraisal is normally undertaken to justify departmental purchases.

Recommendation 6	Accept
We recommend that in formulating the roles and responsibilities of the procurement organisation 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.	The review will examine the supply organisations in the department and make appropriate recommendations.
Recommendation 7	Accept.
We recommend that achievable target prices should be agreed between the procurement organisation and end-users in respect of all contracts.	Where relevant, this is already done by the contracts division and procurement branch.
Recommendation 8 (lists of approved firms)	Accept.
We recommend that the senior procurement and supply manager in each department reviews all approved lists by April 1986 and subjects them to continuing review thereafter.	This is already done by the contracts division and procurement branches already examined. The review will examine the practice in other parts of the department and made appropriate recommendations.
Recommendation 9	Accept.
We recommend 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.	This is done in appropriate cases but it would not be beneficial for it to become general practice because of problems of accountability, the risk of corruption and the risk of driving up prices.
Recommendation 10	Accept.
We recommend 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.	The implementation of this recommendation will depend on the review's recommendations relating to those parts of the department not having a contracts organisation.
Recommendation 11	Accept.
We recommend 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.	See comments on recommendation 10.

Recommendation 12	Accept.
We recommend that the senior procurement manager agrees in writing with end-users by April 1986 service agreements defining the level of service which the procurement organisation will provide.	Turn-round times should be agreed between end-users and the senior procurement manager. Where such agreements do not exist, they will become a requirement.
Recommendation 13	Accept.
We recommend 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.	Where such agreements do not exist, they will become a requirement.
Recommendation 14	Accept.
We recommend that the senior procurement manager in each department sets up a specific programme within these arrangements /ie. interchange of civil servants with industry and commerce/ 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.	Job specifications for secondments will be considered in liaison with the appropriate branch in Training Division once the department's procurement organisation has been finalised.
Recommendation 15	
We recommend that the Cabinet Office (MPO) in consultation with departments develops a functional specialism for purchasing and supply.	For Cabinet Office (MPO).
Recommendation 16	Accept in principle.
We recommend that the senior procurement manager in each department devises and initiates a training programme for staff involved in procurement by April 1986.	DTp is considering reestablishing training courses in contracts principles and procedures but would also like to participate in any inter-departmental courses. Training Division to consider.
Recommendation 17	Accept in principle.
We recommend that the senior procurement manager, in consultation with the staff, draws up performance targets for individuals or groups of individuals by April 1986.	Where appropriate, this will be considered.

Recommendation 18	Accept in principle.
We therefore recommend that by April 1987 departments introduce incentive schemes for buying staff, based on performance targets and taking account of decisions on Civil Servants merit pay generally.	This recommendation is seen as one part of the merit pay arrangements in the department. However, there are attendant dangers in the light of the Wardale/Touche Ross report on fraud and corruption in the PSA.
Recommendation 19	Accept.
We therefore recommend 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.	Implementation of this recommendation will depend on the outcome of the review.
Recommendation 20	Accept.
We recommend that the Accounting Officer of each department appoint or designate a director of procurement and supply to take on these responsibilities.	William Walker, CON(H), is already the focal point for co-ordination (as defined in Heads of Division Circular 13/84) of purchasing policy within DTp and for deciding policy and procedures for highways procurement. The review will make recommendations regarding a focal point for other parts of the department.
Recommendation 21	
We therefore recommend that the Prime Minister approves the establishment of a small central purchasing unit (CPU).	Not for departments.
Recommendation 22 (Savings targets)	Accept.
We recommend that departments should draw up such targets and criteria for submission to, and agreement with, the CPU by April 1985.	See previous ministerial correspondence of 31 December 1984, 22 January and 28 February 1985 regarding dates for drawing up targets.
Recommendation 23	
We recommend 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.	For Central Purchasing Unit.

Recommendation 24	Accept.
We recommend 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.	The implementation of this recommendation will depend on the review's recommendations relating to those parts of the department not having a contracts organisation.
Recommendation 25	
We thus recommend 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.	For the central purchasing agencies.
Recommendation 26	Accept in principle.
We recommend that the procurement organisations in departments set up supply and service agreements with the agencies by March 1987 to formalise the operational relationships.	See DOE(C) response for common DOE/DTp services.
Recommendation 27	
We recommend that departments are formally untied from Crown Suppliers and CCTA by April 1987.	For Cabinet Office and Treasury.
Recommendation 28	
We recommend 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.	For the central purchasing agencies.
Recommendation 29	
We recommend that the CPU, in consultation with Treasury and DTI, prepare such guidance by April 1986.	For the Central Purchasing Unit.

TF

CC NO

N5PM.

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:

Your ref:

19 March 1985

Will request if required

Dear Mr Wiggins

DEREGULATION

Thank you for copying to me your letter of 1 March, addressed to Margaret O'Mara, about representation on the Ministerial Group on Deregulation. My Secretary of State has asked Mr Neil Macfarlane to represent the Department at Ministerial level, and Mr J P Plowman (Regional Policy Division) at official level.

I am copying this letter to the recipients of yours.

Yours sincerely

A H Davis

A H DAVIS
Private Secretary

A J Wiggins Esq

20 MAR 1985

Prime Minister (2)

MGA 12/3

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 2/2/6

12th March 1985

MJG

Dear Robin

THE EFFICIENCY STRATEGY WITHIN THE MINISTRY OF DEFENCE

At our recent meeting we had an inevitably rather general discussion about the importance of targets in improving efficiency. I thought you might find helpful a fuller account of work in hand in the Ministry of Defence on this and other aspects of our efficiency effort.

In early January I asked for a list of efficiency studies which were then in hand or being processed in the Department as part of more comprehensive advice on the aims of my Department in 1985. (I commissioned a similar report in 1984). A copy of this list is at Annex A. It contains over 100 areas of work, much of it initiated and executed by line management but including some major centrally directed reviews. I suggest you might like the Efficiency Unit to take an interest in the Review of Registry and Support Services and the contractorisation study of support to British Forces Germany.

(not attached by SofS Defence)

The list does not include many scrutinies and reviews on which action has been agreed and implementation is well in hand, and countless efficiency measures going on at lower level. I attach, as an

Sir Robin Ibbs

example, a list of efficiency work in the Royal Naval Supply and Transport Service (RNSTS) alone (Annex B) and you will note that few of these studies appear in the major list. The RNSTS line managers also have a programme of 20 feasibility studies examining the prospects for privatisation and contracting out. I hope these lists give you some impression of the range and quantity of efficiency work in the MOD.

MINIS 1 gave me the necessary information about how this Department's business was managed and, as you know, I have set about changing that in a radical way. A set of management principles (copy attached at Annex C) were circulated widely after MINIS 1. A major change in the central organisation for Defence (set out in Cmnd 9315) came into effect in January and first reports suggest that the new organisation is settling down well. It provides for a defence-wide perspective in policy making and tauter central control of resource allocation, the clarification of roles and responsibilities - here and elsewhere within the organisation - and the progressive introduction of accountable management for our executive operations. I have coupled this with a drive for improved value for money in procurement and support by better management, more competition and, wherever feasible and appropriate, privatisation and contractorisation.

I agree that performance indicators have an important part to play in the detailed follow through of this approach at the working level. Many indicators are already in operation; I attach a list of examples from various areas of the Department's work (Annex D) and a more detailed annex covering those applied in stores depots (Annex E). These and others are regularly used by line managers to set performance targets in their areas.

Under the competition initiative which I launched in our contracts areas, some 65% of new defence contracts in the calendar year 1984 were placed at fixed prices in competition or by reference to market forces, when account is taken of competitive sub-contract purchases under non-competitive main contracts. This compares with a figure of some 48% for the financial year 1983/84.

It is, of course, much more difficult to devise meaningful quantitative performance indicators at the macro level. The ultimate criterion for the success of our defence policy is whether it provides credible deterrence at acceptable cost: the ultimate ouput is to stop war happening and to do so in the context of an Alliance. Our force structures have to be assessed in these terms, and there is no ready reckoner of, for example, the relative benefit of investing say £100M in one of our defence roles compared with another. Nor can we assess performance just in terms of the efficient use of resources in peacetime: what matters is to provide at immediate readiness effective fighting forces, which is a very expensive - but essential - way of proceeding. The improvement of performance therefore has to rest upon a range of approaches, and a mix of quantifiable and more subjective approaches.

Within the strategic framework of the aims of our defence policy and our four main defence roles, we intend to address more rigorously the capabilities required to fulfil each role and the cost-effectiveness of particular equipments. There is already a substantial effort in these areas centred on the Defence Operational Analysis Establishment. The changes in organisation affecting both the Defence staff and our scientific effort under the Chief Scientific Adviser are intended to give greater weight in decision-making to these approaches.

Mechanisms are, of course, also needed to address the efficiency and effectiveness of current expenditure. In the case of the front-line, this cannot be measured in accountancy terms: but there are well-established procedures for the Tactical Evaluation of front-line units.

Where a budgetary and target approach is clearly appropriate is in the drive to reduce overheads in support of the front-line and in administration generally. Much action is in hand to establish the budgetary framework for this. Staff Responsibility Budgets have been in place for a year

for civilian staff and will be extended to cover over 50,000 Service personnel next financial year. Executive Responsibility Budgets will be introduced from this April in a three year phased programme planned to cover some 300 units with annual operating costs of over £3000m; the first phase (1985/86) will consist of about 50 ERBs covering over £1$\frac{1}{4}$bn of operating costs. A major study is being conducted to reconcile arrangements for cash allocation and control in Responsibility Budgets with the Department's established financial procedures, and this year's Review of the Development and Management of Budgetary Control by the Head of the Government Accountancy Service will certainly assist in this. To complement these procedures the MINIS system continues to provide Ministers and top management with the means and the opportunity to investigate the performance of line managers against the targets set by their superiors.

Development of these systems is proceeding apace and I have shortened the trial periods and widened the scope of Responsibility Budgets. There is, however, still some way to go, particularly in the articulation of top management systems, Responsibility Budgets and Vote provision.

Finally, as a more general spur to efficiency, we continue to maintain tight control over the input factor of manpower - both civilian and Service. Following the Crew study of manpower control, a manpower resources division has been established in the reorganisation. It is responsible for the development of manpower and manpower control policy, the co-ordination and scrutiny of military and civilian manpower plans in relation to other demands on the defence budget, and the central allocation and control of civilian manpower numbers.

In our discussion, we recognised the value of manpower controls even though the purists might argue that they cut across a budgetary approach. At present numerical targets remain the most readily understood and, in my experience, effective means of meeting our objective to reduce administrative and support manpower. In the "tail to teeth"

exercises which have been set in hand to transfer Service manpower from support to combat roles, between 1981 and 1988 there will be a 25% reduction in RN uniformed manpower devoted to shore support (numbers will have fallen by 12.5% by April) and in the Army 4,000 posts are to be redeployed from the support area to the front line by 1990. The Services have manpower ceilings for 1st April 1986 of 68,500 RN/RM, 137,000 Army trained adult males and 93,350 RAF. RN/RM Service manpower is to fall to 63,000 by 1993. In the HQ area there is to be a 4% cut in manpower by April 1986. UK based civilian manpower in MOD has fallen by 73,000 since 1979 and my published target of 174,700 for 1st April 1986 will have been achieved by April this year; I am now considering the target to replace it and you may recall our discussion of the way my thinking is developing.

In sum, we are seeking to introduce budgetary systems and quantified targets wherever these can meaningfully be applied to improve efficiency and value for money. This is coupled with a general programme of studies and evaluations of our performance both in the front line and support areas. I would not claim that we had exhausted the scope for improved efficiency and I should be glad of any ideas you may have on systems and approaches, as well as on particular areas of the Department's work. But I hope you will find this brief resume of our work in these areas helpful.

I am copying this letter, less annexes, to the Prime Minister for information.

Yours ever

Michael Heseltine

12 MAR 1985

CONFIDENTIAL

CC NO – not attachment.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
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JF7775
PS/ *Secretary of State for Trade and Industry*

8 March 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

NDPM

Dear Mark,

As you will recall, it was agreed at the Prime Minister's meeting on 26 February that an edited version of the central report of the "burdens on business" scrutiny should be published as soon as practicable after the Budget.

2 Our current target date for publication is the week beginning Monday, 25 March. I enclose a copy of the text we are sending to the printers, which takes account of amendments suggested by Departments concerned; and includes a foreword by my Secretary of State, making clear that the report is being published to stimulate debate and that no firm decisions have yet been taken on the options for action it identifies.

3 We will also make one or two changes to the appendices (not enclosed) which Departments have suggested to us. I should add, finally, that we have taken the opportunity of correcting a statistical error in the original version of the report (para 2.5.3) on the employment attributable to "small firms".

4 I am copying this letter with enclosure to Rachel Lomax (Treasury), Colin Budd (FCO), John Taylor (Home Office), John Ballard (Environment), Steve Godber (DHSS), David Normington (Employment), Alex Galloway (Chancellor of the Duchy), Leigh Lewis (Enterprise Unit), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs .

Yours ever,

Callum

M C McCARTHY
Private Secretary

999-1 Encl

B18AAX/VB

FOREWORD BY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

This report is about burdens on business - the burdens imposed by central and local government regulations, which bear hardest on small firms.

Most businesses, large or small, need to cope with regulations; they have to, if they are to survive. Each separate area of Government intervention, considered in isolation, may seem modest in the demands it makes on them. But this report looks at the problem as a whole. It makes clear that the cumulative burden of regulation is a serious brake on enterprise and employment. Government requirements and sinnificantly to business costs - particularly costs to management time. They deter new business start-ups and expansions.

Cutting the burden of regulation is one important way Government can act to help business prosper - and create the soundly-based new jobs we need. Small businesses have a vital role to play. They provide millions of jobs already and will be a major source of new employment.

Controls are necessary in some areas to ensure that the market works humanely, fairly and efficiently. These must be maintained. But we can reduce regulatory burdens, without destroying essential protections for employees, consumers and the general public.

The report identifies options for change in ten main areas, ranging from Value Added Tax and PAYE to company and consumer law. It highlights some general lessons applying across the board - on enforcement methods and procedures; on communications between business and government; and on the need for tough continuing controls over the growth of regulation, in the European Community as well as at national level. It recommends urgent follow-up work, as a basis for firm decisions on a plan of action.

That follow-up is now under way. In the meantime, and in advance of Government decisions, we are publishing the report to stimulate thought and comment outside, as well as inside, the Departments concerned.

List of Abbreviations

ACAS	Advisory, Conciliation and Arbitration Service
CBI	Confederation of British Industry
DHSS	Department of Health and Social Security
DTI	Department of Trade and Industry
EC	European Community
HSE	Health and Safety Executive
MSC	Manpower Services Commission
NIC	National Insurance Contributions
PAYE	Pay As You Earn
SSP	Statutory Sick Pay
VAT	Value Added Tax

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BURDENS ON BUSINESS

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE REQUIREMENTS

KEY FINDINGS AND PROPOSALS FOR ACTION

This report examines burdens imposed on business, especially on small businesses, by administrative and legislative requirements of central and local government. It identifies the main problems on which action is required, and suggests further action to tackle them.

Compliance with government requirements imposes real additional costs on business, particularly on small firms and "new starters". They can be a barrier to market entry (2.1.1-2.4.2).

Though most firms are managing to cope with the burden, action to reduce it offers benefits for jobs and for the "white economy" (2.5.1-2.5.3)

There are practical, social and political constraints on the scope for cutting requirements back ; necessary protections for employees, consumers and others must be maintained. Effective action will require a determined attack on the problem across the board (3.2-3.5).

We have identified options for action in ten priority areas: Value Added Tax; the Pay As You Earn/National Insurance Systems: Statutory Sick Pay; planning controls; building regulations; fire prevention requirements; health and safety at work; terms and conditions of employment; company law; and consumer law (4.1-4.4).

And, to control the burden as a whole, we recommend:

- new disciplines in regulatory Departments, to make regulators in government as conscious of the "compliance

costs" they impose on businesses as they are of their own management costs; and to get them into direct contact with small businesses "on the ground" (7.2.1-7.3.2);

- a small task force, perhaps in the Enterprise Unit, to monitor the application of these new disciplines (7.2.2-7.2.4);

- action in the European Community to increase awareness of regulatory burdens (7.4);

- coordinated action on all the main requirement systems, to strengthen "compliance cost consciousness" in enforcement and to tackle the government/business communications gap (5.1.1-5.3.2; 6.1-6.7).

1 INTRODUCTION

1.1 Scrutinies have been completed in seven Departments on burdens ("compliance costs") imposed on small businesses by the administrative and legislative requirements of central and local government.

1.2 This report outlines (at Appendix 1) the scope of work undertaken by the scrutiny team and the working methods adopted; and summarises:

- the essentials of the problem, as we see it:

- our key conclusions and recommendations.

1.3 Our terms of reference are at Annex A of Appendix 1; the scrutiny officers, and their Departments, are identified at Annex B.

1.4 The scrutiny as a whole cost £173,000.

2 THE BURDEN OF REGULATION

2.1 Some business comments

2.1.1 We have found a range of views about requirement problems in the small business community. For example:-

"Death by Red Tape". (National Federation of Self-Employed.)

"The documents which apply to a businessman setting up a factory stand 5 feet high". (Centre for Policy Studies.)

"When we started they seemed daunting. But in practice they proved a minor irritant compared with the problems of raising finance and making the business work". (Proprietor-manager of recently started manufacturing business, employment 13, commenting on compliance costs generally.)

"We could employ a couple of youngsters full time, if we were free to negotiate wages with them direct". (Manager of retail furniture business, commenting on impact of Wages Councils.)

"Not a big problem" (Manager of manufacturing business, employment 52, commenting on compliance costs generally.)

"The big problem in life is the bank" (Manageress of manufacturing business, employment 16, commenting on compliance costs generally.)

"A big constraint on my willingness to expand my labour force." (Proprietor of specialised publishing business, employment 4 part-time, commenting on impact of employment-related requirements.)

"Not really a burden yet. But we are carrying about as much as we can". (Director of manufacturing business, employment 42, commenting on compliance costs generally.)

"We've given up contracts for porches and sun lounges. The building regulations are too much of a hassle." (Proprietor of double glazing business, employment 8.)

2.2 The Issues

2.2.1 We have identified 12 main requirement systems at the heart of the problem : Value Added Tax (VAT); Pay As You Earn (PAYE) and National Insurance contributions (NIC); Statutory Sick Pay (SSP); Planning controls; fire and building regulations; employment protection law; Wages Councils; health and safety at work requirements; and company and consumer law (See Para 1.4 of Appendix 1).

2.2.2 We have asked three questions about them:

- what kinds of "compliance costs" do they impose?

- which businesses are most seriously affected?

- how significant is the burden as a whole, in relation to businesses' other concerns?

2.3 Nature of the burden

2.3.1 The two main kinds of "compliance cost" are:

- the staff/management time needed to understand and meet government require-ments, and to deal with the agencies enforcing them;

- the direct expense incurred in meeting, for example, requirements for equipment (such as fire doors) which the firm would not otherwise have acquired.

2.3.2 The element of direct expense should not be under-rated: as one manager pointed out to us, an item costing "only" £500 may require a small business to generate sales of ten times that amount to finance the purchase. In some areas, too, costs are significant but overlooked, because they only affect businesses indirectly; for example additional costs to commercial premises imposed by the building regulations.

2.3.3 But for most small businesses costs to time, particularly management time, are the key element in the requirements burden. Management time is a small firm's most precious resource. The smaller the firm, the more precious it is : above all where the proprietor alone is responsible for production, marketing and finance functions which in larger businesses can be shared between specialised departments.

2.3.4 It follows that requirement problems which only occur intermittently, but which make major and unpredictable demands on management resources, may be as serious as the continuing administrative chores imposed by the tax/NIC/SSP system. For this reason it is difficult to compare the "onerousness" of different requirement systems - problems with planning, or with an unfair

dismissal case, for example, as against the day-to-day administration of VAT.

2.3.5 To the extent that requirements impose standards different from those an unregulated market would set, they affect business efficiency, enterprise and competitiveness. The effect may be obvious where (for example) machine guarding requirements impede production. In other cases it may be less obvious but equally real. There is, for example, a cost to output and efficiency (as well as to employment) if job opportunities are reduced by minimum wage rates set by Wages Councils.

2.4 Businesses Affected

2.4.1 Regulatory burdens bear most heavily on the very smallest businesses where managers lack the staff support, the time and sometimes the expertise to cope with the work involved and to handle central and local government bureaucracies effectively. The larger businesses with specialised management capacities tend to be less vulnerable (see para 2.3 of Appendix 1). But even here we have identified significant under-currents of concern about the problems identified in Section 2.3 above: as well as about what are seen as unnecessarily onerous or complex aspects of some requirement systems.

2.4.2 A particularly worrying point economically is that "compliance costs" - real and perceived - may limit market entry by inhibiting start-ups and expansion of small enterprises; especially those involving first-time recruitment of full time labour. The problem is compounded because so many requirements are directly employment-related (PAYE/NIC/SSP, Health and Safety, employment protection law).

2.5 The Problem as a whole

2.5.1 We found that the great majority of small businesses regard government requirements as a permanent, immutable feature

of their business environment. Most of the firms we saw had not seriously considered the scale of the problem or the practical implications of reducing it. In part, we suspect this is because compliance costs, like other costs which affect competing enterprises more or less uniformly, are passed on automatically to customers.

2.5.2 Not unexpectedly therefore, we found that most small businesses are managing to cope with government requirements, about which only a minority are openly critical. And most small businesses see problems with finance, sales and so on as more serious than problems with "compliance costs".

2.5.3 Equally, we believe that the total impact - economic and psychological - of a determined drive to contain regulatory burdens would be substantially greater than the perspective of the individual small firm suggests. Such action, as one element in the Government's wider strategy on enterprise and employment, offers benefits for

- jobs. Small firms* are estimated to account for at least a third of private sector employment. As our consultancy survey suggests (Appendix 3, p 21), reductions in their compliance costs would be likely to feed through into profits and prices; the end result (within a given monetary target) being a higher level of employment in the whole economy.

---

*"Small firms" as defined by the Department of Trade and Industry are firms in manufacturing employing up to 200 people and firms in services with annual turnovers below specified maxima which vary from sector to sector. On the basis of 1976 data, such firms were estimated to account for over 6 million jobs - 36 per cent of private sector employment, and 25 per cent of total employment. According to the 1981 Census of Employment, firms employing fewer than 50 people provided more than 4 million jobs.

- the legitimate economy. Some small businesses (outside as well as inside the "black economy") effectively cut their compliance costs by ignoring government requirements. The unfair advantage they can gain is a frequent and bitter source of complaint from other traders. One effective way of reducing this fringe is to reduce the requirements burden.

3 THE CONSTRAINTS

3.1 Our terms of reference asked us to identify the obstacles to action to reduce compliance costs.

3.2 Substantial cut-backs in requirements are often likely to involve one or more of the following:

- changes in the yield or the incidence ("who pays what") of PAYE/NIC and VAT;

- reductions (or what would be claimed as reductions) in the effective level of protection available at present to the employee and other interests identified in para 1.4 of Appendix 1;

- more work for government (with implications for public expenditure and manpower);

- breaches of EC obligations (or in the case of proposed EC legislation currently in the pipeline, negotiating difficulties in Brussels).

3.3 These constraints go to the heart of the matter. In the tax/benefit field, there are often trade-offs between compliance cost reduction, revenue/incidence implications and Civil Service manpower. In other areas, deregulatory changes in the structure of long-established requirement systems will often change (or be seen as changing) the present balance established by law between business and other interests. Such shifts would only be possible if Government and Parliament took a strategic decision to give greater weight across the board to the deregulatory benefits for enterprise and employment identified at 2.5.3 above.

3.4 Against this background, we have identified some radical options to reduce regulatory burdens; together with a range of "efficiency" changes to make existing requirements "friendlier" and less onerous to business interests.

3.5 In some cases exemptions may be appropriate for small businesses, where there is clear evidence that they bear a disproportionate share of compliance costs; and/or that regulation is less necessary for small firms than for large. But our general approach has been hostile to wholesale exemptions: nor on the whole do small firms themselves seek these. Such exemptions would distort the market by putting larger firms at an unjustified competitive disadvantage; and would create "threshold" problems at the point of transition from exempt to non-exempt status.

3.6 We propose action on three fronts:-

- the scope and content of requirement systems;

- their enforcement;

- government/business communications about them.

4 ACTION TO CUT THE BURDEN: CHANGES IN REQUIREMENTS

Following (sections 4.1-4.4) is a check list summarising the main options/recommendations for change in existing requirements emerging from our detailed studies in seven Departments. We recommend urgent follow-up work (including where necessary consultations with the outside interests concerned) as a basis for Ministerial decisions on the scope for action in these areas.

4.1 VAT: PAYE: NIC: SSP

- put the PAYE system on to a non-cumulative basis. This would be a far-reaching change with wide implications for all employers and employees. But it could open the way to putting the NIC and PAYE calculations side by side in the same deduction tables which would help small employers. Work on this should be taken forward in the general context of the Government's consideration of personal taxation.

- take more small businesses out of the VAT net. Though further exemptions have drawbacks, VAT imposes significant compliance costs on small firms. But there is a major EC constraint. Early decisions are needed on the possibility of tackling this (7.4 below);

- improve "bad debt relief" in the VAT system (which will reduce concerns we found in a number of small manufacturing firms); and introduce a monthly payment plan, to help very small businesses with VAT;

- make SSP easier to integrate with firms' existing pay-rolling systems, by simplifying administrative procedures on "qualifying periods"; and allow businesses to opt out of the SSP system where they prefer to pay sick employees at the appropriate rate without refund;

- reduce the present multiplicity of NIC rates.

4.2 Planning, fire and building requirements

- cut planning burdens by speeding up local decisions on small developments; and by legislating to introduce Simplified Planning Zones, building on - but extending - experience with Enterprise Zones; make it easier for firms to change the use of commercial premises; and assist people starting small businesses in their own homes;

- rationalise the building regulations, with particular reference to the conversion of existing buildings for commercial use; and to the detailed requirements on fire precautions and on energy saving;

- increase flexibility in the application of fire precautions to premises presenting minimal fire risk. (Creation of a general statutory duty on fire precautions, under the new legislation envisaged to replace the Fire Precautions Act 1971, could assist the introduction of more flexible arrangements.)

4.3 Employment protection, Wages Councils, Health and Safety at Work

- increase employees' qualifying periods in unfair dismissal cases from 1 to 2 years, in firms employing over 20. Our field work confirmed that the present 1 year period is too short for many smaller businesses, and is distorting dismissal decisions;

- redress the balance in unfair dismissal cases by further action to discourage ill-founded complaints (eg a scheme for cash deposits from some or all complainants, to be refunded or forfeited at the direction of the industrial tribunal). We found significant concern among small businesses with

experience of unfair dismissal law that the present system is unduly slanted against the employer;

- make tribunal proceedings quicker and more efficient by reducing legalism in the present system. We found significant concern about the scale and nature of the demands made at present on management resources in unfair dismissal cases;

- abolish or drastically relax Wages Councils' controls over young people's wages, which price some of them out of jobs.

- simplify and rationalise statutory health and safety provisions, which are unnecessarily complicated, without loss of necessary protections; and eliminate some inessential requirements (eg restricjtions on womens' hours of work; notification of the employment of your people in factories; posting of extracts of legislation).

4.4 Company and consumer law

- eliminate the present statutory audit of accounts for "shareholder-managed" small businesses; reduce and simplify the content of accounts and balance sheets required from small firms at present; and simplify the "annual return" requirements;

- put greater emphasis on "self-certification" systems in the enforcement of weights and measures requirements; and use the planned introduction of a new "general statutory duty" on product safety as a basis for containing detailed regulations in this area; and, in the longer term, simplify and rationalise requirements on consumer credit (the immediate priority in this area is a period of stability in the present law.

4.5 General Points

4.5.1 Three general points emerge from our studies of individual requirements.

4.5.2 The first touches the use, where regulation is unavoidable, of general statutory duties as an alternative to detailed controls through secondary legislation. Such duties allow business maximum freedom in the choice of means to meet prescribed ends. But their value depends critically on:

- establishing unequivocally that compliance and other costs must be taken fully into account in determining what in practice the duty requires businesses to do;

- developing flexible codes to give detailed guidance on how businesses may comply (with maximum reliance on input from business itself; a clear distinction between recommendations on best practice and statements of minimum necessary standards; and short summaries of key points for small businesses);

- cutting back - and controlling the future growth of - detailed regulation in the area concerned.

4.5.3 Secondly, we recommend reliance on "self-certification" by firms themselves, as an alternative to mandatory inspections/ tests/verification by enforcement authorities before business operations are permitted to go ahead. In fields like weights and measures, building controls and fire prevention, self-certification arrangements - backed by positive guidance and support from enforcement authorities - can cut both compliance and enforcement costs.

4.5.4 Thirdly, we recommend a critical general review of licensing requirements, an illustrative list of which is at Appendix 5.

4.5.5 Licensing - which makes it unlawful to trade without Government permission - is an exceptionally stringent method of regulation. It tends to maximise the power of the regulator over the regulated. And, by creating controls over market entry, it can inhibit enterprise and competition. Its use is warranted only if the end in view is of overriding importance, and cannot adequately be achieved by other, less onerous means.

4.6 Other matters

4.6.1 Appendix 6 suggests further work on some other, detailed issues. These include the requirements deriving from local authority private Acts and byelaws.

5 ACTION TO CUT THE BURDEN : ENFORCEMENT

5.1 General

5.1.1 Small businesses' concerns about government requirements more often emerge as criticism of enforcement practice than as criticism of the substance of the requirements themselves. Typically, managers comment on occasional

- inflexibility: demands by enforcement officers which are seen as excessive and unreasonable in relation to the point at issue;

- inconsistency: variations of practice over time within individual enforcement agencies and - in the case of requirements policed by local authorities - between separate authorities operating in the same field;

- overlaps, with resulting inefficiencies, between separate agencies of central and local government.

5.1.2 Corrective action is necessary to build "compliance cost consciousness" into every level of the enforcement process; to achieve a more efficient balance between the costs and benefits of regulation; and to make enforcement activity simpler and more consistent in its impact on business enterprise.

5.1.3 Such action should rationalise: methods of enforcement; administrative "appeal" procedures/onus of proof in prosecutions for alleged breaches of requirements; and the interface between related enforcement agencies.

5.2 Methods of enforcement

5.2.1 We recommend action to:

- develop (or improve) guidelines on enforcement practice in central and local government inspectorates;

- improve the training of enforcement officers, to increase awareness of small businesses' needs and problems;

- rationalise the selection of businesses visited for enforcement purposes.

5.2.2 Enforcement guidelines, and input to training programmes on identifying and overcoming small businesses' compliance problems, should underline the need for - and illustrate in concrete ways how to achieve - a more productive relationship between enforcement authorities and their business "clients".

5.2.3 Most businesses are anxious to meet their legal obligations. Each enforcement officer's priority should be to help them comply in the least costly way.

5.2.4 So guidelines and training should stress the need to identify - in conjunction with businesses concerned - the compliance costs implied by field officers' advice or decisions; to take these into account in the use of enforcement discretion; and to offer constructive advice about available options for compliance. The emphasis in contacts with the law-abiding majority of firms, particularly with "new starters", should be on positive assistance, not negative "policing"; and on countering the "guilty till proved innocent" approach of which some companies complain.

5.2.5 Action in these areas should be reinforced by a critical review - with a comparative, inter-agency dimension - of practice in each enforcement agency on:

- the methods used to maintain consistency in enforcement decisions; and

- the intensity of enforcement effort directed at different categories of business, with particular reference to the need - for example in the health and safety area - to orient enforcement effort away from categories in which compliance levels are generally acceptable and/or the costs of non-compliance are generally low. (This will involve reviewing the scope and adequacy of the information available to each authority on businesses subject to the requirements it enforces.)

5.2.6 On requirements enforced by local authorities - eg on buildings, fire prevention, environmental health and consumer law - the proposals at 5.2.2-5 above should be followed up urgently in the established machinery for consultation/coordination between local government and the relevant central Departments.

5.3 Appeals and onus of proof

5.3.1 Our field work brought home to us the disparity of power between small businesses and government enforcement agencies. In the smallest firms, managers often lack the time, the resources and the expertise necessary to contest unreasonable enforcement decisions. Two ways of tackling this problem are:

- to make it easier for businesses to appeal "up the line" within enforcement agencies; and

- to modify the onus of proof in prosecutions for breaches of requirements, where this is unduly slanted at present against business.

5.3.2 We recommend that the enforcement guidelines discussed at 5.2 above should require field officers to offer explicit advice to management on "appeal" opportunities inside as well as outside each enforcement agency; and that the current position on statutory defences/burden of proof should be reviewed in all requirement systems enforced under the criminal law.

5.4 Interface between enforcement agencies

5.4.1 Rationalising the interface between enforcement agencies can reduce compliance costs in two ways:

- by reducing the number of visits and other approaches to which businesses are subject from separate enforcement agencies (and the number of separate approaches businesses have to make to them);

- by tackling overlaps and anomalies in the enforcement of related requirement systems.

5.4.2 We recommend action on both points in relation to the PAYE/NIC system, by harmonising DHSS and Inland Revenue practice on visits to business premises and on the border-line between employment and self-employment.

5.4.3 Other priority areas to be tackled include:

- the interface between the various "safety" requirements, with particular reference to the distribution of enforcement functions between the various inspectorates concerned;

- rationalising registration/notification requirements*.

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*A note of the main requirements concerned is at Appendix 5. A few might be eliminated altogether. As to the rest, the ideal aim would be to replace multiple returns to different agencies with a single return to a central point. But the requirements differ so widely in nature, impact on business, means of enforcement and types of information required that this would be difficult. It will be more productive to examine the scope for simplification in related requirement areas (PAYE/NIC, health and safety). And "One Stop Shops" - 6 below - may have a role to play.

6 ACTION TO CUT THE BURDEN: COMMUNICATIONS WITH BUSINESS

6.1 We found that in its length and complexity, most government literature on requirements is self-defeating. Managers simply do not have the time to absorb the volume of written guidance and instruction showered upon them. By contrast, oral (including face-to-face) briefing is often appreciated - and more effective.

6.2 Regulatory agencies must adjust to this reality. The need is for:

- crisp summaries of the main requirement systems, concisely and simply written, focussed on essentials and telling the small businessman where to go for help with detailed queries;

- short covering notes for detailed material, summarising the contents and the key points made;

- clearly signposted enquiry points inside local and central government enforcement agencies;

- action to spread best practice on cost-effective means of compliance relevant to smaller businesses.

6.3 We recommend immediate steps to:

- improve literature on health and safety at work and employment protection law;

- improve enquiry facilities (possibly with "freefone" services in the light of recent DHSS experience) in the DE Group and in local VAT offices;

- promote the use by small businesses of accounting systems (including automated systems) which will help reduce the compliance costs of VAT.

6.4 A centrally co-ordinated effort is needed across the board to improve information/communication on these lines. That will also involve:

- improving co-operation between enforcement agencies, and co-operation with the support services available for small firms inside and outside government (for example, it would be worth experimenting with "page displays" in telephone directories (including Yellow Pages), identifying enquiry points in the relevant local offices of each main enforcement agency);

- preparing simple "starter packs" to give newly established businesses (and/or new employers) a bird's eye view of all the main requirements likely to affect them; and

- experiments with "Help Line"/"One Stop Shop" services.

6.5 A "One Stop Shop" is essentially a single enquiry point at which small businesses can get:

- basic information on government requirements;

- quick and accurate referral to relevant enforcement agencies for specialised help; and

- (subject to resource constraints) an advice/representation service to help them deal with the agencies on compliance problems.

6.6 We recommend action to encourage local authorities to develop facilities offering all three of these services, in respect of locally enforced requirements.

6.7 Advice on central government requirements is already available from (inter alia) the DTI Small Firms Service and the Local Enterprise Agencies, as part of their wider support for small businesses. Appendix 6 recommends a pilot project to test ways of achieving more, by:

- improving 'basic information' (6.2 above) and "referral" facilities;

- strengthening liaison with Job Centres (the most extensive network of enquiry points for small businesses "on the ground"); and

- using existing "clinic/counselling" techniques, to provide positive guidance and support on requirement problems.

7 A STRATEGY FOR THE FUTURE

7.1 General

7.1.1 Regulatory burdens must be tackled across the board if they are to be cut to stimulate enterprise and employment. Much of the problem derives from the cumulative impact on businesses (large as well as small) of requirements which in isolation may seem reasonable in aim and modest in the burdens they impose.

7.1.2 The first step must be a centrally co-ordinated drive to follow up the options for action we have identified on the scope and content of existing requirements; on their enforcement; and on communications between business and government about them. Sections 4-6 of this Report provide a starting point; set the issues in a wider framework, and outline the basis for a strategy on the problem as a whole.

7.1.3 Three further elements in such a strategy should be action:

- to monitor and control the burden as a whole;
- to strengthen the business voice in regulatory decisions; and
- to tackle requirement problems in the European Community.

7.2 Monitoring and Control

7.2.1 New disciplines are necessary, extending to compliance costs the principles of economy and efficiency in resource use which underline the Government's Financial Management Initiative. Action to develop such disciplines would fit logically into the wider policy framework outlined in Cmnd 8616, key elements of which are critical scrutiny of "the continuing need for [Government] activities, functions and policies, as well as their costs"; and the control of "total costs, not simply ... annual cash flow".

7.2.2 Because regulatory burdens cannot easily be measured or compared (2.3.4 above and 7.1-2 of Appendix 1), attempts to set quantified targets for compliance cost control and/or annual limits on the volume of new regulation are unlikely to be productive. A more effective approach, taking account of experience overseas*, will be to require:

- a structured analysis of each new regulatory proposal to be prepared and published by the initiating agency concerned: including a systematic assessment of its impact on business enterprise;

- critical scrutiny of the proposal (in particular of the "Impact Analysis") by a small task force in central Government with real teeth; and

- regular overviews by the task force of (i) regulatory proposals "in the pipeline" and (ii) the scope for eliminating/simplifying/rationalising existing requirement systems.

7.2.3 The scope and nature of the "impact analysis" technique is outlined at Appendix 9. It is no panacea, as US experience confirms. But it is a useful discipline, provided - the essential point - that its application by regulators themselves is independently monitored and controlled.

7.2.4 The central task force should consist of two or three people at most, ideally including people with practical business experience as well as Civil Servants.

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*Appendix 8. Regulatory burdens on business are now a matter of concern in several advanced countries. In the United States, Germany and the Netherlands, deregulatory initiatives have received substantial political impetus.

7.2.5 Parliament could powerfully reinforce action inside Government by:

- scrutinising the compliance cost implications of proposed new requirements (including the draft EC legislation submitted to the European "Scrutiny Committees");

- reviewing - and recommending steps to rationalise - existing requirements, including the accumulated mass of secondary legislation.

As the CBI have proposed, these could be important jobs for a Select Committee (or Committees).

7.3 Strengthening the business voice

7.3.1 We recommend action to strengthen business/small firm representation on the Health and Safety Commission, the Building Regulations Advisory Committee, certain committees of the British Standards Institution, and the Industrial Injuries Advisory Council. We also recommend that regulatory Departments should review and strengthen their arrangements for consultation with the small business organisations identified in Appendix 4.

7.3.2 But the central aim should be to bring regulators into direct contact with small businesses "on the ground". That can best be achieved through field work of the kind we ourselves undertook. We recommend that within the framework for compliance cost control outlined at 7.2.2, regulatory Departments should:

- select specific requirements (or specific aspects of requirement systems) as priority candidates for a "compliance cost review"; and, as the first step in the review

- examine the impact of the requirement on small businesses (or the prospective impact, in the case of proposals in the

pipeline) by arranging for administrators concerned to interview the largest achievable sample of managers, on their own premises and on the basis of a structured questionnaire.

7.4 EC Dimension

7.4.1 The European Community is now a major source of new requirements affecting United Kingdom business - and of change in our existing regulatory arrangements.

7.4.2 Action at Community level is therefore a necessary element in a strategy on the regulatory burden. The need is to increase Community awareness of the burden, and of the contribution a determined attack on it can make to employment and efficiency in all Member States; and to secure agreement on the need for action at Community as well as national level.

7.4.3 Action on these lines would reinforce three important strands in current EC thinking:

- the growing recognition in most Member States of the importance of small and medium sized enterprises for employment and growth;

- the need to create new jobs on a sound (and internationally competitive) basis;

- the need to remove barriers - including regulatory barriers - to the free movement of goods and services within the internal market.

7.4.4 We recommend that the issue should be raised with our Community partners, with a view to seeking agreement that:-

- A clear focus of responsibility is needed within the Commission itself for action to control the burden of regulation, particularly as regards the scrutiny of Commission proposals before presentation to the Council;

- The first priority in work on Directives and other instruments affecting business should be proposals which will help develop a dynamic, wealth-and-employment-creating industrial base in the Community as a whole.

APPENDIX 1

SCOPE AND METHOD OF WORK

1 Scope

1.1 Our terms of reference are at Annex A.

1.2 The purpose of the scrutiny has been to tackle compliance costs; not to reduce the burden for enterprises or individuals of taxation, rates or national insurance. So we have only been concerned with the levels of tax and NIC, and with the distribution of the tax/contributions total, to the extent that some of the options for action on compliance costs which we have identified have implications in these areas.

1.3 We have had limited time in which to examine large and complex areas of Government policy. We have concentrated on requirement systems which:-

- affect firms in more than one sector; and

- are identifiable in the light of our field work as presenting particular problems, either because they are relatively frequently complained of by business management; or because, though less frequently mentioned, they can raise substantial problems in a minority of cases.

1.4 Such requirement systems are of two main kinds : those which make business:

a collect taxes, pay benefits and provide statistics on Government's behalf: the most significant areas identified in our field work being VAT; PAYE/NIC; and Statutory Sick Pay;

b comply with various "protective" rules for the benefit of the general public, employees, consumers, other traders and shareholders; the most significant areas identified in our field work being planning requirements; fire and building regulations; employment protection law; (notably on "unfair dismissal"); Wages Councils; health and safety at work legislation; and company and consumer law.

1.5 Two significant systems lay outside the scope of the scrutiny - the requirements affecting the preparation and marketing of food for which MAFF is responsible; and requirements affecting freight transport by road for which DTp is responsible.

2 Small Businesses

2.1 Our terms of reference put the primary emphasis on compliance costs borne by small businesses.

2.2 In 1971 the Bolton Committee identified "small firms" in manufacturing as those with up to 200 employees; and small firms in the service industries as those with turnovers in a range, varying by sector, from around £300,000 or less to around £1 million or less (at August 1983 prices).

2.3 In the early stages of our work a distinction emerged between businesses at the upper and lower ends of these ranges. Broadly, the bigger a "small" business is, the better placed it tends to be to cope with government requirements: partly because it can afford - and for its own reasons is anyway likely to employ - specialised management with adequate staff support; and partly because - though this cannot be quantified - compliance costs are likely to become less significant, relative to profits and turnover, as business size increases.

2.4 We have been especially concerned therefore with the impact of government requirements at the lower end of the "Bolton" spectrum - for example on businesses with employment of 50 or

fewer. And within this category we have been concerned in particular with the problems of the very smallest businesses - in the service sector, for example, with turnovers of £150,000 or less.

3 Methods of work

3.1 The scrutiny is founded on field work with business interests, and discussions with the central and local government agencies responsible for the requirement systems we have examined.

3.2 Our key input from outside Government has been:-

- our interviews with managers of small businesses;

- an independent survey undertaken for us by management consultants;

- interviews with, and written material from, business organisations.

4 Interviews with small businesses

4.1 We interviewed 85 business managers, normally on their own premises, in small firms in all the main regions (and a few in Scotland and Wales). Our sample, though imperfect, gave us a reasonable spread of sectors in manufacturing and services (mainly retail distribution); and of sizes within the "Bolton" limits. A note on its selection and structure, and on the interviewing methods adopted, is at Appendix 2.

4.2 The assessments derived from this part of the field work were of central importance in the scrutiny. By their nature, compliance costs cannot readily be quantified or compared across the field we have examined; nor have most business managers attempted a thorough evaluation of them. For these reasons,

discussions in depth with management "on the ground" were necessary to establish the nature of the problem.

5 Consultancy Survey

5.1 As a control on our own field work, we commissioned Research Associates Ltd to undertake a survey of attitudes to government requirements in small businesses.

5.2 This was desirable for three reasons:-

- the qualitative data derived from our own interviews were not readily susceptible to statistical analysis;

- we anyway wanted data from a larger sample of small businesses than we ourselves were able to approach directly, and data on attitudes in sectors under-represented in our sample (particularly one-man businesses, and service trades);

- we wanted to correct any distortions arising from the "prompting" inherent in our interviewing technique.

5.3 The consultants'report is at Appendix 3. It paints a picture in greater breadth than our field work but in less depth. Subject however to a few differences of detail, its conclusions are consistent with these we drew from our own interviews.

6 Business Organisations

6.1 At Appendix 4 is a note of the main business organisations which contributed to the study; together with a summary of their main points.

7 Measurement of Compliance Costs

7.1 Compliance costs are difficult to measure. In theory, quantification is easiest in the tax/benefit area, where it should be possible to identify the resources used by business on routine administration of the systems concerned. This has been attempted in recent academic research on VAT and PAYE. But the results must be treated with caution. And outside the tax/benefit field the nature of the requirements we have examined and the kinds of cost they impose vary so widely that it is not possible to quantify their effects.

7.2 Nor, for the same reason, have we tried to rank requirements comprehensively by "degree of onerousness" (though the consultancy survey casts some light on small firms' perceptions in this area).

ANNEX A

TERMS OF REFERENCE

"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."

B18AAQ

ANNEX B

SCRUTINY OFFICERS

N P Brecknell	(Team Leader)	Department of Trade and Industry
G C Riggs		Department of Trade and Industry
J M Whitlock		Department of Trade and Industry
M K Brenchley		Home Office
R K Harrison		Department of Employment
D R Instone		Department of the Environment
W L Parker		HM Customs & Excise
J H Reed		Inland Revenue
Mrs E C Somerville		Department of Health and Social Security

11 MAR 1985

FLE JD

10 DOWNING STREET

From the Private Secretary

8 March, 1985.

Dear Stephen

Burdens on Business

Your undated recent letter to Paul Madden asked for David Barclay's comments on the arrangements for a press statement to accompany the publication of an edited version of the scrutiny report. David Barclay has in fact now moved on, and I have taken over his responsibilities.

I understand from David that the meeting on 26 February did not go further than agreeing a revised text of the report should be publicised, and that there was no discussion of the arrangements which should be made for this. I think we can conclude that the Prime Minister would be content with arrangements which Ministers agreed between themselves.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office), Paul Thomas (Lord Gowrie's Office), Rachel Lomax (HM Treasury), Hugh Taylor (Home Office), David Normington (Department of Employment), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security) and Sir Robin Ibbs.

Yours ever

Mark Addison

(Mark Addison)

S.G. Ratcliffe, Esq.,
Office of the Minister Without Portfolio.

dg

cc. EUR PDL: Council Mtgs: Pt 20

CONFIDENTIAL

Mr Powell

File

A/T to me

CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 7256

7/3.

Qz.04267

7 March 1985

R Q Braithwaite Esq CMG
Foreign and Commonwealth Office
London SW1

Dear Rodric,

EUROPEAN COUNCIL, 29-30 MARCH: UNITED KINGDOM INITIATIVES ON DEREGULATION AND ON TACKLING UNEMPLOYMENT

You will have seen the letters of 27 February from Mr Barclay (10 Downing Street) to Mr Leigh Lewis (Office of the Minister without Portfolio) about deregulation and of 4 March from Mr Powell (10 Downing Street) to Mr Budd (FCO) about tackling unemployment. I am writing to let you know how we propose that the preparation of inter-departmental consideration of the two United Kingdom initiatives for the European Council of 29-30 March should be handled.

It seems to us that our two objectives should be:

- to ensure that the substance of our initiatives will be endorsed and included in the conclusions of the European Council

- to make clear that these are United Kingdom initiatives which are being taken up by the European Council and the Community institutions.

It is quite possible that we shall need to demand that further work is carried out in the Community between the March and June European Councils in order to flesh out the initiatives. But we must have the basis established in the European Council this month.

First drafts of possible conclusions for the European Council will be available for the Butler meeting which I am chairing tomorrow. Our intention is that, after discussion there, revised texts should be circulated to EQS for inter-departmental consideration before they are submitted to the Prime Minister. We shall also need to discuss tomorrow

/how

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how far it would be useful to try to carry other member states along in the preparatory phase. I see some risks myself that, if our initiatives become known too soon, we shall have to repel boarders who wish to take over our ship.

Yours sincerely,

David Williamson

D F WILLIAMSON

cc: Mr Powell) 10 Downing Street
Mr Barclay)
Sir Robin Ibbs
Mr Budd (FCO)
Mr Leigh Lewis, Office of the Minister without Portfolio
Mr Unwin (Treasury)
Mr R Williams (DTI)
Mr R J Dawe (Dept of Employment)
Sir Michael Butler (UKREP, Brussels)
Sir Robert Armstrong
Mr Gregson

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

Paul Madden Esq
Private Secretary to the Parliamentary
Under Secretary of State for Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1

Dear Paul,

BURDENS ON BUSINESS

Thank you for your letter of 1 March with which you enclosed an edited version of the scrutiny report. We agreed subsequently that if the Unit here has any comments on the text itself they will be dealt with at official level.

However, we would appreciate clarification on a couple of other points relating to the publication of the report. First, we understood it to be the intention that Mr Trippier should supply a foreword introducing the published version, stressing inter alia that this is purely a discussion document on which decisions will be taken in due course. Can we assume you will be handling that?

Second, Lord Young had it in mind that publication would be accompanied by a press statement explaining the status of the report and outlining his role in following it up - see paragraph 6 of his minute to the Prime Minister which preceded the meeting on 26 February. I had the impression that this approach had been agreed, at least implicitly, at that meeting. Would it be helpful if the Enterprise Unit worked up a draft text with your officials? I should be grateful for David Barclay's comments on this point.

I am copying this to recipients of your letter.

Yours sincerely

Steyla Ratcliffe

S G RATCLIFFE
Private Office

cc NSO

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

28 February 1985

Dear Nicholas, NSfm

GOVERNMENT PURCHASING

Thank you for your letter of 22 January. I am sorry not to have replied sooner.

I note that you have asked your officials to press ahead with their review of non-roads purchasing with a view to producing at least an interim action document by 1 April. Do you have in mind any target date for completing a final action document? It would be useful to know what this is.

It will be disappointing, of course, if the interim plans do not indicate, however broadly, targets for value for money improvements. As you will recall, at the meeting last October to discuss the report, the Prime Minister was anxious that such targets should be set within five months of the meeting. Mr Overton has already been in contact with my officials and perhaps the question of targets is best discussed between them.

I am pleased you will be bringing forward an action document on road construction and maintenance contracts and that this will pull together the recommendations of both the Endacott report and "Government Purchasing". You raise again the difficulties of setting value for money targets in this area and I appreciate the problems. Nonetheless, I hope your action document will respond positively on this matter. I wonder whether, in view of the difficulties you see, it would be helpful to get in some expert help on a consultancy basis in order to take forward the whole question of setting targets in the roads construction and maintenance fields.

My officials are ready to discuss with yours any of the issues arising from the "roads" side of your response to the central report. I look forward to seeing your action documents next month and to receiving copies of the other reports relevant to this issue.

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.

Yours,

Greg

GOWRIE

Cont Mech : Rayner A17

- 1 MAR 1985

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D/M

Mr. Gregson
Sir R. Ibbs
HO
HMT

JR

10 DOWNING STREET

From the Private Secretary

27 February 1985

Dear Leigh,

DEREGULATION

The Prime Minister held a meeting on 26 February to consider the follow-up to the central report of the scrutiny of burdens on business. The papers before the meeting, in addition to the report itself, were Lord Young's minute of 22 February, and the letter of 22 February from the office of the Secretary of State for Trade and Industry to this office, to which was attached an edited version of the first part of the report. Those present at the meeting, in addition to Lord Young, were the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Trade and Industry, Employment, the Environment, and Social Services, the Chancellor of the Duchy, Mr. David Trippier, Sir Robin Ibbs and Mr. Peter Gregson.

Mr. Trippier gave a brief presentation of the scrutiny's main findings. He drew examples from the fields of planning control, VAT enforcement, and employment protection. The central theme of the report was that, although most small businesses could cope (indeed, had to cope) with Government regulations, the cost of compliance was significant and the burden on management time considerable. Moreover, there was a problem of perception: would-be entrepreneurs could be put off by the assumed complexity of Government requirements.

Mr. Trippier stressed that deregulation meant jobs. Some 8 million jobs depended on firms employing less than fifty people and it was on small companies of this sort that the burden of regulation fell most heavily. The Government should aim to improve the climate for enterprise by cutting the cost of complying with regulations across the board; by following up the general lessons of the scrutiny, for example on enforcement; and by continuing to control rigorously the number and complexity of proposals for new regulations, not least those emanating from Brussels. If

this initiative was to succeed, Ministers would have to accept responsibility for the problem, and be prepared to act collectively.

In discussion, there was firm support for the objective of reducing Government burdens on business, particularly as they affected small companies. On employment protection, the Government had already taken decisions which would be helpful (e.g. on wages councils). But the recommendation on maternity leave would be vigorously opposed and should not be pursued. On fire regulations, the Home Secretary said that he would consider seriously the recommendation for imposing a general statutory duty to maintain proper standards. But few of those consulted had expressed concern about fire safety until prompted, and he would not regard action in this area as a priority. Moreover, the AMA might exploit any change in order to attack the Government's abolition policy.

The Secretary of State for the Environment said that he had already done much to speed up planning decisions. He was in addition proposing legislation to establish simplified planning zones; and his Department would be issuing guidance to planning authorities on working at home. In discussion it was argued that there was inevitably a conflict between economic activity and environmental amenity: a more laissez-faire planning policy would be good for the economy, but unpopular with the public. On home working there was a case for limiting the application of planning controls to activities which caused a genuine nuisance to other people.

The Secretary of State for Trade and Industry said that he would be looking critically at existing regulations governing unit pricing and prescribed quantities. His proposal for a general statutory duty to supply safe goods, which would replace a mass of more detailed provisions, should be generally helpful to business. He was not, however, persuaded that the scrutiny's recommendations on consumer credit controls made sense - he believed that the industry was ready for proper regulation, which was highly desirable in the interests of the customer.

As regards VAT, the Chancellor said that the biggest obstacle to the creation of new business was the present level of the threshold. The EC would be pressing the Government to lower it still further. He intended to resist this pressure - indeed, he would favour raising the threshold if only other EC countries would agree. There was, however, some truth in their contention that they raised a much larger proportion of revenue from small companies than we did in the United Kingdom.

Concern was expressed more generally about the extent to which Community regulations were adding to the burdens on business. Individual Ministers should resist vigorously proposals in their field which were not demonstrably essential. In doing so, they might find a sympathetic reception from their EC colleagues, who nowadays attached very great importance to job creation.

Summing up the discussion, the Prime Minister said that the scrutiny team were to be congratulated on an excellent report. Ministers from each Department affected should consider the suitability of the text for publication, and after taking account of any necessary changes the report should be published as soon as practicable after the Budget. The proposed Ministerial group under the chairmanship of the Minister without Portfolio should proceed as quickly as possible with their work, setting themselves a clear timetable for reporting their conclusions to E(A). Until the group had reported, decisions on the need for continuing official machinery, and on the need for legislation, would be premature.

The Prime Minister concluded that consideration should also be given to a UK initiative at the next European Council designed to stem the flow of legislation from Brussels. She would invite the Foreign and Commonwealth Secretary to prepare proposals in consultation with other Departments.

I am sending copies of this letter to the Private Secretaries to those Ministers present, to Colin Budd (Foreign and Commonwealth Office),to Sir Robin Ibbs and to Mr.Gregson (Cabinet Office).

Yours ever,

David

(DAVID BARCLAY)

Leigh Lewis, Esq.,
Office of the Minister without Portfolio.

Prime Minister

CONFIDENTIAL

This brief is the only addition to the papers which you saw over the weekend.

DMB
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P.01502

PRIME MINISTER

Deregulation

BACKGROUND

Your meeting follows up Mr Turnbull's letter of 14 February to the Private Secretary to the Minister without Portfolio. The meeting will have before it Lord Young's minute of 22 February to yourself, the central report of the scrutiny of burdens on business arising from administrative and legislative requirements of Government, and also a version of the report in a form which might be published. Those attending the meeting will be the senior Ministers responsible for the Departments affected by the scrutiny: Inland Revenue, Customs and Excise, Department of Health and Social Security, Department of the Environment, Home Office, Department of Trade and Industry and Department of Employment. Mr Trippier (PUSS, Department of Trade and Industry) will be attending in order to make a presentation of the results of the scrutiny.

2. This scrutiny, which draws together the main elements of detailed scrutinies carried out in each of the Departments involved, differs from previous scrutinies, in that it is concerned with the costs imposed by Government on business, rather than with reducing the costs of the Government's own activities. Thus some of the recommendations offering the prospect of a reduction in business costs could actually involve increases in costs incurred by Government Departments (examples are a monthly payment option for VAT and a possible change in the definition of self-employment).

3. The proposed Action Programme arising out of the scrutiny is summarised at the beginning of the Report. The survey work undertaken as background to the scrutiny indicated that, for the most part, small businesses are more worried about the problems of finance and marketing and about the compliance costs imposed on them by central and local government. The scrutiny concluded nevertheless that the cumulative burdens arising from all Government requirements were a substantial imposition, and that significant benefits could be achieved if those burdens could be reduced.

MAIN ISSUES

4. The main issues before the meeting are:

(i) Should the central scrutiny report be published, when, and in what form?

(ii) On which areas should Lord Young's new MISC Group concentrate its attention? How should that work be organised?

(iii) What continuing machinery should be established to prevent or discourage the imposition of new legislative and administrative burdens on industry? What new legislation will be required?

Publication of the Scrutiny

5. Lord Young and Sir Robin Ibbs have both recommended early publication of a suitable version of the central scrutiny report. Two main arguments are offered:

(i) the fact that the scrutiny has been undertaken is widely known, and in view of the Government's commitment to encouraging the growth of enterprise, failure to publish would be disappointing to business opinion and to the Government's supporters;

(ii) early publication, with the Government making clear that decisions had yet to be taken on the recommendations, would enable the report to serve as a consultative document, and thus contribute further to the formulation of policy.

Lord Young accepts, however, that the inclusion in the report of proposals affecting VAT and income tax/National Insurance contributions mean that publication will have to be delayed until after the Budget; and he also accepts that what is said about employment protection will need to be adjusted to take account of last month's discussion in E(A) and of other action by the Government associated with the promotion of employment.

6. Publication of the Scrutiny Team's recommendations soon after the Budget would however have the following disadvantages:

i. There is a danger of arousing expectations that the Government will be able to do much more in the way of deregulation than will eventually, after closer examination, prove possible. When the Government comes out with its proposals in the summer, the public comment might concentrate much more on the recommendations the Government has rejected than on those it has accepted.

ii. There is similarly a danger of arousing alarm that the Government is contemplating much more radical reductions in protection for the public, for example in the areas of planning, fire and safety at work, than is likely to be

the case. Between publication date and the summer the lobbies opposing change would have time to build up support on the basis of scare tactics without the Government being able to counter them with well thought out and defensible proposals.

The meeting will need to consider carefully whether the arguments in paragraph 5 outweigh these considerations. If not, the right course would be to publish the Government's actual proposals rather than the Scrutiny Team's recommendations in the summer, after E(A) has considered a report from Lord Young's Group.

Priorities for action

7. The Ministers concerned will wish to express their own views about the scope for change in the areas for which they are responsible. They will also have views on how far work already underway in particular areas - notably concern with taxation and employment protection - can be brought within the ambit of Lord Young's MISC Group. It may be that the most promising areas for early detailed study will be those affecting the physical environment in which businesses operate (planning, building, fire, health and safety at work). It is surely sensible that, as Lord Young proposes, there should be a good deal of preliminary ground-

clearing at official level, involving the responsible Departments together with the Efficiency, Enterprise and Policy Units; thereafter some preliminary collective Ministerial discussion is likely to be indicated in Lord Young's Group, in order to prepare issues for decision by E(A). Depending on the progress of the work, it may be possible to draw together a number of elements to make a package of measures designed to make the various levels of Government more 'friendly' to business enterprise, which could be announced in the Summer, perhaps alongside the results of the work of Lord Young's MISC 108 Group on Small Businesses.

Continuing machinery and legislation

8. Lord Young contemplates the need for continuing machinery, and new legislation, to maintain the momentum of efforts to reduce the burden of Government regulation. It would seem too soon to reach decisions on either point in advance of detailed consideration of the recommendations affecting each of the Departments concerned. It may in the end prove that the essential requirement is not so much for changes in the formal requirements Government imposes on business, or in the underlying legislation, but in the 'cultural climate' in which the Government approaches its task of regulation; all the officials concerned must understand that their duty is to help businesses to comply with the requirements of Government in ways which minimise the costs and burdens of compliance.

HANDLING

9. Mr Trippier is to make a presentation of the results of the scrutiny, which may prompt some questions for elucidation. Thereafter Lord Young will wish to make the case for early publication of the Report, and set out his programme for further work. The other Ministers will then wish to give their views on these points.

CONCLUSIONS

10. You will wish to reach conclusions on the following issues.

(i) Whether the central Scrutiny Report should be published -

(a) shortly after the Budget; or

(b) at a later stage.

(ii) If the Report is to be published shortly, whether it requires further amendment before publication, beyond those amendments already suggested in the text prepared for the meeting;

(iii) the areas on which work within the ambit of Lord Young's MISC Group should concentrate, and the timetable for the work;

(iv) whether there should be any immediate commitment to continuing machinery or new primary legislation.

PLG

P L GREGSON
Cabinet Office.
25 February, 1985

E.R.

PRIME MINISTER 22 February 1985

BURDENS ON BUSINESS

There is no easy panacea for removing the burden of regulations from business. It is the weight of requirements as a whole rather than individual cases; very few regulations taken in isolation are wholly unreasonable. There are five areas to assault:

- **Bold measures to cut a swathe through an area of legislation:** Annex 1 lists some of the more important proposals. We endorse them all with the exception of merging PAYE and NIC. They will all be difficult and Treasury may be reluctant for those with revenue implications even to be discussed. Changes to Health and Safety although sensible are politically dangerous. We have underlined those we recommend you particularly pursue at the meeting.

- **A slog through all the detailed recommendations** which cumulatively will have a major impact upon the overall burden. Annex 2 is the Policy Unit list currently of 374 proposals but we would hope to keep adding to this. This includes all the recommendations from the Scrutiny Report, the CBI and the Institute of Directors as well as our own and other peoples ideas. Naturally we do not agree with them all, and those misguided or too dangerous we have crossed. The good ones we have underlined. (I have sent the list to Lord Young and David Trippier).

These first two measures attack the problem of existing regulations, the next three should stop it recurring.

E.R.

?!

- **Inculcate compliance cost awareness** throughout the Government machine and enforcement agencies. Give two people within the Enterprise Unit the responsibility for cost-benefit impact analyses on all new regulations. Perhaps establish a Parliamentary Committee to scrutinise all new regulations (including EC).

- **Change the emphasis from specific detailed regulations to general statutory duties** backed up by simple codes of practice. Always place the burden of proof or justification on the regulator, rather than on the employer to prove his innocence.

- **Constrain the rising volume of legislation** by annual limits or 'sunset' provisions or best by consolidation. Make the legislation understandable. Laws that cannot be obeyed because they are lost in the morass of other legislation or that only a specialist can decipher, serve no purpose. (Parliamentary draughtsmen claim obscurantist wording is necessary to achieve legal certainty but experience shows this is one thing they are not achieving).

This is the real agenda for Lord Young's committee. All Ministers must support the project in principle, but few departments are likely to welcome changes actually on their patch (which is why since 1979 little has been achieved in getting Government off the backs of business, especially business start-ups).

If Lord Young is to succeed he will need you to give special impetus to the project in all of these areas, in setting up his committee, and in publishing the Scrutiny Report.

Peter Warry

PETER WARRY

E.R.

ANNEX 1

THE BOLDER OPTIONS

Raise VAT exemption threshold somehow

Give right to be treated for both tax and employment law as self-employed

Harmonise pay definitions for PAYE and NIC

Merge the PAYE and NIC systems altogether (not recommended)

Raise the PIID threshold

Employers to contract out of SSP refund and offset by reduced NIC contributions

Raise exemption threshold on reinstatement following maternity leave to 20 people

Local authorities to cease superimposing special employment obligations

End the duty of the Health & Safety Executive to maintain or improve all standards

Exempt small shareholder managed companies from statutory audit

Simplify accounting and administrative requirements for limited companies

Deregulation of shop hours

Simplify or repeal pricing and some weights/measures legislation

Just one licence for all food shop products

Chains of multiple off-licences to require single licence for all

Critical general review of licensing requirements

Large sections of the Consumer Credit Act to be repealed

Automatic planning permission unless council object within one month

Strict time limits for decision on both inspectors' reports and ministerial appeals

Authorities to provide sites for 'bad neighbour' industries

More simplifed planning zones including relaxation of building regulations

Review of building regulations particularly of cost/benefit of compliance

Experiment with help line/one stop shop services

Produce computerised 'expert systems' to lead businessmen through regulations

Get European Community agreement for action on burdens

E.R.

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BURAAB

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ANNEX 2

CODE: S = Scrutiny, C = CBI, D = IOD, P = Other, ? = Option

THE GENERAL APPROACH TO REGULATION

1. (A) STATUTORY DUTIES AND CODES

S Replace detailed regulation by general statutory duties eg for safe working

S Compliance costs to be taken into account in formulating all regulations

S Codes of practice should be flexible

S Codes to distinguish between the best practice and minimum necessary standards

S Codes to have short summaries of key points for small businesses

P Codes and guides to be limited in length - say 500 words

S Greater use of self certification rather than direct policing

1. (B) COMMUNICATION WITH BUSINESS

S Crisp summaries of the main requirements of each body of law

S Short covering note when detailed material sent

C New laws to be accompanies by simple guidance notes

S Clearly signposted enquiry points

S Spread best practice on cost effective compliance

S Produce simple starter packs on regulatory requirements

P Rationalise all leaflets into a 'Croners Guide' compendium

S Produce computerised 'expert systems' to lead businessmen through regulations

S Experiment with help line/one stop shop services

S Pilot project to test out some of these ideas

C All forms to ask for information in the way business produces it

P Official jargon to be avoided in written and verbal communication

1. (C) LONGER TERM STRATEGY

C Clarity of legislation even at expense of supposed legal certainty

S,C Set annual limit to volume of new regulation

S Set quantified target for compliance costs

C Sunset provision for all new regulations

E.R.

S All new proposals to have a cost benefit analysis

S,C Central taskforce of 2/3 people to do impact analysis on new regulations

C Impact analysis on incremental value of changes to legislation

P Impact analysis and rationalisation of existing legislation

S Regular over-views of the overall burden of regulations

S,C Parliament to scrutinise compliance costs of new regulations (including EC)

C Interdepartment coordination on all new regulation

C Minimise overlap between separate departments' regulations

S Parliament to scrutinise existing regulatory requirements

C Advance consultation of business sectors to be affected

S Strengthen the business voice in regulation consultation

S,C Bring regulators into direct contact with small businesses

P Exempt small firms from regulations which have disproportionate compliance costs

P Introduce a US style Regulatory Flexibility Act for small firms

S Critical general review of licensing requirements

S Review requirements deriving from local authority private Acts

1. (D) EUROPEAN COMMUNITY

S Increase Community awareness of regulatory burdens

S Get Community agreement for action on burdens

S Aim regulations at wealth creation rather than social initatives

S,C Single Commissioner should be responsible for compliance costs control

C EC to review its objective of harmonisation of national laws

S Interdepartmental action to secure these EC initiatives

1. (E) ENFORCEMENT

S Enforcement officers to show greater flexibility

S,C Enforcement action to be more consistent across agencies

S Less overlap between enforcing agencies

E.R.

S	Enforcement activity to be made simpler
S	Burden of proof to be on the regulator
S	Guidelines of enforcement practice to be developed
S	Enforcement officers to be trained in the needs of small businesses
S	Rationalise the selection of businesses visited for enforcement
S	Enforcement officers to be aware of compliance cost of their actions
S	Enforcement officers to offer constructive advice where possible
S	Policy of positive assistance not negative policing
C	Enforcers must avoid 'guilty until proved innocent' approach
S	Review comparative inter-agency enforcement practice
S	Concentrate enforcement where cost of non-compliance is high
S	Give statutory direction to local authorities on enforcement practice
S	Make it easier to appeal against enforcement decisions
S	Statutory defences for criminal regulation breaches to be reviewed
S	Review the various safety requirements across departments

E.R.

2. TAX AND NATIONAL INSURANCE

2. (A) PAYE

P,D Give right to be treated in all respects as self-employed

S Make binding one departments decision on self-employment on others

C Less suspicious approach by Revenue to part-time and self-employed workers

C? Move to US style self-assessment of tax

C Payslip to be used in lieu of P60 and perhaps P14

C Raise the P11D threshold

P Make all P11D expenses non-tax allowable to employer

C Omit allowable expenses from P11D reporting

C? Consolidate Schedule E payments in kind into the PAYE system

P Simplify tax assessment basis for partners and sole traders

2. (B) PAYE AND NIC

S Improve starter pack by contents list and description of total system

S Harmonise pay definitions for PAYE and NIC

S Make PAYE and Class 1 NIC non-cumulative (but more study)

S X Merge the PAYE and NIC systems altogether (but more study)

P X Introduce the negative income tax system

P X Abandon link between NIC contributions and benefit entitlement

S End separate visits by PAYE and NI inspectors

S X Consider quarterly payment by employers of PAYE and NIC

2. (C) NATIONAL INSURANCE

S Reduce number of mariners' NIC rates

S End reduced employees rate for married women

P Abolish class 4 NIC rate

S Changes to small earnings exception on class 2 NIC

S X Harmonise employer's and employee's NIC rates

E.R.

S Enquiries on past years' NIC be answered from P60 rather than by employers

S Combined visits also for Class 2 and 4 NIC

P Introduce a low flat rate employers' NIC in business's first year

2. (D) STATUTORY SICK PAY

P Employers to contract out of SSP refund and offset by reduced NIC contribution

S Employers forego SSP refunds in return for reduced recording

P Exclude small firms from SSP

S Changes to definitions of qualifying days for SSP

S Simpler SSP recording system in line with above

S The 'linking letter' to be sent direct to the employer

2. (E) PENSIONS

C Employees to be able to contribute to own pension fund separate from employment

C Abolition of some of the Inland Revenue Limits for pensions

C Simplify regulations relating to "franking"

C End over-riding legislation to allow schemes to be complete on their own

C Do not introduce Public Deposit Registry of pension schemes

2. (F) COMPANY TAX CHANGES

D Abolish all or some stamp duty

P Abolish token stamp duty payments

D Abolish Development Land Tax

D 7 year cut off for capital gains tax

D Exempt business assets from capital transfer tax

D £5,000 of profits tax free for small business start ups

C End petroleum licence holders responsibility for tax of defaulting subcontractors

C X Allow parent companies to take on tax assets of liquidatable subsidiaries

2. (G) TAX ADMINISTRATION

D X Government to pay business for collecting VAT, PAYE, etc

E.R.

C Existing tax law to be codified and consolidated

C More published guidelines on Revenue interpretation of the law

C Inland Revenue to be less zealous in blocking little loopholes

C Ensure timely publication, eg of Finance Bill

C Better communication within Inland Revenue so requests not repeated

C? X Merge Inland Revenue and Customs and Excise

E.R.

3. CUSTOMS AND EXCISE

3. (A) VALUE ADDED TAX

S?,D Raise VAT exemption threshold

P Raise VAT exemption threshold and reimburse EC if necessary

P Set high initial VAT threshold for business startups which then gradually reduces

P Compulsory VAT registration for all, but exempt status below £50,000

D Abolition of VAT between registered traders

D Assess VAT on figures in annual counts

D Less suspicious approach to apportionments between business and private use

S Monthly payment plan for small business

S ? Flat rate scheme for retailers

S Retailers should be allowed to change schemes with some retrospection

S Increase turnover limit flexibility on retailers schemes

S Encourage deregistraton of traders below threshold

S Bad debt relief should be extended

C Less refinement of detail in operating VAT

3. (B) ADMINISTRATION OF VAT

S Emphasis on compliance costs throughout Department

S Officials should provide advice on best retailer's schemes

S Central register and dissemination of approved computer systems

S Proprietory computerised accounting systems that work should be endorsed

S Various improvements in literature and forms

S Appoint liaison officer to help trade advisory bodies

3. (C) VAT ON IMPORTS AND EXPORTS

S System to avoid importers having to give a VAT guarantee

S Importers VAT certificates to be issued more promptly

S Use sales invoice for retail export relief

E.R.

C Implement VAT relief on returned imported goods

C Extend same reliefs on imports for VAT as for duty

C More consultation on VAT and import/export changes

3. (D) IMPORT/EXPORT DOCUMENTATION

S EC to develop single administrative document for low value consignments

S No charge for the above SAD

C Simplified export documentation

S Abbreviated entry form for all consignments under £200

C Alignment and simplification of all export/import forms in EC

C Greater use of normal business records rather than special forms

C Reduction or simplification of IBAP procedures

S EC statistics ceiling raised from £200 to £500

C Only spot checks for reliable companies

E.R.

4. COMPANY AND TRADING LAW

4. (A) COMPANY LAW

C Replace Memorandums of Association by short form statement

C New "micro" company to simply confer some benefits of incorporated status

C Reinstate register of trading titles

C Help protect shareholder minorities by Ombudsman to review contested cases

C Remove requirement for trading certificates under 1980 Act

4. (B) COMPANY ACCOUNTS AND ADMINISTRATION

S Reduce prescribed content of accounts for small firms

C Relief from full filing requirements for subsidiaries

P Relief from filing subsidiaries accounts if parent guarantees all creditors

C Dormant companies to make only single line Annual Return

S,C Exempt small shareholder managed companies from statutory audit

D Changes in company circumstances only to be reported in Annual Return

S Combine accounts and annual return into a single requirement

S Send out annual return form six weeks before it is due

S Reduce annual filing fee

C Non-disclosure of small loans to directors

4. (C) TRADING REQUIREMENTS

S,C Repeal Bargain Offers order and replace in reduced form

C Repeal The Food (Prohibition of Repricing) Order 1978

C Single authority for enforcing trading standards in overlap areas

S,C Strengthen statutory defences for honest traders against misdescription

C De minimis or little injury defences to be introduced

C Quality of other similar goods for sale as defence in Food Act

C Trade Descriptions Act not to be used if action under another Act possible

S General statutory duty that goods are safe but not detailed laws

E.R.

S Compliance costs/benefit to be explicitly used in setting safety standards

S Review regulations on night dresses, carry cots, prams, oil lamps etc

C Repeal without replacement the code of practice on fumigation

S,C Deregulation of shop hours

S ? Deregulate late night hours for cafes and take-aways

S? Apply easier existing rules for take-aways to cafes as well

C Just one licence for all food shop products

C Chains of multiple off-licences to require single licence for all

C Liquor licences to be renewable every five years

C Abolish game licence

S Scrap Metal Dealers Act to be repealed in part

4. (D) WEIGHTS AND MEASURES

C Complete metrication in food retailing

S Simplify prescribed quantities requirements for pre-packed food

S Continue to oppose EC proposals on "Unit Pricing"

C Apply average weight system to catchweights as well

C More self certification/approvals in weights and measures area

C 3 months advance notice before any change in technical criteria on weights

C Legislation and certification should take account of latest technology

C Quicker and cheaper approval of new measuring techniques

C Only parts critical to weighing accuracy to be certified

C Modules rather than whole measuring systems to be approved

4. (E) CONSUMER CREDIT

S Reduce or end Acts coverage of commercial borrowing

S Reduce or end licensing of credit businesses

S Simplify lenders statutory obligations

S Simplify advertisements regulations

E.R.

S Abandon quotations regulations

S Simplify documentation for credit agreements

4. (F) DATA PROTECTION

C Home Secretary to have power to exclude some data from scope of Act

C Widen exemption given to word processing activities

C Exclude internal office administration from Data Protection Act

C Limit subjects access to single point in organisation

D Data protection registrar to report impact on business

4. (G) STATISTICAL RETURNS

C Statistics to be in form that businesses normally use themselves

S,C Improve layout and presentation of forms

S Try to exclude very small firms altogether

S Minimise sample sizes and spread burden evenly

S New forms to be tested by initial pilot exercise

S Post hoc monitoring with user firms to be instituted

P Further cut down on volume of statistics collected

S Curtail EC statistical requirements

E.R.

5. EMPLOYMENT LAW

5. (A) UNFAIR DISMISSAL AND INDUSTRIAL TRIBUNALS

S,D,C Employment protection rights only to be established after 2 years (Agreed)

D Qualifying period for small firms to be extended from 2 to 5 years

D,C Small firms to be those employing less than fifty (200 CBI)

D Right to determine own employment contract

C Review industrial tribunals to make more speedy and less legalistic

S Promote conciliation directly between the parties rather than between lawyers

S,C Refundable deposit for pursuing case through industrial tribunal

C Power to dismiss meritless case at pre-hearing assessment

P Refundable deposit for pursuing cases after unfavourable pre-hearing assessment

P More frequent awards of costs against meritless plaintiffs

C Train tribunal members especially about their powers

S Tribunals only to give written reasons in significant cases or for new principle

S Introduce requirement for leave to appeal to Employment Appeals Tribunal

S Introduce charges for appeals

D No unfair dismissal on medical grounds for small firms

D Make dismissal for non union membership always unfair

5. (B) OTHER EMPLOYEE RIGHTS

D Abolish time off with pay for union duties

D Abolish time off (without pay) for union activities

D Abolish guarantee payments

C Guarantee payments to be excluded if resulting from external strikes

S ? Persuade EC to drop requirement for pre-notification of redundancies

D Redundancy payments only after 5 years in small firms

S ? Increase redundancy payment rebate for small firms

S ? Increase redundancy payment rebate for small firms on transfer of undertakings

P Persuade EC to repeal transfer of undertakings regulations

E.R.

D No redundancy payment on insolvency for small firms

D No medical suspension payments for small firms

S?,C Maternity payments to be made directly by the State

S? Employers to recover maternity payments by deducting from their NI contributions

C Further simplify administration for both maternity and redundancy rebates

S? Raise exemption threshold on reinstatement following maternity leave to 20 people

5. (C) WAGES COUNCILS AND YOUNG PEOPLE

D Abolish wages councils

C Reform but do not abolish all wages councils

C Companies with own collective bargaining to be able to opt out of council

C Council to be limited to single adult and youth pay rates

S ? Resolve overlap of wage council miminum and YWS

S End requirement to notify employment of young people

S Repeal restrictions on women and young persons' hours

P Disapply all employment and wage legislation to the under 21s

S ? Relax entry criteria for Enterprise Allowance Scheme

S ? Encourage small firms to participate in YTS

S ? ITBs to be replaced by voluntary arrangements

5. (D) DISCRIMINATION

C Equal opportunities and Race Relations Commission to limit support to complainant

C The Commissions to pay employer's costs if their sponsoree loses

S Issue and monitor a sex discrimination code of practice

S Monitor race discrimination code of practice

5. (E) MISCELLANEOUS PROVISIONS

P End ACAS role of promoting collective bargaining and (implicitly) unionism

S End requirement to display extracts of Factories Act etc

C Local authorities to cease superimposing special employment obligations

E.R.

S ? End or reduce licensing of employment agencies

S Simplify form for unemployment benefit enquiries

D Pendulum arbitration in essential services and no immunities for strikes

S ? Combine monthly pay and employment surveys or do quarterly

C Consolidate the various employment and union Acts

5. (F) ADVICE

S X Increased publicity for ACAS services

S Introduce ACAS handbook for small firms

P Produce specimen employment contracts for business start-ups

S Publicise DE telephone enquiry point

S Trial freephone enquiry point for ACAS and HSE

S Better DE literature displays at job centres

S Better publicity of ACAS and HMFI advisory services

S Job Centres to be source of advice and signposting for all small company needs

E. R.

6. HEALTH, SAFETY AND INJURIES

6. (A) HEALTH AND SAFETY REGULATION

S,C ? Modify the requirement to maintain or improve health and safety standards

S ? Be more reluctant on future health and safety legislation

C HSC to be enabled to recommend repeal of archaic regulations

C HSC to set good practices not mandatory standards

C Guidance notes should be voluntary targets of best practice

C Guidance notes should be in clear language not legalistic

C Give breathing space before regulating further on hazardous substances

C HSC to do cost benefit on all new regulations and publish the evidence

S Legislative proposals to have small firms impact analysis

P Government to provide 50% grants for safety equipment recommended by inspectors

S ? One member of Commission to represent small firms

S ? End the requirement for Commission to consult on health and safety

S Only firms of more than 20 to have written safety policy

P X Partial exemption from most requirements for 'garage start-ups'

S ?X Modify machine guarding requirements

C Proliferation of notification requirements should be consolidated

6. (B) HEALTH AND SAFETY ENFORCEMENT

S ? Onus of proof in prosecution to be shifted from employer to regulators

C HSC to promote self regulation in good firms and just police the bad

S Establish priority rating system for H&SW inspection visiting

S Inspectors to be taught better understanding of how firms work

S Appeal procedures to be more clearly indicated

S, ? Commission to lay down standards for both factory inspectors and EHO

C Transfer all enforcement responsibilities from local authorities to HSE

S Simple pamphlet to summarise health and safety requirements

E.R.

6. (C) INDUSTRIAL INJURY ETC

S?	Contracting out of industrial injuries element of NIC
S	Harmonisation and integration of DHSS and HSE accident reporting requirements
S	Information on prescribed diseases to be pooled by DHSS and HSE
S?	Disabled quota reduced to 2% and threshold raised to firms of 50
S	Disablement benefit employment definition as per National Earnings Survey
S	Benefits to be linked to movements in NES data
S	Other minor changes on disablement benefit and forms
S	Changes to the occupational deafness claim form
S	Smaller business to be represented on the Industrial Injuries Advisory Council
S	Industrial injuries information to be included in PAYE starter pack

E. R.

7. PLANNING, BUILDING AND FIRE REGULATIONS

7. (A) PLANNING

P Automatic planning permission unless council object within one month

P Timetable for all stages of the planning permission process

P Strict time limits for decision on both inspectors' reports and ministerial appeals

P Reason for planning refusal to be given to facilitate quick resubmission if overcome

S Speed up planning decisions by more delegation of powers

C Presumption against planning permission should be reversed

S Simplified planning zones including relaxation of building regulations

S Additional planning exemptions for small developments

P Extend the enterprise zone boundaries and make new towns regulation free

S,C Greater flexibility on need to meet full highway standards

S Remove highway authorities powers of direction on applications

C Planning permission to incorporate any footpath diversions necessary

P Reduce the number of use classes

S Limit requirement for change of use applications

P Greater use of approval conditions as an alternative to rejecting applications

S Simpler appeals for small developments and change of use

S More guidance for public on going about planning applications

P Encourage bilateral meetings between planning applicants/objectors to resolve dispute

S Reactivate review of statutory nuisances

P Reduce advertising restrictions particularly in rural areas

C Do not extend number of listed buildings

P Scrap structure plans or make them less rigid

7. (B) PLANNING GUIDANCE TO LOCAL AUTHORITIES

S X Refusal of planning permission due to anticipated nuisance to be discouraged

S X Enforcement action against nuisance to be resisted if possible

S Guidance on enforcement against nuisance to be issued

S Authorities to provide sites for 'bad neighbour' industries

S Guidance on need for permission to work from home

S Relevance of market conditions to be clarified

S More favourable attitude to speculative developments for small firms

S Improve system for informing authorities of planning appeal decisions

C Stop local authorities further extending existing regulations

7. (C) LOCAL AUTHORITY HELP TO SMALL BUSINESSES

S One stop shops to provide active assistance to business

S Pilot schemes of one stop shops to be actionned

S Reduce constraint on inner city funding to aid the above

S Government to persuade authorities of the need not to obstruct business

S DoE regional policy directorate to ensure business needs met

S Staff within authorities to represent business against regulators

P Business liaison officers to help businessmen through the planning machinery

S DTI to periodically review impact of regulations on business

S DoE regulatory directorates to include economic regeneration in MINIS

S DoE to improve coordination of supply of business premises and land

S Greater involvement of DTI and liaison between DoE and DTI

S DoE to review interdepartmental consultation to ensure adequate input

7. (D) BUILDING REGULATIONS

S Review of building regulations particularly of cost/benefit of compliance

S Less regulations on fire precautions and energy conservation

S Less onerous regulations for building conversions

S Restrict change of use triggering coverage by regulations

S Exemption limit for small buildings to be raised

S Improve coordination between Departments and with outside interests

S Better guidance to authorities on Government policies

S ? Abandon regulations and rely on private insurance

7. (E) FIRE PRECAUTIONS

S ? Exemptions for low fire risk premises

S ? Move to self certification of fire safety standards

P Rely solely on insurance

S ? Remove or relax some of the fire precaution standards

P Fire precautions to be limited to life saving not property saving

S Business to be consulted on fire precaution standards

S Training of firemen to include compliance cost awareness and flexibility

S Home Office to reinforce compliance costs and a flexible approach

P Require inspectors to indicate approximate compliance cost of recommendations

S Fire brigades to give more consistent advice on precautions work

S Availability of appeal against fire inspector to be emphasised

P Allow appeals to an independent arbiter

S No charges to be levied for fire inspection work

S Improve links between fire service and Environment Health Officers

PRIME MINISTER

DEREGULATION

The purpose of this minute, circulated for discussion at your meeting on 26 February, is to highlight some of the main issues which we need to consider and to suggest a timetable for the work of the new ministerial group on deregulation.

The Background

2 This is probably the last major opportunity we will have to remove the great raft of regulations which impede our economic recovery. Many of our supporters, in Parliament, in business, and elsewhere, feel that we should have done more by now. I hope that at your meeting on Tuesday we will all agree that we must do more than tinker around with the fringes of the problem; that a fundamental review of regulation is required; and that we must look for long term solutions.

3 One problem seems to be that although collectively we are in favour of deregulation individual departments are understandably protective of their own particular interests. If we are to make significant progress we will all need to adopt a broad view and look at each regulatory item afresh, to balance it against the wider need to remove burdens and thereby promote enterprise. If we do not approach our task in this frame of mind then I fear the exercise will not produce the desired results.

Should we publish the central report?

4 We will shortly be sent a draft version of the central report of the scrutiny - "Burdens on Business : report of a scrutiny of administrative and legislative requirements" - in a form intended for publication. While we obviously want to avoid

raising false hopes of early action in complex areas (and, equally, raising unnecessary fears) I recommend that as full a version of the central report as possible should be published. I see two main arguments for this.

5 One relates to the difficulties of not publishing. Parts of the Scrutiny have already leaked; the outside world knows that this major review has been completed; we do not want to be accused of hiding things; nor do we want to give scare-mongers a field day. The other is more positive. By publishing at this stage, before we get down to considering the issues in our new ministerial group, we give an opportunity for public debate in parallel with our own deliberations. All the opponents of change can let off steam, supporters of deregulation can also have their say, and we can then put forward a clear programme for action without spending further time on a consultative period.

6 I recognise, however, that there may be real difficulties for the Chancellor in publishing even a modified version of the report before the Budget, because of the understandable emphasis given to burdens arising from VAT and PAYE. I gather that the Secretary of State for Employment may also want to announce decisions about Wages Councils and employment protection legislation in the days following the Budget. All this points to our delaying publication of the report until immediately after the Budget. We would need to give further thought to the press handling, but I think we should aim to complement publication of the report (with an appropriate foreword explaining that no decisions have been taken on the issues discussed) with an indication of how we are going to carry out the follow-up.

Timetable

7 Whatever we decide on the timing of publication, I would expect the first meeting of the new group to take place soon

after my return from China on 13 March. I propose that the group should report to E(A) in June. A White paper on deregulation could then be issued in July, or at least before the summer recess. If appropriate, this would allow us to introduce legislation in November. This is a tight timetable but urgent action is required.

Work programme for the new group

8 One of the principal messages of the scrutiny is that while individual requirements may not be too onerous in themselves, the cumulative effect of many requirements can constitute a heavy burden for small firms in particular. It is therefore essential that in concentrating on the major issues, we do not allow seemingly minor options for change to be neglected. We must find a way of giving enough attention to the detailed items without swamping the new group. We also need to take account of other evidence on regulatory burdens as they affect large companies, which sometimes provide a different perspective from that given in the scrutiny.

9 I suggest that most of the detailed consideration of the scrutiny recommendations and other identified burdens should be undertaken at official level. In effect these would be official level "bilaterals" with all the Departments concerned - including some who were not covered by the scrutiny - discussing detailed issues with a team led by the Enterprise Unit and including the DTI (as the coordinating Department for the Scrutinies), the Policy Unit and the Efficiency Unit.

10 The official "bilaterals" should reach a view and report to me and to the Departmental Ministers on which of the detailed recommendations - especially those in the Departmental scrutiny reports - should be implemented by Departments and which should be discarded. If there are still unresolved differences, I think

I should hold bilateral discussions with the Ministers concerned and then report to the new group. The aim would be for the group to give its endorsement to Departmental "action documents" as part of a coordinated approach to deregulation.

11 In addition, the group itself will need to consider carefully the central scrutiny recommendations relating to major burdens. As well as the cumulative effect of various different burdens, it is clear that certain requirements can of themselves be particularly onerous for companies. I would identify, for example, VAT, planning, and the general area of PAYE and NIC. I would welcome any further suggestions colleagues may have for priority items for our work.

Wider Issues

12 I found the central report's chapter 7 on "A Strategy on Compliance Costs" very helpful. The new group will also have to address these issues. I believe it will be particularly important for the group to discuss the establishment of arrangements to ensure that the momentum to deregulate is not lost, and to extend the deregulation initiative more widely.

13 My own view is that to make a real and permanent impact on regulations - rather than just cosmetic changes - we will also need new legislation. The US experience can teach us a lot.

14 I am sending copies of this minute to Nigel Lawson, Norman Tebbit, Leon Brittan, Patrick Jenkin, Norman Fowler, Tom King, Grey Gowrie, David Trippier, Sir Robert Armstrong and Sir Robin Ibbs.

D.Y.

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CCNO

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From the Parliamentary Under Secretary of State for Industry

Prime Minister

The material changes to the draft are marked on the attached copy: mainly "de minimis".

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

22 February 1985

DMB 22/2

Dear Andrew Turnbull

Thank you for sending me a copy of your letter of 14 February about the Prime Minister's meeting on 26 February to follow-up the burdens on business scrutiny.

You asked the Efficiency Unit and ourselves to prepare a draft "publishable" version of the central report for consideration at the meeting. I enclose a lightly edited version of the first - substantive - part of the report which we have prepared in consultation with the Unit. This takes account of some drafting points suggested by Departments involved in the scrutiny; some further amendments may however be necessary following the 26 February meeting.

As to whether we publish at all, Mr Trippier takes the Prime Minister's view about the risks of raising unreal expectations. Equally, he feels that the Government could be in an awkward position if it refused to publish anything at all, bearing in mind that the existence of the report is widely known (and that some of it has leaked). He would hope that the risks of publication could be contained within acceptable limits by editing changes of the kind we propose. A brief Ministerial foreword might also be helpful, making clear that Government decisions on the ideas in the report will be announced at a later stage.

We assume that the individual Departmental studies will not be published. Under the normal scrutiny procedures they would be sent to the Civil Service Unions in each interested Department (and the central report would be sent to the CCSU) at an early stage in the follow-up process. In view of the leaks of earlier material sent to the Unions, however, this has not yet been done. It would seem

DT2AKL

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best to continue to withhold the material from them, at least pending publication of the central report: but this is a point on which Lord Young and Sir Robin Ibbs may wish to comment.

I am copying this letter to the recipients of yours.

Yours sincerely

Annabel Goulding (Mrs)

ANNABEL GOULDING
Assistant Private Secretary

Enc.

DT2AKL

999-49

22 FEB 1955

This summary replaces the longer and more detailed one in the scrutiny proper

BURDENS ON BUSINESS: KEY FINDINGS AND PROPOSALS FOR ACTION

This report examines burdens imposed on small businesses by administrative and legislative requirements of central and local government. It identifies the main problems on which action is required, and suggests a programme of measures to tackle them.

Compliance with government requirements imposes real additional costs on business, particularly on small firms and "new starters". They can be a barrier to market entry (2.1.1-2.4.2).

Though most firms are managing to cope with the burden, action to reduce it offers benefits for jobs and for the "white economy" (2.5.1-2.5.3)

There are practical and political constraints on the scope for cutting requirements back (3.2); the government will not of course wish to reduce essential protection for employees, consumers and the public at large. Effective action on compliance costs will require Government and Parliament to mount a determined attack on the problem across the board (3.3-3.5).

We have identified options for action ~~[, on which further work is required,]~~ in ten priority areas: Value Added Tax; the Pay As You Earn/National Insurance Systems; Statutory Sick Pay; planning controls; building regulations; fire prevention requirements; health and safety at work; terms and conditions of employment; company law; and consumer law (4.1-4.4).

And, to control the burden as a whole, we recommend:

- new disciplines in regulatory Departments, extending to compliance costs the principles of economy and efficiency underlying the Financial Management Initiative: and getting regulators into direct contact with small businesses "on the ground" (7.2.1-7.3.2);

- a small task force, perhaps in the Enterprise Unit, to monitor the application of these (7.2.2-7.2.4);

- a "compliance cost" initiative in the European Community (7.4);

- coordinated action on all the main requirement systems, to strengthen "compliance cost consciousness" in enforcement and to tackle the government/business communications "gap" (5.1.1-5.3.2; 6.1-6.7).

Throughout references to the separate departmental services has been omitted

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ANNEXES

A SCOPE AND METHOD OF WORK

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BURDENS ON BUSINESS

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE REQUIREMENTS

Central Report

1 INTRODUCTION

1.1 Scrutinies have been completed in seven Departments on burdens ("compliance costs") imposed on small businesses by the administrative and legislative requirements of central and local government.

1.2 This report outlines (at Annex A) the scope of work undertaken by the scrutiny team and the working methods adopted; and summarises:

- the essentials of the compliance cost problem, as we see it:

- our key conclusions and recommendations.

1.3 Our terms of reference are at Annex B. The scrutiny officers, and their Departments, are identified at Annex C.

1.4 The scrutiny as a whole cost £173,000.

2 COMPLIANCE COSTS : ANALYSIS OF THE PROBLEM

2.1 Some business comments

2.1.1 We have found a range of views about requirement problems in the small business community. For example:-

"Death by Red Tape". (National Federation of Self-Employed.)

"The documents which apply to a businessman setting up a factory stand 5 feet high". (Centre for Policy Studies.)

"When we started they seemed daunting. But in practice they proved a minor irritant compared with the problems of raising finance and making the business work". (Proprietor-manager of recently started manufacturing business, employment 13, commenting on compliance costs generally.)

"We could employ a couple of youngsters full time, if we were free to negotiate wages with them direct". (Manager of retail furniture business, commenting on impact of Wages Councils.)

"Not a big problem" (Manager of manufacturing business, employment 52, commenting on compliance costs generally.)

"The big problem in life is the bank" (Manageress of manufacturing business, employment 16, commenting on compliance costs generally.)

"A big constraint on my willingness to expand my labour force." (Proprietor of specialised publishing business, employment 4 part-time, commenting on impact of employment-related requirements.)

"Not really a burden yet. But we are carrying about as much as we can". (Director of manufacturing business, employment 42, commenting on compliance costs generally.)

"We've given up contracts for porches and sun lounges. The building regulations are too much of a hassle." (Proprietor of double glazing business, employment 8.)

2.2 The Issues

2.2.1 We have identified 12 main requirement systems at the heart of the compliance costs problem - Value Added Tax (VAT); Pay As You Earn (PAYE) and National Insurance Contributions (NIC); Statutory Sick Pay (SSP);planning, fire and building regulations; employment protection law; Wages Councils; health and safety at work; and company and consumer law (Annex A Para 1.4).

Planning ? - Land release ?

2.2.2 We have asked three questions about them:-

- what kinds of compliance costs do they impose?

- which businesses are most seriously affected?

- how significant is the burden as a whole, in relation to businesses' other concerns?

2.3 Nature of Compliance Costs

2.3.1 The two main kinds of compliance costs are (a) the staff/management time needed to understand and meet government requirements, and to deal with the agencies enforcing them; and (b) the direct expense incurred in meeting, for example, requirements for equipment (such as fire doors) which the firm would not otherwise have acquired.

✓

2.3.2 The element of direct expense should not be under-rated: as one manager pointed out to us, an item costing "only" £500 may require a small business to generate sales of ten times that amount to finance the purchase. In some areas, too, costs are significant but overlooked, because they only affect businesses indirectly; for example additional costs to commercial premises imposed by the building regulations.

2.3.3 But for most small businesses costs to time, particularly management time, are the key element in the requirements burden. Management time is a small firm's most precious resource. The smaller the firm, the more precious it is : above all where the proprietor alone is responsible for production, marketing and finance functions which in larger businesses can be shared between specialised departments.

2.3.4 It follows that requirement problems which only occur intermittently, but which make major and unpredictable demands on management resources, may be as serious as the continuing administrative chores imposed by the tax/NIC/SSP system. For this reason it is difficult to compare the "onerousness" of different requirement systems - problems with planning, or with an unfair dismissal case, for example, as against the day-to-day administration of VAT.

2.3.5 To the extent that requirements impose standards different from those an unregulated market would set, they affect business efficiency, enterprise and competitiveness. The effect may be obvious where (for example) machine guarding requirements impede production. In other cases it may be less obvious but equally real. There is, for example, a cost to output and efficiency (as well as to employment) if job opportunities are reduced by minimum wage rates set by Wages Councils.

2.4 Businesses Affected

2.4.1 Compliance costs bear most heavily on the very smallest businesses where managers lack the staff support, the time and sometimes the expertise to cope with the work involved and to handle central and local government bureaucracies effectively. The larger businesses with specialised management capacities tend to be less vulnerable (see para 2.3 of Annex A). But even here we have identified significant under-currents of concern about the problems identified in Section 2.3 above: as well as about what are seen as unnecessarily onerous or complex aspects of some requirement systems.

2.4.2 A particularly worrying point economically is that compliance costs - real and perceived - may limit market entry by inhibiting start-ups and expansion of small enterprises; especially those involving first-time recruitment of full time labour. The problem is compounded because so many requirements are directly employment-related (PAYE/NIC/SSP, Health and Safety, employment protection law).

2.5 The Problem as a whole

2.5.1 We found that the great majority of small businesses regard compliance costs as a permanent, immutable feature of their business environment. Most of the firms we saw had not seriously considered the scale of the problem or the practical implications of reducing it. In part, we suspect this is because compliance costs, like other costs which affect competing enterprises more or less uniformly, are passed on automatically to customers.

2.5.2 Not unexpectedly therefore, we found that most small businesses are managing to cope with requirement burdens, about which only a minority are openly critical. And most small businesses see problems with finance, sales and so on as more serious than problems with compliance costs.

✓

2.5.3 Equally, we believe that the total impact - economic and psychological - of a determined drive to contain compliance costs would be substantially greater than the perspective of the individual small firm suggests. Such action, as one element in the Government's wider strategy on enterprise and employment, offers benefits for

- jobs. Firms employing less than 50 people provide nearly 8 million jobs - 40 per cent of total employment. Firms employing up to 200 provide nearly 13 million - 60 per cent of the total.* And employment in smaller businesses is growing faster than in larger firms. As our consultancy survey suggests (Appendix 2, p 21), reductions in their compliance costs would feed through to profits and prices; the end result (within a given monetary target) being a higher level of employment in the whole economy.

- the legitimate economy. Some small businesses (outside as well as inside the "black economy") effectively cut their compliance costs by ignoring government requirements. The unfair advantage they can gain is a frequent and bitter source of complaint from other traders. One effective way of reducing this fringe is to reduce the requirements burden.

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*These figures derive from the 1981 Census of Employment. They probably over-estimate the number of smaller firms: though DE statisticians regard them as a reasonable approximation. DTI define as "small firms" firms in manufacturing employing up to 200 people: and firms in services with annual turnovers below specified maxima which vary from sector to sector. On their definition, and on the basis of 1976 data, "small" firms account for around 25 per cent of total employment.

3 THE CONSTRAINTS

3.1 Our terms of reference asked us to identify the obstacles to action to reduce compliance costs.

3.2 Substantial cut-backs in requirements are often likely to involve one or more of the following:

- changes in the yield or the incidence ("who pays what") of PAYE/NIC and VAT;

- reductions (or what would be claimed as reductions) in the effective level of protection available at present to the employee and other interests identified in para 1.4 of Annex A;

- more work for government (with implications for public expenditure and manpower);

- breaches of EC obligations (or in the case of proposed EC legislation currently in the pipeline, negotiating difficulties in Brussels).

3.3 These constraints go to the heart of the matter. In the tax/benefit field, there are often trade-offs between compliance cost reduction, revenue/incidence implications and Civil Service manpower. In other areas, deregulatory changes in the structure of long-established requirement systems will often change (or be seen as changing) the present balance established by law between business and other interests. Such shifts will only be possible if Government and Parliament take a strategic decision to give greater weight across the board to the deregulatory benefits for enterprise and employment identified at 2.5.3 above.

3.4 Against this background, we have identified some radical options to reduce compliance costs; ~~and~~ together with a range of "efficiency" changes to make existing requirements "friendlier" and less onerous to business interests.

3.5 In some cases we have recommended exemptions for small businesses where there is clear evidence that they bear a disproportionate share of compliance costs; and/or that regulation is less necessary for small firms than for large. But our general approach has been hostile to wholesale exemptions: nor on the whole do small firms themselves seek these. Such exemptions would distort the market by putting larger firms at an unjustified competitive disadvantage; and would create "threshold" problems at the point of transition from exempt to non-exempt status.

3.6 We propose action on three fronts:-

- the scope and content of requirement systems;

- their enforcement;

- government/business communications about them.

4 ACTION TO CUT COMPLIANCE COSTS: CHANGES IN REQUIREMENTS

Following (sections 4.1-4.4) is a check list summarising the main options/recommendations for change in existing requirements emerging from our detailed studies in seven Departments. We recommend urgent follow-up work (including where necessary consultations with the outside interests concerned) as a basis for ~~early~~ Ministerial decisions on the scope for action in these areas.

4.1 VAT: PAYE: NIC: SSP

- introduce a non-cumulative basis for PAYE, as a first step towards integrating the PAYE/NIC systems, by putting the PAYE/NIC calculations into the same set of deduction tables. We assume that "employer administered" income tax and national insurance contributions are here to stay. Within that constraint, harmonising the two systems would do more than anything else to make compliance with these "pay-roll related" requirements easier for small businesses.

- take more small businesses out of the VAT net. VAT imposes significant compliance costs on small firms. But the case for raising the present exemption threshold is finely balanced. And there is a major EC constraint. Early decisions are needed on the possibility of tackling this in the context of a wider EC initiative on compliance costs (7.4 below);

- improve "bad debt relief" in the VAT system (which will reduce concerns we found in a number of small manufacturing firms); and introduce a monthly payment plan, to help very small businesses with VAT;

- make SSP easier to integrate with firms' existing pay-rolling systems, by simplifying administrative procedures on "qualifying periods"; and allow businesses to opt out of

the SSP system where they prefer to pay sick employees at the appropriate rate without refund;

- reduce the present multiplicity of NIC rates.

>> importance of single rate of VAT

4.2 Planning, fire and building requirements

- cut planning burdens by speeding up local decisions on small developments; and by legislating to introduce Simplified Planning Zones, building on - but extending - experience with Enterprise Zones; make it easier for firms to change the use of commercial premises; and assist people starting small businesses in their own homes;

- reduce and simplify the building regulations, with particular reference to the conversion of existing buildings for commercial use; especially the detailed requirements on fire precautions and on energy saving (which in some respects are excessive at present);

- increase flexibility in fire prevention requirements; reduce generally the extent of the requirements and extend cut-offs for lower risk premises with some reliance on "self-certification". (The introduction as is envisaged of a general statutory duty in respect of fire precautions would assist the introduction of more flexible arrangements.)

4.3 Employment protection, Wages Councils, Health and Safety at Work

- increase employees' qualifying periods in unfair dismissal cases from 1 to 2 years, in firms employing over 20. Our field work confirmed that the present 1 year period is too short for many smaller businesses, and is distorting dismissal decisions;

- redress the balance in unfair dismissal cases by further action to discourage ill-founded complaints (eg a scheme for cash deposits from some or all complainants, to be refunded or forfeited at the direction of the industrial tribunal). We found significant concern among small businesses with experience of unfair dismissal law that the present system is unduly slanted against the employer;

- make tribunal proceedings quicker and more efficient by reducing legalism in the present system. We found significant concern about the scale and nature of the demands made at present on management resources in unfair dismissal cases;

- raise the exemption threshold for mandatory re-instatement following maternity leave, to, say, enterprises employing 20 or more people. By their nature reinstatement requirements can cause particular problems for small businesses with a limited number of vacancies available at any one time.

Ministers have decided to consult on whether to

- abolish or drastically relax Wages Councils' controls over young people's wages, which price some of them out of jobs.

amend

- Sections 1(2) and 50 of the Health and Safety at Work Act 1974 to permit substantial rationalisation - without loss of necessary protection - of existing detailed regulations;

- eliminate some inessential requirements (eg hours of work, notification of employment, posting of notices);

4.4 Company and consumer law

- eliminate the present statutory audit of accounts for "shareholder-managed" small businesses; reduce and simplify the content of accounts and balance sheets required from small firms at present; and simplify the "annual return" requirements;

- simplify and rationalise current requirements in the field of consumer credit; put greater emphasis on "self-certification" systems in the enforcement of weights and measures requirements; and use the planned introduction of a new "general statutory duty" on product safety as a basis for containing detailed regulations in this area.
and perhaps cutting back

4.5 General Points

4.5.1 Three general points emerge from the studies of individual requirements.

4.5.2 The first touches the use, where regulation is unavoidable, of general statutory duties as an alternative to detailed controls through secondary legislation. Such duties allow business maximum freedom in the choice of means to meet prescribed ends. But their value depends critically on:

- establishing unequivocally that compliance and other costs must be taken fully into account in determining what in practice the duty requires businesses to do;

- developing flexible codes to give detailed guidance on how businesses may comply (with maximum reliance on input from business itself; a clear distinction between recommendations on best practice and statements of minimum necessary standards; and short summaries of key points for small businesses);

- cutting back - and controlling the future growth of - detailed regulation in the area concerned.

4.5.3 Secondly, we recommend reliance on "self-certification" by firms themselves, as an alternative to mandatory inspections/tests/verificationby enforcement authorities before business operations are permitted to go ahead. As the Departmental studies indicate in fields like weights and measures, building controls

and fire prevention, self-certification arrangements - backed by positive guidance and support from enforcement authorities - can cut both compliance and enforcement costs.

4.5.4 Thirdly, we recommend a critical general review of licensing requirements, an illustrative list of which is at Appendix 4.

4.5.5 Licensing - which makes it unlawful to trade without Government permission - is an exceptionally stringent method of regulation. It tends to maximise the power of the regulator over the regulated. And, by creating controls over market entry, it can inhibit enterprise and competition. Its use is warranted only if the end in view is of overriding importance, and cannot adequately be achieved by other, less onerous means.

4.6 Other matters

4.6.1 Appendix 5 suggests further work on some other, detailed issues. These include the rules governing the definition of "self-employed" for PAYE/NIC purposes; and requirements deriving from local authority private Acts and byelaws.

The substance of this section is unchanged but most of the references to particular departmental issues have been deleted

5 ACTION TO CUT COMPLIANCE COSTS: ENFORCEMENT BURDENS

5.1 General

5.1.1 Small businesses' concerns about compliance costs more often emerge as criticism of enforcement practice than as criticism of the substance of the requirements themselves. Typically, managers comment on occasional

- inflexibility: demands by enforcement officers which are seen as excessive and unreasonable in relation to the point at issue;

- inconsistency: variations of practice over time within individual enforcement agencies and - in the case of requirements policed by local authorities - between separate authorities operating in the same field;

- overlaps, with resulting inefficiencies, between separate agencies of central and local government.

5.1.2 Corrective action is necessary to build "compliance cost consciousness" into every level of the enforcement process; to achieve a more efficient balance between compliance costs and regulatory benefits; and to make enforcement activity simpler and more consistent in its impact on business enterprise.

5.1.3 Such action should rationalise: methods of enforcement; administrative "appeal" procedures/onus of proof in prosecutions for alleged breaches of requirements; and the interface between related enforcement agencies.

5.2 Methods of enforcement

5.2.1 We recommend action to:

- develop (or improve) guidelines on enforcement practice in central and local government inspectorates;

- improve the training of enforcement officers, to increase awareness of small businesses' needs and problems;

- rationalise the selection of businesses visited for enforcement purposes.

5.2.2 Enforcement guidelines, and input to training programmes on identifying and overcoming small businesses' compliance problems, should underline the need for - and illustrate in concrete ways how to achieve - a more productive relationship between enforcement authorities and their business "clients".

5.2.3 Most businesses are anxious to meet their legal obligations. Each enforcement officer's priority should be to help them comply in the least costly way.

5.2.4 So guidelines and training should stress the need to identify - in conjunction with businesses concerned - the compliance costs implied by field officers' advice or decisions; to take these into account in the use of enforcement discretion; and to offer constructive advice about available options for compliance. The emphasis in contacts with the law-abiding majority of firms, particularly with "new starters", should be on positive assistance, not negative "policing"; and on countering the "guilty till proved innocent" approach of which some companies complain.

5.2.5 Action in these areas should be reinforced by a critical review - with a comparative, inter-agency dimension - of practice in each enforcement agency on:

- the methods used to maintain consistency in enforcement decisions; and

- the intensity of enforcement effort directed at different categories of business, with particular reference to the need - area - for example in the health and safety - to orient enforcement effort away from categories in which compliance levels are generally acceptable and/or non-compliance costs are generally low.*

5.2.6 In the case of proposals at 5.2.3-6 above may present requirements enforced by local authorities - eg on buildings, fire prevention, environmental health and consumer law the pooposals at 5.2.2-5 above should be followed up initially in the established machinery for consultation/coordination between local government and with the relevant central Departments. ½If that machinery proved ineffective, it might be necessary to consider ways of giving statutory backing to Government guidance on local enforcement practice.**½

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*As the DE study indicates, this will involve reviewing the scope and adequacy of the information available to each authority on businesses subject to the requirements it enforces.

½**In the light, perhaps, of the powers conferred on the Health and Safety Commission in Section 18(4) of the Health and Safety at Work Act 1974.½

5.3 Appeals and onus of proof

5.3.1 Our field work brought home to us the disparity of power between small businesses and government enforcement agencies. In the smallest firms, managers often lack the time, the resources and the expertise necessary to contest unreasonable enforcement decisions. Two ways of tackling this problem are:

- to make it easier for businesses to appeal "up the line" within enforcement agencies; and

- to modify the onus of proof in prosecutions for breaches of requirements, where this is unduly slanted at present against business.

5.3.2 We recommend that the enforcement guidelines discussed at 5.2 above should require field officers to offer explicit advice to management on "appeal" opportunities inside as well as outside each enforcement agency; and that the current position on statutory defences/burden of proof should be reviewed in all requirement systems enforced under the criminal law.

5.4 Interface between enforcement agencies

5.4.1 Rationalising the interface between enforcement agencies can reduce compliance costs in two ways:

- by reducing the number of visits and other approaches to which businesses are subject from separate enforcement agencies (and the number of separate approaches businesses have to make to them);

- by tackling overlaps and anomalies in the enforcement of related requirement systems.

5.4.2 We recommend action on both points in relation to the PAYE/NIC system, by harmonising DHSS/IR practice on visits to business premises and on the border-line between employment and self-employment.

5.4.3 Other priority areas to be tackled include:-

- the interface between the fire prevention/building regulations;*

- the interface between the various "safety" requirements for which DE, Home office, DOE and other Departments are responsible**;

- rationalising registration/notification requirements***.

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*The existing requirements can inter-act in burdensome ways - a problem which might be tackled by redistributing enforcement functions between the two local inspectorates concerned, and by other steps to improve liaison between them.

**It would be worth considering, for example, whether the Factory Inspectorate could perform some of the "safety" functions of other inspectorates in the premises which it visits.

***A note of the main requirements concerned is at Appendix 4. A few might be eliminated altogether. As to the rest, the ideal aim would be to replace multiple returns to different agencies with a single return to a central point. But the requirements differ so widely in nature, impact on business, means of enforcement and types of information required that this would be difficult. It will be more productive to examine the scope for simplification in related requirement areas (PAYE/NIC, health and safety). And "One- Stop-Shops" - 6 below - may have a role to play.

6 ACTION TO CUT COMPLIANCE COSTS: COMMUNICATIONS WITH BUSINESS

6.1 We found that in its length and complexity, most government literature on requirements is self-defeating. Managers simply do not have the time to absorb the volume of written guidance and instruction showered upon them. By contrast, oral (including face-to-face) briefing is often appreciated - and more effective.

6.2 Regulatory agencies must adjust to this reality. The need is for:

- crisp summaries of the main requirement systems, concisely and simply written, focussed on essentials and telling the small businessman where to go for help with detailed queries;

- short covering notes for detailed material, summarising the contents and the key points made;

- clearly signposted enquiry points inside local and central government enforcement agencies;

- action to spread best practice on cost-effective means of compliance relevant to smaller businesses.

6.3 We recommend immediate steps to:

- improve literature on health and safety at work and employment protection law;

- improve enquiry facilities (possibly with "freefone" services in the light of recent DHSS experience) in the DE Group and in local VAT offices;

- promote the use by small businesses of accounting systems (including automated systems) which will help reduce the compliance costs of VAT.

6.4 A centrally co-ordinated effort is needed across the board to improve information/communication on these lines. That will also involve:

- improving co-operation between enforcement agencies*, and co-operation with the support services available for small firms inside and outside government;

- preparing simple "starter packs" to give newly established businesses (and/or new employers) a bird's eye view of all the main requirements likely to affect them; and

- experiments with "Help Line"/"One Stop Shop" services.

6.5 A "One Stop Shop" is essentially a single enquiry point at which small businesses can get:(i) basic information on government requirements;(ii) quick and accurate referral to relevant enforcement agencies for specialised help; and (iii) (subject to resource constraints) an advice/representation service to help them deal with the agencies on compliance problems.

6.6 The DOE study recommends action to encourage local authorities to develop facilities offering all three of these services, in respect of locally enforced requirements.

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*It would for example be worth experimenting with "page displays" in telephone directories (including Yellow Pages), identifying enquiry points in the relevant local offices of each main enforcement agency.

6.7 Advice on central government requirements is already available from (inter alia) the DTI Small Firms Service and the Local Enterprise Agencies as part of their wider support for small businesses. Appendix 6 recommends a pilot project to test ways of achieving more, by:

- improving 'basic information' (6.2 above) and "referral" facilities;

- strengthening liaison with Job Centres (the most extensive network of enquiry points for small businesses "on the ground"); and

- using existing "clinic/counselling" techniques, to provide positive guidance and support on requirement problems.

7 A STRATEGY ON COMPLIANCE COSTS

7.1 General

7.1.1 Compliance costs must be tackled across the board if they are to be cut to stimulate enterprise and employment. Much of the problem derives from the cumulative impact on businesses (large as well as small) of requirements which in isolation may seem reasonable in aim and modest in the burdens they impose.

7.1.2 The first step must be a centrally co-ordinated drive to follow up the options for action we have identified on the scope and content of existing requirements; on their enforcement; and on communications between business and government about them. Sections 4-6 of this Report provide a starting point; set the issues in a wider framework, and sketch the basis for a strategy on the problem as a whole.

7.1.3 Three further elements in such a strategy should be action:

- to monitor and control compliance costs in future;
- to strengthen the business voice in regulatory decisions; and
- to tackle requirement problems in the European Community.

7.2 Monitoring and Control of Compliance Costs

7.2.1 New disciplines are necessary, extending to compliance costs the principles of economy and efficiency in resource use which underlie the Government's Financial Management Initiative. Action to develop such disciplines would fit logically into the wider policy framework outlined in Cmnd 8616, key elements of which are critical scrutiny of "the continuing need for [Government] activities, functions and policies, as well as their costs"; and the control of "total costs, not simply ... annual cash flow".

7.2.2 Because regulatory burdens cannot easily be measured or compared (2.3.4 above and 7.1-2 of Annex A), attempts to set quantified targets for compliance cost control and/or annual limits on the volume of new regulation are unlikely to be productive. A more effective approach (taking account of experience overseas*) will be to require:

- a structured analysis of each new regulatory proposal, to be prepared and published by the initiating agency concerned: including a systematic assessment of its impact on business enterprise;

- critical scrutiny of the proposal (in particular of the "Impact Analysis") by a small task force in central Government with real teeth; and

- regular overviews by the task force of (i) regulatory proposals "in the pipeline" and (ii) the scope for eliminating/simplifying/rationalising existing requirement systems.

7.2.3 The scope and nature of the "impact analysis" technique is outlined at Appendix 10. It is no panacea, as US experience confirms. But it is a useful discipline, provided - the essential point - that its application by regulators themselves is independently monitored and controlled.

7.2.4 The central task force should consist of two or three people at most, ideally including people with practical business experience as well as Civil Servants. ^ possibly from the Enterprise Unit

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*See Appendix . Regulatory burdens on business are now a matter of concern in several advanced countries. In the United States, Germany and the Netherlands, deregulatory initiatives have received substantial political impetus.

7.2.5 Parliament could powerfully reinforce action inside Government by (i) scrutinising the compliance cost implications of proposed new requirements (including the draft EC legislation submitted to the European "Scrutiny Committees"); (ii) reviewing - and recommending steps to rationalise - existing requirements, including the accumulated mass of secondary legislation. As the CBI have proposed, these could be important jobs for a Select Committee (or Committees).

7.3 Strengthening the business voice

7.3.1 We recommend action to strengthen business/small firm representation on the Health and Safety Commission, the Building Regulations Advisory Committee, certain committees of the British Standards Institution, and the Industrial Injuries Advisory Council. We also recommend that regulatory Departments should review and strengthen their arrangements for consultation with the small business organisations identified in Appendix 3.

7.3.2 But the central aim should be to bring regulators into direct contact with small businesses "on the ground". That can best be achieved through field work of the kind we ourselves undertook. We recommend that within the framework for compliance cost control outlined at 7.2.2, regulatory departments should:

- select specific requirements (or specific aspects of requirement systems) as priority candidates for a "compliance cost review"; and, as the first step in each review

- examine the impact of the requirement on small businesses (or the prospective impact, in the case of proposals in the pipeline) by arranging for administrators concerned to interview the largest achievable sample of managers, on their own premises and on the basis of a structured questionnaire.

7.4 EC Dimension

7.4.1 The European Community is now a major source of new requirements affecting United Kingdom business - and of change in our existing regulatory arrangements.

7.4.2 Action at Community level is therefore a necessary element in our wider strategy on compliance costs. The need is to increase Community awareness of regulatory burdens, and of the contribution a determined attack on them can make to employment and efficiency in all Member States; and to secure agreement on the need for action at Community as well as national level.

7.4.3 Action on these lines would reinforce three important strands in current EC thinking:

- the growing recognition in most Member States of the importance of small and medium sized enterprises for employment and growth;

- the need to create new jobs on a sound (and internationally competitive) basis;

- the need to remove barriers - including regulatory barriers - to the free movement of goods and services within the internal market.

discussion of how Government should tackle EC omitted

7.4.4 We recommend that the issue should be raised with our Community partners, with a view to seeking agreement that:-

- A clear focus of responsibility is needed within the Commission itself for action to control compliance costs, particularly as regards the scrutiny of Commission proposals before presentation to the Council;

- The first priority in work on Directives and other instruments affecting business should be proposals which will help develop a dynamic, wealth-and-employment-creating industrial base in the Community as a whole.

» EC to concentrate on functioning of internal market instead of social initiatives

Single commissioner to be responsible.

Appendix II covers priorities in current community work

Early interdepartmental action

ANNEX A

SCOPE AND METHOD OF WORK

1 Scope

1.1 Our terms of reference are at Annex B.

1.2 The purpose of the scrutiny has been to tackle compliance costs; not to reduce the burden for enterprises or individuals of taxation, rates or national insurance. So we have only been concerned with the levels of tax and NIC, and with the distribution of the tax/contributions total, to the extent that some of the options for action on compliance costs which we have identified have implications in these areas.

1.3 We have had limited time in which to examine large and complex areas of Government policy. We have concentrated on requirement systems which:-

- affect firms in more than one sector; and

- are identifiable in the light of our field work as presenting particular problems, either because they are relatively frequently complained of by business management; or because, though less frequently mentioned, they can raise substantial problems in a minority of cases.

1.4 Such requirement systems are of two main kinds : those which make business:

a collect taxes, pay benefits and provide statistics on Government's behalf: the most significant areas identified in our field work being VAT; PAYE/NIC; and Statutory Sick Pay;

b comply with various "protective" rules for the benefit of the general public, employees, consumers, other traders and shareholders; the most significant areas identified in our field work being planning requirements; fire and building regulations; employment protection law; (notably on "unfair dismissal"); Wages Councils; health and safety at work legislation; and company and consumer law.

1.5 Two significant systems lay outside the scope of the scrutiny - the requirements affecting the preparation and marketing of food for which MAFF is responsible; and requirements affecting freight transport by road for which DTp is responsible.

2 Small Businesses

2.1 Our terms of reference put the primary emphasis on compliance costs borne by small businesses.

2.2 In 1971 the Bolton Committee identified "small firms" in manufacturing as those with up to 200 employees; and small firms in the service industries as those with turnovers in a range, varying by sector, from around £300,000 or less to around £1 million or less (at August 1983 prices).

2.3 In the early stages of our work a distinction emerged between businesses at the upper and lower ends of these ranges. Broadly, the bigger a "small" business is, the better placed it tends to be to cope with government requirements: partly because it can afford - and for its own reasons is anyway likely to employ - specialised management with adequate staff support; and partly because - though this cannot be precisely quantified - compliance costs are likely to become less significant, relative to profits and turnover, as business size increases.

2.4 We have focussed therefore on the impact of requirements at the lower end of the "Bolton" spectrum - for example on manufacturing businesses with employment of 50 or less and on

retail businesses with turnover of under, say, £150,000. And within this category we have been concerned in particular with the problems of the very smallest businesses - those, roughly, with employment of less than 10 and turnover of less than £50,000.

3 Methods of work

3.1 The seven Departmental studies are founded on field work with business interests, and discussions with the central and local government agencies responsible for the requirement systems we have examined.

3.2 Our key input from outside Government has been:-

- our interviews with managers of small businesses;

- an independent survey undertaken for us by management consultants;

- interviews with, and written material from, business organisations; including the small business organisations and th CBI.

4 Interviews with small businesses

4.1 We interviewed 85 business managers, normally on their own premises, in small firms in all the main regions (and a few in Scotland and Wales). Our sample, though imperfect, gave us a reasonable spread of sectors in manufacturing and services (mainly retail distribution); and of sizes within the "Bolton" limits. A note on its selection and structure, and on the interviewing methods adopted, is at Appendix 1.

4.2 The assessments derived from this part of the field work were of central importance in the scrutiny. By their nature, compliance costs cannot readily be quantified or compared across the field we have examined; nor have most business managers

attempted a thorough evaluation of them. For these reasons, discussions in depth with management "on the ground" were necessary to establish the nature of the problem.

5 Consultancy Survey

5.1 As a control on our own field work, we commissioned Research Associates Ltd to undertake a survey of attitudes to government requirements in small businesses.

5.2 This was desirable for three reasons:-

- the qualitative data derived from our own interviews were not readily susceptible to statistical analysis;

- we anyway wanted data from a larger sample of small businesses than we ourselves were able to approach directly, and data on attitudes in sectors under-represented in our sample (particularly one-man businesses, and service trades);

- we wanted to correct any distortions arising from the "prompting" inherent in our interviewing technique.

5.3 The consultants'report is at Appendix 2. It paints a picture in greater breadth than our field work but in less depth. Subject however to a few differences of detail, its conclusions are consistent with these we drew from our own interviews.

6 Business Organisations

6.1 At Appendix 3 is a note of the main business organisations which contributed to the study; together with a summary of their main points.

7 Measurement of Compliance Costs

7.1 Compliance costs are difficult to measure. In theory, quantification is easiest in the tax/benefit area, where it should be possible to identify the resources used by business on routine administration of the systems concerned. This has been attempted in recent academic research on VAT and PAYE. But the results must be treated with caution. And outside the tax benefit field the nature of the requirements we have examined and the kinds of cost they impose vary so widely that it is not possible to quantify their effects.

7.2 Nor, for the same reason, have we tried to rank requirements comprehensively by "degree of onerousness" (though the consultancy survey casts some light on small firms' perceptions in this area).

ANNEX B

TERMS OF REFERENCE

"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."

ANNEX C

SCRUTINY OFFICERS

N P Brecknell	(Team Leader)	Department of Trade and Industry
G C Riggs		Department of Trade and Industry
J M Whitlock		Department of Trade and Industry
M K Brenchley		Home Office
R K Harrison		Department of Employment
D R Instone		Department of the Environment
W L Parker		HM Customs & Excise
J H Reed		Inland Revenue
Mrs E C Somerville		Department of Health and Social Security

Prime Minister

SCRUTINY OF BURDENS ON BUSINESSES

As requested in your Private Secretary's letter of 23 January, I am giving our first reactions to those proposals contained in the scrutiny of burdens on businesses which relate to DHSS. You will see below that in general I welcome the main proposals.

NATIONAL INSURANCE CONTRIBUTIONS

The recommendations relating to greater alignment or integration of the PAYE and NI contributions systems are far-reaching and fundamental. They offer the prospect of a significant lightening of administrative burdens to all employers (but particularly to small businesses) and substantial administrative streamlining. They would require careful planning and a full consultation with employers' interests; the report recognises this. There would, of course, be a significant upheaval for employers in changing payroll systems, but this would seem to be a price worth paying.

I am enthusiastic about taking this proposal forward and, as you know, am considering whether the Green Paper on social security should promise to look at the possibility of greater alignment between the tax and contributions systems. If it does, it would clearly be sensible to take forward the recommendations from this scrutiny in the resulting study. There are other recommendations relating to NI contributions which could be taken forward independently and with a shorter time-scale. Some of them are already being studied actively.

STATUTORY SICK PAY (SSP)

The report's main proposal is that employers should be able to opt out of the SSP arrangements by paying wages as good as SSP. The argument behind this proposal is that employers may prefer to meet the cost of

SSP themselves to save most of the record-keeping and administrative time which SSP entails.

But there could be disadvantages, for example to some employees, and I have therefore asked Tony Newton and Ray Whitney to explore this issue urgently and positively.

INDUSTRIAL INJURIES

I accept, in principle, the recommendations aimed at reducing the frequency and complexity of industrial injuries enquiries to employers. Some recommendations, notably those requiring discussions with the Health and Safety Executive and the CBI, will be taken up immediately. Others, especially those involving primary legislation, need to be explored more fully (in some cases in conjunction with matters already under active consideration) before the precise form of implementation can be finalised. I am asking my officials to carry out the necessary exploration without delay.

I am copying this to Nigel Lawson, David Young, Sir Robin Ibbs and to Sir Robert Armstrong.

16 February 1985

NF

SCRUTINY OF ADMINISTRATIVE AND LEGISLATIVE BURDENS

Background note

Overall scrutiny

1. The lead department was DTI. There were six other participating departments including Inland Revenue and the DHSS.

2. The overall objective was to review the burdens imposed upon business (particularly small businesses) by the administrative and legislative requirements of central and local government.

3. The following problem areas were identified by the overall scrutiny:-

- PAYE/personal taxation
- National Insurance
- Statutory Sick Pay
- VAT
- Statistics
- Employment Protection
- Health and Safety
- Planning
- Fire regulations
- Company law
- Consumer law

4. The scrutiny found that compliance costs (time and money) fell most heavily on the very smallest businesses. This is particularly worrying in terms of setting up new businesses and expanding existing businesses in its effect on job creation.

5. Small businesses regarded compliance costs as a permanent immutable feature of their environment. Accordingly they were coping with them. However, a determined drive to contain compliance costs would have a greater economic and psychological impact than the perspective of small firms suggests.

6. The scrutiny identified both radical options to reduce compliance costs and a range of other efficiency proposals.

Proposals involving DHSS

7. They involve three areas:-

- National Insurance contributions
- Statutory Sick Pay
- Industrial Injuries

8. Contributions The joint Inland Revenue/DHSS study recommended:-

- bringing together the PAYE and NI contributions systems (subject to a fuller study)

- reducing the number of NI contribution rates

- accepting decisions taken by one department on self-employment or employment as binding on the other department

- visits to employers on PAYE and contributions matters should be integrated

9. Statutory Sick Pay The DHSS study recommended:-

- that smaller employers should be able to opt out of the SSP scheme and forgo the right to reclaim SSP (to save administrative costs)

- some detailed simplifications

10. Industrial Injuries The DHSS study recommended a number of simplifications related to:-

- keeping accident records

- details of earnings for Special Hardship Allowance

- Occupational deafness

- other prescribed diseases.

11. Response to recommendations Officials generally recommend the proposals in the scrutiny (some subject to fuller study) with one reservation. The policy Division recommend that the proposal that small employers should opt out of Statutory Sick Pay should not be pursued but PS(SS) and MS(SS) have agreed it merits further urgent consideration.

12. Implementation PS(SS) will sit on an inter-Ministerial Committee chaired by Lord Young, to oversee the implementation of agreed recommendations in the central and departmental reports.

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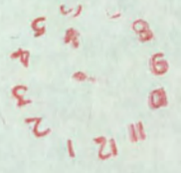


18 FEB 1985

M57

CONFIDENTIAL

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

PRIME MINISTER

SCRUTINY OF BURDENS ON BUSINESS

You asked Ministers involved in this scrutiny to indicate their reactions to the broad thrust of the proposals in the relevant departmental scrutinies (Andrew Turnbull's letter of 23 January).

2. The conclusion of the Customs study has been described by Robin Ibbs as disappointing but realistic. I agree with his analysis but his comments reflect the fact that this is an area well ploughed by previous scrutinies.

3. That said, I think the scrutiny officer has come up with a number of useful, if not very fundamental, recommendations which I have asked Barney Hayhoe to pursue as a matter of urgency with Customs and Excise.

4. The Inland Revenue's departmental report looks at the PAYE and NIC deduction systems operated by employers (and was written jointly by scrutiny officers from the Revenue and the DHSS). Its main recommendation is that there should be a study of the case for changing to a non-cumulative system of PAYE. I agree entirely that such a study is needed and, indeed, the Inland Revenue set preliminary work in hand last year of which the scrutiny officers were, of course, aware. I shall ensure that this work is carried forward quickly, in the context of our medium term tax strategy. I have also commissioned work to establish what would be a realistic timetable for this very major change, if we were to decide to make it, following the computerisation of PAYE. The scrutiny

officers naturally concentrated on the possible benefits for smaller firms, since that was their remit. We would also need to consult at the appropriate time larger employers, who have tended in the past not to favour such a change.

5. The report makes a number of other and less far reaching proposals. Some of these are primarily for Norman Fowler: I have asked John Moore to consider the remainder. John has already written to Robin Ibbs indicating his doubts about the value of yet another full-scale review of the boundary between employment and self-employment.

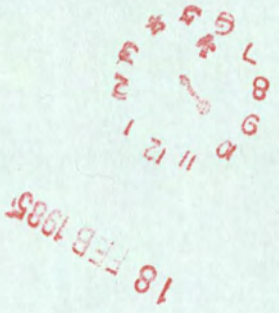
6. I have seen a copy of David Young's minute to you of 11 February and I agree that it would be helpful if he were to chair a group to follow up the scrutiny as part of his work on deregulation. I should be grateful if the membership could include a Treasury Minister. I am content with the terms of reference David proposes. But I think it will need to be made clear at the outset (as was agreed at the start of the scrutiny exercise) that this further work cannot cover proposals which have immediate budgetary implications or which in the longer term would involve significant changes in the distribution or level of taxation. I therefore see very real difficulty with Robin Ibbs' proposal that the new committee should seek, as an early priority, to identify the elements of a package which could be incorporated in the Budget and for similar reasons I could not agree to publication of the report in its present form just before the Budget.

7. I am sending copies of this minute to Leon Brittan, Patrick Jenkin, Norman Fowler, Norman Tebbit, Tom King, David Young, Sir Robin Ibbs and Sir Robert Armstrong.

N.L.

15 February 1985

Govt Mach — Rayner — Pt 17



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10 DOWNING STREET

From the Private Secretary

14 February 1985

DEREGULATION

The Prime Minister has seen the minutes of 11 February from the Minister without Portfolio and 6 February from Sir Robin Ibbs about the follow-up to the scrutiny of burdens on business. She would be happy, as suggested in those minutes, to chair an early meeting of senior Ministers to give a general steer to the work arising from the scrutiny recommendations. This has been arranged for 26 February. The Prime Minister has agreed to the establishment of a Group under Lord Young with the membership proposed.

DF

The Prime Minister considers it is necessary to distinguish the work of the group from that of the further Group under Lord Young's chairmanship envisaged in the ambit of the Ministerial Sub-Committee on Competition Policy (E(CP)). The deregulation group should concentrate on minimising the burden of regulation on business, leaving Lord Young's other group to cover promoting competition by removing obstacles to enterprise. She therefore suggests the following slightly revised terms of reference:

> "To consider the Central and Departmental Reports of the Scrutiny of Administrative and Legislative Burdens on Small Firms; to consider what follow-up action should be taken; to prepare a timetable for action, to accelerate and to monitor progress thereafter; more generally to consider how the burden of regulation on the economy can be kept to a minimum; and to make recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A))".

She considers that the question of early publication of a version of the central scrutiny report requires specific discussion at her meeting; it could be unhelpful for the Government if early publication led to the creation of expectations of early action which were later disappointed as Ministers decided not to accept particular recommendations. It would be helpful, therefore, for officials of the Efficiency Unit and the Department of Trade and Industry to prepare a draft version of the published report to be considered at the meeting.

I am sending copies of this letter to Margaret O'Mara (H M Treasury), Callum McCarthy (Department of Trade and Industry), Hugh Taylor (Home Office), John Ballard (Department of the Environment), Steve Godber (Department of Health and Social Security), David Normington (Department of Employment), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), Paul Madden (Mr Trippier's Office), Richard Hatfield (Cabinet Office) and Ian Beesley (Efficiency Unit).

ANDREW TURNBULL

Leigh Lewis, Esq.,
Office of the Minister without Portfolio

Ref. A085/481

PRIME MINISTER

Deregulation

The Minister without Portfolio's minute of 11 February makes proposals for carrying forward work arising from the report of the scrutiny of burdens on business. This is an important report, and decisions on it could have far-reaching effects on a wide variety of people. Eventual decisions (eg on simplifications of planning procedures, or the health and safety at work legislation) will need careful presentation if they are to secure the support of the general public; and it will be important, in seeking to make public regulation more "business-friendly", to minimise the additional burdens which could arise for Government (notably in the areas of VAT and national insurance contributions and benefits). I therefore agree with the Minister's proposals for the follow-up study of the scrutiny recommendations, and in particular I agree that it would be sensible for Lord Young's Group to plan on putting recommendations to E(A) by the end of June.

2. The first step will be to arrange a meeting under your chairmanship to give a general steer to the work of the new Group, which would be formally established immediately after that meeting. I agree that the membership of the Group should be as proposed by Lord Young, covering the Departments which took part in the scrutiny.

3. As to the terms of reference, I think it would be helpful if this Group concentrated on minimising the burden of regulation on business, leaving it to the further Group Lord Young might chair within the E(CP) ambit (where he has been asked to put forward a programme of studies of possible action by the Government in the general area of improving competition - see E(CP)(85) 1st meeting minutes, item 3) to cover promoting competition by removing obstacles to enterprise. This would suggest somewhat simpler terms of reference for the scrutiny Group, which would nevertheless give them scope for a general review of the burden of regulation

and of possible action to keep that burden to the minimum. On that basis I suggest that the terms of reference should be:

> "To consider the Central and Departmental Reports of the Scrutiny of Administrative and Legislative Burdens on Small Firms; to consider what follow-up action should be taken; to prepare a timetable for action, to accelerate and to monitor progress thereafter; more generally to consider how the burden of regulation on the economy can be kept to a minimum; and to make recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A))."

4. Lord Young proposes that the Efficiency Unit and the Department of Trade and Industry should prepare a version of the central scrutiny report for publication around the end of this month. It would be sensible for officials concerned to begin work on this; but I think Ministers may find it desirable to think further about the timing of publication. The recommendations are not entirely straightforward, and not all of them may in the end be judged acceptable; but publication in the near future of a report by a selected group of officials could lead to heavier pressure on the Government to follow their recommendations at the first opportunity. I suggest that your meeting should address this question, if possible on the basis of a version of the report prepared for publication.

5. If you are content on this basis, I suggest that your Private Secretary might write to Lord Young's office on the lines of the attached draft. Following your initial meeting we shall take the formal steps to establish the new MISC Group.

RCA

ROBERT ARMSTRONG

13 February 1985

~~DRAFT~~ LETTER FROM THE PRIME MNISTER'S PRIVATE SECRETARY TO THE PRIVATE SECRETARY TO THE MINISTER WITHOUT PORTFOLIO

copies ~~to the Private Secretaries to~~ the Chancellor of the Exchequer, ~~the Secretary of State~~ for Trade and Industry, ~~the Parliamentary Under Secretary of State~~, Department of Trade and Industry (Mr David Trippier) ~~and~~ Sir Robert Armstrong, and to I B Beesley Esq, Cabinet Office (Efficiency Unit)

DEREGULATION

The Prime Minister has seen the minutes of 11 February from the Minister without Portfolio and 6 February from Sir Robin Ibbs about the follow-up to the scrutiny of burdens on business. She would be happy, as suggested in those minutes, to chair an early meeting of senior Ministers to give a general steer to the work arising from the scrutiny recommendations, ~~in advance of the establishment of Lord Young's Group which will carry forward that work~~.

The Prime Minister considers ~~that it would be helpful if the Group established in response to this scrutiny were to concentrate on minimising the burden of regulation on business, leaving it~~ to the further Group under Lord Young's chairmanship envisaged in the context of the work of the Ministerial Sub-Committee on Competition Policy (E(CP)), to cover promoting competition by removing obstacles to enterprise. She ~~agrees to the membership of the Group proposed by Lord Young, which would have~~ the following slightly revised terms of reference:

"To consider the Central and Departmental Reports of the Scrutiny of Administrative and Legislative Burdens on Small Firms; to consider what follow-up action should be taken; to prepare a timetable for action, to accelerate and to monitor progress thereafter; more generally to consider

how the burden of regulation on the economy can be kept to a minimum; and to make recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A))."

~~The Prime Minister agrees that it would be helpful~~ for officials of the Efficiency Unit and the Department of Trade and Industry to prepare a draft version of the ~~central scrutiny~~ (published) report ~~for possible early publication~~ to be considered at the meeting. She considers, ~~however~~, that the question of early publication (of a version of the central scrutiny report) requires specific discussion at her meeting; it could be unhelpful for the Government if early publication led to the creation of expectations of early action which were later disappointed as Ministers decided not to accept particular recommendations. It would be helpful, therefore,

I am sending copies of this letter to Margaret O'Mara (Chancellor of the Exchequer's Office), Callum McCarthy (Department of Trade and Industry), ~~P D~~ Paul Madden (Mr Trippier's Office), Richard Hatfield (Cabinet Office) and Ian Beesley (Efficiency Unit).

Hazel Taylor (Home Office), John Ballard (Department of the Environment) Steve Godber (Department of Health and Social Security) David Norrington (Department of Employment) Alex Galloway (Chancellor of the Duchy of Lancaster's Office)

AT

13 FEB 1985

cc BT

10 DOWNING STREET

From the Private Secretary

Prime Minister (T)

RTA has commented on the minutes from Lord Young and Robin Ibbs. He agrees with the new recommendations except that he feels the terms of reference need to be more tightly drawn in order to avoid overlap with E(CP).

Agree RTA's recommendation?

AT

13/2

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

11 February 1985

Dear David

SCRUTINY OF BURDENS ON BUSINESS

Thank you for sending me a copy of your letter of 23 January to Hugh Taylor about the Scrutiny of Burdens on Business. You asked for the reactions of my Minister to the broad thrust of the proposals in our Departmental Scrutiny.

My Department's report covers planning and environmental controls as well as building regulations for which the Department is directly responsible. It also deals with the relationship between local authorities and small firms where of course the Department's influence is less direct.

The report makes some 35 recommendations. These include the introduction of Simplified Planning Zones where existing planning and building controls would be relaxed; giving guidance on how far people working from home need planning permission; and encouraging local authorities to be receptive to the interests of small firms. The report recommends the early completion of a review of building regulations taking special account of compliance costs. It argues that local authorities should be encouraged to give greater priority to the interests of small firms, for example through setting up "one stop shops" where small firms would be actively helped to obtain the necessary approvals.

The report also refers to the need to improve coordination between the DOE and DTI over the policy towards local authority advice and assistance to industry.

My Secretary of State and other Ministers here are anxious to minimise the burden of the Department's regulatory activity on small firms. Some progress has been made, which the report acknowledges. But more can be done and the report contains a number of constructive suggestions. Mr Jenkin has therefore welcomed the Report and has taken steps to ensure that the recommendations are considered forthwith. To this end, he has instructed the Department set in hand an action document and agreed the appointment of Action Officer who will report to a steering group of senior officials from the policy directorates involved.

One or two of the recommendations are relevant to the work now in hand in the Ministerial Group on Small Firms (MISC 108) and will no doubt be considered there or in another forum together with other interdepartmental issues arising from the Scrutiny. The remainder will be followed up directly here by the steering group.

I am copying this letter to Leigh Lewis (office of the Minister without Portfolio), other Private Secretaries to Ministers in charge of Departments, Ian Beesley (Efficiency Unit) and to Richard Hatfield (Cabinet Office).

Yours ever

Alan Davis

A H DAVIS
Private Secretary

David Barclay Esq

Gottsched: Raynal: pt 17

E.R.

8 February 1985

PRIME MINISTER

David Young is going to talk to you about deregulation on Monday.

I attach a preliminary list of possible regulations and statutory provisions that could be abolished, amalgamated or simplified, in order to improve the lot of the small businessman. Peter Warry is working on a selected list from the Ibbs scrutiny, the CBI and IOD submissions, and from his own understanding of the law as it relates to business.

When we have a final list of suggestions, we will put it to David. This list at the moment is just to give you an idea of the magnitude of the task and the scope there is for improvement.

JOHN REDWOOD

E.R.

COMPANY ACCOUNTS AND ADMINISTRATION

S Reduce prescribed content of accounts for small firms

C Relief from full filing requirements for subsidiaries

C Dormant companies to make only single line Annual Return

S,C Exempt small shareholder managed companies from statutory audit

D Changes in company circumstances only to be reported in Annual Return

S Combine accounts and annual return into a single requirement

S Send out annual return form six weeks before it is due

S Reduce annual filing fee

C Non-disclosure of small loans to directors

COMPANY LAW

C Replace Memorandums of Association by short form statement

C New "micro" company to simply confer some benefit of incorporated status

C Reinstate register of trading titles

C Help protect minorities by Ombudsman to review contested cases

C Remove requirement for trading certificates under 1980 Act

TRADING STANDARDS

S,C Repeal Bargain Offers order and replace in reduced form

C Repeal The Food (Prohibition of Repricing) Order 1978

C Single authority for enforcing trading standards in overlap areas

S,C Strengthen statutory defences for honest traders against misdescription

C De minimis or little injury defences to be introduced

C Quality of other similar goods for sale as defence in Food Act

C Trade Descriptions Act not to be used if action under another Act possible

S General statutory duty that goods are safe but not detailed laws

S Compliance costs/benefit to be explicitly used in setting safety standards

S Review regulations on night dresses, carry cots, prams, oil lamps etc

WEIGHTS AND MEASURES

C Complete metrication in food retailing

S Simplify prescribed quantitites requirements for pre-packed food

S Continue to oppose EC proposals on "Unit Pricing"

C Apply average weight system to catchweights as well (check DTI)

C More self certification/approvals in weights and measures area

C 3 months advance notice before any change in technical criteria

C Legislation and certification should take account of latest technology

C Quicker and cheaper approval of new measuring techniques

C Only parts critical to weighing accuracy to be certified

C Modules rather than whole measuring systems to be approved

CONSUMER CREDIT

S Reduce or end Acts coverage of commerical borrowing

S Reduce or end licensing of credit businesses

S Simplify lenders statutory obligations

S Simplify advertisements regulations

S Abandon quotations regulations

S Simplify documentation for credit agreements

STATISTICAL RETURNS

C Statistics to be in form that businesses normally use themselves

S,C Improve layout and presentation of forms

S Try to exclude very small firms altogether

S Minimise sample sizes and spread burden evenly

S New forms to be tested by initial pilot exercise

S Post hoc monitoring with user firms to be instituted

PAYE AND NIC

S Improve starter pack by contents list and description of total system

S Harmonise pay definitions for PAYE and NIC

S Make PAYE and Class 1 NIC non-cumulative but more study

S End separate visits by PAYE and NI inspectors

S Consider quarterly payment by employers of PAYE and NIC

PAYE

P,D Give right to be treated in all respects as self-employed

S Make binding one departments decision on self-employment on others

C More constructive response to part-time and self-employed workers

C? Move to US style self-assessment of tax

C Payslip to be used in lieu of P60 and perhaps P14

C Raise the P11D threshold

C Make all P11D expenses non-tax allowable to employer

C Omit allowable expenses from P11D reporting

C? Consolidate Schedule E payments in kind and PAYE

NATIONAL INSURANCE

S Reduce number of mariners' NIC rates

S Changes to small earnings exception on class 2 NIC

S Enquiries on past years' NIC be answered from P60 rather than by employers

S Combined visits also for Class 2 and 4 NIC

STATUTORY SICK PAY

P Employers to contract out of SSP refund and NIC contribution

S Employers forego SSP refunds in return for reduced recording

S Changes to definitions of qualifying days for SSP

S Simpler SSP recording system in line with above

S The "linking letter" to be sent direct to the employer

PENSIONS

C Employees to be able to contribute to own pension fund separate from employment

C Abolition of some of the Inland Revenue Limits for pensions

C Simplify regulations relating to "franking"

C End over-riding legislation to allow schemes to be complete on their own

C Do not introduce Public Deposit Registry of pension schemes

COMPANY TAX CHANGES

D Abolish all or some stamp duty

P Abolish token stamp duty payments

D Abolish Development Land Tax

D 7 year cut off for capital gains tax

D Exempt business assets from capital transfer tax

D £5,000 of profits tax free for small business start ups

C End petroleum licence holders responsibility for tax of defaulting subcontractors

C Allow parent companies to take on tax assets of liquidatable subsidiaries

TAX ADMINISTRATION

D Government to pay business for collecting VAT, PAYE, etc

C Existing tax law to be codified and consolidated

C More published guidelines on Revenue interpretation of the law

C Inland revenue to be less zealous in blocking little loopholes

C Ensure timely publication, eg of Finance Bill

C Better communication within Inland Revenue so requests not repeated

C? Merge Inland Revenue and Customs and Excise

CONFIDENTIAL

PP.

PRIME MINISTER

Agree subject to views of RTA? and colleagues?
AT 8/2

DE-REGULATION

Following our discussion on 22nd January, I have been giving some thought to how we can best proceed with the follow-up to the scrutiny of burdens on business and also my wider remit to examine ways of removing regulatory obstacles to enterprise as a whole. I have now also seen Sir Robin Ibbs' minute to you of 6th February.

2. I agree it would be an excellent idea if, as soon as colleagues have had sight of the central scrutiny report (due on 8th February), you were to hold an ad hoc meeting. This could serve both to review the findings of the scrutiny and to launch the Ministerial Group under my chairmanship to take the work forward as Robin Ibbs suggests.

3. My concern, however, is with the timing envisaged by Robin Ibbs in his minute. As you know, I leave for China on 27th February and will not be back in London until 13th March. I would certainly hope that your meeting could be fitted in between your return from the U.S.A. and my departure for China but I clearly could not undertake further work thereafter, through my Group, in time for checklists or a revised version of the report to be issued by the end of the month. However, I do not think this need hold matters up in practice.

4. I would suggest the following procedure:

(a) your meeting takes a first look at the recommendations of the central report and at Ministerial reactions to the Departmental reports, identifying any particular points to which you would wish us to give priority.

..../Cont.

CONFIDENTIAL

(b) the Ministerial group under my chairmanship is formally established immediately after your meeting. I attach suggested terms of reference and composition which draw on your Private Secretary's letter of 23rd January. You may have further comments on the work and composition of the Group.

(c) around the end of February, while I am in China, a suitable version of the central report is published and at the same time it is announced that I will be co-ordinating the follow-up work. (I am assuming that the DTI and the Efficiency Unit will take the lead in preparing the report for publication, working jointly with my Enterprise Unit.)

(d) my Group meets for the first time on my return from China, on the basis of preparatory work by the two Units.

(e) the Group reports its recommendations to E(A) by the end of June probably in the form of a draft White Paper to be published before the Recess, in time for possible legislation in the next session if required.

5. I believe this covers all the action points identified by Robin Ibbs with the exception of (4) - identifying elements of a package for early implementation, possibly in the Budget. Even if I were not to be away in China, I am far from sure that it would be possible to put some of the recommendations into effect in that timescale and I think that the result might be to weaken the impact of the later package. I believe for Budget purposes the publication of the revised version of the report and the announcement of how we plan to follow it up should provide a sufficient assurance of the importance we attach to this aspect of enterprise.

6. I am sending copies of this minute to Nigel Lawson, David Trippier, Sir Robert Armstrong and Sir Robin Ibbs.

8 Feb 1985

DIY

CONFIDENTIAL

ANNEX

SUGGESTED MINISTERIAL GROUP ON DE-REGULATION

TERMS OF REFERENCE

"To consider the Central and Departmental Reports of the Scrutiny of Administrative and Legislative Burdens on Small Firms; to consider what follow-up action should be taken; to prepare a timetable for action, to accelerate and to monitor progress thereafter; to consider the general question of regulatory obstacles to enterprise, how existing obstacles might be removed and future unnecessary burdens avoided; to consider the scope for introducing government-wide review mechanisms; and to make recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A))."

COMPOSITION

Junior Ministers, supported by officials, from the Departments involved in the scrutiny, i.e.

Treasury (with Inland Revenue and Customs & Excise)
Department of Trade & Industry
Department of the Environment
Home Office
Department of Employment
Department of Health & Social Security

- together with representatives of the Policy Unit, the Efficiency Unit and the Enterprise Unit.

CONFIDENTIAL

8 FEB 1985

Seen by DB
9.12

JU954

PRIME MINISTER

SCRUTINY OF BURDENS ON BUSINESS

You asked for my reactions to the broad thrust of the proposals in the DTI study.

I am strongly in favour of positive action to relieve business generally, and small firms in particular, from the burden of unnecessary administrative and legislative requirements. Such action contributes directly to my Department's aim of promoting a climate for business which is as conducive to enterprise and competition as that in any other industrialised country.

I am sure that other Departments share this view and I look forward to co-operating with them, with the help of the Efficiency and Enterprise Units, on urgent follow-up to the departmental and central scrutinies. In this context I have asked David Trippier to represent this Department on the steering group of Ministers which I understand David Young is to chair.

To judge from the evidence received by the scrutiny team the DTI itself is not widely seen as a major offending regulator. Nonetheless the team has made some positive

recommendations, principally in the fields of company and consumer law, including consumer credit, which I intend to pursue wherever possible. They are not free from difficulty. Several need legislation, and where they touch on sensitive consumer protection matters may encounter opposition from the consumer lobby.

On company law, the changes recommended fall into two categories. The first comprises changes in procedure designed to reduce compliance costs but within the existing company law framework. The recommended changes are to rationalise the filing requirements and reduce the fee. I can support these recommendations on filing and am having examined the subject of fees. A bid for a contingent bill has been put in for the 1985/86 session.

The second category of changes recommended are substantial. They are to exempt some, possibly all, small companies from the statutory audit and to reduce the prescribed contents of accounts for them. The report recommends that these changes should be within the existing framework of community law and should be subject to consultation.

Both proposals would run counter to our general strategy on investor protection. Opinion in the business community on both proposals is likely to be divided. The Department sought views on both these options in 1979 and the views expressed are

reflected in the existing legislation. However, the report advances some persuasive arguments for considering both changes. The Department will seek views on them in the light of experience with the provisions of the 1981 Companies Act.

The proposed changes in statutory audit requirements are likely to need primary legislation. Some changes in the prescribed contents of accounts could be made by subordinate legislation. We will look actively at these possibilities.

The proposals on Consumer Credit fall into two categories: changes within the existing structure, and longer term options for structural change, including the possible abolition of licensing. We will follow up in more detail the proposals for a reduction in the scope and detail of the present requirements in the context of the the Action Document. However, there is a problem in relation to the timing of any change in the present system. The present position represents the results of prolonged action since the early 1970s to get the generally accepted Crowther proposals into place. The resultant Consumer Credit Act 1974 fully comes into effect only from May this year. It would be strange to signal at this stage that the whole structure, to which the financial community has just about adapted, and which the consumer movement welcomes, is going to be uprooted. To do so would cause unnecessary worries and lobbying

activity as illustrated by some of the reaction to the leaked document. I agree with the scrutiny report itself that there is a case for a period of stability, so that the timetable for any such structural reform should be an extended one.

On False and Misleading Promotional Claims, the recommendation to repeal the Bargain Offers Order is covered by the proposals for a Consumer Goods and Services Bill at present before QL Committee. So is the recommendation to strengthen statutory defences as far as offences under that type of promotional claim are concerned. The suggested option about the types of bargain offers to be covered by the proposed Bill will be followed up in discussions starting later this month, with the trade and other interested parties on the new statutory code of practice envisaged in the Bill.

There are various recommendations on Consumer Safety, including greater use of cost-benefit analysis techniques, which is to be welcomed. They are in line with the provisions on safety in the proposed Bill mentioned in the previous paragraph. The principle of fully recognising compliance costs in establishing sound modern standards of safety and the suggestion to review the need for both existing and future safety regulations with a view to reducing their number can only be implemented when the proposed general safety duty becomes law.

There is merit in rapid progress on the items which require new legislation. Obviously for some aspects this has to be a matter

for later years. But on Consumer Safety and False and Misleading Price Information we are ready to go in the 1985/86 programme. It would be a pity, and a blow to the desire to respond quickly and positively to the present initiative, if a 1985/86 slot could not be found for the proposed Consumer Goods and Services Bill. I was grateful to QL for their sympathetic reception to the points I put on this at their meeting yesterday.

There are also recommendations relating to the weights and measures legislation, unit pricing and statistics which I shall want to pursue, where possible.

I am sending copies of this minute to Willie Whitelaw, Nigel Lawson, Leon Brittan, Patrick Jenkin, Norman Fowler, Tom King, David Young, Sir Robin Ibbs and to Sir Robert Armstrong.

NT

N T

8 February 1985

Department of Trade & Industry

QUEEN ANNE'S GATE LONDON SWIH 9AT

8 February 1985

Dear David,

nlopm
DmB
8/2

SCRUTINY OF BURDENS ON BUSINESS

Thank you for your letter of 23 January about the arrangements for following up the scrutiny of burdens on business, which we have noted.

In your letter you said that the Prime Minister would be grateful for an indication of the Home Secretary's reaction to the broad thrust of the proposals in the Home Office part of the scrutiny. The Home Secretary is keenly aware of the importance that the Prime Minister attaches to this exercise as a means of stimulating growth in this sector of the economy. While the scrutiny tends to confirm the earlier impression that the scope for the Home Office to make a contribution is fairly limited, especially when compared with some of the other central Departments, the Home Secretary welcomes the opportunity that it gives to consider ways in which any burdens imposed by Home Office legislation might be reduced, and he will be maintaining a close interest in the follow-up action.

As you know, the Home Office scrutiny concentrated on fire precautions, and the Home Secretary was pleased to note the conclusion that most fire prevention officers were cost conscious, and that fire precautions featured fairly low in the list of the most frequently mentioned Government requirements causing burdens on small businesses. He does not favour any radical deregulation in this area - an option which was floated but largely dismissed in the Report - and was pleased to see that Sir Robin Ibbs had reached the same conclusion. But some useful suggestions have been made for improving the way in which fire precautions controls are applied to small businesses and these will be carefully considered, both in the context of the existing system and in relation to proposals for new fire precautions legislation which the Home Secretary hopes to bring forward shortly.

As for the other Home Office subjects covered in the scrutiny, the Home Secretary does not feel that any of these call for special comment at this stage, but all the recommendations and options will be given careful consideration in the preparation of the action plan.

I am sending a copy of this letter to Leigh Lewis (Office of the Minister without Portfolio), other Private Secretaries to Ministers in charge of Departments, Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office).

Yours ever,

Hugh Taylor

H H TAYLOR

David Barclay, Esq.

GOVT MACHINERY; Rayner Programme: Pt. 17

28 FEB 1985

IN CONFIDENCE

BF 11 26 Feb meeting

PRIME MINISTER

BURDENS ON BUSINESS

I enclose a copy of the final, central report from the "burdens on business" scrutiny team, which I have just received. You will see there is a summary of key findings with an outline action programme at the beginning. in att folder.

2 I am sending a copy of this letter, with enclosure, to Leon Brittan, Nigel Lawson, Patrick Jenkin, Norman Fowler, Tom King, David Young, Grey Gowrie, Sir Robin Ibbs and Sir Robert Armstrong.

D.T.

DAVID TRIPPIER

Department of Trade and Industry
7 February 1985

JH5ARC

LPSO

MBPM

DB.

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

David Barclay Esq
Private Secretary
Prime Minister's Office
10 Downing Street
LONDON SW1

7 February 1985

Dear David,

SCRUTINY OF BURDENS ON INDUSTRY

Your letter of 23 January asked for the reactions of my Secretary of State to the broad thrust of the scrutiny undertaken in the DE Group.

My Secretary of State very much welcomes the report as identifying and bringing together a very wide range of requirements and responsibilities imposed on businesses which urgently need to be questioned and suggsting ways in which small firms in particular could be assisted with readier access to appropriate information and advice on employment matters. It rightly identifies employment protections (on which there have already been discussions in E(A)) and health and safety requirements as being of particular concern.

An underlying theme is the inhibitions European Directives have come to impose and this points clearly to the essential need to maintain our stance of resisting new initiatives in the social field which would impose additional and unnecessary burdens. In this we now have allies among the Partners, and the need to move away from Directives towards removing obstacles to employment and increasing labour market flexibility will be my Secretary of State's main theme at a meeting with his EC colleagues on 8 February. The possibility of attempting to secure modifications to existing EC requirements should, as the scrutiny points out, not be neglected. More generally, the scrutiny identifies the need to consider much more carefully than in the past what it terms "the small firm dimension" of new domestic policies and administrative arrangements. My Secretary of State strongly endorses this conclusion.

My Secretary of State has already put in hand a thorough analysis of all the scrutiny's recommendations and suggestions. On some action has already been taken. On others decisions have already been reached eg the options for Wages Councils, some employment protections. On the few outstanding points in regard to the latter work is already in hand as agreed by E(A). The Health and Safety Commission has been asked to respond quickly with its views on those matters which fall within its responsibilities and has already done so positively on some of the recommendations. Simultaneously the Department is itself considering the action that needs to be taken. Action will almost certainly involve main legislation.

I am sending a copy of this letter to Leigh Lewis (Office of the Minister without Portfolio), other Private Secretaries of Ministers in charge of Departments, Ian Beesley (Efficiency Unit) and Richard Hatfield (Cabinet Office).

Yours sincerely

David Norman

CONFIDENTIAL

cc Leigh Lewis (MWP).

PRIME MINISTER

BURDENS ON BUSINESS: THE COMPLIANCE COSTS SCRUTINY

I have just seen a copy of the central scrutiny report for the first time (you will recall that the scrutiny is being led by the Department of Trade and Industry). My immediate reaction is that in some ways the presentation is rather turgid and unexciting but there are plenty of good suggestions for action. As I am about to leave on a business trip to the Far East and will be away when the report comes to you - I return on 22 February - I give below ideas on how these actions can be achieved.

Given the range of Ministers involved I see no alternative to organising follow-up through an interdepartmental committee, but it will be important to break through the tendency of such committees to search for compromises that offend nobody. You have already taken the first steps to combat this by appointing David Young to lead implementation and asking all Ministers who have taken part to let you know their broad reactions before the central scrutiny report is submitted (around 8 February). But David Young will continually have to fight off the desire to compromise if you are to achieve radical progress.

Ideas that occur to me are:

(1) You seek Sir Robert Armstrong's advice immediately on the membership and terms of reference of a MISC committee to press for rapid consideration, and earliest possible implementation, of the report.

(2) You call in the Ministers who will be on the MISC committee as soon as possible after the central report has been delivered to tell them that you mean business, and perhaps to hear a presentation by the central scrutiny team.

(3) You set the committee a deadline of the end of February to have submitted to you a checklist indicating the best timing that can be achieved for decisions on each recommendation.

(4) You ask the committee, as an early priority, to identify the elements of a package that can be put into effect soon - possibly in the Budget or the proposed Jobs White Paper.

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(5) You instruct David Young to prepare a slightly amended version of the report for publication at the end of this month (which will stand on its own and not assume publication of all the departmental reports).

(6) The Government should also aim to publish its full response to the scrutiny, based on the formal action documents from each Department, before the summer recess .

In my absence the Efficiency Unit is ready to help you in whatever way it can.

I am sending a copy of this to David Trippier at Trade and Industry and to Sir Robert Armstrong.

pp ROBIN IBBS
6 February 1985

(Approved by Sir Robin and signed in his absence.)

10 DOWNING STREET

Prime Minister

Lord Young will report on progress on his various projects. Principal among these is the deregulation exercise. A note by Peter Warry is enclosed

AT 1/2

PRIME MINISTER 1 February 1985

SCRUTINY OF BURDENS ON FIRMS

The burdens scrutiny has completed its work. (Report due on 8 February). They have come up with over 150 recommendations; some of detail and some of real substance.

You have already minuted that Lord Young is to follow up this work and have asked colleagues to give their reactions to their own departmental reports, also by 8 February. You could call a meeting of colleagues before Lord Young starts in order to give momentum to his work and to endorse serious study of some of the bolder options which might otherwise be resisted.

You could ask Lord Young at what point he thinks your intervention will be best time

An early meeting of Ministers could draw up terms of reference and also decide whether the central report should be published to coincide with the 'jobs paper' and so reinforce its message.

Some of the bolder policy options, not all of which are in the scrutiny, are to make PAYE non-cumulative and to harmonise definitions with National Insurance. The Report also suggests that the two could be merged but this runs the grave danger of giving an apparent 40% tax rate.

+ loss of contributions principle

On VAT they were unable to find any major simplifications except raising the threshold which is constrained by EC rules. However, the sum of the minor changes on VAT and PAYE could together produce a major improvement for small businesses.

Changes to the administrative rules on company law and accounts will have a very beneficial impact. The bold move is to a general statutory duty for consumer safety and dismantling all the detailed (and often inappropriate)

E.R.

regulation in this area. A similar approach could be taken on Health and Safety at Work, particularly if the burden of proof is shifted from the employer to the enforcing authorities.

E(A) has already considered some aspects of employment protection but easily the best move here is to give people the freedom to be self-employed. Employer and 'employee' could opt out of all the employment legislation and ideally out of PAYE as well. (The contract society).

Sketchy evidence suggests that we could be spending £5 million on fire precautions for each life saved in factory fires, but there appear to be no viable radical options. Greater cost consciousness and less arbitrary enforcement together with exemptions for certain premises may be the best we can do.

The report recommends simplified planning zones and a host of minor improvements. One option is to automatically approve planning applications if councils fail to object within one month. Compliance costs must be taken into account in building regulations: small buildings and change of use should be exempted. Building regulations could be abandoned totally in favour of relying on insurance.

Generally the scrutiny identifies the need to introduce greater compliance cost consciousness and a less authoritarian approach by inspectors. It wants more general duties and less detailed regulation; better presentation of information and more accessible communication with officials.

All new legislation must be vetted for its compliance cost effects and all existing legislation should gradually be reviewed. All statutory instruments should have a 'sunset' clause whereby they expire after a set period.

E.R.

One good idea, not yet in the report, is the introduction and wide availability of computerised 'expert systems' to lead businessmen through the legal maze. These are question and answer flow charts operated by computer. They could be used to plot the steps for setting up a business or, for example, employment law. They have already been tried with some success for supplementary benefit.

The annex lists some of the regulations that you could already line up for your bonfire of unnecessary burdens.

Peter Warry

PETER WARRY

ANNEX

CANDIDATES FOR THE BURDENS BONFIRE

Repeal Stands for Carry Cots (Safety) Regulations 1966
Repeal Nightdresses (Safety) Regulations 1967
Repeal Perambulators & Pushchairs (Safety) Regulations 1978
Repeal Oil Heaters (Safety) Regulations 1978
Repeal Oil Lamps (Safety) Regulations 1979
Repeal Scrap Metal Dealers Act (part)
End requirement to notify employment of young people
End requirement to display extracts of Factories Act etc
Repeal Restrictions on women and young persons' work hours
End licensing of employment agencies
Repeal Bargain Offers order
Repeal Parts of Consumer Credit Act
Abolish Wages Councils
Abolish Industrial Training Boards
Abolish Paid time-off for union duties

10 DOWNING STREET

From the Private Secretary

23 January, 1985

SCRUTINY OF BURDENS ON BUSINESS

The Prime Minister is keen to see progress to remove as many obstacles to entrepreneurial activity as possible and looks to the scrutiny to identify what must be done to lessen the burdens of government on business. When the central report on the scrutiny is submitted early next month the Prime Minister will be asking the Minister without Portfolio, as part of his work on de-regulation, to take the lead in monitoring and accelerating the way in which the recommendations are taken forward urgently to action, working closely with Sir Robin Ibbs and with all the Departments which have taken part in the scrutiny. Meanwhile, the Prime Minister would be grateful if the Home Secretary and other Ministers involved in the scrutiny could indicate their reactions to the broad thrust of the proposals in the relevant departmental scrutinies. She considers it would be particularly helpful to have these by the time the central scrutiny report is expected (8 February).

I am sending a copy of this letter to Leigh Lewis (Office of the Minister without Portfolio), other Private Secretaries of Ministers in charge of Departments, Ian Beesley (Efficiency Unit) and to Richard Hatfield (Cabinet Office).

(David Barclay)

H. Taylor, Esq.,
Home Office.

10 DOWNING STREET

GR

Before letters fms.

DMB 23/1

Prime Minister

There has been some jockeying for position by Sir Robin Ibbs and Lord Young, but they have agreed the compromise at flag A.

Content?

Yes

DMB 22/1

CCJO

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

David Barclay, Esq.,
Private Secretary,
10 Downing Street,
London, S.W.1.

22nd January, 1985

Dear David

SCRUTINY OF BURDENS ON FIRMS

We spoke on the telephone about the minute from Sir Robin Ibbs to the Prime Minister of 18th January which related also to my letter to you of 12th December.

As I mentioned, Lord Young and Sir Robin Ibbs have now had the opportunity to discuss the issues raised. Their agreed view is set out in the attached draft which they would be happy to see reflected in a minute from you, assuming that the Prime Minister was content.

I am copying this letter to Ian Beesley (Efficiency Unit) and Richard Hatfield (Sir Robert Armstrong's office).

Yours ever

Leigh

Leigh Lewis
Private Secretary

GOVT. MACHINERY: Rayner Programme: P+17

DRAFT PRIVATE SECRETARY LETTER TO THE

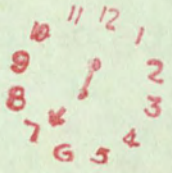
HOME SECRETARY'S OFFICE

SCRUTINY OF BURDENS ON BUSINESS

The Prime Minister is keen to see progress to remove as many obstacles to entrepreneurial activity as possible and looks to the scrutiny to identify what must be done to lessen the burdens of government on business. When the central report on the scrutiny is submitted early next month [the PM] ~~she~~ will be asking the Minister without Portfolio, as part of his work on deregulation, to take the lead in monitoring and accelerating the way in which the recommendations are taken forward urgently to action, working closely with Sir Robin Ibbs and with all the Departments which have taken part in the scrutiny. Meanwhile, the Prime Minister would be grateful if the Home Secretary and other Ministers involved in the scrutiny could indicate their reactions to the broad thrust of the proposals in the relevant departmental scrutinies. She considers it would be particularly helpful to have these by the time the central scrutiny report is expected (8 February).

I am copying this letter to Leigh Lewis in Lord Young's office, other Private Secretaries of Ministers in charge of Departments, Ian Beesley in the Efficiency Unit, and to Richard Hatfield in Sir Robert Armstrong's office.

22 JAN 1985



CC/NO

DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

R/PSO/348/85

PPS 2

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

22 January 1985

nbpm

R23

Dear Gwyn

GOVERNMENT PURCHASING

Thank you for your letter of 31 December.

I understand and share your concern to set achievable targets for cost reduction. But it is clearly difficult to measure efficiency savings in a programme dealing with non-standard units of output, as in the case of the road programme. Value for money lies not only in the construction cost but also in the frequency and cost of maintenance over a long period. You have my full support in seeking improvements to reduce and control costs. This is my main objective in considering both the Endacott Report and the Vaizey and NAO Reports.

As I have said, my officials are well advanced in considering the Endacott Report and on the particular recommendation you mention in paragraph 3 of your letter, they are proposing that a basis for procedural change should be discussed with the road construction industry.

After consulting more widely and forming views on the impact of the other linked Reports (copies of which will be made available), my officials will be discussing

with yours the issues arising for roads purchasing from the Endacott and central reports, the aim being to produce a comprehensive response by 1 April. Like you, I hope that the timetable will not become more protracted. Could I suggest that my officials get together with yours nearer the time to agree on the precise form the action documents on the Endacott and the central reports should take? I do not want the material in the action documents to be repetitive, but if there is material in the central report bearing on our roads purchasing activities which is not covered in our response to the Endacott report, then it will of course have to be dealt with in the action document on the central report.

Turning to your comments on my proposed examination of our more routine purchasing activities, which my officials have described to yours in detail, I entirely agree that any interim statement we produce must be based on solid facts. I am sure you will be as aware as I am that reviews which are not so based will lack credibility. For this reason, I do not think it is realistic to set a firm deadline that the fact-finding part of the exercise will be completed within one month. The range of the Department's purchasing activities is extremely varied, and no central records are kept. What I think the review officer will be able to do during the coming month will be to complete a very quick survey of the field to identify the scale of the problem, and perhaps analyse in detail a few areas if there are any which are particularly significant in terms of the volume of expenditure, so that recommendations on these could be produced for an April action statement. I hope you will find this an acceptable way of proceeding. The review officer, Mr Overton, is now in post, and if your officials would like to discuss the way forward with him and with our other contact points, I should be happy for them to do so.

The terms of reference of the review are:

"a. to examine and analyse the Department's arrangements for purchasing goods and services, the purchases made and stores procedures, apart from the procurement of new roads schemes and extra-mural research contracts;

b. in the light of the MPO report "Government Purchasing" to make recommendations for the future management of the work examined under (a) above and consider the application of those recommendations to non-departmental public bodies."

My concern like yours will be to secure better value for money. Until we know what the facts are, I cannot say how far that will best be achieved by implementing the recommendations of the central report. However, I certainly do not want my review of routine purchasing to go over ground already covered in the central report, and the review officer will want to take up the offer of discussion with your people about the management of stores. I note your assurances about the central report's respect for FMI principles, and I am sure you will also agree on the importance of keeping in mind the lessons learned from the Wardale/Touche Ross report about the precautions necessary to avoid fraud and corruption.

To sum up, we hope to have completed a detailed action statement on the Endacott report by 1 April, and within the same timetable we should have completed a preliminary survey of our routine purchasing activities with a view also to make recommendations on some of the

more significant of them. I have already dealt with the question of targets on highways procurement in previous correspondence. On routine purchasing I will see what can be done to set targets by 1 April for those activities we have been able to examine in detail.

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.

NICHOLAS RIDLEY

CC NO.

Await further minute from Lord Young

PRIME MINISTER

SCRUTINY OF BURDENS ON FIRMS

I have seen the minute from David Young's office of 12 December - Attached. about how to follow up this scrutiny.

Reports by the individual departments have been submitted to the Ministers concerned and I expect the central report to be available on 8 February. From what I have seen of the work so far, I think it will be a good idea to put one Minister in the lead to secure prompt and imaginative implementation of the findings across government. Obviously David Young has the time and energy for this.

It is, however, important not to weaken the sense of responsibility in departmental Ministers to respond constructively to what can be done in the areas they control. It will not be helpful if all the difficult problems are merely heaped on David Young. To avoid this I suggest you should not nominate a Minister to take the lead until after you have received and commented on the central scrutiny report. In the meantime, you could usefully ask those Ministers involved in the scrutiny to give you a reaction to the broad thrust of the proposals in the relevant departmental reports, which they received before Christmas, by the time the central report is submitted.

I attach a possible letter from your private secretary on these lines.

I am copying this to David Young and to Sir Robert Armstrong only.

ROBIN IBBS
18 January 1985

DRAFT PRIVATE SECRETARY LETTER TO THE HOME SECRETARY'S OFFICE

SCRUTINY OF BURDENS ON BUSINESS

The Prime Minister is keen to see progress to remove as many obstacles to entrepreneurial activity as possible and looks to the scrutiny to identify what must be done to lessen the burdens of government on business. When the central report on the scrutiny is submitted early next month she will wish to consider how the recommendations can be taken forward urgently to action. Meanwhile, the Prime Minister would be grateful if the the Home Secretary and other Ministers involved in the scrutiny could indicate their reactions to the broad thrust of the proposals in the relevant departmental scrutinies. She considers it would be particularly helpful to have these by the time the central scrutiny report is expected (8 February).

I am copying this letter to the Private Secretaries of Ministers in charge of Departments, to Ian Beesley in the Efficiency Unit, and to Richard Hatfield in Sir Robert Armstrong's Office.

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

31 December 1984

Dear Nick,

GOVERNMENT PURCHASING

Thank you for your letters of 29 November and 17 December.

2. As I said in my letter of 19 November, I fully accept that any unforeseen circumstances which are met in the course of construction projects will push final costs higher than tender prices. Equally, I accept it would be expensive to place all the risk for such cost increases on contractors: their tender prices would reflect the risk of a wide range of events that might never in fact come about.

3. The purpose of my letter was to establish that there might well be scope for savings in expenditure by looking carefully at contracts procedures and by setting stiff but achievable targets for cost reduction. In this respect, among other things, Mr Endacott's report recommends (at paragraph 4.4.27) a trial of an approach which tries to minimise the additional costs of inevitable contract variations. As Mr Endacott says: "...the present scope for artificially inflating extra costs would be much restricted. Similarly, contractors setting out to 'buy' a job by quoting artificially low rates would find it much more difficult to rely on claims to achieve a satisfactory final outcome." In this and in other ways (such as your approach to design/construct contracts) it should be possible to exert closer control over the costs of road construction, to build in incentives for contractors and overall to get better value for the money spent on the roads programme.

4. Our officials will no doubt discuss all these points in the context of your action documents on both the Endacott scrutiny report and the central report.

5. I note from your most recent letter that your action document on the departmental scrutiny cannot be completed until the conclusions of parallel reviews are known. In the circumstances, that makes sense. However, I hope that the action document on the scrutiny report will be complete by the end of March since by then it will be more than 10 months since Mr Endacott submitted his report to Lynda Chalker. One of the key features of the scrutiny approach is the sense of urgency engendered by tight timescales. It would be useful if my officials could see copies of the Vaizey report and the NAO study when available.

6. I am not clear whether you are suggesting that your action document on the central report's recommendations should not cover spending on roads. While there is much in common between the Endacott report and the central one, the latter inevitably goes further. I trust, therefore, that your action document on the central report will reflect the extent to which your current arrangements for the procurement and maintenance of roads meet the recommendations in "Government Purchasing".

7. Incidentally, you refer in your letter of 17 December to the "centralised procurement organisation....of the kind envisaged in the MPO report". I hope there is no misunderstanding here of the central report's thrust. It is very much on all fours with the FMI. What it says is that it is for the end-user (the cost-centre manager) to decide what to buy, when and how much to pay. It is for the purchasing organisation to co-ordinate the buying and to provide managers with access to goods through central contracts. The report does not recommend centralised procurement which can lead to delays and extra costs. Rather, it envisages the purchasing organisation as providing a service - one which managers are free to use or not, so long as they can justify the decision to their managers. That point may have more relevance to your non-roads purchasing.

8. I note that you intend reviewing the whole field of your non-roads purchasing in the next few months. I imagine this will be essentially a fact-finding exercise followed by a quick look at how current arrangements measure up against the report's recommendations. I trust that your review is not meant to duplicate the work already done by the central team. I also hope that, given the support you gave to the report's conclusions at the Prime Minister's meeting on 29 October, your review will concentrate on <u>how</u> the recommendations of the report can be implemented rather than whether they should be.

9. I am concerned about the timescale of your review. You say you do not expect it to be complete before 1 April 1985, when action documents are to be submitted. But you do not give a deadline for the review. I think you need to consider

setting one, both to ensure that the reviewing officer knows what his target is and to help the Central Unit on Purchasing plan its work. You may also want to consider the preparation of an interim action document as a milestone in the review. The Central Unit on Purchasing will need one by 1 April, even if it is not complete in every respect.

10. You will also need to have set by 1 April a target, however broad-brush, for improving value for money. As you know, the Prime Minister expressed strong views at the 29 October meeting on the need for departments to have targets by then. These will ensure that action on the report is taken, will give your officials a spur to improve their performance, and will provide a baseline for monitoring achievements.

11. All this points to you pushing ahead as quickly as possible with the fact-finding part of your review. I would suggest that for that part you require the reviewing officer to have completed this work within, say, one month of starting. This would enable the interim action document to be based on solid facts.

12. The reviewing officer will need to keep in close contact with the central team in the MPO and with the central unit when that is established. Also, he may find it helpful to discuss with my officials how he is to tackle the question of management of stores. We have recently done a great deal of work in this area and it would be beneficial for there to be contact between them.

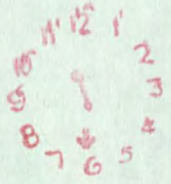
13. I am copying this letter to the Prime Minister, Leon Brittan, Michael Heseltine, Patrick Jenkin, Peter Rees, Janet Young, Norman Lamont, Timothy Raison, Tony Newton, Sir Robert Armstrong and Sir Robin Ibbs.

Yours,

Ley

GOWRIE

4 JAN 1985



10 DOWNING STREET

From the Principal Private Secretary

24 December, 1984.

Dear John

Scottish Office: Value for Money Seminar

Many thanks for your letter of 18 December. I am perfectly happy with the amendment which you suggest to my record of 28 November, and I am circulating a copy of your letter and this one with the request to other recipients that they make the necessary amendment.

I am sending copies of this letter to Richard Broadbent (Chief Secretary's Office, HM Treasury), Paul Thomas (Office of the Chancellor of the Duchy of Lancaster), Sir Robert Armstrong, and Sir Robin Ibbs.

Yours sincerely,

Robin Butler

J.S. Graham, Esq.,
Scottish Office.

YdS

CC 100

NBPM

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

David Barclay Esq
10 Downing Street

21st December 1984

Dear David

IMPLEMENTATION OF EFFICIENCY SCRUTINIES

I have seen a copy of Leigh Lewis' letter to you of 12 December, proposing an inter-Departmental group of Ministers and officials to consider the recommendations of the scrutiny on administrative and legislative burdens on small businesses and propose action. My Secretary of State does not normally consider that this type of group is needed, but, given the importance of this particular scrutiny to the key area of enterprise and deregulation, he thinks that there is a case for it in this case. Mr Whitney is the Minister here who has been taking a special interest in this scrutiny and, if it is agreed that the inter-Departmental group should be set up, my Secretary of State suggests that he should be a member.

I am copying this to Leigh Lewis, Private Secretaries to Ministers in charge of Departments and to Richard Hatfield (Cabinet Office).

Yours sincerely

S H F HICKEY
(Private Secretary)

28 DEC 1984

CENO.

Department of the Environment
2 Marsham Street London SW1P 3EB
Telephone 01-212 7601

Minister for Housing and Construction

NSPM

My Ref: G/PSO/46450/84

19 December 1984

Dear Greg.

GOVERNMENT PURCHASING

You sent to Patrick Jenkin a copy of your letter of 19 November to Peter Rees about publication of the MPO report and wrote to me on 28 November about the action plan which I had sent to you proposing implementation of the recommendations in our own report on the contract and procurement procedures in the Crown Suppliers.

Now that the MPO report has been published, I confirm that The Crown Suppliers, DOE and the PSA, will be producing action plans as requested, and that these will be discussed with MPO as they are developed.

Contact points in these organisations have been notified to MPO at official level; they are listed in the attached sheet.

Copies of this letter go to the recipients of your letter of 19 November.

Yours Ian.

IAN GOW

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

THE CROWN
SUPPLIERS

Contact points for discussion on implementation of MPO, and Departmental reports on Government Purchasing.

The Crown Suppliers:

Mr A H Pollington
Room 705
Southbridge House
Southwark Bridge Road
London SE1 9HQ

Tel: 01-928 2044 Ext 577

PSA:

Mr J Quinlan
Deputy Director of Contracts
Room P3/161
2 Marsham Street
London SW1P 3EB

Tel: 212-4808

DOE(Central):

Mr Charles Hook
Room A2.08
Romney House
43 Marsham Street
LONDON SW1P 3PY

Tel: 212-3434

Rayner: Govt. MACH. R17.

22 DEC 1994

CC NO

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

Robin Butler Esq
10 Downing St
LONDON

Mr Butler o/r

18 December 1984

Dear Robin,

SCOTTISH OFFICE: VALUE FOR MONEY SEMINAR

I refer to your letter of 28 November recording the discussion between the Prime Minister and my Secretary of State on Value for Money in the Scottish Office.

I have been asked to draw your attention to an apparent misunderstanding which appears under the heading 'Housing' in your letter. My Secretary of State is recorded as mentioning "a target of 30-35,000 sales of public sector housing". What my Secretary of State intended referring to was a narrowing of the gap between the numbers of public and private sector houses by some 30-35,000 houses a year, in which the sales of public sector houses will be important but will only be part of the process. If you accept this point might I suggest that the phrase between the commas in lines 1 and 2 of the housing paragraph could be amended to read "with a target of a reduction of 30-35,000 per annum in the gap between public and private sector houses, by means of public sector sales, the encouragement of private building and in other ways," which would more accurately reflect the point my Secretary of State was trying to make.

Yours sincerely,

John Graham

J S GRAHAM
Private Secretary

Gov Mach PT17
Rayner

18 DEC 1984

CGVO

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

17 December 1984

Dear Greg

nbpm 17/12

GOVERNMENT PURCHASING

Thank you for copying to me your letters to Peter Rees and Michael Jopling of 19 November about the report on Government Purchasing. P+16

The great bulk of purchasing by my Department concerns the procurement of new road schemes and maintenance of the national roads system, and this was the area chosen for one of the Rayner style scrutinies on which the central team's report was based. We have for many years had a centralised procurement organisation for this purpose of the kind envisaged in the MPO report, and I would therefore propose, in the action covering this area of the Department's activities, to concentrate on the detail of the scrutiny report's recommendations. My officials have made good progress on this, but decisions will need to be related to the conclusions reached on the recently received Vaizey report on pre-construction procedures, and an NAO study into value for money in the roads programme which is not likely to be completed until January. I hope, therefore, to be ready with an action statement on the roads programme by 1 April, but this will depend on these other studies, the timing of which is not entirely in my hands.

The remainder of my Department's more conventional purchasing activities covers a varied field and, in line with the Financial Management Initiatives, has been delegated substantially to line management. My intention is to carry out a special review of present arrangements and practice, covering both purchases of goods and services and management of stores and, after consultation with the staff side, it should be possible to make a start early in January. Given the range of activities the review will need to cover, I think it most unlikely that it will be completed by 1 April, and I would be reluctant to decide how best to reflect the recommendations of the central team's report in my Department's own organisation in advance of this review. I think therefore that any action statement prepared by 1 April on this aspect of my Department's activities is likely to be of an interim nature only, depending on what progress the review has made.

Because different questions arise on highways procurement and other forms of purchasing, I would like to suggest two Departmental contact points. They are Mr A A Pelling (212 8384) for highways procurement and Mr J A Rhodes (212 8805) for other aspects of purchasing. The question of involving non-departmental bodies will be considered as part of the review of non-highways purchasing arrangements.

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.

NICHOLAS RIDLEY

Laynet : GOV. MACH. Pt 17

10 DOWNING STREET

17 December 1984

From the Private Secretary

The Prime Minister has now seen your Secretary of State's minute of 13 December about support for agriculture in Scotland. She was grateful for his explanation of the position.

(TIM FLESHER)

John Graham, Esq.,
Scottish Office.

10 DOWNING STREET

From the Private Secretary

MANAGEMENT IN CONFIDENCE

RICHARD HATFIELD

CENTRAL UNIT ON PURCHASING

The Prime Minister was grateful for Sir Robert Armstrong's minute of 4 December about the location of the proposed Central Unit on Purchasing.

The Prime Minister is content with the proposal to establish a joint Treasury/Cabinet Office unit along the lines of the Financial Management Unit; and she agrees that Ministerial responsibility for the Unit should be shared between the Chancellor of the Duchy and the Chief Secretary. She has no objection to the proposed title for the Unit.

The Prime Minister does, however, attach importance to the two points made by Sir Robin Ibbs in paragraph 4 of his minute to her of 11 December. She would be grateful if these could be taken fully into account, and she would like to be consulted about the selection of somebody from the private sector to head the Unit.

I am sending copies of this minute to Mr. Broadbent (Chief Secretary's Office), Mr. Thomas (Lord Gowrie's Office) and Mr. Beesley (Efficiency Unit).

David Barclay

(DAVID BARCLAY)
13 December 1984

MANAGEMENT IN CONFIDENCE

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

PRIME MINISTER

SCOTTISH OFFICE: VALUE FOR MONEY SEMINAR

When we met on 27 November one of the points you particularly raised with me and asked me to consider further was the apparently high level of support for agriculture in Scotland relative to farmers' incomes.

I have now had an opportunity to look more closely at the position. I agree with your estimate of support expenditure in Scotland in 1983/84 at around £165m; this figure is high in relation to farmers income and was particularly so in 1983/84, largely as a consequence of unfavourable weather conditions. Since however the objective of our support policies goes wider than income support I would argue that net farming product (the difference between outputs and inputs) provides a better standard of comparison and in 1983/84 that stood at around £400m in Scotland. But whatever comparison basis is adopted the general point which you made about the high level of support costs remains. The main thing to bear in mind is that 75% of Scotland's land area lies within the Less-Favoured Area and the rates of assistance there push up support costs. It is estimated that in 1983/84 farms and crofts in receipt of Hill Livestock Compensatory Allowances accounted for 33% of net product in Scotland (including 55% of cattle and 85% of sheep), in return for which these farms benefited from some 62% of support expenditure. The remaining part of the industry in Scotland accounted for 66% of production at a cost of some 38% of support - that is a net product of £260m set against support costs of some £63m, a ratio of 4.5:1 which is comparable to the ratio for lowland farms in the UK as a whole.

In the hills and uplands Government support does more than provide agricultural employment and the care of the countryside: it serves indirectly to maintain as many jobs outside agriculture as within it and provides the essential basis for the whole economic and social fabric of the areas concerned. Without these various aids there is little doubt that large tracts of the country would suffer serious

E. R.

depopulation; the prevention of such deleterious effects, using agriculture as the main vehicle for assistance, is at the heart of the objectives of the Less Favoured Areas Directive.

As regards agricultural research and advice in Scotland, the figure of £40m quoted in our discussion does include the total cost of the agricultural colleges, thus taking in the cost of agricultural education (about £4m per annum) which has I would suggest a rather broader purpose than the other measures and would not feature in comparable figures in England and Wales. It is relevant too that a good part of the effort of the Scottish agricultural research institutes is directed to meeting UK rather than specifically Scottish needs.

To sum up I believe that the Scottish support figures compare with those elsewhere in the UK and are a fair reflection of our present policies. Support levels are high where for reasons of socio-economic policy we know they must be in relation to agricultural returns; for the rest I believe they give good value in the shape of agricultural output for the money expended.

G.Y.

G.Y

13 December 1984

CC NO

CABINET OFFICE

70 Whitehall London SW1A 2AS Telephone 01-233 3299

From the Minister without Portfolio

The Rt Hon Lord Young of Graffham

David Barclay, Esq.,
10 Downing Street,
London, S.W.1.

12th December, 1984

B/F

Comments for Sir R Ibbs on their way.

Await comments from Efficiency Unit.

Dear David

Thanks 16/1

IMPLEMENTATION OF EFFICIENCY SCRUTINIES

Lord Young has seen your minute to Sir Robin Ibbs reporting on the Prime Minister's ideas about follow-up action on efficiency scrutinies.

He is sure that it will be a profitable exercise to look into the degree to which earlier scrutinies have been implemented. He also has a suggestion to make about one particular scrutiny. Because of its importance to the work he is doing on small firms and because of its relevance to his remit to consider the scope for deregulation, he would like to suggest that the follow-up to the current scrutiny on the Administrative and Legislative Burdens to Small Businesses should be conducted on rather special lines. Subject to the views of Sir Robin Ibbs, Lord Young proposes that he might himself chair an inter-departmental group of Ministers and officials, including the Efficiency Unit, to consider the recommendations and propose action.

I am copying this letter to Ian Beesley, Private Secretaries to Ministers in charge of Departments and to Richard Hatfield (Sir Robert Armstrong's office).

Yours ever

Leigh

Leigh Lewis
Private Secretary

GOV MACH : Rayner : PE1

13 DEC 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

David Barclay Esq
Private Secretary
10 Downing Street

6 December 1984

Prime Minister (1)
Agree attached Q and A, for Monday 10 December?
DMB 6/12.

Dear David,

GOVERNMENT PURCHASING

The Prime Minister has agreed that the MPO report on Government Purchasing should be published on Tuesday 11 December and that she would announce publication by means of an arranged PQ the previous day.

... I enclose a draft text for the PQ which Lord Gowrie has approved. He will be chairing a press conference the following day at which further details of the report will be announced. Subject to the Prime Minister's agreement, I should be grateful if you could arrange for the question to be tabled and answered on Monday 10 December.

I am copying this letter to Richard Broadbent (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

Yours ever
Paul Thomas

1) Miss Roche
2) CF

Announcement will now be made by Chief Secretary.
M/S for civil service
DMB 7/12

PAUL THOMAS
Private Secretary

DRAFT PQ FOR ANSWER BY THE PRIME MINISTER ON MONDAY 10 DECEMBER 1984

: To ask the Prime Minister, whether she will publish a report on the 1983 Multi-Department Review of Government Contract and Procurement Procedures.

DRAFT REPLY

THE PRIME MINISTER; A report by the central team in the Cabinet Office (Management and Personnel Office) that co-ordinated the review will be published tomorrow by Her Majesty's Stationery Office under the title "Government Purchasing". The Government welcomes the report and ~~have~~ has set in hand action to implement its conclusions.

CF

May I have RIM's comments on this pc?

MANAGEMENT IN CONFIDENCE

Prime Minister (1): I'm asked for Sir Robin Ibbs' views. Content, subject to his points in para 4, for the new joint unit to be established?

Dmb 12/12

Yes please

Dmb 11/12

PRIME MINISTER

CENTRAL UNIT ON PURCHASING

1. Your request for my advice on the location of the proposed central unit on purchasing has been relayed to me in Australia.

2. The test for all proposals relating to the purchasing unit is that they should enable it to achieve substantial improvements in government purchasing which lead to worthwhile savings. If it does not achieve these there is no point in having it.

3. In terms of this test I see no objection to the proposal that the unit should respond for administrative purposes to the MPO/HMT jointly.

4. However, if the unit is to serve a useful purpose two requirements are essential:

(1) It must be led by somebody with a good track record in the private sector on large scale and varied purchasing. Only this will enable him (or her) to have the sustained confidence and credibility that is needed to influence departments.

Suggestions please not

(2) Whatever the formal organisation, the unit must in practice must be free-standing in advising on purchasing. In particular it must not be embroiled at all in arguments about the use to which savings achieved by better purchasing are put.

5. I am copying this to Sir Robert Armstrong.

James Boorda

pp ROBIN IBBS
11 December 1984

[Agreed with Sir Robin Ibbs and signed in his absence.]

11 DEC 1984

VO

Mr Barclay

nbpm

DWB

11/12

CIR REPORT

The Prime Minister might like to see the attached short briefing leaflet on the CIR Report which we have produced to make the arguments more readily accessible to line managers in the civil service. It is shorter, crisper and less daunting than the full report.

Sometimes departments retain reports at their centre and do not circulate them to the line managers who are really responsible for delivering the results. In this case that would defeat the main object of the report. Robin Ibbs intends therefore, to write to all Permanent Secretaries enclosing copies of the leaflet for wider distribution.

Kate Jenkins
10 December 1984

Helping Managers Manage

A briefing for all civil service managers on a report to the Prime Minister by the Efficiency Unit: Consultancy, Inspection And Review Services In Government Departments.

Contents

The Report

Management Is Changing In The Civil Service

What Still Needs To Be Done

Recommendations

What Happens Next

The Report

The report looks at the role of Consultancy, Inspection and Review (CIR) services—the specialist management services—in departments. It recommends that the work of staff inspectors, management services and other specialists should be reorganised to meet the changing needs of management in the civil service.

The report by the Efficiency Unit builds on lessons from six departmental scrutinies of CIR services. The departments were DHSS, DTI, MOD, PSA, the Scottish Office and the Treasury. The CIR services scrutinised included staff inspection, management services, internal audit, ADP advisory staff and other expert advisory groups.

This briefing

This briefing highlights the points from the report which will affect all civil service managers. (A 'manager' is any civil servant who controls resources.)

Management Is Changing In The Civil Service

The Background

The recommendations on consultancy, inspection and review services need to be seen against the background of recent changes in management in the Civil Service, many as a result of the Government's initiative in 1982.

The initiative has led to changes in many departments. The table below gives some examples.

Development	Examples
Strategic management A top management group which plans and allocates major resources. It does so on the basis of a yearly review of functions, priorities and achievements	DTI: The Activity and Resource Management Review MOD: MINIS
Annual budgets Annual budgets extending down each line of command to individual cost centres	DHSS: local offices Treasury: Under Secretary Commands
Management information systems Systems to equip managers to monitor their costs and output during the year	DE: Resource Information System

Until now, most managers have worked to procedures laid down at the centre. They have been responsible for policy and running the unit—but not for the resources they use. Finance and manpower decisions have been made by others.

The Financial Management Initiative (FMI) Changes

These changes put a new stress on accountability.

- working to plans with targets
- drawing clear lines of responsibility for resources
- setting and agreeing budgets and targets
- monitoring and controlling work done and costs
- assessing outcomes

What The Changes Mean

For managers:

- *Authority* to manage resources. Managers will propose their own budgets and plans for challenge and approval by their line manager and at senior levels by the top managers of the department. What they do will be controlled through this process.
- *Responsibility* will rest with managers instead of inspection staff for
  - —resource management and control
  - —achieving greater value for money

Thus managers will have new powers, apply new skills and need to see their job in a new way.

They will need help from the specialist management services to do this.

For top departmental managers:

- *A new strategic role.* Top managers will control their lines of command. But as a member of the top management group each senior manager should take a corporate view—with a strategic role in planning and deploying resources for the department as a whole.
- *A new and powerful resource control system.* The annual cycle of budget and target setting—with reviews throughout the year—will provide two things:
  - —a means of tightening financial controls
  - —a tool for improving management performance from year to year to increase the value for money achieved
- *A new emphasis on helping their managers succeed.* Top managers will be responsible for helping their own managers meet the targets they have agreed—and within the budgets they have approved for them.

For CIR Services:

- *Support* for managers to help bring about the changes outlined above
- *Advice* to top management to make the new budget controls work
- *A new accountability* for helping managers to improve their performance

What Still Needs To Be Done

The report confirms that the 1982 reforms are here to stay. In spite of changes made so far, however, much needs to be done.

Individual managers

Below most senior levels, managers still do not know what the changes will mean for them in practice. They need to be informed—and reassured about their future role.

Top departmental managers

They need to make a reality of the FMI stress on management responsibilities. They will need to put responsibility for improvements with managers. They will need to instil the new approach into their departments.

The CIR services

They will be important to the success of the changes. Managers will rely in new ways on the CIR services. They will need expert help to set budgets, define targets and plan manpower. They will need to be able to measure their effectiveness.

The CIR services need to position themselves to meet the challenges—and opportunities—these changes will present to them.

The scrutinies showed that CIR tends to be fragmented into many separate units. Meanwhile the growth of value for money work has led different services to converge on many similar issues.

The CIR services have done valuable work but they suffer from shortcomings in the way they are used. The scrutinies found: overlaps between units; gaps in coverage; lack of 'visibility' to their customers; a lack of data about their results; and too little central planning of the services themselves. These findings were borne out by an Efficiency Unit survey of all departments covered by the FMI.

Recommendations

The report makes seven recommendations to help departments bring about the management reforms 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.

Recommendation 1

The Implications Of The Management Changes: 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 auditied 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 perfomance.

Recommendation 2

The Organisation of CIR Services: 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.

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 departmen[illegible] department. Hitherto a majority of departments have emphasised the independence of internal audit by keeping a separate unit. That has obvious merit, provided th[illegible] 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 this is 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.

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 senior staff have real line management experience in addition to experience in their specialism.

Recommendation 5

The Transition To Budget-based Controls: 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.

Recommendation 6

Investigations By Top Management: 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.

Recommendation 7

The Central Departments: Treasury Ministers and the Chancellor of the Duchy of Lancaster 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 Oct 1985 and Oct 1986;

b review by 31 May 1985 the organisation and roles of their central CIR services to ensure that they are able to 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.

Support Services And Managers

In future, the report recommends, the CIR services should act as a management support group. Here are some examples of how they might work with managers in future.

Consultants to a manager

A manager may be facing increased demand for services with no prospect of taking on extra staff. He could call on the support group to advise him. They might propose and then install computer systems to improve the speed with which the work is handled.

The manager identifies the problem—and decides whether or not to take the advice offered him by the support group.

An investigation for top management

As a result of strategic planning work a top management group might be concerned at a backlog of work in one area. It could call on the support group to put in a team with the skills of management services, staff inspection and audit. This team would investigate and suggest solutions to top management.

Top management identifies the problem—and decides which solution to adopt.

An expert resource

A manager runs a unit with a string of one-off projects in hand. Delays are frequent and his staff are suffering from the stress and complexity of handling a diverse range of activities.

The manager could call upon the support group to help. They might train his people in project planning, help them draw up project networks, store them in a computer, update them via terminals and finally print reports on demand.

The manager is responsible for recognising the needs of his staff—and for bringing in support which meets their needs.

What Happens Next

Subject	Recommendations	Responsibility	Target
Communication to managers (Recommendation 1)	□ Ensure every manager knows what the changes will mean to him or her in practice	Ministers in charge of departments and their Permanent Secretaries	By October 1985
Organisation of the CIR services (Recommendations 2-4)	□ Make proposals for reorganisation	Permanent Secretaries	By May 1985
	□ Ensure close co-operation between Internal Audit and new management support staff	Permanent Secretaries	Review in October 1987
	□ Reform career planning for Internal Audit and management support staff	Permanent Secretaries	Ongoing
New roles for management support services (Recommendation 5)	□ Assist the change to resource control by budget	Permanent Secretaries	By end 1986
	□ Develop skills as professional advisers to management	Permanent Secretaries	End 1986 onwards
Top management use of management support services (Recommendation 6)	□ Control work programmes □ Sponsor work on problem areas of wide significance	Permanent Secretaries	Ongoing
The central departments (Treasury and Cabinet Office—MPO) (Recommendation 7)	□ Review organisation and role of central CIR services	Treasury Ministers and the Chancellor of the Duchy of Lancaster	By May 1985
	□ Report on progress by all departments in implementing the above recommendations		October 1985 and October 1986

MANAGEMENT IN CONFIDENCE

013/110

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Nicholas Ridley AMICE MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

10 December 1984

Dear Nicholas

GOVERNMENT PURCHASING

You sent me a copy of your letter of 14 November addressed to Grey Gowrie. I have subsequently seen his reply of 19 November and your further letter of 29 November. I ought to make just one comment on the final sentence of the second paragraph of your original letter.

As you rightly said, you did raise at the Prime Minister's meeting on 29 October, the question of the re-allocation of any expenditure savings resulting from better procurement practice. But, as (iii) of the letter of 30 October from No. 10 makes clear, that issue would need to be resolved case by case. I cannot at this stage say that "any extra savings obtainable in the roads programme" can be regarded automatically as being available to build more roads. That is something we shall need to discuss when savings have been identified.

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

Yours ever

PETER REES

MANAGEMENT IN CONFIDENCE

GOVT MATH
Rayner Pt 7

Awaiting minute of Sir R 16th

CHANCELLOR OF THE DUCHY OF LANCASTER
C 18
- 5 DEC 1984
FILING INSTRUCTIONS
FILE No.

Prime Minister

Content with Sir Robert's proposal for a joint Cabinet Office/Treasury unit, to be called the Central Unit on Purchasing?

DMB 7/12

Ref. A084/3228

1. CHANCELLOR OF THE DUCHY OF LANCASTER
2. PRIME MINISTER

Location of the proposed Central Unit on Purchasing

At your meeting on 29 October to discuss the Cabinet Office (MPO) report on Government purchasing practices, it was agreed that, in line with the team's recommendations, a small advisory unit on purchasing should be established. The unit will be staffed partly by private sector people on secondment and partly by civil servants.

2. As you expect departments to have set targets for better value for money in purchasing by next April, and as the targets need to be agreed by the proposed unit, it is important that the arrangements for establishing it are set in motion now.

3. The immediate issue is where the unit should be located. As a machinery of Government matter, this is a decision for you.

4. In practice the choice of location lies between the Cabinet Office (MPO) and the Treasury. In Annex H to the report it was argued, in my view convincingly, that it would not make sense either to set up a free standing unit, on the lines of the Efficiency Unit, or to place the unit in one of the existing purchasing agencies.

5. The unit will need to work closely with the Treasury which will retain responsibility for public purchasing policy. The head of the new unit will need to be a member of the official Procurement Policy Committee, chaired by the Treasury. It is also an essential part of what was agreed at your meeting that targets for improved value for money in Government purchasing should be set and monitored. That will require close liaison between the unit and expenditure divisions in the Treasury.

6. On the other hand the report makes it clear that one of the keys to success in this area is the need to make the purchasing practices of Government Departments more businesslike. Thus the proposed Unit will need to maintain very close links with the Cabinet Office (MPO) over such matters as training, the establishment of a functional specialism for buyers and incentives for purchasing staff. In addition, the Cabinet Office (MPO) have already done a great deal of work on stores stock-holdings and on certain large areas of Government purchasing such as travel.

7. In view of the need for close links with both the Treasury and the Cabinet Office, my advice would be to establish a joint unit, much on the lines of the Financial Management Unit. The joint approach would allow the unit's staff easy entry into both the Cabinet Office and Treasury, while at the same time giving it a degree of independence which will be necessary if it is to be effective. Further, a joint unit would enable the two aspects of the venture - the need to improve performance in purchasing and the need to achieve savings - to be developed together.

8. You will wish to consider also the reporting arrangements for the unit. The Chancellor of the Duchy of Lancaster has, as you know, taken a close interest in the review which led to the report. He has also set in train the action needed to get departmental plans for implementation drawn up and the arrangements for publishing the report. The Treasury Minister responsible for procurement policy is the Chief Secretary. It would be appropriate therefore for responsibility for the joint unit to be shared between the Chancellor of the Duchy and the Chief Secretary.

9. Finally, I should like to call the new unit the Central Unit on Purchasing, to avoid any implication that it will be directly involved in buying.

10. With Sir Peter Middleton I have put in hand work to identify possible private sector buying staff who might join the unit and we are considering the detailed arrangements for the structure of the unit. We shall report to you on these matters as soon as possible.

RCA

ROBERT ARMSTRONG

4 December 1984

Mark Addison
-10 Downing St.

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 Leon Brittan QC MP
Secretary of State for the Home Department
50 Queen Anne's Gate
LONDON SW1H 9AT

3 December 1984

Dear Leon,

REVIEW OF SUPPORTING SERVICES FOR ADMINISTRATIVE WORK

Your department was one of those which carried out scrutinies of particular areas of administrative work and its supporting services as part of a multidepartment review started last year. The Prime Minister has asked me to send a copy of the central team's report on these reviews to Ministers in charge of departments.

The findings indicate how important it is for departments to have a clear strategy for their deployment of new technology. And they suggest that the contribution of information technology to the drive for better value for money can be increased by:

(1) making line managers more responsible for the costs of the computers they need as well as their other resources, so that they have another incentive to use information technology 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 when additional help is needed to get new systems into place quickly, including more use of the private sector.

The report does not call for any special central initiative. Instead it points to the ways in which Ministers and their

senior officials can use the financial managements systems which have been developed to ensure that value for money is being achieved in this area. I suggest that, as a first step, Ministers ask their FMI support units to give them a report on how their department measures up against the criteria set out in the central report. Naturally I would be interested to know the results in due course.

I am copying this letter to Ministers in charge of Departments, and to Sir Robin Ibbs.

GOWRIE

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:

Department	Area Examined
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 accuring 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:

Department	Available Now	Further Opportunities
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 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 manager 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 Managemer 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 integerated 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 an 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?

....oooOOOooo...

JR

10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

IMPLEMENTATION OF EFFICIENCY SCRUTINIES

The Prime Minister is, as you know, concerned that all scrutinies should lead to swift decisions and action. She would be grateful if the Efficiency Unit would itself carry out a scrutiny of the way in which earlier scrutinies have been implemented, and make recommendations on how that process can be made more effective to ensure continuing improvements in value for money.

BF

The Prime Minister would be grateful if you would supervise the scrutiny and report to her on its findings by April 1985.

I am copying this minute to the Private Secretaries to Ministers in charge of Departments and to Sir Robert Armstrong.

David Barclay

(DAVID BARCLAY)
29 November 1984

CONS

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

29 November 1984

wbpm Doug 30/11

Dear Gray

GOVERNMENT PURCHASING

P+16.

Thank you for your letter of 19 November, replying to mine of 14 November.

P+16

I shall of course, as I have said, continue to seek further improvements in all aspects of my Department's performance. But, as I have also said, the savings suggested in the report on roads were wholly unrealizable.

You mention that the report includes a sample of contracts in which final costs were on average 27% higher than the tenders accepted. The sample is in an Annex which is not referred to in the report itself; but its purpose was probably to illustrate how additional costs arise in the course of construction. These were contracts which provided for the price to vary with inflation, and inflation averaged 13% a year over the period covered by the sample. Other price increases arise from the uncertain nature of civil engineering work, where the engineer in charge of the scheme may need to authorise additional work or extensions of time because of, for example, unexpected ground conditions. In theory it would be possible to alter the conditions of contract so that the risk of such

unexpected conditions (or other causes of additional work) lay entirely with the contractor. But the result would be that all tenders would be considerably higher, as contractors covered themselves against risks (which might not arise!) You may have noted that the report does not include any recommendation on these lines. I fear that any savings to be made in this way are illusory.

I will, however, be experimenting in this area to some extent with our new design/construct contracts.

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.

NICHOLAS RIDLEY

GOVT. MACH. Rayner Pt 17.

below

CF

— in folder attached at back.

Please note that we are still awaiting charts from the Scottish Office which are to be forwarded to letter recipients next week when them come in.

Because of the delay in the charts coming over, the letter has been despatched without them but each office has been warned that they will arrive with them late.

JL

With the Compliments
of

The Permanent Under Secretary of State

Scottish Office

Sir William Fraser GCB

Slides used at our Secretary of State's presentation on Value for Money in Government on 27 November.

Dover House
Whitehall
London SW1A 2AU
01-233 8229 or 7602

New St. Andrew's House
Edinburgh EH1 3SX
031-556 8400

CF.
Do you have
to be with
a CC, who
would receive this?
JC.

10 DOWNING STREET

There are to be
circulated to those
who received HERB's
meeting record.

HERB thought that
Janice was masterminding
the operation.

MK
3/12

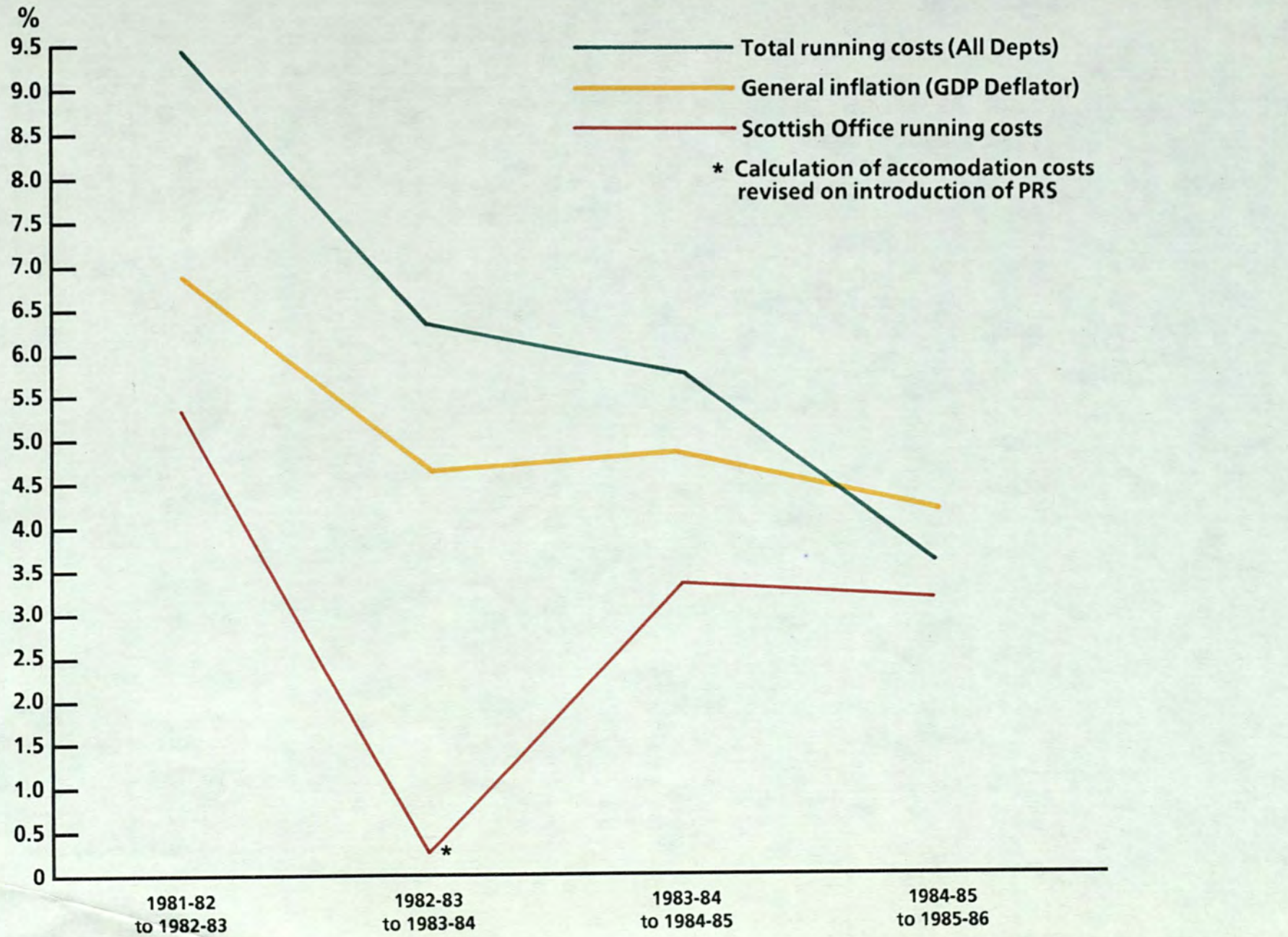
Sent to CS, HMT.
COL.
RTA
R. Ibbs
J.G.-80.

3/12

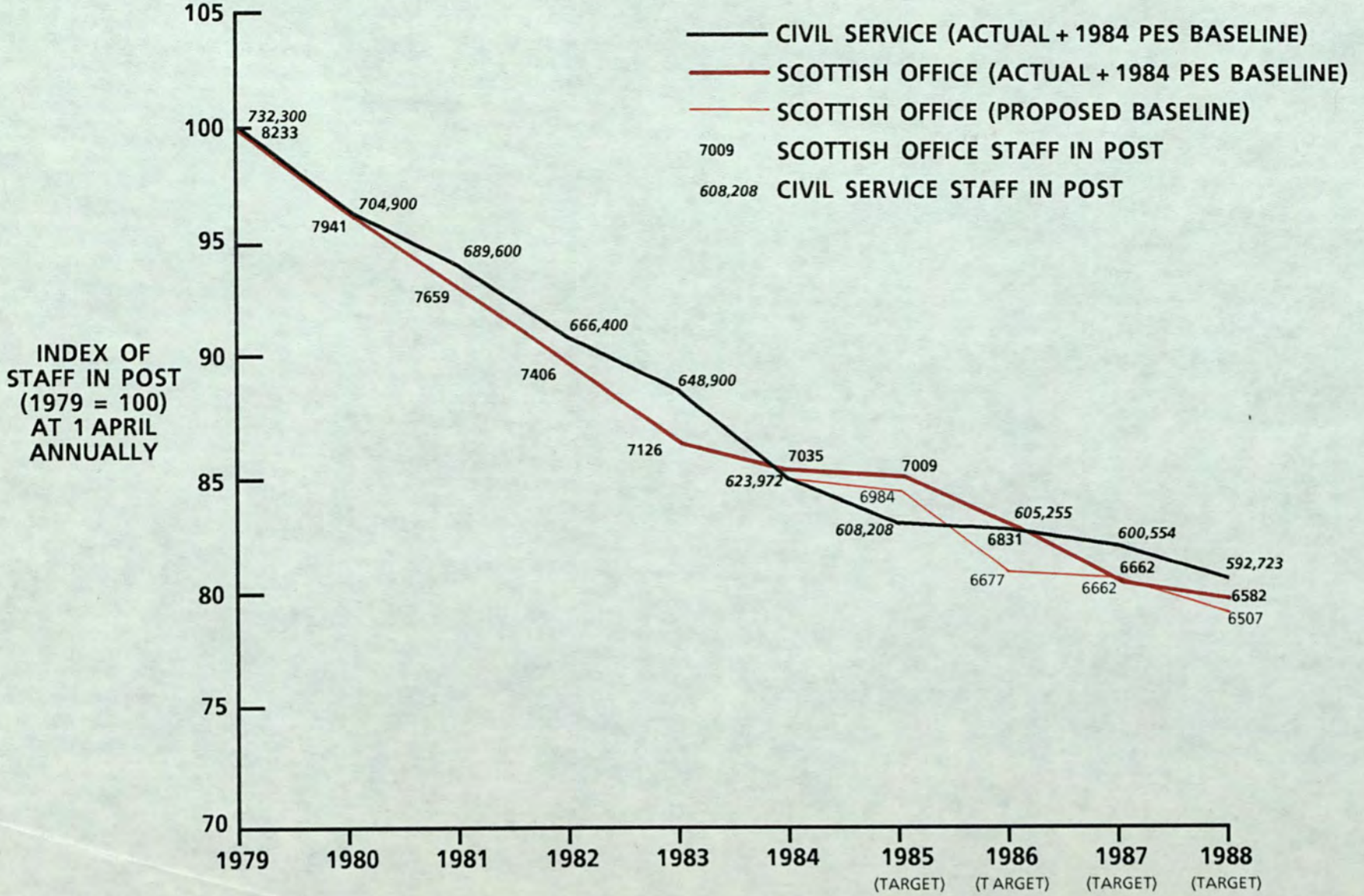
SCOTTISH OFFICE COMPUTER SERVICE (SOCS)

	Complement	Remote terminals	Terminal user groups	Remote micro-computers	Office system stations	Mainframe production systems	Studies in hand
Sept 1981	386	35	60	nil	nil	140	24
Sept 1983	349	90	100	20	10	170	52
Sept 1984	338	112	136	70	14	140	65
Sept 1985 (estimated)	336	200	150	120	65	140	70

INCREASES IN DEPARTMENT RUNNING COSTS COMPARED WITH INFLATION



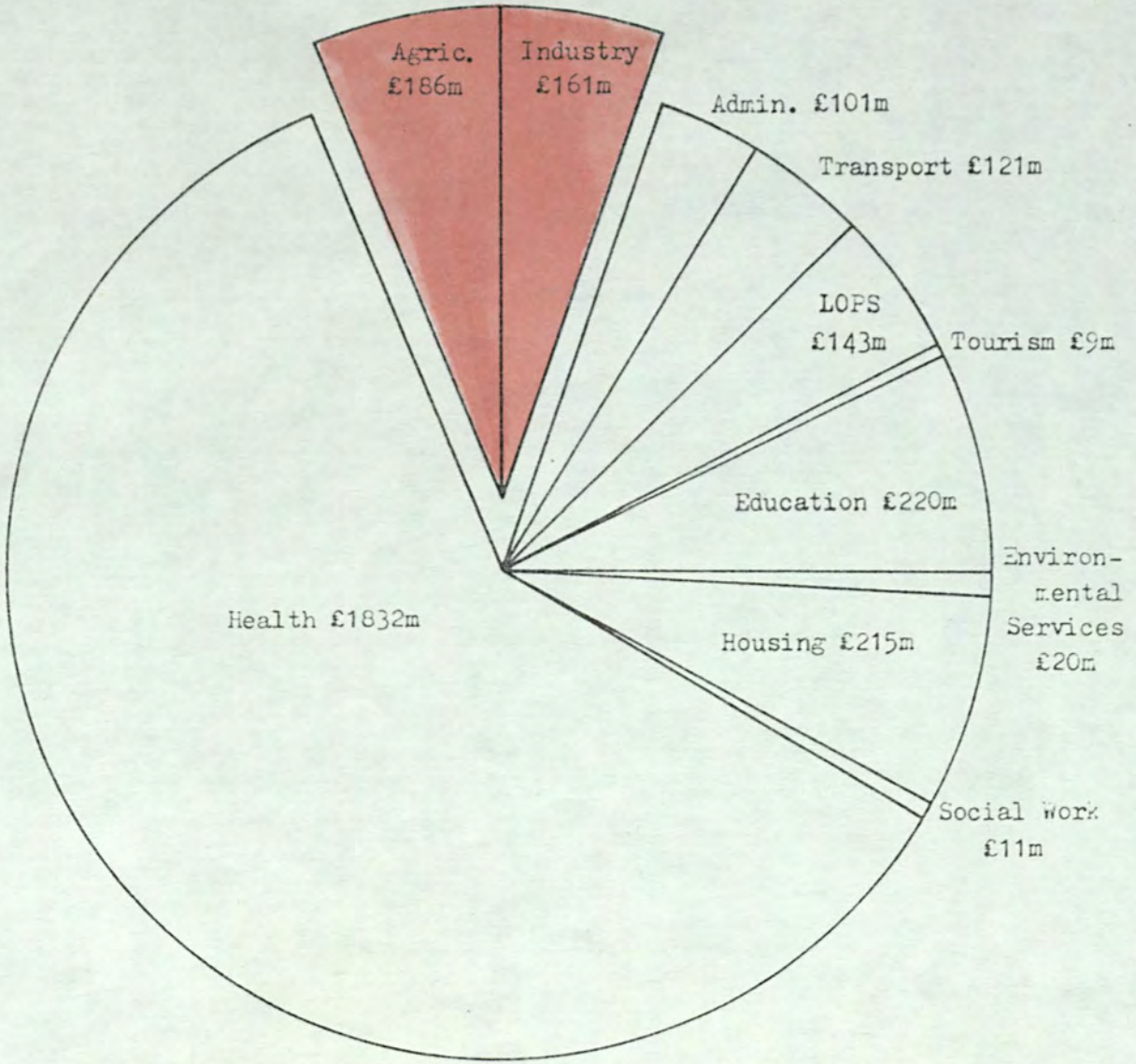
STAFF IN POST 1979-88 : CIVIL SERVICE & SCOTTISH OFFICE (EXCLUDING PRISON SERVICE)



SCOTLAND PROGRAMME : CENTRAL GOVERNMENT EXPENDITURE BY PROGRAMME

1984 - 85

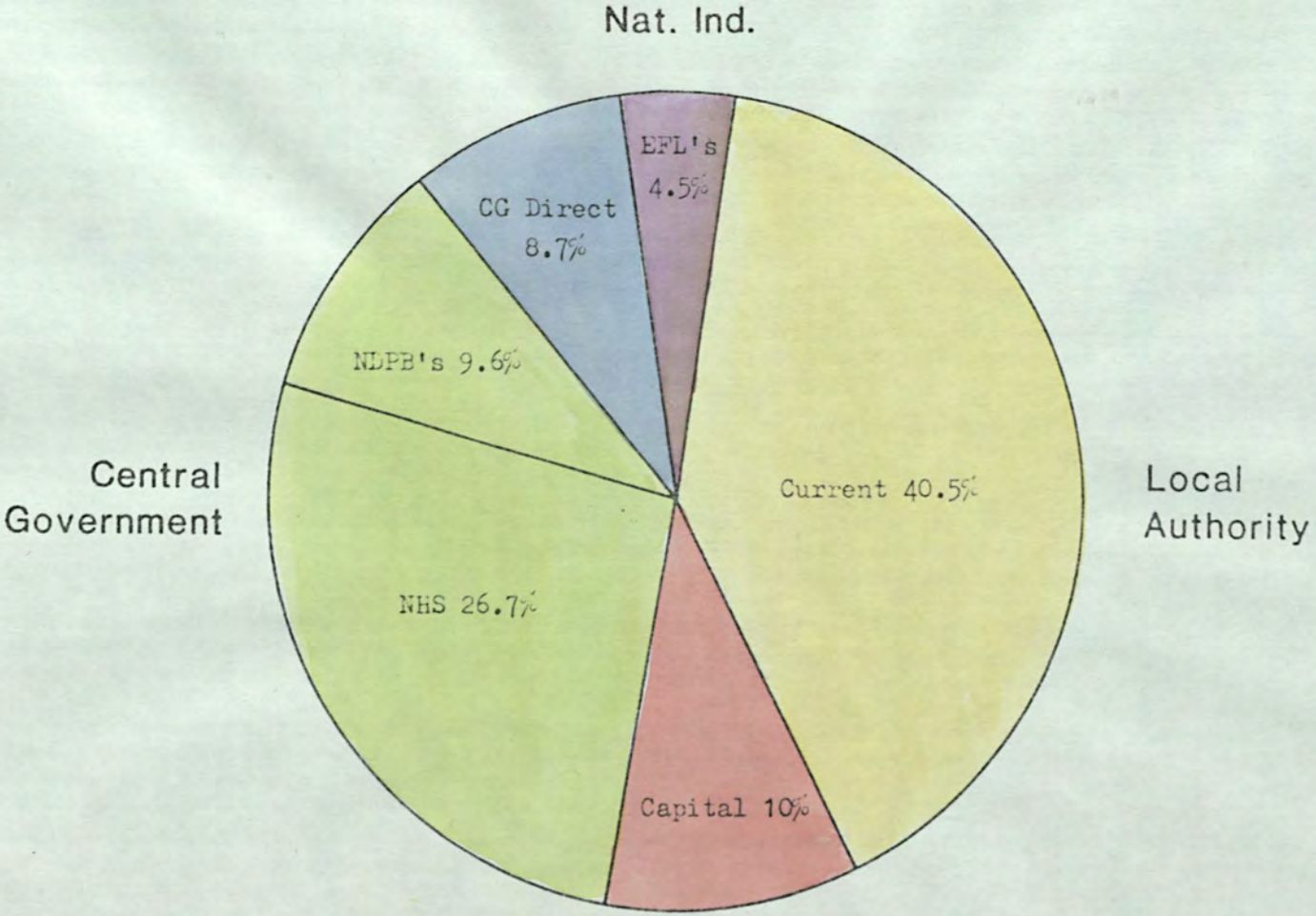
Non-block



Block

Source : 1984 Scottish Commentary

SCOTLAND PROGRAMME BY SPENDING AUTHORITY
1984 - 85

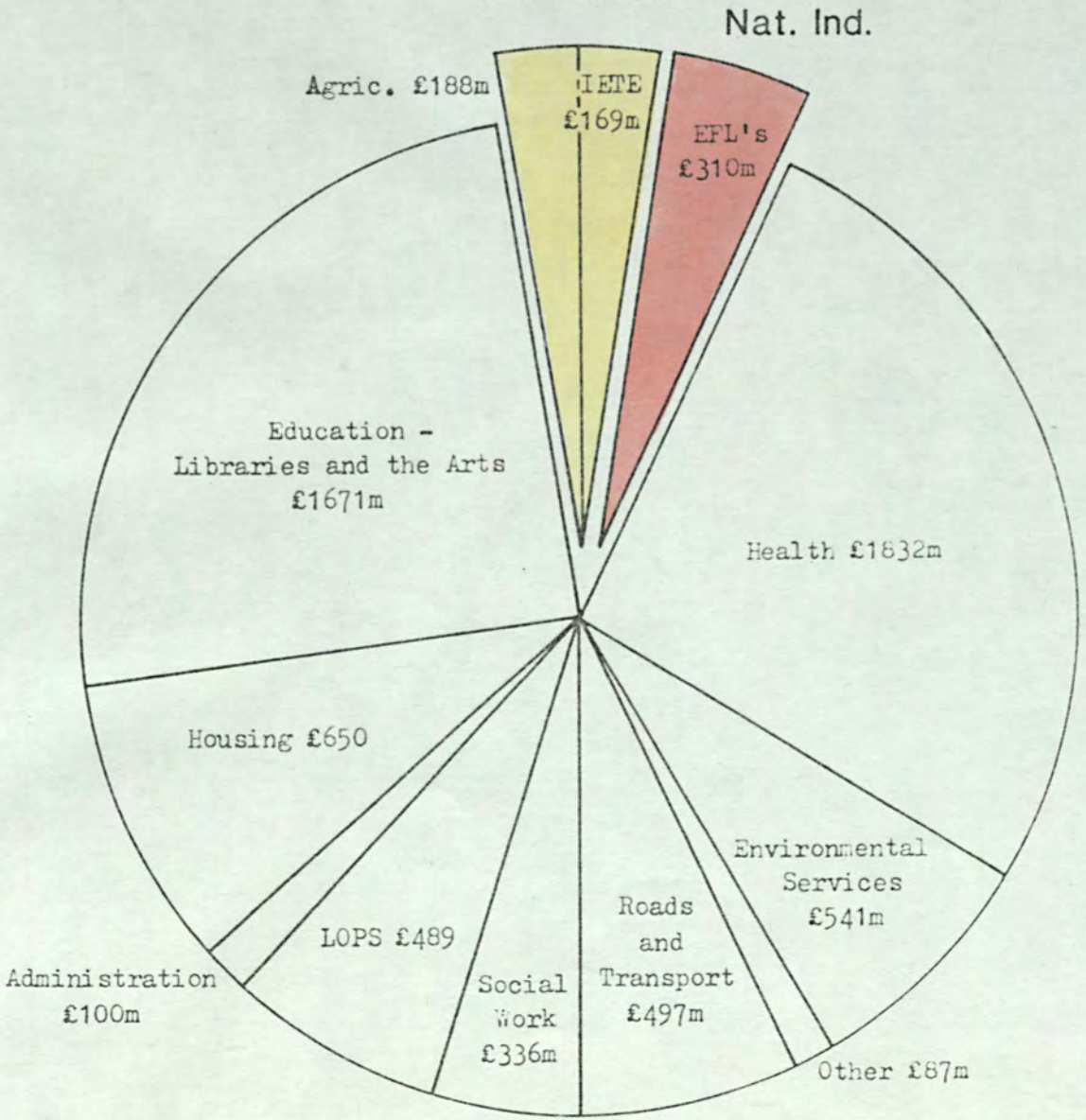


Source : 1984 Scottish Commentary

SCOTLAND PROGRAMME 1984 - 85

£ 6865m

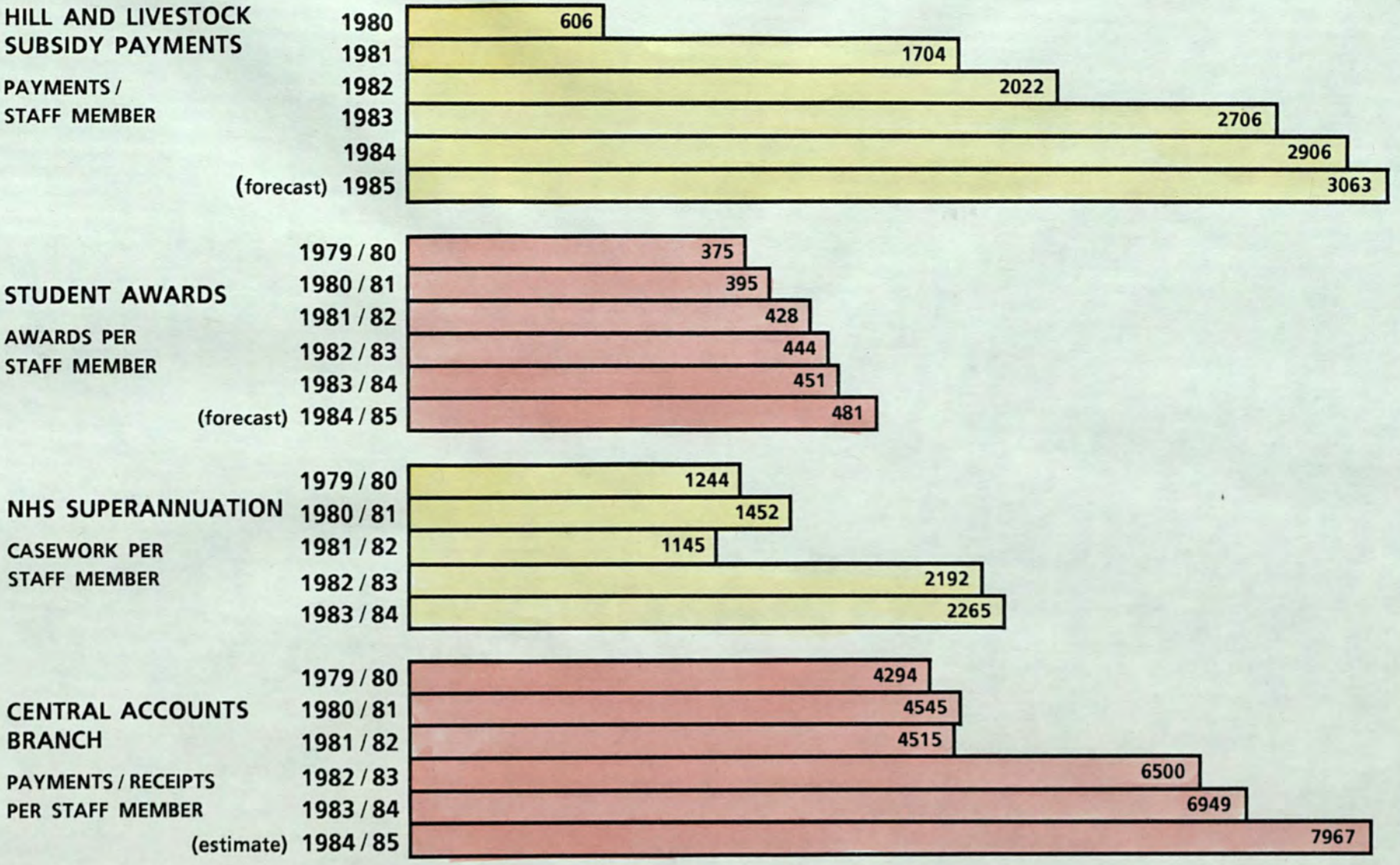
Non-block



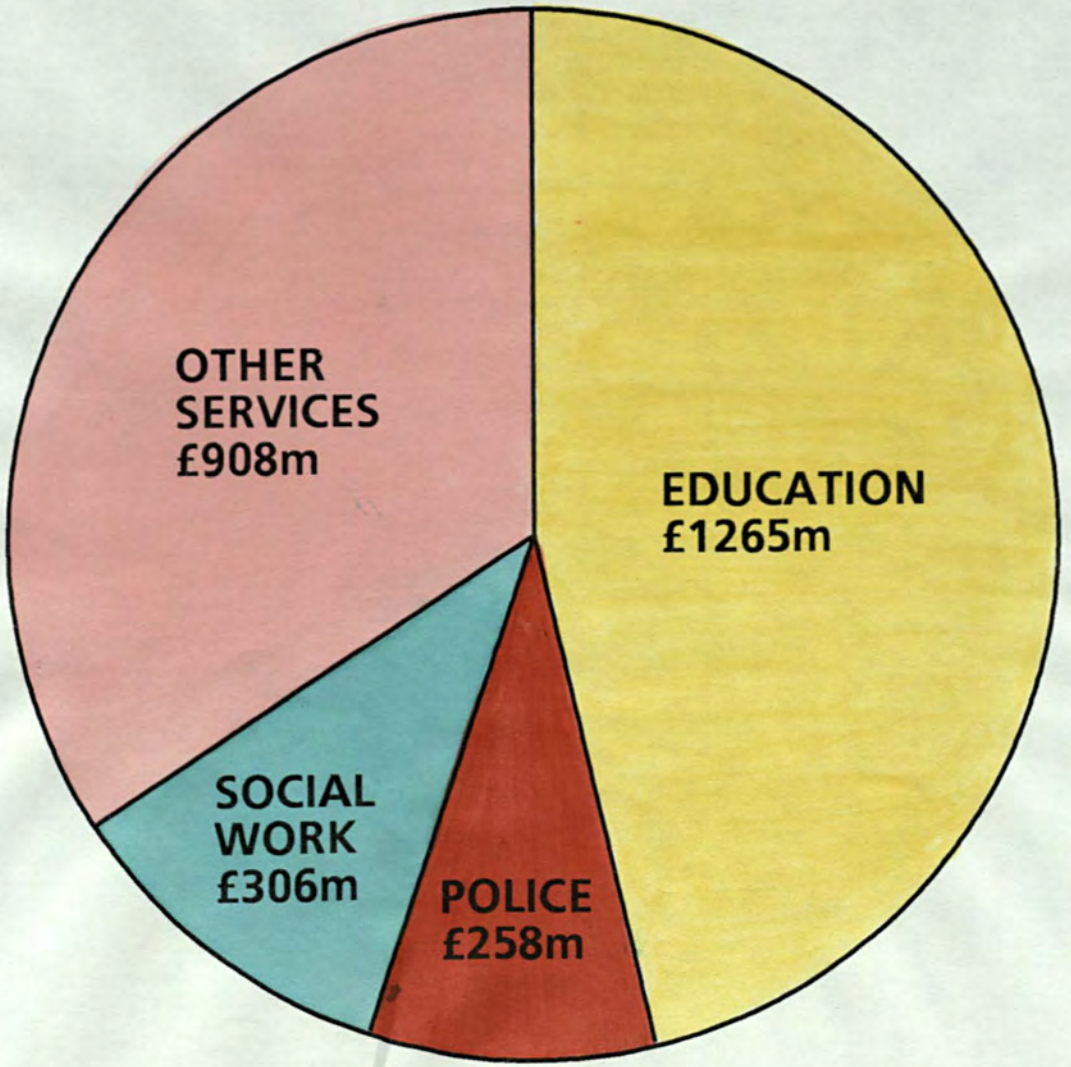
Block

Source : 1984 Scottish Commentary

PRODUCTIVITY EXAMPLES



SCOTTISH LOCAL AUTHORITY RELEVANT CURRENT EXPENDITURE
1984-85 PES PROVISION



Source : Cmd 9143 Table 2.18.2

Traditional Scottish pastime: looking for lost coins in the heather

JVIRADA

Subject

74

CC Master

10 DOWNING STREET

From the Principal Private Secretary

28 November 1984

Dear John,

SCOTTISH OFFICE: VALUE FOR MONEY SEMINAR

The Prime Minister held a discussion yesterday with your Secretary of State, Sir Robert Armstrong, Sir Kerr Fraser and Sir Robin Ibbs about the efforts of the Scottish Office to obtain better value for money. The speaking notes and the charts with which your Secretary of State introduced the discussion are attached.

Sir Robin Ibbs commented that the most encouraging aspect of what had been done by the Scottish Office was that so much improvement had been achieved from a systematic approach supported by specific targets. The greatest scope for future savings was now in programmes rather than in running costs. He hoped that the Secretary of State would be able to specify under each of the programme headings two or three specific and major targets for improvement.

In discussion of the particular areas of expenditure, the following points were made:-

(i) Housing. Your Secretary of State said that, with a target of 30-35,000 sales of public sector houses, there was a prospect of reducing public sector housing to less than 50 per cent of the total stock before the next election. He was also setting targets for housing associations of 1,800 rehabilitated dwellings and 1,150 through new building, together with 500 for the Scottish Special Housing Association to meet specific needs. In response to a question from the Prime Minister, the Secretary of State said that he thought that it should be possible for Scotland to meet the housing targets without legislation to free local authorities from the obligation to sell houses at a sufficient sum to cover costs.

(ii) Inner Cities. It was noted that very great progress had been made with improving the centre of Glasgow. It was important that the lessons to be learned from this should be applied to the Urban Programme elsewhere

in the United Kingdom. The Secretary of State commented that having the various departments under the direction of the Scottish Office made co-ordination in Scotland easier.

(iii) Agriculture. The Prime Minister said that public expenditure on agriculture in Scotland, including hill livestock and CAP subsidies, appeared to have exceeded total farm income in the past two years; and research and advice to farmers was costing as much as £40 million a year. The figures which she had, suggested that public expenditure amounted to £165 million in 1983/84 compared with farmers' income of £100 million and total farm business income of £210 million. If these figures were correct, they suggested that a heavy price was being paid to provide agricultural employment and the care of the countryside. Your Secretary of State said that he would look into this: while he could think of certain areas in which public subsidies would amount to more than half the total income of farm businesses, he would be surprised if this were the average picture. On agricultural research, he said that the recent review had shown that the Scottish arrangements were very cost-effective and they were also well co-ordinated with those in the rest of the United Kingdom. Sir Kerr Fraser added that the Secretary of State was introducing graduated schemes of subsidy for less favoured areas: he wondered whether, since Scotland did not have arrangements equivalent to ADDAS, the public expenditure figures included the total cost of agricultural colleges.

(iv) Shipping Services in the Highlands and Islands. The Prime Minister asked whether sufficient pressure was being applied to the shipping services in the Highlands and Islands to achieve improvements in efficiency. Your Secretary of State pointed out that it had been a valuable manifesto commitment that fare increases on the shipping services should be kept below the Retail Price Index. But the services had been referred to the Monopolies and Mergers Commission, which had produced a valuable report with proposals for improvements in efficiency, and competition from Sir William Lithgow also maintained pressure on McBraynes to make their services efficient.

(v) Health. The Prime Minister said that Scotland appeared to have the highest numbers of doctors and hospital beds per head, with the least healthy population. She asked whether enough was being done to improve value for money by contracting out and by overcoming union resistance to improvements in the efficiency of the use of hospital plant. Your Secretary of State said that the reason for worse than average health in Scotland appeared to be dietary factors and the prevalence of smoking. Attempts to save money on the Health Service were constrained by the Government's pledges. There was resistance to contracting out of services in

Scotland, even when hospitals were offered the benefits of the savings to invest in new medical facilities. But costs and efficiency in one hospital were compared with those in another. There had been an improvement in organisation by making general managers of health boards directly responsible to the SHHD accounting officer. Sir Kerr Fraser added that the extension of technology was providing opportunities for reducing hospitals' administrative costs. Sir Robin Ibbs commented that it was important to provide incentives for improved efficiency by enabling hospitals to use savings on the improvement of health care; and the Prime Minister suggested that there might be advantage in publishing comparative figures of efficiency.

(vi) Education. Your Secretary of State commented that efforts were being made to rationalise the provision of teacher training: three colleges had been closed and more might need to be. The Prime Minister commented that a report by the Audit Commission had suggested that, if all teachers undertook their full quota of periods of teaching, substantial savings could be made. But in England, salary and conditions of service could not be negotiated in the same way. The Secretary of State commented that this position did not apply in Scotland.

(vii) Law and Order. Your Secretary of State said that legal aid had been a particular area of difficulty, and this was now being tackled.

(viii) Central Running Costs. The Prime Minister commented that one of the charts displayed by the Secretary of State suggested that the rate of improvement in running costs in the Scottish Office relative to other Departments was slowing down. Your Secretary of State commented that pressure was being maintained and the benefit of the hiving off of the State Hospital, the Royal Scottish Museum and the Royal Botanic Garden would come through in the next few years. Although the organisation of the Scottish Office was inevitably complex, there was a reporting line of each main area directly to a single Scottish Office Minister, and the Ministers were directly involved in the top management reviews of the areas reporting to them.

(ix) De-regulation. The Prime Minister asked about progress with efforts to reduce regulation, pointing out that the Scottish Office was not covered by the current scrutiny of burdens on firms. She also asked about the simplification of planning procedures in Scotland. Your Secretary of State commented that Scotland had led the way in removing restrictions on Sunday trading and licensing. They were watching closely what was being done in reducing burdens on firms in England and would follow these through in Scotland, where applicable. The planning process had been greatly

improved and a specific team of reporters allocated to it, although some problems remained with district planning authorities. But it was remarkable that some major and potentially controversial developments in Scotland looked like being accepted without major rows or prolonged planning enquiries.

Summing up the discussion, the Prime Minister said that she endorsed the comments made by Sir Robin Ibbs on your Secretary of State's presentation and congratulated your Secretary of State and Sir Kerr Fraser on what was being achieved in the Scottish Office. She would be grateful if your Secretary of State would look into the point which had been made about agricultural support and report back to her. Elsewhere in the programme, she endorsed Sir Robin Ibbs' proposal that your Secretary of State should aim to produce two or three specific targets for improvements in value for money in each of the main areas of expenditure.

I am copying this letter and the enclosures to Richard Broadbent (Chief Secretary's Office), Paul Thomas (Chancellor of the Duchy of Lancaster's Office), Sir Robert Armstrong and Sir Robin Ibbs.

Yours sincerely,

Robin Butler

John Graham Esq.,
Scottish Office.

SECRETARY OF STATE'S REMARKS ON "VALUE FOR MONEY IN GOVERNMENT" FOR PRESENTATION AT PRIME MINISTER'S SEMINAR AT 5PM on TUESDAY 27 NOVEMBER 1984

Introduction

1. Welcome opportunity to tell what we have done and intend to do to get better VFM and increased efficiency in Scottish Office.

2. Complex structure of small, mainly HQ policy units. Of 122 units only 14 have over 100 staff and 77 less than 30. Changes affect both way we run Department and very broad range of programmes we administer. Will give few examples of each and show how I secure real results by setting specific targets for individual managers wherever possible and judging performance accordingly.

Running Costs

3. Most conspicuous element is manpower. Excluding Prison Service (of which more later), staff down by 1,200 (14.5%) since 1979; 525 more posts to go by 1988 bringing total reduction to 21%. Red line on graph for Scottish Office mostly below black line for Civil Service as a whole; should revert to that position in period to 1988 on present figures.

OHP 1

4. Reductions achieved - despite new staffing demands and absorbing 114 posts with functions from other Departments - by:

(a) hiving-off State Hospital (438) on 1.4.84; Royal Scottish Museum (169) by December 1985; and Royal Botanic Garden (150) by 1.4.86;

(b) contracting out reduced SO cleaning costs by 55% saving £324,000 p.a.; Police College domestic costs by 25% saving £120,000 p.a.;

(c) good housekeeping - slimmed units down despite complex structure described. Closed 17 offices since 1979 halving number of buildings in expensive Edinburgh area;

HANDOUT

(d) management reviews - management services unit, staff inspectors, auditors and computer specialists -monitored on efficiency grids like this one for DAFS. Staff inspectors examined 625 posts over 15 months to March 1984 - net reduction 50. MSU reviews over year to 30/9/84 - direct savings £500,000 p.a. New Efficiency Unit resulting from CIRC scrutiny will build on that record;

(e) efficiency scrutinies yielded savings of £1.1m p.a.; 1985 candidates are Social Work Services professional staff and Ancient Monuments direct labour organisation;

OHP 2

(f) improved productivity in larger blocks of work. Examples in bar charts show:

(i) hill and livestock subsidy - A Branch responsible for single scheme of grants, 2 years ago absorbed two new EC schemes. Now handles double number of payments with half number of staff;

(ii) students awards up by 8.6% since 1979 staff down by 10% and further improvement forecast for 1984-85;

(iii) NHS superannuation casework up by 15% since 1979 staff down by 29%;

(iv) central accounts processing 30% more payments and 62% more receipts than 1979 with 13% fewer staff; further 14% productivity increase planned this year.

(g) information technology high priority to offset dispersed locations. Linked word processors from next summer at 60 work stations in Edinburgh, London and Glasgow to augment document transmission and Remote Meeting Table facilities. Followed by new integrated telephone system closely tied in with new Whitehall system. Expect to save 30 posts once both fully operational but main gain in more efficient communications.

IT strategy of mixed configuration of mainframe, terminal and distributed computers contributing to productivity gains. Computer staffing down by 48 posts (12½%) since 1981 including 17½% on
OHP 3 payroll clerical work. Data processing productivity up by 15% and use of computer terminals by 37%. Table shows expansion of activity along with reductions over past three years plus target figures for September 1985.

5. Improvement also in total running costs; chart shows annual rate of
OHP 4 increase down to 5.3% in 1982-83 (artificially low in 1983-84 with introduction of PRS) will be 3.4% in 1984-85 and 3.3% in 1985-86 - well within figures for inflation and for average percentage increases for Departments as whole. Heavy reliance on travel (not much affected by staff cuts) and travel costs increasing more than inflation but 1985-86 budget only 3% more in cost terms than 1980-81. Telephone logging reduced call charges by 25%; will continue to save 3% p.a. in cost terms on telecommunications current expenditure.

Programme Expenditure

OHP 5 6. Scotland programme amounts to £6865m this year divided among block and non-block services as shown on pie chart.

OHP 6 7. Over fifty per cent goes on local authority services leaving £3bn CG expenditure allocated as on pie chart: note well over half of that goes on health.

8. This means 77% of total programme actually spent by local authorities
OHP 7 and health boards. Pie chart shows that 4.5% spent by nationalised industries and 9.6% by NDPBs leaving 8.7% spent direct by Department.

9. Here are only few illustrations of how seeking to get better VFM from each kind of spender starting with direct spending at Department's own hand and with agriculture in which you expressed prior interest.

Agriculture

10. Since 1979 professional agricultural staff reduced by 206 posts (21%). Mainly done by:

simplifying admin of capital grant and subsidy schemes;

disposing of agric. estates (from 1099 holdings in 1980 to about 140; realising, with other sales, over £20m);

reducing census and survey work;

merging 2 distinct networks - Agric. Inspectorate and Lands Staff - saving 30 posts and £450,000 net p.a.

11. Staff numbers fall with falling workload but opposite also true: eg had to set up machinery overnight to fix 3,000 individual milk quotas and deal with appeals. Broke back of very sizeable task in six months with only 20 extra staff 15 of them short term. For £250,000 - half in staff costs half in fees and expenses - launched scheme which has radically altered shape of agriculture industry in Scotland. Good VFM, set against expected savings in CAP expenditure on milk in Scotland over next five years.

Prisons

12. Prisons costing £59m next year. Rayner-style GB Resource Control Review recently reported that Scottish Prison Service operates "in a frugal and careful manner". Prisons HQ staff in ratio of 1:20 to Prison Service staff (c/f 1:15 in England). Slightly more prison staff per prisoner than in England (1:1.75 against 1:1.8) but average overtime in Scotland only eight hours per week against 15-16 in England. Better VFM by:

(i) making each Governor accountable by attributing costs to individual establishments and probing divergences. Following pilot schemes, full budgetary control at 12 Scottish penal establishments from next April;

(ii) production and stock control for prison industries being computerised saving over £100,000 p.a.;

(iii) enery savings being pursued vigorously; target savings set at £250,000; consultants retained for energy audit; energy managers designated for each prison;

(iv) management of supplies found satisfactory by Resource Control

Review team but constantly under review.

Education

13. Fund part of higher education directly. In 11 institutions which provide most degree courses outwith universities, student numbers rose from 11,500 in 1978-79 to projected 16,000 in 1984-85 with no increase in funding in real terms. Firm application of staff ceiling has raised student/staff ratios from 9:1 to over 11:1 in same period and 12:1 is in sight.

14. Approval of courses and redeployment of academic posts has helped to double output of graduates in maths, science and engineering from these institutions in five years.

Health

15. Health Service accounts for quarter of programme (£1,832m in 1984-85). Making Health Boards more accountable for performance and expenditure for instance:

(a) Analyse annually detailed costs of running individual hospitals. Make sure action taken on excessive expenditure. Concentrated so far on hospitals with greatest potential for savings (mostly acute); a form of close monitoring of expenditure; identifies for health boards scope for internal savings to put towards improving patient care;

(b) Require Boards to meet most new demands and commitments from within existing funds; will have to find equivalent of at least 1% of annual allocations (by cost improvement measures and greater efficiency) for eg improved treatment of kidney disease; hip replacement; treatment of drug abuse; technological change; better services for elderly; and part of excess costs of pay awards. This sets target of around £50m p.a. for internal savings by health boards by 1987-88 - or about 4% of budget for hospital services in that year -to be redirected to improving patient care;

(c) Boards' forward plans used to meet national priorities and cost objectives eg 1976-83 acute bed numbers reduced from 20,400 to

18,800 by higher throughput (from 25.6 to 27.8 cases per bed per year) and increasing day cases from 58,800 to 81,600. Beds for elderly etc up from 10,800 to 13,200 in same period.

(d) NHS management costs as proportion of total costs reduced by 10% since 1979 to 4.7%; growth in total staff numbers halted. Manpower forecasts of health boards to be examined in regular reviews of development plans.

(e) SHHD now better able to discharge management role. New General Managers of Boards to be directly answerable to Department's Accounting Officer. Will fill awkward gap in chain of accountability for use of public monies in NHS.

Non-Departmental Public Bodies

16. Spend £660m p.a. through NDPBs. Since 1980 abolished nine executive and 26 advisory bodies. Still sponsor over 70 executive and 100 or so advisory because of range of subject matter for which equivalent provision has to be made in Scotland.

17. Completed 36 Pliatzky reviews and two pilot financial reviews; have already prepared programme for new style policy reviews and financial management surveys. All major bodies will be surveyed and improvements started by 1 April 1987.

18. Some progress by bodies themselves eg SDA's radical review of factory building and estates management led to drastically curtailed activity and contracting out reducing property staffing by 80 posts net. Agency also pioneering performance related pay to improve efficiency and effectiveness of senior management.

Local Authority Expenditure

19. Largest part of programme - 51% - but least direct control. In front line in use of statutory powers:

(a) by pressure on total LA spending. Grant percentage reduced from 68.5 in 1979-80 to 55.8 in 1985-86. Selective action successfully

initiated on 14 occasions reducing expenditure by over £80m and bringing down rates of excessive spenders. Further general expenditure reductions will follow from stiffer penalties I imposed this year and which I will impose next if overspending continues.

(b) Housing separately treated in subsidy terms. I have reduced Government housing subsidy as percentage of all new capital expenditure from 75% to 12% and of that part of capital expenditure going to authorities' own stock from 93% to 20%. Objective to reduce these percentages to 7% and 9% respectively by 1987. Local authorities also subsidise tenants through rates. I have previously used administrative penalties against low rent authorities by reducing their capital allocations. This has halted increase in rate subsidies but not reduced them. New statutory powers to limit rate subsidy to rents will be used for first time in relation to next year's spending. Objective to reduce spending by half by 1987 and continue reduction by stages thereafter.

20. Only this kind of general pressure on expenditure can exert leverage on
OHP 8 authorities to start looking for better VFM from services Resultant non-co-operation not conducive to Scottish Office initiatives but start made on education, social work and police which pie chart shows accounts for two-thirds of LA current:

(i) One HMCI of Schools specifically responsible for work to get best value out of money we spend on education.

(ii) Reviewing with COSLA the planning of social work expenditure. Will analyse variations in unit costs. Must seek more cost-effective patterns of care if we are to cope with increasing demographic demand for services for elderly.

(iii) Through tight control of police manpower, regular and civilian, plus pay, allowances and capital projects, control over 80% of police expenditure. Have impressed upon Chief Constables that looking for better policing for our money and already getting it: more officers operational; coping splendidly with prolonged picketing; more

resources redeployed against misuse of drugs; at least one force markedly improved detection rate. Additional Inspector of Constabulary appointed to step up scrutiny effort.

Initiatives also being taken by Accounts Commission over range of subjects to show how better VFM can be obtained. But onus must rest on authorities themselves. Best I can do is create financial situation which makes it imperative for them to improve VFM.

Summing Up

21. As suggested in invitation to Seminar, merely selected examples to demonstrate observable results. FMI has given impetus and opportunity to make improvements in running costs and programme expenditure. This builds on work already in embryo or seen to be needed.

22. Most valuable to me are management plans which set objectives, tasks and resources for each Assistant Secretary command against which I can assess performance of each of 137 such units. Plans include quantified outputs and target dates wherever possible; we have found it to be possible much more extensively than we thought. Provide framework for each junior Minister to keep Departments' activities consistent with own policy objectives so that bridge and engineroom properly in touch. I meet each Minister and Department separately to examine these plans regularly and at least once a year and find this approach to targeting resources particularly valuable in run up to PES decisions. Absolutely vital for me to synchronise top down with bottom up in running such disparate organisation -mostly from 400 miles away. Determined that resources in programmes should yield as much as can possibly obtain from them and will continue to develop further specific targets to demonstrate that that is being achieved.

Treasury Chambers, Parliament Street, SW1P 3AG

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

28 November 1984

Dear Gary

GOVERNMENT PURCHASING

Thank you for your letter of 19 November about follow-up action to the MPO Report.

I am arranging for action plans to be commissioned from all departments and bodies for which the Chancellor is responsible. My officials will be sending yours a note indicating which of us supervises each of these, the name of an appropriate senior officer in the bodies concerned, and the Treasury division which is responsible for their expenditure.

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

Yours ever Peter

PETER REES

Haynes / Pt 17

29 NOV 1984

Prime Minister (1)

Agree recommendation at X? (The proposed scrutiny can be commissioned by private secretary letter.)

PRIME MINISTER

IMPLEMENTATION OF EFFICIENCY SCRUTINIES

When we discussed progress on improving efficiency and effectiveness in the public sector at the beginning of the year I mentioned that some sensible scrutiny recommendations were not being followed up with sufficient vigour. Your Private Secretary later wrote to the departments where the largest sums of money were at stake expressing your concern. I am glad to be able to report that, as a result, there has been a significant amount of "catching-up" on these scrutinies - most notably in the Ministry of Defence.

2. Nevertheless I remain concerned about implementation. Scrutiny recommendations are taking too long to be put into action, and they are getting watered down in the process. The success of the scrutiny technique has been in large measure because the scrutiny itself is conducted with a sense of urgency and a presumption that change will result. But too often implementation of a scrutiny is approached in a relaxed fashion with a marked tendency to shelve hard decisions. I do not think that exhortation will resolve this problem.

3. I consider that the Efficiency Unit should investigate the factors that lead to slow and incomplete implementation of scrutiny recommendations so that I can advise you on the best way to maintain a sense of urgency in implementing changes. I suggest that you should commission the Efficiency Unit to conduct a quick scrutiny of the implementation process to establish the facts and to produce recommendations for action.

X

ROBIN IBBS
27 November 1984

file REMARK.

10 DOWNING STREET

From the Private Secretary

26 November 1984

SUPPORTING SERVICES FOR ADMINISTRATIVE WORK

The Prime Minister was grateful for the Chancellor of the Duchy's minute of 19 November, drawing her attention to the final report on the scrutinies of supporting services for administrative work.

The Prime Minister has noted with approval the three principal suggestions for increasing the contribution of information technology; and she agrees that Lord Gowrie should now send the report to Ministers in charge of Departments.

I am sending copies of this letter to Mike Corcoran (Barney Hayhoe's office, HM Treasury), Richard Hatfield (Cabinet Office) and to Sir Robin Ibbs.

(David Barclay)

Miss Sonia Phippard,
Chancellor of the Duchy of Lancaster's Office

PRESS OFFICE

CONSULTANCY INSPECTION AND REVIEW REPORT

Sir Robin Ibbs has sought the Prime Minister's approval of publication of the CIR Report on 4 December. Copies will be placed in the Library, and publication announced by the Prime Minister by way of Written Answer.

I attach a copy of the Foreword to the Report which the Prime Minister has approved. This gives the general flavour. Do you see any objection to the timescale proposed?

—

DMB

David Barclay
26 November 1984

10 DOWNING STREET

THE PRIME MINISTER

The money which pays for public expenditure is earned through the efforts of taxpayers. Those taxpayers - and those who are the customers for essential public services - rightly expect value from every pound spent in their name.

This report points to a further stage in the government financial reforms begun in 1982. The reforms are intended to ensure that those who work in government feel a personal responsibility to increase value for money and can act accordingly. I endorse the report and look to the leadership of the Civil Service to implement these changes.

10 DOWNING STREET

From the Private Secretary

Sir Robin Ibbs

Consultancy Inspection and Review Report

The Prime Minister was grateful for your minute of 22 November about the procedure for publishing the Consultancy Inspection and Review Report.

The Prime Minister agrees that publication should be announced on 4 December. I should be grateful for a draft Question and Written Answer as soon as possible.

The Prime Minister is also content with the draft foreword which you provided - I attach the signed version.

I am sending copies of this minute to Richard Broadbent (Chief Secretary's Office, HM Treasury), Paul Thomas (Office of the Chancellor of the Duchy of Lancaster), and Richard Hatfield (Cabinet Office).

26 November, 1984.

Weekend box

Prime Minister
The meeting is on Tuesday afternoon but you may like to read the papers over the weekend.

F.E.R.B.
23.11.

CONFIDENTIAL

PRIME MINISTER

VALUE FOR MONEY SEMINAR WITH THE SECRETARY OF STATE FOR SCOTLAND

Purpose

Your purpose is to impress on Mr Younger the need to maintain a constant drive for better value for money in both programme and administration expenditure.

Handling

The Secretary of State will expect to speak for about 15 minutes on recent achievements and plans for further progress. He will give special attention to Transport and Agriculture, as you suggested, but will also want to refer to his other responsibilities. There will then be up to 60 minutes for questions and discussions.

Facts

Mr Younger controls total spending of £7 billion a year. His departmental running costs, for five functional departments and the central Scottish Office, are nearly £100m a year.

The Treasury believes that the present formula arrangements are giving the Scots at least £½ billion a year more than strict comparability would require. While Mr Younger might privately admit that his provision is generous, he has resisted the Treasury's proposal for a review. Discussion about comparability would be out of place at this meeting. But the background is relevant: Mr Younger must know that his expenditure will be under pressure in future years and that it will be essential to get maximum value out of limited funds.

Questions

The basic questions are:

(1) what are Mr Younger's specific value for money targets - not just generalised objectives?

(2) what timetable has he set himself for each?

(3) how can motivation and sense of urgency be increased?

(4) what help is needed from outside? Can the scrutiny approach help to identify targets or to deliver targets already identified?

You will want to challenge:

(a) cosy targets: things that would happen anyway; and

(b) lack of specificity: you will want to press Mr Younger to say how much closer he expects to be in 12 months' time to achieving each of his objectives.

The annex to this brief suggests some specific questions designed to focus on Mr Younger's responsibilities. Some background material which you may find useful for reference is also attached.

Summing up

You will want to ensure that the Secretary of State and the Permanent Secretary carry back with them:

(a) strong messages of encouragement on points of positive achievement; and

(b) a firm commitment to delivering further improvements in value for money against specific targets with a sense of urgency.

I suggest you ask the Efficiency Unit to check that points which emerge from the seminar are followed up.

I am sending copies of this minute to Sir Robert Armstrong and Sir Peter Middleton.

James Beesley.

pp ROBIN IBBS
23 November 1984

[Approved by Sir Robin Ibbs and signed in his absence.]

ANNEX

POINTS TO RAISE

Transport

Of the major roads schemes under construction last year 28 per cent, costing £41 million, had in economic terms a negative net present value. That was twice the proportion in England.

> Question: How are you going to get better economic value out of this large programme?

The Secretary of State has increased subsidies to shipping services in the Highlands and Islands without putting any pressure on the operators to improve efficiency.

> Question: How are you going to get more efficiency out of the transport operators?

Agriculture

With hill livestock subsidies and CAP subsidies public expenditure on agriculture in Scotland has exceeded total farm income in the past 2 years. Research and advice to farmers costs a remarkable £40m a year.

> Question: How do you assess the effectiveness of agricultural subsidies in relation to other measures? How are you going to improve the cost-effectiveness of maintaining employment in remote areas?

Question: Is Scotland's agricultural research properly coordinated with England's to ensure that there is no waste?

Health

Scotland has the highest numbers of doctors and hospital beds per head of the population in Britain, yet it has the least healthy population.

Question: What targets are you setting the health service in Scotland for the reduction of preventable disease?

Industry

The Scottish Development Agency employs 730 staff and has a budget of £95m a year. The Highlands and Islands Development Board employs 260 staff and spends £21m a year. Both are additional to the normal industrial assistance available in the English development areas.

Question: Industrial development policy (including attracting investment from abroad) has been very effective, but what are your targets for achieving that effect at lower cost?

Education

Scotland has the lowest pupil/teacher ratios, both in secondary and in primary schools, in the UK. And there is gross over-capacity in Scottish teacher-training colleges: Dundee, for example, is only 20% occupied

Question: What are you going to do to increase efficiency in the education area?

Central Scottish Office

Question: How are you going to achieve/improve on the 550 reduction in civil service numbers needed (excluding the prison service) to meet your 1988 manpower target?

Question (for Sir William Fraser): How are you countering the inefficiencies inherent in having the complex pattern of reporting between Departments and junior Ministers shown in the chart attached?

Unnecessary administration costs arise because the Scots feel obliged to duplicate the work of the English Departments.

Question: What scope is there for increasing the extent to which Scottish Departments draw on the resources of English Departments instead of maintaining their own teams of professionals (except in law)?

Compliance Costs

The Scottish Office is not covered by the current scrutiny of administrative burdens on firms, especially small firms. Planning regulations are an important aspect of this, but also fire, uilding regulations and environmental health.

Question: Scotland has already led the way in liberalising Sunday trading and the licensing laws. What plans have you for further de-regulation?

ANNEX

SCOTTISH OFFICE EXPENDITURE AND MANPOWER

Staff Numbers

	Excluding Prisons	Prison Staff
1979	8233	2941
1984 (actual)	7060 (reduction of 14.25 per cent)	2714
1988 (target)	6505 (further reduction of 8 per cent)	3035

Main Expenditure Programmes, 1984-85

	1984-85 £m	Change since 1979-80
Agriculture, fisheries and food	188	+ 55%
Industry, energy, employment and tourism	180	+ 68%
Roads and transport	491	+ 41%
Housing and other environmental services	1191	+ 6%
Law, Order and Protective Services	490	+ 99%
Health	1844	+ 76%
Education and science	1610	+ 42%
Other	866	n/a
Total	6860	+ 51%

Running Costs

The 1984-85 Estimate is £96.8 million (gross).

Top Management Systems

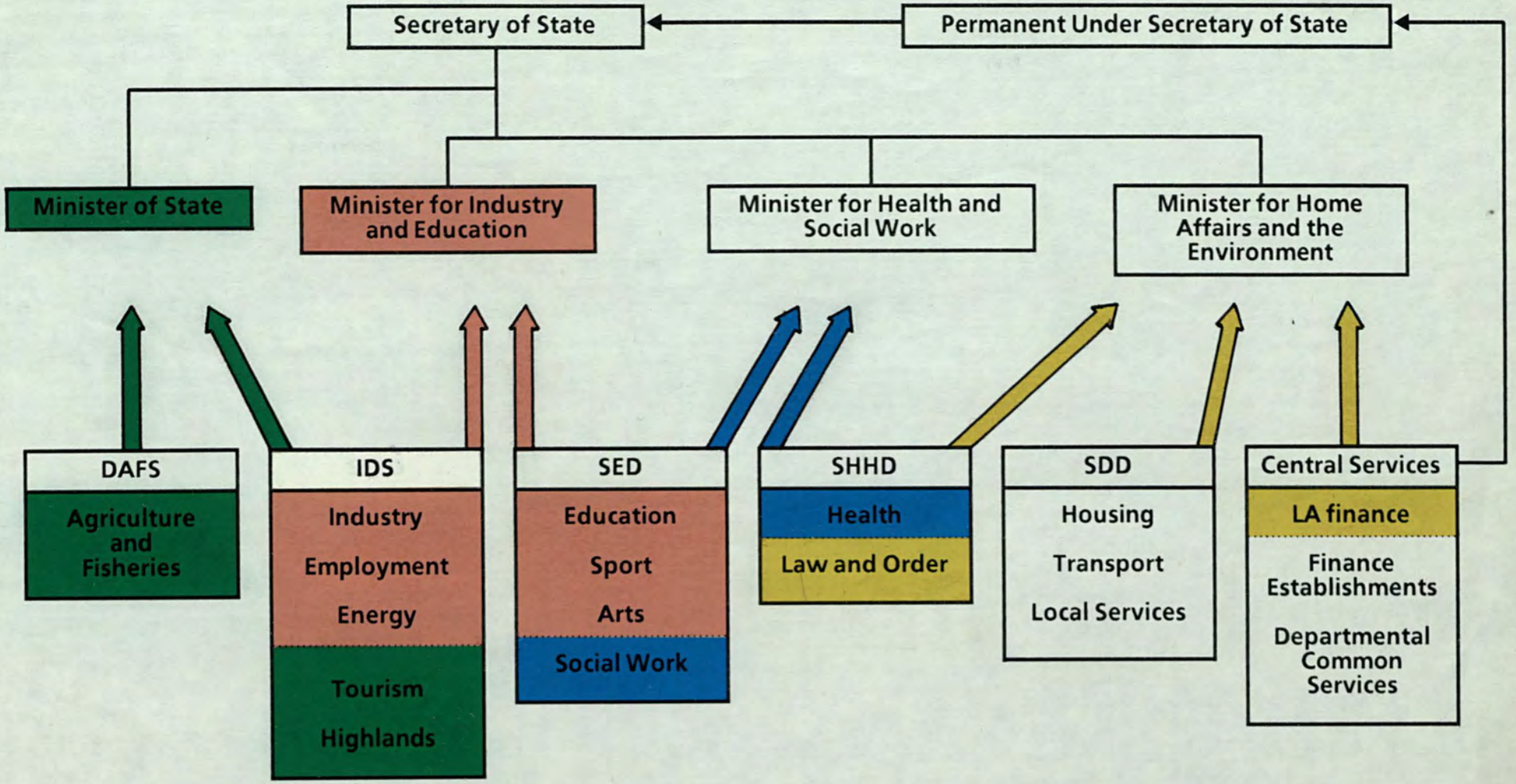
The Department's work is reviewed annually through the Management Planning System.

Budgeting Plans

A pilot exercise for five Budget Centres has operated in 1984-85. Full budgeting for most items of administrative costs, will apply to the Scottish Office Departments in 1985-86.

Scrutinies and Reviews

The Department has completed 6 scrutinies and 4 milti-department reviews.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Permanent Under Secretary of State
Minister of State
Minister for Industry and Education
Minister for Health and Social Work
Minister for Home Affairs and the Environment
DAFS
Agriculture and Fisheries
IDS
Industry
Employment
Energy
Tourism
Highlands
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Housing
Transport
Local Services
Central Services
LA finance
Finance Establishments
Departmental Common Services

23 NOV 1984

1) Mr Butler FCRS
2) Prime Minister (1)
Agree publication on 4 Dec, plus draft foreword attached?

1

PRIME MINISTER

CONSULTANCY INSPECTION AND REVIEW REPORT

Yes DwB 23/11

We discussed the Consultancy Inspection and Review Report with you in the middle of October. Robert Armstrong and Peter Middleton are about to send a letter to all Permanent Secretaries endorsing the recommendations of the report following your meeting and asking departments to set in hand the necessary work to implement the recommendations of the report.

In line with our normal practice to make this kind of work widely available we would like to publish the report in the week of 3 December. It would be helpful if you would announce its availability in the House of Commons library in a written answer on ~~3~~ 4 December.

This is an important report with implications for the management of the whole Civil Service. It would be most helpful if you would agree to sign a short forword to go in the front of the report, I attach a draft.

I would be grateful for your agreement:

(i) to publish the report

(ii) to announce publication on ~~3~~ 4 December

(iii) to contribute a short foreword.

I am copying this minute to Peter Rees, Grey Gowrie and Robert Armstrong.

ROBIN IBBS

22 November 1984

10 DOWNING STREET

THE PRIME MINISTER

The money which pays for public expenditure is earned through the efforts of taxpayers. Those taxpayers - and those who are the customers for essential public services - rightly expect value from every pound spent in their name.

This report points to a further stage in the government financial reforms begun in 1982. The reforms are intended to ensure that those who work in government feel a personal responsibility to increase value for money and can act accordingly. I endorse the report and look to the leadership of the Civil Service to implement these changes.

Margaret Thatcher

PART 16 ends:-

DB to PM 20/11/84

PART 17 begins:-

Robin Ibbs to PM 22/11/84

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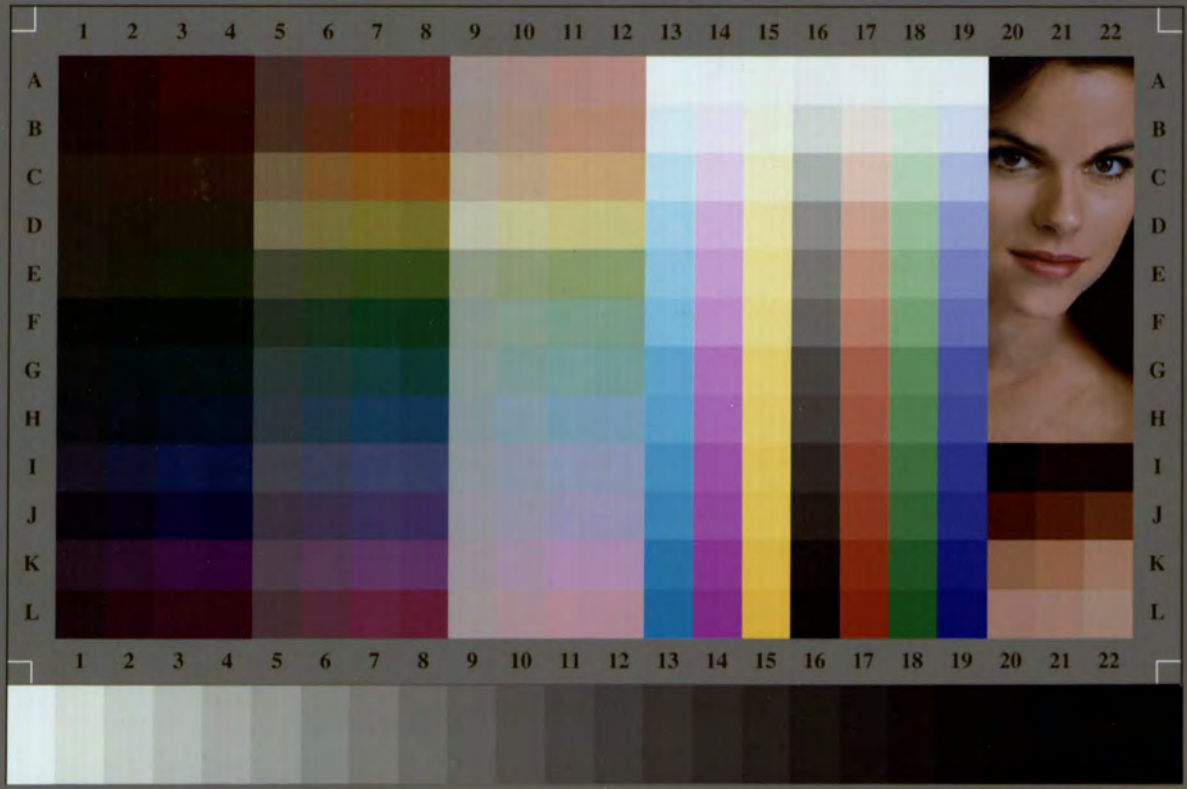

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