

PREM 19/1683

LONG TERM MANAGEMENT AND
 MANPOWER POLICY SLIMMING DOWN OF
 LOCAL AUTHORITY STAFF PERFORMANCE
 RELATED PAY
 FINANCIAL MANAGEMENT

CIVIL SERVICE

PT 1: MARCH 1979

PT 18: SEPT 1985

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
16.9.85		24.3.86					
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● PART 18 ends:-

Sir. K. Stowe to ~~RMA~~ NW

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PART 19 begins:-

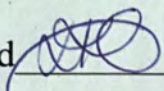
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TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
E(A)(85)68	04/12/1985
E(A)(85)70	02/12/1985
E(A)(85)66	25/11/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed  _____

Date 10/9/2014

PREM Records Team



Prime Minister 4
A thoughtful,
hard hitting essay
by Ken Stowe,

DEPARTMENT OF HEALTH & SOCIAL SECURITY

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From the Permanent Secretary

Sir Kenneth Stowe KCB CVO

well worth
a skim.

N.L.W.

9.5

Nigel Wicks, Esq.,
No. 10 Downing Street,
London SW1

30 April 1986

Dear Nigel,

I enclose a copy of the letter I recently sent to Robert Armstrong covering the final version of my lecture to the RSA on the Management of a large Department of State. It was crudely misreported in The Times (what else would one expect) but otherwise has not caused a ripple as yet. It says some fairly important things and I am comforted by the fact that Robin Ibbs, who was in the audience, said he agreed with every word of it.

Yours sincerely,

Ken



DEPARTMENT OF HEALTH AND SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522 ext 6981
From the Permanent Secretary
Sir Kenneth Stowe GCB CVO

Sir Robert Armstrong GCB CVO
Cabinet Office
London SW1

28 April 1986

My dear Robert.

MANAGING A GOVERNMENT DEPARTMENT

You know that I was invited, with Marcus Sieff and Alex Jarratt, to give one of the three RSA lectures on management for Industry Year. Perhaps unwisely, I agreed and it was duly delivered last Monday with, fortunately, minimal turbulence and only one press report that I noticed.

I sang a representative selection from my repertoire of old songs, so there is nothing in it you will not have heard before but you might like to glance at it. I shall use it as a vehicle to press some home truths among my staff here; and the College might like to use it as background reading material along with the other two lectures.

Copies to Peter Middleton, Robin Butler, Anne Mueller, Nigel Wicks and Robin Ibbs (who heard it anyway).

Yours ever,
Ken.

LECTURE BY SIR KENNETH STOWE TO ROYAL SOCIETY OF ARTS

21 APRIL 1986:

MANAGING A GREAT DEPARTMENT OF STATE

1. In the first of the Industry Year lectures last week, Lord Sieff focussed on four key attributes of good management:
 - good human relations
 - support for the community as a whole
 - source your supplies from home
 - change attitudes.

But he made it plain that "progress can only be achieved if there are profits" - profit and profit-sharing was his starting point.

2. I endorse his key attributes. But I cannot, in the nature of the case, start from his premise of no "progress without profit". Government is not in the business of making profit. But it certainly is in the business of making progress.

3. All too easy to give up at this point and simply say that government is different and we have to follow different rules. I heard a recently-appointed junior Minister complain that the trouble with government was that, unlike private sector business management, you could never find the bottom line. So my alternative title could be "Looking for the bottom line" - while walking carefully over thin ice.

4. The Minister was right, of course, to this extent:

- We are not in a position to make a profit; but we must not allow others to make excessive or unreasonable profits from us.
- We do not have to watch a share price as an indicator of market opinion on our performance; but a steady flow of opinion polls seems to make our Ministerial masters equally sensitive.
- We do not have to achieve a financial return on capital invested; but we do have a massive capital stock of land, buildings and equipment and have a duty to put it to good use or dispose of it advantageously if unwanted.
- We cannot go into liquidation; but neither can we dispose of unattractive subsidiaries or get out of the often unrewarding markets we are operating in.

- We do not have a balance sheet that balances: it is either nearly all red (like DHSS) or nearly all black (like the Inland Revenue); but the public sector sums do eventually have to balance in the Treasury's equation.
- We do share one problem. Like Distillers, Imperial, Woolworths, Standard Bank, we are always under threat of a takeover - in our case from a permanent and paid opposition in Westminster.
- Finally, we have no annual shareholders' meeting; but we do have over 600 representative owners in nearly continuous session in Westminster!

5. But all that means is that, in a different context, we have to concern ourselves just as industry and commerce do with the three critical attributes of effectiveness, efficiency and accountability: to deliver the services required of a Government Department and to justify the actions which are taken, or not taken. So, even without the profit motive, I find myself on largely common ground with Lord Sieff and propose to explore it this evening from these angles

- making government work
- working with industry and commerce
- managing people.

I do not want to spend my time reciting facts and figures, so I have produced some charts which may help. I shall be referring to some of them.

Making Government Work

6. What a Government Department has to do can be boiled down to these two tasks:
1. To inform and advise; ie to inform and advise the Secretary of State or Minister across the whole field of his responsibilities; similarly to provide other Government Departments and Parliament with the information and advice they need.
 2. To implement; ie to deliver the services prescribed by the legislation and policies for which the Secretary of State is responsible.

Each entails a heavy load, and one which in our case (and I believe generally) seems always to be expanding.

7. As to Ministers and Parliament, much or most of what any Department does is in the public eye and attracts a formidable burden of enquiry and investigation. Look, for example, at Chart 1 which lists some of the work Ministers and officials in DHSS dealt with last year. I will pick out three in particular:

- 6,400 Parliamentary Questions. Every fourth Tuesday, my Department is first for oral PQs. We may only get through 40 at the very most, but the briefing for these is about 1" thick. And that still leaves another 6,360!
- Over 100 Parliamentary debates.
- 35,000 letters from MPs requiring a Ministerial answer.

8. But "informing and advising" is only the tip of the iceberg. Below that is the vast bulk of the operational task of implementation which the Department has to undertake or account for. As to that, the volumes speak for themselves; you will find some of them set out in Chart 2. This is only a snapshot of figures at a particular time and gives no idea of the massive and managed change which goes on continually in all Government Departments. And it is worth remembering that these are human transactions involving in many cases the most intimate aspects of human life - not just high volumes but also high sensitivity.

9. All those multitudes derive from our basic responsibility for applying a legal framework of welfare: 100 statutes currently in force and 1,500 (approximately!) live Statutory Instruments. And every penny spent on them is subject to audit by the National Audit Office and appraisal by the Public Accounts Committee of the House of Commons. What all these large volumes have in common, and what gets us nearer to that bottom line is that the Secretary of State has some degree of responsibility for all of them and he and his officials are, therefore, accountable for the whole in Parliament.

10. That accountability is, however, quite complicated. The services for which the Secretary of State for Social Services is responsible are delivered through several distinct and separate channels of authority (Chart 3) - Health Authorities; Local Authorities; Family Practitioner Committees; within the Department, Social Security Offices, Special Hospitals and Artificial Limb and Appliance Centres; and some non-Departmental public bodies like the National Radiological Protection Board and the Central Blood Laboratory Authority.

11. The management relationship between each of these and the Secretary of State is quite different: in social security, in Special Hospitals, and in Artificial Limb and Appliance Centres (ALACs), the staff are civil servants employed within the Department itself; in Health Authorities the staff are Crown servants employed by Health Authorities; in family practitioner services, the GP or dentist is in effect a small businessman running his own business with a contract negotiated centrally between the Department and the General Medical Services Committee of the British Medical Association; the pharmacist likewise with a contract negotiated via the Pharmaceutical Services Negotiating Committee; in Personal Social Services the staff are employees of local authorities. Thus the lines of command from the Secretary of State, and the kind of powers available, differ considerably; and so does the degree of involvement by Ministers and the Department in detail of management. Total involvement in, and total accountability for, the management of a social security local office or ALAC; zero in Boots the Chemist.

12. But that is the straightforward part! The difficult part is to try to make it all fit together. There is a thread of policy objectives linking most of these disparate tasks and agencies to each other, and to several other parts of government. Consider, for example, the care (in cash and services) of the very elderly, by which I mean those over 85. In the decade 1981 to 1991 the number of over 85s will rise by 43 per cent. 1 in 5 are suffering from senility, yet most live alone and one quarter have no living relatives. I believe this is the biggest single challenge facing our society at present. And it is just one area where a vast array of agencies and authorities, including the voluntary and private sector, has something to contribute in terms of resources, provision of services and the development of policies. Home helps and meals on wheels matter as much as hospital care and benefits; and each service has an implication for decisions to be taken on the others. So coherence and integration of policy is essential. This is where life gets complicated.

13. Even confining ourselves to the DHSS field of responsibility, the scene is complex. A bird's eye view of the Secretary of State's parish is set out in Chart 4 - and you will see why I have not attempted a pen-picture!

14. We come now to the meat of the sandwich: how can government be made to work? Isn't it all too big, too complicated, too unwieldy? Would it not be better to split it all up, to reverse the reforms of the 1960s and move back from the jumbo Departments to double the number of much smaller and more homogeneous Departments.

15. But it would not reduce the total volume of government to double the number of Departments. We shall never make government work well if we go on asking it to do too much. The volume of government remains much too big. I hope that we can still progress to new reductions in government activity and involvement because I believe we have barely started. Not because government is of itself bad or wrong, and certainly not because government is to be anathematised as a burden upon the taxpayer. But because, first, government itself is complicated and more difficult to do well the larger it gets; and secondly, because there will always be not only essential tasks which government alone can do but new tasks which demand to be done; and headroom needs continually to be created.

16. I see no way of avoiding more involvement of central government in education, in crime prevention, in environmental issues. In DHSS, for example, we did not contemplate 18 months ago having to set up an AIDS Unit in the Department and mount a major and permanent campaign of public education. More, not less investment of time and energy will be needed to respond to the needs of the very elderly and the care of all the handicapped and infirm in the community at large. But the last thing I want, as manager of DHSS, is to return to an ever expanding Department, in however many compartments.

17. I value the loyalties and commitment which management can more easily nourish in a small unit. Performance and achievement seem so much more attainable where the focus is sharp and the common aim is clear.

18. But there are even more important considerations. Government is, ultimately, indivisible; and the policies of government must be coherent.

19. If there is any art at all in managing a great - or small - Department of State, it lies in the capacity to see the connections of problems and policies and to make government itself as near a unity as possible. This is the hardest part of the job and the Permanent Secretary carries a particular responsibility to the Secretary of State to make it all fit together.

20. I illustrate the point by reference to inflation. If government policy is to give priority to defeating inflation, this must permeate the whole; and if constraint of public expenditure is a necessary route to that end, no Department can escape the implications, least of all mine. So, expenditure on caring services and on benefits must be constrained and priorities determined across a very wide

field. None of that is made easier if the field is divided up into seemingly separate allotments. I could as easily have illustrated the point, as a former Permanent Secretary in the Northern Ireland Office, by reference to crime and terrorism.

21. My first criterion for a well-managed Department of State, and for a well-managed government, has, therefore, to be its effectiveness in securing coherence and consistency of policy across government as a whole. It is a seamless robe; and that criterion is made harder to achieve if government degenerates into patchwork.

22. But my second criterion has to be that the customer is entitled to expect well-managed operations - effective and economical.

23. So, we have to square the circle; how do we get well-conceived and directed policy (which demands breadth of knowledge and breadth of vision) with well-managed delivery of services (which demands depth of knowledge of, and concentration on, the task in hand)? And how do we ensure that each takes account of the other?

24. Our approach in my Department, mirrored elsewhere in Whitehall, is to make separate provision for them inside the Department in identifiable bodies dedicated to the management of each service. And then to bind the whole together by across-the-board management of the central function of the Department, which is to service Ministers and Parliament in respect of the whole field of social services policy. If we go back to the birds-eye view of the Department (Chart 4), the requirement is obvious. We have responded to it by setting up, inside the Department, an NHS Management Board; a Social Security Management Board; a Social Services Inspectorate; Local Management Boards for the Special Hospitals; and we are currently reviewing in the light of the McColl Committee Report the management requirements of the 27 Artificial Limb and Appliance Centres. The whole is bound together by a Department Management Board (DMB), and the activities of the 51 operating Divisions within the Department are run under a "management accounting system supervised by the DMB. Looked at from alongside, rather than bird's eye, the structure is set out for you in Chart 5.

25. I said that my alternative title might be "looking for the bottom line". Perhaps there is no real bottom line in government, or at least no single one - particularly in my Department! - but we might get somewhere if we slice through the tangle with three separate, though ultimately linked, concepts.

26. Firstly, accountability under the law. You will recall that one of the two main functions of my Department - and all others - is to deliver the services prescribed by the legislation and policies for which the Secretary of State is responsible. All of our business revolves around the law in one form or another - there are 100 statutes in force and the 1500 sets of Regulations. The numbers are large because the legislation reflects both the complexity and range of our businesses and the concern of Parliament and the public to establish a secure basis of entitlement to services. And the law we administer provides for independent adjudication and appeal to Tribunals and the Courts. There is a clear bottom line here currently manifesting itself in the verdicts handed down by the Tribunals and the Courts. We see it also in the increasing use of the judicial review. The actions of Ministers and civil servants are being, and will continue to be closely scrutinised under the law. This is good, indeed essential. And if we lose too often, that is telling us something!

27. Secondly, the punctual delivery of services and benefits within the Department's budget, to the right people at the right time. Around two thirds of all families in Great Britain receive at least one benefit as part of their weekly income. There are over 30 different benefits; 16m new claims for benefit are made each year while 20m existing awards are reviewed. Many factors work to determine demand but provision has to be forecast and made so far as possible within planned public expenditure. And the public will be properly vociferous if the benefits and services are not there. At the same time, Parliament requires close control of administrative costs. The budgets of these services and the agencies involved in delivering them have to be accounted for, to Parliament and to the general public. This is, in a way, the easiest because everything is measurable.

28. Thirdly, the development of services to match current and prospective requirements and to achieve high - and better - quality services - whether in hospitals, public health, social security or social policies like caring for the elderly. If we don't come up with a response to AIDS or drug addiction, we have failed.

29. There is an enormous amount of continuing management effort directed to these three ends. I am not going to tempt fate by recounting the Department's achievements. We have plenty of good stories to tell, of unit costs reduced, overheads cut, services improved. We also have our failures. And we have our albatross - the requirement to account for every penny to a degree which makes Marks and Spencer's abolition of forms, which Lord Sieff mentioned last week, a pious dream.

Working with Industry and Commerce

30. I turn now to our relations with industry. How is all this relevant to Industry Year 1986? One can take two views. First, government is an excessive burden, generated by a parasitic bureaucracy not yet imposing upon itself the drive for efficiency which world recession has imposed upon the private sector; not committed to necessary change; and if only public expenditure were substantially reduced all would be well. You will recognise the song, and could probably identify the several singers.

31. There is another view. Defence of the realm; maintenance of law and order; and of the value of currency; necessary provision of goods and services for those not yet in the labour market, excluded from it, or now beyond working age; protection of the environment - these are indispensable to the private sector too. They could not survive without them.

32. My view is simple and straightforward. We should be pursuing even more vigorously the identity of interest between, on the one hand, the necessary tasks of government and on the other, the proper ambitions of a profit-motivated private sector, to their mutual advantage. Lord Sieff referred to it as "sourcing from home". I offer an example:

33. First, suppose 30 years ago a visionary had foreseen that we could by such an approach use the purchasing power of the NHS to help create in the UK a pharmaceutical industry which:

- with only 4 per cent of the world market as its home base would rank sixth in the world league;
- would develop a substantial UK base of R and D so that 10 of the top 20 drugs by volume prescribed in the NHS would be developed in the UK and the industry would count Nobel prize-winners among its researchers;
- would employ 80,000 people in over 70 private sector highly profitable companies;
- would contribute a net £850 million a year to our balance of trade.

Suppose he had said this could be done by a voluntary agreement between the Health Departments and the industry. He would have been right. The facts today are as I gave them. And if he had been Japanese or French, the world would know about it.

34. Of course, there was a price. The NHS drug bill is high, over £1.5 billion a year and has grown steadily - but though we still consume too many drugs our NHS prescribing rate and our drug bill are lower than most Western countries. We shall go on bargaining hard with the industry, and they will shout at us for our intransigence - but the lesson is there. We could have gone for a cheap drug policy. Australia did. It lost its pharmaceutical industry.

35. We can also get it wrong: the McColl Committee brought out into the open for us what we had long suspected, that the small cartel of British firms who monopolised the supply and fitting of artificial limbs to the disabled have been giving a poor service at excessive cost - primarily because they have not been exposed to competition.

36. The moral is obvious:

Government purchasing can be no more than a soft option for inadequate industries providing inferior services to an undemanding customer. Equally it can be a spur to creativity. For example, in one year the DHSS spends approximately £3.01bn on goods; £1.3bn of this goes on drugs. And we are using advisers on procurement from the private sector to help us get this right.

This brings me to managing people.

Managing People

37. Here the contrast with Lord Sieff's picture is stark and disturbing.

38. Let us first be clear what we are talking about. The non-political Civil Service is still a necessary component in the machinery of government. But it is far from being the homogeneous body of popular journalism. The reality is easily summarised:

- most Civil Servants are under 30; with no more than a few O levels each; in junior grades earning at or below average male industrial earnings; work outside London; nearly half are women;
- few will spend most, or even much, of their working lives in the Civil Service;

- we are in competition, in this market, with building societies, banks, insurance companies and if we fail to pay the market-rate, we have only ourselves to blame if we waste our in-house training on high turnover rates;
- the higher ranks are not homogeneous either; they include two distinguishable, but overlapping groups:

First, those whose skills are acquired outside government but needed in it, like pharmacists, engineers, architects, doctors, nurses, computer scientists; these may join government service in mid-career and remain in it but increasingly we are buying in their expertise for short service and they return whence they came, commonly to the private sector. And again, we pay the market price or we don't get the skill.

Secondly, the group whose skills can only be acquired in government - subjects like social security; immigration and nationality; the judicial administrative system; defence administration; public health; international trade negotiations, to name but a few. And expertise in the craft of government itself, whether it be advising Ministers or Select Committees, drafting answers to Parliamentary Questions and replies to debates; preparing legislation.

39. To generalise about this varied collection is hazardous. But my balance sheet looks like this. First, the strengths of the material that any Permanent Secretary has to work with:

- a. Integrity and the absence of self-interest - which cannot always be assumed in the private sector but ought to be able to be taken for granted in the Civil Service; and is.
- b. Impartiality - as objective apolitical managers of public services.
- c. A commitment and conscientiousness to the public service which will not require personal gain or personal advantage to generate high motivation and sustained performance.
- d. Skill already referred to in the craft of government - which cannot be found in the private sector, which is essential for good government.

- e. Knowledge and experience of the subject matter of government.
- f. A willingness to consider and work for necessary changes; for the effective and efficient management of services; and to manage the change which is always taking place.
- g. A large reservoir of talent, including talent in the lower grades and in the large decentralised regional organisations, although it must be more effectively tapped.

40. Not a bad start. But there are weaknesses; and we are a long way indeed from having Lord Sieff's "stable and committed" workforce. These are the matters I worry about:

- a. Lack of relevant skills and a lack of wide experience: I have in mind personnel, procurement and other management skills, such as information technology; and specialised technical knowledge, for example - in the DHSS field - pharmaceutical science and epidemiology. Where these do not exist in the Civil Service they have to be bought in and, understandably, at market prices.
- b. A "closed" mentality: combining defensiveness and an unawareness of the extent of change that has occurred/is occurring in the rest of society. It just will not do these days for Civil Servants to maintain a sense of detachment from - still less what I fear sometimes in the past has verged on distaste for - industry and commerce.
- c. Performance not properly rewarded: poor/moderate performers have excessive security and management too few remedies to apply to them; pay for competent and outstanding performers is too closely related to seniority and not to performance.
- d. Morale: What is reported to me is that morale is low - a combination of denigration (public and private); defects in management; pay which particularly for the talented is increasingly out of line with the market; stressful and longer working hours especially at senior levels; poor working conditions; a lack of clear goals - and, perhaps most important of all, a sense of not being professionally defended in a climate of hostility. We come back to the point I made earlier about the permanent predator criticising everything.

41. It is not easy for a Permanent Secretary to assess this. But:

1. if we make government too complicated it won't be done properly;
2. if we want the same skills as banks and building societies, we won't get them at a lower price;
3. if we leave communications to the Trade Unions then it is hardly surprising if management (a) doesn't know and (b) cannot persuade;
4. slum accommodation in government offices will breed what slums always breed - slovenliness and irresponsibility;
5. if the market values our best people more than we do, why should they stay?
6. if Civil Servants believe (as many sincerely do) that Her Majesty's Ministers despise them, they will repay in kind. Ditto on politicisation.

42. We have been through a bad trough over the last decade under each of these heads. I believe we are coming out. But it requires a very positive lead by Permanent Secretaries, backed up by their Ministers, to get this right. I should make it clear that I have the total backing of my Secretary of State for the thesis that if public services are to be provided, then they ought to be good. That is why we have put so much effort into simplifying the schemes and improving the management. But we have a very long way to go.

43. What we see now is a thorough and determined drive, in all the major sectors of our national life, to give new responsibilities and incentives to individuals at all levels, so that they maximise their own output and quality of performance.

44. To sum up -

1. Management in a government department is no different in essence from what it is in the private sector - it's all about defining the objectives and delivering the results. The objectives and the results may be harder to define - but the process is much the same, and the prize is very great even if it isn't "profit".

2. Management in government, however, is in a continuing and permanent state of exposure to take-over predators; and political opportunism; and its work-force needs more defence and support than it has had hitherto against foolish criticism; as well as a greater readiness to change.

3. Size is a problem, but it is the size of government itself that is the essence of the problem. We should all be looking for ways of making government smaller.

4. The biggest - and most important - task is to make it all fit together with customer satisfaction, accountability under the law, and lastly services planned and delivered to time and to budget.

5. Finally the key to it all? People. And the most important task? Management development. Only managements, not workers, fail - and the good ones don't.

45. It is not easy to do all this within a very large public service. Inevitably we lack the flexibility in pay and other personnel practices that many industrialists take for granted. But we are making progress. The last few years have seen a greater management revolution inside the Civil Service than at any time since the war. It started a decade ago but has gained momentum in the last 4 years. I have been privileged to see this at the end of my career in government, to contribute to it and to spur it on. It is incomplete, but will be carried through; and, like comparable changes in industry, will bring large and durable benefits to our national life. It will harness to even better effect the enormous energy and competence at work in the figures before you. And it will I hope re-establish what has latterly perhaps been forgotten: to misquote slightly a famous phrase "the service of government is an honourable profession".

CHART 1

INFORMING AND ADVISING MINISTERS AND PARLIAMENT*

- 6,400 Parliamentary Questions
- over 100 debates
- 35,000 letters from MPs requiring a Ministerial answer
- 63,000 letters in Headquarters from members of the public
- 50 deputations to Ministers led by an MP or Peer
- 100 cases investigated by the Ombudsman and requiring a response personally by a Permanent Secretary.

* all figures for 1985

CHART 2

IMPLEMENTING PROGRAMMES AND POLICIES

- 800,000 new claims a year for retirement pension
- 900,000 new claims a year for other contributory National Insurance benefits
- 6 million new claims a year for supplementary benefit
- 20 million separate payments per week, mostly by order-book and giro at the Post Office.
- 1400 a year new drug product licences issued
- 12,500 a year adverse reaction reports on drugs

- nearly 5 million hospital in-patient cases in England
- 37 million hospital out-patient attendances in England
- over 5 million childhood immunisations in England
- 31 million courses of dental treatment in England
- 320 million prescriptions dispensed and paid for in England
- 10 million sight tests in England

In other words DHSS will, in any one month

- spend £4½ billion and raise £1861 million of public money
- make 80 million cash payments to individuals
- reimburse chemists for 27 million prescriptions
- enter 3 million records of NI contributions
- pay for 800,000 employees of Health Authorities in England
- pay 92,000 Departmental staff.

CHART 3

AGENCIES INVOLVED IN DELIVERING DHSS SERVICES

HOSPITAL AND COMMUNITY HEALTH SERVICES (ENGLAND)

- 14 Regional Health Authorities
- 191 District Health Authorities
- 8 Special Health Authorities governing London post-graduate teaching hospitals
- 1900 hospitals

FAMILY PRACTITIONER SERVICES (ENGLAND)

- 90 Family Practitioner Committees
- 54,000 independent contractors - GPs, opticians, dentists, pharmacists.

PERSONAL SOCIAL SERVICES (ENGLAND)

- 92 local authority social services departments; voluntary agencies

SOCIAL SECURITY (GT BRITAIN)

- 2 DHSS central offices:
 - Newcastle (retirement pension, child benefit)
 - Blackpool (attendance allowance, family income supplement)
- 509 local offices (supplementary benefit; maternity, sickness and invalidity benefits)
- Department of Employment Unemployment Benefit Offices (unemployment benefit)
- Local authorities (housing benefit)
- Employers (statutory sick pay, occupational pensions)

CHART 4

FUNCTIONS AND MANAGEMENT OF DHSS

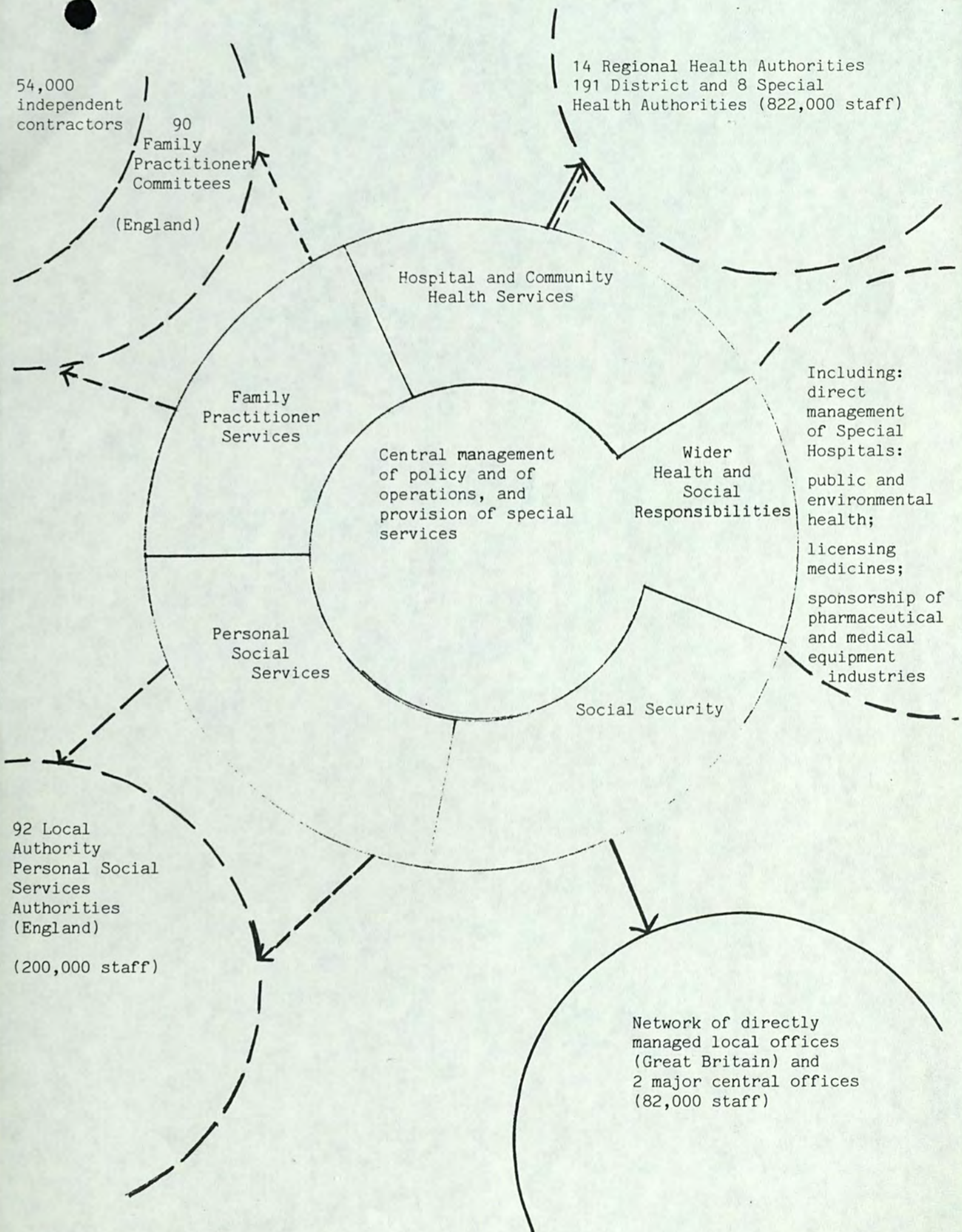


CHART 5

THE DEPARTMENTAL MANAGEMENT

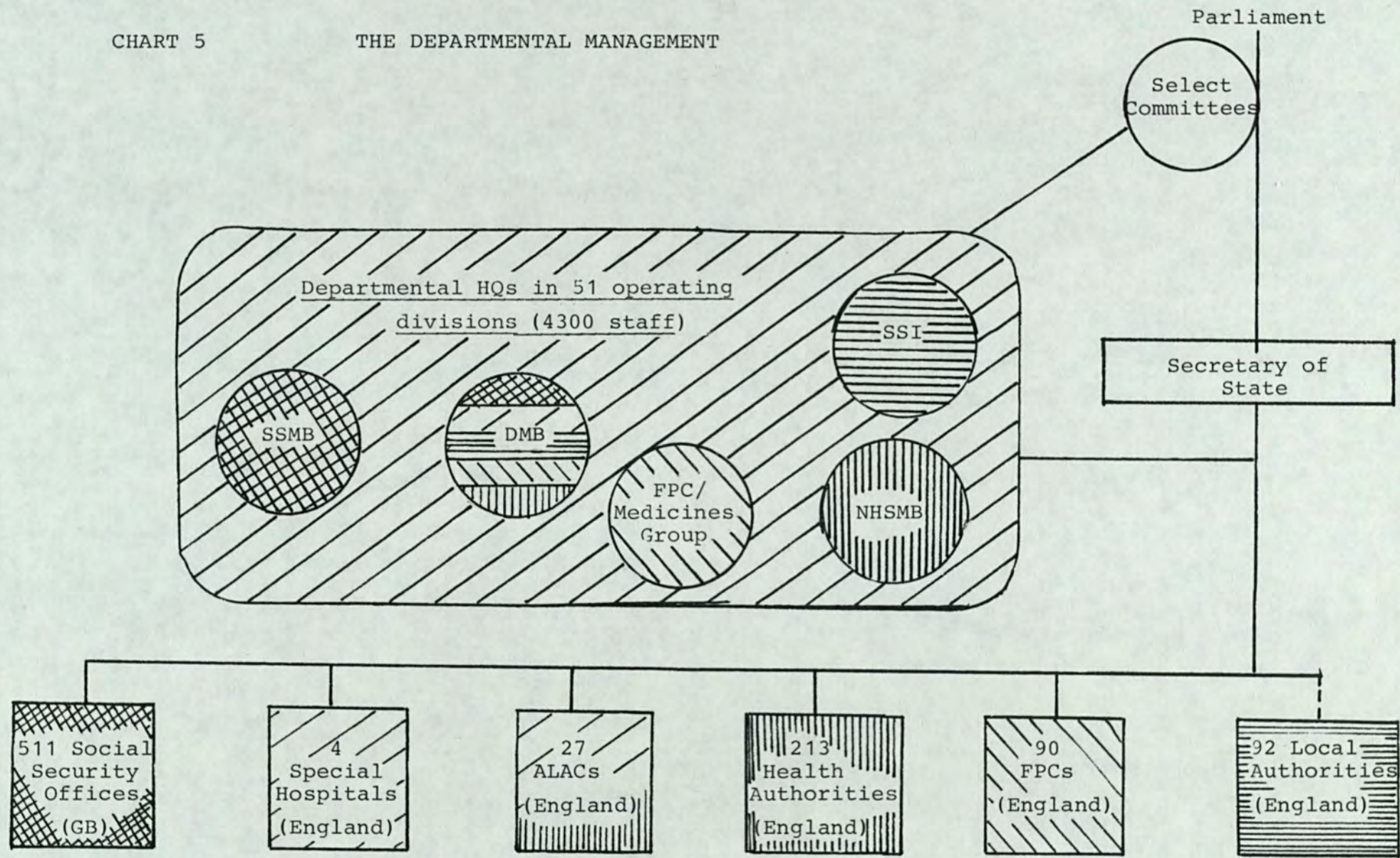
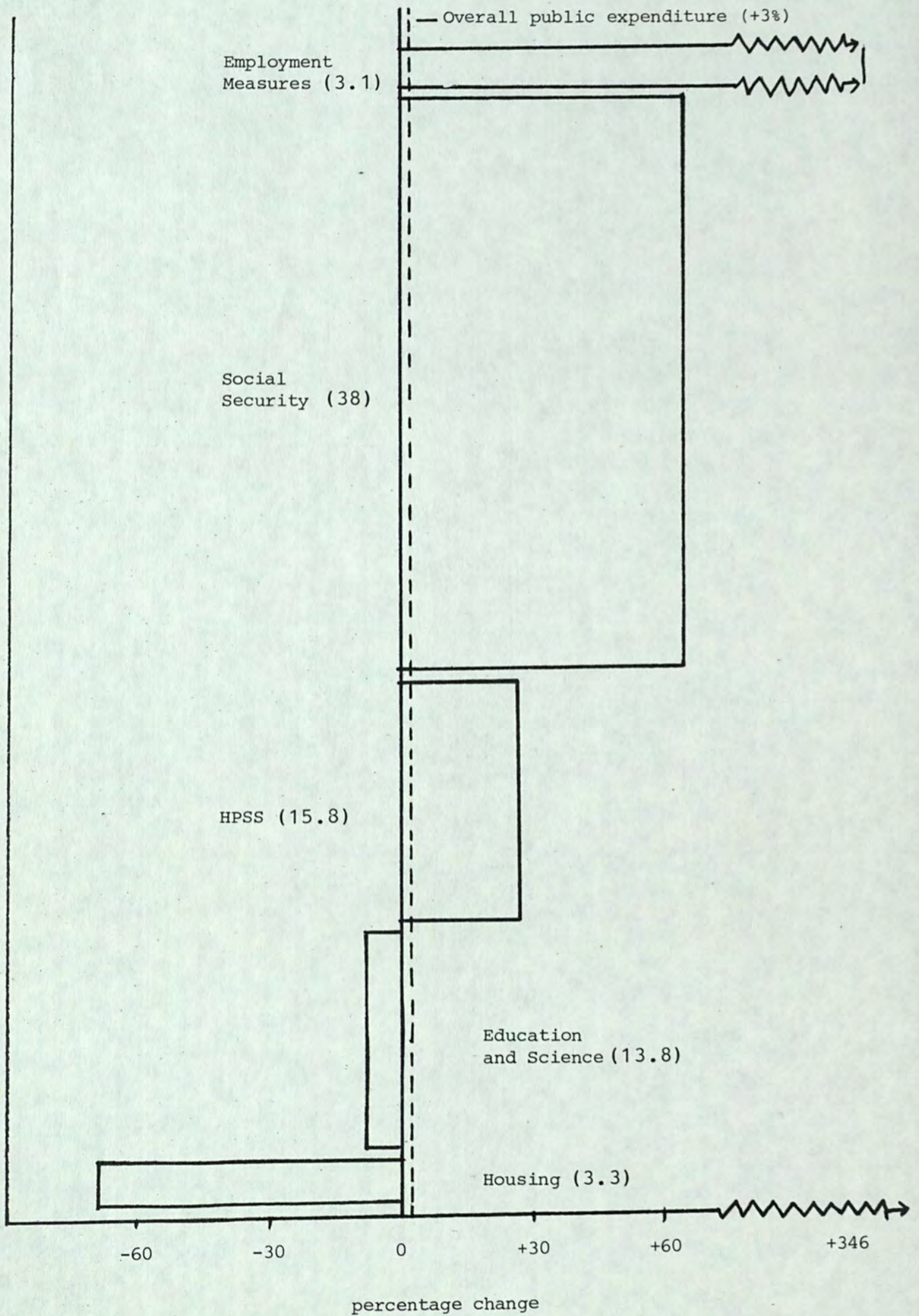


CHART 6

MAJOR SHIFTS IN EXPENDITURE BETWEEN 1974-75 AND 1984-85

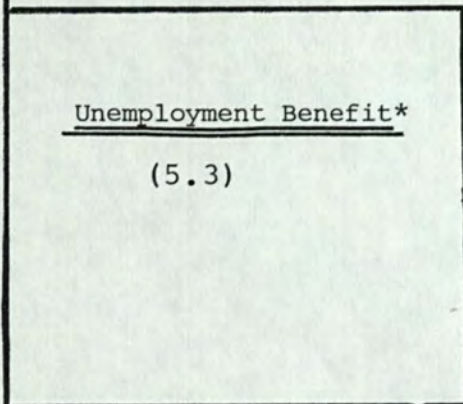
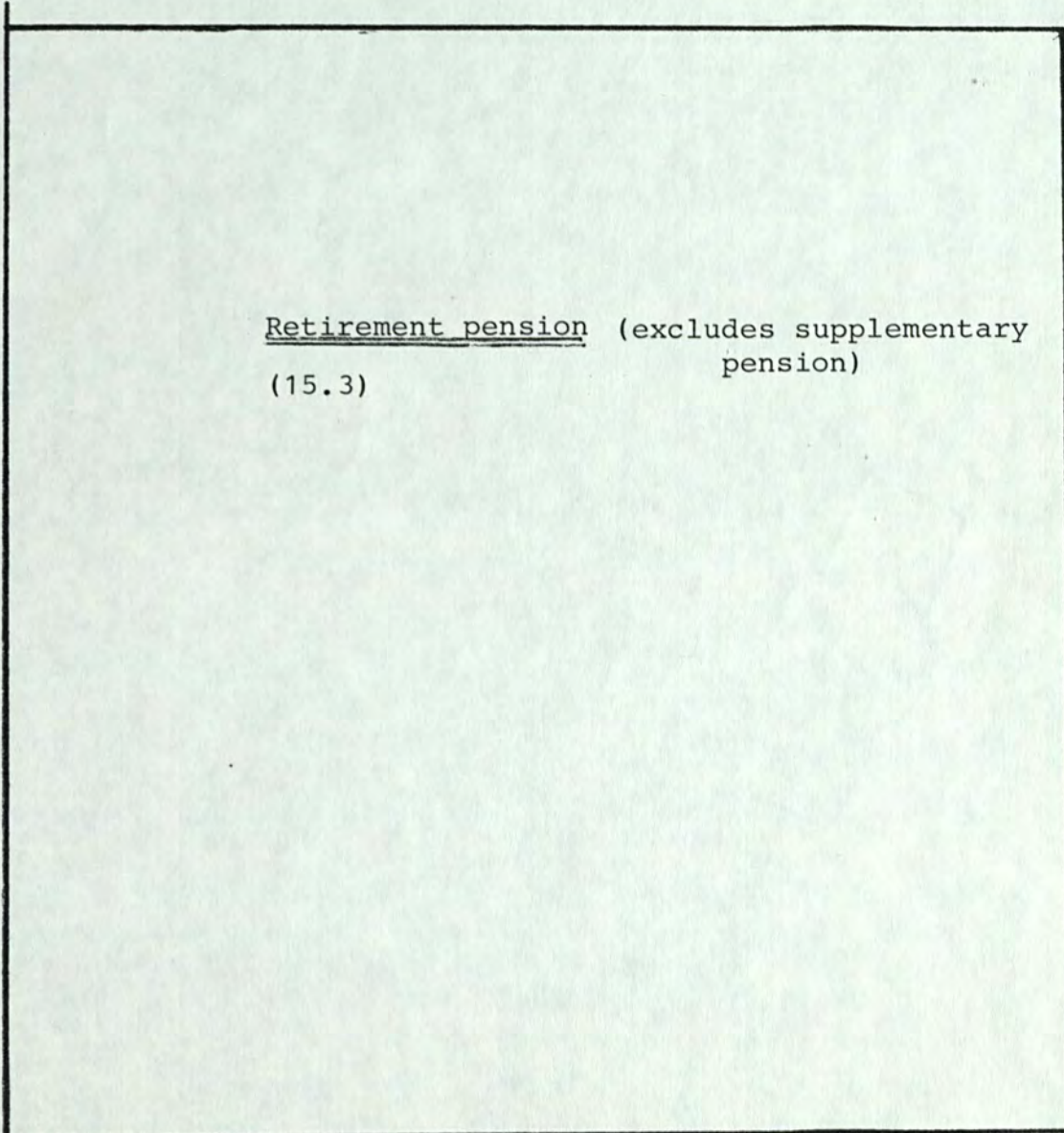
(REAL TERMS)

1984/85 expenditure billion (figures in brackets)



GROWTH IN COST OF RETIREMENT PENSION AND UNEMPLOYMENT BENEFITS

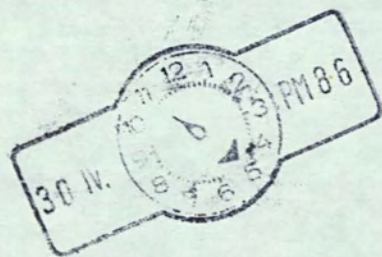
1984/85 expenditure £billion (figures in brackets)



*includes supplementary benefit paid to unemployed

2 4 6 8 10 12

£ billion increase 1974-75 to 1984-85 (real terms)



✓
From: Anne Mueller
25 April 1986

CABINET OFFICE AND MPO GRADE 2s AND 3s

MR MALLABY
MR WILLIAMSON
MR UNWIN
MR MAYNE
MR TREVELYAN

cc Mr Ingham
Mr Wicks ✓
PS/Sir Robert
Armstrong

MR GURNEY
MR MOORE
MR E J MORGAN
MR G T MORGAN
DR SEMMENCE
MR STEVENS
MR WILSON
MISS JENKINS
MR HOLROYD
MR JAGO
MR LANGDON
MR MORLAND
MR WIGGINS

APPRAISAL OF PERFORMANCE AND POTENTIAL IN THE SENIOR OPEN
STRUCTURE

A project team in the Cabinet Office (MPO) is drawing up proposals for the introduction of more structured and formalised methods of appraising performance at Grades 2 and 3, and will be reporting to a Steering Group under my chairmanship in early June.

2. I thought you would like to see a copy of the paper which we are using to consult Heads of Departments, PEOs and a sample of staff in departments at Grades 2 and 3. I should be glad to receive any comments on the issues raised.

asm

ANNE MUELLER

APPRAISAL SCHEME FOR THE SENIOR OPEN STRUCTURE
Consultative Paper

INTRODUCTION

1. As part of its response to the 1985 TSRB Report, the Government stated that it would give further consideration to the arrangements for the assessment, appraisal and review of performance at the levels of Grades 2 and 3.

2. Regardless of decisions yet to be made by Ministers on discretionary pay, it is felt to be desirable that more structured and formalised methods of appraising performance at Grades 2 and 3 should be introduced. There are two main objects. The first is to improve performance by linking the activities of jobholders more firmly to departments' needs and priorities as determined by their high level planning systems. This will help to fulfil the principle set in successive White Papers on the Financial Management Initiative, that each department should have a system in which managers at all levels have a clear view of their objectives; and means to assess and, wherever possible, measure outputs and performance in relation to those objectives. The second is to improve the quality of information available to those responsible for the personnel management of senior staff both within departments and at the centre. No standard form exists, though examples of points which could be usefully covered were circulated to Permanent Secretaries in February 1985.

3. The aim is therefore that the Cabinet Office (MPO), in consultation with departments, will introduce an appraisal scheme this summer for Grades 2 and 3 throughout the Civil Service. This will be on a pilot basis, to assess the procedures and associated documentation and then to make any necessary improvements before finalising the scheme. The initial work that has been done on designing the appraisal scheme has taken account of experience gained from the revised scheme being introduced for other Civil Service grades and from other public and private sector organisations. Views are now being canvassed from a representative sample of all those who will be affected by the introduction of the appraisal scheme about the shape it should take, the documentation that will be used, and the briefing that will be required to support its introduction.

4. This paper sets out issues to be decided in the light of the views gathered between now and the end of May 1986. The framework for a scheme is described in outline, and first drafts of forms which could be used are attached for consideration. A report on the consultations, together with an outline of the pilot scheme, will be circulated to Permanent Secretaries at the end of June.

BASIC REQUIREMENTS OF THE NEW APPRAISAL SCHEME

5. Certain key principles are to be observed in shaping the new scheme. These are listed here.

(a) Objective setting

Jobholders will pick out the main objectives to which they intend to give personal priority at the beginning of the reporting year, and the results achieved in these areas will receive particular attention in the performance appraisal. There will need to be a clear link between this objective setting and the department's high level planning system: indeed, some of the paperwork may apply to both. Objectives may also need to take account of the particular nature of the work of people at this level, including their personal contributions as leader, representative, senior advisor and member of the corporate management team.

A workable procedure might be for a standard set of headings to guide the preparation by the job holder of a 'Forward Job Plan' at the beginning of each reporting year. The Plan could then be discussed and agreed with the reporting officer. (An illustrative draft is provided at Annex A.)

(b) Separation of performance appraisal and promotion assessment.

Whereas the performance assessment will emphasise the results achieved including those against set objectives, the promotion appraisal will focus more on the personal qualities of the job holder.

Draft appraisal documents are shown at Annex B. These have been developed from the model report forms for Grades 5 to CO, but with the provision for focussed narrative assessments rather than ticks in boxes. The qualities used as "prompts" were identified from recent research conducted for the Top Management Programme together with a survey of appraisal practices in public and private sector organisations outside the Civil Service.

(c) Openness of performance appraisal

If the appraisal scheme is to promote improvements in performance, the jobholder has to receive feedback on the assessments that have been made.

ISSUES FOR DECISION

6. Should the central departments set general principles to be followed or ask for a common form to be used?

The revised arrangements for Grade 5 level and below enable departments to design their own forms within common principles. But the need for a common form within the Senior Open Structure is much stronger, given the requirements of interdepartmental postings and of the centre. It could also reduce the cost of design and testing work if it is felt that one tailor-made system could be developed for these levels. Given the need for rapid introduction of a pilot scheme, there may be advantage in using common forms and procedures, and in reviewing this choice in the light of experience.

7. How much openness should there be?

Greater openness has been a key feature of the revised system for more junior grades. At the more senior levels it may be right to repeat the distinction used lower down the line between an open performance appraisal, and a relatively closed assessment of potential. Options range from showing all the completed forms to the jobholder at one extreme, to disclosure of an overall performance mark at the other. A common practice is to show the completed performance form, together with oral disclosure of the promotion mark (and providing the jobholder with the option of refusing such disclosure).

8. Should self-appraisal be included as a formal part of the scheme?

Experience suggests that self-appraisal can make a valuable contribution to the assessment of performance, and that its use can make subsequent discussions about a performance appraisal between line manager and jobholder more constructive. Self-appraisal could be built into the scheme by asking the jobholder to provide an appraisal of the year's achievements compared with the objectives set at the beginning of the year, as the basis for the performance report by the line manager. Alternatively, line manager and jobholder could meet to discuss and agree a performance assessment before the report is written.

9. What links should be made with job weight?

Although Grade 2 and 3 posts may be correctly graded, it is widely recognised that the grades cover quite wide bands, and that some posts (as the Wardale Report put it) appear to be much more difficult and much more important than others. It seems therefore that at the very least, a subjective assessment of job weight, and of the difficulty of achieving set objectives, should be included. (For an example, see Annex B: section 2 of the Performance Assessment.) Experience of using such an assessment could be useful, should discretionary pay awards be introduced.

10. What briefing should be provided to support the introduction of the new scheme?

Setting objectives or appraising fairly the performance of people at the most senior levels is not always easy. They may, for example, be concerned with advising on policy or managing programmes which are affected by factors outside their immediate control, and which develop over a very long time scale. The difficulties are not, we think, insuperable, but these issues may provide appropriate subject matter for short introductory seminars in departments.

SSE Division
Cabinet Office (MPO)

April 1986

ANNEX A

SENIOR OPEN STRUCTURE APPRAISAL SYSTEM

Notes on construction of a Forward Job Plan

Every year, a Forward Job Plan is drafted by the job holder and then discussed and agreed with the line manager. Once agreed, the Forward Job Plan is not intended to be set in concrete. It should be amended as necessary during the year so that it can be used as a basis for the annual appraisal.

These notes provide the headings to be used in constructing the forward job plan

1. Name; Job Title and Grade; Period covered (ie the coming reporting year).
2. Purpose of job: a few words describing the main contribution the job is meant to make to the work of the Department.
3. Responsibilities: list the main functional responsibilities of the job in order of importance.
4. Main objectives: not more than five of the most important objectives set for the job holder's own command as part of the Department's top management system should be chosen, where the job holder will be closely involved in their achievement. They should include statements about expected outcomes and should identify specific measures of achievement such as deadlines, resource usage, output quantity and quality. Any relevant planning assumptions should be mentioned.
5. Personal objectives: these should cover any more directly personal contribution to the achievement of the department's aims, as well as plans aimed at improving personal effectiveness.
5. Responsibilities for Resources: (as projected)
 - i. Number of staff in command
 - ii. Running costs
 - iii. Programme expenditure
 - direct
 - indirect

NB: The Forward Job Plan should be updated during the year to incorporate any significant changes that may arise.

DEPARTMENT: _____

A. PERSONAL PARTICULARS

Name: _____ Grade: _____

Date of Birth: _____ Seniority date: _____

Post held: _____

Date of taking up present post: _____

Period of Report from: _____ to _____

B. PERFORMANCE ASSESSMENT

1. Appraisal of Performance

How effectively has the work been performed? On the basis of the past year's Forward Job Plan comments on the results achieved, taking account of the checklist below:

Managing resources,
including planning,
staff development
and expenditure
control

Use of intellectual
skills, including
analytical and
constructive ability

Working relationships

Presentational skills
oral and written

Active pursuit of
objectives

Use of professional
knowledge and skills

[Empty rectangular box for performance assessment details]

2. Job Weight

In relation to the average for the grade, how demanding has the job been in terms of, for example, political sensitivity, the management charge, the exercise of specialist skills, and the intensity of the effort required? Have there been particularly significant obstacles to overcome?

3. Overall Assessment of Performance

This overall rating should be related to actual performance. Any mitigating circumstances should be noted below.

Outstanding	Significantly above requirements of the grade	Fully meets normal requirements of the grade	Not fully up to requirements of the grade	Unacceptable
1 <input type="checkbox"/>	2 <input type="checkbox"/>	3 <input type="checkbox"/>	4 <input type="checkbox"/>	5 <input type="checkbox"/>

Mitigating circumstances (eg ill health, newness to the task and circumstances outside the control of the job holder):

Signature _____ Grade _____

Name (in capitals) _____ Date _____

4. Countersigning Officer's Comments (where appropriate)

Signature _____ Grade _____

Name (in capitals) _____ Date _____

SENIOR STAFF - IN CONFIDENCE

Name _____

Period of Report: from _____ to _____

C. PROMOTION ASSESSMENT

1. Appraisal of Personal Qualities and Abilities

Write a short pen picture taking account of the qualities listed below and any others which are relevant.

Leadership

Stamina and
resilience

Judgement in
analysing
problems and
reaching
decisions

Adaptability

Other
qualities
and
abilities

A large empty rectangular box with a black border, intended for the handwritten appraisal of the individual's qualities and abilities. The box is positioned to the right of the list of qualities.

2. Promotability

Comment here specifically on the potential to perform duties of the next grade, drawing attention to the nature of any limitation on the type of post.

Signature _____ Grade _____
Name (in capitals) _____ Date _____

3. Countersigning Officer's Comments (where appropriate)

Indicate whether you agree with the Reporting Officer's assessment and add any comments of your own about the officer's potential.

4. Promotion Marking

Record here the promotion mark, in accordance with the succession planning instructions.

Signature _____ Grade _____
Name (in capitals) _____ Date _____



JEK

10 DOWNING STREET

From the Private Secretary

22 April 1986

BUDGETING IN DEPARTMENTS

Thank you for your letter of 18 April. This is to confirm that the Prime Minister has signed the foreword to the report on Budgeting in Government Departments which, as you know, I sent separately to you yesterday.

I am copying this letter to Kate Jenkins in the Efficiency Unit, also with a copy of the signed foreword.

(MARK ADDISON)

Ms Jill Rutter,
HM Treasury.

do



Treasury Chambers, Parliament Street, SW1P 3AG

Mark Addison Esq
Private Secretary
10 Downing Street
London
SW1

18 April 1986

Dear Mark,

BUDGETING IN DEPARTMENTS

I understand that the Efficiency Unit (Ms Jenkins) has suggested that it could be appropriate for there to be a Prime Ministerial foreword to the report on budgeting in Government Departments by the Head of the Government Accountancy Service.

I attach a draft foreword which has been agreed with the Efficiency Unit and has been approved by the Chief Secretary.

I am copying this letter to Kate Jenkins in the Efficiency Unit.

*Yours,
Jill Rutter*

JILL RUTTER
Private Secretary

Getting better value for money is the responsibility of everyone in the public service. Taxpayers have a right to expect that all who work in Government constantly strive year by year to increase the value obtained from the money spent in the public's name.

This report shows that the Civil Service is using budgeting to make this happen. It points to four principles which are vital:

All managers, from the top right through the management line, should be responsible for setting and reviewing budgets.

Budgets must be linked with the Government's annual review of public spending, and turn those plans into action.

Budgets should include output and performance indicators, and there should be regular evaluation of what has been achieved compared with the objectives that have been set.

Top managers must organise their own work and that of their departments so as to make clear the responsibilities for setting priorities, managing resources and reviewing performance.

We have begun to see the valuable results that budgeting can bring. We now need to ensure that this approach is applied in all areas of government. I am confident that Ministers and their civil servants will work together to do this.

CF.
ppp/please.

PRIME MINISTER

BUDGETING IN DEPARTMENTS

The Chief Secretary and Kate Jenkins in the Efficiency Unit have asked if you would contribute a foreword to the report which you endorsed recently on budgeting in Government departments.

If you wished to do so, a draft for your signature is attached.

Margo
Duty Clerk.

pp

MARK ADDISON
18 April 1986

File

CAF



10 DOWNING STREET

THE PRIME MINISTER

Getting better value for money is the responsibility of everyone in the public service. Taxpayers have a right to expect that all who work in Government constantly strive year by year to increase the value obtained from the money spent in the public's name.

This report shows that the Civil Service is using budgeting to make this happen. It points to four principles which are vital:

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Top managers must organise their own work and that of their departments so as to make clear the

dfg

responsibilities for setting priorities, managing resources and reviewing performance.

We have begun to see the valuable results that budgeting can bring. We now need to ensure that this approach is applied in all areas of government. I am confident that Ministers and their Civil Servants will work together to do this.

Margaret Thatcher

April 1986



CBG

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 8/14V

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

17 April 1986

MSPM

Dear John,

BUDGETING IN GOVERNMENT DEPARTMENTS

You sent me a copy of your minute of 20th March 1986 to the Prime Minister together with the accompanying executive summary of the Multi-Departmental Review of Budgeting.

I am glad to note that, as the next step, the report is to be discussed with Permanent Secretaries. This will, of course, provide an opportunity for more detailed consideration of your four principles but perhaps I could just make one or two general points at this stage. In the first place, I very much welcome your acknowledgement that the Central Departments cannot prescribe precisely what is right for every situation. While the general thrust of our FMI development programme is in accord with the thinking underlying the four principles, I consider it important that departments should be free to interpret the

The Rt Hon John MacGregor OBE MP



principles in the light of their own particular needs and circumstances. To take one example, we fully recognise the need for budgets to figure in some form of planning cycle, but we would regard linkage with our own internal Long Term Costing process as a more immediate, and indeed realistic, objective than linkage with the PES process. Secondly, I assume that you would accept that the formulation of detailed plans must take account of the resource implications of any proposed new measures. I am aware that a great deal of effort is already being put into the current programme of work, which by any standards is extremely demanding in terms of both its scope and complexity; and all this at a time when civilian numbers are continuing to reduce. On the face of it, the further developments you are envisaging could add significantly to the workload and I think we would need to look very carefully at our order of priorities. This presumably is one of the aspects which you had in mind in acknowledging that there would inevitably be differences in timetables.

You make the point that the same principles and the changes that flow from them will need to be applied to programme expenditure. Our Executive Responsibility Budget system, which applies to a wide variety of executive activities, is specifically designed to cover such expenditure.



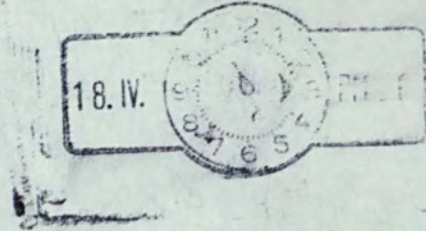
I note that you intend to publish the shorter version of the report and I see no objection to this.

I am sending copies of this letter to the Prime Minister, Cabinet colleagues, other Ministers in charge of departments and to Sir Robert Armstrong and Sir Robin Ibbs.

Yours truly,
George

George Younger

Long Term Policy: CIVIL SERVICE #18.





10 DOWNING STREET

17 April 1986

From the Private Secretary

Dear Jill

BUDGETING IN DEPARTMENTS

The Prime Minister has seen the Chief Secretary's minute of 20 March about budgeting in Government departments and the report by the Head of the Government Accountancy Service. She has also seen comments from the Secretary of State for Education and Science.

The Prime Minister has commented that the four principles set out in paragraph 6 of the Chief Secretary's minute were part of the Financial Management Initiative. Every department should have been putting them into practice.

Although the changes were always expected to take time the Prime Minister is concerned that they are not yet sufficiently widespread. She believes this is the key message for the Government in the report. The detailed recommendations are very much a matter of making budgeting work rather than of setting up new systems to achieve the same objectives.

On this basis the Prime Minister is content with the Chief Secretary's proposals for publishing the report and for action by each department. She notes this action will differ from department to department. But she expects the yardsticks for measuring the success of this exercise, and the report in December, to cover not just changes in systems but how they are being used to find savings, set targets to improve value for money and evaluate performance. The Government does not want systems for their own sake or as window dressing. They must be used to achieve better management. The Prime Minister hopes Ministers in charge of departments and their senior officials will make this happen.

I am copying this letter to the Private Secretaries to Cabinet Ministers and other Ministers in charge of departments, and to Michael Stark and Kate Jenkins.

Yr
Mark Addison
(MARK ADDISON)

Ms. Jill Rutter,
HM Treasury.

cc BS



Treasury Chambers, Parliament Street, SW1P 3AG

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

16 April 1986

Dear Mark,

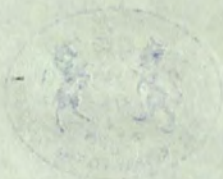
BUDGETING IN DEPARTMENTS

When we discussed the Chief Secretary's minute of 8 April I undertook to suggest how you might reply. I attach a draft.

Yours,

Jill Rutter

JILL RUTTER
Private Secretary



Civil Service: Long Term

UNITED STATES GOVERNMENT PRINTING OFFICE: 1967 O 348-000

PL-18

DRAFT LETTER FROM MR ADDISON TO:

Ms Jill Rutter
Chief Secretary's Office
HM Treasury
Parliament Street
LONDON
SW1

JARRAR

BUDGETING IN DEPARTMENTS

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I am copying this letter to the private secretaries to Cabinet Ministers and other Ministers in charge of departments, and to Michael Stark and Kate Jenkins.



GA

Managers letter to
be done Department.

MSA 1174

PRIME MINISTER

BUDGETING IN DEPARTMENTS

The Chief Secretary sent you a report (papers at Flag A) on how budgets are used in Departments, and indicated that he proposed to publish it. You were anxious that the recommendations seemed to be a reiteration of the policy which the Government has been carrying out for some time, and you were concerned that we would not set up yet another system to achieve the same objective but should instead concentrate on making the existing system work.

The Chief Secretary and Sir Robin Ibbs agreed (Flag B) that the point you made was a key one. They see the report as reaffirming the need to establish FMI principles properly throughout Departments.

Treasury have provided a draft reply, for my signature, to go out to Departments which would let them know of your concern to see the established FMI principles fully implemented, and say that the main need is to make the current procedures work not set up new ones. The letter also indicates that you are content with the Chief Secretary's proposal to publish the report.

Content that I should write to Departments in the terms proposed (Flag C)?

JA

Mark Addison
16 April 1986

JALAPR



CGB

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH

TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

// awaiting Treasury draft
 10/4

10 April 1986

Dear Sir,

Thank you for letting me have a copy of your minute of 20 March ^{at Hop.} to the Prime Minister about budgeting in Government Departments.

I am content with your proposal to publish the report. I also welcome one of the points in your own letter namely that there will inevitably be differences in detail and timetables for action by Departments because of their differing tasks and priorities. It seems clear to me that a small Department like DES with a large expenditure programme may need to establish rather different control mechanisms from those Departments with large blocks of administrative and executive work (on which Mr Wilson's recommendations seem to be based). On this understanding I am happy to endorse the four principles which you identify. I hope that you can bring out in some way the need for flexibility between Departments in their approach when the report is published.

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

Yours,

Kear

The Rt Hon John MacGregor OBE MP
 Chief Secretary to the Treasury
 Parliament Street
 LONDON SW1P 3AG

CIVIL SERVICE Long Term Policy #18





Await meetg
with P17 - no
need slow at this
stage
new

MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

DISCRETIONARY INCREMENTS FOR GRADES 2 AND 3

I have now seen the submission which Sir Robert Armstrong and Sir Peter Middleton put to you on 21 March. I have also read with interest Sir Robin Ibbs' minute of 4 April and the Chancellor of the Exchequer's minute of 8 April.

I gather that we now have a little more time as the TSRB will be presenting their 1986 Report to you this week, without waiting for the Government's decision on discretionary increments for Grades 2 and 3.

For my part I favour the introduction of some form of discretionary performance-related element into remuneration of Grades 2 and 3, as being consistent with our general drive for the improvement of management efficiency in the Civil Service, and I do not think we should turn the Review Body's recommendation down out of hand. But I do take the Chancellor's political point and I think it is important that any announcement of further increments for Grades 2 and 3, even on a discretionary basis related to performance, should be set within a wider context. One possibility would be to make a more general statement on performance-related pay - perhaps including a statement of intent to make increments at all levels discretionary rather than virtually automatic - in the summer, when we will have had the evaluation report on the first year of the experimental performance bonus scheme. Another would be to make such a statement at the time of your announcement on the TSRB's 1986 Report.

I welcome your proposal to have a discussion, in which we could explore further the above possibilities.

I am copying this to the Chancellor of the Exchequer, Sir Robert Armstrong, Sir Peter Middleton and Sir Robin Ibbs.

RICHARD LUCE

10 April 1986



Civil Service;
Long Term
PE 18

1956-1957
1956-1957

MR WICKS

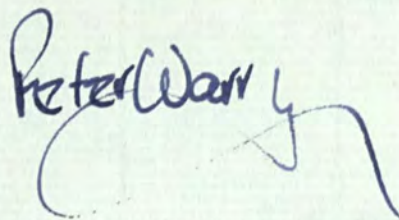
9 April 1986

DISCRETIONARY INCREMENTS FOR GRADES 2 AND 3

Reflecting performance and achievement in pay is as desirable for senior civil servants as it is for industry. Whether meritorious performance should be rewarded by discretionary increments is debatable: it would take a very tough management to withdraw such payments from individual officials once they had received them for a number of years.

However, the Chancellor is surely right that this is the wrong time to give yet further money to senior civil servants (however deserving). Nevertheless we think it would be wrong to rule out such payments for all time, and indeed it might prove counter-productive to do so, as the TSRB would then adjust their award upwards accordingly.

We recommend that the TSRB be told that no discretionary payments will be made this year, but that the position will be reviewed next year.

A handwritten signature in blue ink that reads "Peter Warry". The signature is written in a cursive style with a long, sweeping tail that extends to the right.

PETER WARRY

B

cc BGT



FROM: CHIEF SECRETARY

DATE: 8 April 1986

PRIME MINISTER

BUDGETING IN GOVERNMENT DEPARTMENTS

Your Private Secretary's letter of 1 April sent me your comments on the report on budgeting in government departments by the Head of the Government Accountancy Service.

2 Sir Robin Ibbs and I agree the point you have made is the key one.

3 The recommendations from the review amount to a re-statement of the principles of the FMI. The review confirms we have been making the right changes, and with some degree of success. But it also found that not all departments have yet put the principles into practice as fully as we would now like. For example the FMI did require managers at all levels to set and review budgets. The recommendation that "all managers from the top right through the management line should be responsible for setting and reviewing budgets" is needed because some departments have not yet made a reality of the principle.

4 I am sure it would be helpful if you were to emphasise this point to colleagues. Although the procedures were in the FMI they are not yet sufficiently widespread. Forcing this home is the key message in the report.

5 The recommendations are very much a matter of making budgeting work rather than of setting up new systems to achieve the same objectives. We do not want systems for their own sake or as window dressing. We want them to achieve better management.

Bf
one week

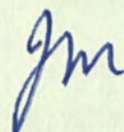
CF

I agree will make a draft
TS letter

MEB 9/4

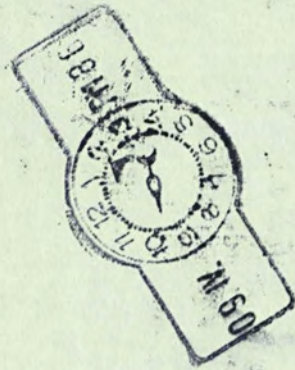
This means Ministers in charge of departments and their senior officials must show their commitment to using the processes they have, and to continue to develop and use better ones.

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

A handwritten signature in blue ink, consisting of the letters 'jm' in a cursive, stylized font.

JOHN MacGREGOR

CIVIL SERVICE : Long Term Policy : Pt 18



CONQUEROR
III

PRIME MINISTER

DISCRETIONARY INCREMENTS FOR GRADES 2 AND 3 IN THE CIVIL SERVICE

^{- 8.4.86}
Mr. Lawson has now minuted to register his objection to the ideas in Sir Robert Armstrong's submission for discretionary increments for Grades 2 and 3 in the Civil Service.

You said that you wanted to discuss this further with him on his return from the USA. Shall I therefore arrange the meeting you agreed to have with him, Mr. Luce, Sir Peter Middleton, Sir Robin Ibbs and Sir Robert Armstrong? A prior meeting with the Chancellor alone does not look necessary.

Yes no

N.L.W.

N L WICKS

8 April 1986

MANAGEMENT IN CONFIDENCE

SLH/83

RW Noygrove

pa

*let us put this on ice
for the big + council with
TSRB report*

N L W

10-44

PRIME MINISTER

GRADES 2 AND 3: DISCRETIONARY PAY AND ARRANGEMENTS FOR ASSESSMENT AND APPRAISAL

Sir Robin Ibbs has now, as expected, minuted (below) with strong support for a system of range pay for Grades 2 and 3, as discussed in Sir Robert Armstrong's submission of 21 March. Sir Robin is inclined to discount your fears that it would be impossible to withdraw discretionary increments and that range pay would just be used as a general increase in pay.

I suggest that the next step is for you to have a discussion with the Chancellor of the Exchequer, Mr. Luce, Sir Peter Middleton, Sir Robin Ibbs and Sir Robert Armstrong.

Agree to a meeting?

N.L.W.

N L WICKS

7 April 1986

The Chancellor is very much against it. May I discuss it further with him on his return from the U.S.
mb

SL3AOX



CC 85

PRIME MINISTER

Sir Robert Armstrong tells me that you would like my views and comments, as your Efficiency Adviser, on the joint submission which he and Peter Middleton recently put to Ministers on discretionary increments for grades 2 and 3 in the Civil Service. *at Hay*

I see four key issues :-

1. Is range pay necessary for grades 2 and 3?

The Top Salaries Review Body thought so and as a member of that body I was wholeheartedly in support of the recommendation. An ability to reward sustained high performance by means of such increments is increasingly a feature of reward systems for jobs of comparable weight in the private sector. Fortunately it is not necessary to match the absolute payment levels of the private sector but some comparability in the form of the salary structure is very desirable and there is a need to provide some acknowledgement for the best performers. It is far more economic to do this selectively with increments than to raise the level for all in the grade in an attempt to avoid having the best people severely under-rewarded. The recommendation was therefore put forward as the economic way of providing what is needed but it does not rest merely on arguments of comparability. As the submission points out (paragraph 8) well-appraised performance pay provides a valuable tool and discipline for management as well as giving motivation for good performance. The approach to management inherent in defining objectives and appraising performance needs to pervade the whole Civil Service from the top down if the improved overall performance you are seeking is to be achieved. The introduction of increments for grades 2 and 3 would be an important step in this. Furthermore, with this wider advantage, and benefits in terms of recruiting, retaining and motivating people of high quality, range pay for grades 2 and 3 when properly established should provide good value for money.

.../...



2. Would bonus payments be equally effective?

I do not think they would be. For very senior people where inevitably the amount of supervision is extremely limited, it is the ability to provide self-starting sustained high performance in good times and bad that is so valuable. Such ability needs to be demonstrated over a period, probably at least two years, before it is acknowledged financially. It should not normally come and go by the year but be a more durable quality - hence increments rather than bonus payments. But this does not mean increments should inevitably be permanent.

3. Can range pay increments be made withdrawable in practice?

I am sure the answer is yes. This is a matter of having a sound scheme and controlling it properly. There is no reason why all increments should not be subject to formal annual review. This is entirely a matter of discipline. With limits on numbers in each increment, the need to create vacancies for new high performers should ensure that instances of failing performance are identified and dealt with.

4. Is reliable appraisal possible for grade 2?

I believe it is but the submission (paragraph 18) is very tentative about the selection at grade 2. Obviously proper thought needs to be given to this, but workable appraisal for salary purposes is achieved in other walks of life for extremely complex senior jobs, including many where no profit related measure is possible. The question has now been around in Whitehall for more than six months and what seems to be missing is the will to get on and devise a mechanism.

.../...



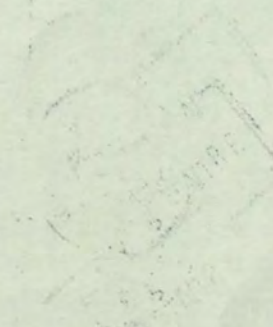
5. Can range pay be made properly selective and not become a general increase in pay?

There is plenty of private sector experience that range pay can be properly selective and need not have the effect of generally increasing pay. Again it is a matter of discipline. Strict limits on the numbers in each increment and a proper appraisal system, plus firm control from the top, is what is needed.

Since I see clear answers to these questions I do not support the recommendation in the submission to defer fundamental decision on the issue. I believe there is a further positive reason for going ahead with range pay for grades 2 and 3. Quite simply it would maintain the momentum of progressive reform and improvement of management in the Civil Service, whereas a complex and somewhat half hearted fudge would indicate weakening determination.

I am copying this to the Chancellor of the Exchequer, the Minister of State, Privy Council Office, Sir Robert Armstrong and Sir Peter Middleton.

ROBIN IBBS
4.4.86.



cc 3G



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

PRIME MINISTER

DISCRETIONARY INCREMENTS FOR GRADES 2 AND 3 IN THE CIVIL SERVICE

I have seen the submission which Robert Armstrong and Peter Middleton have put to you as to the way forward in this matter, and I have also seen Robin Ibbs' comments in his note to you of 4 April. *WITH NEW?*

I have to say that I am against any move at all in this area. Of the two ways forward now on the table, I think that set out in the submission by Robert Armstrong and Peter Middleton is less bad than the TSRB proposal but I am against doing either. To give more money to these already well paid grades (up to £8,000 pa more on the TSRB's ideas) seems to me quite wrong politically, not just in relation to the rest of the Civil Service where there is already a good deal of unhappiness over pay, but more widely - none of us are going to forget last summer's TSRB row in a hurry. Moreover there is a good chance the money would simply be wasted.

Too late - report arrived

The TSRB are presumably now finalising their recommendations for 1986. I think they should be told that it is not the Government's intention to make any move in the direction of discretionary pay for their grades (beyond the existing involvement of Grade 3 in the experimental bonus scheme) and that they should frame their overall proposals accordingly. If it is decided to go further than this, I am sure that our Cabinet colleagues would need to be consulted more widely.

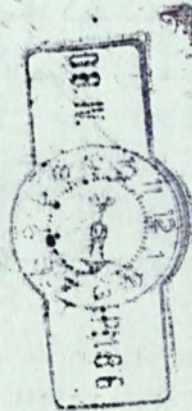
I am copying this to the Minister of State, Privy Council Office, Robert Armstrong, Peter Middleton and Robin Ibbs.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish.

N.L.

8 April 1986

CIVIL SERVICE
LONG TERM
PT 18





10 DOWNING STREET

CF
CC DW.

From the Private Secretary

1 April 1986

The Prime Minister has seen the Chief Secretary's minute of 20 March about budgeting in Government Departments covering a report by the Government's Accountancy Adviser.

The Prime Minister has commented that the recommendations which are set out in paragraph 6 of the Chief Secretary's minute seem to be in essence a reiteration of the policy which the Government has been carrying out for some time. In particular, she is surprised that the proposition that "all managers from the top right through the management line, should be responsible for setting and reviewing budgets" is not already a part of the Financial Management Initiative. She is a little concerned that the Government should not set up yet another system to achieve the same objective but should instead concentrate on making the existing systems work.

||
Before agreeing to the promulgation of the report she would be grateful for any comments the Chief Secretary wishes to make on the points she has raised.

At this stage I am copying this letter no wider than to Sir Robert Armstrong and Sir Robin Ibbs.

(Timothy Flesher)

Ms. Jill Rutter,
Chief Secretary's Office,
HM Treasury

Bye



Prime Minister:

As you know Richard
Luce replied to
the Times editorial

PRIME MINISTER

ms

A leader entitled "Reversing Down Whitehall" appeared in the Times on Thursday 27th March. This referred to Ian Beesley's imminent departure from the Efficiency Unit and argued that reform of Whitehall has wavered.

2/4

Parts of the leader are inaccurate and its tone of despair is certainly neither justified nor helpful. For a start, I have no doubt that the Efficiency Unit will continue to be very effective with Kate Jenkins leading it. Furthermore, the facts are that all departments can point since 1979 to cost reductions and many to simultaneous improved service to the customer. But the rate of improvement is still not enough.

I shall shortly be reporting to you again on progress with value for money targets. There is steadily increasing understanding and use of these by Permanent Secretaries. The targets currently being aimed for can bring very large improvements in performance, perhaps worth as much as £1,000 million. But the active commitment of Ministers remains uneven and still needs to be stimulated, both by public statements and by private encouragement. What you have said recently about the public rightly expecting improved customer service in health and education, within necessary public expenditure limits, seems to me to give the right emphasis.

The key to continuing improvement must be recognition by all your colleagues that it really is their responsibility to see that the public get steadily improving essential services year by year at acceptable cost. I hope that later this month when you have my report on value for money targets we can discuss how to continue to get this point home.

I am copying this to Sir Robert Armstrong.

[Handwritten signature]

ROBIN IBBS
1st April 1986



MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

REPLY TO TIMES EDITORIAL 27 MARCH:

'REVERSING DOWN WHITEHALL'

My Minister feels he should reply to the above editorial (copy attached), which was critical of the Civil Service and the Government's Management of it. I attach a copy of Mr. Luce's proposed reply which we hope the Times will publish on Monday 31 March or Tuesday 1 April. Subject to your comments on the reply I have arranged with your office for it to be sent to the Times tomorrow, Sunday.

Paul Thomas

PAUL THOMAS
Private Secretary

Agreed MS

REVERSING DOWN WHITEHALL

In a fortnight the official head of the Efficiency Unit leaves the Civil Service. In one of his last reports he showed how many of the money-saving recommendations proposed by Mrs Thatcher's wastewatcher, Lord Rayner, had not been put into effect. Efficiency, MINIS, the Financial Management Initiative: in today's Whitehall they are regarded as yesterday's tunes.

For some time, perhaps since the 1983 election, the Government's commitment to reform of Whitehall has wavered. The Ponging episode was, in many ways, a distraction. The resignation of Mr Michael Heseltine, in his guise of super-manager, was a real loss. In his two departments, environment and defence, his enthusiasm for a new way of working had been infectious.

MINIS, the Management Information System for Ministers, stood for a principled reorganization of a department's work. It was never widely popular. Any enthusiasm that remained for MINIS was killed by the Westland affair. Westland glorified not the civil servant as manager but the official as fixer; power to the civil servant ablest to save a minister from embarrassment. Reform is now in reverse.

For all Mr Heseltine's revelations about the innards of Cabinet government, no serious discussion followed about the committee structure and the burdens of ministers. Now, with the next election in sight, who has time for the machinery of government? The minister for the civil service has become an invisible man. Mrs Thatcher, at one and the same time the only

source of reformist inspiration and the biggest single barrier to change, has other concerns.

But the need for reform will not disappear. Privatization and the reduction of civil service numbers are welcome but do not address the issues. These have to do with the conduct of business in a Parliament where hours and styles still fit nineteenth century rhythms. Redescrining the task of the civil servant cannot be isolated from the incoherence of the minister's job, its mixture of parliamentary, constituency, political, managerial and departmental activities producing, after six years in office, so many burnt-out cases.

Here is as good an explanation for the timorous spirit of ministers in 1986 as personal pusillanimity. The strong critique advanced by Sir John Hoskyns of the absence within government of political back-up, sources of fresh and committed thought, still stands unanswered.

The canvas is large. On it figures if not a freedom of information statute then a drastic revision of the rules about the flow of information within/into/out of departments. With a better flow of facts and ideas goes the movement of personnel. In an ideal world, the departure of the head of the Efficiency Unit would be matched by the importation of a private sector (or local government) figure.

There has been some progress. But it is not enough to appoint a purchasing manager from the private sector; why not a corporate policy-analyst as under-secretary. The only barrier to such

movement is the conservative principle of safeguarding positions and prospects.

As the series of articles published in *The Times* this week has shown, there is growing recognition, not least within the civil service itself, that the old boundaries between the political and the administrative have shifted. A redrawn boundary between politics and administration could be policed without revolutionary changes. In the United States at a certain level civil service rules cease and appointees have tenure only for the life of an administration. A version of the French cabinet system has been suggested. It might take the form here of an enhanced private office.

The convention that ministers are responsible for all that departments do in their name is exhausted. Civil servants — properly rewarded for the responsibility — must be given greater discretion to manage the business of government and take a higher profile.

Here is an agenda waiting for action. It is not up to Sir Robert Armstrong (though enthusiasm for reform might be a useful qualification for his successor in office). Whitehall reform is a task for politicians, and especially the Prime Minister. Institutional reform is not a substitute for economic and social policies to regenerate Britain. It is complementary. It matters not for the sake of arcane administrative flow charts, but for the sake of programmes and policies. If the machine does not function, or works slowly and grudgingly in the old ways, the most radical political ambition may come to nothing.



Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Editor,
The Times,
1 Pennington Street,
London,
E1 9XN

29 March 1986

Dear Sir,

Your editorial of 27 March 'Reversing down Whitehall' needs answering. As Minister with day-to-day responsibility for the Civil Service I welcome your lead in discussing the role of the Civil Service. But your arguments lack cohesion.

Two important questions need to be posed. Is the Civil Service an obstacle to the carrying out by an elected government of its policy programme? And is the Civil Service as efficient and professional as it should be?

The first question is broadly answered by examining this Government's achievements in the last seven years. In that period we have pursued radical reformist policies on trade unions, home ownership, privatisation, training and taxation amongst others. Plans are in hand for major reforms on, for example, social welfare, education and local government finance.

These are all major changes which the Civil Service has

loyally helped to implement.

On the second question, your editorial fails to acknowledge the scale of the management reforms which have taken place in the Civil Service since 1979 under the Prime Minister's leadership.

The Civil Service is now smaller than it has been ever since the Second World War, slimmed by 20% since 1979. The work of the Efficiency Unit (which will continue vigorously in its task under the leadership of Sir Robin Ibbs of ICI), reinforced by the Financial Management Initiative, has already transformed the management of the Service, bringing home to civil servants at all levels the need constantly to question existing practices and procedures and to keep a tighter control on costs. For the first time line managers now have clearly defined responsibility both for the tasks which they carry out and for the resources they use.

Nothing could be further from the truth than your suggestion that the process of reform is in reverse. There is, of course, still much more to do, to consolidate and follow through the series of related initiatives in the management of money, people and physical assets. But today we undoubtedly have a Civil Service which not only retains all the traditional virtues but is also efficient and professional. Civil Servants deserve enormous credit for carrying through our programme of management reforms with determination and commitment.

There are of course many other aspects of government which merit public debate. The complexity, the growth of select committees, the demand for more information, and the role of political advisers all pose interesting and important questions about the relationship between ministers and civil servants. The Select Committee on the Treasury and Civil Service will shortly be reporting on this and will doubtless stimulate further discussion.

The Government will be considering these questions very seriously. We shall also continue to press ahead with the programme of management reforms which I have outlined. I fully agree with your view however that 'institutionalised reform is not a substitute for economic and social policies to regenerate Britain', and I regret the tendency in some quarters to suggest otherwise.

Rt. Hon. Richard Luce, M.P.,
Minister of State, Privy Council Office.



MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

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Agreed MB

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Rt. Hon. Richard Luce, M.P.,
Minister of State, Privy Council Office.

How many more
system changes to Prime Minister.
under - No
say about good management agree to
at help
New power rules
seems to turn out subject to colleagues?
to be shared

PRIME MINISTER

26 March 1986

BUDGETING IN GOVERNMENT DEPARTMENTS

Central Government now has almost 10,000 cost centres -
benefit and tax offices, MOD establishments etc. But some of
their budgets are merely for show - like children playing
shops at school. The Chief Secretary's admirable note
summarises a report by Tony Wilson, the Head of the Government
Accountancy Service, on how to breathe life into these budgets.

Paragraph 6 sets out four important principles:

- that individual managers should be given
responsibility for setting budgets;
- budgeting should be linked with the PESC round;
- we should measure outcome against plan;
- top management should get a grip on the whole process.

We have been
saying this for
years.

I recommend that you endorse them.

I do not recommend that you read the glossy report itself.
Its appalling management jargon makes one realise why the Head
of the Government Accountancy Service is entitled HOTGAS. The
cause of better budgeting would suffer considerable harm if
this report were widely circulated. You might therefore check
that the Treasury are preparing a short summary and that the
report itself will languish in obscurity.

David Willetts
DAVID WILLETTS

PG



10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

GRADES 2 & 3: DISCRETIONARY PAY AND ARRANGEMENTS FOR ASSESSMENT AND APPRAISAL

The Prime Minister saw over the weekend your minute of 21 March to which you attached a submission, agreed with Sir Peter Middleton, on this subject.

The Prime Minister has read the submission with interest, and would like to discuss it with the Chancellor of the Exchequer, Mr. Luce, Sir Peter Middleton, Sir Robin Ibbs and yourself. But before this discussion takes place, she would like those attending the meeting to have the benefit of Sir Robin Ibbs' views on the submission.

The Prime Minister's initial reaction on the submission is:

- (i) to wonder whether it would be impossible to withdraw a discretionary increment;
- (ii) to fear that range pay would just be used as a general increase in pay and would not turn out to be selective enough.

BF
I should be grateful if you would arrange for Sir Robin Ibbs' views to be sought on the submission and for the Prime Minister's first thoughts on it to be passed to the Treasury.

I am copying this minute to Paul Thomas (Office of the Minister of State, Privy Council Office).

N.L.W.

N. L. Wicks

24 March 1986

✓

PRIME MINISTER

GRADES 2 AND 3 DISCRETIONARY PAY AND ARRANGEMENTS FOR ASSESSMENTS AND APPRAISAL

On Robert Armstrong's submissions below, I suggest that:

- (i) you agree with his recommendation that Sir Robin Ibbs views should be sought on the submission.
- (ii) pending receipt of Sir Robin's views, you take no final decisions, but give now any "first thoughts" on the various courses and recommendations;
- (iii) you discuss the submission, when Sir Robin's views are available, with the Chancellor of the Exchequer, Mr Luce, ^{Sir Robert Armstrong} Sir Peter Middleton and Sir Robin Ibbs.

Yes

Agree?

N.L.W.

NLW

21 March 1986

① In practice it would be impossible to withdraw a discretionary increment.

JALANT

② I know that range pay would just be used as a general increase in pay - would not be out to be selected enough

ML

Ref. A086/941

MR WICKS

Grades 2 and 3: Discretionary Pay and Arrangements for
Assessment and Appraisal

--- I attach a submission to the Prime Minister, which I have agreed with Sir Peter Middleton.

2. As I think the Prime Minister knows, I support the idea of performance-related pay at these levels; and I am glad to say that Sir Peter Middleton is now also of that view.

3. My own preference has been and still would be for a "range pay" rather than a "bonus" system, because I think that at these levels we are more concerned with sustained performance over a period of years than with measurable performance against stated objectives for a single year. I am therefore more inclined than Peter Middleton to favour the Review Body's recommendation. I do not believe that we are going to learn very much from the experimental bonus scheme about how a discretionary increment scheme might work. Against this, there are problems about the arrangements for selection at Grade 2 to which we have not yet worked out the solution (though I believe that they are soluble), and I do not think that we can be ready to move to a discretionary pay system from 1 April 1986.

4. There would in my judgment be much to be said for moving to a discretionary pay system as soon as we could do so; and therefore for the second of the three possible courses indicated in the joint submission: that is to say, preparing to set up a discretionary pay system with effect from 1 January 1987. But the Treasury will not be easily persuaded to abandon their preference for bonuses rather than range pay.

5. This is a subject on which Sir Robin Ibbs has strong views, since he believes that performance-related pay is an important tool of increased efficiency, and does not have confidence in the existing bonus scheme. The Prime Minister might think it worth while to send him a copy of the submission and to invite his comments on it.

RA

ROBERT ARMSTRONG

21 March 1986

Ref. A086/938

PRIME MINISTER

Grades 2 and 3: Discretionary Pay and Arrangements for
Assessment and Appraisal

You will remember that in its report last year the Top Salaries Review Body (TSRB) recommended inter alia the introduction of additional discretionary increments for Grades 2 and 3 (Deputy and Under Secretaries) from 1 April 1986. You announced no decision on this, and said that the Government would be considering the recommendation.

2. The TSRB, who set great store by this recommendation, have asked to be told, before they complete the report on their current 1986 review, where the Government stands on this recommendation.

--- 3. I attach a joint submission by Sir Peter Middleton and me, making proposals as to how we should reply.

4. Sir Peter Middleton is simultaneously submitting this to the Chancellor of the Exchequer; and I am sending a copy to the Minister of State, Privy Council Office.

RA

ROBERT ARMSTRONG

21 March 1986

GRADES 2 AND 3 - DISCRETIONARY PAY AND ARRANGEMENTS FOR
ASSESSMENT AND APPRAISAL

Note by the Head of the Home Civil Service and the Permanent
Secretary to the Treasury

Introduction

In their 1985 Report the Top Salaries Review Body (TSRB) recommended the introduction of a more flexible pay system for the Senior Civil Service, embodying not only annual increments for Grades 2 and 3 (Deputy and Under Secretaries) which the Government has accepted, but also a limited number of additional salary points for these two grades, to be used selectively at management's discretion within rigorously defined criteria. In announcing the Government's decision on the TSRB recommendations the Prime Minister said "We shall give further consideration to this proposal, and to the arrangements for assessment, appraisal and review, on which this system will depend, if it is realistically and fairly to reward high performance and to take account of cases in which high performance is not sustained, and I shall make a further statement on this aspect of the Review Body's recommendations in due course".

2. We have considered a number of options and have discussed them with Permanent Secretaries of other Departments. This note discusses possible ways forward. The TSRB are pressing for an indication of the Government's intention. They have made it clear that they attach great importance to their recommendations; and they would like to know soon about the Government's intentions, in case they might affect their recommendations on their 1986 review.

Arrangements for Assessment, Appraisal and Review

3. There is a strong case for introducing more structured and formalised methods of appraising performance at Grades 2 and 3, whether or not these are used to support a system of

discretionary awards of pay. This will help fulfil the principle set in successive White Papers on the Financial Management Initiative - "that managers at all levels should have a clear view of their objectives and means to assess and wherever possible measure outputs and performance in relation to those objectives". Appraisal methods have recently been made more searching in terms of performance in meeting agreed objectives and also more open, for Grades 5 and below.

4. Setting objectives or appraising fairly the performance of people at the most senior levels is not, of course, always easy. They may, for example, be concerned with advising on policy or managing programmes which may be affected by factors outside their immediate control, and which develop over a very long timescale. The arrangements will also need to be acceptable to the staff concerned as fair. These points must be taken into account in the design of any system. But the difficulties are not insuperable.

5. The Cabinet Office (MPO) will therefore introduce an improved appraisal scheme this summer. It will be worked up taking account of experience gained from the scheme in operation for other Civil Service grades and from other public and private sector organisations. Because it is desirable in its own right, it does not pre-empt future decisions on any performance related pay scheme. But equally it would provide a better foundation for a performance-related pay scheme to build upon in later years.

Performance-Related Pay

6. The Government has accepted the principle of performance-related reward, and we are just coming to the end of the first year of the three-year experimental annual performance bonus scheme for Grades 3 to 7 (Under Secretary to Principal, and equivalents). The intention has been to consider in the light of that scheme whether to continue with

performance-related reward and extend it more widely in the Civil Service; and, if so, whether the annual bonus or some other form of scheme (or indeed different kinds of schemes at different levels) should be adopted.

7. The Review Body's proposals are for a scheme of discretionary increments for Grades 2 and 3. These could hardly co-exist with performance bonuses for Grade 3; adoption of the Review Body's proposals would therefore mean taking Grade 3 out of the experimental performance bonus scheme: not impossible, but it would diminish the value of the scheme as an experiment. It would also mean extending the principle of performance-related reward to Grade 2.

8. The arguments for performance-related pay for Grades 2 and 3 in the Civil Service are twofold:

a. that they would provide motivation for good performance and thus some additional incentive, particularly desirable when promotion opportunities are fewer;

b. that they would provide a new and valuable tool of discipline for management, in that they would oblige management to be more systematic both in defining performance objectives for staff and in appraising the success of staff in meeting those objectives.

9. It is still too early in the existing experimental scheme to judge the motivational effect of the performance bonuses at these levels. The scheme was, by and large, not welcomed; people have (at any rate in advance) seen the bonuses as divisive at a level where they think that the emphasis should be on "collegiality". There are some indications that the hostility may be diminishing; and one or two indications that a system of discretionary increments would be seen as less objectionable. But it is too early to judge, and it may never

be possible to be certain, whether the bonuses are having an incentive effect, or how any effect they may be having compares with the traditional incentives of competition for promotion, the interest value of the work, and the natural desire to put in the best possible performance.

10. The management advantages are clearer. Even officials in Grade 3 who did not want their grade to be eligible for performance bonuses have recognised that the need to decide upon the allocation of bonuses to staff under their command has sharpened up both the definition and setting of performance objectives and the appraisal of performance: nothing concentrates the mind like having to decide which of your Principals should be recommended for an award.

11. The Review Body's arguments in support of their recommendation for a system of discretionary increments for Grades 2 and 3 were set out in paragraphs 10 to 23 (copies --- attached) in their report No 22. They saw the proposed increments as "building improved incentives into the system" and "reinforcing the managerial changes in the Civil Service"; and as a less expensive and more discriminating form of reward than a general increase.

12. We are both inclined to favour, at least in principle, the extension of performance-related pay to Grade 2. But we do not think that it is yet possible to decide to do so, or to decide what form of performance-related pay should be adopted at these levels.

Possible Approaches to a New Scheme

13. Whatever the decision in principle, there are broadly two approaches to the form of scheme. The first is to go for a range pay machinery, of the kind proposed by the TSRB, though not necessarily with the amounts or steps they suggest; the second is to go for an extension of the bonus scheme which is

being experimented with in Grades 3 to 7, though again not necessarily (at least long-term) in exactly this form.

14. Range pay involves an extended incremental scale with the highest points awarded on a discretionary basis. It is most suited to the reward of sustained high performance over a period of years. Bonuses are one-off payments, usually in lump-sum form, most suited to the reward of short-term endeavours, although they can of course be repeated each year if the high performance is sustained. Thus range pay and bonuses reflect different concepts of performance appraisal and staff management.

15. A critical point is withdrawability. This presents no problem with an annual bonus scheme: the bonus is paid in respect of a single year, and there is no presumption that it will be repeated in a subsequent year. With a discretionary increment the presumption is the other way round: there would have to be a positive decision to withdraw it in the event of a falling-off of performance. Nonetheless, both of us are clear that, if the decision were to go for a scheme on the lines suggested by the Review Body, it would have to be clearly established that the increments were withdrawable and arrangements would have to be such that new increments could be awarded only when room was made for them, either by withdrawal of existing increments or by awardholders passing out of the grade on promotion or retirement. By the same token we are both clear that discretionary increments, like performance bonuses, would have not to qualify for superannuation calculations: otherwise the penalty of withdrawal would be too great.

16. With either scheme, however (and indeed with the present structure) further discrimination between performance could be introduced by making the present scale increases at Grades 2 and 3 - now virtually automatic - subject to satisfactory performance, so that each increment would be earned only after a

fully satisfactory level of performance over the preceding year; and at the extreme withdrawable.

17. A decision would be needed as to the amount to be devoted to any scheme. The present bonus scheme is based on one per cent of the relevant pay bill; the TSRB scheme implicitly costs about three per cent (about £³/₄ million per annum). Within reason any scheme could be tailored to any cost. Departments would be expected to meet costs out of existing running costs limits.

18. It has been possible to set up a satisfactory machinery for selecting Grade 3s for performance bonuses, and this would provide a model for selecting for discretionary increments at that level. A machinery for selecting at Grade 2 would present more difficulty. We doubt whether the selection could be on a departmental basis, partly because some small Departments have only one or two Grade 2s, and partly because the selection would have to be made by the Permanent Secretary on his own. It looks as if the selection at Grade 2 level would have to be made on a service-wide basis, and by a group of Permanent Secretaries. We are not yet convinced that even so we could produce a system which would provide the necessary degree of consistency of assessment to command the confidence of those concerned. This needs more thought, and will in any case depend in part upon the development of a more systematic system of staff appraisal at these levels.

The Way Forward Now

19. One possible course is to reject the Review Body's proposals outright. Neither of us wishes to recommend that, for the following reasons:

- a. The Government is committed to the principle of performance-related pay, at least to the extent of testing its application in the Civil Service with the experimental

scheme, and has not excluded from that the senior levels in the Service.

b. Outright rejection would be seen as unfair and cause considerable resentment among Grade 2s and 3s who see the proposals as part of "their share" of the TSRB's recommendations which they have yet to receive.

20. A second possible course is to accept the Review Body's proposals in principle (though not in detail) and undertake to work out a detailed scheme to come into operation not later than, say, 1 January 1987. That would mean taking Grade 3 out of the experimental bonus scheme from 1 April 1986. Neither of us would wish to recommend that at this stage. We think that it would be desirable to get more experience of the working of the existing experimental bonus scheme before taking a definitive decision between the range pay and the bonus approach (cf paragraphs 13 and 14 above); and we do not yet see our way through the problems of selection (cf paragraph 18).

21. A third possible course would be neither to accept nor to reject the Review Body's proposals, but, given that we are one year into a three-year experimental bonus scheme, say that we propose to let that run its course and reconsider the Review Body's proposals when we review the experimental scheme. If that were the course decided upon, we should not propose leaving the position precisely as it is now: we are agreed that there should be some shift in the direction of discretion, on a basis which would leave the way as clear as possible for decisions to be taken following the end of the performance bonus experiment.

22. If we take this course, we should need to consider whether to extend the experimental performance bonus scheme to Grade 2, on the same sort of scale as it applied to Grade 3 (one per cent of the pay bill for the grade, distributed in awards to not more than one in five). We suggest that the Review Body should be

told that we are considering this possibility, but in view of the problems of selection we do not expect to extend the scheme to Grade 2 before 1 April 1987. This is all they need to know on this point for the purposes of their 1986 review. If we can work out a satisfactory system of selection, we shall then ask Ministers to consider whether to extend the experimental bonus scheme to Grade 2 for the last year of the experiment (1987-88), so as to gain experience of the application of appraisal and the machinery for selection at this level; or whether to defer consideration of the extension of performance-related pay to Grade 2 until 1988, when we consider whether to go for performance-related pay as a permanent feature of remuneration at these levels, and if so on the basis of which kind of scheme, range pay or bonus.

23. The immediate shifts in the direction of discretion which we recommend, and of which we should propose that the TSRB should be informed, are as follows:

- a. Departments should be given discretion (within centrally prescribed guidelines) to make bigger bonus payments (up to £3,000) for Grade 3, coming nearer the sort of reward which the Review Body had in mind.
- b. There are already discretionary pay points within the pay scale known as "unified intermediate pay point (lower)" (UIPP(L)) and "unified intermediate pay point (higher)" (UIPP(H)). These sit at the arithmetical mid-point between the top of the Grade 3 scale and the bottom of the Grade 2 scale, and the top of the Grade 2 scale and the Grade 1A rate respectively. At the moment these pay rates tend to go with posts, rather than attaching to individuals. We propose that the same pay rates, renamed for this purpose "personal pay points" (PPP), could at departmental discretion be used in exceptional cases where a combination

of personal merit, promotion prospects and other unusual circumstances justified it. Each such award would be subject to central approval.

c. Pointing in another direction, we should make the present virtually automatic scales subject to satisfactory performance (see Paragraph 11 above). The presumption would continue to be that on achieving the appropriate seniority the pay increase would be given. But a conscious decision would have to be taken at each point by the Head of the Department in question. The position of the existing population would need examination, in so far as any entitlement may already have been created for them.

d. Separately, we would introduce simultaneously with these changes the improved "personal promotion scheme" which the Cabinet Office (MPO) have in hand and on which a presentation to the Prime Minister was made last year. This scheme, the preparation of which is well advanced, would be worthwhile in itself, and would have the advantage of benefiting grades below TSRB grades so as to emphasise that it was not only the senior grades for whom we regard these sorts of measures as appropriate.

24. These measures would have a relatively small cost. Each and every one of them would be at the discretion of Permanent Secretaries, and would represent a maximum of what they could do, not an entitlement. Costs would be additional to the £4 million a year allocation for the existing performance bonus experiment, but would have to be absorbed within running cost limits.

25. We think that this way forward represents a step in the desirable direction of flexibility and discretion within the Civil Service pay structure, while taking account of existing circumstances and not compromising decisions which might follow

the performance bonus experiment. So far as TSRB pay rates for Grades 2 and 3 go, TSRB had not expected any discretionary pay (beyond the existing performance bonus scheme for Grade 3) before 1 April 1986, and provided that they can be told in good time before they finalise their recommendations for 1986 then they will be able to take these decisions into account in their recommendations; no Grade 2 or 3 could thus claim he had been adversely affected because the Government had not responded to the recommendations on discretionary pay in the TSRB's 22nd report.

Conclusion

26. We recommend accordingly that the Review Body should be told that:

a. The Government remains in principle in favour of performance-related pay at Grades 2 and 3, but is not yet ready to take a decision on the Review Body's recommendations, and would wish to have more experience of the experimental bonus scheme before doing so.

b. The difficulty of resolving the problem of selection at Grade 2 level means that performance-related pay will not be extended to that level before 1 April 1987. If a solution to the problem can be worked out by then, the Government will consider extending the experimental bonus scheme to Grade 2 from 1 April 1987.

c. In the meantime, the Government proposes to make certain changes to be financed within existing running cost limits in the general direction of greater flexibility and discretion on the lines of paragraphs 23 a. to d. above.

27. We further recommend that staff interests should be consulted as necessary about the proposals, and an announcement made in due course (perhaps to coincide with an announcement on the Government's decisions on the TSRB's recommendations in its 1986 review).

21 March 1986

17. We conclude, therefore, that a more flexible pay system should be introduced for the senior civil service which will allow some distinctions to be drawn between individuals in salary terms on the basis of defined criteria. This will build improved incentives into the system and give some scope for pitching salaries for the most able in the senior civil service at a more competitive level. We believe this to be necessary to reinforce the managerial changes occurring in the senior civil service, and to bring pay opportunities somewhat closer to the rewards potentially available to talented individuals in other occupations, which is vital for the long term health of the service. In the following paragraphs we outline the approach that we believe to be necessary, but we must make one important point at the outset. We do not envisage that the radically new arrangements that we recommend can take full effect from 1 April 1985, and for that date make proposals which involve only a limited degree of change. For the more far-reaching aspects of our recommendations, civil service management itself will need to have time to make the necessary adjustments, and undertake the necessary consultations, to put the new system into place. We envisage, however, that full implementation should be achieved with effect from 1 April 1986. We discuss now the detailed arrangements that we have in mind, first for the grades of Under Secretary and Deputy Secretary, and then for Permanent Secretaries.

Deputy and Under Secretaries

18. We recommend the abandonment of the present single salary points for the Deputy and Under Secretary grades and, in order to provide greater flexibility, their replacement by a salary range for each grade, with specified salary points within each range. In the initial period of service in the grade, progress through the range should ordinarily be by way of annual increments related to service, up to a point which should be regarded as the normally attainable maximum for the grade; this part of the range will in effect be a short length of service scale covering the initial period of transition as proficiency develops in the new grade. Beyond that, we propose a limited number of additional salary points within the range to be used selectively at management discretion within rigorously defined criteria.

19. The keynote in operating the discretionary part of the range should be flexibility to give additional reward above the normal maximum where it is clearly justified in relation to an individual's performance. Progress to these higher points on the range should be at the discretion of senior management at the levels above each of the grades concerned. It will be important to have clear guidelines governing the exercise of that discretion. We see the drawing up of such guidelines as a task for civil service management over the coming months and we acknowledge that this will take time and effort. We believe, however, that this will be a worthwhile investment for the health of the service both in the immediate future and over the longer term. We emphasise that the criteria governing progress to a discretionary pay point must be rigorously defined to ensure that it occurs only where individuals can sustain a high level of performance well above the norm. Differences in job weight would normally be dealt with by appropriate grading, but in a broad-banded grading system such as applies in the civil service, there will inevitably continue to be wide differences of job weight within a given grade, particularly at the most senior levels. We accept, therefore, that management should have some freedom to take account

of this factor, as well as of differences in performance, in making use of the discretionary pay ranges. In practice, we would expect to find some degree of interaction between the factors of performance and job weight. It would be surprising if it were not the case that the most able individuals tended to be assigned to the more demanding jobs. We also think it right that management should be free to make full use of the range to meet a manning need, for example where it can offer some additional flexibility to recruit an individual from outside who cannot be accommodated at the normal starting salary for the grade. It is essential, however, that the primary purpose of the discretionary part of the pay range be seen clearly as a means of recognising performance.

20. As we have said, the drawing up of detailed guidelines must be a matter for civil service management, with the necessary consultations. Some of the groundwork for this will already have been done. Departments are already having to devise means of distinguishing between individuals at Under Secretary level insofar as performance is concerned as part of the experimental bonus arrangements that have been announced, and it is possible that the procedures being evolved could be applied without too much adaptation to the system of range pay which we are now recommending. We propose that, so far as Under Secretaries are concerned and once the details have been settled, the discretionary part of the range should replace the bonuses available for sustained high performance under the experimental bonus scheme. The scheme which we recommend seems to us an altogether more effective way of recognising sustained high performance but we are aware that special bonuses are also available under the experimental bonus arrangements to recognise exceptional performance in a particularly demanding task or situation. There is an important distinction between a sustained high level of performance, which range pay is intended to reward, and exceptional performance in a particular task, best rewarded by a one-off bonus. We see no reason why such special bonuses should not still be available to Under Secretaries once the new merit pay arrangements are in place. So far as differences in job weight are concerned, there are well-developed methods of assessment and posts in the senior open structure have already been, and continue to be, under examination from this point of view, particularly since the Wardale Report¹. We believe that in the longer term the development of systematic job evaluation within the civil service is desirable not only for pay but for wider management purposes.

21. The Megaw Committee² recommended that pay ranges related to merit should extend only to Under Secretary level. We consider, however, that the system of range pay we have proposed should cover also the Deputy Secretary grade. It is usual in schemes based on the appraisal of performance that two levels of management above the grade concerned should be involved in the appraisal, but this is not feasible in the case of all Deputy Secretaries. However, in the great majority of cases at this level, it should be possible for an adequate appraisal to be made by the Permanent Secretary or Permanent Secretaries concerned, based in many instances on knowledge of an individual over many years. There are, we understand, already in existence central arrangements to keep Deputy Secretaries under review for promotion purposes, and it may be

¹Chain of Command Review: the Open Structure. Report of a team led by Sir Geoffrey Wardale, KCB.

²*ibid.* (paragraph 14).

possible to adapt these arrangements to play some part in the operation of a discretionary pay system at this level. As part of the detailed management planning for the introduction of the new system, consideration will need to be given to the treatment of that small proportion of Deputy Secretary and Under Secretary posts which do not report in the normal way to an official at Permanent Secretary level.

22. The question may arise of what should happen in the case of an individual who has been placed within the discretionary pay range for the grade but whose performance declines to a marked extent, or who moves to a post of significantly less weight. So far as performance is concerned, we would expect placement within the discretionary range only to occur where management is confident of the individual's ability to sustain the requisite high level of performance. In cases where that expectation was not met, and where the possibility of early retirement did not arise, we would see it in the first place as a management responsibility to endeavour to retrieve the level of performance which the individual had proved capable of attaining rather than to reduce the level of pay. Nevertheless, we recognise that, in some circumstances, it might not be appropriate for an individual to retain a discretionary rate of pay. This is a matter for detailed consideration by civil service management. We would not think it right, however, that the pay of an individual while serving within a particular grade should fluctuate with variations in job weight so long as the ability to sustain a high level of performance is maintained.

23. Our detailed recommendations on salary ranges for the Deputy and Under Secretary grades appear at the end of the next chapter, in which we consider what salary levels should be inserted into the new framework we propose. At this point we only wish to add that it is our aim to keep the non-discretionary part of the range in each case, that is the initial part of the range through which progression will be related simply to length of service, to no more than three salary points, while providing a discretionary range which offers a worthwhile incentive and sufficient flexibility to cope thereafter with the important factors we have mentioned. We recognise that cases may still arise where, for market reasons, it may be necessary to go to a level beyond the limit of the ranges we recommend, but we would expect such cases to be justified on exceptional grounds.

Permanent Secretaries

24. We have concluded that it is not possible to introduce pay ranges related to performance for Permanent Secretaries. As they are at the apex of the permanent machinery of government, their performance could not be assessed for pay purposes except with the involvement of Ministers, and that would raise profound constitutional issues touching on the essential relationship between the permanent civil service and the political administration of the day. We have, however, as explained, been asked by the Government to look into the possibility of greater differentiation in the pay of Permanent Secretaries on grounds of job weight, and it is this question to which we now turn.

25. At present, the generality of Permanent Secretaries are paid at one level of salary (£45,500). The Head of the Civil Service who is also the Secretary of

the Cabinet, and the Permanent Secretary of the Treasury, receive a pay lead (the salary for these posts is at present £51,250). There is also a number of Second Permanent Secretary posts which carry a lower salary (£42,000) than that for Permanent Secretaries generally. The question we have to consider is whether the number of salary points should be increased from the present three to take account of variations in job weight, and if so what the salary levels should be.

26. We were aware from the outset that this reference raised issues of considerable difficulty and sensitivity, which required thorough examination. We concluded that it was essential to gain a full appreciation of the nature of the work of Permanent Secretaries and to give them an opportunity to comment on the proposition we had been asked to consider. Accordingly, we invited Permanent Secretaries in charge of departments, and the Second Permanent Secretaries reporting to them, to provide comprehensive written evidence. We are grateful for the time and effort that those approached devoted to this task. We also took evidence from former Heads of the Civil Service and other former senior members of the service.

27. We also took the view that any assessment of differences in the weight of jobs should be made on as objective a basis as was practicable, and we commissioned consultants to assist us in an examination of whether techniques of job evaluation, which are widely used elsewhere for determining internal differentials, might be applied for the same purpose in considering the jobs of Permanent Secretaries. We decided that if such techniques were to be of any assistance, it would be essential to develop a basis for evaluation which specifically reflected the characteristics of the work of Permanent Secretaries rather than relying on evaluation criteria developed for use elsewhere. We sought advice from Permanent Secretaries on the range of factors which it might be appropriate to take into account when evaluating jobs, and what weight should be given to them. The consultants subsequently developed an approach to the analysis of differences in job weight on the basis of factors which, in terms of each job, sought to measure the size of its management task; the complexity and diversity of the policy and management issues faced; its political sensitivity and exposure; the extent of its wider influence beyond the department; and the nature and extent of the financial accountability involved. This approach sought to define the essential features of the job of a Permanent Secretary: it could not reflect the relative difficulty of the job as seen by the incumbent, whose day-to-day work may be heavily influenced by the nature of relationships with Ministers and others, or the immediate pressures of events. The consultants' main conclusion was that in job weight terms, the jobs of the first Permanent Secretaries of the Ministry of Defence and the Department of Health and Social Security were clearly larger than the typical Permanent Secretary job. Leaving aside these jobs, the drawing of boundaries was more difficult, though some advice on the relative weight of individual jobs was offered: in particular, the consultants' analysis gave support to our intuitive view of the heavy demands, in terms of its political sensitivity and the importance of the issues it covers, of the job of Permanent Secretary of the Home Office.

28. We found this study helpful in clarifying the relative weight of the wide variety of posts at Permanent Secretary level we have had to examine, but we believe that there are certain inherent limitations in such an exercise which it is



10 DOWNING STREET

THE PRIME MINISTER

20 March 1986

Dear Derek,

Many thanks for your letter of 14 March and the enclosed summary of the points you will be putting to the BIM Seminar on 1 May.

Your note certainly makes a powerful case for the policy which you and your colleagues have developed at Marks and Spencer and which has served it so well. I take the point, which of course you put to our meeting in January, that campaigns to promote British products need to be developed carefully to ensure that efforts are not duplicated and that their impact is not counter-productive, particularly in overseas markets.

I know my office are in touch with yours, and I very much hope you will be able to join us for lunch at Chequers on 11 May. I look forward to discussing your letter with you then.

Yours sincerely

Rayner Shaker

The Lord Rayner

CEB9



FROM: CHIEF SECRETARY
DATE: 20 March 1986

PRIME MINISTER

BUDGETING IN GOVERNMENT DEPARTMENTS

During 1985-86 a team led by the Government's Accountancy Adviser, Tony Wilson, has reviewed how budgets are used in departments. This study was based on reviews in C&E, DHSS, DTI, the Home Office, MOD, DEm and MSC. I now attach the report by Tony Wilson and his team. Subject to the views of colleagues, I propose to publish this report, and make available the longer technical volume which supports its recommendations, in due course.

Purpose of the review

2. The purpose of the review was to develop budgeting as the main means of controlling expenditure and making it effective. The way in which managers construct their own budgets, challenge the budgets put to them and subsequently review performance is vital to the changes we all want to see in management in the civil service. The review looked at budgeting but its findings give us a valuable insight into the progress of the whole of our reform of financial management. Its recommendations give us the chance to push the reforms forward with renewed vigour.

Main findings

3. There is evidence of good results in many areas. Managers are much more aware of their costs and responsibilities. They have taken the initiative to make savings and improve efficiency. I shall be following this up in our PES rounds to keep pressure on Departments to set targets which managers find challenging and demanding. The Efficiency Unit and Sir Robin Ibbs are encouraging all departments to set increasingly ambitious

but realistic value for money targets and will be providing you with a further progress report on this shortly.

4. There are still many gaps and signs that some managers do not always understand the purpose of budgeting. Some of this was to be expected. We were warned by the consultants in 1982 that the scale of these changes was such that it would take time to put the systems in place, and of course the systems are the easiest part; they are only there to help managers to run the Civil Service more effectively.

What needs to be done

5. I have discussed the way forward with Sir Robin Ibbs. The comprehensive budgetary controls described in the report provide useful guidance for departments. Some departments already have plans which will take them a long way towards them. All departments should find that the recommendations in the report provide a searching checklist by which to update and extend their own plans; we cannot prescribe precisely what is right for every situation.

6. What we do need are clear targets for the essential changes which get budgeting working. With this in mind Sir Robin Ibbs and I felt that there were four crucial points of principle in the recommendations which should be acted upon by every department:

Responsibility for Budgeting

(1) All managers, from the top right through the management line, should be responsible for setting and reviewing budgets (paragraph 3.14-3.17);

Links with PES

(2) The timetable for budgeting must allow for a planning stage which links with the public expenditure survey, and places more emphasis than at present on the second year of the Survey (paragraph 4.17);

1. Change the way part 2 on financial control

Measurement of achievement

(3) Budgets should include output indicators and there should be regular evaluation of performance against objectives (paragraph 4.6-4.8);

Organising top management's responsibilities

(4) Top management should organise its responsibilities for managing resources for setting priorities, and for reviewing performance, and get the information and support it needs, to implement these changes (paragraph 3.10).

7. The report concentrates on budgeting for running costs but the same principles and the changes that flow from them need to be applied to programme expenditure. We have already agreed that all policy reviews and new policy proposals should say what is to be achieved by when, at what cost, and how it will be measured. That is our first priority and is a crucial first stage to developing systematic budgeting for programme spending.

Action

8. I hope we can agree that these four principles should be the basis for action in every department. There will inevitably be differences in detail and timetables because departments have different tasks and priorities. But it is important that Ministers should encourage their departments to make good progress on the four principles. My own particular interest will be in how departments' improved budgeting can contribute to improving the Survey process further, especially in enabling us to focus more on the later years than at present and on the results achieved from programmes.

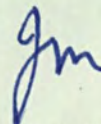
9. I propose then to ask:

a Sir Peter Middleton and Tony Wilson to discuss the report with Permanent Secretaries as a preliminary to departments appointing action managers and preparing their action plans;

b the Joint Management Unit, which will be co-ordinating this work in the Treasury to draw up by the end of April a checklist of the key points for departments' action plans, including yardsticks of how their successes will be measured; then to work with departments, Treasury expenditure divisions and others in the Treasury and Cabinet Office (MPO); and to let us have reports on the action plans in December 1986. Reports on the actual progress being made will also be needed in subsequent years. I am particularly keen to use the momentum created by this exercise, and the results it produces, in future public expenditure rounds to focus discussion more sharply on how to get more out of existing plans and on how well plans are meeting their objectives.

10. I shall of course also ask my officials to act swiftly on the recommendations addressed to the Treasury; and I shall look for further changes in the central control mechanisms as departments show evidence of better internal controls.

11. I am copying this minute to Cabinet colleagues, other Ministers in charge of departments, Sir Robert Armstrong, and Sir Robin Ibbs.



JOHN MacGREGOR

Multi-Departmental Review of Budgeting: Executive Summary

**HM TREASURY
MARCH, 1986**

Multi-Departmental Review of Budgeting: Executive Summary

The Central Team

Anthony Wilson (*HM Treasury*)
Geoffrey Crane
(*Dept. of the Environment and Transport*)
David Jamieson (*HM Treasury*)
David Nooney (*HM Treasury*)

Multi-Departmental Review of Budgeting: Executive Summary

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Executive Summary

- I Introduction**
- 1.1** The purpose of this multi-departmental review was to encourage the development of budgeting as an effective instrument of expenditure planning and control and as a tool which management can use to improve its resources allocation and to deliver greater economy, efficiency and effectiveness in the accomplishment of its task. The terms of reference are at Annex A.
- 1.2** The review has been conducted along scrutiny lines and has been co-ordinated by a central team consisting of Tony Wilson, Geoffrey Crane, David Jamieson and David Nooney. It has been in two phases and has comprised seven parallel studies in the following six departments:
- Customs and Excise
 - Department of Employment
 - Department of Health and Social Security
 - Department of Trade and Industry
 - Home Office
 - Ministry of Defence
- and one NDPB
- Manpower Services Commission.
- 1.3** The first phase of the review was concerned with fact-finding. It concentrated on evaluating existing budgetary arrangements. It established what progress had been made and identified common problems. Several important, specific issues emerged which have been the focus of our work in Phase II. During this second phase Examining Officers have been encouraged to join forces in seeking solutions and to follow up relevant messages emerging from each others' work and from work in departments outside the scrutiny. The central team wishes to thank all those in the centre and in other departments, particularly those taking part in the departmental studies, for their time in giving evidence and for the benefit of their advice. The cost of the review, as broken down at Annex B, is estimated at around £407,000.
- 1.4** Budgeting is a sensitive plant whose growth is not helped by frequent uprooting to assess growth. The first phase of the review inevitably required such an examination and we found a number of healthy signs – most importantly enhanced cost consciousness among line managers, with illustrations both of cost savings and of budgets stimulating local managers to reorganise work and improve services. Some examples are reproduced at Annex C. In Phase II we have looked less at the plant itself and more at the surrounding soil. Budgeting is *not* an end in itself. It is a process which begins with managers planning how to deliver the goods or services for which they are responsible, and forecasting the cost of doing so. Collective decisions at all levels of management are then taken about priorities against a backcloth of overall departmental policies and available resources. Finally, line managers are tasked with carrying out their activities with the resources allocated so entering into "contracts for performance".

1.5 Budgeting is thus a means of delivering value for money against a background of aims, objectives and targets. A fully articulated budgetary system must comprise control both of the costs of resources used (the input) and of the achievement of a planned level of activity (the output). It is an integral part of a management planning and control system and needs firm roots stretching into the strategic planning and cash planning and control cycles. Budgeting will only fully realise its potential if it has the support and involvement of top management, if there are strong connections between budgets, outputs and results, and if it operates within a supportive central and managerial environment. This report concentrates on these main issues: how best to secure the firm commitment and close involvement of senior management to budgeting; how to develop stronger links between budgeting and both the top management strategic planning system and the existing key cash planning and control systems; how to strengthen the links between outputs and inputs and promote the notion of a budget as a "contract for performance"; and how to reduce the inevitable tension between what makes sense at the aggregate level for delivering the Government's policies and the interests of managers trying to deliver their individual objectives with greatest efficiency.

1.6 The report also considers several important but second-tier issues: the further development of manpower budgeting in the new environment of running costs control; the extension of budgeting to headquarters and to programme expenditure areas; training; and the form and structure of specialist support for budgeting. In exploring all these issues our concern has been to identify and disseminate examples of good practice. We do not attempt to assess progress against a single all-embracing model. Effective systems are dynamic and must constantly be reviewed against the pattern of changing needs. A systems blueprint for general use is not appropriate. Departments are at different stages of development. The leaders need encouragement to continue with their pathfinding work, the laggards can do much to accelerate their progress by using the development work and experience already gained elsewhere. Nothing will be gained in the long run, however, by forcing the pace of change to an extent which is beyond the capacity of departments to accommodate. The timescale of the recommendations have been drawn up with this in mind. The action plans which all departments will produce must maintain the necessary momentum and, as is usual, a further report after no more than two years will be required.

II The Role of Top Management

2.1 It is crucial to the development of effective budgeting that it is seen to have the full support of top management and that top management plays a full role in the budgetary process. By top management we refer primarily to that group of individuals who together form the "Top Management Board" (TMB) of a department. Ministers also have an important top management role. They provide the overall policy direction for departments and must be thoroughly aware of the resource implications of their policy decisions.

2.2 Top managers, as the CIR Report emphasised, have a dual role: as individual heads of their line management commands and as collective members of the TMB with a collegiate, strategic role in planning and resource allocation for the department as a whole. The evidence suggests that top managers are still insufficiently involved in the budgetary process and that there is not enough emphasis on the managerial role of senior officials in the line management chain. We have also found that, while responsibility for decisions is progressively being transferred from Central Finance and Establishment commands to the line management chain, the central divisions have still fully to come to terms with the requirements of their changing role. Budget bids still tend to be challenged and scrutinised incrementally on the central finance network, with inadequate dialogue along the length of the line management chain.

2.3 Our first conclusion is that top management needs to be supported by an effective central secretariat if it is properly to perform its collegiate role. The role of the existing secretariats seems ill-defined and too discretionary. Improvements are in train, following the recommendations contained in the CIR report, for the development of top management secretariats in respect of CIR services, but we see a need for a top management support function which stretches beyond the mere brigading of CIR staff. The functional role of the secretariat would be to co-ordinate and channel the information essential for the TMB's consideration of policies and priorities, results and performance; and to advise and brief the TMB on the focus of each round of the top management system and on issues which ought to be discussed and areas which ought to be probed. The establishment of such a secretariat would not remove the need for clear definitions of senior managerial responsibilities, but it would fill an important vacuum and should help top management communicate down the management chain its aims, objectives and priorities.

2.4 The creation of an enhanced secretariat will not be sufficient by itself. As the DHSS report recognises, "a pre-requisite of an effective budgetary control system is a departmental organisation which clearly allocates responsibility and authority for resource control". Several Phase II departmental reports express concern about the clarity and logic of the current distinction between the roles of central Finance and Establishment Divisions and those of line managers responsible for devolved budgets. In recognition of the importance of clear responsibility for overall resource management, several departments have recently taken steps to bring the roles of the PFO and PEO closer together. We see further scope for bringing together responsibility for the allocation of resources of all sorts. It may be possible, for example, to re-organise the PFO's responsibilities in such a way that he is freer to concentrate on the key functions of resource management. None of this should involve the PEO's responsibilities for the management of people which have recently been given a higher profile and sharper focus by initiatives on management development and annual staff reporting. But it would allow the grouping together, as a central "staff", of the top management secretariat, a central specialist support facility and those parts of Finance and Establishment Divisions which

advise upon and control the allocation of resources and the monitoring of performance.

2.5 Of course, this is but one way of achieving the desired result. We are not in the business of seeking to impose a single, detailed organisational structure. Similarly, we do not wish to ask departments to re-tread the ground recently covered in response to the CIR Report. However the interests of budgeting do demand further work. **We recommend that Permanent Secretaries should consider, in the light of their departmental arrangements and their response to the CIR Report:**

i. how top management can bring together the process of internal resource planning, allocation and control; the setting of priorities and monitoring and review of performance; and the work of the CIR services in support of these, particularly in relation to the adequacy of budgetary systems; and

ii. how best to serve that purpose through a central secretariat responsible for the functions outlined in paragraph 2.3 above.

Proposals for action under i and ii should be prepared within the the next six months.

2.6 The form of the budgetary system itself can help top management in the exercise of its dual role. There is evidence to suggest that operational budgetary responsibilities at the top of the line management chain (at Deputy or Under Secretary levels) are frequently neither specific nor clearly circumscribed and that the entire line management chain is not yet acting as the channel for the iterative budget bidding debate. In our view it is essential that budgets should reach to the top of the line management chain in a way which reflects both senior management's collegiate role in planning and resource allocation for the department as a whole, and their individual responsibility for their particular line management commands. There are two dimensions to such hierarchical budgeting. First, the extension of budgets in their current form further up the line management chain. Second, the translation of those budgets into statements of objectives, required resources and achievement covering functional responsibilities (eg training, personnel management, office services on the one hand and major programmes on the other). This re-analysis of aggregated line budgets into functional headings, which is illustrated at Annex D, is particularly important since it is necessary to enable top management to take a collective view when deciding policies and priorities for the department as a whole.

2.7 We recommend that Permanent Secretaries should consider in the light of their departmental arrangements:

i. how best, as a matter of urgency to develop a hierarchical budget structure which imposes on senior management clearly defined operational responsibilities at an aggregated level. Proposals for action should be prepared within the next six months;

ii what arrangements will be necessary to ensure that aggregated line budgets can be translated into statements of objectives, resources and achievements in terms of functional responsibilities bearing in mind the extent to which organisational responsibilities match functional or activity responsibilities. Proposals for action should be prepared within the next nine months.

2.8 Finally, the responsibility of senior line management for assessing budgetary performance realistically as an integral part of the budget "contract" needs to be emphasised. The importance of a challenging and regular review of budgetary performance is recognised in several departmental reports. The Department of Employment report draws attention to the importance of regular divisional reviews of performance conducted by Under Secretaries with their line managers. The DTI report refers to the recent clarification of Deputy Secretary management responsibilities, in particular their duty, as senior line managers, to review performance against budget and to secure improvements in value for money. **In our view good practice requires that senior line managers (Deputy and Under Secretaries) should always scrutinise and agree the budget bids from their commands and submit them to Central Finance Division. Subsequent negotiations with Central Finance should in the first instance be conducted at their level. The hierarchical budget structure recommended at paragraph 2.7i is a pre-requisite for this. But we recommend that departments take all other necessary steps to give effect to these procedures. This recommendation should be implemented by end December 1986.**

2.9 A review of budgetary performance by line management already takes place in several departments. In some (eg Customs and Excise) this process is challenging and, as far as possible, concerned with achievements. It is important that a review designed to probe the reasons why objectives or results have not been fully achieved becomes the norm for all departments. **We recommend:**

i. that guidance notes setting out the responsibilities of senior management (Deputy and Under Secretary level) should include clear reference to their line management budgetary responsibilities and specifically their duty to:

a) establish measurable objectives and quantified targets for their commands;

b) participate fully in the construction and scrutiny of budgetary bids;

c) monitor performance, especially the extent to which priorities are observed and objectives met;

d) conduct a penetrating end-year review of budgetary performance.

ii. that the top management board, or equivalent management body, should review budgetary performance annually, on the basis of papers prepared by the top management secretariat in respect of individual Deputy or Under Secretary commands.

This recommendation should be implemented by end October 1986.

III Relationships Between Top Management Systems (TMS), Budgetary Systems and Existing Cash Planning and Control Systems

3.1 Closer and more systematic top management involvement in the budgetary process is helped by strong connections between budgetary systems, strategic planning systems and cash planning and control systems. Moreover, such connections are, themselves, a pre-requisite for further budgetary development. Budgets cannot be effective in isolation. At one end they have to link to clear statements of objectives and at the other to meaningful measures of performance. Only then can the budget become a "contract for performance". Our findings suggest that the links between top management and budgetary systems are still developing and, for the most part, are not yet fully articulated. They also point to a need for stronger links between those systems and the PES/Estimates processes. Our examination has focussed on the form and content of top management systems and on the timetables of the component parts of the PES/Estimates/budgeting rounds since, in our view, developments in these areas hold the key to further budgetary progress.

3.2 There are two "review" elements in an effective top management system: first, a review of aims and objectives in each area of a department; second, a review of priorities across the whole department. It is important that TMSs support both perspectives. From an analysis of the papers considered by the TMBs, or their equivalents, in some of the participating departments over the last twelve months, it seems that generally:

- i. TMSs rarely contain information on priorities and TMBs spend relatively little time on the development and promulgation of an agreed consensus on overall aims, objectives and priorities. This contrasts with the position in the private sector where considerable importance and effort is attached to the manufacture and communication of a consensus;
- ii. most material relates to the review of functions and is designed to serve a programme of individual interviews on organisational matters. Summarised budgetary information for monitoring and assessing performance against key targets and objectives appears only occasionally;
- iii. there is often too much information contained in TMSs. Consequently it is indigestible and fails in its purpose of informing top management decisions at the macro level.

3.3 These shortcomings must not be overstated. A number of top management systems pre-date the FMI and have been gradually developed in accordance with it. Developments are continuing and are along the right lines. For example, statements of priorities are an established ingredient of the Customs and Excise Board's management plan and they now propose to include similar statements in Directorate plans. The Chairman's Management Committee in MSC devotes a good deal of time to monitoring performance on the basis of divisional performance reports and budgetary information. And the divisional work programmes in the DTI, produced annually as part of their top management system, allow top management to review performance against the previous year's targets. Nonetheless it is necessary to formalise the type of management information which TMBs require on a systematic basis to exercise their role properly. We define these information needs, as we see them, at Annex E.

3.4 Ministers will also wish to be aware of some of this material, though how much will vary depending on the precise relationship between individual Ministers and their senior officials. In order to be thoroughly aware of the resource implication of their policy decisions – already a requirement in relation to new policy evaluation – Ministers, in our view, must, as a minimum, receive:

- i. a statement of aims and objectives of a department accompanied by a statement of the assumptions made about the operating environment;
- ii. an indication of the main policy options available on which decisions are required;
- iii. information on the major internal or external constraints which may affect the achievements of aims and objectives (particularly the level of resources);
- iv. annual summary statements of programme expenditure incurred compared with budget and running cost expenditure against budget;
- v. manpower levels in the reporting period.

3.5 We recommend that Permanent Secretaries should consider the check-list set out at Annex E and, in the light of their current departmental arrangements produce proposals for meeting the information requirements therein. Ministers should also review their information needs. Although the process of developing adequate information systems is lengthy, good practice demands the initial charting of a timed programme of action and proposals for this should be prepared within six months.

3.6 It is important not to overburden top management systems with too much detail. The role of the proposed central secretariat should help by distilling information for top management to make sure that it can be usefully assimilated. But the effective aggregation of lower level information for top management, particularly the proper integration of lower level indicators into top management systems, is a difficult process. The line management chain should contribute directly. We see promising pointers in the increasing development within departments of line management systems, at the working level, which can feed TMS with summarised and aggregate data and assist in the review of targets, budgets and performance at various levels in the line management chain. To the extent that they represent an amalgam of top management system, budget and programme review such systems could provide the missing link between objective setting, budgeting and performance measurement. There is a need to build on this work, assess progress, and, where necessary, take action to fill the gaps.

3.7 Accordingly, we recommend that Permanent Secretaries, supported by their FMI teams and CIR forces, should review progress on the development of divisional line management systems. In particular they should consider to what extent such systems contain: the divisional performance indicators to be used for assessment; an explanation of the way the division will monitor their administrative budgets; a set of measureable objectives and priorities at divisional level and a key task list; and an indication of how the divisions' internal management information will be handled. Proposals for action in the light of that review should be prepared within six months.

3.8 An immediate practical difficulty in forging better links between budgetary systems, top management systems and the existing cash planning and control systems, is that of timetabling. There are formidable problems. Departmental planning and budgetary systems do not stand on their own. They must fit into the Government-wide PES and Estimates systems so that the totality of government expenditure can be reviewed annually for the Public Expenditure White Paper in advance of the Budget. This not only dictates the broad timetable to which departments must work, it also means that the complete cycle is bound to take more than twelve months because of the time which has to be allowed for preliminary departmental work and subsequent Treasury led discussions. We have adopted two guiding principles in examining how to move towards a more coherent and synchronised planning and control cycle: first, how to ensure that the conclusions or output of one cycle better inform the next; second, how to reduce the negative effects of the way the systems interact.

3.9 In the light of the departmental reports, private sector practice and current Treasury work designed to improve the working of the PES process, we have prepared at Annex F a model timetable indicating one way in which the timing difficulties might be tackled. It is illustrative, not prescriptive, and will need to be adjusted to the circumstances of individual departments. We do consider, however, that three elements of the proposed cycle are sufficiently important for budgetary development to be regarded as common features of all departmental arrangements.

3.10 First, we consider it essential that top management should carry out a strategic overview, some 16 months in advance of the first year to be covered by the forthcoming Survey. This should concentrate on establishing aims, objectives, priorities and constraints, so setting the parameters for the compilation of PES baselines. Policy reviews already inform the setting of priorities both within and between programmes but we see further scope, of considerable knock-on benefit for budgeting, for both internal departmental discussions and Treasury PES discussions with departments to focus on relative priorities. At the moment we see insufficient flavour of objective setting and performance review as the background to resource allocation. We believe that the strategic overview will protect the PES perspective and should help to alter the focus of the PES round more towards the second year in the cycle.

3.11 Second, we favour the introduction of a budget planning stage which would involve budget holders constructing and examining options built from what emerges from PES, but in advance of final figures. As the PES process is tending to last longer and longer and the PES and Estimates timetables increasingly run up against each other so the possibility of a rigorous and systematic budgetary preparation and scrutiny process is squeezed out. This problem could be significantly reduced if budget holders, rather than waiting for final figures, prepared budgets based on different models of expenditure and activity representing percentage deviations above and below PES figures. Budget bids so prepared might inform the PES bilaterals.

3.12 Finally, we consider that regular and systematic mid-year reviews can play an important part in ensuring that each element of the cycle is correctly informed by the experience or outturn from the others. The comprehensive approach to in-year monitoring described in the FMU's report on Top Management Systems (paragraph 4.21) is supportive of the need for "highly selective monitoring reports to top management at not too frequent intervals". We envisage these reviews taking place in the summer when they can consider final outturn from the previous year and late Autumn when they can inform the start of the next planning and budgetary cycle.

3.13 We recommend that Permanent Secretaries should consider how best to give effect to the proposed strategic overview, the budget planning stage outlined in paragraph 3.11, and regular mid-year reviews, given the parameters which their organisational and operational arrangements already impose. Proposals for action should be prepared within the next six months.

IV Output and Performance

4.1 The importance for budgeting of firmer connections between activities, costs, outputs and results is widely recognised. If the full benefits of budgeting are to be realised, it is essential to move from traditional input cost budgeting to output budgeting under which expenditure and related output are planned and monitored together.

4.2 The public sector can already boast an impressive array of intermediate indicators of throughput which measure timeliness and accuracy and provide some indication of the efficiency of administrative arrangements. In general, however, the public sector has not yet developed comprehensive, formal systems which link inputs with outputs. There are several explanations for this. First, there is the problem of associating costs with an output. Second, there is the difficulty of quantifying the value of the output or outcome. Finally, there is the problem of interpreting and applying performance indicators in a changing environment so as to ensure that they provide a continuous spur to increased operational efficiency.

4.3 In our view departments should now give priority to considering how output and performance measures can play a more significant part in the process of planning and allocating resources and be used to assess the effectiveness of resource allocation, and to identify improvements in policies and procedures. So far as the allocation and monitoring of administrative resources is concerned existing good practice and some private sector experience can point the way forward.

4.4 First, progress depends in part on the form of the planning process. The planning stage moves the horizon from the broad and long-term to the detailed and short-term by translating defined objectives into specific activities and targets. Good practice, as in Customs and Excise, demands that objectives are set in such a way that it is possible to move hierarchically down to define activities and targets at the lower organisational levels. The planning process must also be an integral part of the resource allocation process, simultaneously generating activity plans, targets, budgets and manpower requirements. That demands the collection, maintenance and assessment of two flows of information: financial information about the operation of the department; and non-financial or physical information (eg volume of outputs) so that plans can be expressed and budget levels be set to meet quantifiable or observable aspects of performance.

4.5 Second, performance indicators must influence decisions about the appropriate level of resources. It is important that more areas of work at divisional, branch or individual office level are covered by performance indicators. The growth of divisional management information systems incorporating such indicators is one way forward. But priority should also be given to the development of comprehensive and specific branch work programmes which embody quantified objectives and targets for all activities.

4.6 Third, the messages delivered by performance indicators must be capable of being evaluated. This is difficult unless there is a facility to judge the resources required to produce an actual output against a norm or standard. Where a department has many local offices performing the same function data should exist internally for such comparisons and can be used to assess the resource impact of different levels of performance (eg as in DHSS). However, for functions which exist only in a few divisions within each department the determination of best achievable performance requires a central database of performance. **Treasury OR division already has the development of such a database as an item in its work programme. We recommend that this work is given a high priority and that OR division draw up, within the next six months, terms of reference and a programme of action for tackling this work.**

4.7 In service and specialist support areas whose role is primarily advisory, reactive and demand-determined, activities cannot always demonstrably link back at the highest level to the aims and objectives of a department. Our fourth message is that for such areas the essential requirement is to ensure that their activities match, in performance and budget terms, the needs of their customers in line divisions. In the private sector the quality of performance in such areas is often assessed by value for money audits, or by a rigorous assessment of customer reactions. We consider that customer satisfaction surveys constitute valuable performance indicators and that good practice points to their adoption in relation to service and advisory work. We would also wish to see greater use made of regular and systematic comparisons of the cost and quality of an in-house provider with that of an external provider, always bearing in mind the importance of ensuring that like is compared with like. A final possibility (recommended in the DHSS report) is that service providers should prepare annual accountability reports for their internal customers including cost and level of service indicators.

4.8 Finally monitoring must be developed (eg as in DHSS) as a continuous input to the resource allocation process. It is important that where outputs or unit costs move significantly away from plans, the monitoring arrangements trigger a reconsideration of the resource allocation process. Such monitoring can require the support of expensive time or effort recording systems. Frequently, it is more sensible (as recommended by DTI) to replace these by a system of occasional in-depth cross-sectional studies linked together by a more frequent collection of a small number of key variables.

4.9 We ask departments to bear these messages in mind, particularly in implementing the recommendations at paragraphs 3.5 and 3.7. Performance measurement is not an issue where specific recommendations for departmental action are currently appropriate. Indeed it is a subject where over-simplification is dangerous and where it is easy to send the wrong signals. A pragmatic approach is, therefore, essential. Budgeting without an output and performance dimension is deficient, so gradual progress, not allowing the "best" to be the enemy of the "good" is the key.

V The Budgetary Environment and Central Controls

5.1 The final major issue is how central controls over public expenditure interact with the budgetary environment – in particular whether certain elements of central controls inhibit the development of effective budgeting. There are inevitable tensions between traditional arrangements for the aggregate control of public expenditure and the interests of line managers trying to deliver their objectives with greatest efficiency. Yet these two aims are ultimately interdependent. Our guiding principle has been how best to promote and develop planning and control arrangements which reflect and reinforce that interdependence. We conclude that the crucial requirement for further progress is the development of departmental planning and control systems which demonstrate improved efficiency and effectiveness. As several of the departmental reports recognise, the central departments need evidence of robust systems before they can sensibly relax their existing control mechanisms. Equally, if budgeting is to realise its full potential, the duplication of controls, whether intra – or inter-departmental, should not be perpetuated longer than is absolutely necessary.

5.2 Our work in Phase II has coincided with the introduction of the new running costs regime and we have looked closely at the likely impact of the new arrangements on devolved budgeting. We conclude that, on balance, the introduction of single departmental running cost limits should help the thrust of devolved budgeting. First, the running cost limits agreed in the Survey should represent realistic but demanding levels of provision for departmental administrative expenditure based on departments' own estimates, including estimates about pay. They enable us, therefore, to get away from the centrally imposed pay assumption which we believe represented the most serious detraction from the credibility and realism of the whole budgeting process. They should also encourage good financial management by requiring departments to make realistic provision in advance, rather than supplementing an artificially low figure by drawing on programme expenditure later in the year. So long as pay is centrally negotiated and settlements are reached after the budget setting process, there will continue to be uncertainty about the precise effects on departmental pay bills. But that uncertainty should be no greater than departments already have to live with or other cost movements and the focus on the total running cost budget should enable departments to absorb any unexpected increase (within reasonable limits).

5.3 Secondly while overall manpower controls will remain with published targets to 1988, the new arrangements, provided they secure an effective alternative control over the use of manpower, will enable Ministers to consider relying on them rather than on separate manpower controls after that date. The focus would move from the individual components of running costs to the sum of the parts needed to get the work done so providing a significant impetus to greater managerial freedom to switch between the components of running costs in both directions and so promote tradeoffs, in the interests of overall efficiency, within a tightly controlled cash total.

5.4 One area where we share departmental anxieties about the effect of the new arrangements on devolved budgeting is the present definition of capital and current expenditure. There is expenditure, correctly classified technically as capital, which for decision-making purposes is akin to or substitutes for current expenditure, (eg some furniture and fittings and office machinery, small computer items etc). We consider it important that where budgetary objectives can be genuinely achieved by either capital expenditure of this kind or increased running costs, line managers should not be constrained from choosing the most cost effective option simply by definitional difficulties. We recognise that any modification of the definition of running costs will have implications for the control and monitoring of running cost expenditure at the aggregate level. But we feel this area is worth examining further. **We recommend that GEP and RCM Divisions (Treasury) should consider and report in six months time on what practical steps can be taken to include some minor capital expenditure within the definition of running costs without infringing effective control.**

5.5. The final question on running costs concerns gross versus net controls. We see no real conflict between the use of gross limits and the thrust of devolved budgeting. Expenditure cannot be justified solely on the grounds that it maximises receipts and there are several valid reasons for treating running costs limits gross all of which have a budgetary dimension. We accept that there may be circumstances where net control is preferable but we would define and circumscribe these much more narrowly than "all fee earning activities". The appropriateness of net controls depends inter alia, on the nature of the business or service, the predictability, volatility and elasticity of demand and the extent to which the fee/charge is levied in a competitive market. Also important are the extent to which the full cost of an activity (and so the scope for cross subsidising) can be properly identified and the extent to which there are social/strategic considerations which mean that the output of an activity cannot be properly determined solely on commercial grounds regardless of the implied gross level of activity. In our view sensible progress demands, first, decisions, in the light of such criteria on whether the necessary circumstances for net treatment exist, and, second, precise definition of the control mechanisms and information which are required, in addition to a cash control, to support such treatment. These mechanisms will generally need to be established and tested before net treatment in relation to central control can be considered. In many cases, as implied earlier, they will be desirable independently of

whether net control is envisaged. **We recommend that Treasury (RCM Division in consultation with GEP 2 and 3, PSE, MADD and FM Divisions) draw up within the next six months criteria both for considering net control treatment and for measuring efficiency and performance under a net regime for the guidance of both departments and Treasury public expenditure divisions.**

5.6 A second aspect of central controls is the effect of the one year funding cycle. Annuality is not an arbitrary feature of expenditure control unique to the public sector. We have focussed, therefore, on its effects on planned capital expenditure where, as the DTI report recognises, there can be genuine difficulties. In examining how best to protect such expenditure we have participated in the Treasury's review of the End-Year Flexibility (EYF) scheme for capital expenditure. We have also probed the causes of end-year surge and explored how far the scheme has reduced that phenomenon.

5.7 Budgeting's connection with the EYF scheme is rooted in the latter's purpose to improve the management of capital expenditure. Budgetary development is best served by an EYF scheme which improves the value for money from capital expenditure by minimising the delays and disruption associated with unavoidable slippage. Judged against that criterion the evidence presented to the Treasury about the Scheme's first year of operation is limited. But that is not surprising. Departments are still getting used to the scheme and some of the potential benefits will only be fully obtained when improved internal capital management systems are in place. As part of the review we have argued that the continuation of the Scheme is important for budgeting, not least because it recognises that the pursuit of improved value for money out of a given level of capital expenditure should not be frustrated by the timing of expenditure. The EYF review is now complete and recommends the continuation of the Scheme and some extensions to it. The proposals, which are being promulgated in the PESC paper, are summarised at Annex G. In our view they significantly strengthen the Scheme's focus on improved capital management and so work with the grain of budgetary development.

5.8 End-year flexibility is not a total answer to the protection of planned capital expenditure. The interaction of annuality and uncertainty can produce two effects: first, a distorted expenditure profile with managers bringing forward, at the last moment, procurements originally planned for the ensuing year; second, the commitment of resources piecemeal. Both undermine good decision making and the pursuit of value for money. Our examination of end-year surge has produced little hard information from departments. Three contributory factors have emerged: departmental purchasing practices and pressure from suppliers to settle accounts before their own March financial year-end; managerial preference for deferring lower priority expenditure until the final months of the year, by which time managers can see how the Vote as a whole is doing; and a determination to spend up to the limit for fear that the Treasury, in the course of PES, will automatically respond to underspend by reducing provision for later years. This last perception is very

common. To the extent that there is a problem in the stance taken by the Treasury or the centre of departments, we think good practice demands that the reasons for underspending should always be carefully probed.

5.9 More generally, all three factors imply some lack of trust in departmental capital management systems. We see scope here for departments to learn from others with more experience of major capital programmes and, in particular, a need for the wider use of commitment scheduling. Used in conjunction with monitoring systems, commitment models can improve the forecasting and profiling of expenditure and reduce inefficient "lumpiness" in end-year spending. They can also reduce the two adverse effects mentioned above by providing a profile and scorecard of formal commitments. If, as in DTI, they have links back to the top management system, and so to statements of priorities, they can help to create a climate of greater certainty.

5.10 Finally under central controls we have looked briefly at the constraining effects on budgeting of tied suppliers and of some of the central agencies' procurement and billing procedures. These questions are already being pursued in other fora, notably in Inter-Departmental Committee on the PRS (IDC). Improvements are emerging and we are aware, for example, of The Crown Suppliers' strenuous efforts to improve both the quality of the information supporting their invoices and the frequency and level of their invoicing to match customers' needs. These improvements and the proposal to change their Accounting Year to a calendar basis should reduce the problems. As to future progress we believe budgeting would be assisted by: an increase in the de minimis level for untying specified non-specialist items or jobs; the establishment, in the wake of the creation of the Central Unit on Purchasing, of internal focal points of purchasing and supply expertise in departments; and the acceptance of the thrust of the recommendations in the Multi-Departmental Review of Accommodation for the greater delegation of maintenance, minor works and major new works on non-specialised accommodation. We ask those currently considering these issues, principally the IDC, to bear these conclusions in mind.

VI Manpower Budgeting

6.1 Manpower costs represent by far the largest element of running costs budgets, so effective manpower budgeting is a vital element of further budgetary progress. The departmental reports argue that manpower controls in terms of both numbers and money inhibit devolved budgeting. The new running costs regime offers the possibility of moving away from dual controls over manpower. It is important to ensure that departmental arrangements are sufficiently robust to take up any such opportunity should it arise.

6.2 Progress, within the running costs regime, depends fundamentally on departments developing effective manpower planning. This reinforces the need for effective manpower budgeting which, in our view, requires closer integration of budgeting and complementing. We consider how this can be achieved through systems which recognise the links between workload, manpower and performance. We also explore the role of staff inspection to support and promote such integration. Finally we examine how manpower budgeting arrangements need to be strengthened if the budget setting and bidding process is to become an adequate mechanism for reconciling the departmental financial provision for manpower with individual budget bids. There are several general principles which we believe should guide departmental progress. In our view arrangements should:

- i. ensure effective manpower planning so that necessary adjustments to fit with running costs limits can be planned and implemented in the most efficient manner well in advance;
- ii. ensure that manpower budgeting fits with the grain of developments on resource budgeting generally and provides for an effective line management contribution at all levels, so allowing line management to make well founded bids, senior management to engage in a constructive dialogue with the bidders, penetrate the bids to examine workloads and take informed decisions as a result of their analysis;
- iii. define the acceptable levels of central direction and local discretion, setting specific ground rules for resolving difficulties between the centre and the line on, for example, target improvements on productivity and additional bids for staff consequent to staff inspection or review findings;
- iv. ensure that outputs and performance indicators are taken into the process for determining requirements;
- v. make greater use of systems which establish relationships, wherever possible quantified, between workloads, manpower and performance at the key levels, so improving the estimation of future staffing requirements;
- vi. use specialist support, particularly staff inspection, to identify options for resource allocation; and
- vii. enable line management to make in-year decisions about resource mixes according to priorities and constraints.

6.3 We recommend:

- i. that departments review their manpower budgeting arrangements in the light of the above guidelines and report within six months on current progress and the direction of future developments;
- ii. that Treasury (RCM Division with support from MADD and FM Divisions) prepare, in the light of these departmental reports, more detailed central guidance on manpower planning and budgeting, this guidance to be prepared by end March 1987. The Treasury intends to review the role of staff inspection later in 1987. We endorse that aim.

6.4 We have also looked briefly at the extent to which decisions about the delegation of personnel authorities take account of the interests of budgeting. We conclude that decisions and guidance on the respective responsibilities of central personnel and line managers do take into account budgeting's pressure to give managers more authority over the resources allocated to them and sharper accountability for achieving results. We are less sure, however, about how far such decisions are specifically geared to promoting the effective and efficient use of resources. We think it important that both the central departments and the centre of departments continue to ask not whether they can devolve, but why they cannot. This approach places the burden of proof where it belongs and teases out the prior conditions for successful decentralisation or delegation, indentifying what action is needed to reach that position. In our view effective progress also requires continued efforts to make the role of departmental Establishment Divisions less prescriptive and more advisory with the emphasis on preparing guidelines or parameters within which, to differing extents, delegation can take place.

VII Budgeting in Headquarters Areas

7.1 The introduction of effective budgeting has moved fastest in the operational and executive areas of departments. Progress in headquarters areas has proved slower and more difficult, particularly so with those divisions advising on or administering departmental policy, although the main operational areas of headquarters have also presented problems. We see three main reasons for this. First, many headquarters policy divisions have a variety of tasks rather than a single function and have to be responsive to the sometimes quite rapid changes in political pressure. That makes it difficult both to plan firmly ahead and to allocate resources clearly between functions. This effect spills over into the more operational headquarters divisions who have to adjust to the rapidly changing needs of their "policy" customers. Second, headquarters divisions are normally fairly small and located together close to Ministers. That makes it difficult to arrive at a sensible allocation of shared resources and limits the line manager's freedom over the deployment of such resources within his budget. Finally, in many policy areas it is difficult to devise satisfactory measures of output against which performance can be judged. This reflects partly the highly responsive nature of the work and partly the need to measure quality rather than quantity of achievement. The

combined effect of these factors is that in many headquarters areas budgeting tends to concentrate not on the cost of achieving defined objectives but rather on how far these can be achieved given a fixed input of resources.

7.2 Although they pose stubborn difficulties the above complications are matters of degree rather than of principle. They do not constitute, in our view, an insurmountable obstacle to the development of effective budgeting in headquarters areas. Moreover the inclusion of headquarters areas in budgeting is essential both because of the potentially large benefits for programme (as distinct from administrative) expenditure in headquarters areas.

7.3 We see several useful pointers to progress. The probability that plans and priorities will have to be amended as the budget period progresses increases, rather than reduces, the need for forward planning. Headquarters divisions must consider how resources can best be deployed in future plans so that they know how far events are forcing a reassessment of priorities. In turn the line management hierarchy in headquarters areas must be able collectively to adjust resources within overall commands to meet unforeseen changes in priorities. Other recommendations in this report will help here but this requirement also introduces new demands. The MSC report identifies the need for a budget co-ordinator in each HQ division and the DHSS report recommends the establishment of a "divisional executive" who would answer to the head of division for day to day oversight of divisional support for management systems, including budgetary control. We see merit in such posts with responsibilities for: progressing the statement of priorities which would guide in-year adjustments to plans and budgets and the divisional case on any bid for extra resources during the year; servicing the manpower budgeting arrangements; developing divisional work programmes and divisional management accounts; and monitoring workload and performance indicators and state of work returns. **We recommend that departments should investigate, in the light of their existing arrangements, the suitability/feasibility of identifying headquarters divisional posts responsible for the broad functions set out above. Findings and proposals for action should be prepared as part of the response to the recommendation on divisional line management systems at paragraph 3.7.**

7.4 Other general messages are:

- i. the sensible allocation of shared resources is difficult and links into the question of internal recharging systems. The credibility of such systems depends upon the quality of information they provide and an acceptance that the methods used to attribute costs are realistic and equitable.
- ii. Even where the line managers ability to control or influence costs is very constrained there is advantage in the budget telling him his total costs in memorandum form.
- iii. The practical constraint on progress is not so much whether the line manager is in a position to influence costs but whether the departmental accounting system is capable of breaking those costs down to the level of individual budget holders.
- iv. Measuring the quality of output as opposed to its quantity is more difficult in headquarters areas where it is necessary to assess the validity and impact of the policy or programme. To some extent subjective judgements will always have a part to play. Top management has a crucial role to play in providing such judgements and must exert a positive influence.

7.5 The development of effective budgeting in headquarters areas is important for the development of effective top management systems. Additionally, where headquarters costs constitute a sizeable element of programme costs, effective headquarters budgeting is desirable if we are to test the eventual feasibility of input/output budgeting for programme expenditure. At the same time the appropriate form and the degree of complexity of a budgetary system will vary between headquarter organisations and large executive organisations and between one headquarters area and another. **We recommend that departmental action plans in response to this review should set out departments' intentions for extending budgets to headquarters areas, bearing in mind the messages above. Proposals for action should be prepared within six months.**

VIII Specialist Support

8.1 Our terms of reference require us to consider how the specialist services can best be organised and used to promote the transition to resource control by budget. If these services are properly to promote future budgetary development their organisation and role must acknowledge the present state of development. In the absence of fully articulated budgetary systems, top management's control over line management cannot be totally exercised through the budgetary process. This means that for the time being the specialist services are needed as a regular instrument of top management control to a rather greater extent than the CIR Report envisaged.

8.2 In response to the CIR Report departments have tended to concentrate on improving the co-ordination of their CIR forces. The participating departments have adopted different approaches but multi-disciplinary working and co-ordinated work programmes approved by senior management are features common to all. These are welcome developments, but do not completely meet top management's needs, especially their aggregated information requirements. We have proposed the establishment of an enhanced central secretariat to meet some of the identified problems. In our view, it is essential, **that the central secretariat, proposed in paragraph 2.5ii has access to a centrally brigaded, multi-disciplinary specialist capability and we so recommend.** Whether such support is a part of the secretariat, the existing finance function, or management services is a matter for departmental preference. But it must fit comfortably with the proposals formulated in response to the recommendation at 2.5ii. A centrally brigaded, multi-disciplinary support facility for top management need not necessarily be a permanent feature. As more robust resource control systems develop and line managers acquire the necessary additional skills, top management control will increasingly be exercised through the budgetary process.

8.3 The second major requirement for specialist support, bearing in mind the pattern of development postulated in the CIR Report, is to assist and advise line managers in the development of the necessary resource control systems and in the acquisition of the necessary additional skills. In our view this task requires a change in the way in which the specialist services are used to support line management. To date their main contribution has been in setting up or designing systems, producing management information, developing performance indicators and agreeing staffing formulae etc. Henceforth greater emphasis has to be placed on: appraising and ensuring the effectiveness of such systems and interpreting their output for line management; advising on how to increase the practical use made of performance indicators at each management level; and the post-hoc monitoring of results in order to secure improvements both in systems and performance. This change will require a more flexible approach with specialist advice geared to individual circumstances reflecting, for example, an understanding of the particular type of divisional expenditure involved and the type of performance measures which are applicable to the particular work area. Effective support for line management also requires the involvement of specialists at an early enough stage in the development process to contribute to decision-making. There is evidence that frequently divisions are not fully aware of the extent to which they can seek help especially in a situation where what works in one division does not necessarily do so in another.

8.4 These requirements do not point conclusively to any one structure of specialist support for line management. In our view most departments will need to adopt a flexible structure with specialists on line managers' complements in operational areas where demonstrably there is sufficient work or difficulties to justify the additional resource, but also retaining a multi-disciplinary central capability designed to meet the demands of other line managers. The precise relationship between this central capability and the central specialist support for top management recommended at paragraph 8.2 is a matter of departmental preference although there will often be a case for co-locating them.

8.5 There is a need to improve access to specialist support and consultancy. The MSC report recommends the development and adoption, on a MSC-wide basis, of a "checklist" of contact points to identify specialist expertise and guidance. This should help to secure specialist involvement earlier and more effectively and we consider something similar is required at the interdepartmental level. Within all departments there are growing pockets of valuable practical experience on a range of FMI-related systems, procedures and techniques. Unfortunately there is not, at present, an adequate facility by which these valuable resources can be easily, comprehensively and systematically tapped by departments. We doubt the feasibility and cost effectiveness of establishing and monitoring a centralised index covering a necessarily wide range of subjects. But it should be practicable for MPO/Treasury to provide a clearing house service. **We recommend the relevant divisions in MPO/Treasury maintain and make available lists of contact points (in departments and elsewhere) for practical advice across a wide range of topics (eg top management systems, management information and accounting systems, running costs, output and performance measures, project management, investment appraisal, policy evaluation and fees and charges etc). Each list should be kept up to date by an authorised official, working day-to-day on the subject, so that together they provide a catalogue to which all departments can refer for advice and guidance. The updating of the lists should be confirmed by the JMU/FM Division, Treasury. This recommendation should be implemented by October 1986.**

IX Training

9.1 If budgets are to become the primary mechanism for managing and controlling departmental resources, training support should be designed to that end. We believe that efforts in the immediate future should be directed towards strengthening the resource management element of current training for budget holders, assessing the training requirements for specialists so that they can help line managers acquire the necessary skills, and developing training targeted at the line management chain as an entity.

9.2 In different ways the training programmes of the participating departments all emphasise the importance of resource management. The need to set objectives, decide priorities, quantify outputs and measure performance is recognised and underlined. Yet there remains scope to define more precisely what skills line managers require in order to handle effectively the difficult period of change to resource control by budget. Budgetholders must be able to plan activities and determine priorities against competing needs, control and monitor resource use against achievement, and identify relevant performance indicators and the means of measuring the physical output or service provided. They must also know what questions to ask of specialists and particularly when to seek what specialist help. There is not always a clear understanding among managers of the respective contributions of the various specialists and more training on the respective roles of each is necessary.

9.3 As to the attributes which specialists need if they are to pass on their skills to line managers, the most important requirement, we believe, is for them to be advocates not technicians. They have to be able to tailor their advice so that it respects the culture, as well as the ability of line managers to absorb the concepts, and is directly relevant to the state of budgetary development and the practical problems which the line manager is facing. They are "change agents" in an evolutionary process – a role which requires considerable managerial skills.

9.4 The importance of developing the entire line management chain as the channel for the necessary iterative budget bidding debate became apparent during the first phase of our work. We concluded that little training was presently directed at that and invited Training Division, MPO, to explore the feasibility of introducing such training. That study has now been completed and confirms the case for such training in securing acceptance of managerial change. Effective budgeting requires trust in the budget as a contract for performance and a clearly defined managerial role for every management level in the organisation. "Team training" is a vehicle for improving communications and clarifying management roles. It is, however, a high risk strategy whose pay off is long term. It also depends on the availability of high quality trainers and is expensive in terms of time and money. To be effective it must be carefully planned and managed. That said, we remain convinced that training which concentrates minds on the aims of an organisation as a whole as well as its component parts, clarifies individual contributions to the line management chain and teases out and confronts the different perceptions of each link in that chain will significantly contribute to the development of effective budgeting. There is as yet insufficient data to demonstrate accurately the likely order of costs or the potential value of the benefits of team training. Accordingly we are not in a position to recommend the adoption of such training across departments. **We recommend, in the light of the MPO study, that pilot experiments in team training should now be run to indicate the preferred approach and the likely costs and benefits. These experiments should be confined to the**

departments who participated in this review and MPO, Training Division, should discuss with them the setting up and running of the experiments and also how to monitor the results. Initial proposals for action should be prepared within six months.

X Programme Expenditure

10.1 This review has focussed on budgeting for administrative expenditure which is where departments have understandably concentrated their initial efforts. However programme expenditure, given it accounts for about 87% of central government expenditure, is where the big potential for enhanced value for money and savings lies. Accordingly three of the participating departments (DTI, MSC and Employment) have also considered the application of budgetary principles to some of their programme expenditure. We have had insufficient time, as the central team, to consider in any depth the application of budgeting across the whole range of programmes, of which industry and employment programmes are only a small part. Nonetheless, as this review has progressed, the importance of applying budgetary principles to programmes has become increasingly apparent. In our view, no report on budgeting would be complete without some reference to the application of budgetary principles to this important area.

10.2 We have stressed that the definition of objectives and priorities and the attention paid to them in the allocation of resources, the monitoring of activities, the evaluation of outputs, and the feedback of results into the objective setting process, are essential elements of effective budgeting for administrative expenditure. These principles are equally important for the process of managing programmes. But there are fundamental differences in their application. The key budget relationship of what we get for what we spend is complicated by three additional factors. First, programmes can have a lead time for the implementation of project management decisions, a substantial commitment and payment time-lag and a time-lag between expenditure and its benefits. Second, the degree of departmental control over programmes has to be considered both in terms of total spend and the specificity of the spend (what it is spent on and how it relates to programme objectives). Finally, programmes add a new dimension, requiring performance indicators which evaluate their impact and effectiveness.

10.3 These complications carry important lessons for the application of budgetary principles. In particular they bring additional influences to bear on the level of effective delegation, the translation of information into a form that top management can utilise, and the promotion of effective evaluation and monitoring. **We recommend that those departments which have not already done so should be asked to conduct a pilot exercise on the extension of budgetary principles to one of their typical programmes and its associated administrative costs. The pilot should seek to establish the feasible/desirable degree of delegation from the central policy division to the line; the arrangements for strengthening the link between the budgetary system and the top management system with particular regard to the aggregation of information and results; the necessary organisational arrangements for ensuring that the impact and efficiency of the programme can be evaluated and reviewed; and the requirements for effective planning and monitoring. Departments should report on the form of the pilot and provide an initial assessment by end December 1986.**

XI Conclusion: The End Result

11.1 Budgeting is an evolutionary process which affects all aspects of departmental business. It is essential to maintain its momentum. When these developments are all in place we believe they will assist in the running of the department in several ways:

- i. a formalisation of the top management planning process will help focus on what the aims, objectives, and priorities of the department should be. It will inform the PES and Estimates bids and the department's negotiations with the centre. Its translation into a budgetary process, which permeates all levels within the department, will mean that resources are allocated rationally within an agreed plan of relative priorities. Finally it will sharpen every manager's concept of what he is expected to do and at what cost.
- ii. effective budgeting demands a plan of activity from line managers. Accompanied by effective monitoring during the course of the financial year, these plans will allow top management to exercise improved control not only by being able to pinpoint *where* things are going wrong but also by seeking from the appropriate line manager his proposals for putting them right *at the same time*. When inevitably events start to diverge from plans managers at all levels will be able to quantify the effects of actual or proposed changes much faster and more accurately. Similarly the options for transferring resources from one area of a department to another to meet sudden emergencies will be apparent to the Permanent Secretary and his Management Board early enough to enable practical action to be taken. Finally, effective budgeting will also strengthen top management's control over what work is actually done by enabling them to form a judgement on the relative importance and cost of that work compared with other competing resource uses.

- iii. the top management secretariat, coupled with specialist skills, will indicate what information the top management board should be receiving and will help to distil this information and provide briefing to the Board on the key issues requiring examination. There will be supporting systems aiding the reporting of activities, outputs and costs in suitable form for all levels of management. These will provide information in sufficient time and with the necessary accuracy to indicate the direction in which the Department is heading and permit any necessary corrective action. All of this will feed back into the planning stage for subsequent cycles. Experience of one cycle will constantly inform the next through a budgetary system which will link them into a coherent whole.
- iv. the effective communication of objectives and achievements up and down the management line, properly informed by reliable information systems on a timely basis, will develop a beneficial self-confidence in management at all levels.
- v. Ministers, managers and staff will have output measures and performance indicators which help them to see:
 - a) the objectives they are working towards;
 - b) how much they have achieved; and
 - c) why they need to do more, or something different, in the future.

Annex A: Terms of Reference

To examine:

- a) how the preparation of budgets covering staff and other running costs is commissioned;
- b) how managers construct budget bids, probe the budget proposals of their subordinates, and subsequently evaluate performance against budget;
- c) how budget holders' skill in securing economies and in improving value for money (including their use of specialist services) is being developed;
- d) what assistance senior departmental management requires for allocating budgets and monitoring the management of delegated budgeting.

To identify the approach, procedures, techniques and skills most likely to make budgetary processes a successful instrument in the better control and management of expenditure, within a framework of service-wide requirements and standards.

To distil principles and examples of good practice as a basis for recommendations for the further development of budgetary processes.

Annex B: Total Cost of the Review

Department	Phase I £	Phase II £	Total £
Home Office	10,000	3,000	13,000
DTI	7,250	10,500	17,750
MOD	51,000	57,000	108,000
DHSS	30,500	37,500	68,000
MSC	22,900	28,300	51,200
DEm	8,000	14,000	22,000
C&E	23,600	7,600	31,200
Central	50,000	46,000	96,000
	<u>203,250</u>	<u>203,900</u>	<u>407,150</u>

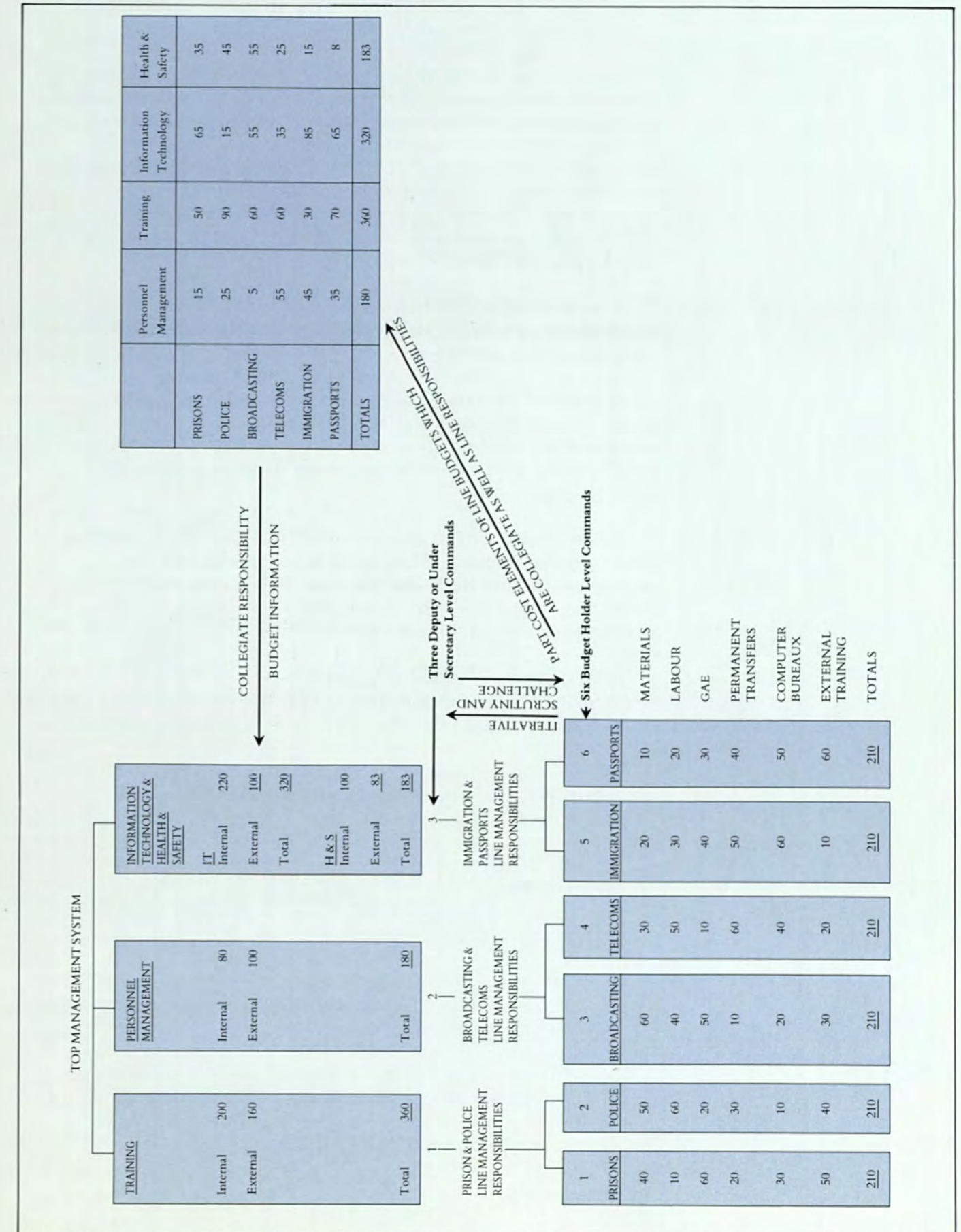
Annex C: Examples of Savings and Increased Cost-Consciousness

Anecdotes showing Savings and Increased Cost-Consciousness arising from the introduction of Delegated Budgeting

1. Introduction of delegated budgeting led to identification of unnecessary costs and consequent reduction in the size of vehicle fleet (MSC).
2. Through delegated budget, payments for unused parking space were identified and stopped (MSC).
3. Automatic use of Business Reply Service terminated with no appreciable effect on level of return (MSC).
4. Budgeting encouraged use of more efficient gas/electricity tariff (MSC).
5. Budgeting focussed attention on setting time switches and thermostats. In particular, a water heater previously left on all week is now operated for much shorter periods (MSC).
6. Devolved budgeting has given rise to the removal of unnecessary telephone extensions and reduction in the "9" facility for outside lines (MSC).
7. Hull TD Area Office allowed flexibility to spend more on a Mode B2 YTS scheme provided money is found from elsewhere in their overall YTS budget (MSC).
8. The parts of the department to which budgets have been devolved now include an assessment of resource implication in their submissions to the top of the office. Previously they needed constant reminders to do so as, even now, do the parts of the department not covered by budgets (HO).
9. The introduction of PRS gave rise to greater cost identification but no corresponding savings. Such savings were, however, achieved when PRS was supplemented by delegated budgeting (C&E).
10. Estimates for work are no longer merely accepted but on occasion challenged (£40 to replace tap washer) (DHSS).
11. Delegated budget to an out-stationed Principal command has led to:
 - a) organisation and staff savings;
 - b) savings in common services (allocated typists, more economical security cover, new telephone exchanges, more cost effective photocopying) (DHSS).
12. Greater cost identification (eg moving furniture around an office @ £900 per annum) has led to increased questioning of justification for such costs (DHSS).

13. Working practices have been changed to ensure that items which previously went by first class post now have time to go second class (DHSS).
14. Greater use made of both discount travel agents and special offers in order to reduce travel costs (DHSS).
15. Costing of typing led to recognition that cheaper services could be provided while maintaining quality (DHSS).
16. Budgeting has stimulated a more critical approach by budget holders to the need for visits (DTI).
17. Delegation of local powers has given rise to better planning and consequent savings in time and administrative costs (DTI).
18. "We do not now see a broken window. We see £60 out of our budget" (DE).
19. "I expect costs to fall as a result of greater cost consciousness – we have a policy of spending to save" (DE).
20. "Budgeting is helping us to develop links between costs and performance – any area planning objective now has to have a price tag" (DE).
21. A proposal to increase office accommodation by refurbishing storage area was dropped once the cost of £50,000 was discovered (MOD).
22. Similarly a proposal to provide weather protection for petrol pumps was dropped when the £20,000 cost became clear (MOD).

Annex D: Structure of Hierarchical Responsibilities using Illustrative Budget Data



Annex E: Top Management Information Needs

Check list of management information likely to be needed by top management boards

Objectives A statement of the aims and objectives of the department (quantified wherever possible and supported by details of any significant underlying assumptions), including details of major targets. Many departments produce this, although the scope and detail varies widely. Some, like Customs and Excise, state aims for the department as a whole, while others, like the Department of Employment, consider them in the context of specific organisational units. Few departments at present quantify aims or provide details of assumptions.

Options and Priorities 2. A statement of the main policy options in areas where decisions are required and the priorities attached to different options.

Constraints 3. A detailed statement of perceived major internal or external constraints which may affect the achievement of aims and objectives. There is little evidence that much attention is paid to this and constraints appear to be discussed only in very general terms.

Responsibilities 4. A clear statement of the organisational structure and the allocation of responsibilities and functions in line management and budgetary terms. This is something which many departments include, although the current emphasis is on describing line management responsibilities.

Resources 5. Data on resource use, including:

- (i) A statement of total resources available covering manpower and money;
- (ii) A summary financial statement showing historical outturn against budget for both programme and administrative expenditure;
- (iii) Details of approved capital budgets, outturn to date and commitments;
- (iv) Information about assets and stocks;
- (v) A statement of any significant variations between budget and actual expenditure to date and between budget bids and the previous year's outturn.

All departments taking part in the scrutiny produce some of this information, particularly items (i) and (ii). For the rest the information is generally patchy and no department yet produces information under all heads.

Commitments 6. A commitment record showing expenditure committed but not yet incurred. There is no evidence that departments produce this at present.

Performance 7. Measures to assess the department's progress towards the achievement of its objectives including selected key performance measures or output indicators including unit cost of outputs where available. Departments taking part in the Review have done a lot of work to produce effective performance measures and output indicators, and good examples of these are included in the material produced by Customs and Excise and the Department of Employment. There is, however, scope for further improvement and this is recognised in the departmental reports.

Annex F: Model Timetable

Top Management Planning Cycle

Section 4.12 of the main report refers to a model time-table which suggests how the top management planning cycle in departments might be structured. The purpose of this annex is to outline such a timetable which is intended to be illustrative; the timing and scope of particular stages will vary to reflect the circumstances and requirements of individual departments. The principle of maintaining linkages between the component parts of the timetable should, however, be maintained if it is to serve its purpose.

2. The cycle envisaged covers a period of some 18 months prior to the beginning of each financial year and includes three important stages:

a. strategic overview in October/November focusing on the two financial years which will be years 1 and 2 of the PES round which is due to start in the following February. Year 1 is referred to below as the target year.

b. the preparation of budget "scenarios" by line managers in March/April some 12 months before the target year which would enable departments to explore the options open to them assuming different levels of available resources, prior to final decisions on public expenditure planning totals.

c. a mid-cycle review in June/July some 9 months before the start of the target financial year, based on a review of performance in the financial year just ended and on discussions with the Treasury about the PES submission. A further review would be undertaken in October/November when the half year outturn for the current financial year was known and immediately before budgets for the target year were agreed.

3. All of these stages are considered below. In addition a chart is included at the end of this annex which attempts to show the various stages in the model top management planning cycle and how these link in with the various stages in the public expenditure survey cycle. The chart and the narrative below show each stage in a single cycle, but it has to be borne in mind that various stages in different cycles will overlap, for example in October senior management may be conducting a strategic overview for a future period while, during the same review, considering budget bids for the forthcoming financial year.

October–December 4. During this period senior management will be looking at the department's longer term plans in a way which, in certain respects, is similar to the way private sector organisations prepare corporate plans. There will be a number of different focal points in this process, but of particular importance will be a strategic overview focussing on the two year period beginning with the financial year starting some 18 months hence. This overview will be concerned with the department's longer term aims, objectives and priorities and will set the parameters within which the submission for the forthcoming public expenditure survey will be prepared.

January–March 5. During this period senior management will consider the financial plan which will be prepared as part of the rolling forward of the longer term planning process. The focus of the financial plan will be the next but one financial year and decisions on the plan will form the basis of the PES submission which has to be presented to the Treasury in April/May.

March–April 6. Line managers prepare budget scenarios considering various policy/financial options based on alternative levels of resources which might be available, prior to preparing more detailed budget bids in September.

April–May 7. Collective top management decisions will be taken at this stage on the PES submission to the Treasury.

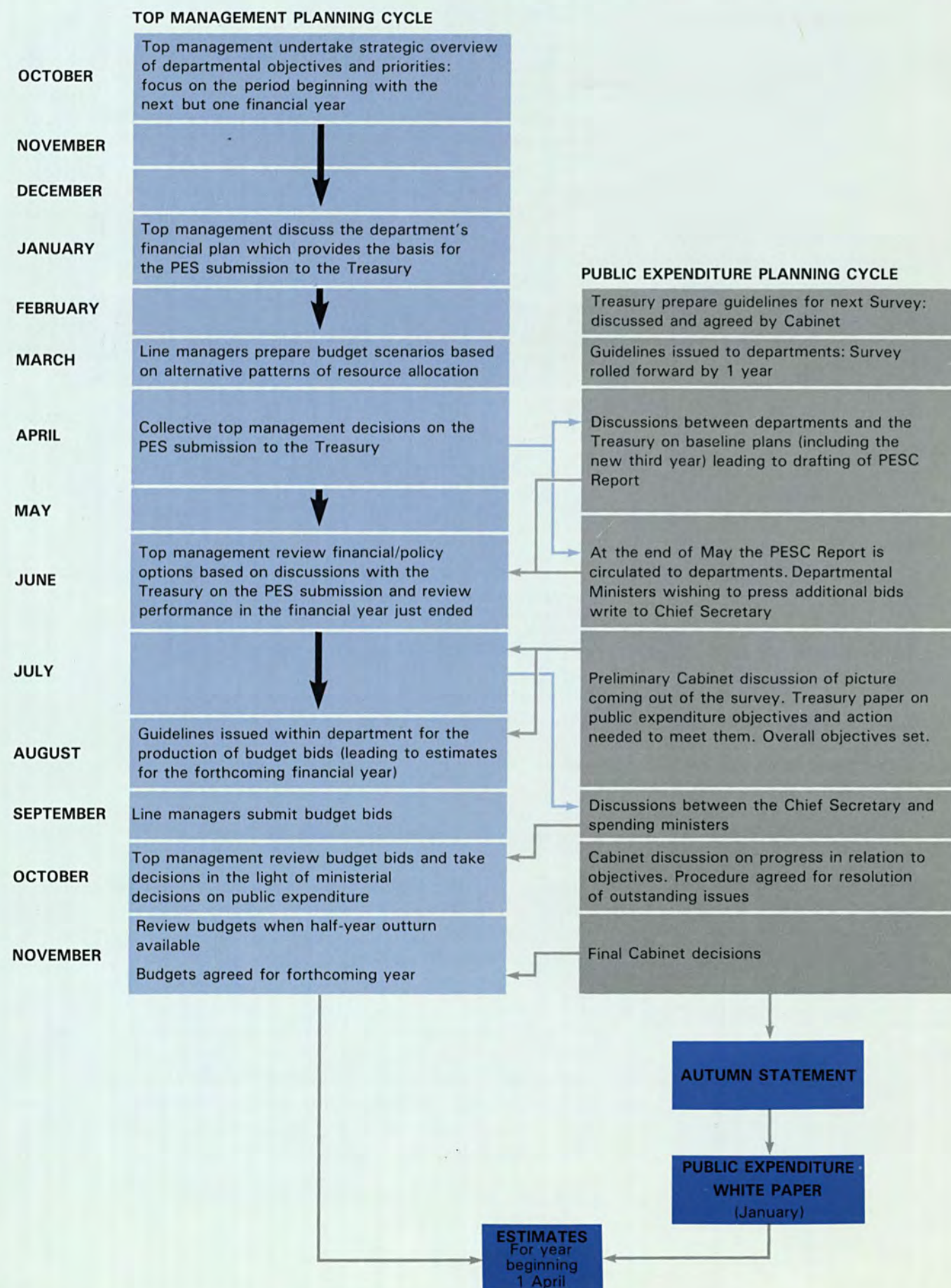
June–July 8. Top management carry out a mid-cycle review of financial and policy options. The basis of this review will be the PES submission to the Treasury which, by this stage, would have been subject to detailed discussion, and also a review of performance during the previous financial year. This review will provide input into the subsequent stages of the public expenditure survey as well as providing the basis for the preparation of guidelines for issue within the department on the preparation of budget bids for the forthcoming year and also the rolling forward of the department's longer term plans.

August 9. Guidelines issued within the department for the preparation of budget bids leading to budgets and Supply Estimates for the forthcoming financial year. These guidelines will be based on the outcome of the mid-year review carried out in June–July.

September 10. Line management prepare budget bids for the forthcoming year in line with the guidelines issued by senior management in August.

October–December 11. Top management review the budget bids for the forthcoming year taking account of decisions coming out of the public expenditure survey and the half-year outturn for the current financial year. These decisions should in total be consistent with running cost targets set in the Survey and shown in the Public Expenditure White Paper and will form the basis of the Supply Estimates bids sent to the Treasury by early December.

Linkages between the top management planning cycle and the public expenditure planning cycle



Annex G: Extensions to End-Year Flexibility Scheme

- (i) Carry forward constraint extended from "5% of eligible capital expenditure" to "5% of eligible capital expenditure or £2 million, whichever is the greater".
- (ii) Current expenditure which exhibits the characteristics of capital expenditure (eg major maintenance projects) may be included in the scheme subject to the approval of the Treasury expenditure divisions and GEP2 and provided the expenditure is on a separate Estimate subhead and the department's estimating and financial control procedures are sufficient to take advantage of the management benefits of EYF.
- (iii) Provision for carry-over can now be taken in Winter or Spring Supplementaries so helping departmental planning, although presumption remains in favour of Winter.
- (iv) Presumption remains that where carry-forward is not required in a year the previously enhanced cash limit will be reduced but GEP2 (Treasury) will be prepared to consider exceptions where the expenditure division is satisfied that there would be sufficient capital management benefits to justify not reducing the enhancement.



FCS/86/073

MINISTER OF STATE, PRIVY COUNCIL OFFICE

Secondments into the Civil Service:
Civil Service Commission General Regulations

1. Thank you for your letter of 4 March.
2. I am content with the draft Regulations attached to your letter, and am returning them duly signed. I also agree with the draft Written Answer by means of which you propose to announce their issue.
3. I am copying this minute to the Prime Minister's Office.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
18 March 1986

THE CIVIL SERVICE COMMISSION GENERAL REGULATIONS 1986

By virtue of the powers conferred on them by Articles 2 and 3 of the Civil Service Order in Council 1982, Her Majesty's Civil Service Commissioners (hereinafter called "the Commissioners"), with the approval of the Minister for the Civil Service and Her Majesty's Secretary of State for Foreign and Commonwealth Affairs, hereby make the following Regulations:

PRELIMINARY

1.1 These Regulations may be cited as "The Civil Service Commission General Regulations 1986" and shall come into operation on [1 April] 1986.

1.2 These Regulations are applicable to candidates of both sexes and to all appointments, transfers or promotions in respect of which, by virtue of the Civil Service Order in Council 1982, a certificate of qualification is required to be issued by the Commissioners.

1.3 In these Regulations, unless the contrary intention appears,

- a. the expression "Civil Service" shall mean Her Majesty's Home Civil Service and Diplomatic Service, and
- b. the expression "specified" shall mean specified by memoranda or other official instructions issued from time to time as occasion requires by the Commissioners for the situation or grade or group or class of situations concerned, provided that, where the situation or grade or group or class of situations is peculiar to one Department, the memoranda or other official instructions shall also be agreed with the Head of that Department, and
- c. the expression "appointed on secondment" shall mean, in relation to a candidate, appointed to a situation in the Civil Service under an arrangement pursuant to which he is, for the period of the appointment, released from all or some of his obligations under any other employment, office or service or from all or some of his obligations under a partnership agreement. The expression "any other employment, office or service" includes any service, office or employment under the Crown.

CERTIFICATES OF QUALIFICATION

2. A certificate of qualification for appointment to a situation in the Civil Service will be issued by the Commissioners only when they are satisfied that a candidate is eligible under the provisions of these regulations in respect of age, health, character, knowledge and ability, and nationality, and that he fulfils any other conditions which may be specified.

3.1 In the case of an appointment or appointments of limited duration the validity of a certificate of qualification may be restricted to a limited period terminating on the date specified in the certificate.

3.2 A person in respect of whom a limited period certificate of qualification has been issued under Regulation 3.1 shall not be appointed to a further situation requiring a certificate of qualification until a further certificate has been issued.

3.3 The circumstances in which and the conditions on which persons may be appointed before the issue of a certificate of qualification to situations requiring such a certificate are specified in Regulation 13 hereof.

METHOD OF ENTRY

4. All appointments which require to be certificated under these Regulations, other than those covered by Regulation 11, shall be made solely on merit on the basis of fair and open competition. Recruitment shall be by means of specified competitions, which shall be sufficiently publicised to the satisfaction of the Commissioners and shall be open to all persons who satisfy the specified conditions and who apply at the time and in the manner specified. Such competitions shall be held at such periods and for such situations or grades or groups or classes of situations as the Commissioners shall from time to time determine.

AGE

5. Every candidate shall satisfy the Commissioners that he is within the specified limits of age, but if no limits of age are specified, the candidate shall satisfy the Commissioners that his age is suitable to the duties of the situation which he seeks.
6. The Commissioners may exceptionally at their discretion extend the specified upper age limit for any candidate if they are satisfied that there is due and sufficient cause.

HEALTH AND REGULARITY OF ATTENDANCE

7. Every candidate shall satisfy the Commissioners that his health is such as to qualify him for the situation which he seeks and that he is likely to give regular and effective service for at least 5 years or for the period of any appointment of shorter duration:

Provided that, in the case of a candidate who is

- a. already employed on functions which have been transferred to the Crown and who is being admitted for employment in the Civil Service in consequence of such transfer, or
- b. already engaged in an employment or office to which the Principal Civil Service Pension Scheme applies either directly or by analogy, or
- c. proposed for appointment on terms which exclude the provisions of the Principal Civil Service Pension Scheme other than those relating to injury benefits,

the Commissioners may at their discretion waive or modify the standard of health required of that candidate for the purposes of the issue of a certificate of qualification.

CHARACTER

8. Every candidate shall satisfy the Commissioners that his character is such as to qualify him for the situation which he seeks.

KNOWLEDGE AND ABILITY

9. The Commissioners shall satisfy themselves that every candidate is qualified in respect of knowledge and ability to discharge the duties of the situation which he seeks.

10. Subject to the provisions of Regulation 11 hereof, the tests in respect of knowledge and ability shall be such as are specified in the relevant memoranda or other official instructions and may include qualifying or competitive tests, examinations or interviews or a combination of these; the tests or examinations may be written, oral or practical. Candidates may also be required to possess specified academic, professional or technical qualifications or appropriate experience, or a combination of these.

11. Without prejudice to the provisions of Regulation 9 hereof the Commissioners may, if they think fit, dispense with or modify tests in respect of knowledge and ability, if

modify any

- a. the Head of the Department or other appointing authority has satisfied the Commissioners that the admission of a particular candidate to a particular situation is for special and exceptional reasons justified by the needs of the public service and the proved merits of the candidate, or
- b. the appointing authority has satisfied the Commissioners that it is desirable that the candidate concerned, being, or having recently been, employed on functions which are being transferred to the Crown, should be admitted for employment in the Civil Service from the date of transfer, or, having recently been employed on functions which have been transferred to the Crown, should be admitted for employment in the Civil Service, or
- c. the appointing authority has satisfied the Commissioners that it is desirable that a candidate already holding a situation in another public service should be admitted for employment in the Civil Service, or
- d. the Commissioners are satisfied that it is desirable, by reason of a shortage of qualified candidates, to admit to a particular situation a candidate who has reached an appropriate standard in a competition for an equivalent or higher situation but has failed to secure appointment to that situation, or
- e. the appointing authority has satisfied the Commissioners that it is desirable that the candidate concerned should be appointed on secondment on the terms proposed, or
- f. a candidate for whom the Commissioners have previously issued a certificate of qualification, or who had been appointed under the provisions of Article 1(2)(b) or (f) of the Civil Service Order in Council 1982, is put forward by the appointing authority for reinstatement, or for appointment to a situation inferior to that which he previously held, and the Commissioners are satisfied as to his knowledge and ability.

NATIONALITY

12.1 To be eligible for appointment (other than to a situation to which Regulation 12.2, Regulation 12.3 or Regulation 12.4 applies) a candidate must be:

- a. a British citizen; or
- b. a Commonwealth citizen (other than a British citizen), or a British protected person, or a citizen of the Republic of Ireland, in which case he must satisfy one of the following conditions:
 - i. at least one of his parents must be, or have been at death, a Commonwealth citizen, a British protected person, or a citizen of the Republic of Ireland; or
 - ii. he must have resided in a country or territory within the Commonwealth, or in the Republic of Ireland, or have been employed elsewhere in the service of the Crown, or partly have so resided and partly been so employed, for at least 5 years out of the last 8 years preceding the date of his appointment;
- c. if not qualified under sub-paragraphs b.i or b.ii of this Regulation, he must satisfy the Civil Service Commissioners that he is so closely connected with a country or territory within the Commonwealth either by ancestry, upbringing or residence, or by reason of national service, that an exception may properly be made in his favour.

12.2 Subject to Regulation 12.4, a candidate will be eligible for appointment to a situation in the Cabinet Office or Ministry (other than the Meteorological Office, to which Regulation 12.1 applies) only if:

Defence

- a. at all times since his birth he has been a Commonwealth citizen or a citizen of the Republic of Ireland, and
- b. he was born in a country or territory which is (or then was) within the Commonwealth or in the Republic of Ireland; and
- c. each of his parents was born in such a country or territory or in the Republic of Ireland and has always been, or (if dead) always was, a Commonwealth citizen or a citizen of the Republic of Ireland;

Provided that in cases where these conditions are not satisfied a candidate may be admitted to appointment by special permission of the Minister responsible for the department concerned, if the conditions specified in Regulation 12.1 are satisfied.

12.3 A candidate will be eligible for appointment to a situation in the Diplomatic Service only if:

- a. he is a British citizen; and
- b. at least one of his parents has been a Commonwealth citizen or citizen of the Republic of Ireland continuously from a date 30 years or more prior to the candidate's appointment or, if dead, was a Commonwealth citizen or citizen of the Republic of Ireland continuously from a date 30 years or more prior to the appointment until his or her death; and
- c. the Secretary of State for Foreign and Commonwealth Affairs is satisfied that the candidate is so closely connected with the United Kingdom, taking into account such considerations as upbringing and residence, that he may properly be appointed.

12.4 In the case of certain appointments under the Secretary of State for Defence and in the case of certain appointments under the Secretary of State for Foreign and Commonwealth Affairs, other than appointments in the Diplomatic Service, either the requirements in Regulation 12.2 and Regulation 12.3 respectively may apply or particular requirements may be prescribed.

12.5 In Regulations 12.1, 12.2 and 12.3 the term "Commonwealth citizen" means any person who has the status of a Commonwealth citizen under the British Nationality Act 1981.

12.6 Nothing in Regulations 12.1 to 12.4 shall preclude the employment of an alien in respect of which a certificate issued under section 1 of the Aliens Employment Act 1955 is for the time being in force.

APPOINTMENT BEFORE THE ISSUE OF A CERTIFICATE OF QUALIFICATION

13. The Commissioners may authorise appointments on the basis of a period of service on specified conditions designed to enable the Commissioners to satisfy themselves regarding a person's suitability for a certificate of qualification in respect of any of the requirements governing health, character, knowledge and ability or nationality, as stated in these Regulations, in the following circumstances:

- a. If there is a shortage of fully qualified candidates a person who does not fully satisfy the specified conditions of knowledge and ability but has nevertheless reached an appropriate standard and who is otherwise acceptable may exceptionally be offered an appointment on the basis of a period of trial service of not less than the probationary period for the situation; and provided such service has been satisfactory the Commissioners will accept the nomination of such a candidate for the issue of a certificate of qualification.
- b. For a candidate who does not fully satisfy the health regulation the Commissioners may authorise an appointment, specifying the manner and time for a further consideration of the health of the candidate in order that the candidate may subsequently satisfy the Commissioners that he is fully qualified in respect of the health regulation for the issue of a certificate of qualification. If, on review, there is still a doubt as to the ability of the candidate to satisfy the health regulation, the Commissioners may authorise an extension of the period of trial service.
- c. If there are doubts about a candidate's character which are insufficient to justify rejection and he is otherwise acceptable for appointment the Commissioners may authorise a period of trial service in order that the candidate may subsequently satisfy the Commissioners that he is qualified in respect of character for the issue of a certificate of qualification.
- d. For candidates who do not satisfy the nationality regulation for the issue of a certificate of qualification, but who may do so at a later date, the Commissioners may authorise a period of service on specified terms.
- e. If it is considered urgently necessary that a candidate should be appointed to a particular situation before the Commissioners' enquiries have been completed, a department may so appoint him on a conditional basis pending certification, provided that there is no *prima facie* doubt as to his eligibility for a certificate of qualification.
- f. If there is a shortage of candidates for a particular situation or grade, and a department wishes to appoint a person of high ability to that situation or grade without open competition, the Commissioners may authorise such appointment on a provisional basis for a period not exceeding 12 months, on condition that the person concerned competes in the next open competition for the situation or grade in question.

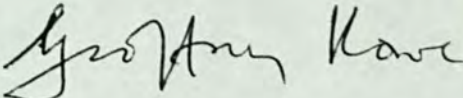
REVOCATION

14. The General Regulations made by the Commissioners on 1 January 1983 are hereby revoked:

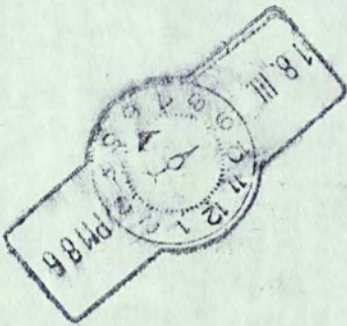
Provided that, save as laid down in this Regulation, all regulations, rules and notices made or issued by the Commissioners regarding the admission of candidates to situations in the Civil Service shall remain in force until revoked or cancelled by further memoranda or other official instructions issued by the Commissioners.

CIVIL SERVICE COMMISSION
MANAGEMENT AND PERSONNEL OFFICE

1 [April] 1986



CIVIL SERVICE
LONG TERM
0778



810
Telegrams: Marsponca London
Telex No.: 267141
Telephone: 01-935 4422

Michael House,
Baker Street,
London, W1A 1DN.

from The Lord Rayner
14th March 1986

John Paine Minister.

When we spoke briefly following the Seminar "Better Made in Britain", I expressed the hope that I could have a short discussion with you. In fact, you raised one of the issues I had in mind when you spoke of the departure from government service of previous members of my Unit. In addition, I have knowledge of other outstanding people who have left. I believe their loss to government service is a matter of concern and I have some suggestions to make.

I also wish to express a view about the considerable amount of activity being generated by various groups with the object of promoting British merchandise in England. As you know, it is and remains the policy of this company to source 90% of its purchases in this country, as we believe this is the optimum level if we and our manufacturers are to maintain contacts with centres of excellence abroad.

Where the development of production abroad has become substantial, we have also been instrumental in persuading overseas manufacturers to set up production in this country for us. For example, two Israeli companies and our major Danish food supplier. Where we do import goods, this is usually through a British manufacturer so that he gains knowledge of the international market place. As a result of this policy, we sold last year additional goods made in Britain approaching £½ billion.

We have been equally active in promoting exports and as a result have increased sales last year to over £100 million. We shall be developing further our business abroad, but like other companies with strong international connections, we have to watch that we do not appear to be chauvinistic if we are to maintain the quality of overseas staff which we need to run our business abroad.

/I recounted briefly

I recounted briefly at the Seminar an early experience with our French staff who had happily handled and promoted over 85% of what they sold with Made in Britain labels. However, when we promoted here the importance of British Products for British Jobs, in spite of instructions to manufacturers to omit the tickets on our goods with overseas destinations, inevitably a number of deliveries were made to our businesses and customers abroad carrying labels which our staff there found unacceptable.

A further problem arises in the amount of time a business can devote to external activities. We are active through our own contacts in promoting the strengths of British industry. For example, I and four members of the Board are giving a lunch followed by a Seminar here for 20 senior people in industry in May. We believe that this direct approach is the most effective way of encouraging others.

I hope, therefore, you will understand that my colleagues and I are somewhat concerned with the activity which is trying to promote a national corporate image when we are firmly committed to the philosophy of encouraging British private enterprise, with government help only where appropriate, as the most effective way of selling goods Made in Britain.

I am leaving today for a three week overseas visit, but I would be grateful if your staff could arrange with my secretary for a brief meeting.

If you can find the time I attach a brief synopsis of a speech I shall be giving to the conference in May.

Mr Rt Hon Margaret Thatcher MP
10 Downing Street
LONDON SW1

*Yours sincerely
John Major*

THE STRENGTH OF BRITISH INDUSTRY - A RETAILER'S VIEW

MAIN THEME

Provided with the appropriate support, we have found British Industry capable of competing successfully in the world market place. Marks and Spencer sees its relationships with British suppliers as partnerships, some of which go back for nearly a century, and there is ample evidence of joint success.

OUTLINE

Introduction

- Will concentrate on the industries with which we are most familiar: Textiles and garment making, Footwear and Foods.
- Will draw lessons out that apply to industry at large.
- Will concentrate on the ingredients necessary for success between the customer and producer (M&S and suppliers), which should be sought by all British industrialists.

Intrinsic strengths of British Industry

- Inventiveness and innovation.
- High quality and specifications.

Traditional weaknesses

- High labour costs and poor productivity.
- Old fashioned management.

The M & S policy

- Commitment to supporting British Industry for sound commercial, not patriotic reasons.
- Recognition of the importance, economic and social, of strong manufacturing industry, associated with us.
- Recognition that for success, suppliers must be able to make what our customers want to buy (Design, quality and value).
- Recognition that both ourselves and suppliers are mutually dependant for success - a partnership.

continued.....

Ingredients for a successful partnership

- Effective communication to ensure that each other's strategic objectives are mutually understood and compatible. (eg Suppliers' Conference this year, explaining our direction; communication on computer link-ups; distribution systems).
- Joint commitment to long-term growth which should enable the suppliers to devote with confidence, funds for capital investment (eg the many new factory and plant openings attended recently - quote figures from "suppliers' investment" papers).
- Acceptance that both we and suppliers have to make a living: (whilst we can only change what the market will bear, and pressure on margins will be inevitable at times, we cannot exploit a supplier if we want a long term relationship. (eg Corah's cotton dress).
- Honesty in personal relationships at all levels, even when things go wrong (eg Vol-au-vents).
- Sharing of resources: Managerial, technical and development. (eg development of chilled foods, recipe dishes; new development areas such as footwear, lighting).
- Joint awareness of developments in both the retailing/design scene and mechanical/technical fields on a worldwide basis (eg Japanese fabric and packaging technology, Far Eastern manufacturing capabilities, operational advances in retailing techniques in the USA).
- Joint willingness to seek out and learn from centres of excellence. (eg Amsterdam - horticulture)

Profiles of successful suppliers

- "Good" management, aggressive marketing/sales, investment in plant, technology and design, competitive pricing, innovative ideas. (eg Northern Foods, Tinsley; Peter Black, Fiona; Gent, Ramar and Dewhirst).

continued.....

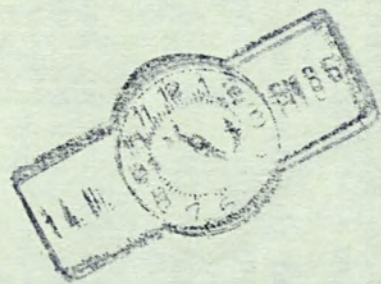
Difficulties experienced

- Some inertia initially eg the need to source footwear from abroad to goad UK suppliers into action.
- Shortages in calibre management and the lack of dialogue between education and industry.
- Relatively poor rewards in certain traditional industries.
- Some over-dependence on M&S to give a lead in terms of innovation and development.

The outcome

- Salvation of UK clothing business (jobs and technology). Rise even in exports.
- Increasing importance of UK for design and shopping.
- Success for those suppliers responding well.

A suitably amended message will be given to a conference of 400 suppliers on 28th May 1986.



Carole.

PRIME MINISTER

May? not ok.
The diary probably full (JG).
St to report back however.

This letter from Lord Rayner seeks a short meeting with you to talk about

- (i) the exodus of good people from the Civil Service; and
- (ii) campaigns like "Better Made in Britain".

Lord Rayner's main worry seems to be that the "Better Made in Britain" label will be counter-productive, a point he made at the meeting.

We could at a diary meeting try and find a slot for Lord Rayner to see you. You are however giving a dinner for Lord Sieff to discuss the "Sourcing in Britain" idea, and I suspect that Lord Rayner's letter reflects a certain amount of competition between the M&S line and Sir Basil Feldman.

Would you like us to find a time for a meeting, or prefer to leave this discussion for the dinner (which is however some -29 September way off)?

Mark Addison

(Mark Addison)

Would he like to come
to the lunch next Sunday
at the house?
mt

14 March 1986

11 May -

CONFIDENTIAL

DSG

File



10 DOWNING STREET

From the Private Secretary

10 March 1986

CIVIL SERVICE MANPOWER

The Prime Minister has seen the Chief Secretary's minute of 7 March, which she has noted without comment.

I am copying this letter to Tony Laurance (Department of Health and Social Security).

Mark Addison

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

CONFIDENTIAL

DSG

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 7 March 1986

1. Mr. Nigel Farage F see
2. Prime Minister (2)

PRIME MINISTER

M

MBA 7/3

CIVIL SERVICE MANPOWER

I minuted you on ^{at trap.} 17 February reporting the latest staff in post figures, and indicating the prospects, as I then saw them, for achieving the Government's targets for reductions in the size of the Civil Service.

2 I have recently agreed with Norman Fowler sizeable increases in DHSS manpower for the current year and for 1986-87 to relieve the very heavy pressure on local social security offices resulting from increased workloads, to enable the department to handle new work and to increase the numbers of staff dealing with fraud. The increase this year will be to 93,400 at 1 April 1986 (an increase of 2,300). There will be a further addition next year of 3,350 posts to a new target of 96,750 at 1 April 1987. Because DHSS manpower was previously planned to decline, the total addition to the target for 1 April 1987 will be nearly 8,000. Norman intends to make the announcement today by written PQ. In doing so he will take credit for an increase in local office staffing of 5,000, taking the two years together.

3 Of themselves these increases will not take overall Civil Service numbers above the announced targets for 1 April 1986 and 1 April 1987, provided other departments hold to their targets and there are no other increases for policy reasons. But there can be no certainty about the target for 1 April 1988.

CONFIDENTIAL

CONFIDENTIAL

4 I suggest that, if the question of the impact of the DHSS figures on the Government's targets arises, we should take the line that the Government makes adjustments to individual departments' manpower targets when the need arises. There are no current plans to revise the targets for Civil Service totals published in the 1986 Public Expenditure White Paper. But they are kept under review and will be next reassessed in the context of the 1986 Public Expenditure Survey.

5 I propose to take stock after the Budget of the overall manpower position and prospects and will report to you again, copied to colleagues.

6 I am sending a copy of this to Norman Fowler.



JOHN MacGREGOR

*(Approved by the Chief Secretary
and signed in his absence)*

CONFIDENTIAL

CIVIL SERVICE
Long Term Management ATB



CONQUEROR



Cabinet Office

MANAGEMENT AND PERSONNEL OFFICE

From the Minister of State
Privy Council Office
The Rt. Hon. Richard Luce MP

Great George Street
London SW1P 3AL
Telephone 01-233 8610

The Rt Hon Sir Geoffrey Howe QC
Secretary of State
Foreign and Commonwealth Office
King Charles Street
Whitehall
LONDON SW1A 2AH

Prime Minister 2

to note that new regulations will soon be published formally giving Civil Service Commissioners powers to vet secondments (like hevenes) into the Civil Service. (No need to read N.L.W. in full.)
4 March 1986
7-3
Dear Geoffrey,

SECONDMENTS INTO THE CIVIL SERVICE: CIVIL SERVICE COMMISSION GENERAL REGULATIONS

The Prime Minister announced on 18 March 1985, in the context of the appointment of Mr Peter Levene as Chief of Defence Procurement, that measures were being taken to provide that future appointments to the Home Civil Service and Diplomatic Service which took the form of secondment from an outside organisation were made in compliance with the Civil Service Order in Council 1982 and any regulations made under the Order.

... The Civil Service Commissioners have been giving effect to that announcement by approving secondments since last March under their discretionary powers, pending the introduction of new General Regulations which would cover secondments for the longer term. These Regulations have now been drafted with legal advice, and I attach the draft for your approval, as is required by article 2 of the Order in Council.

The main changes bearing on secondments are:

Regulation 1.3c, defining secondment;

Regulation 7c, allowing less stringent health requirements to be applied to secondees and others who will not be covered by Civil Service superannuation arrangements; and

Regulation 11e, allowing the Commissioners to dispense with or modify tests of knowledge and ability and open competition in relation to secondments.

The effect of these changes is to provide the maximum flexibility in maintaining the programme of inward secondments, to which departments attach considerable importance, consistent with the Commissioners' responsibilities under the Order in Council.

In addition, the opportunity has been taken to make purely clarifying amendments to Regulations 11, 12.4, 12.5 and 12.6 and to correct references to the Republic of Ireland.

I should be grateful if you would approve the attached draft Regulations - no more is required than that you should signify that you are content with them. An early reply would be helpful, since we are aiming to introduce them on 1 April. They will be issued by the Civil Service Commissioners together with guidance, which follows consultation with departments, about how they are to be applied.

I propose to announce the issue of the revised Regulations by means of the attached Written Answer.

I am copying this letter to the Prime Minister's office.

W *—*
R. Luce

RICHARD LUCE

DRAFT PQ FOR WRITTEN ANSWER BY MR LUCE

To ask the Minister for the Civil Service whether arrangements have yet been made for future appointments on secondment to the Home Civil Service and Diplomatic Service to be made in compliance with the Civil Service Order in Council 1982.

DRAFT ANSWER

My Right Honourable Friend the Prime Minister announced on 18 March 1985 that measures were being taken to provide that future secondments to appointments in the Home Civil Service and Diplomatic Service were made in compliance with the Civil Service Order in Council 1982 and any regulations made under that Order. Since that date, such secondments have been subject to the approval of the Civil Service Commissioners, acting under the discretion conferred by article 1(2)(g) of the Order in Council, pending the issue of new regulations.

New regulations covering secondments have now been made by the Civil Service Commissioners with the approval of the Minister for the Civil Service and the Secretary of State for Foreign and Commonwealth Affairs. These regulations are effective from 1 April 1986. They are designed to provide flexibility in maintaining the programme of inward secondments, to which the Government attaches importance because of the benefits it brings to the departments and individuals concerned, consistent with the Civil Service Commissioners' responsibilities under the 1982 Order in Council. Under the new arrangements, the qualifications of a person being proposed for a secondment which is subject to the new General Regulations will need to be approved by the Commissioners and no such appointment can be made unless the Commissioners have issued their certificate of qualification. The revised General Regulations provide the Commissioners with a discretionary power to waive the normal requirement of open competition in appropriate cases.

A copy of the revised General Regulations has been placed in the Library.

THE CIVIL SERVICE COMMISSION GENERAL REGULATIONS 1986

By virtue of the powers conferred on them by Articles 2 and 3 of the Civil Service Order in Council 1982, Her Majesty's Civil Service Commissioners (hereinafter called "the Commissioners"), with the approval of the Minister for the Civil Service and Her Majesty's Secretary of State for Foreign and Commonwealth Affairs, hereby make the following Regulations:

PRELIMINARY

1.1 These Regulations may be cited as "The Civil Service Commission General Regulations 1986" and shall come into operation on [1 April] 1986.

1.2 These Regulations are applicable to candidates of both sexes and to all appointments, transfers or promotions in respect of which, by virtue of the Civil Service Order in Council 1982, a certificate of qualification is required to be issued by the Commissioners.

1.3 In these Regulations, unless the contrary intention appears,

a. the expression "Civil Service" shall mean Her Majesty's Home Civil Service and Diplomatic Service, and

b. the expression "specified" shall mean specified by memoranda or other official instructions issued from time to time as occasion requires by the Commissioners for the situation or grade or group or class of situations concerned, provided that, where the situation or grade or group or class of situations is peculiar to one Department, the memoranda or other official instructions shall also be agreed with the Head of that Department, and

c. the expression "appointed on secondment" shall mean, in relation to a candidate, appointed to a situation in the Civil Service under an arrangement pursuant to which he is, for the period of the appointment, released from all or some of his obligations under any other employment, office or service or from all or some of his obligations under a partnership agreement. The expression "any other employment, office or service" includes any service, office or employment under the Crown.

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2. A certificate of qualification for appointment to a situation in the Civil Service will be issued by the Commissioners only when they are satisfied that a candidate is eligible under the provisions of these regulations in respect of age, health, character, knowledge and ability, and nationality, and that he fulfils any other conditions which may be specified.

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3.2 A person in respect of whom a limited period certificate of qualification has been issued under Regulation 3.1 shall not be appointed to a further situation requiring a certificate of qualification until a further certificate has been issued.

3.3 The circumstances in which and the conditions on which persons may be appointed before the issue of a certificate of qualification to situations requiring such a certificate are specified in Regulation 13 hereof.

METHOD OF ENTRY

4. All appointments which require to be certificated under these Regulations, other than those covered by Regulation 11, shall be made solely on merit on the basis of fair and open competition. Recruitment shall be by means of specified competitions, which shall be sufficiently publicised to the satisfaction of the Commissioners and shall be open to all persons who satisfy the specified conditions and who apply at the time and in the manner specified. Such competitions shall be held at such periods and for such situations or grades or groups or classes of situations as the Commissioners shall from time to time determine.

AGE

5. Every candidate shall satisfy the Commissioners that he is within the specified limits of age, but if no limits of age are specified, the candidate shall satisfy the Commissioners that his age is suitable to the duties of the situation which he seeks.

6. The Commissioners may exceptionally at their discretion extend the specified upper age limit for any candidate if they are satisfied that there is due and sufficient cause.

HEALTH AND REGULARITY OF ATTENDANCE

7. Every candidate shall satisfy the Commissioners that his health is such as to qualify him for the situation which he seeks and that he is likely to give regular and effective service for at least 5 years or for the period of any appointment of shorter duration:

Provided that, in the case of a candidate who is

- a. already employed on functions which have been transferred to the Crown and who is being admitted for employment in the Civil Service in consequence of such transfer, or
- b. already engaged in an employment or office to which the Principal Civil Service Pension Scheme applies either directly or by analogy, or
- c. proposed for appointment on terms which exclude the provisions of the Principal Civil Service Pension Scheme other than those relating to injury benefits,

the Commissioners may at their discretion waive or modify the standard of health required of that candidate for the purposes of the issue of a certificate of qualification.

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9. The Commissioners shall satisfy themselves that every candidate is qualified in respect of knowledge and ability to discharge the duties of the situation which he seeks.

10. Subject to the provisions of Regulation 11 hereof, the tests in respect of knowledge and ability shall be such as are specified in the relevant memoranda or other official instructions and may include qualifying or competitive tests, examinations or interviews or a combination of these; the tests or examinations may be written, oral or practical. Candidates may also be required to possess specified academic, professional or technical qualifications or appropriate experience, or a combination of these.

11. Without prejudice to the provisions of Regulation 9 hereof the Commissioners may, if they think fit, dispense with or modify any tests in respect of knowledge and ability, if

- a. the Head of the Department or other appointing authority has satisfied the Commissioners that the admission of a particular candidate to a particular situation is for special and exceptional reasons justified by the needs of the public service and the proved merits of the candidate, or
- b. the appointing authority has satisfied the Commissioners that it is desirable that the candidate concerned, being, or having recently been, employed on functions which are being transferred to the Crown, should be admitted for employment in the Civil Service from the date of transfer, or, having recently been employed on functions which have been transferred to the Crown, should be admitted for employment in the Civil Service, or
- c. the appointing authority has satisfied the Commissioners that it is desirable that a candidate already holding a situation in another public service should be admitted for employment in the Civil Service, or
- d. the Commissioners are satisfied that it is desirable, by reason of a shortage of qualified candidates, to admit to a particular situation a candidate who has reached an appropriate standard in a competition for an equivalent or higher situation but has failed to secure appointment to that situation, or
- e. the appointing authority has satisfied the Commissioners that it is desirable that the candidate concerned should be appointed on secondment on the terms proposed, or
- f. a candidate for whom the Commissioners have previously issued a certificate of qualification, or who had been appointed under the provisions of Article 1(2)(b) or (f) of the Civil Service Order in Council 1982, is put forward by the appointing authority for reinstatement, or for appointment to a situation inferior to that which he previously held, and the Commissioners are satisfied as to his knowledge and ability.

NATIONALITY

12.1 To be eligible for appointment (other than to a situation to which Regulation 12.2, Regulation 12.3 or Regulation 12.4 applies) a candidate must be:

- a. a British citizen; or
- b. a Commonwealth citizen (other than a British citizen), or a British protected person, or a citizen of the Republic of Ireland, in which case he must satisfy one of the following conditions:
 - i. at least one of his parents must be, or have been at death, a Commonwealth citizen, a British protected person, or a citizen of the Republic of Ireland; or
 - ii. he must have resided in a country or territory within the Commonwealth, or in the Republic of Ireland, or have been employed elsewhere in the service of the Crown, or partly have so resided and partly been so employed, for at least 5 years out of the last 8 years preceding the date of his appointment;
- c. if not qualified under sub-paragraphs b.i or b.ii of this Regulation, he must satisfy the Civil Service Commissioners that he is so closely connected with a country or territory within the Commonwealth either by ancestry, upbringing or residence, or by reason of national service, that an exception may properly be made in his favour.

12.2 Subject to Regulation 12.4, a candidate will be eligible for appointment to a situation in the Cabinet Office or Ministry of Defence (other than the Meteorological Office, to which Regulation 12.1 applies) only if:

- a. at all times since his birth he has been a Commonwealth citizen or a citizen of the Republic of Ireland, and
- b. he was born in a country or territory which is (or then was) within the Commonwealth or in the Republic of Ireland; and
- c. each of his parents was born in such a country or territory or in the Republic of Ireland and has always been, or (if dead) always was, a Commonwealth citizen or a citizen of the Republic of Ireland;

Provided that in cases where these conditions are not satisfied a candidate may be admitted to appointment by special permission of the Minister responsible for the department concerned, if the conditions specified in Regulation 12.1 are satisfied.

12.3 A candidate will be eligible for appointment to a situation in the Diplomatic Service only if:

- a. he is a British citizen; and
- b. at least one of his parents has been a Commonwealth citizen or citizen of the Republic of Ireland continuously from a date 30 years or more prior to the candidate's appointment or, if dead, was a Commonwealth citizen or citizen of the Republic of Ireland continuously from a date 30 years or more prior to the appointment until his or her death; and
- c. the Secretary of State for Foreign and Commonwealth Affairs is satisfied that the candidate is so closely connected with the United Kingdom, taking into account such considerations as upbringing and residence, that he may properly be appointed.

12.4 In the case of certain appointments under the Secretary of State for Defence and in the case of certain appointments under the Secretary of State for Foreign and Commonwealth Affairs, other than appointments in the Diplomatic Service, either the requirements in Regulation 12.2 and Regulation 12.3 respectively may apply or particular requirements may be prescribed.

12.5 In Regulations 12.1, 12.2 and 12.3 the term "Commonwealth citizen" means any person who has the status of a Commonwealth citizen under the British Nationality Act 1981.

12.6 Nothing in Regulations 12.1 to 12.4 shall preclude the employment of an alien in respect of which a certificate issued under section 1 of the Aliens Employment Act 1955 is for the time being in force.

APPOINTMENT BEFORE THE ISSUE OF A CERTIFICATE OF QUALIFICATION

13. The Commissioners may authorise appointments on the basis of a period of service on specified conditions designed to enable the Commissioners to satisfy themselves regarding a person's suitability for a certificate of qualification in respect of any of the requirements governing health, character, knowledge and ability or nationality, as stated in these Regulations, in the following circumstances:

- a. If there is a shortage of fully qualified candidates a person who does not fully satisfy the specified conditions of knowledge and ability but has nevertheless reached an appropriate standard and who is otherwise acceptable may exceptionally be offered an appointment on the basis of a period of trial service of not less than the probationary period for the situation; and provided such service has been satisfactory the Commissioners will accept the nomination of such a candidate for the issue of a certificate of qualification.
- b. For a candidate who does not fully satisfy the health regulation the Commissioners may authorise an appointment, specifying the manner and time for a further consideration of the health of the candidate in order that the candidate may subsequently satisfy the Commissioners that he is fully qualified in respect of the health regulation for the issue of a certificate of qualification. If, on review, there is still a doubt as to the ability of the candidate to satisfy the health regulation, the Commissioners may authorise an extension of the period of trial service.
- c. If there are doubts about a candidate's character which are insufficient to justify rejection and he is otherwise acceptable for appointment the Commissioners may authorise a period of trial service in order that the candidate may subsequently satisfy the Commissioners that he is qualified in respect of character for the issue of a certificate of qualification.
- d. For candidates who do not satisfy the nationality regulation for the issue of a certificate of qualification, but who may do so at a later date, the Commissioners may authorise a period of service on specified terms.
- e. If it is considered urgently necessary that a candidate should be appointed to a particular situation before the Commissioners' enquiries have been completed, a department may so appoint him on a conditional basis pending certification, provided that there is no *prima facie* doubt as to his eligibility for a certificate of qualification.
- f. If there is a shortage of candidates for a particular situation or grade, and a department wishes to appoint a person of high ability to that situation or grade without open competition, the Commissioners may authorise such appointment on a provisional basis for a period not exceeding 12 months, on condition that the person concerned competes in the next open competition for the situation or grade in question.

REVOCAATION

14. The General Regulations made by the Commissioners on 1 January 1983 are hereby revoked:

Provided that, save as laid down in this Regulation, all regulations, rules and notices made or issued by the Commissioners regarding the admission of candidates to situations in the Civil Service shall remain in force until revoked or cancelled by further memoranda or other official instructions issued by the Commissioners.

CIVIL SERVICE COMMISSION
MANAGEMENT AND PERSONNEL OFFICE

1 [April] 1986





Pme Mules^{2.}

[Handwritten signature]

Ref. A086/694

MR WICKS

--- I attach a summary note of the evidence Sir Robert Armstrong gave to the TCSC on 26 February. The transcript will follow in due course.

2. I am sending a copy of this minute to Ken Lussey (DTI), and to Peter Martin (MPO).

MS

M C STARK

28 February 1986

Ref. A086/684

NOTE FOR RECORD

Sir Robert Armstrong gave evidence to the Treasury and Civil Service Select Committee (Sub-Committee on Duties and Responsibilities of Civil Servants) on 26 February at 16.15. Mr Austin Mitchell was in the chair; the other Committee members present were Mr Ralph Howell, Mr John Townend and Mr Richard Wainwright. The session lasted about one hour and a quarter. A full transcript will follow from the Committee, but the principal questions and answers were as follows:

Q. What is the relationship between the State and the Crown?

A. That is a matter of political philosophy, rather than practical politics. Other than in the OSA, there are few references in statutory legislation to the State. The Crown is sometimes seen as an expression of the coherence and power of the State: also as a guardian of the citizen's rights. It represents something abiding.

Q. Has a civil servant any responsibility to Parliament, beyond that to his own Minister?

A. A civil servant should remind the Minister of his duty to Parliament, but should not "blow the whistle" on him directly to Parliament. The Minister, not the civil servant, is answerable to Parliament. The civil servant is not on his own: he has others to turn to in matters of conscience. He could ask his Permanent Secretary to speak to the Head of the Civil Service.

Q. Does that mean that a Minister would be safe in the knowledge that any dereliction of duty by him would emerge only by accident?

A. You cannot construct a system on that basis. Ministers accept their responsibility to Parliament. Parliament has real control, as recent events have demonstrated. An affair like Watergate would have emerged much quicker under the British system than it did in the United States.

Q. Would it ever be legitimate for a civil servant to give Parliament information without his Minister's knowledge?

A. He will not always have explicit authority for his words - eg when giving oral evidence to a Select Committee. But he should never behave as Mr Ponting did.

Q. Since there is no authority independent of his employers to whom a civil servant can turn, should an ombudsman be introduced?

A. That is a difficult concept, since it would complicate the relationship of confidentiality between a Minister and a civil servant.

Q. Do we need a code of conduct for Ministers?

A. I see no need for it.

Q. What can a civil servant do to protect himself against public criticism?

A. Civil servants should not be named. In the matter of the Solicitor General's letter Ministers took responsibility for the disclosure: individuals were named

by the press, not by Ministers. The naming of civil servants in Parliament was exceptional and unwelcome.

Q. In a recent case (employment statistics) the Paymaster General quoted civil servants as the source of his advice. The cynic might conclude that whenever civil servants are named, it is to protect their Ministers: and that when not named, the evidence did not support the Minister's case?

A. I cannot accept this implication. Some professional civil servants, eg statisticians, medical officers, registrars, may have certain direct and even statutory responsibilities for the integrity of data etc, and may legitimately be quoted. But normally, civil servants should not be named.

Q. Are current Ministers taking a particular interest in senior civil service appointments?

A. No more than previously.

Q. Would it be a good idea to fill the posts of departmental press officers with political advisers?

A. This would not be necessary. With one exception (Haynes) Ministers have been content to use professionals for these posts. Others (junior Ministers, the party machinery etc) can perform other, more narrowly political functions. Political advisers are very much part of the scene; I wholly welcome them. I would not want to go towards the French system, where there is a problem what to do with civil servants identified with the party not currently in power. We are achieving more secondments to the private sector - but it will never be as easy as in the

French system. Attitudes will take time to change. There are practical difficulties (pension, financial arrangements etc).

Q. Should we have a single Minister for the civil service, rather than three as at present?

A. That is a matter for the Prime Minister. Arrangements have varied in recent years. Changes occurred in 1962, 1968 and 1981 (abolition of CSD). The right balance may depend on the policy of each Government, and perhaps on personalities.

Q. What of the dual role of Secretary of the Cabinet (SOC) and Head of the Civil Service (HOCS)?

A. I have not encountered any conflict of interest between the two roles. Nor have I found the dual responsibility particularly onerous in terms of workload. The responsibilities of the HOCS are less time-consuming than is often thought. Matters concerning senior appointments etc take less than a quarter of my time. A Second Permanent Secretary runs the day to day affairs of the MPO. If the HOCS and SOC posts are split, the HOCS risks being detached from the policy concerns of the Government as a whole. The HOCS is not there to represent civil servants of a particular Department. In the GCHQ case there was no particular conflict, no more than if the HOCS sat in the Treasury or the CSD. It is an illusion, fostered by the title, that the HOCS is there to defend the Civil Service against Ministerial criticism.

Q. How bad is morale in the Civil Service?

A. There are serious problems, resulting from the reduction in manpower, heavier workload, reduced promotion prospects and relative decline in pay. Detailed evidence on that is for the Treasury to give.

Q. Is there a national Civil Service?

A. Civil servants identify first with their Department, or particular units within it. Probably few identify with the Civil Service as a whole. Some Ministries develop something of a separate ethos. But there is more interchange than hitherto, especially in the Open Structure.

WESTLAND

Q. Your Note of February 1985 said that a civil servant should not be asked to do anything unlawful. Does that include breaches of a clear rule, eg that against disclosure of a Law Officer's advice?

A. I was speaking of breaches of statutory law. I recognised in my evidence to the Defence Committee that the disclosure of a Law Officer's advice was regrettable.

Q. You said to the Defence Committee that you wished the civil servants concerned had had that consideration (rule against disclosure of a Law Officer's advice) in their minds. Should it not have been the Minister who had that consideration in mind?

A. Civil servants are not absolved from considering that point, and putting it to their Minister. It is a pity that in this case the civil servants did not consult their Permanent Secretary, as provided for in the Note: had they done so, life might have been different.

Q. But the Permanent Secretary was out of London.

A. The civil servants were operating within a tight time constraint. But they might have considered whether it was possible to miss that bus (the 4.00 pm deadline) or to speak to their Permanent Secretary on the telephone, as they had spoken on the telephone to the Secretary of State.

Q. Tight deadlines are all the more likely nowadays?

A. That is not a defect of the Note. Civil servants must exercise their own judgment, but even within a tight time constraint, advice from senior officials is always available.

A. Have you had any further discussions or representations on a code of ethics?

A. Not yet. Mr Luce told the House last week that the present arrangements were adequate. I would not be against drafting a code of ethics if I thought it could be done: but I do not think it can.

Q. Do the principles in your Note apply to the security service?

A. Possibly, though I have not thought about it, some or all areas of the principles might apply there too mutatis mutandis.

Q. When is a leak not a leak?

A. When it is authorised. That raises the question of implied versus express authority; that is a matter for the Attorney General and for lawyers. The responsibility for authorisation rests with Ministers.

Q. Is there a permanent delegated authority for disclosure by a press officer?

A. The latter will know whether he is operating within Ministerial authority. It is a very difficult area; press officers have to make judgments on the hoof.

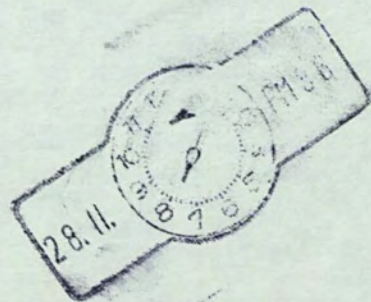
Q. Would a code of practice on disclosure of official information help to prevent errors of judgment by civil servants?

A. No; I doubt that any code could deal with all situations. Paragraph 9 of my Note attempts to deal with this question.

MS

M C STARK

28 February 1986



CONFIDENTIAL

Prime Minister^②

P. S. J. J. J.

MEA 18/2



FROM: CHIEF SECRETARY

DATE: 17 February 1986

PRIME MINISTER

CIVIL SERVICE MANPOWER

You may like to know that at 1 January the number of civil servants in post was 596,506. This represents an increase of 742 over the total at 1 October 1985; but is below the published target of 600,475 for 1 April. We will, as usual, be reporting the 1 January figures to Parliament next week by means of a Written Answer.

2 We can expect another staff in post increase by 1 April (in part because of the 2,300 additional posts approved recently for DHSS), but it is unlikely that the target for that date will be exceeded, although we may come close to it.

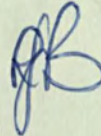
3 The 1986 Public Expenditure White Paper published a manpower target of 600,400 for 1 April 1987. This allows for some additions to departmental profiles agreed during the 1985 Survey. These additions mean, however, that the manpower contingency margin for that date has been substantially reduced and there are already claims of an urgent nature against it. Given the importance we all attach to holding on to the success already achieved in reducing the size of the Civil Service we shall need to exercise continuing restraint in 1986 and 1987 if we are to hold to our published manpower targets for those years. We must avoid all but the most urgent and compelling increases in numbers and seek offsetting savings wherever possible, even within departmental allocations, by

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improvements in efficiency and elimination of unnecessary work. I know I can count on the continuing co-operation of colleagues to achieve this. I will, of course, report on this in the Summer as the 1986 Survey progresses.

4 I am copying this to all Cabinet colleagues, the Minister of State Privy Council Office and to Sir Robert Armstrong.



for JOHN MacGREGOR

[Approved by the Chief Secretary]

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CB/BG



RESTRICTED

Prime Min. ①

Content then an announcement should be made in a written answer from you, following the draft attached?

MEAT 30/1

PRIME MINISTER

GOVERNMENT EMERGENCY COMMUNICATIONS : TRANSFER OF RESPONSIBILITIES

You will recall that a review was carried out last summer of Ministerial responsibilities for civil defence communications. Following a recommendation in Sir Robert Armstrong's minute of 7 August, your private secretary's minute of 8 August gave your approval for responsibility for civil defence telecommunications to pass from the Department of Trade and Industry to the Home Office.

2 Officials have completed discussions on the detailed arrangements for the transfer, which it is proposed should take place on 1 April 1986. The transfer can be made administratively without a Transfer of Functions Order.

3 No formal statement on the transfer of functions has yet been made. However, the intention to effect the transfer has become known to Parliament through publication of the consequent increased Home Office financial provision in the Public Expenditure White Paper for 1986/87, on which 'The Economist' of 18 January has remarked.

DW3AHN

17 1986 BOARD OF TRADE BICENTENARY



RESTRICTED

4 This is a relatively minor transfer of functions and details of the transferred functions are confidential. Nonetheless it would be wise to inform Parliament formally of the intended transfer of responsibilities and of the date that it is to take place. A draft Parliamentary Question and answer that you may wish to use for this purpose are attached.

5 I am copying this minute to Douglas Hurd, who agrees with these arrangements, and to George Younger, Malcolm Rifkind, Tom King, John MacGregor and Sir Robert Armstrong.

P.C.

PAUL CHANNON

30 January 1986

Department of Trade & Industry

DW3AHN

17
1986
BOARD OF TRADE
BICENTENARY



DRAFT ARRANGED PQ AND ANSWER

Mr Thornham,
to table for answer
on 6 Feb. NR9₂

QUESTION

To ask the Prime Minister if she will state which Minister has responsibility for the provisions of civil defence telecommunications?

ANSWER

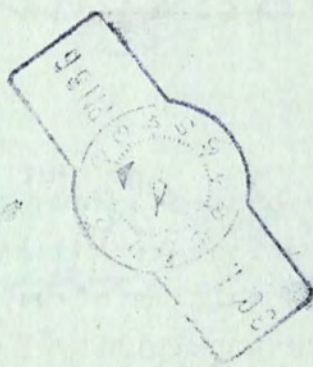
The Home Secretary has responsibility for a number of emergency communications arrangements which would support civil defence plans in time of war. As from 1 April 1986, he will also assume responsibility for other emergency communications services that are currently the responsibility of the Secretary of State for Trade and Industry.

ms

DW3AHO

CIVIL SERVICE PT 18

Long Term Policy



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12
28
BOARD OF TRADE
WASHINGTON



CCBG

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALING 01-218 2111/3 28th January 1986

MO 2/2/6L

NBM

Dear John,

MOD RUNNING COSTS

You wrote to Michael Heseltine on 18th December on the question of whether the MOD's running costs total should be treated as a limit rather than a target after 1986/87. *at 2:00*

Since then there has, of course, been some discussion about the relevant passages in the Public Expenditure White Paper and a neutral wording was agreed which left the nature of the longer-term arrangements entirely open. Now that the issue has lost some of its urgency I suggest that we defer further consideration for the present, on the basis that it will need to be resolved before the 1986 Survey. This in fact accords with what you were proposing in your letter of 30th November. At the same time I must tell you that having looked at the papers I find Michael Heseltine's arguments compelling.

The Rt Hon John MacGregor OBE MP



I am sending copies of this letter to the Prime Minister
and to Sir Robert Armstrong.

Yours
wv.

George

George Younger



CIVIL SERVICE
Long Term Management

SRW

27 January 1986

**THE FURTHER EXTENSION OF UNIFIED GRADING
IN THE CIVIL SERVICE**

The Prime Minister has seen your Minister's minute of 16 January. She has noted it without comment.

I am copying this letter to Rachel Lomax (HM Treasury), Michael Stark (Cabinet Office) and Sir Robin Ibbs.

(MARK ADDISON)

Paul Thomas, Esq.,
Office of Arts and Libraries.

DTB



MINISTER OF STATE, PRIVY COUNCIL OFFICE

Prime Minister, (4) CCBG
For information. You will remember
the difficulties over the Research
Council just last summer.
MERT 20/1

PRIME MINISTER

THE FURTHER EXTENSION OF UNIFIED GRADING IN THE CIVIL SERVICE

On 1 January 1984 we embarked on a major rationalisation of the structure of senior grades in the Civil Service. As part of our overall management development strategy, we set about the task of unifying the wide variety of grades at these levels to remove artificial barriers which can obstruct the selection of the right people for jobs on the basis of merit alone, irrespective of their background or method of entry to the Service.

Following earlier exchanges with his colleagues, Grey Gowrie proposed in his letter of 4 July 1985 to Nigel Lawson that we should extend this reform this year to the wide variety of Principal and equivalent grades. I am writing to let you know that we are establishing a new unified Grade 7 containing approximately 11,000 staff at this level on 1 January 1986. Pay alignment will be based on the existing Principal scale, which will mean increases in pay for the members of the Science and Professional and Technology groups who are assimilated into the new grade; these are people where recruitment and retention is already difficult and our pay rates are anyway below the market. It is proposed to assimilate existing people to the new rates over the next three to four years, giving a cost ranging from about £1 million in 1986-87 up to a long-term cost of about £5 million per annum when the phasing in is completed after 1990; however much of this cost would probably have arisen anyway. It has been agreed that these costs will be met from within planned running costs limits. In addition costs may arise in Research Councils if the reform is followed through there, as I understand is the intention.

The top of the Civil Service now has an Open Structure of 7 unified grades which will make it easier to make better use of the wide variety of talent at these levels. I am pleased that we have been able to take this further step in our programme of initiatives to help improve the quality of management and efficiency in the Civil Service.

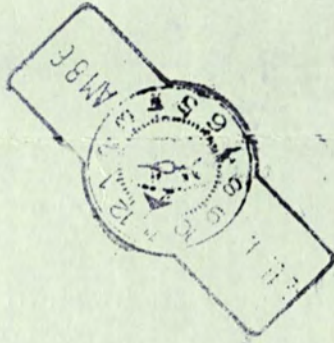
I am copying this minute to Nigel Lawson, Sir Robert Armstrong and Sir Robin Ibbs.

RICHARD LUCE
16 January 1986

CIVIL SERVICE

LONG TERM

PT 18



COMMERCIAL

ccBG ✓

CONFIDENTIAL



FROM: CHIEF SECRETARY

DATE: 19 December 1985

PRIME MINISTER

NBR.

**NORTHERN IRELAND CIVIL SERVICE MANPOWER AND
DEPARTMENTAL RUNNING COSTS**

Tom King sent me a copy of his minute to you dated 9 December, about the manpower requirements of the Northern Ireland Civil Service and the appropriate targets for departmental running costs in the 1985 Survey.

2 I am content that the figures in paragraphs 2 and 3 of Tom's minute should appear in the forthcoming Public Expenditure White Paper. I am satisfied that the targets for year on year running costs which he proposes are broadly in line with those set for Great Britain Departments.

3 I am copying this minute to Tom King.

JOHN MacGREGOR

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CIVIL SERVICE

LONG TERM

PT 18



Annex A

Receipts in Respect of Running Costs

The attach table gives a list of those receipts to departments in respect of activities covered by running costs. (Economic Category 155). It is not a comprehensive picture of all fee earning activities. It does not for example cover any of the operations mentioned by Mr Ridley, nor ECGD, mentioned by Mr Brittain.

Other notable omissions are the Passport Office and MSC's Skill Centre Training Agency.

Equally the list includes many receipts which would not be regarded as "business" operations - eg: for the loan or secondment of staff.

A shorter list^{o/r} of this significant operations which might be claimed to qualify under Mr Ridley proposals could be:-

	Income £m
	1985-86
MAFF experimental centres	8.1
Customs - charges to merchants for special attendance	8.7
MOD - colonial and other contributions	176.9
- Meteorological Office	54.0
DHSS - resettlement units etc.	3.8
Home Office - prison industries (incl sales of land)	38.7
Inland Revenue - valuation office	1.0
MSC - professional and executive recruitment services	7.1
HSE - Product and process testing	5.5
Land Registry - fees from registration	97.8
Lord Chancellors Dept - Public Trustees Office	3.4
Ordnance Survey - sale of maps etc	21.2
PSA - charges to non-Exchequer bodies	33.7

DTI - companies registration	39.3
- patent Office	2.0
- Wireless telegraphy licence fees	10.9
	<u>512.1</u>

Added to this would be the receipts of the other organisations mentioned by Mr Ridley and Mr Brittain to make a total of approximately f620 million. This, as the qualification in paragraph 1 makes clear would be a minimum figure. We do not have complete manpower figures but the estimated total would be in the bracket 30-55,000. (5-10% of the civil service total)

RECEIPTS CLASSIFIED TO EC 155

Department	Vote	Subhead	Function (Main item only shown)	Amount £
MAFF	0305	AZ	Sales of produce by experimental centres	8.1
Cabinet Office	1317	AZ	Sales of statistical information and services	0.1
COI	1403	ZZ 99	Publicity for non-central government organisations	0.8
MPO	1311	AZ	Miscellaneous receipts	0.2 -
		B3	Charges to non-exchequer bodies for training	0.7
		BZ	Recruitment and MHS services to non-exchequer bodies	0.5
Customs & Excise	1305	AZ	Charges to merchants for special attendance of officers etc	8.7
MOD	0101	AZ	Personnel lent to other governments and non-exchequer bodies	3.9
		BZ	Colonial and other contributions	176.9 -
		CZ	Receipts from staff & advances etc	17.7 -
		DZ	Charges for Meteorological Office services	54.0 -
		EZ	Movements receipts from staff	6.6 -
		FZ	Meteorological stores and services etc	8.0
		GZ	Food charge recoveries	14.5
		HZ	Fuel recoveries from occupants of married quarters	18.1 -
		LZ	Accommodation charges	83.6 -
	0102	AZ	Miscellaneous	0.5 -
		BZ	Miscellaneous	0.1 -
	0105	AZ	Dockyard services	1.1
Energy	0418	AZ	Recovery of staff costs from other bodies	3.6
DES	1004	AZ	Recovery of costs of staff on secondment	2.1
DOE	0805	AZ	Miscellaneous	1.6
FCO	0201	BZ	Refunds of salaries of locally engaged staff overseas	0.1
		DZ	Miscellaneous	3.2
RFS	0410	AZ	Statutory fees in respect of registered societies	0.4
ODA	0207	CZ	Work on repayment and other receipts	1.6
	0208	AZ	Recoveries in respect of loaned officers	0.1
GAD	1406	AZ	Actuarial services to non-exchequer bodies	0.2

Department	Vote	Subhead	Function (main item only shown)	Amount £m
DHSS	1205	AZ	Miscellaneous	0.1
		BZ	Receipts from resettlement units and re-establishment centres	3.8
Home Office	0907	FZ	Fees under British Nationality Acts	2.9
	0908	AZ	Receipts from sale of land, and prison industries.	38.7
SIHD	1514	CZ	Staff meals, rent and rates for quarters	0.1
IR	1306	AZ	Valuation Office receipts	1.0
DEm (MSC)	0415	Y(1)	Employment Services receipts	0.3
		Y(2)	Employment rehabilitation receipts	0.3
		Y2(1)	Fees for PER services	7.1
		Y3(3)	Miscellaneous	0.2
		Y5(2)	Sale of COIC publications	0.8
		Y5(3)	Miscellaneous	0.3
	(DEP) 0416	AZ	Fees for licensing of employment agencies	0.8
	(ITSE) 0420	A1	Product and process testing	5.5
FTEL	0423	AZ	Miscellaneous	0.1
Land Registry	1315	AZ	Miscellaneous	0.1
		ZZ99	Land Registry fees	97.8
LCD	0901	AZ	Court fees	106.3
		BZ	Services provided by the Lands Tribunal	0.1
		DZ	Public Trustee Office fees	3.4
Indurance Survey	1321	AZ	Sale of maps and copyright fees	21.2
PSA	1401	BZ	Charges to non-exchequer bodies	33.7
		EZ	Refund of VAT on consultants' fees	0.1
	1402	ZZ99	Departmental expenses for repayment work.	53.7
PGO	1407	AZ	Charges to fringe bodies for pension services	0.1
PCO	1303	AZ	Fees for Judicial Committee of the Privy Council hearings	0.1
NIL0	1308	AZ	Fees from Local Authorities for advances from PWLB.	0.8
Crown Office	0910	AZ	Fees for administering estates.	0.1
SCA	1511	AZ(1)	Cash fees for civil cases	6.4
		AZ(2)	Miscellaneous	0.1

Department	Vote	Subhead	Function (main item only shown)	Value £m
SRO	1521	AZ	Photocopy and search fees.	0.3
DPCS	1314	AZ	Charges to non-exchequer bodies and fees for searches	2.1
RGD(Scotland)	1522	AZ	Fees and other income	0.3
DRS	1523	AZ	Receipts from fees	9.6
		Z299	Receipts from fees	1.6
II Court Service	0902	AZ	Court fees	3.4
		Z299	Interest on banking accounts etc	0.1
Attish Office	1524	AZ	Charges to non-exchequer bodies for services and recorded staff	1.0
DTI (Patent Office)	0404	CZ	Companies Registration Office and Insolvency Service fees	39.3
	0406	AZ	Miscellaneous	0.1
		EZ2	Recovered law costs and receipts from sales of Patent Office patents.	2.0
	0417	AZ	Miscellaneous	1.1
		BZ	Wireless telegraphy, licence fees etc.	10.9
Transport (DVLC)	0604	AZ	Fees for duplicate licences and registration documents	6.7
Treasury (CISCO)	1304	BZ	Miscellaneous	0.1
		CZ	Charges to non-exchequer bodies for payroll services	1.0
	1312	AZ	Miscellaneous	0.4
	1322	A1	Fees for provision of managed services and professional advice	0.1
Sol	0903	AZ	Costs awarded by magistrates	0.1
		BZ	Costs recovered against non-exchequer bodies	0.6
	0909	AZ	Charges against estates administered.	0.9
Adsh Office	1607	AZ	Miscellaneous	0.1
JIO	1701	BZ	Repayment of electoral registration expenses	0.1
		CZ	Forensic Science Services to Police Authority	0.1
		DZ	Forensic Science Services to Police Authority	2.1
		EZ	Sale of prison goods	0.1
		GZ	Fees awarded in favour of the Crown	0.1
		HZ	Repayment services	0.7

FRAUD AND FEE EARNING STAFF:
BIDS FOR EXTRA STAFF AGREED IN 1985 SURVEY

Annex B

	1.4.86	1.4.87	1.4.88	1.4.89
FRAUD STAFF				
Department of Employment	+ 430	+ 730	+ 730	+ 730
Inland Revenue	+ 100	+ 250	+ 500	+ 800
Customs and Excise	-	+ 439½	+ 593½	+ 807½
TOTAL	+ 530	+ 1419½	+ 1823½	+ 2337½
 FEE EARNING STAFF				
Department of Transport (Driving Examiners)	+ 160	+ 260	+ 310	+ 306
Land Registry	-	+ 25	+ 150	+ 275
DTI	+ 100	-	-	-
Ordnance Survey	+ 25	+ 25	+ 25	+ 25
Registry of Friendly Societies	+ 3	+ 13½	+ 16½	+ 12½
TOTAL	+ 288	+ 323½	+ 501½	618½
GRAND TOTAL	+ 818	+ 1743	+ 2325	+ 2956

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2PP'S

ccBG

Treasury Chambers, Parliament Street, SW1P 3AG

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

N30N

N30N

18 December 1985

Dear Secretary of State

MOD RUNNING COSTS

Thank you for your letter of 5 December.

The Cabinet discussion on 3 October did not of course address every Minister's individual situation but that was not our objective. The question was whether we wished to introduce a regime in which running costs across all departments were controlled effectively through limits. It was decided that running costs limits should be so introduced.

It is essential that the control system used to implement this decision is presented as having comprehensive coverage across departments. This could hardly be the case if MOD (with one-third of all civil servants) were exempted. Including your department is vital to the credibility of the whole regime, although I have agreed that for 1986-87 your running costs should be treated exceptionally as a target (because of the temporary difficulty over distinguishing accurately the costs of Armed Forces included in running costs from those excluded).

I have said before that there is no question of an attack on your block budget. If unforeseen circumstances occur requiring a revision of any particular limit, a case can be made to me accordingly just as with a cash limit.

I have also agreed, to take account of defence operational considerations, that over 80 per cent of Armed Forces personnel should be excluded from running costs coverage.

Thus I see it as important to the Government's objective of controlling running costs across all departments that we respect the Cabinet decision on 3 October, and apply the

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CIVIL SERVICE LONG TERM

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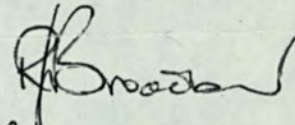
PT 18

rules of the new regime with due consideration for other government responsibilities. I am sure you will agree that this is eminently reasonable.

Given this common background, I do not think that drafting a text for the public expenditure White Paper should cause insuperable problems. I hope our officials can now seek to agree one quickly.

I am sending copies of this letter to the Prime Minister and to Sir Robert Armstrong.

Yours sincerely



for JOHN MacGREGOR

(Approved by the Chief Secretary)



CONFIDENTIAL

010

CC 36



Treasury Chambers, Parliament Street, SW1P 3AG

Sir Patrick Mayhew QC MP
Solicitor General
Royal Courts of Justice
Strand
London
WC2A 2LL

NBPN.

18 December 1985

Dear Patrick,

DPP: STAFFING OF FRAUD WORK

WITH DRN?

Thank you for your letter of 6 December, pressing the case for 9 extra professional staff to be employed on fraud investigation work. As I indicated to you at the Prime Minister's meeting this afternoon, I certainly accept the case and am happy to agree.

There is of course more to this than simply the question of numbers as I am sure you would accept. It is the quality and experience of staff employed on fraud work which may most need to be tackled. So my officials have agreed that short-term contracts can be used, which will not only help you to fill these posts quickly, but will also offer a little more flexibility over pay.

I am copying this letter to the Prime Minister, the Lord Chancellor, and to the Secretary of State for Trade and Industry.

Yours ever,

JOHN MacGREGOR

CIVIL SERVICE
LONG TRAM
PT 78



PT 78

MANAGEMENT IN CONFIDENCE



10 DOWNING STREET

FILE

CAJ

CC PRIVATE SECRETARIES
TO ALL MEMBERS OF
THE CABINET.

From the Principal Private Secretary

16 December 1985

Dear Private Secretary,

PERFORMANCE BONUS EXPERIMENT

The Prime Minister attaches great importance to the success of the performance bonus experiment. She has asked that each Cabinet Minister should make it clear to his Permanent Secretary that while he does not wish to become in any way involved in the administration of the experiment, he attaches considerable importance to the performance bonus experiment being made a success and that he looks to his Permanent Secretary to ensure that it is so.

I should be glad if you could draw the Prime Minister's point to the attention of your Minister so that he can speak to his Permanent Secretary accordingly.

I am sending a copy of this letter to the Private Secretaries of Cabinet Ministers Sir Robert Armstrong and Sir Robin Ibbs.

*Yours sincerely
Nigel Wicks*

N.L. WICKS

The Private Secretary

MANAGEMENT IN CONFIDENCE

CAJ.



10 DOWNING STREET

From the Principal Private Secretary

1. SIR ROBERT ARMSTRONG
2. MINISTER OF STATE, PRIVY COUNCIL OFFICE

PERFORMANCE BONUS EXPERIMENT

The Prime Minister has now read the minutes of 29 November from the Minister of State Privy Council Office and yourself as well as Sir Robin Ibbs's minute of 6 December.

The Prime Minister has indicated that she attaches great importance to the success of the performance bonus experiment. She certainly agrees that more work needs to be done by Departments and the MPO towards making the experiment the success that is necessary and she looks to Mr Luce and Sir Robert Armstrong to ensure that this work is done. She therefore agrees that Sir Robert Armstrong should proceed as he suggests in his minute and she looks forward to receiving in the spring, after the first distribution of bonuses, the report Sir Robert promises.

The Prime Minister also agrees with Sir Robin Ibbs that action needs to be taken and a clear lead from the top of each Department is essential if this opportunity for improving Civil Service performance is not to be lost. She therefore has asked that I should write, as Sir Robin Ibbs proposes, to Private Secretaries of Cabinet Ministers asking Cabinet Ministers to make it clear to their Permanent Secretaries that without becoming in any way involved themselves, the Cabinet Minister should stress his wish that the performance bonus experiment be made a success and that

JK

MANAGEMENT IN CONFIDENCE

- 2 -

they look to their Permanent Secretaries to ensure that it is so.

Finally, the Prime Minister has noted that Mr Luce will be reviewing the inclusion into the scheme of any Private Office staff left out.

I am sending a copy of this minute to Sir Robin Ibbs.

N. L. WICKS

16 DECEMBER 1985

MANAGEMENT IN CONFIDENCE



P 01839

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PRIME MINISTER

Fee Earning Businesses in Government
Flag B - E(A)(85)66, 68 and 70

BACKGROUND

1. The Secretary of State for Transport has questioned whether the present arrangements for controlling departmental running costs provide the right basis for managing those activities which can be regarded as businesses because they are financed from fees or charges. He argues that they should be able to adjust their resources up or down to match changes in demand. He has put forward three areas of his own Department which he suggests should be managed in this way. The Secretary of State for Trade and Industry in Flag C - E(A)(85)70 supports his argument, and suggests candidates of his own.

Flag D 2. The Chief Secretary, Treasury in E(A)(85)68 argues that control of gross running costs should continue, but that this need not be an impediment to the efficient operation of fee earning activities, on a case-by-case basis.

MAIN ISSUE

3. The main issues are:

(i) whether control of gross running costs should continue to apply for fee earning activities; and

(ii) if not, on what basis the resources used in such activities should be controlled.

Current Arrangements

4. Until recently the main emphasis in controlling the Civil Service has been placed on total manpower numbers. For the time being (until 1988) manpower limits remain in place along side the new running costs limits; in future the emphasis will move to running costs. Manpower accounts



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for about 70 per cent of running costs, but this move will give Departments a degree of flexibility in managing all the resources available to them, while still requiring tight budgeting and providing a spur to improved efficiency.

5. Running costs will be set on a gross basis, ie disregarding any income from fees and charges. This means that Ministers in charge of Departments start with a fixed amount of cash to meet the costs of all their activities, and - (rightly) - have to make decisions about priorities within that limit. It gives them no automatic room to respond to market pressures. For example, the Transport Secretary has to decide how much money and how many staff he should devote to driving tests in the light of competing demands from, eg the coastguard service, highway design, and the channel fixed link. If subsequently demand for driving tests increases, even though the costs of employing extra staff would be fully covered from fees, it would remain unmet unless the Transport Secretary could persuade the Chief Secretary that flexibility should be allowed (as the Chief Secretary now seems to be prepared to do in this particular case). The Transport Secretary argues that this is not the best way to organise this part of his Department's work, and also gives rise to presentational and political difficulties.

The Argument

6. The Government's important objective of reducing the size and cost of the public service may in some circumstances conflict with the economic efficiency argument that the resources devoted to particular activities should be determined by the market. The Cabinet in its July discussion of public expenditure accepted 'there was a case, within the Government's overall objectives for reducing the public sector, for some relaxation of policy on manpower where the benefits of additional employment could be shown to exceed the costs involved' (CC(85)24th, Minute 4). And E(A), in relation to the level of activity against social security and unemployment fraud, concluded that 'the main focus should now be on the net cost of Government activities



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rather than exclusively on Civil Service manpower as such' (E(A)15th Meeting, Item 1).

7. There are in principle four types of Civil Service work where gross running cost controls may produce sub-optimal results, and where it might be argued that additional staff should be taken on as long as each additional employee achieves a net reduction in the PSBR:

(a) revenue collection, where the cost of extra staff is outweighed by extra yield;

(b) fraud prevention (eg Social Security) resulting in net savings of expenditure;

(c) licensing or test activities (eg Driving tests or the Patent Office); and

(d) trading activities not suitable for privatisation (eg Ordnance Survey, or the Tower of London).

8. To apply net costs control to all these categories could, if pressed to its logical limit, result in very large increases in tax, social security and other staff. There would be far-reaching political implications, and no means of ensuring efficient performance of their duties by all the staff concerned. However, the Transport Secretary is not in practice suggesting going as far as this, (although other Ministers would no doubt soon press to climb on the band-waggon), but instead a more limited liberalisation restricted to categories (c) and (d) above, where the civil servants concerned are wholly engaged in providing a service to the public whose costs are recovered through fees, charges or prices.

The Proposal

9. The Transport Secretary suggests that the main focus in these areas should be on unit costs rather than gross (or net) costs. This



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would enable fee earning activities to expand or contract as the market demanded. Pressure from improved efficiency would come from controls on unit costs; which would be designed to prevent monopoly or licensing activities from exploiting captive markets.

Why not RPI - X as for BT and BGC? Or something similar.

10. The Chief Secretary in effect argues:

(i) manpower controls should not be given up until running costs controls are seen to be working effectively;

(ii) manpower demands for fee-earning activities should be considered alongside demands for revenue collection, benefit fraud policing and prevention of drug trafficking;

(iii) many fee-earning activities are monopolies, and should not be controlled on a net cost basis; and

(iv) increases in running cost limits can be considered on a case-by-case basis on their merits where there is no net increase in public expenditure but with a presumption against increases in running cost limits.

He therefore offers to consider further cases like driving tests where unit rather than net cost controls can be devised on an individual basis, but is still concerned that the process could give rise to significant civil service manpower increases at a time when the new gross running costs control has still not been proven.

11. The main question is whether it would be reasonable to exempt fee-earning activities automatically from the normal manpower and running cost controls, where a satisfactory alternative unit cost control can be agreed and costs are covered by charges. The Transport Secretary in effect argues that it would be, while the Chief Secretary is not yet ready to take this step. In part the decision will no doubt turn on the extent of the potential threat in terms of higher civil service numbers: you will want to be satisfied that the Treasury are not overstating the scope of the exception which could be created.



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A decision in the Transport Secretary's favour would not strictly have any implications for the big battalions such as those engaged on tax collection or social security benefits, although they would no doubt be encouraged to press their claims harder. A possible compromise might be to maintain the present principle of control (at least until we have more experience of how effective the gross running costs control is) and to grant no automatic exemptions, but to record a conclusion in favour of more sympathetic "on merits" consideration by the Treasury of cases such as the Driving Test operation that Mr Ridley proposes.

HANDLING

12. You will wish to ask the Transport Secretary to introduce his paper, and the Trade and Industry Secretary to second it. The Chief Secretary, Treasury will wish to put the counter case.

CONCLUSIONS

13. You will wish to reach a decision on whether gross running costs should continue to be the means of controlling the whole of Departments' domestic expenditures, or whether Ministers should be ready to exempt fee-earning and commercial activities automatically from the application of running cost limits (and manpower ceilings) where effective means are available to ensure efficiency in the use of resources and to avoid the abuse of monopoly power and charges adequately cover costs.

J B UNWIN

Cabinet Office
13 December 1985

B / F for Ridley E(A)

PRIME MINISTER

12 December 1985

FEE-EARNING BUSINESSES IN GOVERNMENT

The Ridley proposal relates only to fee-earning businesses. Manpower increases must be fully off-set by the increased revenue generated. There are four main issues:

1. Does this mean Government control of these businesses is lost? No, individual departments will still directly control their own satellite businesses, Treasury control will, of course, be lost.
2. Will this result in more regulation? No, the regulatory bodies concerned are carrying out a pre-determined inspection (such as driving test or patent application) for a fixed fee. More manpower merely reduces the waiting list, extra regulation could only result if the inspection criteria were expanded.
3. Will it allow the abuse of monopoly position? No, provided charges are not allowed to increase faster than inflation and proper unit cost targets are introduced. Indeed, abuse of monopoly is more likely if managers of these businesses have responsibility for regulation, but not the means (ie the manpower) to deliver it.
4. Will manpower targets be broken? Yes, unless off-setting manpower cuts are required elsewhere. But reductions in manpower do not equate to efficiency unless improved service is also delivered. Manpower cuts are, in any event, electorally something of a double-edged sword.

We support the Ridley proposal, it should help deliver the service and efficiency for which this Government stands.

Peter Warry
PETER WARRY

PRIME MINISTER

PERFORMANCE BONUS EXPERIMENT

At your last meeting with Sir Robin Ibbs, he told you that he was disappointed about progress in implementing the performance bonus experiment. I therefore asked Robert Armstrong for a report.

At Flag A, Robert reports that:

too early to draw general conclusions about the scheme but the first survey shows much doubt about its value among those concerned and more work needed to be done by Departments and MPO towards making it a success, especially in communicating criteria for the bonus and bringing out relationship between the scheme and other initiatives to improve managerial performance.
So,
a further report is promised for the Spring.

At Flag B Robin Ibbs says

an excellent opportunity for improving Civil Service performance is in danger of being wasted and a clear lead from the top of each Department is essential.

At Flag C Mr. Luce says

he is anxious to do all he can to make the experiment a success and he will review the inclusion of any Private Office staff left out.

At Flag D there is a brief Policy Unit analysis of progress.

I suggest that:

- I write, as Robin Ibbs proposes, to Private Secretaries of Cabinet Ministers asking Cabinet Members to make it clear to their Permanent Secretaries that without becoming in any way involved himself, the Cabinet Minister should stress his wish that

the experiment be made a success and that he look to his
Permanent Secretary to ensure that it would be so;

- tell Robert Armstrong that you certainly agree that more work needs to be done by Departments and the MPO towards making the experiment a success and that you look to him to ensure that this work is done and
- he should make a further report in the Spring after the first distribution of business bonuses.

Proceed in this way?

Yes - we must make
it a success.
mb

N.L.W.

(N. L. WICKS)

13 December 1985

SRW (46)

Some 1070
respondents
from
MPO

All five departments tend to feel the objectives of the scheme are clear but that the criteria for making awards are not. There are mixed views about the clarity of the procedures for making awards but many people feel they are unfair. However there is a very clear difference in view between people at different grade levels. The higher the grade the more people feel that it is clear to them how the scheme will work and the greater the tendency to think procedures are fair. Lower grades are much less clear and tend to think procedures will be unfair. Those in professional/specialist posts are less clear than non-specialists about the scheme.

Customs
DoE
Dept Eng
MoD

Generally the view is that the bonus scheme will have no significant impact on the way people work and the lower the grade, the more likely are people to feel this; but where the scheme does influence people it will tend to demotivate them.

In general people say they are in favour of relating pay to performance although Principals are less sure. People think the current scheme is a bad one and the lower the grade the worse they think it is.

Performance Management

Managers agree that there is room for improvement in the performance of their staff. But they do not feel that the performance bonus scheme will help them to manage performance - and the lower grade the more strongly people feel this. Managers also feel that performance will not improve as a result of the bonus scheme - again the lower the grade the stronger the feeling.

Setting Objectives

Managers believe strongly that setting clear objectives is important in managing the performance of staff. However as a group they do not feel that the bonus scheme will help to set objectives focussing on end results.

Competition

On the whole managers tend to feel the scheme will not encourage competition between subordinates and all the managers in the survey tended to feel that competition between subordinates is a bad thing.

Morale

Raising morale is clearly felt to be an important part of a line manager's job, and managers feel the bonus scheme will tend to damage morale. Some senior managers feel this strongly. As a group, managers are uncertain about the likely effects of the bonus scheme on staff movements - higher grades tend to feel it will not encourage movement, lower grades feel that it might.

In some departments people are unsure about the extent of co-operation, while in others people clearly feel that different parts of their organisation do not co-operate well with one another. There is a general tendency across all five departments to feel communications are poor (mean scores are all below the mid point), and in some departments the lower the grade level, the poorer the view of communications.

In all five departments people feel that on the whole managers are expected to operate at high levels of performance and that managers have demanding objectives. Overall people are uncertain about managers responsiveness to change.

People feel that there is little relationship between an individual's performance and their level of reward and in most departments people have mixed views about the clarity of performance measures.

Most people feel managers are held accountable for the results of their work.

In most departments people feel managers do not have freedom to act, and in all five departments they feel that managers are not encouraged to take risks. The strongest feelings come from those at Principal level.

All five departments agree there are few promotion opportunities, but that on the whole there are adequate opportunities for individual development. People clearly feel that the best use is not currently made of available talent.

Some 1070 respondents from MPO

All five departments tend to feel the objectives of the scheme are clear but that the criteria for making awards are not. There are mixed views about the clarity of the procedures for making awards but many people feel they are unfair. However there is a very clear difference in view between people at different grade levels. The higher the grade the more people feel that it is clear to them how the scheme will work and the greater the tendency to think procedures are fair. Lower grades are much less clear and tend to think procedures will be unfair. Those in professional/specialist posts are less clear than non-specialists about the scheme.

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To wait E(A)

AJ2/PM1103

PRIME MINISTER

RUNNING BUSINESSES IN GOVERNMENT: THE NEXT STEPS
MEMORANDUM BY THE SECRETARY OF STATE FOR TRANSPORT [E(A)(85)(66)]

I have seen a copy of Nicholas Ridley's paper advocating relaxation of overall financial controls on fee earning businesses in government.

I can understand Nicholas Ridley's frustration, but his solution is not the right one. He is a monopoly supplier. The only pressure for efficiency is control on his unit costs, there is no market to do it for him.

This is an issue which crops up all over the public service. The pressure must be to reduce costs while maintaining or improving services, not to give let outs where the customer can be made to pay up.

As a principle, running costs should not be increased except through the normal PES procedure unless the circumstances are very exceptional. It is for you and your colleagues to judge whether the current wait for driving tests amounts to an exceptional circumstance. The view you took of the situation might be different if Mr Ridley were offering a substantial reduction on unit costs as a result of the increase.

I am sending a copy of this minute to John MacGregor.

ROBIN IBBS
12 December 1985

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Prime Minister
We are
convinced that this is
broadly in line with
GB. Comment?

CCBG

Prime Minister

DLW
19/12

BF

HMT's comments for
DN: please chase on
16.12.85

Yes MS

NORTHERN IRELAND CIVIL SERVICE MANPOWER AND DEPARTMENTAL RUNNING COSTS

In line with colleagues responsible for Whitehall Departments I have been reviewing, as part of the 1985 Public Expenditure Survey, the manpower requirements of the Northern Ireland Civil Service and the appropriate level of allocation for departmental running costs. This work has been undertaken within the overall framework of the need to maintain a downward pressure on Civil Service numbers, linked to the establishment of tough but realistic targets for departmental running costs.

2. I am still aiming to achieve the manpower target for 1 April 1988 which was announced after last year's Survey, but with a minor upward adjustment of 100 in the interim targets to accommodate pressures in the Social Security area in particular. The figures which I propose to include in the Public Expenditure White Paper are as follows:

<u>1 April 1986</u>	<u>1 April 1987</u>	<u>1 April 1988</u>
25250	24900	24550

3. On departmental running costs I propose the following figures:

£000s						
<u>1985-86</u>	<u>%Incr</u>	<u>1986/87</u>	<u>%Incr</u>	<u>1987/88</u>	<u>%Incr</u>	<u>1988/89</u>
416,602	5.7%	440,291	2.8%	452,558	2.3%	463,061

For 1986/87 the provision represents an increase against 1985/86 forecast outturn of 5/7%. In common with the position regarding DHSS(GB), I have

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/ not

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not included any provision for the consequences of the review of Social Security. The targets for the two final years of the Survey are in accord with the objective agreed by Cabinet of increases within a figure $\frac{1}{2}$ % below forecast GDP factors.

4. As we have carried forward our work in both these areas, my officials have kept in very close touch with Treasury officials and I understand that what is proposed above is very much in line with the targets, for both manpower and running costs, established for those departments in GB which undertake comparable activities to Northern Ireland departments.

5. I should be grateful to have your agreement that the figures set out above should be included in the Public Expenditure White Paper.

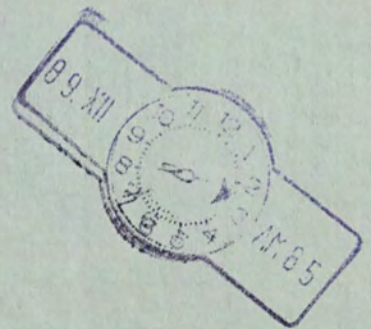
6. A copy of this minute goes to John MacGregor for information.

N. Ward
(Private Secretary)
for TK

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

9th December 1985

CONFIDENTIAL





Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON

9 December 1985

Dear David

CIVIL SERVICE NUMBERS

This letter reports the latest Civil Service Manpower figures.

Departments' staff-in-post figures at 1 October 1985 totalled 595,764 - a net reduction of 399 in the last quarter, made up of 392 industrials and 7 non-industrials. The new figure represents an overall reduction in the size of the Civil Service of 136,511, or 18.6 per cent since the Government took office, with the number of non-industrials reduced by 69,834 and of industrials by 66,677.

The out-turn is generally in line with expectations; some slowing down in the pace of recent reductions was anticipated for this quarter, which is the period when the majority of recruitment takes place. The largest reduction took place in MOD (557) because of continued efforts to control the replacement of staff. There were increases of 305½ in DHSS (due to the build-up of the Office of the President of the Social Security Appeals Tribunal and the computer centres) and of 256 in Inland Revenue (reflecting increased recruitment).

It is proposed to announce the October figures shortly by way of a low-key Written Answer. The Prime Minister may like to know what the figures are before they are announced.

Yours ever
Richard

R J BROADBENT



C.P.W.

JS10/RI7
MANAGEMENT IN CONFIDENCE

PRIME MINISTER

PERFORMANCE BONUS EXPERIMENT

I have seen the minute on this subject from Robert Armstrong dated 29 November and the covering minute from Richard Luce of the same date.

The minutes confirm my concerns, expressed to Grey Gowrie before the experiment began, that an excellent opportunity to improve performance in the Civil Service and to integrate more effectively the various moves being made to improve management is in danger of being wasted. There is evidence of more effort on evaluation than on planning (with insufficient use being made of the extensive experience the right consultants could provide), and of detached interest rather than determination to succeed. Any scheme, in either the public or private sector, will not succeed without the obvious commitment of senior management. The Hay/MSL report states that this has been missing and my own observation confirms that it has been patchy across Departments.

The object of the experiment should be to establish how performance related pay can best be used in the Civil Service. It would be a great pity if it were merely to show that Civil Service management is not yet capable of using performance pay effectively. My own belief is that such a conclusion is still avoidable. However, a clear lead from the top of each Department is essential.

I was heartened to read in Richard Luce's minute "I am anxious to do all I can to make it a success". I think it would be helpful if each of your Cabinet colleagues were now to make it clear to his Permanent Secretary that, without becoming in any way involved himself, he wished the experiment to be made a success in his Department and looked to the Permanent Secretary to ensure that it would be so. If you feel able to ask them to do that I am sure it would be helpful.

I am copying this to Richard Luce and Robert Armstrong.

ROBIN IBBS
6 December 1985

MR WICKS

6 December 1985

PERFORMANCE BONUS EXPERIMENT

Hay-MSL have surveyed staff attitudes to bonuses in advance of the first allocation in February/March 1986. Not surprisingly, they are somewhat negative, just as happens in the private sector (although this may in part be due to the questionnaire having no less than 125 questions!)

The survey does however throw up some fascinating (and often conflicting) insights.

- Officials believe the amount they are paid does not reflect their performance
- Managers don't think bonuses will help performance
- Managers are held accountable for performance
- Bonuses are likely to damage morale and motivation
- Pay should be related to performance
- Managers think competition is bad

This seems to reflect a muddle between a public service mentality and (hopefully) a growing awareness of the need to deliver the goods. If FMI becomes a reality in setting true targets and monitoring achievements then this can only improve. Sir Robert promises another report following the first distribution of bonuses which could also usefully cover how well bonuses are integrating into FMI.

It is clearly wrong that the most hardworking groups - the Private Offices - should have been excluded in some Departments but Richard Luce promises to remedy this next year.

Peter Warry
PETER WARRY



cc BSA

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 2/2/6E

5th December 1985

NBP 7.

de de

MOD RUNNING COSTS

Thank you for your letter of 30th November which I am bound to say I found disappointing.

As I said in my letter of 4th November, the decision taken at Cabinet on 3rd October could not, and did not, take account of the special problems arising in the case of the Ministry of Defence which were the subject of separate correspondence at the time of the Cabinet meeting.

In your letter of 6th November you specifically assured me that the running costs regime was not intended as an attack on my block budget. That being so, I cannot understand why you should be proposing that this Department's running costs total should be a limit rather than a target after 1986/87 since this would have precisely that effect. This is not simply a matter

The Rt Hon John MacGregor OBE MP

CONFIDENTIAL

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of accounting practice: it is a crucial issue which concerns the way in which we manage the resources required for the support of our defence capabilities.

I consider it important to resolve this issue sooner rather than later. Apart from anything else, it has a bearing on what is to be said about the Ministry of Defence's running costs provision in the Public Expenditure White Paper.

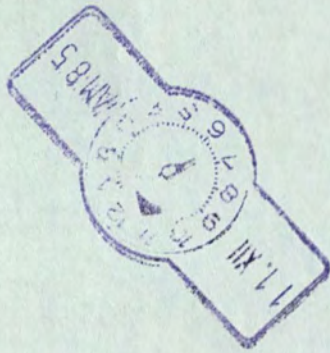
I am sending copies of this letter to the Prime Minister ✓ and to Sir Robert Armstrong.

jos ew
Michael Heseltine

Michael Heseltine

CONFIDENTIAL

CIVIL SERVICE: Long Term Policy: A-18



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

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

N.B.P.M.

m.
 30 November 1985

Dear Michael,

RUNNING COSTS

Thank you for your letter of 18 November.

I regret that I cannot accept that the Ministry of Defence should be exempt from the Cabinet decision to limit running costs or that the application of such a limit need frustrate your ability to secure value for money.

Colleagues decided collectively on 3 October that limits should be applied to all departments and I have only accepted that a transitional period is justified in your case because of the major change in coverage which I have agreed should be made to help you.

However, we have already settled what should happen for 1986-87. We can return to the question of longer-term arrangements ahead of next year's Survey.

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

Lee,
JH

JOHN MacGREGOR

CONFIDENTIAL

Civil Service P 18

Lay Term

0724



Awaiting

PLU+

Beesley's

Comments

cc P. Wamy

cc I. Beesley

MINISTER OF STATE, PRIVY COUNCIL OFFICE

PRIME MINISTER

PERFORMANCE BONUS EXPERIMENT

Following the Seminar for Junior Ministers held on 7 November you asked for a progress report on this experiment and I also promised to let you have a note on the specific point about eligibility of Private Office staff which was raised at the Seminar.

Progress Report

... I attach a copy of a report by Sir Robert Armstrong on progress of the experiment. His report and the HAY/MSL report attached to it identify a number of areas where action is required and I shall be discussing these and other aspects of the report with Sir Robin Ibbs in the next few days. Though we stated clearly when we embarked on the experiment that we were doing so with an open mind, the experiment is a part of our wider programme of management reforms designed to improve efficiency and effectiveness in the Civil Service and I am anxious to do all I can to make it a success.

...
HAY MSL
with
Pwamy

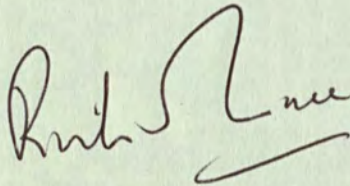
Eligibility of Private Office staff for bonuses

Colleagues at the Seminar were concerned that some staff in their Private Offices were not eligible for bonuses under the experimental arrangements.

The position is that the Cabinet decided that the initial experiment should be limited to staff in the grading levels Principal up to Grade 3. The intention was to keep the scope (and cost) of the experiment within manageable bounds. As a result staff in Private Offices below Principal level are not eligible for bonuses.

Departments were also given discretion to exclude other groups of staff in exceptional cases, where for example a management assessment of performance may be difficult to make. In some Departments this has led to Private Office staff in eligible grades being excluded from the experiments on the grounds that the person best placed to assess their performance is the Minister, who we agreed from the start should not be directly involved in individual bonus decisions so as to avoid any suggestions of politicisation. It is possible that these decisions may also have been influenced by the existence of the Private Secretary allowance which is paid to all these staff in recognition of the particular circumstances, including long hours, of their responsibilities.

I think it is too soon to move to any general extension of the scheme at this early stage to cover grades below Principal level and it would be difficult to make an exception purely for staff in these grades who are working in Private Offices. If the experiment is successful however I would hope we shall be able to extend this approach to other grades as soon as possible. Also, while I understand the reasons which led some departments to exclude from the experiment Private Office staff at Principal level and above, I shall want to review this at the end of the first year of the experiment. In any case we shall need to find a way of surmounting the obstacles and integrating all Private Office staff in more permanent performance pay arrangements.

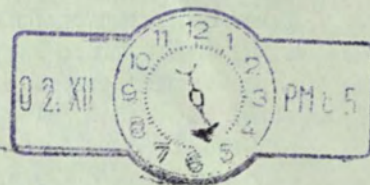


RICHARD LUCE

29 November 1985

MINISTERS

PM'S MEETING'S
WITH JUNIOR MINISTERS
JUNE 79



CONDINGTOL



Ref. A085/3091

- ✓ 1. MINISTER OF STATE, PRIVY COUNCIL OFFICE
 2. PRIME MINISTER
-

Performance Bonus Experiment

Following the seminar for junior Ministers, the Prime Minister asked for a short report on progress in implementing the performance bonus scheme.

Background

2. The Cabinet decided in July 1984 (CC(84) 28th Conclusions) in favour of proceeding with an experimental scheme of performance bonuses. The experiment, beginning in the financial year 1985-86 and running for three years, would be limited initially to staff from Principal to Grade 3 inclusive, at a cost of £4 million (rather less than 1 per cent of the total pay bill of the 20,000 eligible staff). There was no commitment to continue the arrangements after the three-year period, or to extend the experiment to other grades, though this was not ruled out. Ministers agreed that the experiment should be subjected to careful monitoring and evaluation.

The scheme

3. The central framework for the scheme provides scope for each Permanent Head of Department to tailor the arrangements to departmental circumstances. No more than one in five of the eligible staff may receive a bonus, but the amount of the payment may be varied (subject to a minimum of £500). Within the general intention that bonuses should reward particularly good performance over the year, the criteria enable well-directed energy and effort, as well as results, to be recognised. While,



in principle, all staff in the eligible grades are within the scope of the scheme, Permanent Heads may, exceptionally, exclude particular groups of staff. Ministers have decided that they should not take part in decisions on bonus awards, and that payments should be confidential to the recipients.

Present situation

4. Departments have made the arrangements and communicated them to the staff concerned. In most Departments, bonuses for the first year will not be paid until the last quarter of the 1985-86 financial year, following assessments made early in the New Year of performance since last April. It is too early therefore to draw general conclusions about the operation and effects of bonus arrangements. The monitoring and evaluation programme is being carried out with the help of Hay-MSL Management Consultants. Already a good deal of work has been done to assess the attitudes of staff towards the scheme and their understanding of it. A first report on this has recently been made by Hay-MSL, and a copy is attached.

*Summary only
is attached*

Survey of attitudes

5. This first survey, undertaken in five Departments, confirms that there is a good deal of doubt among those concerned about the effects of the experiment on performance and working relationships. This is understandable and not unexpected at this stage when no bonus payments have yet been made. We knew when we began this experiment that it would take time for staff to adjust to it and for the benefits to emerge. The survey results provide an initial benchmark against which to judge developments in attitudes as the experiment proceeds, and the evaluation programme will include further surveys at intervals over the three-year period.



6. It is clear that more work needs to be done both by Departments and by the Cabinet Office (MPO) towards making the experiment a success. In particular, more attention needs to be paid to communicating the criteria effectively to those concerned and to bringing out the relationship between this scheme and other initiatives to improve managerial performance.

7. We have all along recognised that the success of performance-related pay depends in part on the ability to set clear objectives and to develop improved means to assess progress and performance in achieving them. That is an important part of the current programme of management reform of which performance-related pay is only a part, and there is more work to be done.

Next steps

8. The survey results have already been sent to Departments to consider what action needs to be taken now to improve the communication of the scheme to staff, in the light of the points summarised in paragraph 6 above, and I will be reviewing this with Permanent Secretaries shortly.

9. The next survey of attitudes will take place in the spring after the first distribution of bonuses has been made, and other data from the monitoring programme will also be available at that stage. We will be better placed to consider then whether the design of the scheme may need to be modified (for example to publish bonus awards) and I shall make a further report to you then.

RTA

ROBERT ARMSTRONG

29 November 1985

MANAGEMENT IN CONFIDENCE

PERFORMANCE BONUS EXPERIMENT IN THE CIVIL SERVICE Report by Officials

INTRODUCTION

1. This is the second report on the progress of the performance bonus scheme for staff in Grades 3 - 7 of the Civil Service, introduced as a 3 year experiment in April 1985. The first report in November last year covered initial reaction to the scheme which allows up to 1 in 5 staff at these levels to receive a bonus for particularly good performance during the year, within an overall cost ceiling of £4 million per annum (rather less than 1% of the pay bill for the grades concerned). That report suggested that the reception of the scheme was generally unfavourable, and there was a good deal of scepticism about whether the scheme could be made to work satisfactorily.

2. This submission covers reaction after a year, when all departments have paid out the first bonuses. It is based, as before, on a wide ranging programme of work supervised by outside management consultants, who collected data on the operation of the scheme, conducted case studies and attitude surveys and interviewed staff. Their conclusions are contained in the draft report attached. (It is at present in draft form while some statistical data is being checked. The main conclusions, however, are unlikely to change.) It also reflects discussion of their report by Principal Establishment Officers of all the main departments and Treasury officials.

MAIN FINDINGS

3. The consultants have summarised their findings on pages 1 and 2 and presented their conclusions on pages 20 to 23. They have come to the view that although the scheme has been implemented smoothly (a considerable achievement in itself for a complex initiative covering about 20,000 people across the service), it has not yet visibly improved performance or increased motivation. It is still unpopular with the majority of staff even though they favour linking pay to performance. There are some positive signs from the attitude survey, especially among the more senior grades concerned with running the scheme, that it is capable of strengthening line management relationships, but overall its limited impact appears to have been at best neutral.

4. Of most interest, the report shows on the scheme's operation:

- . 16% of eligible staff received annual bonuses and 1% special bonuses
- . the range for annual awards was £500 - £3000, and that for special awards £100 - £1500
- . almost all awards went to those marked the equivalent of Outstanding (Box 1) or Very good (Box 2) in their annual appraisals, but 55% of those with a 1 and 75% of those with a Box 2 marking did not receive an award.
- . the opportunity cost of administering the scheme each year is around £1 million.

5. On the scheme's impact it shows:

- . 78% are in favour of relating pay to performance
- . 68% are against this scheme (including 47% of bonus recipients)
- . 70% of non-recipients and 47% of recipients are unclear on the criteria for awards (more than at the first review)
- . there has been little perceived effect on performance assessment, target setting, or other management systems
- . there is less concern about the scheme's impact on working relationships than before
- . Grades 2 and 3 feel more positively about the scheme than other eligible grades
- . only 23% of recipients and 6% of non-recipients say it improves motivation
- . what most matters to staff covered by the scheme is doing a worthwhile job, good working relationships, and freedom to act. Pay is important, but not the prime preoccupation.

ANALYSIS

6. The consultants' analysis suggests that it would be possible to abandon the scheme or carry on with the scheme unchanged. But they believe that both courses would be unwise. They would risk damaging future performance pay developments in the civil service. They identify in pages 20-23 of their report a number of areas of design and management of the schemes where changes could be made which should increase the chances of the scheme becoming more effective and would give the opportunity for the civil service to learn more about the approach which stands the best chance of making performance pay a success in the civil service environment. The experiment was, as they have pointed out, originally designed as one during which modifications would be made over the years to increase the prospects for effectiveness.

PROPOSALS FOR ACTION

7. We agree with this analysis. Some would argue that the right course would be to end the experiment immediately in the light of it. This would however be a major blow to the prospects for introducing performance pay in the Civil Service. It would also be premature: the new scheme represents a fundamental break with tradition at these management levels and dramatic results were neither expected, nor likely, in this initial period.

8. We believe that continued operation of the experiment for at least a second year would be right, with greater efforts to improve the value for money from the scheme, and we therefore propose the following changes:

(a) criteria for bonus recipients

The present central criteria for awards are drawn up in general terms. The widespread lack of understanding of these amongst recipients and non-recipients alike is worrying. The more favourable view of the scheme of senior staff actually involved in making judgements, suggests clearer criteria could help make the scheme more acceptable as well as more effective. Departments strongly believe, however, that existing

freedom to tailor schemes to departmental circumstances and meet a number of different needs should be preserved.

We therefore recommend that each department should take action within the centrally defined criteria to ensure that the criteria for awards in their departments are made more explicit and are better explained and understood, for example by drawing on the reasons for awards in 1985/86 and producing more extensive illustrative examples of the achievements and effort likely to merit a reward in 1986/87.

(b) linkages with other management systems

Many people covered by the attitude survey appear unable to discern connections between departments' existing management systems, including their FMI planning systems and appraisal systems, and bonuses. It seems clear that people have misinterpreted the fact that there can be no guaranteed direct link (for example, with appraisal marks) into believing that there is no link at all. This misconception needs to be ended.

We recommend that this is something that should be tackled on a departmental basis. In part it should be achievable through improving communications about the scheme and the criteria for awards. All departments will wish to ensure that the reasons why Box 1 appraisal marks did not earn bonuses are both explored and explained to staff. It a close and perceptible link should also be possible to establish between management systems and bonus awards, for example, in the case of the achievement of major departmental objectives.

(c) quotas

The present central rules lay down that no department may pay bonuses to more than 1 in 5 of their staff and that no awards may be less than £500. They also lay down that special bonuses should not take more than 10% of the resources for the scheme. Within the ceiling of £4 million allocated to the scheme this has permitted some degree of experimentation of different kinds: some departments deliberately chose a lower target for awards and raised the average total cash amounts to individuals. Others looked for the widest spread. But the rules have inhibited the fullest range of experimentation and freedom to respond to difficult marginal cases.

We therefore recommend that in place of the existing rules the centre should only lay down broader guidelines within the existing cash allocation. These would place on departments the responsibility for deciding their own ground rules for selecting recipients (including special bonus recipients). The central guidance would say that Departments should aim to set clear sums or ranges for payments according to the criteria for their scheme, reflecting the links they can make with other management systems, and avoiding the danger of the bonuses, after tax, appearing too trivial. The limits on the proportion of special bonuses would also be withdrawn to allow complete freedom on their use, within the overall cash allocation.

(d) communication

One of the most worrying features of the management of the scheme has been the continued failure to communicate effectively the purposes of the scheme and the use being made of it by managers in departments.

Despite the efforts made since the first evaluation report, people seem less clear about the scheme now than when it started.

We recommend that each department should make a renewed effort to communicate the basis of the scheme, beginning with the changes they now plan to launch probably in October this year. We further recommend that the central rules should be revised so they make clear (a) that all recipients of awards should be told personally of the reasons for an award wherever possible face to face by the responsible line manager - citations being used where possible in the decision making procedures and handed over to individuals; (b) that departments should make a formal announcement that awards have been made, giving the proportions of staff and examples of the situations meriting awards; (c) that non-recipients should be entitled, if they wish, to discuss with their own line manager why they did not receive an award.

(e) privacy of awards

Ministers originally decided that, in line with much private sector practice, the names of performance bonus recipients should not be published. This has caused disquiet amongst the unions and non-recipients of bonuses given the lack of clarity over criteria. There is some anecdotal evidence in the consultants' report that knowledge of who has received bonuses can in some circumstances help win acceptance for schemes. But there is considerable difference of opinion between departments over whether a policy change on publication is desirable, and would assist the objectives of the scheme.

We recommend that the prohibition on divulging the names of recipients should be lifted to the limited extent that it should be open to departments to allow managers to disclose to their staff who did, or did not, receive bonuses within their commands and discuss the awards with them. But this should be done on an "In Confidence" basis, as an internal management matter, and should not be extended to the wholesale publication of lists of recipients across Departments or in the outside world.

NEXT STEPS

9. If Ministers are content with the conclusions of this report the next steps following consultation with staff interests will be for the Cabinet Office (MPO) to issue revised versions of the central rules; for departments to plan and announce the changes to their own schemes which they propose to introduce in the current year's operation of the scheme; and for the improved communication of the criteria and operation of the schemes to be set in hand. It is clearly desirable for as many changes as possible of those identified to be introduced in the current year, but some may have to wait for the following year assuming we decide to continue the experiment then. We shall also want to review the experience of the scheme so far to ensure we absorb the lessons from it within the civil service's general strategy for developing civil service pay arrangements. The Treasury and the Cabinet Office (MPO) plan to discuss this fully with departments in the autumn.

10. We will also need to handle the publication of the first year's evaluation report when the statistics are complete, and feedback the results to staff, the unions, Parliament and other interested parties such as the press and personnel community. We would at present propose to do this in September, together with a statement indicating the broad area of changes planned for the current year's operation of the scheme.

ANNE MUELLER

cc ~~SG~~

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 2/2/6

18 November 1985

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 2111/3

NBPM.

De blr

MOD RUNNING COSTS

Thank you for your letter of 6th November.

I am glad to note that you have accepted that the MOD's running costs total should be treated as a target rather than a limit during 1986/87. I must say, however, that I am surprised by your suggestion that this should only be an interim arrangement, not least in my view because of the assurance in the earlier part of your letter that the new running costs regime is not intended as an attack on our block budget. The reasons why I consider it essential to retain my capability to manage the defence cash limit as a single block are more fundamental than such technical points as the degree of efficiency of our monitoring arrangements in the early stages. The essential points are, first, that much of the expenditure covered in our

The Rt Hon John MacGregor OBE MP

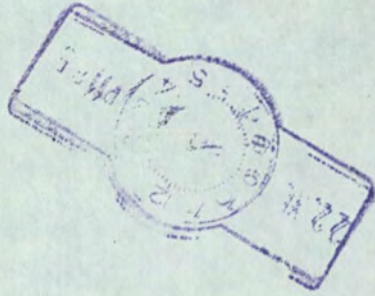


running costs provision is in support of our Armed Forces and therefore very different in character from the kind of administrative costs which the new regime is intended to control; and, second, that the cash limiting of a rather arbitrarily selected group of expenditure items would basically conflict with the way in which we manage, and need to manage, our resources in the interests of securing value for money. I must make it clear therefore that I regard your proposition that our running costs provision should be treated as a limit after 1986/87 as unacceptable; nor can I see why there should be any difficulty in explaining to Parliament why it is necessary to maintain this distinction between the Ministry of Defence and other Departments should the need arise. But, as I said in my letter of 4th November, we shall certainly endeavour to keep within the agreed running costs total.

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

Michael Heseltine

CIVIL SERVICE: Long Term: PE18



CONFIDENTIAL



CCBS

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon George Younger TD MP
Secretary of State for Scotland
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

NBPM

11 November 1985

Dear George,

RUNNING COSTS CONTROL

Thank you for your letter of 23 October in which you asked for confirmation that information about a department's pay assumption should not be disclosed before or after a pay settlement.

I see no need to make any statement about pay assumptions in running costs limits until details of departmental figures have been announced. Some information will be in the Public Expenditure White Paper, when figures for departmental running costs will be given within departmental planning totals; publication of running costs as limits will not be until the presentation of Estimates to Parliament. Until then I expect departments to hold to the guidance given in the attachment to my letter of 14 October, and any request for information should be met with a holding reply.

We can expect considerable interest and questioning on pay assumptions. This will not just be on the Floor of the House or from Select Committees. For example, departments will need to allocate their running costs limits to budget holders and for this purpose they may need to circulate internal assumptions about increases in the pay bill element; hence there is a risk that these assumptions will leak. There should be no difficulty about refusing to give information before publication of the White Paper, and indeed before publication of the running costs limits in Estimates. I would also expect departments to continue to withhold such information for as long as possible after that on the grounds that as the only important figure is the running costs limit, it would be misleading to give any prominence or attention to one element.

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CONFIDENTIAL

Formal refusal to release the information could however do greater damage by appearing to treat pay assumption information as more significant than it is. Once running costs details have been announced therefore after publication of the White Paper I see no need to withhold information if departments are pressed. But I think it important to ensure that the presentational context is right. I suggest the following line:

- (i) Running costs limits have been set at levels which took account of a host of relevant factors which affect individual departments differently. Such factors include the departments' own assumptions about rates of likely cost increases for pay, materials, services etc and the volume of usage e.g. numbers in post at different levels, travel, training, overtime and other staff related costs, accommodation and other administrative items. Departments would have used such factors to build up their Survey bids for running costs which were then subject to discussion/negotiation with the Treasury in the normal way in arriving at a cash figure to cover running costs. It would be misleading at the end of that process to single out one of the original assumptions - e.g. pay increases - as having any particular significance in the total.
- (ii) A single figure for pay assumption is also misleading in that it rests on assumptions about pay movements for different grades, professions, incremental pattern, location, shift and allowances etc. The impact on the pay bill takes in other factors again (such as manpower numbers, amount of overtime etc).
- (iii) Within the running costs limits departments will be required to absorb the effects of whatever pay settlements emerge. Thus internal assumptions about possible pay increases made before the limits were set and the pay negotiations concluded are not highly significant.
- (iv) If notwithstanding this explanation there is still an interest in knowing what the pay assumption was, departments would give it.

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CONFIDENTIAL

The Treasury issued no central pay assumption or positive direction on the rates of pay to be used. Nevertheless departmental assumptions, and other elements in their bids for running costs, were made known to the Treasury during the Survey discussions and negotiations. Some differences in the percentages used by departments need not be surprising because of the difference between them illustrated by (ii) above. But clearly it would be harder to defend variations in pay assumptions beyond a fairly narrow range and the Treasury have had this very much in mind in its discussions with departments on their running costs limits for the coming year.

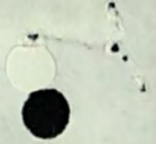
I trust that this further guidance will allay your, and colleagues, concern on this matter. I am copying this to the Prime Minister, Members of Cabinet, other colleagues in charge of departments, Permanent Secretaries of Revenue Departments and Sir Robert Armstrong.

Yours etc,
JH

JOHN MacGREGOR

CONFIDENTIAL

CIVIL SERVICE: Long Term: PE18



82W

7 November 1985

This is just to record that the Prime Minister has seen and noted the Chief Secretary's minute of 6 November about running costs. She was grateful for this report.

TIM FLESHER

Richard Broadbent, Esq.,
Chief Secretary's Office,
HM Treasury.

2



ECU

bc Ian Beesley

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

— PERFORMANCE RELATED BONUSES

See Ministers
June 1979
PMS meetings with
Junior Ministers,

During today's Seminar for Junior Ministers, there was some discussion of the system of performance related bonuses. The Prime Minister would like to have a short report on the progress in implementing this scheme, including information on the reports which she understands Hay-MSL have produced.

NIGEL WICKS

7 November 1985

dlr



Levc

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

DUTIES AND RESPONSIBILITIES OF CIVIL SERVANTS
IN RELATION TO THEIR MINISTERS

The Prime Minister has seen your minute of 1 November in which you seek her approval for the submission to a sub committee of the Treasury and Civil Service Committee the memorandum attached to your minute. The Prime Minister is content for you to submit the memorandum.

I am sending a copy of this minute to Mr Thomas, Office of the Minister of State, Privy Council Office.

new

7 November 1985

EA

CONFIDENTIAL

cc BT

FROM: CHIEF SECRETARY
DATE: 6 November 1985

PRIME MINISTER

RUNNING COSTS: PROGRESS REPORT *mt*

Cabinet on 3 October endorsed my proposed arrangements for settling running costs in the Survey.

2 At that time, the overall running costs bids indicated an increase in 1986-87 of more than 7 per cent when compared with the current year's Estimates provision. I am glad to be able to report that, with considerable co-operation from colleagues, the figure has been reduced substantially. Some minor issues remain to be settled, but it looks as though the overall increase will be no more than 5.7 per cent. That figure of course does not include any increase for DHSS running costs which may stem from the Social Security changes. The published figures might show a figure closer to 5 per cent, because the expected outturn for this year, 1985-86, could be higher than the original estimate. It is too early to be sure about that.

3 We have undertaken to publish departmental running costs figures. I am considering what timing would be appropriate, and will tell colleagues what has been decided in due course.

4 I am copying this to members of the Cabinet and Sir Robert Armstrong.

Prime Minister 2

To note. Mr Heseltine made a great fuss about his exercise. He went along in the end on the basis that running costs in the MOD will be ~~as~~ managed to a target, not a limit.

jm
JOHN MacGREGOR

CONFIDENTIAL — *Ben*

6/11



COMPANION
M
LONDON

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N BPM.

cebr

Treasury Chambers, Parliament Street, SW1P 3AG

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

6th November 1985

Dear Michael,

MOD RUNNING COSTS

Thank you for your letter of 4 November.

I am glad that we are agreed that your department's running costs total for 1986-87 should be set at £5,215 million. This will enable me to report to Cabinet on Thursday that figures for all departments have been agreed.

You stressed the need to take account of the fact that the 58,000 Service personnel remaining within running costs perform functions in support of front-line units (who are now outside), and that-because of problems of disaggregation - you are involved in some very rough and ready figuring at present. I accept this, and confirm that the new regime for running costs control is aimed at achieving tighter discipline over such expenditure across all departments and is not intended as an attack on your block budget.

I also accept the need for flexibility in the last resort. But we have all agreed that sound planning for such expenditure is required and that every effort must be made to stay within the limits once they have been set. I am surprised that you thought MOD was in some way excluded from the Cabinet decision of 3 October; as you know, I certainly believed that we had already agreed your inclusion along with your reduced coverage at our bilateral on 26 September. Cabinet did not, of course, agree any exclusions.

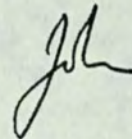
CONFIDENTIAL

CONFIDENTIAL

However, I acknowledge that the very significant changes we have made to your running costs coverage, when added to the untested nature of your monitoring mechanism for the Service personnel included, does leave you dependent upon uncertain forecasts for next year. Exceptionally, therefore, I am prepared to agree that you should apply the total as a target rather than a limit during 1986-87, on the understanding that you will observe this target just as keenly as you would a limit.

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

Yours ever,



JOHN MacGREGOR





MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

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

MO 2/2/6

4 November 1985

MOD RUNNING COSTS

Thank you for your letter of 30th October. *attached*

The decision taken at Cabinet on 3rd October and the parliamentary announcement on 22nd October were, of course, taken and expressed in general terms. They could not, and did not, take account of the special problems which the new running costs regime would present for the Ministry of Defence, which were under separate consideration at the time of the Cabinet meeting.

As we have discussed, it would be inappropriate to apply this regime to our front-line Service personnel and its application to the 58,000 Service personnel I am prepared to see covered must take account of the fact that they perform

The Rt Hon John MacGregor OBE MP



functions in support of front-line units (as, of course, do a considerable proportion of our civilian staff). Moreover - because of problems of disaggregation - the non-pay costs included in our running costs provision relate to all Service personnel as well as civilians. We are involved in some very rough and ready figuring. While we shall certainly endeavour to keep within the running costs total, I, therefore, consider it essential that I retain my existing capability to manage the defence cash limit as a single block.

I hope that, on reflection, you can now accept that this capability should remain unimpaired. In that event I would feel able to accept your proposal that the running costs total for 1986-87 should be set at £5215 million, if this would help you over your general presentational problem.

Having said this, I might observe that my own bid (£5258) represented an increase of 5.3% over the comparable figure for 1985/86 so I am not clear why it would push the total back over 6%. Since it is now clear that Departments have freedom to put in their own figure only so long as it is not more than 5%, I am also left wondering in what meaningful sense we have abandoned a central pay assumption. But no matter.

Our officials are at present discussing the question of the Estimates presentation, as suggested in your letter of 21st October. The reasons which have been advanced for changing

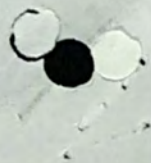
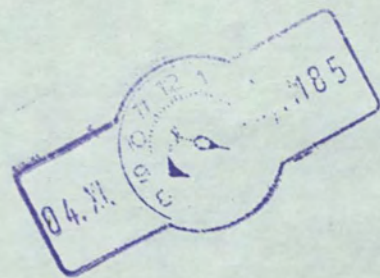


the format of the Votes do not seem compelling. We could, for example, inform Parliament of our running costs provision in the preamble to the printed Estimates and there are ways of concealing the additional provision for pay increases which do not call for any restructuring. The grounds for pressing these changes therefore seem to me to be obscure, unless it is the ultimate intention to move to voted running cost cash limits which, as you know, would not be acceptable to me. But we can take this further when officials have put forward advice.

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

Yours ever
MHS

Michael Heseltine





10 DOWNING STREET

Prime Minister

—

This is a classic
straightforward account
of a civil servant's
duties which should
cause no problems.

Pennington
ms

N. L. W.

5.11

PE.18 with DW



MINISTER OF STATE
PRIVY COUNCIL OFFICE
2
- 1 NOV 1985
FILING INSTRUCTIONS
FILE NO.

Ref. A085/2778

1. MINISTER OF STATE, PRIVY COUNCIL OFFICE
2. PRIME MINISTER

Covering note
not yet seen by the
Minister but passed
forward on his
authority in his
absence

Mr Luce knows of,
and recommends the
memorandum

Duties and Responsibilities of Civil Servants
in relation to Ministers

John Fuller
APS/Minister of State
1.11.85

NLW
- 5.4

(attached)

The Treasury and Civil Service Committee have decided to set up a Sub-Committee to inquire into this subject, following the Note which I issued on 25 February 1985, following the Poincaré judgment and of which the Prime Minister informed the House of Commons in a Written Answer on 26 February.

NPO
It will
be a letter
later.

2. The Clerk of the Sub-Committee sent the Cabinet Office (Management and Personnel Office) a list of 22 questions arising out of that Note. We are asked to supply the answers by 6 November. Similar (though not identical) lists of questions have been sent to a number of organisations and people.

--- 3. I attach a draft of the Memorandum which it is proposed that the Cabinet Office should submit in response to that request. The draft Memorandum deals with all the questions but has regrouped them and to some extent reordered them for the sake of making a reasonably coherent and consecutive reply.

4. Paragraph 28 of the draft (on pages 13 and 14) deals with contacts between civil servants and Members of Parliament and Party organisations. At present the rules contain no provision which would explicitly allow civil servants orally to brief backbench MPs of any Party, save for the purpose of overseas travel (see paragraph 28(ii)). Mr Luce has suggested that there are other circumstances in which civil servants should be allowed to brief backbench MPs, with the agreement of the Minister concerned but not necessarily with the Minister present. This would be a change in the rules, and I think that we should consider it as



such. I am not myself convinced that it is desirable explicitly to provide for civil servants from home Departments to brief back-bench MPs, even with the agreement of the Minister concerned; such contacts could all too easily develop in a way which could embarrass either the civil servant or the Minister or both.

I therefore suggest that we should consider this proposal for changing the rules separately, and not in the context of the draft evidence to the TCSC, and that paragraph 28 should be included in the Memorandum as a statement of the existing rules.

5. The Clerk has indicated that the Sub-Committee will wish to take evidence from me during the course of November.

6. By this minute I seek authority for the Cabinet Office to send this Memorandum to the Sub-Committee.

RA

ROBERT ARMSTRONG

1 November 1985

DRAFT of 25 October 1985

Treasury and Civil Service Committee

Sub-Committee Inquiry: Civil Servants and Ministers: Duties and Responsibilities

Memorandum by the Cabinet Office (Management and Personnel Office)

Introduction

1. In February 1985 Sir Robert Armstrong, Head of the Home Civil Service, issued a note of guidance restating the duties and responsibilities of civil servants in relation to Ministers. The purpose of this memorandum by the Cabinet Office (MPO) is to explain the background to Sir Robert's note and to amplify certain points in it. It includes answers to a number of specific questions on which the Sub-Committee has sought information from MPO; these questions have been arranged as far as possible according to their subject.

The Background

2. It had been many years since the underlying principles governing the duties and responsibilities of civil servants in relation to Ministers had been formally stated and promulgated, and recent public discussion had suggested that the time was approaching when it would be useful to restate these principles and to make them readily available to civil servants. It was clearly impossible for such a statement to be published during the trial of Mr Clive Ponting; but the outcome of that trial if anything strengthened the case for a statement. The Prime Minister agreed that Sir Robert should issue his statement, and annexed it to a Written Answer that she gave to Parliament on 26 February 1985 in reply to a Question from Sir Geoffrey Johnson

Smith (Official Report cols 130-132). As some words in the final paragraph were inadvertently omitted from the statement when it was first printed in the Official Report, the full text is --- attached.

3. This note of guidance was not intended to break new ground. Rather it was a restatement of long-standing principles. Nor was it intended that this statement of principles should prescribe in advance for every situation in which a civil servant might feel that his duty as a citizen conflicted with his duty to the Government which he serves. But it offered guidance for a civil servant to follow in certain situations that he might face, in particular making clear that in such situations he should consult his superior officers and does not need to seek a resolution of his dilemma on his own.

4. It is perhaps worth adding by way of introduction that the duty to give loyal and efficient service to, and to keep the confidences of, an employer, and the risk of occasional problems in doing so, are by no means unique to the Civil Service. What is distinctive is the duty of readiness to provide the same standards of service to successive Governments, whose beliefs and policies may differ both from those of their predecessors and from those of the individual civil servant. That is a fundamental element in the duties of a civil servant, and it is part of his professional obligations and equipment that he should be so ready. Those who for whatever reason find it difficult to accept that duty and to conduct themselves accordingly had better not become civil servants. Ministers are entitled to assume that civil servants understand their obligations and, save in the most exceptional circumstances, can operate within them without distress or frequent practical difficulties.

Duties and Responsibilities to Ministers

What is or should be a civil servant's duty when he believes a Minister to be acting in a manner which exceeds his constitutional authority or which avoids his constitutional responsibilities? (Q.4)

What distinction should be made between duty to an individual Minister and to the Government? What should a civil servant do if he believes that he is being asked by his Minister to act in a manner inconsistent with (a) the policy of the Cabinet and (b) the policy of the Prime Minister? (Q.6)

What is the duty of a civil servant if a Minister rejects policy advice and proceeds in a way which he believes may be impracticable or positively harmful? (Q.16)

Can civil servants who disagree with a policy carry it out as effectively as those who believe in it? (Q.17)

5. Within the principle of collective responsibility, it is the Minister in charge of the Department who is responsible, and answerable in Parliament, for the conduct of the Department's affairs and for the Government's policy in the area for which he has departmental responsibility, and it is for him to see that his Department is instructed and managed accordingly. The duty of the civil servant is first and foremost to the Minister in charge of the Department in which he is serving. It is the Minister's responsibility to defend his decisions and to consult his colleagues where appropriate.

6. As advisers to Ministers, civil servants have a duty to give honest and impartial advice without fear or favour. But once a Minister takes a decision, civil servants have a duty to abide by his decision, subject to the law, and to give effect to Government policies as effectively as possible. Their professionalism should

enable them to implement policies effectively whether or not they agree with them. A civil servant who felt that, because of personal moral convictions, he could not carry out a particular policy effectively would have a duty to consult a superior officer in the manner outlined in paragraph 11 of the note of guidance, and a transfer to other work would have to be considered.

7. If a civil servant has sincerely-held doubts about the propriety of a policy or action, he does not need and should not try to carry the burden alone. It should be shared with senior officials, if necessary up to the Permanent Head of the Department. Where appropriate, the Permanent Head of the Department can consult the Head of the Home Civil Service, who has access to the Prime Minister.

What should a civil servant do if he believes that he is being asked by his Civil Service supervisors to act in a manner inconsistent with the policy of (a) departmental Ministers (b) the Government as a whole? (Q.7)

8. A civil servant who believed that senior officials were asking him to act in a manner inconsistent with Ministerial policies should take the matter to higher official levels including, if necessary, the Permanent Head of Department who would be able, if he considered that the situation required it, to seek a ruling from the Minister.

Where does the ultimate responsibility of a civil servant working to a junior Minister lie? What should a civil servant do if he believes that he is being asked by a junior Minister to act in a manner inconsistent with the policy of his Secretary of State? (Q.8)

9. Even where within a Department day-to-day responsibility for certain areas of activity is delegated to a junior Minister, ultimate responsibility nevertheless remains with the Secretary

of State or Minister in charge of the Department. If a civil servant believed that instructions from a junior Minister were inconsistent with the policy of the Ministerial head, the problem should be brought to the attention of the Permanent Head of Department, who is immediately responsible to the Ministerial head.

Other Duties and Responsibilities

The Government's efficiency strategy emphasises increased delegation of responsibilities down the line to Civil Service managers at all levels. What effect will this have on traditional doctrines of Ministerial responsibility and accountability to Parliament for all the actions of their Departments? (Q.15)

10. An important part of the Government's effort to increase efficiency and effectiveness has been a clarification and strengthening of the responsibilities of managers at all levels in the Civil Service. This involves delegation of authority, with managers at each level being held accountable for the performance of the areas under their command, and the efficient and economic use of the resources allocated to them. But these changes are concerned solely with internal or management accountability - that is the definition and exercise of accountabilities within the Department, up the management line through the Permanent Secretary to the Minister. These accountabilities are subject to the overall policy of the Minister, and they do not touch on external accountability - that is accountability to Parliament, which lies solely with the responsible Minister (and, in strictly defined conditions, the Accounting Officer).

11. The changes may well reinforce existing trends for individual managers in the Service, particularly in large executive operations providing services directly to the public, to provide information about and answer questions on the operations which

they direct; and also for civil servants at different levels below Permanent Secretary to appear before Parliamentary Select Committees to answer questions on matters with which they directly deal. But in doing so they are acting as the representatives of Ministers, and they remain accountable to the responsible Minister, to whom Select Committees, Members of Parliament or members of the public may have recourse if they are dissatisfied with any explanations or answers given by civil servants.

12. Thus the more sharply defined responsibilities and accountabilities of managers at different levels resulting from these recent developments in no way diminish the accountability of the responsible Minister to Parliament. On the contrary, with responsibilities and accountabilities of his senior civil servants more clearly defined and more systematic information about their activities and costs available to him through strengthened top management systems, the Minister is better placed to account to Parliament for the performance of his Department.

What are a Department's obligations to its "clients"? Can a civil servant's responsibilities to clients ever override his duty to Ministers? (Q.3)

13. Except in instances where Parliament has expressly placed duties on civil servants directly (for instance, in relation to revenue collection or the exercise of quasi-judicial functions), a civil servant exercises his responsibilities, including responsibilities in the provision of services to the public, on behalf of the Minister. Where, for example, Parliament has vested in a departmental Minister the responsibility for providing a particular service, the Department carries out its duties in this respect, as in others, on the Minister's behalf. There is no separate duty to the recipients of the service: the civil servant is responsible to his Minister for the efficient, effective and economical performance of the service as laid down by Parliament and by the Minister.

Are the viability and status of the Civil Service as an organisation, as distinct from the interests of the Government of the day, legitimate subjects for concern? Who is responsible for these? What should Permanent Secretaries and the Head of the Civil Service do if they believe that the policies of the Government of the day are damaging the Civil Service? Can the Head of the Civil Service adequately perform this role while he is simultaneously Secretary of the Cabinet? (Q.2)

14. The viability and status of the Civil Service are legitimate subjects for concern. Permanent Secretaries, if they believed that Government policies in relation to, or otherwise affecting, the Civil Service were not in the country's best interests, could and indeed should bring the matter to the attention of Ministers; and the Head of the Home Civil Service should, where appropriate, approach the Prime Minister, who is also Minister for the Civil Service. Ministers have the final responsibility for these matters. It is no more difficult for the Head of the Home Civil Service to do this if he is Secretary of the Cabinet than if he is Permanent Secretary in a Department; indeed it may well be easier because of his responsibilities for advising the Prime Minister on the management of Government business and on questions of machinery of government.

Does the convention limiting Ministerial access to papers of previous Administrations indicate a wider responsibility than that to current Ministers? Are there any other such indications? (Q.1)

15. The papers of previous Administrations are the property of the Crown, and the Government of the day is responsible for their custody and for controlling access to them. By convention Ministers of the Crown do not see papers of previous Administrations of a different political party, but Ministers of a

previous Administration may see papers which they saw while in office. Civil servants are responsible for applying the conventions on access to papers of previous Administrations, but they act in this as in other matters under authority delegated by Ministers. The current guidance to civil servants on the application of the conventions was set out by the Prime Minister in a Written Answer on 24 January 1980 (Official Report, cols 305-307).

16. A former Secretary of the Cabinet, Lord Hunt of Tanworth, has commented on the conventions as follows:

"... In law, all Government records - past and present - are the property of the Crown: and since the Crown acts on the advice of the Government of the day, the latter could theoretically dispose at will of the papers of a former Administration, although The Queen could well first exercise her Bagehotian right to "counsel, encourage and warn". The need for the conventions becomes obvious, however, when it is realised that they reconcile two otherwise potentially conflicting requirements. The first is that papers of a previous Government should be preserved to allow continuity of administration, research into the past and eventual release to the Public Record Office ... The second follows from the first. It is the need to avoid new Ministers using such papers to make unfair political capital at the expense of their predecessors". (Public Law, Winter 1982)

Civil Service Appointments, Promotions etc

In what way is the Prime Minister involved in senior Civil Service appointments in their Departments? To what information about civil servants does she have access?
(Q.12)

17. The Prime Minister approves all appointments in Departments at Permanent and Deputy Secretary level, on the recommendation of the Head of the Home Civil Service. The advice she receives is supported by appropriate information on the careers and qualities of those recommended.

In what way are departmental Ministers involved in senior Civil Service appointments in their Departments? To what information about civil servants do they have access? Do they see civil servants' personal files, including annual reports? How far is central guidance on these procedures provided by the Head of the Civil Service or by anybody else?
(Q.11)

18. Departmental Ministers are consulted by their Permanent Secretaries or by the Head of the Home Civil Service before recommendations are made by the Head of the Home Civil Service to the Prime Minister concerning Deputy and Permanent Secretary appointments. Departmental Ministers may also be consulted about other senior appointments in their Departments. Ministers do not see personal files or annual reports in these cases, though they may be given information, for instance about qualifications, experience and qualities, derived from personal files and annual reports.

If a Minister asks that an individual civil servant be transferred/not appointed/appointed, in general or in relation to a specific post, is this information recorded on the latter's personal file? How far would such requests be taken into account in the civil servant's subsequent career?
(Q.13)

19. When departmental Ministers have been consulted about appointments to Permanent and Deputy Secretary posts with a view to recommendations to the Prime Minister, the outcome may or may not be recorded on an individual's personal file, depending on the

particular case. Other instances may arise when it would be appropriate to record the effect of a Minister's wishes, for example that a particular individual should be considered for a post in his Private Office.

To what extent are attitudes of civil servants on major issues of the day, including issues in which they have themselves been professionally involved, systematically recorded or taken into account, and how far are they made known to Ministers or to the Prime Minister? (Q.10)

20. There is no general recording of civil servants' political attitudes on issues of the day, nor are there any arrangements for reporting these to Ministers. Civil servants' views on particular issues may of course become known to Ministers in the course of giving them advice on those issues. They are also, very occasionally, taken into account in making postings, in order to avoid a conflict of conscience for an individual civil servant. They may be made known, in confidence, during inquiries connected with positive vetting. They may also become known to the Department if a civil servant belongs to a category in which departmental permission must be sought to take part in local or national political activities.

Restrictions on Civil Servants

In the light of the Ponting trial is Section 2 of the Official Secrets Act still enforceable? To what extent does paragraph 6 of the memorandum attempt to restore credibility to Section 2? Is a new definition of "secret" needed? (Q.18)

21. The note of guidance did not address section 2 of the Official Secrets Act 1911: paragraph 6 restated the obligation of civil servants to keep confidences "quite apart from liability to prosecution under the Official Secrets Acts". It would not be

appropriate for this Department to express a view on either the form of the Official Secrets legislation or its enforceability. The Attorney General stated in Parliament following the trial of Mr Ponting (Official Report, 12 February 1985, vol 73, col 181) that "I shall continue to apply [section 2 of the Official Secrets Act] as it is, looking at each case on its particular merits".

Are there circumstances when a Minister could require a civil servant to release information in a manner contrary to obligations under the OSA and the memorandum? Have there been examples of such official leaking? (Q.19)

22. Section 2 of the Official Secrets Act 1911 does not prohibit the authorised release of information. Nothing in Section 2 or in the note of guidance prevents the release of information with the responsible Minister's authority.

To what degree should civil servants be able to use their discretion in dealings with Parliament and the press, or are they to be seen as the agents of Ministers? (Q.21)

23. In their day-to-day dealings with Parliamentary Select Committees or the press, civil servants may not have time to consult Ministers and indeed there is often no need for instructions in detail. In this as in other matters, however, civil servants are acting on behalf of Ministers, and are responsible for ensuring that what they say and do is in keeping with the wishes of Ministers.

Should different standards apply to Government press and information officers, and should these be political appointments? Are there wider responsibilities than to Ministers in the presentation of information and in contacts with the media? (Q.5)

24. Government press and information officers are civil servants working to the same standards and having the same responsibilities as other civil servants. Thus information officers are acting on behalf of the responsible Minister, and in the presentation of information and in their contact with the media they need to take care that they do not appear to be expressing personal views. The question of political appointments is one for Ministers.

Should the guidance given to civil servants appearing before Select Committees be altered so as to allow them more freedom to answer questions on policy matters? (Q.20)

25. This issue was addressed in paragraph 9 of Sir Robert Armstrong's note. The guidance to civil servants appearing before Select Committees reflects what are understood to be the existing constitutional conventions.

26. The First Report from the Select Committee on Procedure, Session 1977-78 (588-1) paragraph 7.13, made clear that 'Civil Servants give evidence to [select] committees on behalf of Ministers'. The 'Memorandum of Guidance for Officials Appearing Before Select Committees' (paragraph 29) says that 'Officials should be ready to explain what the existing policies are and the objectives and justification, as the Government sees them, for those policies It is open to officials to make comments which are not politically contentious but they should as far as possible avoid being drawn, without prior Ministerial authority, into the discussion of alternative policy. If official witnesses are pressed by the Committee to go beyond these limits, they should suggest that the questioning be addressed, or referred, to Ministers'.

27. The 'Memorandum of Guidance', in its 1980 edition, was approved by the present Administration, and the 1976 edition

(which was published by the Procedure Committee as Appendix D to their Report), with identical wording as to the passage quoted above, was also approved by Ministers at the time.

What contacts are or should be permitted between civil servants and -

- a. back-bench MPs of the Government Party
- b. any other MPs
- c. the Government's Party organisation
- d. opposition parties? (Q.14)

28. Civil servants may not take part in activities likely to call into question their ability to serve Ministers, or to give rise to criticism that public funds are being used for Party political purposes. Accordingly civil servants should not -

- i. attend either on their own or in the company of Ministers meetings of policy or subject groups of any Parliamentary Party;
- ii. accept invitations to all-Party subject Groups or Committees of Members of Parliament (but where a Minister accepts such an invitation it may be appropriate for an official to be available to brief the Minister and, at the Minister's request, answer questions of a factual or statistical nature). Senior officials are also authorised to brief Members of Parliament in small groups from one, or more than one, Party travelling overseas; and Foreign and Commonwealth Office Heads of Mission have permission to meet the all-Party IPU/CPA Country Groups;
- iii. attend or take part in a Party conference in an official capacity (or, of course, in any other capacity if they are members of the politically restricted group of civil servants);

iv. provide written briefing for back-bench Members of Parliament, except in so far as the information is of a kind that could be made available to Members of any Party and any other bona fide enquirer. If a Minister wishes to brief back-bench Members of Parliament himself, he may of course ask civil servants to provide him with such material as he thinks necessary for the purpose.

29. These general rules do not preclude managers of outstationed offices, with Ministers' approval, from corresponding with Members about problems of individual constituents. There are also well recognised conventions governing contacts between senior civil servants and the leaders of the opposition Parties in the period before a General Election.

What are the current restrictions on political activity by serving civil servants? Have they been amended, in form or in application, in recent years? How many serving civil servants, at different levels -

- a. have stood as candidates in local government elections in each year since 1980;
- b. are at present elected local government members;
- c. are office-holders in political parties?

How many civil servants have been refused permission to take part in such activities? For which other political activities by civil servants is official permission required? Is information about the political activities of civil servants, or about requests to take part in political activities, recorded on their personal files? (Q.9)

30. The rules which govern the political activities of civil servants are contained in the Civil Service Pay and Conditions of Service Code, paragraph 9923-9957 (copy attached as Annex A). A copy of the Code is available in the Library of the House.

31. The rules were revised in September 1984 following the report of the Committee on Political Activities of Civil Servants chaired by the late Sir Arthur Armitage (Cmnd. 7057). The new rules incorporate the majority recommendations of the Armitage Committee.

--- 32. Information about civil servants taking part in political activities is given in Annex B.

Retired Civil Servants

What are the responsibilities of retired civil servants who are out of sympathy with a current line of policy being pursued by their old Department? (Q.22)

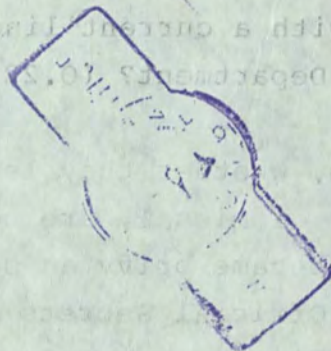
33. Former civil servants, whether they left the Service on retirement, resignation or dismissal, are bound to keep confidences to which they became privy as serving civil servants, and remain subject to the Official Secrets Acts. They are also subject to the same obligations as former Ministers in respect of the publication of memoirs and other works relating to their official experience (Radcliffe Report, Cmnd. 6386: extract at Annex C). Subject to these provisos, they have the same rights as other private citizens to comment on current policies.

Cabinet Office (Management and Personnel Office)

30 October 1985

Civil Service: Long Term

PE-18



THE DUTIES AND RESPONSIBILITIES OF CIVIL SERVANTS
IN RELATION TO MINISTERS

Note by the Head of the Home Civil Service

During the last few months a number of my colleagues have suggested to me that it would be timely to restate the general duties and responsibilities of civil servants in relation to Ministers. Recent events, and the public discussion to which they have given rise, have led me to conclude that the time has come when it would be right for me, as Head of the Home Civil Service, to respond to these suggestions. I am accordingly putting out the guidance in this note. It is issued after consultation with Permanent Secretaries in charge of Departments, and with their agreement.

2. Civil servants are servants of the Crown. For all practical purposes the Crown in this context means and is represented by the Government of the day. There are special cases in which certain functions are conferred by law upon particular members or groups of members of the public service; but in general the executive powers of the Crown are exercised by and on the advice of Her Majesty's Ministers, who are in turn answerable to Parliament. The civil service as such has no constitutional personality or responsibility separate from the duly elected Government of the day. It is there to provide the Government of the day with advice on the formulation of the policies of the Government, to assist in carrying out the decisions of the Government, and to manage and deliver the services for which the Government is responsible. Some civil

servants are also involved, as a proper part of their duties, in the processes of presentation of Government policies and decisions.

3. The civil service serves the Government of the day as a whole, that is to say Her Majesty's Ministers collectively, and the Prime Minister is the Minister for the Civil Service. The duty of the individual civil servant is first and foremost to the Minister of the Crown who is in charge of the Department in which he or she is serving. It is the Minister who is responsible, and answerable in Parliament, for the conduct of the Department's affairs and the management of its business. It is the duty of civil servants to serve their Ministers with integrity and to the best of their ability.

4. The British civil service is a non-political and disciplined career service. Civil servants are required to serve the duly elected Government of the day, of whatever political complexion. It is of the first importance that civil servants should conduct themselves in such a way as to deserve and retain the confidence of Ministers, and as to be able to establish the same relationship with those whom they may be required to serve in some future Administration. That confidence is the indispensable foundation of a good relationship between Ministers and civil servants. The conduct of civil servants should at all times be such that Ministers and potential future Ministers can be sure that that confidence can be freely given, and that the civil service will at all times conscientiously fulfil its duties and obligations to, and impartially assist, advise and carry out the policies of, the duly elected Government of the day.

5. The determination of policy is the responsibility of the Minister (within the convention of collective responsibility of the whole Government for the decisions and actions of every member of it). In the determination of policy the civil servant

has no constitutional responsibility or role, distinct from that of the Minister. Subject to the conventions limiting the access of Ministers to papers of previous administrations, it is the duty of the civil servant to make available to the Minister all the information and experience at his or her disposal which may have a bearing on the policy decisions to which the Minister is committed or which he is preparing to make, and to give to the Minister honest and impartial advice, without fear or favour, and whether the advice accords with the Minister's view or not. Civil servants are in breach of their duty, and damage their integrity as servants of the Crown, if they deliberately withhold relevant information from their Minister, or if they give their Minister other advice than the best they believe they can give, or if they seek to obstruct or delay a decision simply because they do not agree with it. When, having been given all the relevant information and advice, the Minister has taken a decision, it is the duty of civil servants loyally to carry out that decision with precisely the same energy and good will, whether they agree with it or not.

6. Civil servants are under an obligation to keep the confidences to which they become privy in the course of their official duties; not only the maintenance of trust between Ministers and civil servants but also the efficiency of government depend on their doing so. There is and must be a general duty upon every civil servant, serving or retired, not to disclose, in breach of that obligation, any document or information or detail about the course of business, which has come his or her way in the course of duty as a civil servant. Whether such disclosure is done from political or personal motives, or for pecuniary gain, and quite apart from liability to prosecution under the Official Secrets Acts, the civil servant concerned forfeits the trust that is put in him or her as a servant of the Crown, and may well forfeit the right to continue in the service. He or she also undermines the

confidence that ought to subsist between Ministers and civil servants and thus damages colleagues and the Service as well as him or herself.

7. The previous paragraphs have set out the basic principles which govern civil servants' relations with Ministers. The rest of this note deals with particular aspects of conduct which derive from them, where it may be felt that more detailed guidance would be helpful.

8. A civil servant should not be required to do anything unlawful. In the very unlikely event of a civil servant being asked to do something which he or she believes would put him or her in clear breach of the law, the matter should be reported to a superior officer or to the Principal Establishment Officer, who should if necessary seek the advice of the Legal Adviser to the department. If legal advice confirms that the action would be likely to be held to be unlawful, the matter should be reported in writing to the Permanent Head of the department.

9. Civil servants often find themselves in situations where they are required or expected to give information to a Parliamentary Select Committee, to the media, or to individuals. In doing so they should be guided by the general policy of the Government on evidence to Select Committees and on the disclosure of information, by any specifically departmental policies in relation to departmental information, and by the requirements of security and confidentiality. In this respect, however, as in other respects, the civil servant's first duty is to his or her Minister. Ultimately the responsibility lies with Ministers, and not with civil servants, to decide what information should be made available, and how and when it should be released, whether it is to Parliament, to Select Committees, to the media or to individuals. It is not acceptable for a serving or former civil servant to seek to frustrate policies or

decisions of Ministers by the disclosure outside the Government, in breach of confidence, of information to which he or she has had access as a civil servant.

10. It is Ministers and not civil servants who bear political responsibility. Civil servants should not decline to take, or abstain from taking, an action merely because to do so would conflict with their personal opinions on matters of political choice or judgment between alternative or competing objectives and benefits; they should consider the possibility of declining only if taking or abstaining from the action in question is felt to be directly contrary to deeply held personal conviction on a fundamental issue of conscience.

11. A civil servant who feels that to act or to abstain from acting in a particular way, or to acquiesce in a particular decision or course of action, would raise for him or her a fundamental issue of conscience, or is so profoundly opposed to a policy as to feel unable conscientiously to administer it in accordance with the standards described in this note, should consult a superior officer, or in the last resort the Permanent Head of the department, who can and should if necessary consult the Head of the Home Civil Service. If that does not enable the matter to be resolved on a basis which the civil servant concerned is able to accept, he or she must either carry out his or her instructions or resign from the public service - though even after resignation he or she will still be bound to keep the confidences to which he or she has become privy as a civil servant.

ROBERT ARMSTRONG

Cabinet Office

25 February 1985

CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 30 October 1985

PRIME MINISTER

RUNNING COSTS: MINISTRY OF DEFENCE

Following Cabinet endorsement on 3 October of my proposals for handling running costs in the Survey, I am glad to say that I have reached agreement with nearly all colleagues on their running cost limits for next year.

2 My report to Cabinet indicated an overall increase at that time of 7 per cent. With the co-operation of colleagues that figure has been reduced. On the basis of agreements reached so far, the overall level of increase is currently 5.8 per cent. The published figures could show a slightly lower figure still, closer to 5 per cent, because the expected running costs outturn for this year, 1985-86, could be higher than the original estimate. But it is too early to be sure.

3 However, a major factor is the need to reach agreement on MOD's running costs. I have agreed with Michael Heseltine that it is sensible to exclude the bulk of the armed forces from the overall running cost aggregate. But the administrative costs of the Ministry of Defence are no different in principle from other departments. In discussions with colleagues, I urged restraint on the level of pay increases to be assumed within their running costs. In no case except MOD is an agreed limit based on a pay assumption of more than 5 per cent.

4 I have not, as yet, been able to agree the running cost limit for MOD with Michael Heseltine, not only because he is refusing to accept any limit upon his running costs, but also because he is pressing for a pay assumption of 7 per cent for his civilian staff. I cannot accept his special exemption from the regime endorsed by Cabinet,

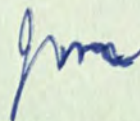
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and his civilian pay assumption would increase aggregate running costs by some £45 million (one-third of civil servants are in MOD). Apart from being unfair to other colleagues, and very hard to defend when the figures become public, it would push up the overall percentage increase (probably to more than 6 per cent) in Civil Service running costs in 1986-87.

5 There is also a pay policy point. MOD employs about one-fifth of civil service non-industrials and four-fifths of civil service industrials. We cannot be certain whether or when the MOD's pay assumption might have to be revealed to the House of Commons Select Committee on Defence or otherwise leak out. But it is going to be no help to what could be very tricky pay negotiations to have such a large department appearing to predict an earnings increase for the civil service 2 percentage points higher than any other department.

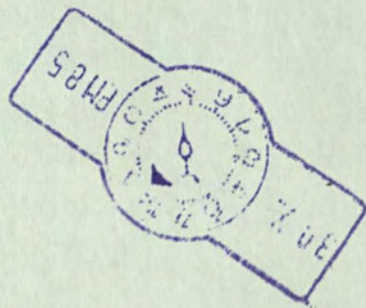
6 I am pressing Michael Heseltine hard to agree a running costs limit in line with those settled for other departments; but recognising, of course, that a somewhat higher pay assumption is needed for the Armed Forces. If I fail to reach agreement, you may need to hold a separate meeting to resolve this in view of the importance of MOD in our attempts to bring Civil Service running costs under greater control. I will report again if that proves to be necessary, but I wanted to warn you now of the problem.



JOHN MacGREGOR

CONFIDENTIAL

Civil Service - Long Term
PE-18



CONFIDENTIAL



cc: PS/Chancellor
Mr Bailey
Mr Anson
Mr Kemp
Mr C D Butler
Mr Kitcatt
Mr Turnbull
Mr Allan
Mr Gilhooly
Ms Seammen

CBA

Treasury Chambers, Parliament Street, SW1P 3AG

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

Mr M Williams
Mr Hoare
Mr Hansford
Mr Lord

30 October 1985

Dear Michael,

MOD RUNNING COSTS

I was disappointed to receive your letter of 18 October, since I thought we had already reached agreement in principle on the package set out in mine of 15 October and had only to insert the figures. Your letter, however, questions the principles of my package.

You refer me to your letter of 30 August to my predecessor, in which you expressed full support for effective controls of running costs but reserved your position on the defence block cash limit. Since then, of course, Cabinet has considered and endorsed on 3 October the arrangements proposed for establishing the limits for each department's running costs in this year's Survey. As forecast in my letter of 14 October to George Younger, I announced the decision on running cost limits, and the associated abandonment of a central pay assumption to the House on 22 October.

I understood your worry to be that you should not find yourself required to reduce Armed Forces manpower because of inadequate running costs provision, and I consider that my offer has removed this danger. I do not understand your reasons for now rejecting our decision in Cabinet and, as explained in my earlier letter, cannot accept the exclusion of MOD from the rules collectively endorsed.

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I have similar difficulty over your reasoning for a 7 per cent pay assumption for all MOD civilians, although I accept that this figure may not be unrealistic for next year's AFPRB award. In your minute of 17 April to the Prime Minister, at a time when a pay assumption of only 3 per cent seemed likely, you declared yourself content to absorb the excess cost of civil service pay awards. You now claim that you need more than twice as much.

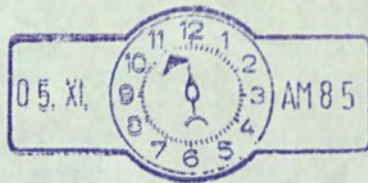
In line with the Cabinet decision, most of our colleagues have now revised their bids and reached agreement with me on their running costs limits. Those agreements have been based on a range of departmental pay assumptions, but no department has a limit based on a pay increase of more than 5 per cent in 1986-87. As a result the aggregate increase figure has been reduced to below 6 per cent, but your proposal would push the rate of increase back above 6 per cent - which is clearly unacceptable in the light of our discussions in Cabinet. It would be markedly out of line with other departments.

You suggest that foreign exchange problems make 7 per cent necessary to cover your locally employed civilians abroad, principally in Germany. But comparable German pay inflation is running well below that of the UK and your department has publicly acknowledged that exchange rate factors have generally reduced overseas defence expenditure below forecast levels in recent years. I see no reason why an assumption of 5 per cent should not prove more than adequate for such staff.

These issues need to be settled very urgently in time for the report back to Cabinet less than two weeks from now. The question of Estimates presentation, upon which I wrote to you on 21 October, is equally pressing, and I hope you agree that our officials should meet urgently to discuss the way forward. Cabinet has decided that controls over running costs will in future be applied through agreed limits for each department. I would be willing to agree, along the lines set out in my letter of 15 October, to a limit of £5,215 million for your department in 1986-87 incorporating a 5 per cent increase for civilian pay. In the light of the assurances I have given, I hope that you will now be prepared to accept this.

Yours ever,
JM
JOHN MacGREGOR

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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NBP? at this stage

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

23 October 1985

Dear John,

RUNNING COSTS CONTROL

will request if required.

Thank you for your letter of 14 October about the transition away from central pay assumptions and about provision for pay in departmental limits.

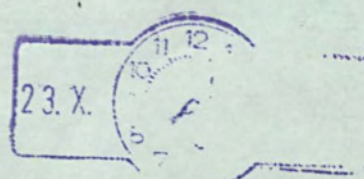
It is, I think, clear that the dropping of a central pay assumption will inevitably serve to focus the attention of Select Committees, the TUS and others, on the pay assumptions built into Departmental estimates of running costs. To reveal these assumptions before a Civil Service pay agreement had been reached would weaken the hand of the management side negotiators and might well serve to push up the level of the eventual settlement. Moreover to reveal, at any stage, the different pay assumptions made by Departments would lead Departmental Ministers into interminable wrangles with their Select Committees and their trade unions.

My conclusion is - and I do not think that this is in contradiction to anything which you say in your letter or in the notes attached thereto - that under your present proposals all Departmental Ministers will, in effect, be required to conceal their pay assumptions both before and after a pay settlement is reached. It seems to me that this is an important consequence of the new regime which you are proposing and I should be grateful if you would confirm that this coincides with your own assessment of the position.

Clearly it will be important for us all to adopt a common line in response to questions in Parliament or from our Select Committees. I note from your letter of 14 October to Geoffrey Howe that you would be surprised if another Select Committee took a different view about pressing Ministers or officials on this matter from the TCSC, supposing, of course, that it promulgates specific guidance. I would not share your surprise, and in any case the compliance of the TCSC would not provide us with an adequate response to similar questions from Opposition front bench spokesmen or backbenchers on either side.

I am sending copies of this letter to the Prime Minister, members of Cabinet, other colleagues in charge of Departments and Sir Robert Armstrong.

Yours truly,
George.



Q To ask the Chancellor of the Exchequer if he has any further announcement to make about the control of expenditure on the running costs of Government Departments.

[CST to reply]

H 22/40

A My predecessor announced the Government's intention to set targets for the control of running costs in departments on 24 May 1985. The Government propose to set limits on running costs for each department, for the financial year 1986-87 and following years, to determine the cash available to finance departmental expenditure on administration.

These limits will be set at a level which continues to apply firm control on aggregate running costs, taking account of the factors expected to affect each department's paybill and other administrative costs. This will replace the single centrally imposed assumption about the pay increases for central government groups (the "pay assumption") which has been applied in previous years.

These limits on total running cost expenditure will be announced to Parliament, as will details of the Government's proposals on public expenditure, early next year. As with cash limits, departments will monitor and control their running costs against these agreed limits and if, exceptionally, a limit has to be changed during the year Parliament will be informed.

This change in the method of control of Civil Service costs will have consequences for the presentation of running costs in Estimates. The Government's proposals on this are being discussed with the Public Accounts Committee and the Treasury and Civil Service Select Committee.

RUNNING COSTS CONTROL

Background

1. Expenditure discussions this year have given particular attention to departmental running costs. The aim has been to agree limits for all expenditure on administration in 1986-87. This is the first year of a new system (announced 24 May).
2. Running costs do two things:
 - (a) they are better than a manpower control alone and get away from a central assumption on pay. With a leaner civil service, value for money and administrative efficiency are the proper criteria for decisions;
 - (b) they encourage good financial management. The FMI is all about delegated financial management. Running costs are an important step.
3. Running cost limits will make realistic but demanding provision for departmental expenditure based on department's own realistic estimates. These include estimates about pay. They will be tight estimates and tight controls. That is as it should be. Running costs totals will be budgetary limits so that programme expenditure is not available to finance overspends on running costs.
4. Running cost limits are still under discussion in the Survey and the agreed figures for departments will not be announced before publication of the Public Expenditure White Paper.

RUNNING COSTS: DETAILED POINTS TO MAKE

A Development of Civil Service Management

- (i) Ensures better planning, monitoring and control. Running costs above inflation for last few years, so control important.
- (ii) Running costs ensure planned efficiency. Old controls forced in-year changes of plan which were disruptive and inefficient.
- (iii) Consistent with developments in financial management in departments.
- (iv) Control limits will be for total administrative costs. Encourages departments to make appropriate choices in allocating resources (e.g. between staff and contracted out services).
- (v) Consistent with proposed way ahead on Civil Service pay.

B Effects on pay and Civil Service numbers

- (i) Running costs limits will govern amount department can spend on pay bill and other administrative expenses. No separate central pay assumption.
- (ii) Overall manpower controls will remain with published targets to 1.4.88. When running costs control working effectively, Government will review need for separate manpower control.
- (iii) No slackening of Government policies on pay. Continuing need for pay moderation in economy as whole. With inflation coming down, nominal settlements must come down faster. Where Government is direct employer it will look for reasonable and moderate settlements within

financial disciplines. Excessive settlements will still cost jobs. Additional points on wider implications attached.

C End of central pay assumption

- (i) Running costs limits, built up from departments' own estimates and negotiated with Treasury, will now determine cash available for wide range of administrative costs. New regime will be more effective than central pay assumptions which applied only to pay.

D Assumptions about future pay settlements in departmental running cost limits

- (i) Settlement with Treasury on limit concentrated on overall cash figure for running costs;
- (ii) department bid, on which settlement of limit based, a composite of a number of elements for pay, accommodation, external services and other administrative expenses;
- (iii) Necessary to make assumptions not only about increases in costs, of which pay rates one factor, but also about wide range of running cost elements - manpower numbers, grade mix, overtime, incremental drift etc.
- (iv) Important to stress that running costs limit is a single control total covering pay and other non-pay costs. Assumptions about pay rates only one factor in building up totals on which limits based.

DROPPING AN EXPLICIT PAY ASSUMPTION - KEY POINTS

Pay assumption never intended as a norm or entitlement, or to have wider meaning beyond being a necessary element of public expenditure planning. But came to be taken as signal of Government pay aims more widely.

In that respect has been useful. But usefulness running out; perceived differences between assumption and what people saw pay settlements to be actually damaging, as weakening force of the Government's message.

2. No change in Government's view on need for pay moderation in the economy as a whole. This is as strong as ever. Real earnings have been rising at 2 to 3 per cent per year, damaging employment. With inflation coming down nominal settlements must come down even faster.

3. So far as private sector goes, Government will maintain firm monetary and fiscal policies. No intention of bailing out companies who damage themselves and others through excessive settlements.

4. In the public services, where the Government is direct employer it will ensure moderate settlements; new running costs regime managerially more sensible and just as effective as pay assumption. For local authorities no intention of letting up on financial disciplines and penalties. Not a "victory" for public service unions who have campaigned for getting rid of the pay assumption; excessive settlements will still cost jobs.

5. Pay bargaining essentially a matter between employer and employee. But Government look to both sides to understand link between pay and jobs and act accordingly.

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cc 2/20

Treasury Chambers, Parliament Street, SW1P 3AG

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

N 22/40

21 October 1985

Dear Michael,

PAY ASSUMPTION AND RUNNING COST LIMITS

Thank you for your letter of 14 October to Nigel Lawson. Some of the issues to which you allude were, of course, covered in my letters of 14 October to Geoffrey Howe and George Younger.

I recognise that the relative inflexibility and early stage of development of your financial management systems create some difficulty. You will therefore not yet be able to present a breakdown of your vote 1 by function or organisation in the way that most other votes will be divided and, indeed, your Procurement Executive vote 2 is already presented. But, as I said to Geoffrey, I could not justify presenting your department's Estimates to Parliament in a format that differed from others. I suggest that our officials should meet urgently to discuss further how best your vote format can be reorganised, if necessary on an interim basis while you are adjusting your internal systems, consistently with the proposals in Nigel's minute of 26 September, as endorsed by Cabinet. This refinement of the presentation should not hold up agreement to the running costs figures for MOD which I am anxious to settle as soon as possible.

You suggested reverting to officials' earlier idea that main Estimates would contain no provision for pay increases, which would instead be sought in Supplementaries. You cite the difficulty of keeping your internal pay assumptions from becoming known. I see little attraction in this approach; in particular, as I am sure Parliament would be quick to point out, it would be a step backwards,

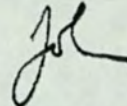
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breaking the links both between the planning totals in the White Paper and control totals in Estimates, and between main Estimates provision and the substantive cash limit. Moreover your suggestion would do nothing to hide your pay assumptions; anyone who subtracted your main Estimates provision for running costs from your running costs plans in the preceding public expenditure White Paper would be able to calculate what you had set aside for pay increases. I recognise that internal budgeting assumptions may leak; but the important point is that running costs limits will have been set and agreed in terms of a total cash figure, and Estimates presentation is a crucial element in this argument.

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

Yours ever,



JOHN MacGREGOR



CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Whitehall
SW1P 3AG

15 October 1985

Dear John,

CONTROL OF CIVIL SERVICE RUNNING COSTS

Leon Brittan sent me a copy of his letter of 20 September to you about the control of the running costs of fee earning establishments.

2. As you know from our recent Bilaterals, the Department of the Registers of Scotland (DRS) is required by statute to cover its costs and is therefore in a similar position to the fee earning establishments to which Leon Brittan refers. The DRS is an important element in achieving our policy of extending home ownership in Scotland and your officials are party to current studies of its manpower requirements. Its position bears out the case for the kind of ring-fence regime which Leon Brittan suggests and I would strongly support the incorporation of such a regime in the detailed arrangements for the new system for running cost limits.

3. I am copying this letter to the Prime Minister and other members of the Cabinet and to Sir Robert Armstrong and Sir Robin Ibbs.

Yours sincerely,

Cunneen

CIVIL SERVICE
LONG TERM MANAGEMENT
PT 18





CC 2/2

NBPT at this stage

MINISTRY OF DEFENCE WHITEHALL LONDON SW1 2HB

MO 2/2/6M

TELEPHONE 01-218 9000

14th October 1985

DIRECT DIALLING 01-218 2111/3

PAY ASSUMPTION AND RUNNING COSTS LIMITS

In your minute of 25th September you proposed that the running costs provision of each Department should be shown in aggregated form in its Main Estimates.

As has already been explained to your officials, this proposal would call for a major restructuring of Defence Votes. On the basis of past experience, it would take up to nine months to complete all the detailed accounting and computer programming changes required. Implementation in time for the 1986/87 Estimates is therefore impossible: the earliest implementation date would be 1st April 1987.

Aside from the problems of timing, I am by no means convinced that this is the best method of approach. Once the Estimates have received Treasury approval all our Vote managers are issued with cash allocations (usually in February or March); and it would be apparent from the allocations for Service and

The Rt Hon Nigel Lawson MP



civilian pay what assumptions had been made about pay increases in the Estimates year. Equally, we would be faced with this problem when issuing managerial budgets under the arrangements which we are introducing as part of our response to the Financial Management Initiative. Even if the provision for pay increases was held back until the pay awards had been settled it would still be possible for the Vote management staff concerned to gain some idea of the pay assumptions underlying the Estimates.

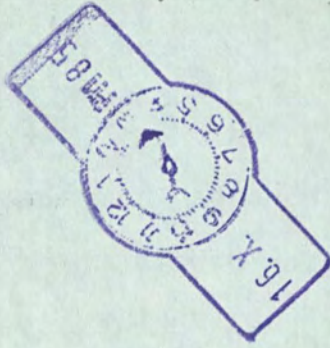
In view of these difficulties I feel that there would be merit in giving further consideration to an alternative method of approach which has, I gather, previously been identified by the Treasury. Under this option, no provision would be made for pay increases in the Main Estimates; instead the necessary Supplementary provision would be sought in the light of the pay awards. This would not only dispose of the problem of concealment but enable us to avoid the need for major changes in the Vote structure and the consequential loss of information which is currently given to Parliament.

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

A handwritten signature in dark ink, appearing to read "Michael Heseltine".

Michael Heseltine

CIVIL SERVICE
LONG TERM MANAGEMENT
PT 18



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Dans willets to see

~~96/110~~

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MR FLESHER

NBMC

~~J/S~~

10/10/85

--- I attach a copy of the speech Miss Mueller will be giving to the Northern Ireland RIPA Conference in Belfast on Friday 11 October. This will be a public event and we hope Miss Mueller's speech will attract some publicity for the programme of personnel management initiatives currently in train in the civil service. A copy of the Press Notice we will be issuing to accompany Miss Mueller's speech is also attached.

CONQUEROR

Peter Martin

P MARTIN
PS/2nd Permanent Secretary

9 October 1985

SEMINAR - "THE SEARCH FOR EXCELLENCE IN THE PUBLIC SECTOR"

"BETTER RESULTS THROUGH PEOPLE IN THE CIVIL SERVICE"

Introduction

1. I am not surprised that the book "In Search of Excellence" by the McKinsey consultants, Peters and Waterman, has sold five million copies across the world since its publication just three years ago. It is evident that the economic pressures affecting both the public and the private sectors are leading organisations around the world to seek and develop new ways of getting the best out of their people. As budgets have been more and more constrained whilst our customers become more demanding, we are all under increasing pressure to secure better results from the resources which are available to us.

2. I believe that Peters and Waterman captured a new mood when they listed a number of key features which they found to characterise excellent companies in the private sector. Some of these features are equally relevant to the public services including the civil service. I hope to focus on a few and perhaps modify them a little. I put at the top of my list the attribute which was fourth in their list: the goal of "productivity through people" which I am reformulating as

"better results through people". This clearly embraces improved services as well as reduced costs. In the civil service we are concerned to provide the best possible service within what can be afforded.

3. I take it as absolutely central that people are a precious asset and the key resource of any organisation. This is not lip service. Managers in the civil service as elsewhere must value and respect their staff, and demonstrate that respect by ensuring each person has a purposeful job with challenging objectives and the responsibility and wherewithal for achieving them. I should like today to describe some of the steps we are taking to develop and make best use of our human talent in the civil service, concentrating in particular on the development of managers for the future, and the motivation of staff here and now. I should perhaps say at the outset that coming as I do from the Cabinet Office I shall be talking about developments in the UK civil service. But I know that there are some corresponding developments in the Northern Ireland civil service with differences to suit your own circumstances and perhaps we could talk about these afterwards.

Traditional Excellence

4. First some reflections on excellence in relation to the civil service. We are fortunate in having a firm base of traditional strengths in our staff on which we can build. Ever since the Northcote Trevelyan reforms of the nineteenth century which first introduced the principle of selection by merit, the civil services of the UK have been admired, for their freedom from corruption and bias, their loyalty to the Crown and the elected government and their dedication to public service. These qualities have earned us an international reputation for excellence. And we are determined to preserve them in the future. But today we are seeking to build new values onto the foundation provided by these traditional strengths.

Future Excellence

5. Today the civil service is going through the most profound changes it has seen for over a century. The new civil service is still constructed on the merit principle but aims at a new professionalism which will secure better value for money for the taxpayer and the citizen. To this end it is focussing on performance and outputs, and individual responsibility for securing desired results.

New Themes in Management

6. We have seen big changes since 1979, with a reduction in the size of the civil service of nearly one-fifth. This has been achieved partly by shedding functions and partly by raising productivity by 2 per cent a year on average. We have introduced a major programme of management reforms designed to secure better value for money throughout the civil service. The civil service is of course part of the service sector although a few goods are produced (eg publications). It is very large, varied and heterogeneous, employing some 600,000 people in 2,500 grades and organised in some 50 separate departments ranging from the very large to the very small. But broadly its activities are of three basic kinds:

(i) providing internal advice to Ministers particularly about policy. This is necessarily confidential and involves relatively small numbers of people;

(ii) providing services in accordance with statutory and Ministerial requirements, most of them to external customers. I include in this category the collection of taxes as well as such activities as issuing licenses and paying out grants. The management of these operations has

much in common with that of private sector services, and indeed we sometimes refer to them as "businesses". It is in these activities that most civil servants are employed;

(iii) in between these is a third category in which the services are funded by central government but provided by local government or other agencies, in accordance with statutory and Ministerial requirements administered by the civil service. The numbers of civil servants involved in such programmes is not large but the expenditure can be very substantial as in the National Health Service, and the education services.

Our aim of securing better value for money embraces all these types of activities and there is of course a crucial link between the first and the other two, since to be soundly based policy advice must be anchored in the realities of external operations and an understanding of the customer's needs.

7. The government's Financial Management Initiative has tried to create lasting systems for making managers aware of how much they have to spend, making them more accountable for getting results and providing the support they need. It has aimed to delegate authority more effectively down the line to local managers, at the same time as improving the information available about their performance for senior managers. Another major contribution to more effective management has been the efficiency programme. This has involved small teams taking a "short hard look" at particular functions and either improving the way they are done or abolishing them if they prove to be unnecessary. The efficiency programme has covered all government departments and many of their associated public bodies and has resulted in substantial streamlining.

8. The new climate of cost consciousness and efficiency reforms has called for civil servants with additional qualities

and skills to deliver these changes. We now need more managers of budgets and more team leaders, more risk-takers and innovators, able to make effective use of a whole range of skills. We are looking perhaps for more robust and more pragmatic managers of resources undertaking a more positive role in the service of the government of the day and the public. And we have to ensure that our senior managers themselves make the adjustment, so that they recognise and reward these new qualities, rather than shunning them as departures from the traditional image. If we are to encourage risk-taking in the interest of securing better results, we must be more prepared to tolerate occasional mistakes.

9. These are some general desirable qualities. But we also need specific skills and talents suitable for the huge diversity of operations I have already described. Despite declining total numbers we still need to attract between 30 and 40 thousand new staff a year, and develop and motivate them for the many different public services, from issuing Premium Bonds to maintaining submarines, or from dealing with members of the public to briefing Ministers. In Northern Ireland you will all be aware of the particular priorities facing public services. On the one hand, high unemployment, both frictional and structural, has generated social needs and problems requiring a benefits system and social services which can operate efficiently and compassionately. At the same time it is a vital task for the public services to promote economic revival by encouraging business innovation and enterprise, which means being alive to the changing industrial market, and identifying and developing entrepreneurs. Two very different kinds of public services. Your approach to staffing them, and particularly training and developing staff, must be versatile enough to answer that whole range of needs, to produce people who can operate with dedication and competence within the manpower and budgetary constraints which most public authorities face.

Themes in Personnel Management

10. We need to keep our personnel policies in step with these management reforms if the concept of the all-round manager of money, people and physical resources is to become a reality. Let me just mention a few of our current reforms in the personnel field before I focus on management development and staff motivation.

11. First, we are decentralising responsibility for personnel management from the centre to line departments, giving departments more freedom in the way they manage their staff. To take one example, our new staff appraisal systems lay down a framework of general principles, but allow individual departments freedom to pursue the detail of their forms and procedures as best suits their particular needs. I shall return to appraisal later.

12. Secondly, line managers are being delegated more responsibility within each department. This is giving them more say in how staff are handled on matters of junior and casual recruitment, disciplinary and inefficiency procedures, and the career management of their junior staff. We aim to give managers more flexibility to deal with staffing matters on their own say-so, without excessive intervention from the centre which stifles their initiative and depresses the results they are capable of.

13. Thirdly, we are continuing to dismantle the artificial boundaries between different occupational classes and groups which can impede the optimum deployment of staff at senior levels. This was one of the key reforms recommended by the Fulton Committee. The Senior Open Structure which unified the top three grades in all classes of the civil service was created in the early 1970s. From the beginning of last year this was extended to the next three levels in the service down to Senior

Principal and equivalent grades. I hope that from the beginning of next year we shall have a new unified Grade 7, covering over 20,000 staff at Principal level and its equivalent in the science, technology and other specialist groups.

14. Our equal opportunities action programme is another means of securing greater flexibility in the use of human resources to the benefit both of the service and its staff. It makes management sense to allow, for example, more flexible working hours and more opportunities for part-time work and job sharing for both women and men. Experience shows such work can be highly productive and that a more imaginative approach to work patterns and career development can prevent some of our talented staff from leaving altogether at a considerable waste of investment. In my own department we have recently introduced a pilot "keeping in touch" scheme for those who leave to cope with domestic problems designed to facilitate their eventual reinstatement.

15. On other personnel fronts we are trying to match pay more closely to performance, a very direct way of encouraging better results. Earlier this year we introduced a three year performance bonus experiment for senior grades across the service, and we shall be monitoring this very carefully. One or two departments have also been experimenting with group incentive schemes. On the less positive side of performance, we are tightening up our treatment of inefficiency, so that we act promptly and robustly when an individual is not working up to standard.

16. Let me now describe in more detail our strategies for management development and staff motivation. They are of course interdependent. It will be no use having well-groomed senior managers without the right staffing resources and talent at their disposal. And it doesn't matter how much talent and enthusiasm there is in the rank and file if that resource isn't channelled and developed by clear-sighted management.

Tomorrow's Managers

17. All civil servants who lead people, direct their work and spend public money may be called managers of one sort or another - from the 120,000 staff at Executive Officer level to the small group of Permanent Secretaries at the top. It has become increasingly clear in recent years that the civil service could do more to make those managers better prepared for their important responsibilities. We felt it was necessary to develop a more strategic and positive approach to management development and our new series of programmes affects the whole span of management grades.

Top Managers

18. For our top managers, we have designed and mounted a new training course from this year for those who are to be promoted to the level of Under Secretary. The intention is to run four such courses each year. I would highlight two particular aspects of this programme. First, it is six weeks of highly intensive training away from the normal office environment. If a week is a long time in politics, how much longer a period is six weeks for which to take top managers away from their pressing duties. By getting people away from their desks and their short-term crises the Top Management Programme gives them space to breathe and think through the priorities for civil service managers in the context of society's present and future needs. Secondly, the course brings together top managers from all sectors of the economy, not just civil servants. For four of the six weeks senior executives from private sector companies and public corporations are trained alongside civil servants. Problem-solving sessions, seminars and lectures enable them to study the role of top managers and the major environmental changes affecting that role, with as much cross-fertilisation of ideas as possible. This course should provide a powerful lead into the most demanding management positions as well as increasing the

mutual understanding of public and private sectors. In the civil service it will reinforce our strategic succession planning designed to improve the supply of people capable of filling the top jobs in the future.

Senior Managers

19. Whilst six weeks may be a very long time for departments to be without some of their key Under Secretaries, it is certainly not enough in itself to bring about a new age of top management enlightenment. So we are also concentrating on developing managers before they reach this level and on improving the effectiveness of senior managers. To this end we have recently launched the Senior Management Development Programme targetted at the grades from Principal to Assistant Secretary (a total population of 22,000) but with an immediate priority emphasis on the younger people in those grades who may have more scope for development. For example, some departments are limiting the Principal level participants to those under the age of 35. This programme lasts over several years and should give the individual a coherent personal development plan in terms of training, postings and experience. A key point is that each participant must drive it himself or herself, and accept responsibility for his or her personal development. They will of course be supported by central training expertise and personal guidance but the onus is on the individual. The programme picks out several core competencies which are vital for any senior manager such as managing resources and staff, using information technology and developing expertise of various kinds. It enables the individual to identify necessary training and development in these core competencies. There are also other important competencies which the individual needs to target in relation to his or her particular career and functional area - for example, presentational skills, accounting or industrial relations. Each participant in the programme must aim for a minimum of five days' training a year, and review his or her progress regularly with the help of management.

Middle Managers

20. An even larger community of staff where there is talent needing development is from the Executive Officer level upwards, and especially those with the potential to reach Principal - the level at which, for example, large local offices of some departments are managed. For a number of reasons, such as the changing structure of the civil service with smaller top management and greater delegation to middle management, the service has found itself short of quality staff to fill Principal vacancies. Yet there is no shortage of latent talent. Just to take one indicator, half our Executive Officer intake today are graduates. So we have asked all departments to draw up plans for picking out this talent and developing it. This will mean, as with the senior managers, a long-term guided programme for participants, covering postings to different areas of work, carefully integrated training, short-term attachments, secondments and special projects, and development within each post as part of the normal appraisal and career development process. This programme of development needs careful guidance by departments who will each be appointing an individual responsible for the whole programme, with an annual Management Development Review. Each department must introduce its Management Development Programme by the middle of next year.

Where does this leave the fast stream?

21. From what I have been saying it may not be clear where the traditional fast stream of the UK civil service fits in this spectrum. That is almost deliberate. We will continue to need to recruit a small number of highly gifted individuals, some of whom should occupy the top service jobs in future. And these talents will also need careful training and development throughout each career. But the intention is that we will be able to select our top and senior managers from a broader range of talent available. And we want to develop more of our current

main stream staff as much as possible, which will mean a greater number of them than in the past entering the fast stream. The boundaries between the two streams need to be flexible to ensure that we select managers on achievements and merit, and avoid the trap of allowing a series of self-fulfilling prophecies to dictate our future top management appointments.

Training and Qualifications

22. Underpinning this focus on management development in the three programmes I have described is a recognition that civil servants need more specialised preparation for their work. At managerial and generalist levels we have sometimes lacked sufficient knowledge of the economic factors, the social environment, political constraints and the technological changes, which are important in the consideration of policies. We have in the past tended to place too much weight on general administrative skills. Important as these are, they need to be applied with a sufficiently developed depth of knowledge about particular areas of policy and the problems of implementation. So we are encouraging civil servants to gain professional qualifications and training in disciplines which will bring them closer to their customers and give them greater facility in dealing with each particular environment. In my small department, which is responsible for advising others on personnel policies and for pushing forward personnel initiatives, a dozen of my staff are this year studying with the Institute of Personnel Management for their full professional qualification. Across our service as a whole 80 personnel managers are each year taking the IPM's Foundation Certificate in Personnel Practice. In a civil service which increasingly needs better understanding of how to manage budgets and improve financial control and performance, we are doubling the number of accountants to 1,300 by 1992. These are just two specific examples of our determination to develop still greater expertise in the civil service.

Appraisal

23. So far I have described the way we are preparing our future senior staff. I have mentioned our efforts to fish more effectively and from a bigger pool of available talent. In a moment I should like to discuss what has been done and could be done at grass roots level, where staff actually assess the tax codes and issue the driving licenses. But first a word about the activity which joins the two communities of the managers and the managed, that is the process of staff appraisal. Every civil servant is appraised, and every civil service manager has to manage appraisal. We have recently changed our arrangements as I mentioned earlier and I hope that this will make appraisal a fundamental part of every day management, not - as it is sometimes depicted - an annual ritual of only marginal importance and value.

24. Although the civil service has had an established and detailed appraisal system for many years, we recently decided that it was not achieving all it might. It was seen as more about promotion than performance in the job - and it did not give as good value for money as it should have done. So we have now introduced changes. There will no longer be standard service-wide report forms and procedures. Departments will have more discretion to meet their particular needs and circumstances. But all the systems will have certain common features:

- all reports must incorporate new service-wide rating scales for both performance and promotability; these are designed to make clear what is acceptable and unacceptable performance, and improve reporting standards;
- each report must be based on an agreed forward job plan with specific objectives to be achieved;
- each performance report must be open;
- there should be an annual appraisal interview.

25. If we are to achieve better results through our staff they must first of all know why their job exists, what work is planned and what specific goals need to be met. Hence the forward job plan. But staff can only be kept on track if there is a continuous dialogue with them to see whether the plan is working out. Hence the open performance report, the appraisal interview and (we hope) regular contact through the year between managers and staff. And those results must be assessed against a visible and challenging set of criteria for judging performance. Hence our new rating scales. These are evolutionary not revolutionary changes: we are building on the best of our previous systems. But the new emphasis on greater involvement of the staff in planning and agreeing the work ahead, and of managers in keeping a continuous line of discussion open, will provide a much better basis for securing improved results.

Communication

26. Appraisal is one specific focus of communication between managers and staff based on work and individual performance. Communications more generally, both between managers and staff (and vice versa) and between civil servants across functions, grades and offices, is an essential part of the management "infrastructure". Staff need to have readily available channels of communication on all aspects of work, management planning and social activity. This covers everything from prompt circulation of clear notices about national pay negotiations to lively and readable house journals. Communications on all these levels are important, and although we have done a lot in the last couple of years to promote better, clearer and more imaginative written and oral communication, including the effective use of house journals, I am sure there is still a lot to be done to increase staff awareness about what exactly is going on, what policies are being discussed at management levels, how changes will affect them personally, and more generally to encourage a more open and

satisfying climate in which people work. The work will often still be demanding and arduous; but if the contribution it makes to the public service is better understood, the burden will be that much easier and more rewarding to bear.

Involvement and Motivation of Staff

27. So far I have been describing activities which are mostly generated from the top and filter down. But instructions and communications which are handed down a long line run the risk of breeding a merely reactive attitude in staff at the end of each line. We need communications policies that not only explain to all our staff from top to bottom what management is trying to do and achieve, but also provide for managers to listen to what their staff say in return and take account of those views in all management decisions. And there are many of these staff, often working under considerable pressure, in accommodation that is frankly awful, sometimes facing massive organisational change as we move forward to exploit the potential of new technology, and sometimes in danger of becoming severely demoralised. What we need in addition to the top-down approach is a number of ways of tapping ideas and enthusiasm and creativity at grassroots level. The civil service has promoted a number of approaches to employee involvement. I shall just quote a few.

28. In the DHSS for example a whole range of improvements to the service provided by local offices was generated largely by making "customer service" a priority area for the regional organisation and actively seeking the ideas of individual civil servants working in those offices. These were eventually collected and published as a booklet entitled "Service to the Public", with an accompanying video programme. It describes improvements such as the creation in several local offices of an initial reception point, where callers are given information and guidance on where to go next - a filter mechanism which helps

members of the public and makes best use of everyone's time. In several local offices special arrangements have been made for callers with special needs, such as the bereaved or disabled. In other offices the staff have started to wear name badges, as a simple way of helping members of the public for future identification and to create a more personal atmosphere. The long list of suggestions which have been successfully implemented demonstrates the real improvements that can be achieved simply by tapping the fertility of ideas of any group of staff. That this has been done at a time of increased pressure and resource constraint is, I believe, a considerable achievement.

Job Satisfaction Projects

29. Experience shows that improvements are likely to be more lasting if each individual member of staff is made to feel a stakeholder in the reforms. In our job satisfaction projects we have sent out a consultant from our central Job Satisfaction Team to work alongside a particular department and help its staff devise alternative working methods. These aim to get the job done more effectively whilst at the same time satisfying staff needs for involvement and interest. There have been a number of successful projects of this kind, for example at the Driver Vehicle and Licensing Centre at Swansea, and in the Southport branch of the Office of Population Censuses and Surveys. One common outcome of such projects is that clerical flow lines are reorganised into whole job teams in which each member has a turn at each part of the work. The new job design creates more variety and sense of ownership and autonomy, and this in turn has often fed upwards, educating the managers into a more participative management style. This approach is working well in a number of different departments and the Job Satisfaction Team tell me that their order book is full.

What results?

30. So there has been a lot going on both at the level of the manager and the managed in the UK civil service. I shall be interested to hear what parallels there are with the management of public bodies including the civil service in Northern Ireland. Our investment is certainly a large one. We spent nearly £200 million a year on training in the civil service even before we started the management development programmes. But, as a training manager in Ford's Motor Company once said, "If you think training is expensive, try ignorance". So what are the excellent results I am talking about from our civil servants? Let me just give some examples of results achieved.

31. In the first place civil servants have already produced some remarkable achievements in efficiency which will recover the cost of the investment in training and development many times over. They have managed a reduction in size which has generated pay bill savings of £700 million a year. Alongside this overall contraction has run an efficiency programme identifying savings of £450 million a year. Streamlining of civil service operations has led to many associated improvements which will make both the civil service and the communities it serves more efficient, such as the abolition of 15,000 administrative forms at a saving of £9 million a year. DHSS have cut the waiting time for processing mobility and attendance allowance claims by 25 per cent. In my own department the numbers of students attending the Civil Service College has increased by 140 per cent over the past four years, and the number of student days has risen by 30 per cent although staff numbers have been declining. These are visible results of benefit to the taxpayer and the customer.

32. In terms of improving effectiveness, there are particularly "visible" initiatives, like the Inland Revenue's mobile advice centre - an attempt to bring the acceptable face of taxation out onto shopping precincts and into plain English directly spoken to

people in the street. In the important area of promoting the success of British exports, an independent consultants' survey estimated that £1 billion worth of UK firms' annual export and sales followed directly from the services of the British Overseas Trade Board to subscribers to its export intelligence unit. On the level of a preventive service, we witnessed a record haul last year by officials from Customs and Excise of 300 kilos of heroin. In dealing with the problem of unemployment, the Manpower Services Commission, as part of a strategy to improve the effectiveness of the labour market, administered programmes helping two and a half million people to find work, training or temporary employment, on which it spent £2 billion, last year. This effort ranges from placing 1.8 million people in work via job centres, to providing staff support to 46,000 would-be businesses. These are the kind of positive results which civil servants have been delivering. And there is no doubt that demand for even better achievements in key areas, such as promoting employment and fighting drug abuse, will only increase.

33. Before throwing the talk open to questions let me return to Peters and Waterman and complete my shortlist of their key attributes as I see them affecting the civil service: the personal qualities and organisational imperatives which will really influence the results we produce. There is no doubt that public administration and public management differ in many respects from private sector management; but management is also to some extent generic across the divide: there are similarities across the public and private sectors from which we can all learn as well as essential differences which we must never forget.

34. First excellent companies are said by Peters and Waterman to have the capability to manage ambiguity and paradox. They possess "simultaneous loose-tight properties" -that is, they have pushed autonomy down to the shop floor as much as possible but at the same time they insist on the universal upholding of a few core values. In the civil service we have taken some

decisive steps towards a more devolved structure to give managers much greater discretion, so that their own creativity and drive can come to the fore. We aim at delegating authority and matching it with accountability for results within the framework set by Ministers and for which they are of course answerable to Parliament and the public. All this whilst maintaining core values of loyalty, dedication and freedom from bias and corruption.

35. Secondly the civil service, like excellent American companies, is developing a bias for action. This has been at the heart of our efficiency programme. Our staff must get things done and not be held back by over-lengthy analysis and consultation processes which drag on too long. The popular myth about Whitehall is that things either take too long or never happen at all. The new emphasis on objective-setting, for example, in financial management, appraisal systems, and in some experimental incentive schemes should signal what is planned and what concrete results are being achieved. We need to train and develop "doers" at all levels, though of course they need to be able to think too!

36. Thirdly, we are getting ever closer to our customers whoever they may be. I have spoken about initiatives for better service in several departments. It is crucially important to understand the customers' needs through better information, and to promote better customer services by involving and motivating all staff. In the short term, we cannot duck the fact that despite the efforts of hard pressed staff, civil service manpower and financial constraints, which have been a necessary part of wider government policy, have made it hard or impossible for staff to maintain, let alone improve, the level of service in some areas. There are backlogs of mail in the Inland Revenue. It can be difficult to get through to DHSS offices on the telephone. There are queues for benefits and delays in payments

in various areas. No one is complacent about this and in the longer term we must make it a priority, which politicians, managers and staff all share, to deliver improved performance to our most important client: the public. We may not be able to afford the Rolls Royce service that some of our customers would ideally like. But nor can we afford to offer the Penny Farthing or Austin 7 in the age of the Metro.

37. In this process we will be making more use of professional training and qualifications. We will also be a more specialised service with people spending longer in jobs and acquiring deeper knowledge in their specialism. As Peters and Waterman would say we will be sticking more to our knitting - that is retaining in the service only those functions which can most effectively be done there and increasing the level of expertise held by the staff in those functions. Though we will still need people who don't just knit!

38. Finally, I would repeat that our route to these excellent services must be through our staff. I am very conscious that day-to-day pressures on public services have in recent years made it increasingly hard for us simply to turn the work around each day. The load in very many arenas of government activity has increased as numbers have fallen. The difficulty of creating space to give our staff the close attention which all these personnel approaches demand is enormous. But I do believe senior managers in all public authorities must make that space and not allow short-term pressures to crowd out necessary preparation. If our public services are to cope with these multiplying demands we must make a major effort to invest time, money, trust and respect in all the people who work for us. I have no doubt that that is equally true for the Northern Ireland civil service.

8 October 1985



Prime Minister

cc No 2

This is a progress report for Sir Robert. At this stage you need only note it

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PRIME MINISTER

SENIOR MANAGEMENT DEVELOPMENT PROGRAMME

In August 1984 you endorsed the proposals in the Coster "Training for Senior Management" Report and directed that work should proceed to give effect to them. In January 1985 Grey Gowrie forwarded to you a report from Sir Robert Armstrong giving details of progress. The attached minute from Sir Robert Armstrong contains a further report on progress. This shows that the Senior Management Development Programme is in operation from the beginning of this month, as planned. I shall report further progress to you in June 1986.

15/14

2. My officials have had good co-operation from other Departments in implementing the SMDP. The approach adopted which seeks to identify the specific areas of competency needed by participants and then to enable those competencies to be developed is one which is firmly based upon a study of external experience and of Civil Service work.

3. I know of your concern - and that of Robin Ibbs - that from the outset there should be mechanisms to ensure that the SMDP provides value for money. I think that paragraphs 9 and 10 of Sir Robert Armstrong's minute will meet this point.

4. I am copying this and Sir Robert Armstrong's minute to the Minister of State, Treasury, and to Sir Robin Ibbs.

Richard Luce

RICHARD LUCE
9 October 1985



COACHING



1. MINISTER OF STATE
 2. PRIME MINISTER
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Senior Management Development Programme

In my minute A085/228 of 23 January reporting progress on the Senior Management Development Programme (SMDP), I said that I would report again when the scheme was nearly ready to start.

2. The development of the SMDP was a response to the Prime Minister's thought, when she approved proposals for the Top Management Programme, that that needed to be supported by improved management training at lower levels. The programme was described in "Training for Senior Management Study" (the Coster Report), which you endorsed on 6 August 1984. It is aimed at developing staff of good quality early in their careers and initially covers younger staff between Principal level and Grade 4 (Assistant Secretary plus) in all occupations. It has two primary objectives:

- a. better preparation for those with potential to get to Grade 3 (Under Secretary) and above; and
- b. better performance at the levels from Principal to Grade 4, whether or not the participants are likely to reach Grade 3 or above.

3. The SMDP is not simply a training or developmental course; its object is to provide an integrated approach to more effective management through a combination of relevant job experience, secondments, projects and training throughout the years spent in these grades. Training is only one, although important, part of SMDP.



4. Our target date for implementation of SMDP was the end of September 1985. We have met that target. We shall be receiving and following up reports from Departments in October to check that the Programme has been launched on time, and to obtain information about numbers of participants.

5. When I last reported, we were undertaking research to define competencies (ie those areas of knowledge, ability and skills in policy, management and other issues which staff need to be good at if they are to do their jobs well and develop effectively). Our research included a questionnaire survey of over 500 potential SMDP participants and a series of interviews with Permanent Secretaries and top specialists. As a result we have drawn up and agreed with Departments a set of "core competencies" which are of equal importance to the core but not as likely to be needed by everyone. The list of competencies is attached (Annex A). Departments will be supplementing this list with additional competencies which reflect their particular needs and circumstances.

6. The competencies have been incorporated into a Personal Development Plan. The Plan will be issued to all SMDP participants. It will provide them with a framework to determine where they now stand in relation to the competencies, to set development objectives, to identify their priority needs and to find out how those can best be met. The process places considerable reliance upon individual initiative although Plans have to be agreed and approved by the manager - who also has an important part to play in reviewing progress.

7. Most Departments have now issued invitations to potential participants. These invitations have frequently been signed by the Permanent Secretary, thus stressing top management's commitment to effective development. Our aim has been to have



all the necessary documentation in the hands of participants during September so that they can make a start on drawing up their individual development plans.

8. To get this far so quickly has put heavy pressure on Personnel Divisions in Departments; this pressure will continue after SMDP is established, since it requires personnel management to take a more purposeful and active role in ensuring that individuals are developed effectively.

9. On value for money, we have agreed with Departments that two types of test should be applied periodically to the SMDP:

"market" tests (ie the equivalent in SMDP terms of measuring the number of customers continuing to buy the product) - numbers opting in and out, use of the SMDP material, achievement of the target of 5 days' SMDP training per year, and so on.

"feedback" tests - using views obtained from participants, their line managers, grade managers and other personnel staff and trainers (inside and outside Departments); and separately from Establishment Officers and Permanent Secretaries.

10. The detail of these tests and the more precise definition of targets within these areas are being worked out with Departments, but by the end of the first full financial year of the SMDP (1986-87), we should have:

1. In each Department an initial assessment of the effect of the SMDP on performances. The main source will be feedback from line management, top management and participants. And centrally an overall picture of these Departmental assessments, from which we shall derive a central view of the overall effect of the Programme.



2. In each Department a mechanism for assessing the impact of the SMDP on job postings. The main source for this will be the feedback from grade managers and other personnel staff. From this we shall obtain an initial view of whether the job postings side of the Programme is functioning properly.

3. Centrally an initial view on whether the Programme is going in the right direction, and on any modifications that may be necessary.

By the end of the second financial year of the SMDP (ie by Spring 1988), it will be possible to take a firm central view on whether the Programme is achieving its aims and on whether it represents value for money.

11. I will report progress on SMDP again in June 1986.

RA

ROBERT ARMSTRONG

3 October 1985

Date of assessment

Core Competencies

What you have learned from
experience or training

Important
to
develop?

**A. Management of resources/
organisations**

-Setting objectives

-Deciding on priorities

-Quantifying outputs and measuring
performance

-Financial management (including
interpretation and use of financial
control data)

-Value-for-money principles and
techniques (including challenging the
need for work)

Core Competencies (continued)

What you have learned from
experience or training

Important
dev

B. Management of staff

-Motivation; encouraging staff to give
of their best

-Communicating with staff (eg.
explaining the reasons for a particular
task) and listening to their views

-Assessing strengths and weaknesses of
staff (eg. for allocating work)
(see explanatory note 1)

-Delegation allocation of work

-Development of staff

Core Competencies (continued)

What you have learned from
experience or training

Important
to
develop?

**C. Knowledge/understanding of the
context of your work**

-Your role in your own department (in
relation to its management structure
and use of central resources) (see
explanatory note 2)

-Immediate context (eg. the policy
concerns of other parts of the
department; other organisations
affected by your work (eg. local
government, nationalised industries)

-Political context (Ministers, Cabinet,
Parliament)

-Broader context:
the private sector
(see explanatory note 3)

economic/social/technological
trends
(see explanatory note 4)

Core Competencies (continued)

What you have learned from experience or training

Important to develop

<p>D. Managing your own work</p> <ul style="list-style-type: none">-Allocating priorities to your work -Managing your own time -Coping with tight deadlines		<input type="checkbox"/>
<p>E. Information technology</p> <ul style="list-style-type: none">-Awareness of potential uses of information technology -Ability to make personal use of computerised equipment		<input type="checkbox"/>
<p>F. More specialised knowledge/ expertise</p> <p>... in your own area of work, or a specialised function to which you may return later in your career (includes professional technical functional specialisms, but also specialised aspects of administrative work) (see explanatory note 5)</p>		<input type="checkbox"/>

Although the core competencies are presented as a list, many of the items are clearly interrelated, and can be seen as representing different aspects of a more integrated picture. There are training opportunities and other sources of learning specifically designed to draw together and develop general management abilities. Details of these are included in the "Training Opportunities" section of the binder. You should consider whether you would benefit from an opportunity of this kind.

Now read through the list of "Important Competencies", and use the middle and right hand columns as before.

Important competencies

What you have learned from
experience or training

Important
to
develop?

**Representational/presentational
skills**

-Representing Government interests
and policies persuasively (see
explanatory note 6)

-Making oral presentations

-Negotiating skills

-Communicating clearly with the public
(see explanatory note 7)

-Public relations (including contact with
the media)

Important competencies (continued)

What you have learned from experience or training

Important

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<p>Written/administrative skills (see explanatory note 8)</p>		
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<p>Policy Management</p> <ul style="list-style-type: none">-Assessing options (including costing); formulating policies -Planning implementation (including use of critical paths and other project management techniques) -Assessing performance (see explanatory note 9)		
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Important Competencies (continued)

What you have learned from experience or training

Important to develop?

<p>Economics</p> <ul style="list-style-type: none">-General understanding of the macro-economy and macro-economic policy -General understanding of micro-economics (including the principle of opportunity cost) -General understanding of the economic basis of, and techniques for, appraising and costing options and evaluating outcomes		
<p>Accounting and finance</p> <ul style="list-style-type: none">-General principles of management accounting -Government finance and accounts -Investment appraisal		
<p>Quantitative skills/statistics</p> <ul style="list-style-type: none">-General understanding of techniques involving numbers, and personal ability to use the simpler of these techniques -Knowledge of the general types of statistical data available; how to get them and how to use them		

Important Competencies (continued)

What you have learned from
experience or training

Important
to
develop?

<p>Law</p> <ul style="list-style-type: none">-Knowledge of legislative procedures -Appreciation of general principles of administrative law		
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<p>Industrial relations</p> <ul style="list-style-type: none">-Contact with trade unions -Negotiating skills		
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CONFIDENTIAL

CND



Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
 Secretary of State
 Foreign & Commonwealth Office
 King Charles Street
 London
 SW1A 2AL

14 October 1985

NBM.

Dear Geoffrey,

PAY ASSUMPTION AND RUNNING COSTS LIMITS

Thank you for your minute of 7 October to Nigel Lawson. I agree that the legitimate interests of Select Committees in departmental Estimates should be respected; and, as Nigel indicated in his minute of 25 September to the Prime Minister, presentation of the proposed format will be important. However, I believe that Select Committees will see the advantages of a format which focusses on the total cash provision for running costs, disaggregated where appropriate by function or responsibility centre, and which reflects the way departments will now be planning and controlling their running costs. Parliament has pressed us in the past to ensure that its scrutiny and control of Supply is in line with the way the executive operates in practice.

The Treasury and Civil Service Committee and the Committee of Public Accounts will be consulted about the proposals, as endorsed by Cabinet on 3 October, as soon as the House returns from the summer Recess. If, as I hope, they agree to them, it would be surprising if the Foreign Affairs Committee pressed a different view when it came to consider your Estimates. But if your Committee did dissent, you could point to the advantages of the new arrangement, and to the fact that it has already been the subject of consultation with Parliament. Moreover, you could draw their attention to the doubtful value of the comparisons for which you have been asked in the past; within FCO's running costs there has in recent years been a substantial underspend and a switch to pay from provision for other running costs. I could not justify presenting your department's Estimates in a format different from others'.

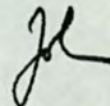
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CONFIDENTIAL

I will shortly⁺ be circulating some suggestions on the information that might in future be given to departmental Committees. The key point is to stress that running costs expenditure is planned and controlled in total. However, detailed monitoring information will be available, and you could therefore offer the Committee outturn figures split into the categories that they would find helpful. Once pay rates have been negotiated (and I am afraid I see no prospect of bringing forward the pay round), the Committee could also be given forecast outturn on a similar basis. (I see little point in giving them a breakdown on the notional basis you suggest, which might further encourage them to explore the pay assumptions you have made). More relevant will be the total running cost of each main function or responsibility centre, and I hope your developing budgetary control system will enable you to show a breakdown along these lines in your 1986-87 Estimates, as will most other departments.

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

Yours ever,



JOHN MacGREGOR

⁺now today, in a letter to George Younger.

Civil service Pt 18

Langton





1. ~~TR~~
2. ~~Questions~~

cc 30

Treasury Chambers, Parliament Street, SW1P 3AG

14 October 1985

The Rt Hon George Younger MP
Secretary of State
Scottish Office
Dover House
Whitehall
London
SW1A 2AU

Dear George,

I promised after Cabinet last week to let you have a note of guidance on the presentational aspects of introducing running costs limits in 1986-87, which I hope will be helpful to colleagues also. My officials will be circulating more detailed guidance on both Estimates treatment and Civil Service pay arrangements following the MISC 66 discussions. I think it would be useful to give colleagues now a summary of the points to be made in answering questions on running costs such as the transition away from central pay assumptions. You were particularly concerned about what to say on provision for pay in departmental limits; a line is suggested in D attached. You may also like to look particularly at the note at the end on "Dropping an Explicit Pay Assumption - Key Points".

Decisions on individual running cost limits have not yet been reached, let alone announced. But I want to make an early announcement confirming the decision to move to control of running costs and ending the pay assumption because of the linkage with discussions with Civil Service unions on long-term pay arrangements and the need to consult the relevant Parliamentary Committees on Estimates treatment of running costs. This announcement could be immediately after the House returns after the Recess. The attached notes are intended to help departments take a consistent line. The detailed limits for running costs will then be published early next year in the Public Expenditure White Paper or with Estimates. I will consider then what further guidance would be useful.

I am sending copies of this letter to the Prime Minister, members of Cabinet, other colleagues in charge of departments and Sir Robert Armstrong.

Yours ever,
JH

JOHN MACGREGOR

RUNNING COSTS CONTROL

Background

1. Expenditure discussions this year have given particular attention to departmental running costs. The aim has been to agree limits for all expenditure on administration in 1986-87. This is the first year of a new system (announced 24 May).
2. Running costs do two things:
 - (a) they are better than a manpower control alone and get away from a central assumption on pay. With a leaner civil service, value for money and administrative efficiency are the proper criteria for decisions;
 - (b) they encourage good financial management. The FMI is all about delegated financial management. Running costs are an important step.
3. Running cost limits will make realistic but demanding provision for departmental expenditure based on department's own realistic estimates. These include estimates about pay. They will be tight estimates and tight controls. That is as it should be. Running costs totals will be budgetary limits so that programme expenditure is not available to finance overspends on running costs.
4. Running cost limits are still under discussion in the Survey and the agreed figures for departments will not be announced before publication of the Public Expenditure White Paper.

RUNNING COSTS: DETAILED POINTS TO MAKE

A Development of Civil Service Management

- (i) Ensures better planning, monitoring and control. Running costs above inflation for last few years, so control important.
- (ii) Running costs ensure planned efficiency. Old controls forced in-year changes of plan which were disruptive and inefficient.
- (iii) Consistent with developments in financial management in departments.
- (iv) Control limits will be for total administrative costs. Encourages departments to make appropriate choices in allocating resources (e.g. between staff and contracted out services).
- (v) Consistent with proposed way ahead on Civil Service pay.

B Effects on pay and Civil Service numbers

- (i) Running costs limits will govern amount department can spend on pay bill and other administrative expenses. No separate central pay assumption.
- (ii) Overall manpower controls will remain with published targets to 1.4.88. When running costs control working effectively, Government will review need for separate manpower control.
- (iii) No slackening of Government policies on pay. Continuing need for pay moderation in economy as whole. With inflation coming down, nominal settlements must come down faster. Where Government is direct employer it will look for reasonable and moderate settlements within

financial disciplines. Excessive settlements will still cost jobs. Additional points on wider implications attached.

C End of central pay assumption

- (i) Running costs limits, built up from departments' own estimates and negotiated with Treasury, will now determine cash available for wide range of administrative costs. New regime will be more effective than central pay assumptions which applied only to pay.

D Assumptions about future pay settlements in departmental running cost limits

- (i) Settlement with Treasury on limit concentrated on overall cash figure for running costs;
- (ii) department bid, on which settlement of limit based, a composite of a number of elements for pay, accommodation, external services and other administrative expenses;
- (iii) Necessary to make assumptions not only about increases in costs, of which pay rates one factor, but also about wide range of running cost elements - manpower numbers, grade mix, overtime, incremental drift etc.
- (iv) Important to stress that running costs limit is a single control total covering pay and other non-pay costs. Assumptions about pay rates only one factor in building up totals on which limits based.

DROPPING AN EXPLICIT PAY ASSUMPTION - KEY POINTS

Pay assumption never intended as a norm or entitlement, or to have wider meaning beyond being a necessary element of public expenditure planning. But came to be taken as signal of Government pay aims more widely.

In that respect has been useful. But usefulness running out; perceived differences between assumption and what people saw pay settlements to be actually damaging, as weakening force of the Government's message.

2. No change in Government's view on need for pay moderation in the economy as a whole. This is as strong as ever. Real earnings have been rising at 2 to 3 per cent per year, damaging employment. With inflation coming down nominal settlements must come down even faster.

3. So far as private sector goes, Government will maintain firm monetary and fiscal policies. No intention of bailing out companies who damage themselves and others through excessive settlements.

4. In the public services, where the Government is direct employer it will ensure moderate settlements; new running costs regime managerially more sensible and just as effective as pay assumption. For local authorities no intention of letting up on financial disciplines and penalties. Not a "victory" for public service unions who have campaigned for getting rid of the pay assumption; excessive settlements will still cost jobs.

5. Pay bargaining essentially a matter between employer and employee. But Government look to both sides to understand link between pay and jobs and act accordingly.

CC/ND

RESTRICTED



WBP

FCS/85/259

CHANCELLOR OF THE EXCHEQUER

Pay Assumption and Running Cost Limits

1. While I can well understand the reasoning underlying the proposal for avoiding a pay assumption made in your minute to the Prime Minister of 25 September, in practice the presentation envisaged seems likely to cause us problems with Parliament. It involves abandoning the longstanding practice of having pay subheads in the Estimates. I agree with George Younger (his minute to John Macgregor of 16 September) that if we are pressed by our Select Committees we can hardly refuse to give them the information they require.

2. There is a particular problem so far as the Overseas Representation Vote Class II is concerned. In the absence of programme expenditure, under the proposed arrangements, the Vote would contain only a few lines of figures. I am sure that the Foreign Affairs Select Committee, which has been diligent in pursuing its investigations of my spending down to sub-sub-subhead level, would not be satisfied and would demand sufficient information to enable a detailed comparison to be made between the Estimates for 1986/87 and those for the current year. On past form the Committee's request for information, including oral examination of the Accounting Officer, will come well before the Supply is Voted and before a Civil Service pay settlement is reached. Similar problems would be encountered with the Overseas Aid Administration Vote, although in the past the Foreign Affairs Committee has not investigated the Vote in great depth.

/3.

RESTRICTED



3. I recognise the importance of preventing the unions and others from deducing what you now call the "pay component". But I believe it will be necessary to devise some method of providing Select Committees with the degree of information which they are entitled to expect before approving Supply. For example, one might spread the expected pay increase pro-rata across all sub-items in one "Pay and General Administrative Expenditure" subhead. Another approach might be to move the pay round so that it can be completed before Parliament examines the Estimates.

4. I am copying this minute to the Prime Minister, Members of the Cabinet and Sir Robert Armstrong.

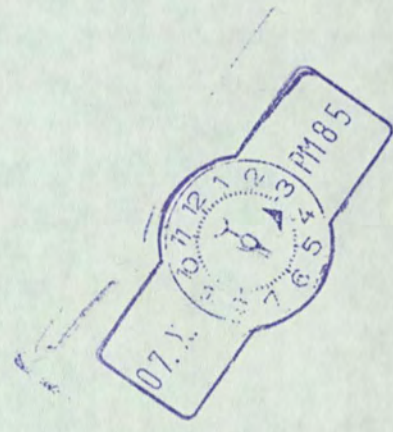
Foreign & Commonwealth Office
7 October 1985

GEOFFREY HOWE

CIVIL SERVICE

LONG TERM MANAGEMENT

PT18



DN
(arrived 1555)FROM: CHIEF SECRETARY
DATE: 2 October 1985

PRIME MINISTER

3 OCTOBER CABINET: CONTROL OF RUNNING COSTS

I said that I would let you have a separate note on the handling of the discussion of running costs at Thursday's Cabinet.

2 The advantages of the move we have agreed to running costs targets ultimately in place of a manpower count are:

- (a) they make for better management. Departments can make cost-effective choices about how to discharge their responsibilities without decisions being distorted by marginal changes in civil service numbers;
- (b) they focus control where it is needed. Despite the fall in manpower numbers, civil service running costs have tended to increase over the last few years.

3 The transition to running costs is not straightforward. In particular, we cannot under running cost controls operate the old system whereby we set a pay assumption representing our negotiating target because running cost limits will not allow Departments automatically to raid their programme provision to meet higher pay settlements. They will have to look to other administration costs first. To achieve the managerial objectives at (a) above, we have to drop a central pay assumption and go for realistic departmental assessments (as explained in the Chancellor's note of 25 September).

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4 Some colleagues wish to re-open the question of running costs. They express concern about the presentational problem created by abandoning a central pay assumption, leaving Departments to defend their own provision for pay. Although they do not say it, I am sure that another factor is concern among Departments at the greater rigour which running cost controls will bring to bear on Departments' running costs. It will no longer be possible to switch spending on programmes to spending on administration.

5 In these circumstances, I propose to reiterate the advantages I see of a running cost control system as outlined above; and to suggest that the best way forward is to persuade those colleagues who have not yet settled to bring their provision for running costs down to more affordable levels.

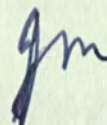
6 If concern persists, I will present colleagues with a choice. Either we keep to the policy of setting running cost limits; or we revert to the old system under which we base departmental cash limits on a 3 per cent pay assumption. This latter option is not an easy one. We have announced in public the move to running costs. Resurrecting the central pay assumption would mean re-opening agreements on running costs already reached (for which I would need authority in the Cabinet minutes); and it would be difficult to reconcile with the Government's intentions on a new pay regime for the civil service.

7 I think that faced with the choice, many colleagues would recognise the danger of losing the opportunity to establish a more management orientated system. But I would prefer to go back to the old system than attempt to find some halfway house of running cost limits based on, say,

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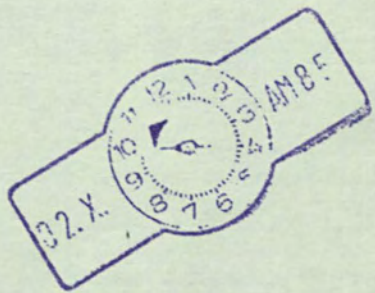
a 3 per cent assumption for pay. It has not in the past proved possible to absorb pay increases well in excess of 3 per cent within running costs alone. To suggest that it would be possible to do so in the future will raise even greater objections from colleagues than they are at present making to the system I am proposing. And in practice, there is a real danger that it would lead to wholesale breaches of running cost limits, discrediting a potentially useful system before it has time to get off the ground and become fully effective.



JOHN MacGREGOR

CONFIDENTIAL

W. H. CONQUESTOR



CONFIDENTIAL

CC No ✓



SECRETARY OF STATE FOR ENERGY
THAMES HOUSE BUILDING
MILBANK LONDON SW1P 3AG

NSP17

DRS
1/10

01 211 6402

The Rt Hon John MacGregor MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

1 October 1985

CONTROL OF CIVIL SERVICE RUNNING COSTS

Thank you for the copy of your minute of 10 September to the Prime Minister.

Norman Tebbit has already made the point that the new limits should not be operated in a manner which introduces further rigidities into the system, cutting out initiatives even where they are justified by public expenditure savings.

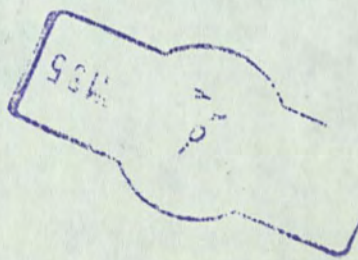
This has particular relevance to the substantial net savings in public expenditure which could be obtained by Departments through improvements in energy efficiency. I hope this will be borne in mind.

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

PETER WALKER

CONFIDENTIAL

CIVIL SERVICE
LONG TERM MANAGEMENT
PT 18





cc No

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

NBPP,
DES
7/10

My ref:

Your ref:

30 SEP 1985

In Wharfe

CONTROL OF CIVIL SERVICE RUNNING COSTS

Thank you for sending me a copy of your minute of 10 September.

As Rodney Elton said in his letter of 22 August to Peter Rees, we fully support the drive to make running cost targets effective. I am content with the monitoring arrangements which you propose, but there are one or two more general points I should like to make.

First, as you will know from my letter of 16 September, there remain some problems about the appropriate definition of PSA's running costs for target setting purposes; I hope these can be resolved in further discussions between officials.

Secondly, I welcome the assurances in your minute that you will be giving special attention to bids relating to the staffing of services whose costs are wholly recovered. I agree with Norman Tebbit that we should consider the interaction between running costs and public expenditure as a whole, in order to ensure that the controls are genuinely effective.

Finally, I appreciate the force of the arguments against an explicit pay assumption. But it is essential that running costs limits are set at realistic levels, bearing in mind that the centre and not the Department makes pay settlements; and that all Departments are treated on the basis of a set of consistent principles in the bilaterals which take place on running costs.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues, Sir Robert Armstrong and Sir Robin Ibbs.

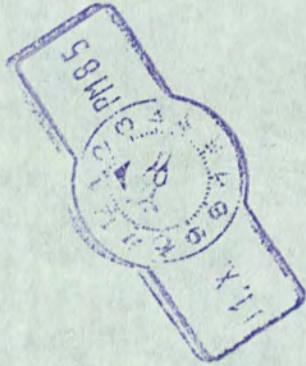
John MacGregor
MacGregor

KENNETH BAKER

CIVIL SERVICE

LONG TERM MANAGEMENT

PT 18.



RUNNING COSTS CONTROL

Background

- 1 In line with the Chief Secretary's announcement in Parliament on 24 May, PES discussions have given particular attention to departmental running costs with a view to agreeing limits for 1986-87.

- 2 Running costs cover most of the administrative costs of departments - pay (70%), accommodation (11%), personnel overheads such as travel and subsistence (6%), and services like postage, telecoms and charges for contracted out work (13%).

- 3 Aim is to provide departments with a framework within which to manage their administrative services to continue the drive to efficiency and economy. In-year, these running cost totals will be treated as budgetary limits, so that programme expenditure is not available to finance overspends on running costs but any underspend may be used in programme expenditure, subject to the normal virement rules, and value-for-money considerations.

I RUNNING COSTS

Positive

- 1 Natural stage in evolving Government's policies for Civil Service management. Ensures better departmental accountability for administrative costs.
- 2 Consistent with devolved budgeting developments in departments.
- 3 Sensible to control through total envelope of administrative costs. Assists resource allocation by allowing departments to make appropriate choices between inputs (e.g. between staff and contracted out services).
- 4 Ensures better planning, monitoring and control. Running costs above inflation for last few years, so control important.
- 5 Manpower controls and (low) central pay assumptions on their own do not provide incentives for planned efficiency. They force in-year adjustments (when pay settlements higher than assumption) which are disruptive and inefficient and allow departments to use programme expenditure to finance administrative cost increase.
- 6 More appropriate to likely long-term arrangements on Civil Service pay, because running costs will depend on more realistic assessment by departments of pay increases and provide an envelope within which extra pay costs absorbed.

Defensive

A Transition from old system presents handling problem. Possible attack that government softening on pay or Civil Service numbers.

Points to make

- (i) Running costs will be tighter control because departments not allowed to make transfers from programme expenditure

- (ii) Intention still to get running costs limits near to expected rate of inflation. Depends on further Survey discussions
- (iii) Final figure will be higher than 4 per cent (half a per cent below expected rate of inflation). But this defensible. Comparison will be with this year's outturn which we do not yet know but will be higher than provision. There will be additional manpower for fraud and fees etc. Need to provide for Civil Service pay settlement higher than 3 per cent
- (iv) Manpower controls remain
- (v) No softening on pay

B End of central pay assumption difficult to present

Points to Make

- (i) Central pay assumption incompatible with running costs set on realistic basis. Also incompatible with possible long term arrangements for Civil Service pay
- (ii) Central pay assumption determined cash available for pay. That role now fulfilled by running costs for wider range of administrative costs
- (iii) Central pay assumption never intended as signal for Government pay policy widely. That policy remains as a need for pay moderation. With inflation coming down, nominal settlements must come down faster.
- (iv) Mistake to compare central pay assumption with estimates used by departments in building up running cost totals. The latter is simply an arithmetic estimate, like other costs. What matters is total pay bill and total running costs limit.

cc PWS [signature]



Chancellor of the Duchy of Lancaster

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS

Tel No 233 3299
7471

26 September 1985

PRIME MINISTER

PAY PROSPECTS FOR 1985/86 AND LONGER TERM ARRANGEMENTS
FOR CIVIL SERVICE PAY

I regret that I shall be unable to attend the meeting of MISC 66 on Friday
27 September.

The position, as reported, on pay prospects for 1985/86 is a worrying one, not least for the effect which it will have on unit labour costs in industry and hence on our relative competitiveness at a time when exchange rate movements are making exporting more difficult.

I know that colleagues have been at pains to make the necessary points in speeches and interviews about the need for pay moderation, if jobs growth is to be sustained, but we need to get across the message to pay bargainers, and to workforces generally, that this is not essentially a political message, but an economic fact of life. The price of real pay increases above the levels of our competitors will be counted in lost jobs, either their own or someone else's. If the character of this message is to be fully understood, it should be heard from industrialists, commentators (particularly in the popular press) and trades unionists; and not simply those at a national level, but also at local levels, where so much pay bargaining occurs.

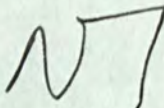
I hope that, at Friday's meeting, it may be possible to lay plans for making approaches to industrial and employment organisations, building on the valuable work already done by the CBI and others; and to bring journalists into the picture, perhaps by seeking dramatic examples, both of growing firms with secure jobs based on moderate pay rises, and the converse.

On longer term pay arrangements for the Civil Service, I have read with interest the stage reached in negotiations on the Megaw Inquiry recommendations in MISC 66(85) 3. I agree that our options now hinge on the acceptability or otherwise of automatic and regular levels surveys.

While we are rightly proposing to resist the unions' position on "catching up", I believe we should be fully aware of the potential for damaging repercussions in the pay environment generally of pay awards to the non-industrial civil service at levels substantially above the going rate. Even though the proposed system will constrain the pressure for excessive single-year awards, we should be aware that automatic levels surveys will be used as a stalking-horse for catching-up claims over subsequent years. While we are aiming to avoid a further "ratchetting down" of Civil Service Pay, I would not welcome a system, readmitting comparability to a greater extent, which allowed for a "ratchetting up".

I should therefore support option (d), as described in paragraph 9 of the Treasury note, including indicating a willingness to continue discussion on the timing and content of levels surveys.

I am copying this minute to Leon Brittan, Nigel Lawson, Douglas Hurd, Keith Joseph, Peter Walker, Michael Heseltine, George Younger, Norman Fowler, Nick Ridley, David Young, Kenneth Baker, Kenneth Clarke, Richard Luce, Ian Gow, and to Sir Robert Armstrong.



NORMAN TEBBIT

CC 2/0
DN

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

PRIME MINISTER

PAY ASSUMPTION AND RUNNING COSTS LIMITS

In his minute of 10 September, the Chief Secretary set out the reasons why we do not think it sensible to have a formal pay assumption for 1986-87; and said that we would be putting proposals to colleagues about the treatment of running costs in Estimates.

The logical implication of the move to running cost control is a presentation that focuses on a department's total running costs without disaggregation into separate components for pay and other running costs. Such a presentation would ensure that the Parliamentary control regime was in line with that operated within Government; and would allow departments the maximum freedom to reallocate provision within total running costs limits. This is consistent with the development of budgeting as an important technique of financial controls and the way we are handling running costs in the Survey.

My proposal, which is specified in more detail in the Annex, will mean the loss of identifiable figures for pay or other components of running costs in Main Estimates. The normal table in the Summary and Guide to Estimates showing the aggregate provision for pay will similarly not be available. Some Select Committees have shown interest in such information in the past, even though it has usually differed a good deal from the outturn following the pay settlement. Presentation of the proposal to Parliament will be important, and I will need to consult formally with the TCSC and PAC. But from the informal soundings I have



taken, I would hope that Parliament will see the advantages of aligning their scrutiny with the reality of our control procedures. This would be in line with the other improvements for which Parliament has been pressing in the structure of Estimates to reflect more clearly the way expenditure is planned and controlled in departments. If Select Committees nevertheless insist on requiring supplementary analyses, these could be provided once pay settlements had been reached.

*Some are
very likely
to be
unhappy,
and may
raise it
in October
or before.*

I hope that this proposal will commend itself to colleagues. I should be grateful to know if you are content, so that I can consult the two Parliamentary Committees, and instructions can be issued to departments on the preparation of Estimates.

Finally, I should add that it is clearly of the first importance that this change in procedure is not seen - whether by the CBI, the public service unions or anyone else - as an indication that the Government is going soft on pay. I am therefore giving careful thought to the question of presentation and will be issuing further guidance on this to Departments.

I am copying this minute to other Members of Cabinet and to Sir Robert Armstrong.

N.L.

N.L.

25 September 1985

RUNNING COSTS: PROPOSED PRESENTATION IN ESTIMATES

1. The provision in Main Estimates for each department's running costs should be sought without disaggregating it into pay and other running costs.
2. Non-financial information currently shown on the face of Estimates could still be given where appropriate; manpower numbers should in any case be shown.
3. Supplementary analyses could also be given to Select Committees, if required; but any analyses showing (or allowing users to calculate) the implied provision for pay within total running costs should be provided only after pay settlements had been reached.

NOTES

- (a) These arrangements are designed to allow the splitting of the running costs provision between the principal functions or responsibility centres covered by the vote, eg in cases where the votes are restructured in this way to reflect developments in financial management.
- (b) They also do not preclude showing some particular components of running costs (eg for accommodation) separately from the main running costs provision, if there are good management reasons for doing this, provided that this does not narrow the main running costs provision to an extent which would enable the pay component to be deduced.
- (c) Any provision for running costs receipts would similarly not distinguish between those relating to pay and to other running costs.

CIVIL SERVICE
LONG TERM MANAGEMENT

P 18

CONFIDENTIAL



f e l s

10 DOWNING STREET

From the Private Secretary

MR. STARK
CABINET OFFICE

GOVERNMENT EMERGENCY COMMUNICATIONS
SYSTEMS

Thank you for your minute of 20 September to Tim Flesher here.

The Prime Minister has taken note of the points you make, without comment.

I am copying this minute to Mr. Taylor (Home Office), Mr. Mogg (Department of Trade and Industry), Mr. Mottram (Ministry of Defence), Mr. Graham (Scottish Office), Mr. Daniell (Northern Ireland Office) and Mr. Broadbent (Chief Secretary's Office).

MARK ADDISON

23 September 1985

CONFIDENTIAL

MS

CG/20



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

JU61

Secretary of State for Trade and Industry

20 September 1985

CONFIDENTIAL

The Rt Hon John MacGregor OBE MP
Chief Secretary to the Treasury
HM Treasury
Treasury Chambers
Whitehall SW1

NBP 7
JH

De John,

CONTROL OF CIVIL SERVICE RUNNING COSTS

While I support the general thrust of your proposals in your minute of 10 September to the Prime Minister, I am disappointed that no special provision is made to deal with fee earning establishments such as the Patent Office, the Companies Registration Office and the Insolvency Service. Without special provision for such establishments they will be subject to all the pressures of tough running cost limits based on gross costs without regard to the receipt of fees which they can be expected to engender during the course of the year. Employees at the Companies Registration Office, for example, earn more than they cost. While I have noted that you will seek to take account of such special factors in the PES bilaterals, it does seem to me that the basis of a more satisfactory regime might be to ring fence such establishments and apply a running cost limit to the rest of the Department.

I also have reservations about your proposal that Departments should be allowed to make their own pay assumptions. This would open the door to detailed questioning of each Department on its individual pay assumption. I believe it would be preferable to subsume an agreed pay assumption in the new running cost limits which contain provision against inflation, and therefore not to make separate pay assumptions any more.

I am copying this letter to the Prime Minister and other members of the Cabinet, and to Sir Robert Armstrong and Sir Robin Ibbs.

Leon
Leon

LEON BRITTAN

Card Service; long term policy # 18.





Ref. A085/2388

MR FLESHER

Government Emergency Communications Systems

See Pt 17

In your minute of 8 August to Richard Hatfield you asked for further consideration to be given to the possibility of inviting competitive tenders from Mercury and Cable and Wireless for Government emergency communications systems.

See Pt 17

2. As indicated in Sir Robert Armstrong's minute of 7 August to the Prime Minister, one of the aims of switching departmental responsibility for such central Government emergency systems to the Home Office is to use their greater expertise in this field to uphold the Government's interests as a customer more effectively. Part of this task will be to identify the most cost-effective options available to meet the Government's requirements, including the possible involvement of Mercury and its parent company Cable and Wireless, and the various cellular radio systems.

3. It has to be recognised, however, that at present only British Telecom (BT) can provide the full nation-wide and international network upon which our emergency communications depend for their special routing and protection facilities. As BT's competitors become more widely established, opportunities for competitive tendering should increase. It will be important for the review of these emergency communications systems which is now to be undertaken to look carefully at such possibilities for the future, in order to secure value for money for Government.

4. I am sending copies of this minute to Mr Taylor (Home Office), Mr Mogg (Department of Trade and Industry), Mr Mottram (Ministry of Defence), Mr Graham (Scottish Office), Mr Daniell (Northern Ireland Office) and Mr Broadbent (Chief Secretary's office).

MS

20 September 1985

M C STARK

PRIME MINISTER

GOVERNMENT EMERGENCY COMMUNICATIONS SYSTEMS

You asked if, in view of the fact that BT was being unhelpful
in their charging arrangements in this area, we could get
competitive tenders from Marconi and Cable and Wireless.

You will see from the attached note from Sir Robert
Armstrong's office that the review of the Emergency
Communications Systems will indeed be looking at this
possibility. However, it seems at present as if only BT can
provide the necessary national and international network
required.

Mark Addison

Mark Addison

20 September 1985



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460

Switchboard 01-213 3000

The Rt Hon John MacGregor OBE MP
 Chief Secretary
 HM Treasury
 Great George Street
 LONDON
 SW1

19 September 1985

John MacGregor

FRAUD STAFF: EXPANSION

Thank you for your letter of 16 September in which you support an expansion of our anti-fraud operation but express some reservations about the pace and scale of what is proposed.

I cannot emphasise too strongly the priority which I attach to this programme. I am wholly convinced about the need for it both in terms of reducing fraud and in terms of highlighting the reality behind some of the current claims on the unemployment count. Moreover, the proposed expansion will be built on a proven, and rapidly improving, track record of detection and deterrence.

You refer in your letter to two, very different rates of return; the higher figure (1:3.8) was based on the maximum savings generated by a relatively modest injection of investigators who would have required little additional management or support staff. The 1:2 ratio represents the minimum returns to be achieved in the process of expanding and more than doubling the scale of our present operation. Currently we are obtaining a rate of return of 1:2.8 based on the developing expertise of our teams over some 18 months. I believe that we can certainly improve on this and I am looking for at least 1:3 in 1987-88 when our new staff are fully proficient.

In my letter of 12 September I also mentioned the register effect of fraud work. If we expand at the rate I want, I would expect a progressive register effect from the present 24,000 sign offs per annum to 50,000. This, together with the undoubted "knock-on" and deterrence effect, is by no means insignificant.

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As to the likely savings to be made in Social Security expenditure, the minimum savings of £18.8 million are, of course, dependant on an expansion to 730 staff. However, much greater savings can be projected using a 1:3 productivity ratio: the programme savings you may wish to discuss with Norman Fowler would therefore stand at around £27m in 1987-88.

We will, of course, pick this up in the course of our bilateral on 23 September, when I hope that we can also settle the implications for the rest of the current year.

I am copying this letter to the Prime Minister and Norman Fowler.

Jan 4,
David

CONFIDENTIAL





CCSD

NBA7.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NA

16 September 1985

Dear David,

FRAUD STAFF

will request if required

Thank you for your letter of 12 September which emphasised your support for the proposal set out in Tom King's letter of 7 August to Peter Rees for increasing the number of fraud staff by 430 by April 1986 and by a total of 730 by April 1987. We will need to consider the proposal along with other running cost issues at the bilateral on 23 September.

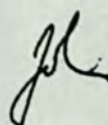
I fully accept the desirability of increasing the fraud staff. But in agreeing to some increase, E(A) concluded that "the possibility of offsetting manpower savings should be considered in discussion with the Chief Secretary." The overall position on running costs is such that I need to pursue seriously with you the maximum economies in your own running costs. This is something I suggest is best discussed at our bilateral in 10 days time. I hope you will give urgent consideration to the overall position so that we can reach a final decision then.

It may however be helpful if I make some preliminary comments. In his paper for E(A) Tom King had said that at an extra cost of £1.7 million for 100 fraud staff there would be benefit savings of £6.5m - i.e. a rate of return of 1:3.8 which I understand is about the present rate of return from the existing fraud staff. I was therefore surprised that the rate of return suggested by the figures in Tom King's letter was only just over 1:2.

Clearly the work of regional fraud teams in the Thames Valley has proved well worthwhile and some redistribution of manpower resources towards fraud work is justified. However, I suggest that we should examine the practicalities and cost-effectiveness of going for the exceptionally rapid expansion proposed in Tom's letter. As the experience of the Thames Valley experiment and other new work is examined I imagine it should lead to increasingly effective ways of using fraud staff. Therefore the expansion of staff numbers should be at such a rate that it allows account to be taken of developing experience in the use and deployment of fraud staff. Perhaps we could also look at an alternative increase of 300 fraud staff by April 1986 and 400 staff by April 1987, which still represents a significant expansion allowing proper account to be taken of developing experience. Clearly thorough monitoring arrangements will be necessary, as you suggested and as I know you would wish to have, to ensure that the expectations about benefit savings are being delivered.

Using the 1:3.8 rate of return, the savings made in the social security programme would rise in 1987-88 to about £33 million under the figures in Tom King's letter and about £20 million using the alternative manpower figures set out above. The savings will need to be taken into account in the estimates for social security given in the Autumn Statement. The savings should be very real even though they may not affect the rounded totals. I will assume that you and Norman Fowler are content with this arrangement unless I hear to the contrary by Thursday, 19 September.

I am copying this letter to the Prime Minister and to Norman Fowler.

Yours ever,


JOHN MacGREGOR





Re

DG

10 DOWNING STREET

16 September 1985

From the Private Secretary

Dear Richard,

CONTROL OF CIVIL SERVICE RUNNING COSTS

The Prime Minister has seen the Chief Secretary's minute of 10 September. She has noted that the Chief Secretary will discuss progress in implementing running cost controls when he reports to Cabinet on the results of his bilateral discussions. The Prime Minister hopes that all Departmental Ministers will make every effort to find the economies necessary to make the new system a success.

I am copying this letter to the Private Secretaries to members of Cabinet, to Sir Robert Armstrong and to Sir Robin Ibbs.

Yours sincerely,

David

David Norgrove

Richard Broadbent, Esq.,
Chief Secretary's Office,
H.M. Treasury.

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PRIME MINISTER

CONTROL OF CIVIL SERVICE RUNNING COSTS

1. John MacGregor sent me a copy of his minute to you of 10 September.

2. I fully recognise the need to control running costs in the Civil Service and the level of pay settlements generally. I was puzzled, however, by what he said in paragraph 5 of his minute about the public presentation of such pay assumptions. We are apparently to say that there is no central guidance to Departments and that each Department has made its own assumption in determining its running cost limit. If we are then pressed e.g. by our Select Committees, to say what the assumption is, I do not believe we can refuse to tell them. If we do reveal the assumptions, and thereby their implications for actual staffing levels, and if one Department is found out to have made a lower assumption than others, the TUS reaction in that case is likely to be particularly intense. More important, however, is the difficulty of a general argument which says that the Treasury will continue to negotiate pay for the Civil Service as a whole but that each Department makes its own advance guess about the level of settlement. This will strain credibility to breaking point.

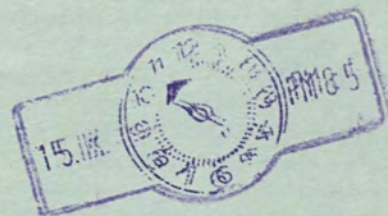
3. I think we need to be a good deal clearer about what our posture should be in response to these sorts of questions before we adopt the approach which John MacGregor is

H.R.
suggesting, and I would therefore welcome collective discussion of the matter.

4. I am copying this minute to other members of the Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.

G.Y.

16 September 1985



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PRIME MINISTER

13 September 1985

CONTROL OF CIVIL SERVICE RUNNING COSTS

The Chancellor will raise this subject in his bilateral on Monday.

The Treasury are right to propose that we discard the pay factor and manpower targets. Another pay factor of 3% would be unrealistic and provocative. A higher factor would signal that we were relaxing on pay. Manpower targets are increasingly unattractive, too. They suggest that reductions in Civil Service jobs are an end in themselves for this Government.

The running costs cash limit concept is an astute replacement of these two management devices. These limits would put pressure on Departments to save manpower. The (leaked) knowledge that such limits exist will put some restraint on Civil Service Unions' pay demands. It might also encourage the unions to trade off over-generous allowances (1st class travel, accommodation, entitlements, subsistence allowances) in return for higher pay.

Effectiveness

You want to stress to Nigel that the limit needs to be challenging and take account of known inefficiencies, such as

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- 2 -

those revealed by efficiency scrutinies. Extra-departmental scrutinies will be needed in the event of any over-runs.

Presentation

You ought to discuss the presentation of this shift of policy with Nigel. The high-paying CBI members and some backbenchers will argue that by dropping the pay factor, the public sector will no longer "set a good example". The limits will be seen to be tough on Departments, and on pay, too, because pay accounts for 70% of running costs. There are also political advantages in the new approach. You will want to approach an Election with the Civil Service of a size appropriate to its tasks and not still in the process of being pruned back. You will want by then to have an efficient, motivated Civil Service which can share in the improved prosperity which your policies have generated. Running costs' limits can allow scope for this. They can be presented in the language of efficiency and value for money, which sound considerably warmer than manpower cuts and pay factors.

Judith Ford

R NICHOLAS OWEN

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Prime Minister ⁽²⁾
 For Janet
 MEA 13/9

Treasury Chambers, Parliament Street, SW1P 3AG

David Norgrove Esq
 Private Secretary
 10 Downing Street
 London
 SW1

13 September 1985

Dear David

**CIVIL SERVICE MANPOWER NUMBERS:
 STAFF IN POST AT 1 JULY 1985**

We now have the figures for civil service manpower numbers at 1 July, 1985. On that date there were 596,163 civil servants in post. This represents a net reduction of 2,863 since April, made up of 1,979 non-industrials and 884 industrials.

The reduction since the Government took office in 1979 is some 18.6 per cent (136,000). The number of non-industrials has gone down by 69,827 and that of industrials by 66,285.

There have been no changes of consequence in the quarter. The largest reduction was in MOD (1,093), due mainly to the first stages of intermediate management measures at Devonport and Rosyth Dockyards. There was an increase of 127 in the Scottish Office due partly to the transfer in of staff from DHSS.

The figures are usually published by means of an arranged PQ, but the July details were not available before Parliament rose for the Summer Recess. Last year we published the July figures by means of a Treasury Press Notice, and we intend to do so again this year. The Prime Minister may like to know what the figures are before the Press Notice goes out next week.

Yours ever
 Richard

R J BROADBENT
 Private Secretary

	1-4-25		CHANGE	
			+	-
IRISH CHANCELLOR				
Lord Chancellor's Department (inc PTO)	10190	10128½		-61½
Land Registry	6820	6918½	+ 98½	
Public Record Office	401	397½		-4½
NORTHERN IRELAND OFFICE	175	175½	+ ½	
PAYMASTER GENERAL'S OFFICE	836	852½	+ 16½	
SCOTLAND				
Scottish Office	9911	10,038½	+ 127½	
Scottish Courts Administration	882	879		-3
General Register Office, Scotland	262	261½		-½
Registers of Scotland	827	845½	+ 19.5	
Scottish Record Office	124	127	+ 3	
SOCIAL SERVICES				
DHSS	92788	92084½		-703½
Office of Population Censuses and Surveys	2102	2106½	+ 4½	
TRADE & INDUSTRY				
Department of Trade and Industry	12620	12604½		-15½
Export Credits Guarantee Department	1778	1753½		-24½
Office of Fair Trading	302	305	+ 4	
Office of Telecommunications	69	83	+ 14	
TRANSPORT				
Department of Transport (inc DVLD)	14414	14366		-48
WALES				
Welsh Office	2279	2275½		-3½
OTHER CIVIL DEPARTMENTS				
Charity Commission	321	317		-4
Crown Estate Office	28	29	+ 1	
Crown Office (Scotland) and Procureur Fiscal Office	968	980½	+ 12½	
Director of Public Prosecutions	233	234	+ 1	
Law Officers' Department	20	19		-1
Lord Advocate's Department	21	20		-1
Privy Council Office	32	32		
Treasury Solicitor	447	436½		-10.5
Office of Arts and Libraries	52	52		
	599026	596,162½	+ 510	- 3373½

NOTES Staff numbers expressed as full time equivalents (excluding casuals and overtime)
*Trading Funds

PRIME MINISTER

Though Sir Robin Ibbs has not seen the Chief Secretary's note below, his office tell me that he favours shifting control towards running costs, with less emphasis on targets for manpower numbers. That is how the private sector does it. I agree, provided the Treasury can give you copper-bottomed assurance that any new system effectively limits Civil Service resource use. We don't want manpower numbers rising after all the effort to get them down.

See also Policy Unit note attached.

N.L.W.

nt

NIGEL WICKS

13 September 1985

Management-in-Confidence



Chancellor of the Duchy of Lancaster

~~GENO~~

CABINET OFFICE,
WHITEHALL, LONDON SW1A 2AS
Tel No: 233 3299
7471

Rt Hon John Macgregor Esq MP
Chief Secretary to the Treasury
HM Treasury

11 September 1985

D. John,

CONTROL OF CIVIL SERVICE RUNNING COSTS

Thank you for copying to me your minute of 10 September. *- with MEA?*

I fully endorse your views concerning the need to have effective controls, but I feel that we should be careful that these new limits do not bring further rigidities of the kind which have led in the past to an unwillingness to accept changes in manpower limits even when fully justified by resulting public expenditure savings.

While considering your proposals, therefore, I hope that we can also consider how these limits can allow scope for sensible trade-offs between manpower, running costs and public expenditure programmes generally.

I accept your view that we should not adopt a pay assumption for 1986-87. But I am sceptical whether it is entirely credible to suggest that no central guidance had been offered by Treasury concerning pay. Rather, I feel we should rest on the argument that we had, in any case, been enjoined by the Civil Service Unions not to prejudge the outcome of pay negotiations. But we must seek to bring our operating costs under progressively tighter control (as does industry generally) and this, represented by the running costs limits, must set the framework within which the pay negotiations are conducted.

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

NORMAN TEBBIT

CC 210
B. T. 13?

FROM: CHIEF SECRETARY

DATE: 10 September 1985

PRIME MINISTER

CONTROL OF CIVIL SERVICE RUNNING COSTS

1. When you gave your agreement in April to my predecessor's proposals for extending the running costs targets we first introduced last year you asked the Treasury and Efficiency Unit to consider what needed to be done to ensure the success of the new system. In response to this Peter Rees' minute of 26 July described a number of measures, including the arrangements Treasury Ministers were envisaging for the monitoring and in-year control of departments' running costs limits. As foreshadowed in that minute, I now attach a note setting out our proposals on monitoring and control in detail.

2. Our proposals are designed to be as simple as possible, and to rest heavily on the cash limits system, which has proved its worth as an instrument of control. As such, I hope they will commend themselves to you and to colleagues. But there is one fundamental point on which I hope we are all clear: however effective the systems which are put in place in departments to deliver these new targets, running costs limits can only be a success if we are all determined that they should be delivered.

3. As agreed at the 11 July Cabinet, I shall be aiming in the bilaterals to reach agreement on tough but realistic limits for each department. Discussions between officials are making useful progress, but it seems likely that there will be a number of issues which I will need to resolve with colleagues. Our agreed procedure for negotiating these limits, basing the discussion on each department's own proposal for a target for itself, usefully allows us to take proper account of relevant particular circumstances for individual

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departments. In this way, and especially by identifying offsetting savings and economies wherever possible, we will be seeking to take account of particular factors to which colleagues have drawn attention in earlier correspondence; and those to which we agreed in July to give special attention (running costs bids relating specifically to the control of fraud and the staffing of services whose costs are wholly recovered by fees).

4. Colleagues agreed in July to return in September to the question whether we should adopt a pay assumption for 1986-87. The Chancellor and I are firmly of the view that to announce a pay assumption as we have in recent years would be less appropriate in this year's circumstances. Until recently the pay assumption has been valuable in reducing expectations about pay increases both in the public services and more widely. But this year a pay assumption could, again, clearly not be more than 3%. The usefulness of a pay assumption at this level would be highly questionable. It would also put an impossible strain on the new running costs limits if they are, as they must be, tightly set and rigorously operated; and if delegated budgets within departments are to be taken seriously and developed, as we all wish them to be, they cannot indefinitely be based on artificially low pay assumptions.

5. Great care would, of course, be needed if we decide, on the basis of such considerations as these, to move towards a system in which there is explicitly more realistic provision for pay: we must at all costs avoid the - erroneous - impression that the government's commitment to public expenditure control has in any way weakened. To this end we might aim to argue in public that there was henceforward to be no pay assumption in the old sense, since that had been made redundant by running costs limits, which

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had been set at tight but realistic levels. If we were pressed to say more we could acknowledge that a range of different assumptions underlay departments' running costs limits, and that no central guidance to departments had been offered by the Treasury because we have no crystal ball for predicting the outcome of the pay negotiations; and that pay is, anyway, only one element in overall running costs, so that if departments' pay assumptions proved wrong, the intention would be, as in the past, that they should find economies in order to live within their agreed provision.

6. This line would help to underpin our argument that running costs limits were a principal determinant of what can be afforded for pay, and not vice-versa. But the treatment of these matters in Supply Estimates raises further problems. When the Chancellor and I have made a further assessment of the practicalities here we will put proposals to the Cabinet. Meanwhile, my intention is to conduct the bilaterals, as agreed at Cabinet on 11 July, with a view to reaching agreement on tough but realistic running costs targets for each department. My report to the Cabinet on the results of these discussions will, of course, cover any areas in which I have been unable to reach agreement with colleagues, as well as the implications of what I have agreed for total running costs and the overall targets we have set ourselves.

7. I am sending copies of this minute and the enclosed paper to the other members of the Cabinet, Sir Robert Armstrong and Sir Robin Ibbs.



JOHN MacGREGOR

CONFIDENTIAL

MONITORING AND CONTROL OF RUNNING COSTSNote by the Treasury

This paper gives guidance to departments on new arrangements which are proposed for monitoring and control of departmental running costs. The arrangements build on departmental systems for monitoring and control already in operation. From 1986-87 running costs would be subject to in-year control as limits (like cash limits) rather than as targets. Where the new system has been proved to be effective, there should be no need for separate control of manpower targets after 1987-88.

*P17.
Need
to
pause
over this and have strong evidence of effective controls.*

Limits for 1986-87 onwards: PES provision

2. Running cost limits will be agreed for each department during the 1985 Survey. The intention is to publish the aggregate limit in the Autumn Statement and departmental limits in the 1986 PEWP for one year ahead. Running costs cover the civil service (excluding trading funds) and the armed forces, and include pay, accommodation, personnel overheads, office services and other services such as charges for contracted out work. The limits for each department will be based on gross costs excluding receipts. Manpower targets will be published in the 1986 PEWP up to April 1988, but it is intended that any totals published for later years should only be indicative.

Estimates provision

3. It is proposed that the running costs limit agreed in the Survey for each department (including those departments whose expenditure is not classified as public expenditure) will form the control total for determining Estimates provision. When preparing Estimates departments would not be free to switch provision into running costs beyond the limit (unless a transfer between departments has been agreed within the aggregate running costs total, eg associated with a transfer of staff between departments not anticipated in the Survey). It may be possible in some other cases to agree running cost limits in Estimates below the figures agreed in the Survey, eg following a dropping of functions by the department. In all cases departments and Treasury expenditure divisions will need to be able to demonstrate a reconciliation between PES and Estimates figures.

In-year monitoring

4. The Treasury will continue to develop the monitoring system initiated for 1985-86. For all substantial blocks of running cost expenditure, departments are producing profiles of forecast and expected outturn supply expenditure through the APEX system, updating the figures monthly. In order to develop the system, a collective effort will continue to be needed from departments and the Treasury, to provide timely and good quality outturn information and updated forecasts as a basis for in-year control. The data supplied by departments will also be used regularly within the Treasury to brief Treasury Ministers. It will, however, remain the responsibility of departments to alert their Treasury expenditure divisions to any possible breach of their running cost limit.

In-year control

5. If running cost limits are to be delivered, control mechanisms must be adequate. Within departments these may include budgetary controls, targets for improving productivity or reducing costs, and economies on particular items such as accommodation. The Treasury, however, proposes to use control mechanisms that are already in place as described below:

- (1) Virement: In future, the Treasury will normally only agree to virement into a subhead which contains running costs where the department can demonstrate that this involves a switch within its running cost provision, with a corresponding decrease on another running cost subhead on the Vote. This virement control cannot, of course, be applied to switching within a mixed running cost/non-running cost subhead, although departments are asked to follow the same principle. On the other hand, where running costs are divided into two or more subheads, eg for different budget centres, the presumption will be that the Treasury will be prepared in normal circumstances to approve virement between the subheads, provided no increase in running cost provision is implied; a token supplementary would only be considered necessary for large or unusual cases.
- (2) Cash limit increases: As now, cash limit increases because of higher running costs will not normally be granted unless offset by cash limit decreases also for running cost provision. The presumption against in-year changes in cash limits will remain.
- (3) Claims on the Reserve: As now, in normal circumstances claims on the Reserve will not be conceded for increased running costs. In recent years no claims on the Reserve have been attributed to civil service pay increases.

6. These controls will not, however, provide a sufficiently sharp focus for running costs control. It is proposed therefore that the necessary control will be achieved by applying to running costs certain elements of the cash limits regime:

- (1) Any change in the running costs limits would need the Chief Secretary's approval, with the revised limits being published in an arranged PQ.
- (2) The presumption would be against in-year increases. Where an increase is agreed, this would normally be financed by offsetting savings within the cash limit or exceptionally from another cash limit in the department's programme. If an in-year decrease in the limit were agreed, the first call on such savings would be to offset unavoidable overspends within the department's programme which might otherwise lead to a claim on the Reserve.
- (3) The Treasury would require a departmental investigation into any breaches at the end of the year.
- (4) Estimated outturn figures would also be published, together with the final provision for each running costs limit, in the Cash Limits Outturn White Paper in July.
- (5) Where the running costs limits agreed in the Survey involve interdepartmental transfers, the policy responsibility for delivering the limits (which will be set gross) should be clearly understood between the departments concerned. The normal presumption will be that it is the department receiving the transfer or providing the service who will have responsibility to find any necessary in-year savings, except where in-year variations in the total cost of the services involved are agreed to be within the responsibility of the department purchasing them.

7. These control arrangements are somewhat similar to those for cash limits, and, as with that system, rely on collective commitment. In this context, the improvements which departments are making in their internal budgeting arrangements are a crucial ingredient to the success of the new control system. In turn, the limits agreed in the Survey should offer a realistic and timely basis for departmental planning.

Conclusion

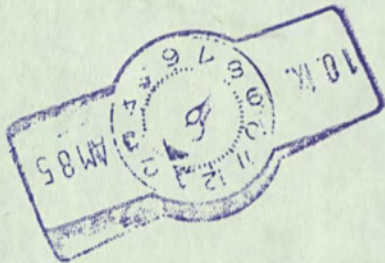
8. This paper proposes the following arrangements for the monitoring and control of running costs.

- (1) For 1986-87 Estimates, departments' running costs provision will be confined within the total agreed in the Survey;

- (2) in-year monitoring for 1986-87 will continue as this year, with increasing emphasis on high quality and timely data. Departments have the responsibility for informing Treasury expenditure divisions of any prospective breach;
- (3) in-year control will be introduced for 1986-87. Virement and cash limit proposals which increase running costs in aggregate will not normally be accepted, and for any increase there should be offsetting savings within overall PES provision to avoid a claim on the Reserve. These arrangements will be developed by analogy with the cash limits control regime. In-year changes will be announced and published in similar form to cash limits. These should be financed in the cash limits Outturn White Paper and will be investigated by the department and the Treasury.

Long Term: Civil
Service

PE 18

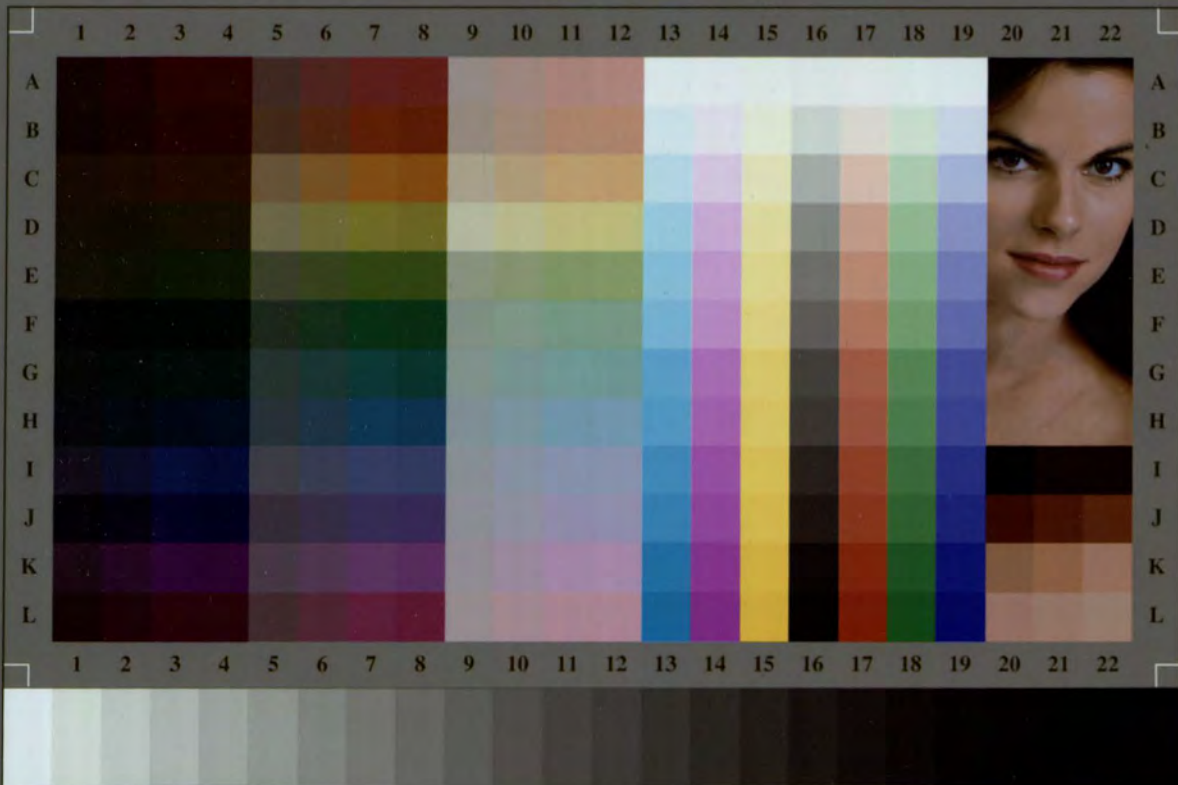


PART 17 ends:-

SS/MOD to CST 30.8.85

PART 18 begins:-

CST to PM 10.9.85



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