PREM 19/2204

THE RAYNER PROGRAMME

PROMOTION OF EFFICIENCY AND WASTE.

THE SCRUTINY PROGRAMME.

GOVERNMENT MACHINERY

PART 1: MAY 1979

PART 24: JULY 1987

PREM 19/2204

Material used by official Historian
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PART 24 ends:-

NLW to PM 30.10.87

PART 25 begins:-

Cab office (Woolley) to NLW 12-11-87

~~NLW to PM 13.11.87~~

PRIME MINISTER

cc Professor Griffiths
Mr. Norgrove

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

David, Brian and myself would like to explain our concerns about the approach in Robin Ibbs' report, "The Next Steps".

My own concerns can be summarised in three propositions:

(1) Implementation of The Next Steps, on any scale, would lead to a massive blow to the Treasury's ability to control public expenditure, as power was shifted away from the Treasury to spending Departments.

(2) Robin Ibbs' recommendations are based on a faulty analysis of the workings of Government and on a false analogy that what is good for business organisation is also good for Government organisation.

(3) While the standard of Civil Service management has improved since 1979, there is still much more to do. Such improvement can be accomplished within the existing system without running the risks to public expenditure control endemic in The Next Steps approach. The Treasury deserve to be given two years to prove that this can be done. Meanwhile, while Robin Ibbs' ideas should still be pursued, this should be done in a way which does not put the control of public expenditure at risk.

I now explain the reasoning which leads to these three propositions.

(i) A massive blow to the Treasury's control of public expenditure

As David and I can testify from long experience,

Treasury public expenditure controllers, typically its Assistant Secretaries, wage an unremitting uphill battle against Departmental spending pressures. The Treasury's position in this battle is often weak. The Department has the information and the expertise. Typically it has greater administrative and political fire-power: a higher level of officials within departments deals with spending issues than in the Treasury and departmental Ministers are much more ready to lobby publicly in favour of their spending proposals than Treasury Ministers are ready to lobby against them.

You will see from the record of the Treasury's views on the outlined schemes for agencies, in the Yellow Book circulated for the last meeting, that the Treasury expenditure controllers believe that the devolution of power and responsibility to Departments for pay, manning, running costs etc, would weaken their ability to control public expenditure. No one would, I think, dispute that. Certainly not the chorus of spending Ministers who rose in unison at your last meeting, against the Chancellor and the Chief Secretary, to support Robin Ibbs' approach. The key question is whether Robin Ibbs' agencies would replace the old public expenditure controls with viable new ones. The reasons why they would not underlie my second proposition:

(ii) A faulty analysis and a false analogy

Robin Ibbs argues that "the framework agreement" between the Department and the agency (which sets out, among other things, the agency's strategy, its operating instructions, its targets and so on) plus the right to hire and fire agency managers would safeguard public expenditure control. This will not work.

The Department, not the Treasury, would be responsible for negotiating the framework agreement with the agency. The Treasury would no doubt have a hand in its preparation, but it would be a document effectively drafted and then monitored by the same Department against which the Treasury has to wage the

battle to control public expenditure. This is not to criticise Departments. No departmental spending Minister can be expected to place at the top of his agenda the control of public expenditure. They see, and I believe always will see, their job as to press forward their Departments' policies, taking account of public expenditure constraints imposed upon them by the Treasury. It is quite unrealistic to expect the framework agreement, to provide an effective substitute for the traditional Treasury public expenditure controls.

Because of the false analogy he draws between Business and Government, Robin Ibbs does not see this. Certainly, framework agreements would meet his objectives in a trading company. All the pressures from the market on a trading company are to maximise profits by reducing costs and increasing revenue and a firm ignores such pressures at its peril. It is the supreme task of the company's Board of Directors, on whom the financial pressures and incentives are concentrated, to provide the framework of discipline so that the pressures of the market are not ignored.

But life in Government is quite different. There are no outside pressures on a Department to maximise profits by reducing costs and increasing revenue. On the contrary, outside pressures from lobby groups and from the Departments' clients work in the opposite direction - to increase expenditure. Nor is there a focus in a Department analogous to a company board, where the pressures for financial viability are concentrated. Certainly not the Secretary of State, nor indeed the Cabinet, provides the discipline of a Board of Directors.

In short, there is nothing to substitute for the sustained pressures from the Treasury to control public expenditure. Anything that weakens the Treasury will, in the end, weaken the control over public expenditure.

This leads to my third proposition.

(iii) Further improvement in Civil Service management

The work of the Treasury is more concerned nowadays with improving Civil Service efficiency. As part of this process they are more ready to give Departments flexibility on such matters as running costs, manpower deployment, year end carry over of unspent balances and especially on pay where there have been great strides recently with the "spine" arrangements, hopping, supplements for skills in short supply etc. Undoubtedly, more can be done in this direction within the constraints of the present system of public expenditure control. Robin Ibbs' report will have performed a service if it spurs the Treasury to further action here. Indeed, in particular instances his agency approach could prove helpful. The Treasury should be told to press ahead with the campaign of improving Civil Service efficiency and given two years to demonstrate that the benefits seen by Robin Ibbs' approach can be secured by the development of the existing system. Meanwhile Robin's ideas should be pursued in a way which does not put public expenditure at risk.

The approach I suggest above can, I think, just about be reconciled with a cautious implementation of your summing up of the last meeting. This was:

> "Summing up the discussion, the Prime Minister said that the majority of Ministers present agreed with option one [a whole-hearted Government commitment on the announcement of as many detailed proposals as possible and the appointment of a project manager]. But it needed further development to satisfy the concerns expressed by the Chancellor of the Exchequer. The right to hire and fire agency managers would be a key ingredient here. Legislative implications of the proposals needed further exploration. It would be necessary to identify those functions where the agency approach stood the most chance of success. You (Sir Robert Armstrong) should reflect on the points made in the discussion and produce, in consultation with Departments, a further note developing

Sir Robin Ibbs' proposals, and suggest a procedure for carrying the work forward".

Perhaps we could discuss this next week.

N.L.W.

N.L. WICKS

30 October 1987

PMMAJK

CIVIL SERVICE : Long Term Mgt + Manpower Policy
pt 21

CCBI

10 DOWNING STREET

Prime Minister

David, Brian and I would like to talk to you about Robin Ibbs's Report on "The Next Steps". We are all very sceptical.

N.L.W.

bc. PBC
D

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister discussed this morning the note on the Next Steps attached to your Private Secretary's minute of 15 October with the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Transport and Social Services, the Minister for Agriculture, Fisheries and Food, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Treasury and the Minister of State, Privy Council Office. Sir Robin Ibbs, Professor Griffiths, Miss Kate Jenkins and yourself were present. The meeting also had before it the Secretary of State for Trade and Industry's minute of 15 October.

The Prime Minister recalled that following Ministers' last discussion, you had been asked to put revised proposals for following up Sir Robin Ibbs' report which took account of the Treasury's and Parliament's likely concerns. She understood that there was a good deal of enthusiasm in the Civil Service for Sir Robin's suggested approach. But it needed boldness and the investment of commitment if it were to be successfully implemented. Ministers needed to decide whether it was worth making such a commitment.

Sir Robin Ibbs said that despite the progress in improving management in the Civil Service, there was still a lack of responsibil in the Service for seeking value for money. Too often this was regarded as "someone else's task".

There was no half way house for securing the necessary change in attitudes and behaviour. The outline schemes for possible agencies, described in the Yellow Book, demonstrated Departments' belief that there was real scope for "The Next Steps" approach. Of the two options described in paragraph 28 of your note, the second - implementing the agency approach as an evolution of existing management trends - would not, in his view, provide a valid test of his proposals. The first option - a wholehearted Government commitment with the announcement of the intention to set up as many agencies as possible and the appointment of a project manager - was the only way of proving the approach. Its success required a strong commitment from Ministers. This did not entail acting incautiously nor any automatic delegation of responsibility. The Project Manager - who should be a senior official at Permanent Secretary level - was essential to the success of the approach. Repercussive effects could be avoided. Private sector "overhead departments" which, like Government Departments, did not generate revenue, were controlled broadly in the way he had suggested. He believed that such an approach could be presented positively to Parliament; responsible officials could be identified and the prospect of better quality information offered to Parliament.

The Chancellor of the Exchequer emphasised that there was no lack of commitment to improve value for money and the Financial Management Initiative was beginning to produce important results here. But it would be imprudent to adopt the first option identified in paragraph 28 of your minute - wholehearted Government commitment with the announcement of as many detailed proposals as possible etc. This option was hardly consistent with the low-profile approach generally endorsed at the last meeting. It would make it harder to continue the firm control of public expenditure which was one of the main reasons why the economy was performing better. The first option would, in his view, be seen by the markets as an abandonment for public expenditure control. The agencies would wish to pay their staff more leading to extra costs and repercussions throughout the Civil Service as trade unions

picked departments off one by one. The heads of agencies would campaign publicly for more funds, something that they would not be allowed to do in a private sector organisation. Experience with existing agency type bodies within the public sector was not encouraging. They had a tendency for empire building and expanding the frontiers of the State. For the agency approach to operate successfully, there needed to be a sense of personal vulnerability on the agency managers; Ministers should therefore be able to hire and fire heads of agencies who should have the same power over their staff. He preferred the second option in paragraph 28, coupled with a rigorous examination of the possibilities of privatising the functions identified as suitable for the agency approach.

Several Ministers then spoke in support of the first option identified in paragraph 28. They made the following points:

(i) A powerful project manager was the key element if the option was to succeed. He would have an essential role in advising Ministers of the feasibility of the outlined schemes for possible agencies and would help resolve difficulties, for example, by confirming that satisfactory arrangements had been introduced for controlling pay.

(ii) Ministers would not be successful if they tried to persuade Parliament to adopt quickly the system of accountability for agencies described in Sir Robin's report. The better approach was to steer Members of Parliament gradually towards approaching the head of the agency rather than the Minister.

(iii) The concerns expressed by the Chancellor could be met through the proper implementation of the agency approach. The key here was the agreement between the Department and the agency on a proper framework for operation. In the last resort it would be the Minister's responsibility to ensure that public expenditure controls were observed and that the head of the agency did not campaign in a way inimical to the Government's objectives.

(iv) There needed to be further consideration of the possibility of privatising some of the agency functions. Other functions now carried out by quangos, like the Development Commission and the Nature Conservancy Council, might be brought back within the Government and placed under proper Ministerial control.

(v) It was vital for Ministers to have the right to hire and fire the heads of the agencies and for the heads to have a similar right regarding their staff; but in practice this sanction would probably not need to be invoked often since this mere threat in the background should be sufficient to galvanise those concerned into action. There needed to be further exploration of the difficulties of operating the agency approach within the framework of terms and conditions for the Civil Service. Points to be considered included the possibility of delegating to heads of agencies some of the Civil Service Commission's responsibilities for recruitment. The ability for Civil Servants to move between Departments needed to be preserved.

(vi) The approach would not succeed without the full wholehearted commitment of Ministers. The advantage of the first option was that it would prevent those opposed to this approach swamping Ministers in details and difficulties.

A few Ministers, while emphasising their commitment to better value for money and improved management within the Civil Service, and their support in principle for the objectives of the "Next Steps" approach, shared the reservations expressed by the Chancellor of the Exchequer. Recent experience suggested that there was substance to the fear that pay would be bid up. There was a real risk too that agency heads would campaign for higher expenditure or grumble publicly about the constraints under which they operated. The better course would be to identify a few agencies and to proceed quickly to their establishment. There were dangers in moving too rapidly towards what all agreed was an attractive goal.

Summing up the discussion, the Prime Minister said that the majority of Ministers present agreed with option one. But it needed further development to meet the concerns expressed by the Chancellor of the Exchequer. The right to hire and fire agency managers would be a key ingredient here. Legislative implications of the proposals needed further exploration. It would be necessary to identify those functions where the agency approach stood the most chance of success. You should reflect on the points made in the discussion and produce, in consultation with Departments, a further note developing Sir Robin Ibbs' proposals, and suggest a procedure for carrying the work forward.

I am sending copies of this minute to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, the Environment, Trade and Industry, Transport, and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord Privy Seal, the Chief Secretary, Treasury, and the Minister of State, Privy Council Office, and to Sir Robin Ibbs and Professor Griffiths.

N.L.W.

N. L. Wicks
22 October 1987

PMMAJC

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23 OCT 1987
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10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

MR. CUTHBERT-BROWN RVA
Cabinet Office

Following our conversation this morning, I now attach the note of yesterday's meeting on the Next Steps. Copies have not yet been despatched, so if Sir Robert has any points on the note, please could I have them urgently.

N.L.W.

N.L. WICKS

23 October 1987

Nw Wicks

A few tiny drafting suggestions.

RVA

23 x

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister discussed this morning the note on the Next Steps attached to your Private Secretary's minute of 15 October with the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Transport and Social Services, the Minister for Agriculture, Fisheries and Food, the Lord Privy Seal, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Treasury and the Minister of State, Privy Council Office. Sir Robin Ibbs, Professor Griffiths, Miss Kate Jenkins and yourself were present. The meeting also had before it the Secretary of State for Trade and Industry's minute of 15 October.

The Prime Minister recalled that following Ministers' last discussion, you had been asked to put revised proposals for following up Sir Robin Ibbs' report which took account of the Treasury's and Parliament's likely concerns. She understood that there was a ~~great~~ good deal of enthusiasm in the Civil Service for Sir Robin's suggested approach. But it needed boldness and the investment of commitment if it were to be successfully implemented. Ministers needed to decide whether it was worth making such a commitment.

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(iv) There needed to be further consideration of the possibility of privatising some of the agency functions. Other functions now carried out by quangos, like the Development Commission and the Nature Conservancy Council, might be brought back within the Government and placed under proper Ministerial control.

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N. L. Wicks
22 October 1987

8/12

PMMAJC

10 DOWNING STREET

PRIME MINISTER

You have seen all the papers in this folder, except Sir Robin Ibbs' brief, Brian Griffiths' comment and David Young's minute immediately below.

The final version of Robert Armstrong's note is at the back of the file. Save for one minor change, it is the same as the draft of 15 October which you have already seen.

N.L.W.

NLW
21 October 1987

CC B/Up.

CCB.

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PRIME MINISTER

21 October 1987

The Next Steps

The Next Steps need to be approached with great caution.

The Treasury's Concern

The Treasury is right to be concerned about the public expenditure implications of allowing the newly created agencies greater freedom over pay, budgets and financial controls for three reasons:

(a) individual agencies are almost certain to be a softer touch for unions involved in pay negotiations than negotiating with the Treasury itself;

(b) greater flexibility for the agencies will almost certainly result in higher pay, more staff and larger budgets;

(c) the decisions of any one agency will almost certainly have a knock-on effect on other agencies or Departments.

These are supported by a number of quotes in the Note by the Head of the Home Civil Service.

"Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual

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agency could create serious problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. All net control of running costs risks some increase in Civil Service numbers if demand expands."

Paragraph 7

"Most of the agency proposals seek some freedom from the present controls over public expenditure and running costs in order to be able to take measures to improve efficiency, e.g. allowing agencies to switch expenditure allocations between years; to spend additional receipts for example in order to fund spend to save projects; to pursue investment plans outside normal expenditure control; or to be exempt from running cost controls."

Paragraph 20

"Manpower numbers. Detailed control over staff numbers in individual agencies seems unnecessary, but some measures will be needed to ensure that agency numbers are not bigger than they need to be, and that the Government's aim of controlling and reducing the size of the public sector is respected. This is best done through a combination of forward planning to be approved centrally, and budgetary controls.

Annex A paragraph 9

"Some departments have suggested that greater managerial efficiency would be helped by various relaxations of financial control, e.g. allowing agencies to switch expenditure allocations between years; to spend additional receipts or to pursue investment plans outside the normal expenditure control.

Annex B
Financial Control

In one or two cases, it has also been suggested that an agency should be allowed to pursue investment plans on the basis that provided these will show an adequate return they will not then be at risk from the competing needs of other claimants for public expenditure."

Annex B

These quotations justify the Treasury's concern and show in particular how potential agencies see the Next Steps as giving them a way of getting out of Treasury control.

Government is not Business

At the heart of the Next Steps is the notion that one can carry over principles of management in private sector companies to public sector institutions virtually intact.

The major difference between the private and public sector, which is nowhere emphasised in The Next Steps is that management is relatively free in the private sector only to the extent that it can cover costs by ~~various~~ Treasury revenue. But this is precisely the dimension which is missing in the public sector. To grant public sector agencies greater freedom when they do not raise their own revenue and are not therefore contained by the need to make profits will almost certainly mean creating engines to drive public expenditure - which is why detailed Treasury control is inevitable throughout the public sector.

The only effective way out of this dilemma is privatisation - which in most of the cases being discussed is not an option.

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Recommendation

I would strongly recommend supporting the Chancellor and choosing the second option (b) put forward in Robert Armstrong's note. Even then we need to be absolutely convinced that costs will remain firmly under control.

Brian Griffiths

BRIAN GRIFFITHS

CONFIDENTIAL

CCBG
CCBI.

MANAGEMENT IN CONFIDENCE

PRIME MINISTER

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

I have read the note attaching by the Head of the Home Civil Service for the meeting on Thursday 22nd October 1987. The major issue that arose at the previous meeting on 9th July was the question of accountability; it seems that with care this can be dealt with satisfactorily. However I am concerned that the purpose of the "Next Steps" recommendations may not be fully understood by some of those who have contributed to the note.

The main thrust of the findings from the "Next Steps" scrutiny is that progress in improving value for money in the delivery of services is held back because Civil Service management is not motivated at all levels to seek energetically every possible improvement. The report identifies that to correct this there needs to be:

- sharper focus on the job to be done and clearly stated responsibility for doing it;

- greater freedom for the individual to manage in the way that best meets the needs of each particular situation;

- better experience and training for staff;

- sustained pressure for improvement.

The recommendations are a package to achieve this; merely to establish some agencies will not be enough. The objective is to create among Civil Servants a much greater sense of personal responsibility for the delivery of services. This can be achieved by clearly fixing responsibility on individuals in line management, and by not allowing the concept of Ministerial responsibility to be used as a let-out for the Civil Servants directly involved. Equally Civil Servants must cease to be able to shelter on management issues behind the excuse "the Treasury would not permit it", a constraint that is frequently greatly exaggerated.

Implementation of these recommendations will not be without risks and problems. You have pointed out that one difficulty in giving Civil Servants more freedom to manage is "that they don't know how to do it." This is underlined by the difficulty I have in suggesting a senior Civil Servant who would be a ready-made Project Manager. But the only way to break out of this circle is to create greater opportunities for positive management (the agency concept) and to appoint somebody of high quality and standing to manage the change, even though he will have much to learn as he goes along.

One of the obvious shortcomings at present is the absence of sufficient pressure for improvement in value for money. Demands by you and the Chancellor for economies and savings are clearly important but experience since 1979 shows that on their own they are not enough. We have increased the pressure through your value for money seminars and by my going round to all your colleagues each year to press them to set value for money targets. Although useful, such pressures are only intermittent and the Project Manager will have to generate further pressure on a continuous basis.

It has been suggested that the "Next Steps" recommendations would weaken control over public expenditure. This is simply not true. Because responsibility would be much more clearly identified, tighter control could be exercised. There would be less opportunity for fudging; line management would become more wary of taking the easy way out or yielding to pressure for additional funds. The head of an agency would have to work within an expenditure limit and would be personally answerable if it were breached.

There has also been much discussion of the risks of allowing greater freedom on pay. The answer here is that such freedom should only be granted, case by case, in circumstances that enable potential repercussions to be contained and is not something that should simply be delegated to agencies. This may seem unduly constraining but I believe that in many instances much can be done without large changes in pay structure. As local managements become stronger the risks inherent in some well-judged freedoms on pay will greatly reduce.

The "Next Steps" recommendations are designed to bring about a major shift in the style of management in government so as to create the sense of personal responsibility for performance and eagerness to improve results. However they are only a first but crucial step in transforming management attitudes. There will continue to be much opposition and inertia to overcome; even a strong Project Manager will need your determined support for several years.

I am confident that the approach recommended in "Next Steps" is correct and that sooner or later it, or something very similar, will have to be adopted by Government. I believe now is a good time to embark on it, at the beginning of a new parliament and with many Permanent Secretaries keen to proceed. However it is not something to undertake lightly. You will need to be assured that a good Project Manager to operate at Permanent Secretary level can be made available, that the approach has the commitment of the future Head of the Home Civil Service and that your colleagues are prepared fully to lead and support its introduction in their Departments; they will have to insist on robust frameworks being set for agencies and that these shall not be breached. Given a strong lead from you, both at the meeting with your colleagues and as the Project Manager establishes himself as the champion for change, all these requirements should be forthcoming.

My advice is that you should go whole-heartedly for the "Next Steps" approach while insisting that there must be a highly competent Project Manager answerable for ensuring that change is tightly controlled. Adoption of the "Next Steps" approach will signal that you are embarking on a fundamental and much needed reform that is decades overdue. It will sharply raise the importance and status of management in government. I believe this can be done while avoiding a "dramatic" presentation that might alarm Parliament.

I do not recommend the alternative of encouraging Departments to create some agencies but without commitment to a major shift in style. Such a limited move will not cause management to become hungry to achieve better value for money. Nor as an experiment is it likely to yield any valuable lessons. Although I see no harm in such agencies being formed, this on its own as a move by central government will not carry conviction that serious reform is on the way and will leave the Civil Service lagging behind good management elsewhere. If you are unable to proceed with the full approach it will be better to keep your powder dry until proper reform can be attempted at some later date.

I am copying this to Robert Armstrong.

Robin Ibbs
20.10.87

APPENDIX 1

CONFIDENTIAL

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

PAY AND PERSONNEL ISSUES

This note discusses the arrangements for pay and personnel policies in agencies set up to carry out certain executive functions presently carried out by Departments. These policies include staff grading and remuneration, other terms and conditions of service, superannuation, and hiring and firing.

2. It is not the purpose of this note to go in detail into what changes might be appropriate in respect of particular agencies. Almost by definition these will be many and varied, and the needs of different agencies will clearly differ. This note discusses some general considerations, and then certain specific areas. It is prepared on the assumption that agencies to be set up, at least in the first place, are Departmental and the workforces are civil servants.

General considerations

3. The proposals under consideration have to be grafted onto a well developed, and so far a successful, strategy which is already in operation for moving where appropriate from the previous Service-wide approach to many aspects of personnel management, most notably pay, to a more flexible and better oriented system. The object of this strategy are to retain control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control and running cost control; while at the same time moving to meet more closely the different needs of different parts of the Service. This is necessarily an across the board strategy, aiming to retain the necessary Service-wide disciplines while giving local flexibilities where appropriate. It is exemplified, for instance, by the recent agreement with the IPCS (which it is hoped to extend more widely) over pay and personnel

arrangements, for the grades they represent, and the Local Pay Additions (LPA) proposals now under consideration. These kind of arrangements should give the sort of flexibilities required by agencies in a structured and disciplined manner which is likely to be more cost-effective both across the board and for individual agencies, and more easy to implement, than the pursuit of flexibilities in random and ad hoc manners on behalf of or by individual agencies.

4. This leads into the need to control running costs, both so far as any particular agency is concerned and so far as other agencies and Departments, and the Civil Service taken overall, is concerned. Pay and related items amounts to nearly 60 per cent of all running costs, and to a much greater extent than other sorts of administrative expenditure pay increases once agreed tend to be irreversible. So far as any individual agency goes, provided there is suitably robust budget setting and control and provided a suitable degree of expertise in pay etc matters and pay negotiations has been developed and is in itself cost effective, cost control should be achievable fairly quickly. But the bigger problem is the effect which the decisions of any particular individual agency could have on other agencies, or on Departments more widely, or indeed - Civil Service pay being so overt and seen as important by other pay negotiators, public and private - on the rest of the economy. It is not sufficient for individual agencies to have disciplines and skills; it is the effect that their decisions may have on others which needs to be watched, as the recent experience with ADP allowances and lawyers showed. Hence the importance of a structured approach.

5. Developed from this, there is the need for drawing a distinction between on the one hand actual variations in pay and other conditions as to between one agency and other agencies and Departments as a whole, and on the other the negotiation and ultimate decision-making power in respect of such variations. It is possible to have many aspects of terms and conditions, and in particular the pay etc regime, tailored to the needs and circumstances of individual agencies while at the same time the centre retaining the negotiation or at least the ultimate power

of control in these matters to guard against the risks just referred to. And of course the position is not black and white; there are degrees of freedom for instance freedom to negotiate and settle payments within limits given.

6. Finally, agencies are not starting from scratch with a new workforce; they are taking over existing individuals with established entitlements to established terms and conditions. This is not to say that the terms and conditions of existing individuals cannot be changed; of course they can. But care has to be taken in changing such terms, and this usually ends up with a "buying out" process - which not only may be expensive, even if cost effective in the long run, but which has to be carefully handled. With new individuals, or with existing individuals whose existing rights have been "bought out" or otherwise satisfactorily disposed of, there is very much more freedom. There can be problems of "new" and "old" individuals working side by side on different terms and conditions; and important issues of mobility and transfer of staff from one agency to another agency or Department would have to be examined. But subject to these considerations, if individual agencies could be sufficiently clearly differentiated from the rest of the Civil Service (eg by function and nature of the workforce), and in the light of that chose to set up for "new" people their own pay and grading structures and their own terms and conditions a good deal of flexibility could be achieved, not only within the new terms and conditions but also by way of helping to insulate these from the rest of the machine and minimise repercussions.

Individual areas

7. Annex A discusses briefly each of the main areas where the issue of variation in terms and conditions might arise. This must be read in each case against the background of the general issues and considerations set out above.

Industrial relations

8. The Civil Service trades unions can of course be expected to take a considerable interest in the development of agencies and in proposals which might change the terms and conditions of their members. Some unions may see potential advantage in them. There will be a good deal of emphasis on the existing negotiating frameworks and the need to maintain the concept of a unified Civil Service. But provided changes are handled carefully, any difficulties here should be overcome, though as individual agencies are set up a "price" is likely to be sought, one way or another, sooner or later. Presentation will be very important - for instance pay flexibilities as such are easier achieved if not overtly labelled "performance" or "merit", even if this is one of the aims of the flexibilities.

9. In the event of a dispute leading to industrial action, it seems likely (though legal advice would need to be sought) that a union could call on its members in other agencies or in Departments to support a dispute in one particular agency, without losing its immunities; that is to say, the action other than in the agency in dispute would count as primary rather than secondary industrial action. This adds to the risk of costly read across and the need for a degree of centralisation, at least in the early and middling stages, where changes in terms and conditions are concerned; and a fortiori to a need for centralised monitoring and control of the official side's position in dispute if and when these arise. Experience in the 1987 pay dispute shows how vitally important it is for the official side to operate as a single unit in these circumstances.

Summary

10. The present strategy on pay and other controls is important. We wish to continue with it. Adherence to a central framework will continue to be needed. But within this there are many other areas where under the right conditions flexibility is desirable and can be provided, while staff remain civil servants and agencies remain part of the Civil Service. This is the direction in which the system is going. The Civil Service

pay etc regime had been made more adaptable. But this has been done bearing in mind the need to contain the costs of running the Civil Service overall, and to avoid escalating claims resulting from the effect of knock-on, reprecussions, and example. But provided

i. it is recognised that central rules must remain;

ii. robust budgeting and meaningful control and monitoring and the necessary management skills in the agencies have to be clearly in place;

iii pay bargaining skills can be developed in the agencies; and

iv changes are pursued in a sensible way and at a sensible pace,

then there seems no reason why the agencies should not be able to do all they reasonably need to do in the pay and personnel field to carry out their given functions.

ANNEX A

SOME PARTICULAR AREAS

1. **The essential central framework.** Annex B discusses a number of essential central areas where, so long as agency staff are civil servants, there is little or no room for variation. These include conduct and discipline, security, political activities etc.

2. **Pay and grading.** This is conceptually the easiest area, but at the same time the area where the consideration of cost, repercussions and existing rights are most important. Subject to these flexibility is possible building on the current work already in hand to distinguish pay more finely by skill, merit and geography. This is particularly so in smaller agencies where the function and workforce are more specialised; larger groups who at any rate initially look like and are like large groupings being left outside the agency will be more difficult.

3. **Hours and leave.** To some extent these go with pay, but for the immediate future there could be more difficulty, given the wider repercussions which eg shorter working hours or more leave can have in the economy generally.

4. **Other allowances.** These might include allowances which now exist such as motor mileage, day and night subsistence, and so on, or other schemes or quasi "perks" such as removal assistance, and so on. Some of the considerations relating to pay etc and to hours and leave apply here, but not to such a great extent. Quite a lot of variation would be possible, though there would be a need to continue to look at the repercussions elsewhere, as well of course as at the cost effectiveness of any change.

5. **Superannuation.** It is unlikely that the creation of agencies would give rise to any particular superannuation problems. It is recommended

that agencies stay with the Principal Civil Service Pension Scheme. This would not inhibit flexibility on pay, but would ease for management and staff the transition to the new employment arrangements, and avoid the additional administrative costs that would be encountered if agencies were to develop and run their own pension schemes. Revised arrangements for early retirement were introduced earlier this year. These are considered to be sufficiently flexible to meet and adapt to current and perceived needs. Agency staff will of course have the same freedom as other civil servants to opt for personal pensions outside the PCSPS if, as individuals, they so choose.

6. **Tenure of appointment.** There is already considerable flexibility so far as short-term appointments etc go, and in addition the Treasury are currently developing a regime for short-term contracts, initially and on an experimental basis for certain scientific grades but in a way which is capable of extension more widely if it is successful. Such contracts would make provision for pay flexibility, including terminal bonuses at least in part performance related, and capable of being tailored to the needs of the employing entity. Appointments on these terms could be offered at any level, whether the most senior or more run of the mill.

7. **Recruitment.** At present recruitment at Executive Officer and above is carried out by the Civil Service Commission, and below that level is delegated to Departments (who could then presumably delegate on to agencies) within a framework of rules and guidelines. It would be possible to delegate recruitment at more senior levels, but if only for the maintenance of public confidence in the system it would be necessary to establish and stick to a regime of fair competition and honest recruitment on merit. The Civil Service Commission would be the obvious body to lay down such rules and monitor their application. (Separate and more direct control will remain with Ministers and/or parent Departments over appointments to the most senior management in agencies.)

8. Termination of appointment. For existing civil servants there are certain acquired rights here under the PCSPS, though these have very recently been made more flexible with greater ability to get rid of people who are poor performers. For existing staff it would be necessary either to "buy out" these rules or to abide by them (or, if an agency wished to break them, to take the financial risk of being brought before an industrial tribunal and losing); for new staff it would be possible to conceive of different arrangements.

9. Manpower numbers. Detailed control over staff numbers in individual agencies seems unnecessary, but some measures will be needed to ensure that agency numbers are not bigger than they need to be, and that the Government's aim of controlling and reducing the size of the public sector is respected. This is best done through a combination of forward planning to be approved centrally, and budgetary controls.

10. Appeals etc. Existing staff have a right of appeal to the head of their Department in certain matters and in other matters to the Civil Service Appeals Board (CSAB). It is conceivable that a new regime could make different provision, but clearly if only in terms of reasonable industrial relations some kind of appeal procedure will always be necessary. (It should be borne in mind in this context, and indeed more generally, that whatever the advantages and disadvantages of the immediate Civil Service employment regime, civil servants are covered by the general employment law and benefit from all the rights and protections etc which this gives employees generally. Even if individual agencies chose to get away from the current generally applicable Civil Service regime they would still of course have to respect the law of the land).

ANNEX B

A CENTRAL FRAMEWORK

GENERAL CONSIDERATIONS

The primary Government requirement of the agencies, apart from efficiency in delivering goods and services to their customers, is that they should guard against actions which would bring discredit to the agency and embarrass the Government if made public. In the case of personnel management, the potential evil to be guarded against here is that an agency might adopt inefficient, unfair or unreasonable practices which would be difficult if not impossible to defend. To guard against this, it is assumed that all agencies are to conduct their personnel management in a way which bears comparison with good private sector practice.

2. Against this background, it is possible to identify those areas in which a general set of rules and conditions applicable to all agencies would continue to be essential and where freedom to vary them, beyond that currently allowed within departmental discretion, would not be possible. In some of these areas the rules and conditions would be governed by statutory requirements (such as those arising from the Official Secrets Acts or the Employment Protection Act 1987) either because the particular Act applies directly to civil servants or because the Government has undertaken that its provisions should be observed in respect of its employees. Outside the core of "essential" rules, it would be in the Government's interest to maintain "models of good practice" for the guidance of agencies.

ESSENTIAL RULES AND CONDITIONS

3. These include the following :-

a. **Recruitment and promotion by merit.** The Civil Service Commission oversees recruitment to ensure that standards of fairness and openness are maintained. Promotion must also be by merit.

b. **Conduct and discipline.** All the present requirements about the conduct of civil servants eg with regard to the acceptance of gifts and rewards, disclosure of official information, etc should remain. The present disciplinary arrangements, including the range of penalties available and an appropriate grievance procedure should continue to apply.

c. **Equal opportunities and discrimination.** Personnel management practices and procedures must continue to meet the requirements of the Sex Discrimination Act and the Race Relations Act.

d. The requirements of the **Health and Safety at Work etc Act 1974** must continue to be met.

e. **Security procedures**, including the provisions of the Official Secrets Acts and arrangements in a civil emergency or war (due functioning) must continue.

f. **The Parliamentary Commissioner for Administration** must continue to be able to investigate complaints from the public of injustice arising from maladministration and the present arrangements for handling an investigation must remain.

g. The **Political Activities Rules** and

h. **Business Appointment Rules** seem to be essential features of any framework within which agencies should be expected to operate.

i. There should be adequate procedures for the **long-term development of senior and top managers** and **evaluation systems** as necessary to back up Service-wide standards in eg the pay and grading fields.

j. **Personal records** for security and superannuation purposes must be maintained for an appropriate length of time.

AREAS IN WHICH CHANGE MIGHT BE ALLOWED

4. There are several areas in which it might be possible to agree some relaxation, particularly in the detailed application of general rules and conditions. For example, on staff appraisal we would wish agencies to carry out staff appraisal and to observe the mandatory central principles (within which departments have a good deal of discretion) but would be prepared to agree that, for example, annual appraisals might be dispensed with below the Grade of AA. On promotion departments already have a good deal of discretion (on eg paper boards and interviews) but we would not necessarily object to eg a proposal to vary seniority fields provided the merit principle continued to apply.

5. On mobility, the agencies might be allowed to impose a mobility obligation in accordance with the needs of the job rather than by the grade of the post involved. Periods of notice could be similarly adjusted to meet particular agency requirements; much longer periods than are now customary for specialist staff in short supply who could not be easily replaced for example. The recently introduced early retirement package of measures could, similarly, be adjusted to suit an agency's needs as could the current redundancy agreement.

6. Needless to say any attempt to change terms and conditions agreed with the trade unions or to introduce changes which might reasonably be seen as being to the detriment of the staff would need to be very carefully handled and almost certainly require their co-operation (which would most likely need to be "bought" in some way).

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APPENDIX 2

D

Financial Control

Some departments have suggested that greater managerial efficiency would be helped by various relaxations of financial control, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts; or to pursue investment plans outside the normal expenditure control.

Such proposals will need to be seen in the context of the Government's policy to keep a strict control of public expenditure and reduce it as a proportion of GDP. Ministers will need to be assured that any new arrangements will provide no less effective control, and that there will be a clear framework to ensure, and monitor, the agency's's efficiency. Parliament will also want to be convinced that its own control of Government spending will not be weakened. The essence of Parliamentary control of the executive is that Ministers cannot spend money without Parliament's approval, normally given through annual appropriations.

Some forms of flexibility have however already been accepted by Parliament. For trading activities which can break even, it is possible to establish public corporations, or trading funds (under the Trading Funds Act 1973) where the necessary criteria are met. For non-trading activities, where there is benefit to be gained in some measure of independence from day-to-day Ministerial control it is possible to establish a non-departmental body and finance it by grant-in-aid. This means, for example, that the body can spend extra receipts and carry over unspent balances, although the understanding is that the grant is not issued in advance of need, so that balances are in practice usually limited to 2 per cent of budgets.

Within government departments, carry over can be obtained by asking Parliament to revote unspent funds through Supplementary Estimates. This is the basis of the end-year flexibility (EYF) scheme, accepted by the PAC and TCSC, under which departments can carry forward up to 5 per cent of their capital provision. This scheme is due to be reviewed at the end of this year. There is an obvious trade-off between the amount of freedom permitted and the uncertainty it introduces into the control of aggregate public expenditure. But the

points made by departments can be examined during the review and any agreed modifications reported to the Parliamentary Committees in the New year, in order to give departments a clear basis for planning and managing any agencies which may be approved.

In one or two cases, it has also been suggested that an agency should be allowed to pursue investment plans on the basis that provided these will show an adequate return they will not then be at risk from the competing needs of other claimants for public expenditure. However, although agencies, like other government activities, ought to plan investment ahead, it is for the departmental Minister to say whether those plans merit priority over other departmental needs, including other worthwhile investment. The money spent by agencies still needs to be financed at the time by taxes or government borrowing, and Ministers will thus still need to weigh their claims against those of other programmes. The arrangements for end-year flexibility should help to ease the problems of planning and implementing such investment.

Arrangements thus already exist to give some managerial freedom while preserving the essential control of public expenditure by Ministers and Parliament. Any particular proposals for greater flexibility need to be examined first to see whether existing arrangements can meet the need, and whether there is a satisfactory framework for ensuring and monitoring efficiency. If it is agreed that a more flexible financial regime would be more appropriate in a particular case, legislation may be required, and Parliament would need to be consulted on any significant variation in current Parliamentary conventions. The forthcoming review of the EYF scheme will be a convenient vehicle for seeking Parliamentary endorsement of any general changes in the scheme which may be found appropriate.

Running Costs.

Some departments have suggested that the running costs control on their agencies should be modified to exclude expenses covered by additional receipts. The running costs control (like the earlier civil service manpower targets) is intended to implement the Government's policy of reducing the size of the public sector, by keeping the Government's own administrative machinery to the minimum

needed, and maintaining pressure on it for greater efficiency. For that reason the control generally applies to the gross costs. In cases where this inhibits a department's ability to respond to increased demand, Ministers have agreed that a service can be exempted from gross running costs control provided that there are other equally effective pressures for increased efficiency; that the activity is self-financing; and that there is no threat to the government's plans for the overall size of the civil service. Netting off receipts in other areas might help to encourage managers to generate more receipts, but would increase the risk that the size of the civil service would start to creep up again.

Accounting to Parliament

So long as an agency remains part of a Government department, the permanent head of that department will retain responsibility as Accounting Officer, since he will be answerable for setting the resource framework for the agency, just as he is for allocating all the staff and other resources throughout the department generally and ensuring that there are satisfactory arrangements for efficient management. The PAC in any case normally expects the permanent head of a department (or exceptionally a Second Permanent Secretary) to act as Accounting Officer for that reason. Although the head of the agency will have his own budget, objectives and performance indicators, he will be accountable to the senior management of the department, and not directly to Parliament. However, if the affairs of the agency were under examination at a PAC hearing, the Accounting Officer would normally be accompanied by the head of the agency so that he could answer questions about the exercise of his own responsibilities.

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MR WICKS

Improving Management in Government -
The Next Steps

I attach a note by Sir Robert Armstrong on Improving Management in Government: The Next Steps, together with an Annex containing outline schemes of the areas proposed and studied for development as agencies. These papers will form the basis for discussion at the meeting of Ministers arranged for 22 October.

2. I am copying this minute and its attachments to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, the Environment, Trade and Industry, Transport and Social Services, the Minister of Agriculture, Fisheries and Food, the Lord Privy Seal, the Chief Secretary, Treasury and the Minister of State, Privy Council Office.

Trevor Woolley

T A WOOLLEY
(PS/Sir Robert Armstrong)

15 October 1987

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

The main recommendations of the Next Steps report, which Ministers discussed at the last meeting of the group on 9 July, were as follows:

- To the greatest possible extent the executive functions of Government (essentially those responsible for delivering services) should be carried out by agencies, with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister. This would entail a greater distancing of Ministers from day to day operational management, and a change in the way in which accountability to Parliament in respect of the agencies was discharged.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency, over a definite and limited period (say, five years).

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a

"project manager" at a senior level to ensure that the programme of change took place.

2. At their meeting on 9 July, Ministers said that before coming to decisions they wanted to see individual examples of agencies to be developed by each of the Departments concerned, to illustrate how the Next Steps proposals could be applied in practice. They were concerned about the possible reaction of Parliament to the changes in accountability which were inherent in the proposals, and which would be seen as diminishing the scope for and effectiveness of Parliamentary scrutiny. Ministers asked for further thought to be given to the presentation of the approach to Parliament: it would be desirable to present developments without drama, and to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies from becoming pressure groups for more expenditure.

3. Work has gone ahead on the development of agency proposals by Departments. Each of the Departments represented at the last Ministerial meeting, with the addition of the Department of Trade and Industry, Department of Transport and the Ministry of Agriculture, Fisheries and Food, has nominated at least one area of the Department to be looked at as a potential agency. Each Department has worked with the Efficiency Unit on the details of its agency structures and has had consultations with the Treasury and the MPO/OMCS. In most cases more work will need to be done before the responsible Minister can take a decision, in agreement with the Treasury, to proceed with individual agencies. A Working Group under my chairmanship has been considering the implications of the Departments' proposals for the central management of the Civil Service and for the control of public expenditure.

The Proposed Agencies

4. The areas proposed and studied for development as agencies are:

MAFF:	Agricultural Development and Advisory Service (ADAS), together with the Departments' regional organisation
MOD:	Meteorological Office Defence Non-nuclear Research Establishments
DE:	Employment Service
DOE:	Royal Palaces
PSA:	The Queen Elizabeth II Conference Centre
DHSS:	Resettlement Units
DTI:	Companies Registration Office (CRO)
DTp:	Driver and Vehicle Licensing Directorate (DVLD) Vehicle Inspectorate
HO:	Passport Office
Chancellor's Dept:	Her Majesty's Stationery Office (HMSO)

The details of each agency are enclosed. It is envisaged that these agencies would all remain within the Civil Service, at

least initially. In a few cases, the possibility of moving an agency outside the Civil Service is raised as an option for later, but no decisions of this kind are required now. This should help to minimise the risk of the agencies becoming pressure groups for more expenditure, since the policy and resources framework would remain firmly the responsibility of departments and their Ministers. A civil servant head of an agency would not be able to encourage public pressure for additional resources for the work of the agency.

5. The constitution of existing departmental activities as distinct units within the Departments would not of itself require legislation. Some of the proposals in the Annexes and some of the suggested changes in the Parliamentary financial regime would require legislation, but the nature and extent would depend on the decisions taken on the specific aspects of each of the agency proposals. Those proposals which involved financing other than through Parliament's normal voting of Supply, or which involved a formal transfer of responsibility from the Treasury for decisions on pay and grading, could only be achieved with Parliament's approval. But it should be possible to make a start on an initial programme of agency creation on the basis of these proposals, without the need for legislation in the first instance.

6. At this preliminary stage some specific benefits to come from the agency approach have already been identified. For example, HMSO believe that flexibility on pay and grading would enable them to increase their planned efficiency savings of 5 per cent to at least 15 per cent. The Department of Employment consider that flexibility to pay differential rates within their existing pay bill would enable them to deal with endemic staff shortages. In most cases Departments believe that changes in the forms of departmental and Treasury control, together with a

diminution in Ministerial involvement in day to day operations, would give agency management the opportunity to improve the efficiency of their operations. Some Departments consider that the scope for improvement would be limited and the advantages would be insufficient to justify change, unless Parliament accepts the need for a significant reduction in the burden of Parliamentary scrutiny and unless there can be greater flexibility in pay and financial controls than they understand the Treasury to be ready at this stage to contemplate. Departmental management would concentrate on the broad framework of policy, the annual allocation of resources and the setting of performance targets to be met by the agency; the agency management would be responsible for the job to be done within this policy and resource framework. Each agency would have to be an individual structure with controls and delegated authorities designed specifically for it, and conditional on the establishment of a rigorous and effective management framework, and the effective containment of any repercussions.

7. On the other hand, whatever benefits there may be to individual agencies, there are risks in adopting the full Next Steps approach to setting up agencies. Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual agency could create serious problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. The introduction of net control of running costs in any agency would imply readiness to accept some increase in numbers where justified by an expansion of demand. The best chance of minimising these risks lies in tight definition of objectives, a firm control over running costs, care with senior appointments - and a declared

determination to remove agency heads who failed to deliver targeted efficiency improvements without good reason coupled with arrangements for rewards for signal successes. There are also industrial relations risks. It is not certain how the staff and the staff associations will react. For example, the introduction of the Home Office agency, the Passport Department, will need careful management in the context of the Government's overall approach. The Passport Department has a history of disruption, and there is currently a major computerisation programme which should not be put in jeopardy.

Accountability

8. The "Next Steps" approach depends upon effective control of the delivery of services through a framework of policy, resources and results required, set for an agency by or on behalf of the responsible Minister. As Ministers recognised at the meeting on 9 July, the Next Steps approach has implications for Ministerial accountability to Parliament generally, for the handling of correspondence and Parliamentary Questions from MPs, and for the flow of information to MPs and the public.

9. Ministers' formal accountability to Parliament would be unaffected. A Minister would be accountable for the totality of the framework set for the agency. This would mean that he remained fully answerable for policy objectives including target levels of efficiency and service delivery and for resource allocation. Once the agency was fully developed and the executive task had been delegated, as a general rule Ministers would not expect or be expected to get involved in operational issues. Exceptions could of course arise in the event of an emergency or a major industrial dispute. The detachment of Ministers from day-to-day operations would entail changes in the way in which accountability to Parliament was discharged, which

NEXABD

Parliament might well see as a reduction in the extent of their ability to scrutinise the work of the agencies. The delegated approach would be easier to maintain if a public statement could be made of the extent to which operational matters were being delegated to the agency management, together with some indication of the policy framework being set.

10. If Ministers were to be seen to be more detached from day to day operations than at present - which is an essential feature of the "Next Steps" approach - this would have to be reflected in the handling of MPs' cases and questions on such matters:

- As a minimum, Ministers would need to reply to MPs in terms of, "I am informed that ...", together with a report from the agency and a formula explanation that the matter was for agency executive management within the Ministerial policy framework (unless of course the case provoked a change in the management or a review of the framework itself).

- In addition, Ministers could choose to encourage MPs to approach agency managers directly as part of the public announcement of the establishment of the agency. MPs who insisted on a Ministerial reply on an operational matter would receive one along the lines indicated above.

- If a case raised doubts about the fulfilment of the policy objectives set by Ministers, the Minister would need to take a view based on a report from the agency management; if he was dissatisfied, his recourse should be <u>via</u> management change or review of the framework, but <u>not</u> through a direction to agency management to change the way a specific operational case within the framework of delegation should be handled.

This approach would build on current practice whereby in some areas MPs as well as the public approach, and are encouraged to approach, the officials directly reseponsible on operational matters in the first instance. Ministers will need to judge whether that would be acceptable to Members of Parliament.

11. The presentation of these changes to Parliament would need careful handling, both initially and for each agency individually. The overall approach could be presented as improving the flow of information, by virtue of published statements on policy frameworks which would give more information than before at the strategic level, and direct access to agency management which would give a speedier response on day to day operations.

12. The Permanent Head of Department as Accounting Officer would continue to be answerable to the Public Accounts Committee (PAC). The Chief Executive of an agency would normally also attend the PAC with the Accounting Officer, so that he could answer questions about the exercise of his own responsibilities. Departmental Select Committees would be encouraged to look to agency Chief Executives for evidence on matters within their delegated responsibility, and to Ministers and senior departmental officials for evidence on the policy and resources framework.

13. The description of each scheme for the agency incorporates a brief account of the specific accountability implications. It would be necessary for departmental Ministers to agree detailed procedures and allocations of responsibility before individual agencies were set up. Public announcements of the establishment of individual agencies would need to make clear any changes intended by Ministers for the handling of MPs cases and questions (along the lines indicated in para 10 above).

The Management Framework

14. The preliminary work on the pilot scheme has shown the extent to which more work will be necessary before they are ready to be fully fledged agencies. In some cases the proposed agencies are already distinct organisations with their own management style and structure, notably DVLC, CRO and HMSO. In other cases, for example the Employment Service or the Research Establishments, a new organisation is being constructed, building on the existing organisation but with a great deal of planning and development to do.

15. Work has been done on the main areas where Departments consider greater delegated authority is necessary to give the management of an agency real responsibility. There is considerable confusion and even ignorance about the precise details of possible delegation under existing rules within Departments and between Departments and the Treasury. It may be possible for Departments to agree with the Treasury on additional delegations to agencies within the existing Treasury rules. But there are a number of cases where Departments consider that delegations which go beyond the limits of existing Treasury and Parliamentary rules are essential if they are to make a reality of the benefits in improved management and efficiency which would come with agency status.

Pay and Management

16. On pay and management it is already the Treasury's strategy to develop from the previous Service-wide approach to a more flexible and better-oriented system. This is described in Appendix 1. Substantial progress has been made in recent years: Special Pay Additions, the IPCS Agreement, the development of performance pay and the newly-announced Local Pay Additions are all examples. The objects of the strategy are:

- to keep control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control, and

- to maintain the coherence of the pay system,

- while at the same time moving to meet more closely the different needs of different parts of the Service where that can be done without prejudice to the remainder.

Provided that controls over running costs and the pay bill can be maintained (and if possible strengthened) the Treasury is keen to increase the flexibility of the pay system further, bearing in mind always its responsibility for controlling the pay and conditions of the Civil Service.

17. It has been suggested that there would still be too many constraints on an agency Chief Executive who would lack the same scope as his private sector counterpart to reward increased productivity, balance pay rates against manpower numbers within his overall pay bill and compete in the market for scarce labour resources. The Treasury consider that there are, however, reasons why each proposal for a change in the pay regime needs to be considered by the centre:

i. pay policy has macro-economic implications, not least because of the example effect on the private sector;

ii. pay is an important element of public expenditure (and of running costs) and one where increases are hard to reverse;

iii. even if higher pay can be offset by productivity gains in some agencies, there is the danger that higher costs will consequently spread to the rest of the Civil Service and add to total expenditure;

iv. agencies cannot be allowed to solve their personnel problems by exporting them to the rest of the Civil Service (eg by poaching scarce skills from other Departments);

v. questions of propriety may come up, such as the use of tax-efficient remuneration; and

vi. the industrial relations implications of the proposed changes could be wide-ranging. The attitudes of unions and of staff would not necessarily be hostile but certainly could be, given the mood the Service is in.

18. The Treasury consider that there is a crucial judgment to be made as to whether the agencies would be better able to resist union pressure than the Treasury, with its concentrated bargaining power. On the one hand there would be a danger that it would be more difficult for the Government to resist the sort of pressures that would come from unions seeking to play one agency off against another. On the other hand experience shows that the unions themselves dislike the kind of local negotiation that would go with the creation of agencies, because it would weaken the power of union headquarters and of full-time officials and fragment the monolithic structure of the unions. In general the more specific to an organisation is the work of its staff, the easier the jobs will be to ring-fence and the stronger will be the case for the delegation of detailed pay controls. Smaller blocks of staff will be easier to ring-fence than large blocks. Subject to these considerations the Treasury is ready to discuss with Departments the pay regime and grading structures which they would like to see introduced.

Senior Appointments

19. All Chief Executive appointments at Grade 3 or above would be made under the present procedures for Grades 1 and 2, which require the approval of the Prime Minister on the recommendation

of the Head of the Home Civil Service (after discussion with Senior Appointments Selection Committee and consultation with the departmental Minister concerned whose view would be crucial because it would be to him that the Chief Executive would be responsible). Where non-civil servants were appointed to senior posts, it would be possible to use fixed term contracts as Ministers envisaged at the last meeting, though higher salaries would probably be needed to compensate managers for the risks involved. Existing civil servants could also be appointed for fixed terms. Under present rules this would have to be on the basis that the individuals concerned would be reabsorbed by their Department; it would be necessary to develop surrogates for the risk/reward nature of fixed term contracts within Civil Service pay and conditions structure.

Financial Flexibilities

20. Most of the agency proposals seek some freedom from the present controls over public expenditure and running costs in order to be able to take measures to improve efficiency, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts for example in order to fund spend to save projects; to pursue investment plans outside normal expenditure control; or to be exempt from running cost controls. Some Departments feel that, in particular cases, the decision whether it is worth proceeding with an agency will depend on the availability of such freedoms.

21. The present controls are in place in order to deliver Ministers' objectives for the control of public expenditure (including the Government's own running costs) and to meet Parliament's own requirements for the control of spending by the Executive. Considerable flexibility is possible within them: details are at Appendix 2. Particularly where the agency is trading, these offer considerable scope for meeting Departments' requirements.

22. The Treasury is willing to examine the scope for extending this flexibility if Departments can show that - coupled with the policy and resource framework for the agency - this would make for greater efficiency and effective overall control. This can be pursued both in the forthcoming review of end-year flexibility and in looking at particular cases for exemption from gross running costs control. It would however be premature to lift existing controls until other equally effective disciplines can be put in place. While some specially tailored arrangement might be thought appropriate in the circumstances of a particular agency, any irrevocable step to make it more extensively available would need careful examination. It would be necessary to ensure that any wider freedom to carry money forward did not jeopardise the Government's ability to control aggregate annual expenditure; and that further exemptions from running costs controls (or freedom to increase expenditure to match receipts) did not have an unacceptable effect on the size of the Civil Service. And whatever arrangements are made for operational flexibility, the costs of all Government activities will still need to be brought together in the public expenditure plans so that Ministers can decide priorities between them.

23. Any significant new flexibility, including any variation in normal Parliamentary vote accounting (like the suggestion that parts of Departments should be financed by non-surrenderable grant-in-aid) would require the agreement of Parliament. In presenting any such proposals, Ministers would want to be satisfied that they did not appear to be undermining the Government's or Parliament's control of spending.

Conclusion

24. The key elements of the "Next Steps" approach are:

- commitment to a positive, deliberate, and rapid programme of developing the executive areas of government - those which essentially deliver services - as agencies;

- increased delegation of authority by Ministers, and changes (which might be seen as diminutions) of accountability to Parliament for the operations of agencies;

- increased flexibility in relation to Treasury controls of pay and expenditure;

- management training and career planning to develop staff to manage agencies;

- a central capacity (the "project manager") answerable through the Head of the Home Civil Service to the Prime Minister for co-ordinating, steering and driving forward the process of change.

The approach would build on what has already been achieved in improving management efficiency, but would be, and would be intended for presentation as, a coherent and interlinked package of improvements and a step change.

25. The proposals by Departments for developing 12 areas of executive government as agencies would require legislation in some cases, although the need for this might be avoided if some of the detailed proposals were modified. So long as the agencies were in effect discrete parts of Departments, their staffs would

continue to be civil servants and changes in accountability need not be very substantial or conspicuous. Provided that the changes were presented as not weakening Parliament's or the Government's control over expenditure, the implementation of the proposals might reassure Parliament about the Next Steps approach rather than raise alarm about it, and thus provide a basis from which to carry forward the programme and develop further agencies.

26. The proposals could be seen and presented as the first fruits of a decision to implement the "Next Steps" approach, with the appointment of a project manager to provide the expression and guarantee of an intention to pursue the approach with determination and to be ready to accept risks in order to achieve results.

27. On the other hand the proposals have been selected and devised so that they can be presented without drama. Because of this they would by themselves be unlikely to yield or demonstrate the full benefits or to confront all the risks and problems of the full-blown "Next Steps" approach. They could thus be described, more modestly, as an evolution of existing management trends in the direction of the "Next Steps" approach, rather than as the first phase in the implementation of that approach. In that case, though there would probably need to be some capacity in the Office of the Minister of the Civil Service for co-ordinating and monitoring the development of these and any future agencies, it would be difficult to justify the creation of a "project manager" at Permanent Secretary level.

28. This seems to me to be the political choice which Ministers now need to make. The existence and nature of the "Next Steps" report is unofficially known to the Civil Service unions, and to some extent to the media. Against that background, and the detailed proposals for agencies now put forward, Ministers can either:

- commit the Government wholeheartedly to the "Next Steps" approach, announce as many of the detailed proposals as possible as the first stage in implementing it, accept the potential risks as the price of achieving results, and proceed to the appointment of a project manager as the expression and guarantee of their determination to press forward with the approach; or

- announce individual agency proposals as and when they are agreed, present this as an evolution of existing management trends in the broad direction of the "Next Steps" approach, perhaps with an indication that the process will continue but without committing themselves to the comprehensive application or the timetable recommended in the report at least until they have had experience of the working of the agencies now proposed, and not in the meantime appoint a project manager at Permanent Secretary level.

29. The first course would be seen and could be presented as a firm decision to accept the logic and challenge of the "Next Steps" approach and to pursue it to its conclusion, facing and being ready to confront the risks of Parliamentary suspicion and hostility and taking (while seeking to avoid) the risks of loss of effectiveness of controls over pay and expenditure in order to achieve improved efficiency in the provision of services. The second course would minimise the risks of arousing Parliamentary hostility at this stage (and thus offer the prospect of outflanking rather than confronting Parliamentary objections) and would reduce the risks of loss of effectiveness of controls over pay and expenditure; but it would plainly fall well short of the Next Steps proposals and would be in danger of being seen as missing an opportunity and shirking a challenge; as in effect a decision to shelve the "Next Steps" approach, since without the

degree of commitment implicit in the first course there would probably be insufficient impetus to overcome the forces of inertia.

30. On the choice which Ministers make between these two courses will depend the direction of further work and the nature of an announcement. I will make proposals for further work and suggest a draft announcement in the light of Ministers' decisions.

Cabinet Office

16 October 1987

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Draft of 15 October 1987

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

The main recommendations of the Next Steps report, which Ministers discussed at the last meeting of the group on 9 July, were as follows:

- To the greatest possible extent the executive functions of Government (essentially those responsible for delivering services) should be carried out by agencies, with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister. This would entail a greater distancing of Ministers from day to day operational management, and a change in the way in which accountability to Parliament in respect of the agencies was discharged.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency, over a definite and limited period (say, five years).

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on departments to improve and develop their operations, and a "project manager" at a senior level to ensure that the programme of change took place.

2. At their meeting on 9 July, Ministers said that before coming to decisions they wanted to see individual examples of agencies to be developed by each of the departments concerned, to illustrate how the Next Steps proposals could be applied in practice. They were concerned about the possible reaction of Parliament to the changes in accountability which were inherent in the proposals, and which would be seen as diminishing the scope for and effectiveness of Parliamentary scrutiny. Ministers asked for further thought to be given to the presentation of the approach to Parliament: it would be desirable to present developments without drama, and to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies from becoming pressure groups for more expenditure.

3. Work has gone ahead on the development of agency proposals by departments. Each of the departments represented at the last Ministerial meeting, with the addition of the Department of Trade and Industry, Department of Transport and the Ministry of

Agriculture, Fisheries and Food, has nominated at least one area of the department to be looked at as a potential agency. Each department has worked with the Efficiency Unit on the details of its agency structures and has had consultations with the Treasury and the MPO/OMCS. In most cases more work will need to be done before the responsible Minister can take a decision, in agreement with the Treasury, to proceed with individual agencies. A Working Group under my chairmanship has been considering the implications of the departments' proposals for the central management of the Civil Service and for the control of public expenditure.

The Proposed Agencies

4. The areas proposed and studied for development as agencies are:

MAFF:	Agricultural Development and Advisory Service (ADAS), together with the Departments' regional organisation
MOD:	Meteorological Office Defence ~~Non-nuclear~~ Non-nuclear Research Establishments
DE:	Employment Service - i.e. Job Centres?
DOE:	Royal Palaces
PSA:	The Queen Elizabeth II Conference Centre
DHSS:	Resettlement Units
DTI:	Companies Registration Office (CRO)
DTp:	Driver and Vehicle Licensing Directorate (DVLD) Vehicle Inspectorate
HO:	Passport Office
Chancellor's Dept:	Her Majesty's Stationery Office (HMSO)

The details of each agency are being circulated separately. It is envisaged that these agencies would all remain within the Civil Service, at least initially. In a few cases, the possibility of moving an agency outside the Civil Service is raised as an option for later, but no decisions of this kind are required now. This should help to minimise the risk of the agencies becoming pressure groups for more expenditure, since the policy and resources framework would remain firmly the responsibility of departments and their Ministers. A civil servant head of an agency would not be able to encourage public pressure for additional resources for the work of the agency.

NEXABC

5. The constitution of existing departmental activities as distinct units within the departments would not of itself require legislation. Some of the proposals in the Annexes and some of the suggested changes in the Parliamentary financial regime would require it, but the nature and extent of legislation would depend on the decisions taken on these specific aspects of each of the agency proposals. Those proposals which involved financing other than through Parliament's normal voting of Supply, or which involved a formal transfer of responsibility from the Treasury for decisions on pay and grading, could only be achieved with Parliament's approval. But it should be possible to make a start on an initial programme of agency creation on the basis of these proposals, without the need for legislation in the first instance.

6. At this preliminary stage some specific benefits to come from the agency approach have already been identified. For example, HMSO believe that flexibility on pay and grading would enable them to increase their planned efficiency savings of 5 per cent to at least 15 per cent. The Department of Employment consider that flexibility to pay differential rates within their existing pay bill would enable them to deal with endemic staff shortages. In most cases departments believe that changes in the forms of departmental and Treasury control, together with a diminution in Ministerial involvement in day to day operations, would give agency management the opportunity to improve the efficiency of their operations. Some departments consider that the scope for improvement would be limited and the advantages would be insufficient to justify change, unless Parliament accepts the need for a significant reduction in the burden of parliamentary scrutiny and unless there can be greater flexibility in pay and financial controls than they understand the Treasury to be ready at this stage to contemplate. Departmental management would concentrate on the broad framework of policy, the annual allocation of resources and the setting of performance targets to be met by the agency; the agency management would be responsible for the job to be done within this policy and resource framework. Each agency would have to be an individual structure with controls and delegated authorities designed specifically for it, and conditional on the establishment of a rigorous and effective management framework, and the effective containment of any repercussions.

7. On the other hand, whatever benefits there may be to individual agencies, there are risks in adopting the full Next Steps approach to setting up agencies. Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual agency could create serious problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. All net control of running costs risks some increase in Civil Service numbers if demand expands. The best chance of minimising these risks lies in tight definition of objectives, a firm control over running costs, care

with senior appointments - and a declared determination to remove agency heads who failed to deliver targeted efficiency improvements without good reason coupled with arrangements for rewards for signal successes. There are also industrial relations risks. It is not certain how the staff and the staff associations will react. For example, the introduction of the Home Office agency, the Passport Department, will need careful management in the context of the Government's overall approach. The Passport Department has a history of disruption, and there is currently a major computerisation programme which should not be put in jeopardy.

Accountability

8. The "Next Steps" approach depends upon effective control of the delivery of services through a framework of policy, resources and results required, set for an agency by or on behalf of the responsible Minister. As Ministers recognised at the meeting on 9 July, the Next Steps approach has implications for Ministerial accountability to Parliament generally, for the handling of correspondence and Parliamentary Questions from MPs, and for the flow of information to MPs and the public.

9. Ministers' formal accountability to Parliament would be unaffected. A Minister would be accountable for the totality of the framework set for the agency. This would mean that he remained fully answerable for policy objectives including target levels of efficiency and service delivery and for resource allocation. Once the agency was fully developed and the executive task had been delegated, as a general rule Ministers would not expect or be expected to get involved in operational issues. Exceptions could of course arise in the event of an emergency or a major industrial dispute. The detachment of Ministers from day-to-day operations would entail changes in the way in which accountability to Parliament was discharged, which Parliament might well see as a reduction in the extent of their ability to scrutinise the work of the agencies. The delegated approach would be easier to maintain if a public statement could be made of the extent to which operational matters were being delegated to the agency management, together with some indication of the policy framework being set.

10. If Ministers were to be seen to be more detached from day to day operations than at present - which is an essential feature of the "Next Steps" approach - this would have to be reflected in the handling of MPs' cases and questions on such matters:

- As a minimum, Ministers would need to reply to MPs in terms of, "I am informed that ...", together with a report from the agency and a formula explanation that the matter was for agency executive management within the Ministerial policy framework (unless of course the case provoked a change in the management or a review of the framework itself).

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- In addition, Ministers could choose to encourage MPs to approach agency managers directly as part of the public announcement of the establishment of the agency. MPs who insisted on a Ministerial reply on an operational matter would receive one along the lines indicated above.

- If a case raised doubts about the fulfilment of the policy objectives set by Ministers, the Minister would need to take a view based on a report from the agency management; if he was dissatisfied, his recourse should be via management change or review of the framework, but not through a direction to agency management to change the way a specific operational case within the framework of delegation should be handled.

This approach would build on current practice whereby in some areas MPs as well as the public approach, and are encouraged to approach, the officials directly reseponsible on operational matters in the first instance. Ministers will need to judge whether that would be acceptable to Members of Parliament.

11. The presentation of these changes to Parliament would need careful handling, both initially and for each agency individually. The overall approach could be presented as improving the flow of information, by virtue of published statements on policy frameworks which would give more information than before at the strategic level, and direct access to agency management which would give a speedier response on day to day operations.

12. The permanent head of department as Accounting Officer would continue to be answerable to the Public Accounts Committee (PAC). The Chief Executive of an agency would normally also attend the PAC with the Accounting Officer, so that he could answer questions about the exercise of his own responsibilities. Departmental Select Committees would be encouraged to look to agency Chief Executives for evidence on matters within their delegated responsibility, and to Ministers and senior departmental officials for evidence on the policy and resources framework.

13. The description of each scheme for the agency incorporates a brief account of the specific accountability implications. It would be necessary for departmental Ministers to agree detailed procedures and allocations of responsibility before individual agencies were set up. Public announcements of the establishment of individual agencies would need to make clear any changes intended by Ministers for the handling of MPs cases and questions (along the lines indicated in para 10 above).

The Management Framework

14. The preliminary work on the pilot scheme has shown the extent to which more work will be necessary before they are ready to be fully fledged agencies. In some cases the proposed agencies are already distinct organisations with their own

management style and structure, notably DVLC, CRO and HMSO. In other cases, for example the Employment Service or the Research Establishments, a new organisation is being constructed, building on the existing organisation but with a great deal of planning and development to do.

15. Work has been done on the main areas where departments consider greater delegated authority is necessary to give the management of an agency real responsibility. There is considerable confusion and even ignorance about the precise details of possible delegation under existing rules within departments and between departments and the Treasury. It may be possible for departments to agree with the Treasury on additional delegations to agencies within the existing Treasury rules. But there are a number of cases where departments consider that delegations which go beyond the limits of existing Treasury and Parliamentary rules are essential if they are to make a reality of the benefits in improved management and efficiency which would come with agency status.

Pay and Management

16. On pay and management it is already the Treasury's strategy to develop from the previous Service-wide approach to a more flexible and better-oriented system. This is described in Appendix 1. Substantial progress has been made in recent years: Special Pay Additions, the IPCS Agreement, the development of performance pay and the newly-announced Local Pay Additions are all examples. The objects of the strategy are:

- to keep control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control, and

- to maintain the coherence of the pay system,

- while at the same time moving to meet more closely the different needs of different parts of the Service where that can be done without prejudice to the remainder.

Provided that controls over running costs and the pay bill can be maintained (and if possible strengthened) the Treasury is keen to increase the flexibility of the pay system further, bearing in mind always its responsibility for controlling the pay and conditions of the Civil Service.

17. It has been suggested that there would still be too many constraints on an agency Chief Executive who would lack the same scope as his private sector counterpart to reward increased productivity, balance pay rates against manpower numbers within his overall pay bill and compete in the market for scarce labour resources. The Treasury consider that there are, however, reasons why each proposal for a change in the pay regime needs to be considered by the centre:

i. pay policy has macro-economic implications, not least because of the example effect on the private sector;

ii. pay is an important element of public expenditure (and of running costs) and one where increases are hard to reverse;

iii. even if higher pay can be offset by productivity gains in some agencies, there is the danger that higher costs will consequently spread to the rest of the Civil Service and add to total expenditure;

iv. agencies cannot be allowed to solve their personnel problems by exporting them to the rest of the Civil Service (eg by poaching scarce skills from other departments);

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involved. Existing civil servants could also be appointed for fixed terms. Under present rules this would have to be on the basis that the individuals concerned would be reabsorbed by their department; it would be necessary to develop surrogates for the risk/reward nature of fixed term contracts within Civil Service pay and conditions structure.

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satisfied that they did not appear to be undermining the Government's or Parliament's control of spending.

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the full benefits or to confront all the risks and problems of the full-blown "Next Steps" approach. They could thus be described, more modestly, as an evolution of existing management trends in the direction of the "Next Steps" approach, rather than as the first phase in the implementation of that approach. In that case, though there would probably need to be some capacity in the Office of the Minister of the Civil Service for co-ordinating and monitoring the development of these and any future agencies, it would be difficult to justify the creation of a "project manager" at Permanent Secretary level.

28. This seems to me to be the political choice which Ministers now need to make. The existence and nature of the "Next Steps" report is unofficially known to the Civil Service unions, and to some extent to the media. Against that background, and the detailed proposals for agencies now put forward, Ministers can either:

- commit the Government wholeheartedly to the "Next Steps" approach, announce as many of the detailed proposals as possible as the first stage in implementing it, accept the potential risks as the price of achieving results, and proceed to the appointment of a project manager as the expression and guarantee of their determination to press forward with the approach; or

- announce individual agency proposals as and when they are agreed, present this as an evolution of existing management trends in the broad direction of the "Next Steps" approach, perhaps with an indication that the process will continue but without committing themselves to the comprehensive application or the timetable recommended in the report at least until they have had experience of the working of the agencies now proposed, and not in the meantime ~~to~~ appoint a project manager at Permanent Secretary level.

29. The first course would be seen and could be presented as a firm decision to accept the logic and challenge of the "Next Steps" approach and to pursue it to its conclusion, facing and being ready to confront the risks of Parliamentary suspicion and hostility and taking (while seeking to avoid) the risks of loss of effectiveness of controls over pay and expenditure in order to achieve improved efficiency in the provision of services. The second course would minimise the risks of arousing Parliamentary hostility at this stage (and thus offer the prospect of outflanking rather than confronting Parliamentary objections) and would reduce the risks of loss of effectiveness of controls over pay and expenditure; but it would plainly fall well short of the Next Steps proposals and would be in danger of being seen as missing an opportunity and shirking a challenge; as in effect a decision to shelve the "Next Steps" approach, since without the degree of commitment implicit in the first course there would probably be insufficient impetus to overcome the forces of inertia.

30. On the choice which Ministers make between these two courses will depend the direction of further work and the nature of an announcement. I will make proposals for further work and suggest a draft announcement in the light of Ministers' decisions.

Cabinet Office

October 1987

NEXARC

MANAGEMENT IN CONFIDENCE

PRIME MINISTER

THE NEXT STEPS

Unfortunately I shall be in China for our next meeting on The Next Steps but I wanted to let you have my reactions to Robert Armstrong's paper.

2 We have already secured important changes in the Civil Service but we now need to bring about a step change in improving management in Government. This must include increasing the sense of personal responsibility which individual managers have for the delivery of services. I believe that Robin Ibbs' report shows how to do this and that we must now take the decision to move forward.

3 Obviously, we must be sensitive in our handling of the acountability issues and presentation to Parliament but this should not prevent us from acting decisively to change the management style to give individual managers greater freedom to operate, albeit within firmly controlled budgets. Rigorous targets and budgets will be needed, together with better training and more appropriate job experience, in order to ensure this greater sense of personal responsibility. Nor should we allow fears about possible repercussions on pay, grading and so on elsewhere in the Service, as a result of giving individual managers greater freedom to manage, to deter us from this reform. Such repercussions can be controlled if we have the will to do so. It would be quite

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wrong to allow apprehensions of this kind to continue to dictate a rigid and stifling uniformity of practice across the Service.

4 We can only secure change on the scale and with the speed that the situation demands by having a powerful project manager in the centre who can make clear our determination to apply these changes in due course to the delivery of all Government services. I believe this points to a manager at Permanent Secretary level responsible to you through the Head of the Civil Service. This would send a clear signal about our intentions, and our determination to realise them.

5 Above all we must not have a half-hearted experiment involving only a token number of agencies. The Next Steps report has provided us a real opportunity for securing the changes in the Civil Service which we all want. We must not waste it.

6 I am copying this minute to the Lord President, Chancellor of the Exchequer, Home Secretary, Secretaries of State for Defence, Employment, Environment, Social Services and Transport, the Minister of Agriculture, the Lord Privy Seal, the Minister for the Arts, Sir Robin Ibbs and Sir Robert Armstrong.

D Y

15 October 1987

DEPARTMENT OF TRADE AND INDUSTRY

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10 DOWNING STREET

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Re PM's

objective is to

commit the

Govt wholeheartedly

to the NEXT

steps approach

CDP.

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PRIME MINISTER

THE NEXT STEPS

You are to hold a meeting after Cabinet on 22 October of the groups of Ministers directly concerned with the follow-up to the proposals in Sir Robin Ibbs's Report on Improving Management in Government: The Next Steps.

2. At the meeting of the group on 9 July it was agreed that, before any decisions of principle were taken, further work should be done on the application of the proposals in particular instances, with a view to the possibility of a first round of agencies which would be a kind of pilot scheme for the main project. It was also felt that there was a risk of considerable parliamentary suspicion of, even hostility to, the Ibbs proposals, which could be seen as diminishing the scope for parliamentary scrutiny of the executive, and it was agreed that, if it was decided to go ahead with the proposals, they should be presented without drama: you asked that further thought should be given to the presentation of the approach to Parliament.

Flag A

3. The work that has been done is reported in my note, and outlines of the 12 'case studies' for particular agencies have been separately circulated. The areas covered range from the new Employment Service (which is due to start on 26 October) to the Queen Elizabeth II Conference Centre, and the case studies show how an agency structure would work in practice in each case.

Flag B

4. By keeping all these agencies as in effect discrete organisations within departments and their staff as civil servants, and by not choosing areas (like social security) which would be especially controversial, we have produced a package of individual proposals which could be presented without drama. But they avoid the drama because they duck or skirt round the two most controversial issues: the changes in accountability, particularly in relation to Parliament, and the extent of relief from detailed Treasury controls of pay, grading, recruitment and expenditure.

5. My discussions have shown that departments in general welcome the Ibbs approach, and would like to pursue it, if they were sure that the new forms of accountability and the relative freedom from central (and now mainly Treasury) controls that Sir Robin Ibbs proposes would really be available. They fear, however, that:

a. Ministers will not in the event be able or perhaps in some cases willing to stand back from operational matters to anything like the degree proposed;

b. it will not be possible to persuade Parliament to accept the new forms of accountability envisaged;

c. the Treasury will not give them sufficient flexibility on pay and management and on financial management and control.

Unless they can be confident on these points, many of them would

prefer not to start down the Ibbs road: they fear the prospect of being given increased responsibility without being given the means to exercise it.

6. On the last of these points, my discussions suggest that they have some reason for their fears. As you will see from paragraphs 16 to 23 of the paper, the Treasury is apprehensive that greater flexibility on pay will reverse the gains that have been made in dealings with the unions in recent years: instead of having to deal with a single, and single-minded, Treasury, and themselves being divided, the unions would find themselves dealing with a series of separate managements with differing objectives, who could be played off against each other. As against that, it can be argued that it is often easier to deal with departmental trade union sides, who can be more reasonable, than with national officials. Likewise on expenditure, the Treasury fears that greater flexibility would mean loss of control and more expenditure: they do not believe that the resources frameworks within which agencies would be supposed to be constrained would be robust enough to withstand the pressures for higher spending.

7. Treasury caution is understandable. But it is impossible to demonstrate that the Ibbs approach will work, and will produce better value for money over a wide area of Government activity, unless the Treasury is prepared to take some risks and the approach is really given a chance to work as Sir Robin Ibbs intends.

8. This is the real issue for the Prime Minister's meeting. If Ministers want to pursue the Ibbs approach, they have to persuade the Treasury that they will act as a Board of Directors would, and constrain their agencies to stay within the resources frameworks laid down by them (after agreement with the Treasury); and the Treasury has in return to accept a real commitment to develop the greater freedoms with responsibility that the approach entails. If Ministers are prepared to agree to that, then it will be worth going forward to Cabinet; and it will certainly be important to set up a "project manager" charged with the task of making sure it happens. If it is not possible to achieve agreement on this, it may still be sensible to go ahead with a "low-key" programme of agency proposals, starting with some of those described in the note; but Ministers will not want to make a definite commitment to the Ibbs approach or to appoint a highly visible "project manager" at Permanent Secretary level.

Handling

9. You may like to start by reminding the meeting that the group asked for further work to be done on the development of the application of the Ibbs proposals to particular areas and on the problem of presentation without drama. I shall be ready briefly to introduce the paper, if you would like me to do so. You might then like to ask Sir Robin Ibbs whether there is anything he would like to say at this stage.

10. When you open the discussion, you might like to invite the Secretary of State for Social Services, the Home Secretary and the

Defence Secretary to comment first: all three were active and positive in the earlier discussion. The Lord President and the Lord Privy Seal will want to comment on the problem of presentation to Parliament. The Chancellor of the Exchequer or the Chief Secretary, Treasury, will want to speak about their fears about greater flexibilities on pay and on expenditure.

Conclusions

11. Depending on how the discussion has gone, you could sum up either

a. that the group is in favour of going ahead with the Ibbs approach, agrees that we should go ahead with the individual agency proposals and the appointment of a "project manager", and would like recommendations to be put to the full Cabinet and a draft announcement prepared accordingly;

OR

b. that the Ministers concerned should pursue the agency proposals concerned with the Treasury and the Office of the Minister for the Civil Service, but as developments in existing policies for improvements in management efficiency rather than as a great step change, and that further consideration of proceeding to the full Ibbs approach should be deferred until it is possible to assess the success of the existing proposals.

RA

ROBERT ARMSTRONG
15 October 1987

CONFIDENTIAL

GOVT MACH: Rayner Pt.26

EFFICIENCY UNIT

IMPROVING MANAGEMENT IN GOVERNMENT : THE NEXT STEPS

Outline schemes for possible agencies

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Annex A

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

DEPARTMENTAL PROPOSALS FOR AGENCIES

These proposals have been discussed with the Treasury, the MPO/OMCS and the Efficiency Unit. More work needs to be done on most of the proposals before Departmental Ministers can be asked to take a decision in consultation with the Treasury to proceed with an individual agency. Where possible specific issues for further discussion have been highlighted in the proposal summary.

The proposed agencies are :

MAFF:	Agricultural Development and Advisory Service (ADAS)
MOD:	Meteorological Office
	Defence Non-Nuclear Research Establishments
DE:	Employment Services
DOE:	Royal Palaces
PSA:	The Queen Elizabeth II Conference Centre
DHSS:	Resettlement Units
DTI:	Companies Registration Office (CRO)
DTp:	Driver & Vehicle Licensing Directorate (DVLD)
	Vehicle Inspectorate
HO:	Passport Office
Chancellor's Dept:	Her Majesty's Stationery Office (HMSO)

KEY DETAILS OF POSSIBLE AGENCIES

DEPARTMENT	AGENCY	RUNNING COSTS	PROGRAMME SPEND	STAFF
MAFF	ADAS and Regional Organisation	£114m	£154m	7000
MOD	Meteorological Office	Gross £74m Income £23m		2560
	Non-nuclear research establishments	£450m Income £50m		15000
DE	Employment services	£500-550m Income £12-18m	£300-350m	40-45000
DoE	Royal Palaces	£12.5m Income £8.4m	£2.1m	300
PSA	Queen Elizabeth II Conference Centre	£5.3m Income £1.5m		60
DHSS	Resettlement units	£12.1m Income £3.7m	£4.8m	590
DTI	Companies Registration Office	£19m Income £28m		1100
DTp	Driver & Vehicle Licensing Directorate	£111m Income £9.6m	£14.1m	5400
	Vehicle Inspectorate	£31m Income £32m	£3.9m	1500
HO	Passport Department	£26.5m Income £31m (net of payment to FCO)	£0.15m	989
Chancellor's	HMSO	Turnover £320m		3350

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MAFF EXECUTIVE AGENCY

The Agency

1. The Agricultural Development and Advisory Service (ADAS) together with the whole of the department's regional organisation would comprise the Agency. It would act as the Ministry's main link on local business with all interests such as the farming and food industries, Local Authorities etc. Its tasks would include advising ministers on the condition of the industry and on means of improving it; working to improve efficiency by appropriate advice; to survey and control animal and plant diseases; to provide various analytical tests; to promote conservation and animal welfare; to administer grant and subsidy schemes; to ensure the enforcement of statutory requirements under relevant legislation; to service various tribunals; and make preparations for defence and civil emergencies and act during the latter.

Relationship with the Department

2. The Agency would be an internal one, ie part of the department and fully responsible to the Minister. A framework plan with annual updates would set out the Agency's tasks and specify the resources provided to do them. The Agency would receive its formal instructions from the Permanent Secretary. There would probably also need to be some more junior formal point of contact within the Department, possibly in Establishment of Finance groups. Much contact between individual officers in policy divisions and appropriate counterparts in the agencies would also be necessary for the department and the agency to fulfil their tasks.

Benefits of the Agency Approach

3. The objective would be to perform the relevant tasks more efficiently, that is by increasing outputs in relation to inputs. In MAFF's view this could be achieved by the Agency's being granted a significant extra degree of financial and personnel flexibility compared to existing arrangements. Without such extra flexibility the Agency is not worth pursuing. The flexibility is especially desirable because ADAS is now on a part - commercial basis and experience has shown the need to respond more quickly and flexibly to developments than is possible with existing constraints. The balance of advantage would clearly need to take full account of all costs of establishing and maintaining the Agency.

Changes Sought

4. The Agency needs to operate under disciplines based upon business accounting practices so that it is not constrained by gross running costs or annual cash accounting. A grant-in-aid for its publicly-funded functions might give the best link with vote

accounting. Additional flexibility is also needed in such areas as pay (both to pay above and below standard civil service rates) and deployment.

Accountability

5. The department foresees no great problems on accountability since Ministers receive few representations about the agency's actions. Accordingly there should be no major problem in referring complaints to the agency's own management, but for those who wished to pursue complaints further the possibility of appeal to Ministers would be retained. The Permanent Secretary would remain Accounting Officer, although the Director General of the agency could appear with him before the PAC.

Outstanding Issues

6. The Treasury reserves its position on the suggestion that the proposed agency be exempted from gross running costs control until it can be demonstrated it meets present criteria. They consider it would not be possible to abandon cash accounting or to move to a grant-in-aid for an internal agency. They would wish to gain further experience of pay flexibility before becoming committed in this case. They would oppose higher relocation benefits which must be repercussive elsewhere.

Timing

7. If planning started now the Agency could not realistically expect to be in place before April 1989 at the earliest. Since a series of profound management changes for the components of the proposed agency only take full effect on 1 October 1987 there is a case for holding back further change for a period (though there are counter arguments). Only the Minister of Agriculture, Fisheries and Food could decide on this point.

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THE METEOROLOGICAL OFFICE

The Agency

1. The task of the Meteorological Office is to provide meteorological services for defence (40% of its activity in terms of cost); for international obligations and public services in the UK (25%); for civil aviation (25%); and for shipping, other government departments, public bodies, media, industry and commerce (10%). The Met Office staff total some 2,560, rather more than half being at the HQ in Bracknell. The Met Office obtains some income from its non-MOD customers: in 1985/6 expenditure was £74m and income £22m; the net cost is borne by the Defence Budget.

Relationship with the Department

2. Following a review put to Ministers in June 1986, it was agreed that the Met Office should remain part of the MOD, but that there needed to be more independence for management and greater accountability. As a first step the Met Office will by 1 April 1988 have an Executive Responsibility Budget, under which Met Office management will run the organisation within an overall resource allocation monitored by a Board of Directors including external appointees with appropriate business experience. This will not however go far enough.

Benefits of the Agency Approach

3. It is clear that there must be a national meteorological capability for defence purposes. For this reason, and in order to continue the established arrangements for international cooperation, the activity must remain within government and indeed within the MOD. It cannot be operated primarily or predominantly on a commercial basis. But it is important that the Office should be motivated to compete for marginal business, and to maximise its revenue in this area in competition with 'free-loading' firms which make use of the meteorological information which is provided as a free public service. Some relief from the established policy and practices on government fees and charges is therefore necessary. There is also a need for some freedom from constraints on numbers and greater flexibility over pay, for mathematicians and ADP personnel in particular, to secure maximum efficiency. That is to say, the Office needs to be more responsive to customers or business other than the MOD, whilst remaining under MOD control to ensure satisfaction of the defence interest.

Accountability

4. No changes are proposed to the current arrangements whereby the Director General is appointed by the Secretary of State and reports to the Permanent Secretary and Ministers. It is not the intention at this

stage that he should become Accounting Officer. Parliamentary and other business will be handled as it is at present.

Outstanding Issues and Timing

5. A grant aided body, as now defined, would not meet the needs, partly because it would be too independent of and separate from the MOD and partly because it would not necessarily operate under a sufficiently commercial stimulus.

6. It is envisaged that a Met Office Agency developed from the ERB, could be in place by 1 April 1990 operating under a management or regulatory Board, developed from the Management Board established for the ERB. This Board would approve a Corporate Plan, and the necessary resources to carry it out, and monitor performance against agreed performance indicators, although in this area the assessment of performance would, in part at least, be qualitative as well as quantitative.

7. The Treasury does not consider a case has so far been made for an agency in this area. There appears to be scope to secure the improvements in efficiency and effectiveness within the existing arrangements.

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THE DEFENCE NON-NUCLEAR RESEARCH ESTABLISHMENTS

The Agency

1. The primary role of the MOD non-nuclear research establishments (REs) is to conduct defence research and to provide technical support to the Armed Services in order to provide the MOD with an 'intelligent customer' capability in the procurement of weapons and equipment.

2. The annual defence budget of the REs is some £400m, and in addition some £50m worth of work is carried out on repayment. The REs operate from over 50 manned sites and about an equal number of unmanned ones, employ nearly 15000 civil servants and have extensive industrial-type capital facilities.

The Benefits of the Agency Approach

3. The REs are finding it increasingly difficult to recruit and retain the scientists and engineers they need to do the job. To prevent progressive erosion of skills and be able to respond to fluctuations in demand from customers and rapid changes in technology, the REs need freedom to compete in the market-place for key staff and flexibility in the terms and periods of service for all staff, including particularly the ability to offer short term contracts and no job guarantee to age 60.

4. The REs have no real financial incentive to promote the disposal of surplus assets. To achieve more rational and cost-effective capital investment, a commercial approach is required to apply receipts from disposals to the provision of new facilities and site rationalisation, and to be able to borrow.

5. The REs are suppliers of services. In order to create greater pressure and financial incentive for improvement in performance and a reduction in costs, the REs need to be able to operate on a contractual basis with their customers. This change would also focus the minds of customers more sharply in determining what they require from the REs.

6. Utilisation of the expensive capital facilities is severely constrained by limits on manpower numbers; even without this constraint, gross running cost controls would still constitute an impediment. A commercial approach and the marketing of the RE's services for non-defence work would bring additional revenue and reduce the overhead costs for defence work.

Changes Sought

7. The proposal is to move the REs to an 'arms length' position vis-a-vis government in the form of a Defence Research Agency (DRA).

8. The DRA would operate on a contractual customer/supplier basis. The government customers would include provision in their annual estimates and Long Term Costing bids for DRA services as for those of any other supplier. The provision for defence research funds would be tailored to fit within the allocation made by the MOD's Office of Management and Budget. The extent to which the customers would be free to go to the open market needs to be considered and will depend upon MOD defining what is essential for the DRA to provide.

9. To operate in this way there are two criteria which must be met. On the one hand the DRA must have freedom over such matters as pay and conditions of service, capital investment and exploitation of its capabilities in the national interest. On the other hand it must be sufficiently close to government to preserve the defence links the REs have with UK industry and with overseas governments and research organisations.

10. The precise status of the DRA needs to be defined through considering a range of models. To meet the required changes and conditions the most likely solution is a Government owned plc with the Secretary of State as sole shareholder.

11. A number of activities in the REs could be moved further away from government than the agency itself by placing them under commercial management along the same lines as the recent dockyards commercialisation schemes and on terms which would bring revenue into the agency and reduce overheads for defence work.

12. Under the above proposals all 15000 of the RE staff would be moved outside the civil service.

Accountability

13. Changing the status of the REs would clearly effect the nature of the accountability of the organisation. However, they would still remain responsible to Ministers eg through the Government owned plc model.

Outstanding Issues and Timing

14. There are many issues to be considered and resolved before a firm decision can be taken to proceed. Given approval of the proposals by Ministers, the next step should be an in-depth feasibility study, conducted in the open, to explore the issues and to prepare a report as a basis for a final decision.

15. It is recommended that the proposal be announced to the staff and trades unions under the normal consultation procedures. The deployment of a full-time study team is proposed with a view to completing the study in early 1988. Given approval to proceed, there would then be an implementation phase, including the passage of legislation, with a target vesting day for the DRA of April 1990.

16. The Treasury considers a range of important issues need to be considered before a decision could be taken on whether or not to establish an Agency. These include the resources and policy framework for a DRA and the arrangements for dealing with its monopoly position. The Treasury does not consider the normal public expenditure controls on capital expenditure and borrowing could be set aside.

CONFIDENTIAL

EMPLOYMENT SERVICE

The Agency

1. The Employment Service will combine the benefit payment and job placement services currently provided by unemployment benefit offices and public employment service jobcentres. Its task will be to provide a more coherent and effective service for unemployed people, particularly the long-term unemployed, building on initiatives like Restart.

Relationship to the Department of Employment

2. The ES will be a Departmental agency. It will be headed by a Chief Executive who will report to a Grade 2, and through him and the Permanent Secretary to Ministers. The Department will provide the ES with a clear policy statement of the task it is to undertake, the results it is to achieve and the resources framework within which it is to operate. These will need to be tightly set. The ES will be expected to deliver to specification and its performance will need to be carefully monitored accordingly. For its part, the ES will require the managerial freedoms to deliver what is required of it and it will be the Department's responsibility to ensure that it has them.

Benefits of the Agency Approach

3. The agency will combine the benefit payment and job placement services currently provided by two, separate organisations. Through combination the new organisation will be able to place much more emphasis on getting the unemployed back into work. It is hoped that these benefits, which should flow partly from the very fact of merger, will be reinforced by the establishment of a clear, contractual relationship between the Department and the agency which, by making specific the key priorities of the new organisation and the resources available, will help it to concentrate more single-mindedly on its prime objective.

Changes Sought

4. The following are the key changes sought.

Running Cost Controls: Restart, Availability Testing, Fraud Staff and Claimant Advisers are cost-effective ways of reducing unemployment. But they involve deploying more staff rather than more programme money. A way is sought whereby the constraints imposed by running cost and manpower control systems on such approaches can be eased where it can be shown that they yield considerable net public expenditure savings. The Treasury notes that present arrangements have not excluded the possibility of switches from programme expenditure to running costs in appropriate cases.

Annuality: There is a considerable time lag between the conclusion of the PES round, which determines the ceiling for running costs in the following year, and that year when much may happen; eg slippage in a major computer programme and in associated staff training. The Employment Service considers it would be helpful to allow an adjustment of the running cost ceiling or, if the Estimates have been printed, in a Summer Supplementary in such situations. The Treasury has serious reservations about such an approach, but notes that the forthcoming review of the EYF scheme will take into account the request for its extension to running costs.

Pay Rates: UBS and Jobcentre staff are paid above the going rate in some parts of the country and below it in central London (where there is high staff turnover) because of national pay scales. The ES could significantly improve productivity without any increase in its total pay bill if given greater flexibility. The Treasury believes that the scheme of Local Pay Additions announced last month will go a long way towards providing the flexibility sought, and that any special treatment for the Employment Service would be repercussive unless it could be shown that the position of the Employment Service differed significantly from the general run of civil service activities.

5. The following miscellaneous items are also being discussed:

early retirement, staff relocation, recruitment, property control and ownership and delegated authority, which the ES will be pursuing separately with the centre.

Accountability

6. Accountability for the new Employment Service will be the same as currently applies to the Unemployment Benefit Service. There will be no change of Accounting Officer.

Timing

7. The new Employment Service comes into existence on October 26th.

CONFIDENTIAL

ROYAL PALACES

The Agency

1. The agency would take over the general management and opening to the public of the Tower of London, Hampton Court, Kew Palace and the other unoccupied Royal Palaces which are managed and financed by the Secretary of State for the Environment. The agency would employ some 300 people and have annual expenditure of £15-16m and income from admissions and trading of £10m.

Relationship with the Department

2. The Director of the agency would be responsible to the Secretary of State and the Royal Household for the agency's overall performance. The main machinery for control and direction of the agency's work would be 5 year business plans prepared for the agency as a whole and for each Palace group. The plans would form the basis for agreeing the coming financial year's budget and targets and the provisional budget for the next four years. There would be a clear financial objective, such as an overall rate of return, as well as detailed prformance targets.

Benefits of the Agency Approach

3. The setting up of an agency would provide a clear focus of management responsibility. In order to operate in a highly competitive environment, to minimise costs and maximise income, management need authority in financial and staffing matters. Agency status provides a way of ring-fencing such changes from the rest of DOE.

Changes Sought

4. The agency has two main functions - the care and maintenance of the historic fabric of the Palaces and the running of them as a tourist attraction. To bring about the benefits sought the agency would need to be able to carry out the latter on a more commercial basis. This might be achieved by funding the agency through a grant in aid. The agency would receive a specific grant for its non-commercial activities (rather than a residual deficit grant). It would then be dependent on its own commercial performance for the rest of its income, providing management with clear incentives.

5. The detailed financial authorities required include: the ability to use extra receipts to develop the business, to plan and carry out capital expenditure over, say, a three year period and freedom from normal running cost controls. On the staffing side the agency will need ability to recruit specialist staff, such as marketing and retail managers, directly, probably on contract, and to relate pay levels to the outside market and linked to performance.

Accountability

6. The establishment of the agency would make no formal change in the Secretary of State's accountability for the running of the Palaces. He would remain fully answerable to Parliament and The Queen. But MPs would be encouraged to go direct to the agency with questions about particular operations and Ministers might deal with most letters from MPs by a short letter enclosing a reply from the agency Director.

7. Initially at least the Permanent Secretary of DOE would remain Accounting Officer for the departmental funding of the agency. In the longer term there is a case for the Director to become Accounting Officer for the general operation of the agency.

Outstanding Issues

8. All the changes outlined above require agreement from central departments. The department is considering with the Treasury the extent to which the agency's required freedom can be accommodated within present arrangements - eg for exemption from gross running cost control and for end year-flexibility. The department is also considering offering the agency increased flexibility within its own control totals.

9. If it were proposed to remove the agency from normal Vote accounting rules and pay grant-in-aid while it was still part of the department, such a change would break new ground for which Parliamentary approval would have to be sought. The Treasury would be prepared to consider arrangements for terms and conditions of new staff to meet the agency's needs, but would expect to continue to be consulted about them in advance.

10. Under current doctrine Accounting Officer status could not be devolved to the head of the agency and Parliamentary approval would be required for any change.

Timing

11. The agency could be in operation in provisional form by 1 April 1989. As regards pay and recruitment the Treasury would be prepared to discuss with DOE the possibility of more flexible arrangements to meet the needs of the Royal Palaces, whether or not an agency is established.

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THE QUEEN ELIZABETH II CONFERENCE CENTRE

The Agency

1. Ministers have agreed that the Centre would discharge a dual role; by providing highly secure and exclusive areas for government to host top level international meetings while encouraging full use by the private sector in order to minimise the operating deficit.

Relationship with the Department

2. A General Manager (Grade 5) is responsible for the efficient operation of the Centre and meeting the financial targets set out in the original Business Plan endorsed by the Treasury and Ministers. A Board of Management, chaired by the Director London Region (the General Managers line manager) and including an experienced outside advisor, reviews progress of business against set targets, gives guidance to the Executive Management and considers future trends and developments in the conference world.

Benefits of the Agency Approach

3. The benefits of organising the Conference Centre as an Executive Agency are to allow it to operate commercially and hence minimise the operating deficit and the call on Exchequer funds.

Changes Sought

4. Staffing - The General Manager needs to tailor his organisation and posts within it to match the demands of the business rather than the requirements of civil service structure and gradings. Of the Centres existing management staff of 50 it is estimated that about half should be recruited directly on contract terms from the conference and hotel industry since this would be the most effective way of providing the requisite levels of skill and experience. Resulting staff savings should offset increases in wages. The Treasury accepts that the Centre should be able to attract suitably qualified staff in order to achieve maximunm private sector income. It considers that this should be possible by using the flexibility already available in present procedures.

5. Financial - The Centre needs its own self-contained commercial account with cash generated from conference business being retained and with the flexibility to "roll over" its funding needs within an accountable time frame of say 3 to 5 years. In addition an annual capital grant would be needed to finance the costs of providing and maintaining those stringent security standards needed for government (the raison d'etre of the Centre). The Treasury accepts there are advantages in a separate commercial account for the Centre and for deficit funding to be limited for some years in advance. The Treasury considers this could be met through the present supply arrangements within the total resources available to PSA.

Accountability

6. There would be no change in the present arrangements whereby the general manager of the Centre is responsible up the line management

chain to the Permanent Secretary and Ministers. The Permanent Secretary would remain Accounting Officer.

Timing

7. Given the need to improve the Centre's accounting arrangements, and to allow time to determine the various financial targets and subventions, the earliest practical date for implementation would appear to be April 1989. Meanwhile, implementation could in principle begin now on more flexible staffing arrangements, which are the more pressing.

CONFIDENTIAL

DHSS RESETTLEMENT AGENCY

The Agency

1. The DHSS Resettlement Executive Agency will be responsible for running and phasing out the 22 DHSS-run resettlement units for the single homeless and replacing them with grant-aided facilities provided by the voluntary and local authority sectors. When the units are closed the residual functions of the agency (which will then become a non-government body) will be to administer the grants and monitor the standards of the replacement projects.

2. The agency will have a budget of about £14 million a year and, initially, about 600 staff, although this number will be substantially reduced as the units close.

Relationship with the Department

3. The agency will be completely subordinate to the Department as far as policy is concerned. Responsibility for implementation of the policy - the management of the units and the form of the replacement provision - will be devolved to the agency.

Benefits of the Agency Approach

4. The creation of the agency will

- end the involvement of Ministers in what are essentially operational matters such as the dates of closure of the resettlement units and the form of the replacement facilities.

- allow more flexibility in the planning of the replacement programme by removing the constraints of Departmental organisation and (subject to central Departments' agreement) budget annuality.

- (eventually) reduce the number of civil servants.

These achievements will in themselves increase efficiency and speed the progress of the resettlement unit closure programme.

Changes Sought

5. No legislation will be needed but the following changes will be necessary

- although most of the agency's staff will be found from within the Department, there will be some direct recruitment

- the agency will set up its own industrial relations framework

- there will need to be some devolution of responsibility for the agency's resources to the Chief Executive

- the agency will (in DHSS's view) need to be given more budgetary flexibility than at present, in particular, the freedom to carry forward end-of-year surpluses.

Accountability

6. The Department will remain responsible for answering enquries about policy matters. Questions on implementation of the policy will normally be handled by the agency. At least initially the Permanent Secretary will remain the Accounting Officer but if grant-in-aid status was agreed the Chief Executive might become an independent Accounting Officer.

Outstanding issues

7. The last two changes above - to accountability and the limits of budgetary freedom (including the extent to which it is sensible for the agency to continue to make use of the Department's services) - have yet to be agreed with the central departments. In paticular, the Treasury have reservations about whether the changes - such as to the annuality rule which is a Parliamentary requirement - are needed to achieve the benefits set out above.

Timing

8. If the outstanding issues can be resolved quickly, the agency could come into being in April 1988.

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COMPANIES REGISTRATION OFFICE (CRO)

The Agency

1. The CRO is an executive unit operating within the DTI, administering a number of aspects of company law. 1,100 staff are employed at three locations - Cardiff (850), London (200) and Edinburgh (50). The head of the CRO, a grade 5 Civil Servant, is the Registrar of Companies in England and Wales, a statutory person separate from the Secretary of State of Trade and Industry but appointed by him.

2. The CRO's main tasks, laid down by statute, are to incorporate new companies' to maintain a register of companies; to file registered companies' annual returns and other documents; and to make these documents available for public inspection. Associated tasks include ensuring that companies comply with filing requirements.

3. The cost of undertaking these tasks is fully covered by income from fees. From 1 April 1988 CRO will be exempt from gross running cost controls.

Benefits of the Agency Approach

4. For the office to do its job efficiently and effectively, it needs to be able to respond to changing demands. It also needs to have a clear picture of its role so that management fully understand the task expected of them. In the early 1980s manpower controls prevented an increase in CRO resources commensurate with the rise in demand, while the staff of the office did not feel that they received a clear signal of where their priorities should lie. The consequential fall in the quality of information on the companies register was severely criticised by the Public Accounts Committee in 1984.

5. Experience since the PAC 1984 criticism has demonstrated the gains which can be made by giving local management greater freedom to manage within a proper framework of accountability. The key controls of corporate planning with agreed objectives and targets, a supervisory board, and management accounting system are now in place. But more needs to be done to consolidate and increase the improvements made so far. This required investment in manpower and money. It can be covered by fees but creates tensions within overall DTI priorities. If CRO was itself able to determine matters which relate directly to its efficiency such as how it responds to demand, its capital investment, and the achievement of the correct level of properly motivated staff, this would further improve the office's performance. Formal recognition of an agency status for the CRO would clarify the office's role, its lines of accountability, and the management task.

6. Because the Registrar is a "statutory person" he already answers directly for his actions not only to members of the public but also to MPs who write to him direct. Appeal against his decisions is to the

Courts rather than the Secretary of State. On certain other matters he acts in the name of the Secretary of State, who may be asked to review decisions taken on his behalf. Because of the existing statutory independence of the Registrar it should be possible to lead Parliamentary opinion further in the direction of a separation of responsibilities between the Secretary of State and the Registrar for policy and executive matters respectively.

Changes Sought

7. The Office wishes, by 1 April 1989, to:

- have introduced a planning approach to capital expenditure more geared to its own priorities;

- have established a formal framework within which CRO works and which will reduce the involvement of Ministers and officials outside CRO in day to day issues (agency status should not lead to appreciable problems of Parliamentary accountability);

- have considerable freedom to hire, fire and discipline non-management staff (up to administrative officers and their equivalent in other classes) and locally promote to SEO level.

8. Beyond this date, the office would wish to consider:

- introducing performance related pay specifically designed to motivate CRO staff and reduce unit costs;

- reducing the number of classes of junior staff it employs, to reduce demarcation disputes and increase efficiency;

- borrowing up to 5 per cent of annual income to finance capital expenditure so that CRO can pay back out of the benefits from the investment;

- transferring the company names provisions to the Registrar from the Secretary of State (this would involve non-controversial legislation). In addition, transferring to the Registrar from the Secretary of State some of the power to appoint staff, fix their remuneration and regulate their duties;

Accountability

9. The autonomous role of the Registrar is already reflected in the way that Minister's cases concerning the operational functions of the CRO are handled ("the Registrar tells me that ..."). In future they would be passed to the Registrar for official reply. Policy questions would continue to be handled by the department.

Outstanding Issues

10. There is no reason why the benefits that would flow from CRO becoming an Executive Agency should not be realised within the Civil

Service. Only in the event that this does not prove possible should consideration be given to other arrangements, for example converting the office into a non-departmental public body.

11. The Treasury considers that the greater freedom in relation to the planning and management of CRO's capital programmes requested by the DTI could be achieved within broadly the existing public expenditure framework (perhaps subject to some easement in the end year flexibility scheme which is currently under review). However, the Treasury sees no case for allowing CRO to borrow, which would have major repercussive implications for current public expenditure control mechanisms. On the proposed changes for pay and grading, the Treasury notes that these are consistent with the general thrust of changes currently being considered for the Service as a whole. These changes are therefore acceptable in principle, subject to scrutiny of the possible costs and repercussive effects of removing existing pay and grading rigidities.

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DRIVER AND VEHICLE LICENSING DIRECTORATE

The agency

1. The Driver and Vehicle Licensing Centre at Swansea together with 53 local offices is responsible for the registration and licensing of drivers and vehicles in Great Britain, and the collection of Vehicle Excise Duty. It employs 5400 staff and last year cost £113 million. The information it supplies to the Police on vehicle registration marks, including a daily copy of the register, is of great importance to law enforcement.

Relationship with the Department

2. The Agency would be supervised by a Directing Board appointed by the Permanent Secretary and including representatives of its major customers (the Department, Treasury (for VED) and Home Office (on behalf of the Police). The Board would retain decisions powers on major capital investment, the annual budget, the Corporate Plan, and other strategic decisions within a financial framework agreed with the Department and approved by Ministers. The framework would prescribe standards of service, unit cost targets and the level of VED enforcement. The Chief Executive would be responsible for managing the agency, reporting through the Deputy Secretary (Chairman of the Directing Board) to Ministers.

Benefits of the Agency Approach

3. The objective is to enable DVLD to continue to increase in effectiveness and efficiency. To improve the standard of service to the public and to Government Departments (including the Police) by achieving sustained improvements in productivity greater than those likely to be possible within the existing Civil Service regulations. The aim would be a net gain of 2% productivity over 5 years, in addition to that otherwise achievable.

Changes sought

4. The changes needed to achieve the benefits sought are:

(a) a financial structure which would focus and motivate management to improve the return on assets and the cost-effective use of resources. This would include the adoption of accrual accounting, capital reserves and funding of capital investment from income or borrowing from HMG, the introduction of a fee for vehicle registration; also 'fees' to the Agency from central funds on an agreed basis for VED collection and enforcement;

(b) increased delegation to the Agency of such matters as dismissal, grievance procedures, and some freedom from

Civil Service grading and annual reporting procedures; authority to establish incentive payment schemes to reward excellent performance;

(c) the Chief Executive of the Agency to have authority to negotiate with the Trade Unions on all matters delegated to the Agency.

Accountability

5. Ministerial responsibility for policy will remain unchanged. Ministers would be able to delegate responsibility for responding in the first instance to correspondence from MPs and others on individual cases which do not involve policy. The responsibilities of the Accounting Officer will remain unchanged.

Outstanding issues

6. The nature of the financial structure, the adequacy of the policy and resources framework, the position of the agency within vote accounting, and the degree of delegation of personnel management and industrial relations all require furhter discussion between the Treasury and the Department. DTp and the Treasury recognise that the introduction of a fee for VED collection and enforcement is a particularly difficult issue, and its implications need to be fully examined.

Timing

7. 1 April 1989.

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VEHICLE INSPECTION AGENCY

The Agency

1. Vehicle Inspectorate checks the roadworthiness of Britain's 20m road vehicles through annual testing, spot-checks, accident investigation and inspection of operators' premises. It is mainly demand-led with an annual turnover of £32m (97% covered by fees); 1500 staff and 91 testing-stations throughout Great Britain.

Relationship with the Department

2. The Department as "customer" will define precisely the level and type of vehicle safety activity required. Ministers will set requirements and targets. The agency will be managed by a small Directing Board with some outside members and decision powers on major capital investment, the annual budget, preparation of the Corporate Plan and other major strategic decisions within a financial framework set by Ministers. Financial structure similar to a nationalised industry with capital debt, an EFL and performance indicators.

3. Management of the agency delegated to the Chief Executive who will report through the Deputy Secretary (as Chairman of the Directing Board) to departmental Ministers.

Benefits of the Agency Approach

4. To maintain and further develop cost-effectiveness and in particular add to present efficiency savings by a further 2% over 5 years. Thereby to meet Ministers' targets to improve vehicle safety, to minimise fee increases and to respond to customers requirements for speed and ease of testing.

Changes Sought

5. More appropriate planning, manpower and investment framework needed. Move from gross running costs to unit cost control in April 1988 as first step. Thereafter incorporate as a trading fund in April 1989 with accrual accounting, capital reserves and funding of capital investment from internal resources or borrowing from HMG, and establishment of arrangements including incentive payment schemes designed to reward excellent performance.

Accountability

6. Ministers will continue to be accountable to Parliament for the agency. MPs will be encouraged to deal direct with the agency on individual cases and Parliamentary Answers will make clear the management accountability of the Chief Executive.

Outstanding Issues

7. A firm decision is needed on trading fund status. The nature of financial arrangements to reward good performance by the agency and its staff, the appropriate flexibility over recruitment, grading, pay and dismissal of staff, and the change in responsibility for industrial relations require further discussions between Treasury and the Department. Ministers will need to settle the scope of, and control over, the freedom to take on new business to spread overheads.

Timing

8. Move outside gross running costs April 1988. Move to trading fund financial and organisational arrangements by April 1989. Incremental development of manpower arrangements.

CONFIDENTIAL

THE PASSPORT OFFICE

The Agency

The objectives of the agency are to provide travel document facilities in the UK under the Prerogative to all qualifying British nationals either direct or by Post Office agency agreement and, from fee income, to defray issue costs and contribute to non-fee bearing FCO consular operations abroad.

Relationship with the Department

2. A chief executive would be accountable for the execution of an annual contract within a rolling 5 year plan. The Home Office would retain responsibility for budget setting, productivity targets, standards of service and product format/content. The chief executive would, within budget, fix complements; exercise all personnel responsibilities (including for dismissal) in respect of clerical grades; determine productivity bonuses (within Treasury rules); negotiate local pay addition schemes directly with Treasury; and have autonomy over accommodation. He would be accountable for achieving his planned targets and would be answerable publicly (including directly to MPs and by means of a published annual report) for his responsibilities. Ministers would be accountable for the budget and targets etc. only, and would not be answerable for ordinary operations. Supervision would be exercised by a Grade 3 in the Home Office Immigration and Nationality Department who would lead the annual contract negotiations and act as policy adviser to Ministers.

Benefits of the Agency Approach

3. To establish an autonomous operational agency with clearer managerial targeting and accountability as the best way of improving customer service.

Changes Sought

4. There would be two: relaxation of current rules on use of fee income to respond to unbudgeted demand by self-financed measures (at present fees go straight to Consolidated Fund); and revision of accounting officer conventions so far as budget execution concerned.

Accountability

5. Ministers would be accountable for policy issues, budgets and targets but the chief executive would be answerable for operational matters. This would include dealing directly with MPs. The Permanent Secretary would remain Accounting Officer.

Outstanding issues

6. Treasury would need to agree changes in rules on treatment of fee income, and changes would also require formal Parliamentary approval. So long as the agency remained within the department, normal vote accounting would mean that any increase in total voted expenditure would need to be approved by Parliament.

7. Union resistance likely to sharper management accountability with more direct powers. Volatile industrial relations could jeopardise smooth transition and put £8m computerisation scheme (1988-1990) at risk.

Timing

8. For progressive introduction with completion 1 April 1991.

HER MAJESTY'S STATIONERY OFFICE

The Agency

1. HMSO is already an executive agency by virtue of its Trading Fund status. It exists to meet the printing, publishing, stationery and office machinery requirements of Government, Parliament and other public sector bodies. It employs 3350 staff and has an annual turnover of £320m.

Relationship with the Department

2. HMSO is a free-standing department. The Controller reports direct to the Paymaster General and is the Accounting Officer. Each year HMSO produces a 5-year Forward Plan which sets out the corporate financial strategy and the assumptions about external factors on which it is based. This plan is agreed by Ministers and the Treasury.

3. Because HMSO is not part of a larger department the question of division of responsibilities between the agency and the department takes a different form from most agencies. It is a question of developing the accountability inherent in present arrangements whereby the Treasury's annual review of the Forward Plan enables it to offer the Paymaster General independent advice on the policy framework of the Trading Fund.

Benefits of the Agency Approach

4. HMSO has already reaped considerable benefits from moving to Trading Fund status. It has met its financial targets every year, whilst reducing its manpower and improving value for money to the taxpayer. Manpower has reduced from 6300 and productivity per employee has risen from £43000 to £95000 since 1980. HMSO is convinced that with greater managerial freedoms it will be able to make further substantial progress in improving efficiency and effectiveness, including possibly a further 15-20% reduction in manpower costs over the next 5 years.

Changes Sought

5. HMSO wishes to put forward an alternative pay structure more suited to its commercial orientation. The aim would be to make career progression and remuneration more closely related to specific job performance. This might include a pay spine similar to that agreed with the IPCS, with the emphasis being on jobs rather than grades and with flexibility to adjust job values according to the incumbent. Annual uprating of the pay spine would be linked to HMSO achieving its budgeted objectives.

Accountability

6. No changes are proposed to the existing arrangements. The Chief Executive is directly answerable for the management of the Trading Fund and the small residual Votes. The Paymaster General is responsible for the small number of PQs and Minister's cases.

Outstanding Issues

7. The extent of Treasury involvement in advising on policy issues needs clarification. The Treasury is ready to discuss with HMSO the possibility of moving to more flexible pay arrangements regardless of whether the Next Steps exercise proceeds.

Timing

8. Since no legislative, constitutional or financial changes are necessary the new regime could be introduced during 1988, subject to resolving the points in paragraph 6 above.

CC81

Management in confidence
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MR WICKS

The Next Steps

I am sending you herewith what I hope is the final draft of the papers which will be circulated for discussion at the Prime Minister's meeting on 22 October, in case she has time to read them during this trip.

2. I shall also be letting you have a brief for the meeting, which will (I hope, given the weight of this material) be indeed brief.

3. The main issue for the meeting is covered in paragraphs 24 to 30 of my note. The rest is really background.

4. I should of course be very ready to discuss this with the Prime Minister, if she wished and if opportunity arose.

RA

11th October 1987

CONFIDENTIAL

Draft of 9 October 1987

IMPROVING MANAGEMENT IN GOVERNMENT - THE NEXT STEPS

Note by the Head of the Home Civil Service

Introduction

The main recommendations of the Next Steps report, which Ministers discussed at the last meeting of the group on 9 July, were as follows:

- To the greatest possible extent the executive functions of Government (essentially those responsible for delivering services) should be carried out by agencies, with responsibility for day to day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister. This would entail a greater distancing of Ministers from day to day operational management, and a change in the way in which accountability to Parliament in respect of the agencies was discharged.

- Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective

progressively, agency by agency, over a definite and limited period (say, five years).

- Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

- There should be a force for improvement at the centre of Government which would maintain pressure on departments to improve and develop their operations, and a "project manager" at a senior level to ensure that the programme of change took place.

2. At their meeting on 9 July, Ministers asked for individual examples of agencies to be developed by each of the departments concerned, to illustrate how the Next Steps proposals could be applied in practice, and to be the basis for an experimental start to a "Next Steps" programme. They were concerned about the possible reaction of Parliament to the changes in accountability which were inherent in the proposals, and which would be seen as diminishing the scope for and effectiveness of Parliamentary scrutiny. Ministers asked for further thought to be given to the presentation of

the approach to Parliament: it would be desirable to present developments without drama, and to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies from becoming pressure groups for more expenditure.

3. Work has gone ahead on the development of agency proposals by departments. Each of the departments represented at the last Ministerial meeting, with the addition of the Department of Trade and Industry, Department of Transport and the Ministry of Agriculture, Fisheries and Food, has nominated at least one area of the department to be looked at for development as a potential agency. Each department has worked with the Efficiency Unit on the details of its agency structures and has had consultations with the Treasury and the MPO/OMCS. The new Employment Service will start to function as a distinct part of the Department of Employment from 26 October 1987, though other changes will need to take place before it can be described as an "agency" in the sense of the "Next Steps" report. In most other cases more work will need to be done before the responsible Ministers can take a decision, in agreement with the Treasury, whether

to proceed with individual agencies. A Working Group under my chairmanship has been considering the implications of the departments' proposals for the central management of the Civil Service and for the control of public expenditure.

The Proposed Agencies

4. The areas proposed and studied for development as agencies are:

MAFF:	Agricultural Development and Advisory Service (ADAS);
MOD:	Meteorological Office
	Defence Non-nuclear Research Establishments
DE:	Employment Service
DOE:	Royal Palaces
PSA:	The Queen Elizabeth II Conference Centre
DHSS:	Resettlement Units
DTI:	Companies Registration Office (CRO)
DTp:	Driver and Vehicle Licensing Directorate (DVLD)
	Vehicle Inspectorate
HO:	Passport Office

Chancellor's Dept: Her Majesty's Stationery Office (HMSO)

The details of each agency are being circulated separately. It is envisaged that these agencies would all remain within the Civil Service, at least initially (in a few cases, the possibility of moving an agency outside the Civil Service is raised as an option for later, but no decisions of this kind are required now). This should help to minimise the risk of the agencies becoming pressure groups for more expenditure, since the policy and resources framework would remain firmly the responsibility of departments and their Ministers. A civil servant head of an agency would not be able to encourage public pressure for additional resources for the work of the agency.

5. Special legislation would not be needed for setting up these agencies, because their employees would remain civil servants. Legislation for other reasons might in some instances be necessary: for example, creation of the Employment Service ~~agency~~ is the subject of legislation this Session. Legislation might also be required at some stage for some types of modifications to the structure of

Treasury financial controls, if changes in this area are agreed. But it should be possible to embark on an initial programme of agency creation on the basis of these proposals, without the need for legislation.

6. Specific benefits to come from the agency approach have already been identified. For example, the Department of Transport consider that a new financial structure and greater authority on personnel matters for the DVLD would lead to a net gain of two per cent productivity over five years. HMSO believe that flexibility on pay and grading for administration grade staff would enable them to increase their efficiency savings by a factor of three. The Department of Employment consider that flexibility to pay differential rates within their existing pay bill will enable them to deal with endemic staff shortages. In most cases departments believe that changes in the forms of departmental and Treasury control, together with a diminution in Ministerial involvement in day to day operations, will give agency management the opportunity to improve the efficiency of their operations, though some departments consider that the scope for improvement will be limited and the advantages will

be insufficient to justify change, unless Parliament accepts the need for a significant reduction in the burden of parliamentary scrutiny and unless there can be greater flexibility in pay and financial controls than they believe the Treasury to be ready at this stage to contemplate. Departmental management would concentrate on the broad framework of policy, the annual allocation of resources and the setting of performance targets to be met by the agency; the agency management would be responsible for the job to be done within this policy and resource framework. Each agency would have to be an individual structure with controls and delegated authorities designed specifically for it, and conditional on the establishment of a rigorous and effective management framework, and the effective containment of any repercussions.

7. There are risks in adopting the agency approach. Pay settlements which led to a substantial increase in the efficiency of particular agencies could still be contrary to the national interest if they raised the general level of settlements elsewhere. Modified financial control arrangements which were clearly justified for an individual agency could create serious

problems for the management of public expenditure if they were applied beyond the purpose for which they were designed. We have been unable to identify any certain ways of preventing the new agencies from becoming pressure groups for more expenditure - either through pressure to increase pay or pressure to maintain and expand existing operations. The more rapid and publicised the move, the greater the risks. The best chance of minimising these risks would lie in tight definition of objectives, a firmer control over running costs, care with senior appointments - and a declared determination to remove agency heads who failed to deliver targeted efficiency improvements.

Accountability

8. The "Next Steps" approach depends upon effective control of the delivery of services through a framework of policy, resources and results required, set for an agency by the responsible Minister. As Ministers recognised at the meeting on 9 July, this has implications for Ministerial accountability to Parliament generally, for the handling of correspondence and Parliamentary Questions from MPs, and for the flow of information to MPs and the public.

9. Ministers' formal accountability to Parliament would be unaffected. Ministers would remain fully answerable for policy objectives and for resource allocation. But once the executive task had been delegated, as a general rule Ministers would not expect or be expected to get involved in operational issues. This position would be easier to maintain if a public statement could be made of ~~the framework within which responsibility has been delegated to the head of the agency.~~ The detachment of Ministers from day-to-day operations would entail changes in the way in which accountability to Parliament was discharged, which Parliament might well see as a reduction in the extent of their ability to scrutinise the work of the agencies. ~~When an individual agency was established, the Minister concerned might want to announce publicly~~ the extent to which day to day operational matters were being delegated to the agency management, together with some indication of the policy framework being set.

10. If Ministers were to be seen to be more detached from day to day operations than at present - which is an essential feature of the "Next Steps" approach - this would have to be reflected in the

handling of MPs' cases and questions on such matters:

- As a minimum, Ministers would need to reply to MPs in terms of, "I am informed that ...", together with a report from the agency and a formula explanation that the matter was for agency executive management within the Ministerial policy framework (unless of course the case provoked a change in the management or a review of the framework itself).

- In addition, Ministers could choose to encourage MPs to approach agency managers direct as part of the public announcement of the establishment of the agency. MPs who insisted on a Ministerial reply on an operational matter would receive one along the lines indicated above.

- If a case raised doubts about the fulfilment of the policy objectives set by Ministers, the Minister would need to take a view based on a report from the agency management; if he was dissatisfied, his recourse should be <u>via</u> management change or review of the framework,

but not through a direction to agency management to change the way a specific operational case within the framework of delegation should be handled.

This approach would build on current practice whereby in some areas MPs as well as the public approach, and are encouraged to approach, the officials directly reseponsible on operational matters in the first instance. Ministers will need to judge whether that would be acceptable to Members of Parliament.

11. The presentation of these changes to Parliament would need careful handling, both initially and for each agency individually. The overall approach could be presented as improving the flow of information, by virtue of published statements on policy frameworks which would give more information than before at the strategic level, and direct access to agency management which would give a speedier response on day to day operations.

12. The permanent head of department as Accounting Officer would continue to be answerable to the

Public Accounts Committee (PAC). The Chief Executive of an agency would normally also attend the PAC with the Accounting Officer, so that he could answer questions about the exercise of his own responsibilities. Departmental Select Committees would be encouraged to look to agency Chief Executives for evidence on matters within their delegated responsibility, and to Ministers and senior departmental officials for evidence on the policy and resources framework.

13. The description of each scheme for the agency incorporates a brief account of the specific accountability implications. It would be necessary for departmental Ministers to agree detailed procedures and allocations of responsibility before individual agencies were set up. Public announcements of the establishment of individual agencies would need to make clear any changes intended by Ministers for the handling of MPs cases and questions (along the lines indicated in para 10 above).

The Management Framework

14. The preliminary work on the pilot scheme has shown the extent to which more work will be

necessary before they are ready to be fully fledged agencies. In some cases the proposed agencies are already distinct organisations with their own management style and structure, notably DVLC, CRO and HMSO. In other cases, for example the Employment Service or the Research Establishments, a new organisation is being constructed, building on the existing organisation but with a great deal of planning and development to do.

15. Work has been done on the main areas where departments consider greater delegated authority is necessary to give the management of an agency real responsibility. There is considerable confusion and even ignorance about the precise details of possible delegation under existing rules within departments and between departments and the Treasury. It may be possible for departments to agree with the Treasury on additional delegations to agencies within the existing Treasury rules. But there are a number of cases where departments consider that delegations which go beyond the limits of existing Treasury rules are essential if they are to make a reality of the benefits in improved management and efficiency which would come with agency status.

Pay and management

16. On pay and management it is already the Treasury's strategy to develop from the previous Service-wide approach to a more flexible and better-oriented system. This is described in Appendix 1. Substantial progress has been made in recent years: Special Pay Additions, the IPCS Agreement, the development of performance pay and the newly-announced Local Pay Additions are all examples. The objects of the strategy are:

- to keep control of running costs, in particular the pay bill, in order to provide essential support for public expenditure control, and

- to maintain the coherence of the pay system,

- while at the same time moving to meet more closely the different needs of different parts of the Service where that can be done without prejudice to the remainder.

Provided that controls over running costs and the pay bill can be maintained (and if possible strengthened) the Treasury is keen to increase the flexibility of the pay system further, bearing in

mind always its responsibility for controlling the pay and conditions of the Civil Service.

17. It has been suggested that there would still be too many constraints on an agency Chief Executive who would lack the same scope as his private sector counterpart to reward increased productivity, balance pay rates against manpower numbers within his overall pay bill and compete in the market for scarce labour resources. There are, however, reasons why each proposal for a change in the pay regime needs to be considered by the centre:

i. pay policy has macro-economic implications, not least because of the example effect on the private sector;

ii. pay is an important element of public expenditure (and of running costs) and one where increases are hard to reverse;

iii. even if higher pay can be offset by productivity gains in some agencies, there is the danger that higher costs will consequently spread to the rest of the Civil Service and

add to total expenditure;

iv. agencies cannot be allowed to solve their personnel problems by exporting them to the rest of the Civil Service (eg by poaching scarce skills from other departments);

v. questions of propriety may come up, such as the use of tax-efficient remuneration; and

vi. the industrial relations implications of the proposed changes could be wide-ranging. The attitudes of unions and of staff would not necessarily be hostile but certainly could be, given the mood the Service is in.

18. There is a crucial judgment to be made as to whether the agencies would be better able to resist union pressure than the Treasury, with its concentrated bargaining power. There would be a danger that it would be more difficult for the Government to resist the sort of pressures that would come from unions seeking to play one agency off against another. In general the more specific to an organisation is the work of its staff, the easier the jobs will be to ring-fence and the

stronger will be the case for the delegation of detailed pay controls. Smaller blocks of staff will be easier to ring-fence than large blocks. Subject to these considerations the Treasury is ready to discuss with departments the pay regime and grading structures which they would like to see introduced.

Senior Appointments

19. All Chief Executive appointments at Grade 3 or above would be made under the present procedures for Grades 1 and 2, which require the approval of the Prime Minister on the recommendation of the Head of the Home Civil Service (after discussion with Senior Appointments Selection Committee and consultation with the departmental Minister concerned). Where non-civil servants were appointed to senior posts, it would be possible to use fixed term contracts as Ministers envisaged at the last meeting, though higher salaries would probably be needed to compensate managers for the risks involved. Existing civil servants could also be appointed for fixed terms. Under present rules this would have to be on the basis that the individuals concerned would be reabsorbed by their

department; it would be necessary to develop surrogates for the risk/reward nature of fixed term contracts within Civil Service pay and conditions structure.

Financial Flexibilities

20. Most of the agency proposals seek some freedom from the present controls over public expenditure and running costs, eg allowing agencies to switch expenditure allocations between years; to spend additional receipts; to pursue investment plans outside normal expenditure control; or to be exempt from running cost controls. Some departments feel that, in particular cases, the decision whether it is worth proceeding with an agency will depend on the availability of such freedoms.

21. The present controls are in place in order to deliver Ministers' objectives for the control of public expenditure (including the Government's own running costs) and to meet Parliament's own requirements for the control of spending by the Executive. Considerable flexibility is possible within them: details are at Appendix 2. Particularly where the agency is trading, these

offer considerable scope for meeting departments' requirements.

22. The Treasury is willing to examine the scope for extending this flexibility if departments can show that - coupled with the policy and resource framework for the agency - this would make for greater efficiency and effective overall control. This can be pursued both in the forthcoming review of end-year flexibility and in looking at particular cases for exemption from gross running costs control. It would however be premature to lift existing controls until other equally effective disciplines can be put in place. While some specially tailored arrangement might be thought appropriate in the circumstances of a particular agency, any irrevocable step to make it more extensively available would need careful examination. It would be necessary to ensure that any wider freedom to carry money forward did not jeopardise the Government's ability to control aggregate annual expenditure; and that further exemptions from running costs controls (or freedom to increase expenditure to match receipts) did not start to reverse the reduction in the size of the Civil Service. And whatever arrangements are made

for operational flexibility, the costs of all Government activities will still need to be brought together in the public expenditure plans so that Ministers can decide priorities between them.

23. Any significant new flexibility, including any variation in normal Parliamentary vote accounting (like the suggestion that parts of departments should be financed by non-surrenderable grant-in-aid) would require the agreement of Parliament. In presenting any such proposals, Ministers would want to be satisfied that they did not appear to be undermining the Government's or Parliament's control of spending.

Conclusion

24. The essential elements of the "Next Steps" approach are:

- commitment to a positive, deliberate, and rapid programme of developing the executive areas of government - those which essentially deliver services - as agencies;

- increased delegation of authority by

Ministers, and changes (which would be seen as diminutions) of accountability to Parliament for the operations of agencies;

- increased flexibility in relation to Treasury controls of pay and expenditure;

- management training and career planning to develop staff to manage agencies;

- a central capacity (the "project manager") answerable through the Head of the Home Civil Service to the Prime Minister for co-ordinating, steering and driving forward the process of change.

The approach would build on what has already been achieved in improving management efficiency, but would be, and would be intended for presentation as, a coherent and interlinked package of improvements and a step change.

25. The proposals in this note for developing twelve areas of executive government as agencies are, we believe, feasible without legislation. Because the agencies would be in effect discrete

parts of departments, their staffs would continue to be civil servants, and changes in accountability would not be very substantial or conspicuous. The implementation of these proposals might therefore reassure Parliament about the "Next Steps" approach rather than raise alarm about it, and thus provide a basis from which to carry forward the programme and develop further agencies.

26. The proposals could be seen and presented as the first fruits of a decision to implement the "Next Steps" approach, with the appointment of a project manager to provide the expression and guarantee of an intention to pursue the approach with determination and to be ready to accept risks in order to achieve results.

27. On the other hand the proposals have been selected and devised so that they can be presented without drama. Because of this they would by themselves be unlikely to yield or demonstrate the full benefits or to confront all the risks and problems of the full-blown "Next Steps" approach. They could thus be described, more modestly, as an evolution of existing management trends in the direction of the "Next Steps" approach, rather than

as the first phase in the implementation of that approach. In that case, though there would probably need to be some capacity in the Office of the Minister of the Civil Service for co-ordinating and monitoring the development of these and any future agencies, it would be difficult to justify the creation of a "project manager" at Permanent Secretary level.

28. This seems to me to be the political choice which Ministers now need to make. The existence and nature of the "Next Steps" report is unofficially known to the Civil Service unions, and to some extent to the media. Against that background, and the detailed proposals for agencies now put forward, Ministers can either -

- commit the Government wholeheartedly to the "Next Steps" approach, announce the detailed proposals as the first stage in implementing it, accept the potential risks as the price of achieving results, and proceed to the appointment of a project manager as the expression and guarantee of their determination to press forward with the approach; or

- announce the detailed proposals as an evolution of existing management trends in the direction of the "Next Steps" approach, but indicate that they propose to reserve a decision on whether to commit themselves to the definite and comprehensive adoption of the "Next Steps" approach until they have had experience of the working of the agencies now proposed, and not in the meantime to appoint a "project manager".

29. The first course would be seen and could be presented as a firm decision to accept the logic and challenge of the "Next Steps" approach and to pursue it to its conclusion, facing and being ready to confront the risks of Parliamentary suspicion and hostility and taking (while seeking to avoid) the risks of loss of effectiveness of controls over pay and expenditure. The second course would minimise the risks of arousing Parliamentary hostility at this stage (and thus offer the prospect of outflanking rather than confronting Parliamentary objections) and would reduce the risks of loss of effectiveness of controls over pay and expenditure; but it would be in danger of being

seen as missing an opportunity and shirking a challenge; as in effect a decision to shelve the "Next Steps" approach, since without the degree of commitment implicit in the first course there would probably be insufficient impetus to overcome the forces of inertia.

30. On the choice which Ministers make between these two courses will depend the direction of further work and the nature of an announcement. I will make proposals for further work and suggest a draft announcement in the light of Ministers' decisions.

Cabinet Office

October 1987

16 CF

OK. NW

Nigel

Next Steps Meeting: 22 October

Lord Young is unable to attend this meeting as he is in China then. CSR will stand in for him.

IG.

7/10

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

2 October 1987

This is just to let you know that the meeting of Ministers to discuss the next steps on Thursday 22 October will take place after Cabinet.

Cabinet will start at 1000 on that day.

I am copying this letter to the Diary Secretaries to the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, Employment, Environment, Trade and Industry, Agriculture, Transport, Health and Social Security, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal, the Chief Secretary, Mr. Luce (Office of the Arts and Libraries), Trevor Woolley (Cabinet Office) and Sir Robin Ibbs.

Mrs T Gaisman

Anthony Dight, Esq.,
H. M. Treasury

file

088

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 October 1987

Further to my letter of 8 July, I confirm that I have re-arranged your Value for Money Seminar for Monday 28 March 1988 at 1600 hours.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

Tim Walker, Esq.,
Department of Trade and Industry.

088

Ref. A087/2495

MR WICKS

Ministerial Group on Deregulation

Following your letter of 7 August attap to the Secretary of State for Trade and Industry's Private Secretary, I have discussed with the Secretary of State the composition of the reconstituted Group which the Prime Minister has approved.

2. Lord Young entirely agrees that the Ministry of Agriculture should be represented not by Minister but by the Minister of State (Mr Gummer). He also agrees that there need be only one Treasury Minister and that he should be the Financial Secretary to the Treasury (Mr Lamont). We have also agreed that the Scottish Office should be represented by Mr Lang and not by Mr Forsyth.

3. I have accepted Lord Young's offer that a member of his Enterprise and Deregulation Unit should assist members of the Cabinet Office with the duties of the secretariat.

4. I am proceeding with the formal reconstitution of the Group accordingly.

RCA

ROBERT ARMSTRONG

3 September 1987

GOVT MACH : Rayner PT24

cc PS
nbpm

HOME SECRETARY

QUEEN ANNE'S GATE
LONDON SWIH 9AT

28 August 1987

Dear David, Alan

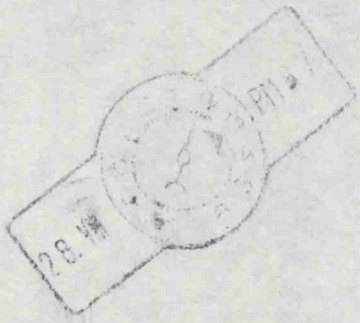
I have seen your minute of 24 July to the Prime Minister and the observations of other colleagues. I also agree that it would be useful to reconstitute the Ministerial Group on deregulation, and confirm that Tim Renton should represent the Home Office. I am copying this letter to the Prime Minister, members of the Cabinet, Richard Luce and Sir Robert Armstrong.

Yours,

Douglas.

The Rt Hon The Lord Young of Graffham

GOVT MACH: Rayner PT24.



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

Secretary of State for Trade and Industry

24 August 1987

Sir Geoffrey Howe MP
Secretary of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Downing Street
London SW1A 2AL

Dear Geoffrey,

Thank you for your minute of ~~30~~ 31 July about deregulation. I should of course be pleased to have Lynda Chalker receive all papers circulated to the proposed Ministerial Group and to attend meetings when the EC angle is relevant.

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

Yours,

LORD YOUNG OF GRAFFHAM

JG3BHW

GOVT MACH: Gayer PT26.

RESTRICTED

MS0284t

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Minister of State for Social Security and the Disabled

The Rt Hon the Lord Young of Graffham
Secretary of State for Trade and Industry
1/19 Victoria Street
LONDON
SW1

11 AUG 1987

Dear David,

DEREGULATION

I have seen a copy of your minute of 24 July to the Prime Minister.

I agree that we must maintain the impetus on deregulation. I hope that one of the first tasks of the new Group will be to come forward with positive proposals for new areas to be examined as well as ensuring that the monitoring arrangements continue to be effective.

In embarking on the next phase of deregulation activity we shall need to recognise that, while a great deal has already been achieved, a fair proportion of the action taken has been in less contentious areas. If we are to make further substantial progress, we shall have to tackle the more radical and therefore controversial and potentially difficult issues.

Michael Portillo will be pleased to be a member of the Ministerial Group on Deregulation and we shall play a full part in its work.

I am copying this letter to the Prime Minister, members of the Cabinet, Richard Luce and to Sir Robert Armstrong.

Yours ever,

Nick.

NICHOLAS SCOTT

file X16

SUBJECT cc MASTER

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

7 August 1987

Dear Tim,

DEREGULATION

The Prime Minister had a short discussion this morning with your Secretary of State about his minute of 24 July in which he suggested that the Ministerial Group on Deregulation should be reconstituted in order to focus and co-ordinate the measures for deregulation and to be responsible for carrying them forward.

The Prime Minister said that she could agree to the proposals in your Secretary of State's minute and to the reconstitution of the Group with the terms of reference suggested in paragraph 4 of his minute.

There are one or two detailed points on the composition of the Group, which Sir Robert Armstrong will discuss with you.

I am copying this letter to the Private Secretaries to the members of Cabinet, Richard Luce and to Sir Robert Armstrong.

Yours sincerely,

Nigel Wicks

N. L. WICKS

Timothy Walker, Esq.,
Department of Trade and Industry.

X16

D10

RESTRICTED

cc BG

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

4 August 1987

attach

CF
Could I see the Lord Young
reply before I leave for PM.

Dear Secretary of State

IN PM'S BOX? — Yes.

I have seen your minute of 24 July to the Prime Minister about the Ministerial Group on deregulation.

I am content with your proposal and, more specifically, I agree with your suggestion that we should be represented on the proposed reconstituted Ministerial Group.

Your proposed membership lists Michael Forsyth as the Scottish Office representative. I think it might be more appropriate for Ian Lang to be the formal Scottish Office representative although Michael and other Scottish Office Ministers might attend the Group if subjects of relevance to their areas of responsibility were being discussed.

I am copying this letter to all members of Cabinet, to Richard Luce and to Sir Robert Armstrong.

Yours sincerely

Andy Rifkind

for MALCOLM RIFKIND

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

EML21508

RESTRICTED

GONT MACH. Rayer PT24

CYB/MP

PRIME MINISTER

DEREGULATION

Lord Young proposes that the Ministerial Group on Deregulation be reconstituted (Flag A). Advice from Sir Robert Armstrong is at Flag B. He suggests that you may like to have a word with Lord Young before deciding to reconstitute the group. A suitable opportunity to do this would be Thursday's meeting, when Lord Young is coming to see you to talk about the Chairmanship of the Post Office.

M E ADDISON
4 August 1987

Ref. A087/2306

MR NORGROVE

Deregulation

You asked for my advice on Lord Young's minute of 24 July to the Prime Minister which proposes that there should be a reconstituted Ministerial Group on deregulation under his chairmanship to focus and co-ordinate measures on deregulation and to be responsible for carrying them forward.

2. Although the proposed terms of reference have been revised, this would in effect amount to a revival of previous Ministerial Groups on deregulation chaired by Lord Young (MISC 114 and MISC 121) which led to the White Papers "Lifting the Burden" and "Building Businesses ... Not Barriers" published in the summers of 1985 and 1986 respectively.

3. Although there is always some danger of a Group like this becoming too involved in detailed departmental issues, I should not wish to advise against it if Lord Young thinks that it would be useful and is satisfied that it is likely to make early progress. If the Prime Minister is herself content with the proposal - and she may wish to have a word with Lord Young before finally deciding - I will make the necessary arrangements for the Group from the Cabinet Office.

4. On points of details, it would be helpful, as with the previous Groups, for the Enterprise and Deregulation Unit to assist with the Secretariat duties. On membership, I am not quite clear why two Treasury Ministers are suggested - it should be sufficient for the Financial Secretary to be a member - and I imagine that Lord Young had intended to nominate the Minister of State at the Ministry of Agriculture, Fisheries and Food rather than the Minister himself: apart from Lord Young himself, there are no other Cabinet Ministers proposed.

RA

3 August 1987

ROBERT ARMSTRONG

COLT MK44

RAYNER

PT24

3361/22

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CABG

FINANCIAL SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

31 July 1987

Dear David

DEREGULATION

I have seen your minute of 24 July to the Prime Minister.

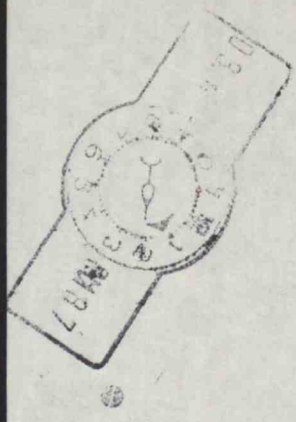
I agree that it is worth reconstituting this Ministerial Group to ensure that the deregulation initiative does not lose its impetus, and to complement the work on wider competition initiatives in E(CP).

On the question of representation, I think it would be unnecessary for both Peter Brooke and myself to be included in the Group. I would be happy to be the Treasury member though of course Peter could attend whenever Customs' issues are to be discussed.

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

Yours

NORMAN LAMONT



GOUT MACH

RATNER

PT24

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FCS/87/172

SECRETARY OF STATE FOR TRADE AND INDUSTRY

Deregulation

1. Thank you for sending me a copy of your minute of 24 July to the Prime Minister.

2. I support your plan to reconstitute a Ministerial Group on Deregulation. But I think there would be advantage in Lynda Chalker attending meetings where the subject matter has an EC angle. I see no inherent conflict between completion of the Community's internal market and our efforts to promote deregulation; but there may be occasions when the Group should discuss the potential impact of particular EC directives on business, and our best negotiating tactics in Brussels, and it would clearly help if FCO Ministers were fully involved in such cases.

3. It follows that I should like Lynda Chalker to see all papers circulated to the Group, and to attend meetings when the EC angle is relevant. I hope you can agree.

4. Copies of this minute go to the Prime Minister and Sir Robert Armstrong.

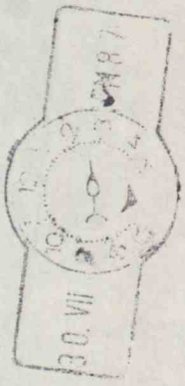
(GEOFFREY HOWE)

Foreign and Commonwealth Office
30 July 1987

GOLT MATH

RAYNER

PT 24



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBIN IBBS

THE SCRUTINY PROGRAMME
THE 1986/87 PROGRAMME

The Prime Minister was grateful for your recent minute about the outcome of the 1986/87 scrutiny programme. She is grateful to the Unit for all the work which clearly they have put in to producing this encouraging report.

I am copying this minute to Sir Robert Armstrong.

N.L. WICKS

28 July 1987

c/c RTA (carol)
+ return

Prime Minister
A good report.
N.L.W.
27.3

PRIME MINISTER

THE SCRUTINY PROGRAMME

The 1986/87 Programme

My report last year on the 1985/86 scrutiny programme noted a substantial improvement over the programmes in the two preceding years. Indeed, it was the second best year ever. Further improvement was achieved in 1986/87. As always, the programme contained a wide mix of topics of varying importance. However, the proportion of significant topics and successful scrutinies continued to increase.

The 1986/87 programme contained 26 scrutinies, of which 21 are now complete. Recommended savings in expenditure or increased revenue so far total £139m a year (details are at Annex A). This already exceeds last year's total and there are still 5 scrutiny reports to come. Moreover there are several management scrutinies that, while not leading to immediately identifiable direct savings, should provide substantial benefits and enable much more output to be derived from spending.

One of these is the Unit's own scrutiny on 'Improving Management in Government', which we have discussed already. In addition, there are two important scrutinies on Project Management - one in MOD and the other in PSA. The MOD scrutiny has just been completed and I hope that it will lead to improved management of the defence procurement process and so yield substantial benefits over the longer term.

The PSA scrutiny is almost complete and has been taking a timely look at how the PSA goes about its major construction business, against the background of the forthcoming moves which will make it have to compete with private contractors. I believe the recommendations will lead to improved performance and assist PSA to meet the pressures of competition.

However, quite apart from the new ground we are breaking on management improvements, the total figure of recommended savings shows that the scrutiny programme continues to provide the potential for major direct savings and increased revenue. Notable recent scrutinies of this type include:

- VAT Skills (C&E): this scrutiny recommended an improved training programme that it is estimated will build up to give a net return of some £69m in increased VAT revenue through tighter control and better quality staff.

- Liable Relatives (DHSS): This was a traditional scrutiny that looked afresh at an area of social security administration and came up with better ways of doing it that would save £15m per year. The Department has accepted all the major recommendations and implementation is proceeding well.

Implementation of the 1984/85 Programme

Implementation of accepted scrutiny recommendations from past scrutiny programmes is also improving.

Two years after completion of the 1984/85 scrutiny programme, about 55% of accepted savings have been achieved and a further 20% are to be achieved by the end of 1987/88 (details at Annex B). This compares with an implementation rate of only 30% at the same stage for the previous year's programme.

Notwithstanding this improvement, I remain concerned that there is still insufficient urgency in taking decisions on scrutiny recommendations and in implementing those that are accepted. It is not good enough that of savings recommended in 1984/85, 16% are still awaiting decisions and that a significant proportion of accepted savings have not yet been achieved.

Conclusions

The success of the scrutiny process over the past two years is encouraging. Scope for further substantial savings is still being identified. In addition, scrutinies are now being used to look at substantive management issues confronting Departments.

The increasing number of scrutinies successfully tackling sensitive and major issues of concern to Ministers, as well as the continued success of the more traditional scrutinies that examine administrative efficiency, demonstrate the continued viability and versatility of the technique.

The keys to the ongoing success of the programme are good topics, strong examining officers and a commitment from the top management of Departments that scrutinies should examine significant issues of concern to them and that they will act on the recommendations. Experience shows that it is these things that make for a good report and rapid implementation.

I shall be continuing to stress these things to Ministers and Permanent Secretaries as I meet them to discuss value for money targets and scrutinies. In particular, before accepting scrutinies into this year's programme, I shall be seeking a commitment from Ministers and Permanent Secretaries that each scrutiny subject is a substantive one of concern to them and that they are committed to speedy action to do something about it.

The eventual objective must be that the dynamic use of targets and scrutinies becomes a normal part of management in government. That is one of the aims of the recommendations in our recent 'Next Steps' scrutiny. Although there is some improvement we are still not there. For a while yet I see a continuing role for myself and the Efficiency Unit as an external stimulus to get better management.

I am copying this note to Sir Robert Armstrong.

Robin Ibbs
July 1987

ANNEX A

1986 SCRUTINY PROGRAMME : RECOMMENDED SAVINGS

Scrutiny	Gross Savings £m	Net Savings £m
Attendance Patterns (C&E)	-	-
Liable Relatives Procedures (DHSS)	15.0	15.0
Marine Survey Service (DTp)	2.5	2.5
Chief Highway Engineers (DTp)	0.5	0.5
Information Services (FCO)	0.55	-
School Reorganisation Procedures (DES)	1.125	1.087
Publications (DEn)	0.140	0.140
Taxation of Unemployment Benefit (IR)	21.300#	21.300#
Publications (IR)	0.500	-
National Measurement System (DTI)	4.630	4.630
Bilateral Aid Project Selection (ODA)	6.000	6.000
Admin Transport in FDR (MOD)	n/c	n/c
Role of Professional Services (PSA)	0.965	0.965
Probation Inspectorate (HO)	0.078	0.078
VAT Skills (C&E)	77.411*	68.955*
Project Management (MOD)	-+	-+
Meat & Livestock Comm. (MAFF)	7.884	7.884
Prison Maintenance (NIO)	n/c	n/c
Fisheries Protection (SO)	1.000	1.000
Community Care (WO)	n/c	n/c
Project Management (PSA)	n/c	n/c
Charities Commission (HO)	-	-
Dissemination of Patent Information (DTI/OAL)	-	-
Competitive Tendering (DHSS)	n/c	n/c
Planning Enforcement Appeals (DOE)	n/c	n/c
Improving Management in the Civil Service (EU)	-+	-+
Total	139	130

n/c : scrutiny not yet completed

\# : comprises £1.3m savings and £20m increased revenue

* : comprises increased revenue

\+ : major administrative recommendations - potential benefit still to be assessed

ANNEX B

1984 SCRUTINY PROGRAMME

ANNUAL SAVINGS

Scrutiny	Rec'd (£m)	Acc'd (£m)	Pend'g (£m)	Rej/Unobt (£m)	Implemented 86/87 (£m)	Implemented 87/88 (£m)
MAFF: Veterinary Investigation Service	0.984	0.530	-	0.454	0.184	0.530
NIO: RUC Buildings Maintenance	0.175	0.040	0.135	-	0.040	0.040
DOE: Urban Programme	-	-	-	-	-	-
DES: Open University	5.090	4.800	0.230	0.060	3.347	4.800
OPCS: Registration Service	5.000	0.062	1.083	3.855	-	0.062
FCO: BBC External Services	1.657	1.064	0.065	0.528	0.364	0.576
FCO: Furnishings for the Overseas Estate	0.400	0.400	-	-	-	0.100
DTI: Radio Investigation Service	5.600	5.600	-	-	3.800	3.500
ODA: Role of Development Divisions	-0.045	0.107	0.145	-0.227	0.107	0.107
TSD: Role of Litigation Division	-	-	-	-	-	-
HO: Police National Computer	-	-	-	-	-	-
IR: Archives	4.606	0.926	3.680	-	0.276	0.426
IR: Annual Repayments	4.000	-	1.700	2.300	-	-
DTp: Examination & Certification of Seafarers	-	-	-	-	-	-
C&E: Handling Enquiries	0.683	0.683	-	-	0.683	0.683
PSA: Govt Car Service	1.187	0.107	0.800	0.280	0.090	0.107
MOD: Manpower Control	-	-	-	-	-	-
MOD: Marine Services	18.430	6.500	-	11.840	2.479	4.447
	47.767	20.810 44%	7.838 16%	19.090 40%	11.370 55% of acc'd	15.422 74% of acc'd

RESTRICTED

PRIME MINISTER

DEREGULATION

When I reported in my minute of 28 April the progress we had made in our deregulation policy, I noted that we needed to be prepared for a renewed impetus in our third term.

2 You have since agreed that I should bring the Enterprise and Deregulation Unit with me to DTI and I have asked Francis Maude to assist me on deregulation issues. As I noted in my progress report, however, what can be achieved depends on the collective commitment of Ministers. This is especially important if assessments of the costs to industry of complying with proposed new regulatory requirements are to have a real influence on Ministers' decisions and if agreed deregulatory measures are to receive sufficient priority for legislative time.

3 I believe the next important stages can best be pursued through a reconstituted Ministerial Group on Deregulation, to focus and co-ordinate measures and to be responsible for carrying them forward. I have enclosed a suggested list of members, consisting of those Ministers already identified as having responsibilities for deregulation, and in Departments where no such allocation has been made, Ministers whose subjects appear most relevant. I should myself wish to chair the Group.

DW4CJA

999-49

RESTRICTED

4 I suggest the terms of reference for the Group might be:

> "To take forward the Government's commitment to overcoming barriers to business growth, the creation of wealth and jobs; to agree and pursue an action programme and timetable for measures to achieve that; to oversee the agreed arrangements for assessing and minimising the compliance cost of new requirements; and to make recommendations to the Ministerial Sub-Committee on Economic Affairs (E(A))".

5 If you are content I should like the Group to meet as soon as possible after the Recess to agree the action programme.

6 I would be happy for my Enterprise and Deregulation Unit to take on (or assist with) Secretariat duties.

7 I am copying this minute to all members of Cabinet, Richard Luce and to Sir Robert Armstrong.

D Y

24 July 1987

DEPARTMENT OF TRADE & INDUSTRY

DW4CJA

999-49

ANNEX

MINISTERIAL GROUP ON DEREGULATION

Proposed Membership

Secretary of State for Trade & Industry	(Chairman)
Minister of Agriculture, Fisheries & Food	(Mr MacGregor)
Financial Secretary	(Mr Lamont)
Paymaster General	(Mr Brooke)
Minister of State, Privy Council Office	(Mr Luce)
Minister for Local Government	(Mr Howard)
Minister of State for Employment	(Mr Cope)
Minister of State, Home Office	(Mr Renton)
Minister of State, Transport	(Mr Mitchell)
Minister of State, Welsh Office	(Mr Roberts)
Parliamentary Under Secretary for Corporate & Consumer Affairs	(Mr Maude)
Parliamentary Under Secretary of State, DHSS	(Mr Portillo)
Parliamentary Under Secretary of State, Scottish Office	[(Mr Forsyth)]

SoS suggests Mr Lang

To receive papers:

Minister of State, FCO	(Mrs Chalker)
Minister of State, Energy	(Mr Morrison)
Parliamentary Under Secretary, NI Office	(Mr Viggers)

DW4CJB

999-49

GOT MAIL

RAYNER

PT 24

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

I have shown the Prime Minister your minute of 22 July about dealing with inquiries about the Government's consideration of Robin Ibbs' Report.

The Prime Minister agrees that you should tell Departments that if they get any press inquiry they should refer them to the Press Office at 10 Downing Street or to your office for advice. She agrees too that the advice that should be given would be on the basis of Annex B to your minute of 17 July, less the last fourteen words.

Could I suggest that the Cabinet Office Press Office and the No.10 Press Office should be in touch.

I am sending a copy of this minute to Mr. Ingham.

(N. L. WICKS)
23 July 1987

Prime Minister cc BI

Agree that Annex B, less the last 14 words can be used in answer to PQs enquiries?

N.L.W. 22.7

Ref. A087/2204

MR WICKS

Yes

Improving Management in Government: The Next Steps

at flap.

Thank you for your minute of 21 July about dealing with inquiries about the Government's consideration of Robin Ibbs's Report.

2. I would certainly not wish to press for an answer to an arranged PQ. But it would be useful to have an agreed line which could be followed in case there were press inquiries. The Prime Minister told the House of Commons on 6 April that the Efficiency Unit had conducted a wide-ranging scrutiny on improving management in the Civil Service. The work which Ministers agreed should be put in hand when they met on 9 July will inevitably increase the number of people who are aware of the results of the scrutiny and what is being done to study how they might be put into effect. It is thought that some of the "Whitehall-watching" journalists are already aware that something is going on; the further work and the spread of knowledge about it will increase the risk of their asking about it. A series of disconnected responses from various Departments could be unhelpful; we ought to try to get Departments as far as possible singing the same song. I note that the Prime Minister's view is that the Government should say as little as possible; perhaps it might be considered as a merit in the line I suggested in Annex B to my minute of 17 July that it does not in her view convey any real information.

3. If the Prime Minister would prefer, I do not need to circulate the proposed line now. I should, however, like to tell Departments that, if they get any press inquiries they should refer to the Press Office at 10 Downing Street or to my office for advice; and I should welcome the Prime Minister's agreement that the advice we should give should be on the basis of Annex B to my minute of 17 July. If she would prefer we can, of course, delete the last 14 words of Annex B.

RA

ROBERT ARMSTRONG

22 July 1987

GOV MACH: Rayner Pr 24.

VG CCBI.

10 DOWNING STREET

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

I have shown the Prime Minister your minute of 17 July in which you suggest that there would be some advantage in having a low key statement on the record about the Government's consideration of the Sir Robin Ibbs Report.

The Prime Minister does not believe a PQ is necessary. Nor does she want Departments to be given the line in Annex B of your minute, which she does not think conveys any real information. Her view is that the Government should say as little as possible.

N.L. Wicks
21 July 1987

MA

MANAGEMENT IN CONFIDENCE

CC(87)

Prime Minister
Agree to add
Rt MacGregor to the
Group?
Yes no
N.L.W.
20.7

Ref. A087/2136

MR WICKS

Improving Management in Government: The Next Steps

At the meeting of Ministers on 9 July it was agreed that the Secretaries of State for Trade and Industry and Transport should be added to the Group of Ministers charged with consideration of the proposals contained in the Report. I have made arrangements accordingly.

2. I should like to propose that we should also add the Minister of Agriculture, Fisheries and Food to the Group. There are two reasons for this:

a. As Chief Secretary, Treasury, Mr MacGregor became aware of the Ibbs Report and supported its general approach.

b. The Ministry of Agriculture, Fisheries and Food is a Department which could well have some useful candidates for a first round of "executive agencies".

3. I know that the Minister of Agriculture, Fisheries and Food would welcome the opportunity of being included in the work on this subject at this stage, and I hope that the Prime Minister will be content for me to arrange accordingly.

RA

ROBERT ARMSTRONG

17 July 1987

MANAGEMENT IN CONFIDENCE

NEXAAM

GOV Mach. Rayner PT24

MANAGEMENT IN CONFIDENCE

V6
C(87)1

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

I have shown the Prime Minister your minute of 17 July in which you propose that the Minister of Agriculture, Fisheries and Food should be added to the group of Ministers charged with consideration of the proposals contained in the Ibbs Report.

The Prime Minister is content for the Minister of Agriculture to be added to the group.

N.L. Wicks
21 July 1987

MANAGEMENT IN CONFIDENCE

Prime Minister CCB1
I do not believe a PQ is necessary. Agree Depts should be given the line in Annex B.?

Say as little as possible

Ref. A087/2135

MR WICKS

No - it is meaningless at flap' N. L. W. 20-7

Improving Management in Government: The Next Steps

Your minute of 9 July, recording the Prime Minister's meeting on that day, reports that Ministers agreed that further thought needed to be given to the presentation of the agency approach to Parliament, and suggested that it would be better if developments were presented without drama.

2. The next stage in the approach - the identification of possible candidates for the general approach and the working out of schemes for setting agencies up - will involve bringing rather more people in Departments into the picture than hitherto. That will no doubt increase the risk of journalists and others getting to hear about what is going on and seeking further information about it. We need a "line" which Permanent Secretaries can take for this purpose with their staff and with any journalistic inquiries which come in.

3. There would be some advantage in having a low-key statement on the record, to which people could refer as necessary. On this basis, the Prime Minister could perhaps give a Written Answer to an arranged Parliamentary Question on the lines of the draft attached at Annex A.

4. If the Prime Minister feels that any formal statement would at this stage be premature, an alternative would be to establish an agreed "line" for Departments to take in answer to press inquiries, which could be circulated to Departments. A possible draft for such a "line" is attached as Annex B.

NEXAAL

5. If the Prime Minister's preference was for the second, I would propose to circulate the "line" with a letter which I have in any case to send to Permanent Secretaries following the Prime Minister's meeting.

RA

ROBERT ARMSTRONG

17 July 1987

NEXAAL

ANNEX A

QUESTION TO THE PRIME MINISTER FOR WRITTEN ANSWER

Question: To ask the Prime Minister what progress is being made with the Efficiency Unit's scrutiny on Improving Management in Government.

Draft Reply: I asked the Efficiency Unit to look at progress with the reforms in the Civil Service; they have made some suggestions about ways in which greater scope might be provided for the exercise of responsibility and the improvement of efficiency in management functions. Discussions are now taking place with certain Departments to see how these suggestions might work in practice, as a basis for consideration and decisions by Ministers on the further development of the programme of management reforms.

NEXAAK

ANNEX B

DRAFT RESPONSE TO PRESS INQUIRIES

The Government is considering how best to carry forward the process of increasing efficiency and improving management in the public service, particularly in relation to the delivery of services.

Suggestions as to how this process might be developed in particular areas of activity are being examined in some detail in a number of Departments, so as to provide a basis for further consideration and decisions by Ministers. The outcome of this work will be collated and reported to the Prime Minister later in the year [~~by the Head of the Home Civil Service and the Prime Minister's Efficiency Adviser.~~]

RTA suggests omit

NEXAAJ

Rayner PT24

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

KG CCB1

File

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

10 July 1987

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister held a meeting yesterday about Sir Robin Ibbs' report on Improving Management in Government: The Next Steps. I attach a copy of my minute to Sir Robert Armstrong which records the outcome of the discussion.

You will see from the Prime Minister's summing up of the discussion that she would like your Secretary of State and the Secretary of State for Transport to join the further discussions on this subject. The Offices of Sir Robert Armstrong and Sir Robin Ibbs will be in touch with your Department to explain the background to this work and to discuss how best to associate the two Departments with the next steps.

I am sending a copy of this letter to Roy Griffins (Department of Transport), Alex Allan (H.M. Treasury), Trevor Woolley (Cabinet Office) and to Kate Jenkins (Efficiency Unit).

N. L. WICKS

Timothy Walker, Esq.,
Department of Trade and Industry.

CONFIDENTIAL AND MANAGEMENT IN CONFIDENCE

CBI

SUBJECT & MASTER

MTG RECORD

10 DOWNING STREET

LONDON SW1A 2AA

From the Principal Private Secretary

SIR ROBERT ARMSTRONG

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

The Prime Minister held a meeting today to discuss the report, Improving Management In Government: The Next Steps, prepared by Sir Robin Ibbs. The meeting also had before it your minute of 3 July. There were present: the Lord President, the Chancellor of the Exchequer, the Secretaries of State for the Home Department, Environment, Employment, Social Services and Defence, the Lord Privy Seal, the Chief Secretary, the Minister of State, Privy Council Office, Sir Robin Ibbs, the Head of the No 10 Policy Unit (Professor Brian Griffiths) and yourself.

Opening the discussion, the Prime Minister said that, there had been great improvements in Civil Service management and efficiency during the last eight years. But she was convinced that there was still much more to do. So she had asked Sir Robin Ibbs to prepare his report.

Sir Robin Ibbs then gave a slide presentation, the main points of which are summarised in the document attached. Other points made by Sir Robin in his presentation included:

i) His report's recommendations were focused on the need to alter attitudes and behaviour, which were inhibiting effective change. In a well-managed organisation, managers, at all levels, were clear about their tasks and responsibilities and the constraints in which they operated. They cared about meeting those objectives and had clear lines of responsibility. The Civil Service still lacked this.

ii) The "hands off" approach referred to in the third slide did not indicate a "hoping for the best" attitude. The essential point was to create a framework in which managers were given tasks, were left alone to accomplish them, and had their progress monitored.

iii) The pressures for improvement in managerial efficiency within the Civil Service, were neither institutionalised, continuous nor steady. Such an environment needed to be created.

iv) The Civil Service had for too long given priority to ministerial support and policy development to the neglect of the management to the delivery of services. Senior managers at all levels in the Service should have some experience in the management of delivering services.

v) The support of the Head of the Civil Service was essential for the success of the recommendations. He would need the support, on a day to day basis, of a senior official, termed in his report "The Project Manager". The Project Manager would play a vital part in avoiding the dangers described in slide eight, and in presenting the new approach to Parliament, the Unions and the Service's own middle managers.

vi) Perhaps the biggest danger for his proposals was the lack of good managers in the Service. To that extent, the implementation of the changes he proposed would be an act of faith, though good managers could only be produced through the implementation of the approach described in his report. Senior managers running the agencies would need to be chosen with great care, perhaps promoting, in some cases, much younger people than hitherto.

vii) The crucial issue was to persuade Parliament, in particular, of the benefits of the approach.

Summing up his presentation, Sir Robin repeated that changes in the Civil Service attitudes and behaviour were vital. Departments could devise their own forms of agency with the help of the Project Manager. Good foundations had been laid over the last eight years and he believed that there was an explosion of energy in the Service waiting to be tapped. His aim was to provide a means for now going further and faster.

You emphasised that the approach in Sir Robin Ibbs' report built on developments already in train. The Civil Service had to be prepared and trained if the full advantages of the new approach were to be achieved. Changes in attitudes were vital, but the Civil Service were capable of responding. The selection and training of managers was vital. You believed that the explosion of energy, referred to by Sir Robin, could be brought about. One advantage of the approach was that it could reduce the burden and pressures on busy Ministers.

You doubted whether there was only one model for the agencies: several models could be envisaged - sub-departments, privatised bodies, quangos, etc. The first step was to trawl Departments to identify work which could be put into an agency. It would be sensible not to to choose for the first agencies the more difficult or sensitive operations. Examples of work which might be put in an agency included: the Employment Service in the Department of Employment, non-nuclear research in development establishments in MoD, the Disablement Service in DHSS, HMSO, the Patent Office, the Civil Service Catering Organisation, Customs and Excise and

and the Department for National Savings. If Ministers approved Sir Robin's proposals, they might be followed up on the following time scale:

Cabinet	23 July
Consultation Paper to staff, unions and Parliament	end July
Consultation	September
Action Plan identifying agencies for first round	October
?White Paper	
Implementation progressive from	1 December

You concluded your remarks by emphasising that you would not recommend pursuing Sir Robin's proposals unless Ministers were ready to give them their full commitment.

The following points were made in discussion:

1. There would be considerable advantage in proceeding in the direction Sir Robin Ibbs indicated, for all the reasons his report described. It would provide a way for harnesssing the enthusiasm of managers in the Civil Service. The approach could reduce the burden on Ministers and Departments in persuading and explaining details of their Departments' operations. However, it would not, work unless Parliament could be persuaded to accept replies and explanations from Heads of Agencies without insisting on access to Ministers on details. Without such a fundamental change in MPs' relations with Departments, the approach in the Ibbs report could not work.

2. There would be great resistance from MPs to any such approach. Many would argue that Parliament had a responsibility first to see that Ministers accounted in detail for their use of public money and second to act to defend the rights of individual citizens if they were adversely affected by Departmental actions. Ministers would be wasting their energies if they tried to persuade MPs to reduce their efforts in this area. Indeed Parliament, with the growth of full time Members of Parliament, Select Committees and more assertive Clerks, was pressing to take greater interest in the details of Departments' business. The likelihood was that this process would continue. It would be a mistake to try to tackle Parliament head on, or too quickly. A relevant factor on the immediate timetable was that the Departmental Select Committees had yet to be established for this Parliament. Parliament would react adversely if they thought that radical proposals were being bounced through them.

3. It was argued strongly that though the limited flexibility introduced by the Treasury was yielding good results, the present central controls on pay, grading, etc. inhibited efficiency. The Centre put too much emphasis on detailed monitoring. It was unclear why the Treasury could not rely, like a business, on an overall resource constraint for each Department, leaving the Department flexibility to operate within that constraint. Against that, it was argued equally strongly that the agency approach could be a recipe for a complete loss of control of public expenditure and an explosion in pay and public sector numbers. An overall resource constraint was not effective. The agency approach was best suited to those Government functions where a specified amount of money could be allocated to operations with definable and measurable output. Without such a firm framework of control, the agencies would be no more than pressure groups for more money. The examples of agency-type bodies already established within Government did not give much confidence, such as the National Health Service, the Arts Council, Sports Council, the British Council, Royal Ordnance Factories and the UGC.

4. If agencies were to be established, it would be important that senior managers in the agencies were employed on short-term or rolling contracts enjoyed by private sector managers. There was probably insufficient managerial expertise within the Service to operate agencies: outsiders would have to be recruited.

Summing up the discussion, the Prime Minister asked Sir Robin Ibbs and yourself, after reflecting on the discussion, to prepare a further paper for this group of Ministers and the Secretaries of State for Trade and Industry and Transport, for discussion in September. Before coming to decisions, Ministers wanted to see how Sir Robin Ibb's proposals could be applied in practice in particular instances. To that end, the Departments concerned should be asked to identify possible candidates for the agency approach, which could take various forms. Further thought needed to be given to the presentation of the approach to Parliament. It would be better if developments were presented without drama. The approach should be to try to outflank Parliamentary objections rather than to meet them head on. Further consideration needed to be given to ways of preventing the agencies becoming pressure groups for more expenditure.

I am copying this minute to the Private Secretaries to the Lord President, Chancellor of the Exchequer, Secretaries of State for the Home Department, Environment, Employment, Social Services and Defence, the Lord Privy Seal, Chief Secretary, Minister of State (Privy Council Office) and to Sir Robin Ibbs and Professor Griffiths.

N. L. W.

N. L. WICKS
9 July 1987

GOVT MACH –
Laufer

PRIME MINISTER

9 July 1987

Improving Efficiency in Government

The diagnosis (of poor management within the Civil Service) by Sir Robin Ibbs this morning was first class. The prescription which followed, however, suffered from assuming that problems of management in business and government are similar, if not identical, and that success in business can easily be applied to the task of government.

Government is not Business

There are two major differences however between management in business and government.

First there is the accountability of government to Parliament. This would be the equivalent to companies holding an AGM every day, so that shareholders could query in detail the running of the company. If business worked under this constraint its concept of management would be different from the present.

Changing the accountability of government to Parliament is something which can only be changed over a long period of time as it involves a change of basic attitudes by both public and MPs. In addition, we do not need a major shake-up of government to effect such a change.

The initiative already being taken by John Moore which he mentioned this morning is positive and sound and the best

way forward would surely be to get each Minister to take similar action in his area.

A second major difference between business and government has to do with increasing revenue. If I run a subsidiary of ICI I can increase the resources I control by selling more of my product or raising my price. It is through my success in the market, that I get the extra resources with which to increase the flexibility of any operation. But if I run a government agency, my sole source of extra funding is by increasing my budget.

Already the Chief Secretary faces constant pressure from each spending Minister to increase the size of his budget. Under this new system we would multiply the pressures on public spending and because of the more public character of the agencies, also attract far more media pressure during the PES round.

Because therefore government is so different from business

(i) the gains from delegating accountability to the agencies are more likely to be apparent than real,

(ii) we are creating powerful engines for increased public spending.

Conclusion: The Need for more Flexibility

We still need greater efficiency however in the delivery of services by central government.

It might be better to start by asking permanent secretaries for suggestions as to where this might be achieved within the overall existing structure of their departments and also by asking the Treasury for a paper on improving the

management of existing resources without jeopardising public expenditure control.

BRIAN GRIFFITHS

Sir RTA's slides
at meeting on Sir R. Ibbs
Rept 9.7.

Timetable

- **CABINET** — 23 July
- **CONSULTATION PAPER**
  to staff, unions and Parliament — end July
- **CONSULTATION** — September
- **ACTION PLAN**
  identifying agencies for first round — October
- **? WHITE PAPER**
- **IMPLEMENTATION**
  progressive from — 1 December

DABAKE

- THE EMPLOYMENT SERVICE
  DE

- NON—NUCLEAR RESEARCH AND DEVELOPMENT ESTABLISHMENTS
  MOD

- DISABLEMENT SERVICES AUTHORITY
  DHSS

file

DSG

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

MISS JENKINS

EFFICIENCY UNIT

I enclose copies of letters confirming the times of the Value for Money Seminars. In each case I have reserved the 3.30 pm to 4.00 pm slot for Sir Robin Ibbs, and then 4.00 pm to 5.30 pm for the Value for Money Seminar.

I am copying this minute and enclosures to Trevor Woolley (Cabinet Office).

P. A. Bearpark

8 July 1987

16

File

DG2CAT

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 28 October.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

John Howe, Esq.,
Ministry of Defence.

file

085

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 25 November.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

file

DBS

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 9 December.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

Roy Griffins, Esq.,
Department of Transport.

File

DSS

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 13 January 1988.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

Jeremy Haywood, Esq.,
Financial Secretary's Office,
H.M. Treasury.

File

DBS

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 24 February 1988.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

John Turner, Esq.,
Department of Employment.

file

089

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

8 July 1987

Further to Nigel Wicks' letter of 26 June about your Value for Money Seminar, I confirm that I have arranged this for 1600 hours on Wednesday 16 March 1988.

I am copying this letter to Trevor Woolley (Cabinet Office) and Kate Jenkins (Efficiency Unit).

P. A. Bearpark

Timothy Walker, Esq.,
Department of Trade and Industry.

CCBL/MP
CCBL

Ref. A087/2016

PRIME MINISTER

Improving Management in Government: The Next Steps
Meeting After Cabinet on 9 July

The purpose of this meeting is to have a first discussion with a small group of Ministers directly concerned on the proposals in Sir Robin Ibbs's report on improving management in Government: The Next Steps.

2. The proposals are of major importance, and, if it was decided to implement them, they would affect most if not all Departments. They will need in due course to be considered by the Cabinet, before final decisions are taken. The purpose of this meeting is to have a preliminary discussion, as a preparation for discussion in the full Cabinet. I suggest that you should aim at a "second reading" discussion at this stage, not going into the details that would be involved in proceeding as Sir Robin Ibbs proposes, but making sure that the principles and implications of the proposals are fully understood and that Ministers at the meeting support them in principle.

Handling

3. You could start by saying that a good deal on progress has been made over the last six years or so in improving management in Government. You asked Sir Robin Ibbs to review the obstacles to further progress and to make proposals. His report has done just that, and has produced proposals which would build on what has already been achieved, and would in particular enable and encourage managers of units which deliver services to take and exercise responsibility for managing the delivery of services effectively, within a framework of policy and resources laid down by Ministers.

4. I suggest that you should not go into more detail than that at this stage, but invite Sir Robin Ibbs to give the meeting a presentation of his proposals and their consequences for Ministers.

5. Sir Robin Ibbs will then give his presentation, which will be supported by a number of viewfoils.

6. When Sir Robin Ibbs has finished, you could ask me to report briefly on the reactions of Permanent Secretaries with whom Sir Robin Ibbs and I have discussed the report and proposals, and to tell Ministers how we see the handling of these proposals from here onwards.

7. You could then open the discussion. No doubt each of your colleagues will wish to contribute. You might perhaps invite the Home Secretary or the Secretary of State for Social Services to start the discussion. The Chancellor of the Exchequer will certainly want to speak at some stage, though it might be preferable not to ask him to speak first: my impression is that his reaction may be rather negative.

8. You will want to ensure in discussion that Ministers recognise and accept the consequences of what is proposed.

Conclusions

9. Depending on how the discussion has gone, the meeting might be invited:

- to agree that the proposals should go to Cabinet (we have made provision to take them on 23 July);

- to endorse the proposals in principle;

- to agree the proposals for further handling of the subject.

RA

8 July 1987

ROBERT ARMSTRONG

cc BG

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

Secretary of State for Trade and Industry

PS/

NBPM

8 July 1987

Nigel L Wicks Esq CBE
Principal Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 2AA

Dear Nigel

FLAP PT 23

Thank you for your letter of 26 June about the presentation by my Secretary of State on DTI value for money improvements at one of the Prime Minister's seminars. He and Kenneth Clarke look forward to the meeting.

Yours

TIMOTHY WALKER
Private Secretary

JF2AJS

GOUT MACH

RAYNER

PT 24

NBPM

CCBG

SECRETARY OF STATE FOR TRANSPORT

Prime Minister

DW

VALUE FOR MONEY

FLAP PT 23

1. Your minute of 22 June asked me to take forward the work on increasing value from the Department's expenditure and to set clear targets for the improvements I intend to make in my term of office.

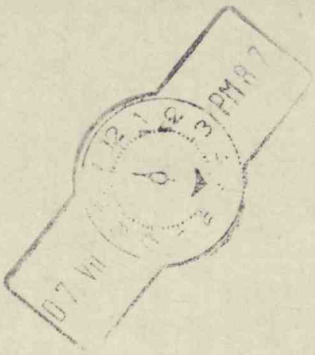
2. The Department of Transport is committed to a number of targets which have been endorsed by my predecessor and are published in the Departmental Plan for 1987/8. I will be developing my own plans for taking this work forward. I will shortly discuss my proposals with Sir Robin Ibbs and look forward to the seminar with you towards the end of the year (your Private Secretary's letter of 26 June refers).

3. A copy of this minute goes to Sir Robin Ibbs and to Sir Robert Armstrong.

P.C.

PAUL CHANNON

7 JUL 1987



GOVT MACH
RATNKR

PT 24

MANAGEMENT IN CONFIDENCE

Prime Minister

Ref. A087/1964

MR WICKS

Improving Management in Government: The Next Steps

Ministers attending the Prime Minister's meeting on 9 July 1987 have already had copies of the report of Sir Robin Ibbs's report to the Prime Minister under this title ("The Yellow Book").

2. I now attach a note which I have prepared, after consultation with Permanent Secretaries whose Ministers are attending the meeting and with Sir Robin Ibbs, as a contribution to the discussion. I also attach a summary of Sir Robin Ibbs's report.

3. I am sending copies of this note and the attachments to the Private Secretaries to the Lord President, the Chancellor of the Exchequer, the Home Secretary, the Secretaries of State for Defence, the Environment, Employment and Social Services, the Lord Privy Seal, the Chief Secretary, Treasury and the Minister of State, Privy Council Office.

RA

ROBERT ARMSTRONG

3 July 1987

CCB1.

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

Note by the Secretary of the Cabinet and Head of the Home Civil Service

The Government has, since 1979, developed a programme of major reform of management in Government Departments. The number of civil servants has been reduced by nearly 20 per cent, half through greater efficiency. The Financial Management Initiative (particularly top management systems and budgeting) has been established. Personnel management has developed, with eg a new staff appraisal system, greater attention to management development and training, and more delegation of clerical recruitment. A start has been made on the introduction of more flexible pay arrangements, with potential for differentiation by skill, performance, and geography. But there are still opportunities for further improvement in efficiency.

2. Last November, the Prime Minister asked Sir Robin Ibbs and the Efficiency Unit to review what had been achieved and to consider what the way forward might be. Sir Robin Ibbs's report has been submitted, under the title Improving Management in Government: The Next Steps. Copies have been sent to Ministers attending the Prime Minister's meeting on 9 July 1987.

3. Sir Robin Ibbs believes that further progress in the improvement of efficiency in management is held back by the emphasis in the present arrangements on control of inputs - in other words on the allocation of resources - rather than on the maximisation of outputs - the achievement of the best possible value for money from each pound spent. He considers that in order to redress this balance, to inculcate a greater sense of responsibility for the achievement of value for money, and to bring about a release of greater management energy to this end, it is important that those whose duty it is to manage the delivery of the services which Government provides should both

feel and be seen to be able to exercise a greater sense of personal responsibility for the achievement of value for money in the delivery of those services, and should be given a greater degree of freedom to manage the units that deliver services, within policy objectives and allocations of resources laid down by Ministers. His proposals are designed specifically to give the managers of delivery of services freedom to take their own decisions, within a total allocation of resources, on such matters as numbers, recruitment, pay and grading of staff; and, while preserving their accountability to Ministers for the realisation of the policy objectives laid down for them and for the efficient and economical use of the resources allocated to them, to leave them free to take decisions without reference to Ministers or to senior policy advisers on questions of day to day management.

4. Sir Robin Ibbs accordingly recommends that:

- the executive functions of Government - the functions described as the delivery of services - should be organised in distinct units within a framework setting the policy objectives, resources allocated and results expected;

- public servants at every level should be trained and experienced in the delivery of services and not just in the development of policy;

- in relation to the management of these units, senior management, Ministerial and official, should manage strategically and keep out of day-to-day detail, concentrating instead on developing a policy and resources framework for delegated but accountable services.

5. There is no hard and fast prescription as to the form which these distinct units, or "executive agencies", might take. Indeed, what is proposed can be seen as a further development of

what to some extent already happens. Existing arrangements suggest a variety of possible forms of "executive agency", ranging from the "contractorisation" of the management of a service (eg the Royal Dockyards), through vote-financed public authorities (eg the National Health Service), the quango (eg the Countryside Commission), the separate department (eg Customs and Excise) and the subordinate department (eg the Royal Mint or Export Credits Guarantee Department) to the separate unit or activity within a department (eg the Civil Service Catering Organisation in the Treasury). New forms would also probably need to be devised. Which form of agency was to be chosen would depend on the circumstances in each particular case.

6. Whichever form of agency was chosen, the objectives would be the same: to give those responsible for management the greatest possible degree and sense of responsibility for the efficiency and effectiveness of the agency in delivering the services with which it was concerned, and for that purpose the greatest possible degree of freedom to take management decisions.

7. In his Report, Sir Robin Ibbs lays great emphasis on the need for a firm framework within which an agency would have to operate. That framework would cover policy objectives, the result required, the resources to be provided and the handling of sensitive issues. It would be this framework which would provide the operating link between Ministers and their agencies and would enable Ministers to feel that agencies were under proper control.

8. There would be a transitional period, during which management units would be identified as candidates for "agency treatment" and prepared and adapted for the new relationship. Developing the necessary systems to make the framework of accountability effective would take time (probably quite a lot of time) and high level effort. In some cases legislation would

be required to bring about the necessary changes. Sir Robin Ibbs suggests that the aim should be to complete the process in five years. The time which it actually took would depend on how quickly agencies could be developed with the ability to exercise the new responsibilities which would be devolved upon them within a policy and resources framework. It would also depend on the amount of resources which Ministers were able to allocate to managing the change within their departments, (opinions differ as to the amount of additional resources that would be required, which would no doubt vary from case to case), on the availability of room in the legislative programme where necessary, and on the willingness of Parliament to adapt to the change.

9. The extent of the change involved and of its implications would be considerable. What is proposed is a much more "arms length", even "hands-off" relationship between Ministers (together with their senior policy advisers) and those responsible for the management of executive agencies delivering services. Ministers would be answerable to Parliament for the framework of policy objectives and resource allocations within which agencies operated; the managers of the agencies would be accountable to Ministers for the effective performance of their agencies in delivering services within those objectives and allocations. But Ministers would be much less involved in day-to-day management of the agencies and delivery of the services, and in answering questions in Parliament on these matters. Within the prescribed policy objectives and resource allocations, the manager would be on his own to the greatest practicable extent. He would not feel, or be seen to have, the degree and sense of responsibility which these proposals postulate as necessary, if his decisions on numbers, pay and grading were subject to Treasury control or his day-to-day management decisions were subject to endorsement or intervention by Ministers or senior policy advisers.

10. The degree of freedom that could be given would vary from case to case; and the extension of freedom would be progressive, as the structure and performance of the agency proved its capacity to exercise responsibility within the overall policy objectives and resource allocations laid down for it.

11. Two major changes would follow from all this:

- To a much greater extent than at present, the achievement of the Government's objectives on civil service pay would increasingly be determined not by a pay strategy centrally formulated and managed by the Treasury but by the decisions of managers deciding what was best for the effectiveness of their agencies within available resources. It would not be easy to manage the process of change from the existing system of pay management to the new one without incurring risks of loss of control, and no detailed work has been done on how that might be achieved; it would be advisable not to relax present controls until the implications had been carefully thought through and arrangements made to ensure that repercussions that might be damaging could be contained. A great deal would depend on the robustness of controls of running costs and other inputs.

- Ministers would normally avoid answering directly in Parliament, or in letters to Members of Parliament, on matters of day-to-day management of the agencies. They would either refuse to answer such questions and direct them to the managers, or reply to the effect, "I am informed that ...", with a formula which made it clear that the decision or action questioned was a matter of executive management and not of Ministerial policy. This is not a new concept: Ministers have always declined to answer questions about the day-to-day management of nationalised industries, and have encouraged Members of Parliament to approach local offices of Government departments direct on

individual social security cases. What is proposed would be a major extension of this sort of concept. But Parliament would need to be persuaded to accept that extension, which some members might see as a curb on their ability to probe the activities of the executive.

12. The changes would affect the conditions of service of the civil servants working in the units chosen for "agency treatment". The Government would therefore have to consult the Civil Service unions. They could be expected to object, since the proposals would imply an intensification of the process of decentralising management decision-taking: many matters now negotiated with the unions centrally or departmentally would be dealt with at agency level, with corresponding loss of standing and power for central union officials. But many civil servants in senior and middle management would welcome the proposals, if they saw in them the prospect of greater responsibility and freedom in management. The much larger numbers of junior staff might also be supportive, if the effects on them were carefully thought through and planned so as not to worsen their conditions of service, and were then presented accordingly. All that said, the handling of the proposals might prove tricky with the Civil Service in the wake of the recent dispute.

13. Though it would be for Ministers and their departments to decide what units should be given "agency treatment" and what arrangements should be made in each case, Sir Robin Ibbs proposes, and I agree, that it would be necessary, during the period while the proposals were being put into effect, to have a capacity at the centre responsible for driving the change through, for identifying and foreseeing difficulties and helping to bring about their resolution, and for ensuring that arrangements proposed for or decisions made by one agency did not give rise to problems for others. For this purpose, Sir Robin Ibbs proposes that a senior official (described for the purposes of his report as a "project manager", though this seems

to me to be a misnomer) should be appointed and should be made directly accountable to the Head of the Home Civil Service and through him to the Prime Minister.

14. Sir Robin Ibbs and I have discussed these proposals with Permanent Secretaries. They might not all accept the whole of the report's analysis of the obstacles to further progress in management efficiency. But most of them would agree with most of it, and they support in principle the approach proposed, namely that the delivery of government services should be managed to the greatest possible extent by "agencies" operating with a high degree of day-to-day autonomy within a framework of policy objectives and resource allocations set by Ministers, the heads of such agencies being accountable to Ministers for the attainment of the objectives and the use of the resources. They recognise that the changes proposed would be profound and substantial, would entail Ministers in withdrawing from involvement in management issues in their "agencies" and would be liable to criticism in Parliament as reducing accountability. But the potential benefits to be added to the continuing programme of management reform are attractive in terms of effective service to the public, and some of the problems could be reduced by variations in the form of agency and the degree of Ministerial control and accountability according to the political sensitivity of the agency's responsibilities. They (in particular the Treasury) see a danger that less detailed central control over costs and greater fragmentation in dealing with unions could lead to an escalation of total costs; and they agree with Sir Robin Ibbs that delegation of responsibility should take place only as the agencies' performance justified confidence in their ability to manage this responsibility and to control their expenditure on programmes and running costs efficiently within a policy and resources framework of the kind described. But they believe that, if Ministers and Parliament were prepared to accept less involvement in and answerability

for detail the changes should enable Ministers and senior officials to concentrate on the formulation and management of policy, and spend less time on matters of detailed management and administration; and should result in better outputs and results from available resources from progressively more skilled, experienced and accountable managers. Continuing effort would be required to ensure that policy managers and operational managers did not lose touch with each other.

15. If Ministers agree in principle with the analysis and recommendations in Sir Robin Ibbs's report and this note, the next steps will be:

i. consideration and decision in principle by the Cabinet;

ii. the appointment of the "project manager" referred to in paragraph 13;

iii. presentation to civil servants and consultation with Civil Service unions;

iv. at some stage (perahps at the same time as iii) presentation to Parliament, probably through the Treasury and Civil Service Committee;

v. identification of those executive or service delivery functions which should be the first to which "agency treatment" is applied.

16. For the purposes of presentation and consultation, a consultation document will be required. A draft of such a document will be prepared in the light of the discussion of this note and circulated to the Cabinet when they consider the proposals.

Robert Armstrong

ROBERT ARMSTRONG

Cabinet Office
3 July 1987

SUMMARY OF SCRUTINY OF IMPROVING MANAGEMENT IN GOVERNMENT

1. In November 1986 the Prime Minister asked the Efficiency Unit to conduct a scrutiny under the supervision of Sir Robin Ibbs

- to assess the progress achieved in improving management
- to identify measures which had been successful in changing attitudes and practices
- to identify the obstacles to better management which remain
- to report on what further measures should be taken.

2. This report summarises our findings and conclusions.

I INTRODUCTION

3. The management of government business is much improved since 1979, but there is wide agreement in departments that substantial further improvement is possible.

II FINDINGS

4. The themes which emerged from our scrutiny are as follows:

5. Most civil servants involved in the delivery of services think that the developments of the last 7 years have had a positive effect on the way they go about their business. The main changes they identify are the various FMI systems, particularly Top Management Systems and budgeting systems. Managers want the delegation of responsibility which these systems should bring, and in a few areas managers do feel that they can now affect significantly the way their office works. Many people welcome the reforms in personnel management, especially open appraisal based on the achievement of specific personal objectives.

6. Many local managers we spoke to are enthusiastic about the changes so far. But they also feel frustrated at the constraints which inhibit them from managing effectively. We identified three main areas which stand in the way of further improvement.

i. Management is neglected, in favour of policy formulation and political support.

7. The main pressures on Ministers are in responding to Parliament and communicating government policy. Many Ministers are fully extended and have to leave it to their civil servants to achieve better management and improved performance. Senior civil servants inevitably respond to the pressures on Ministers, which tends to concentrate their activities on policy making and ministerial support. The task of improving performance in the service delivery functions of government tends to get overlooked. Many people working in executive functions

pointed to the fact that the majority of civil servants at the top of departments and those being groomed for the top have had little or no experience of working in service delivery organisations. The effects of this lack of balance between policy and delivery show in many areas of activity.

ii. There is no effective pressure for results

8. Most of the pressures on departments are to spend money, not to get good value from their spending. In Parliament and the press the government's record is judged by how much money is going in. Departments see the PES process itself as being conducted primarily in terms of input (though there are signs of a growing emphasis on results, eg the increasing amount of information in the Public Expenditure White Paper about outputs). There are few systematic external pressures on departments to get improvement, although the seminars the Prime Minister has held to discuss value for money in several Departments have been valuable. The National Audit Office and the Public Accounts Committee are generally perceived to be concerned with pointing up impropriety or incompetence, rather than with sustaining pressure for management improvement.

iii. The Civil Service is too diverse and too big to run as a single rigid organisation.

9. There are nearly 600,000 civil servants engaged in very diverse activities - from driver licensing to catching drug smugglers, from fisheries protection to handling Parliamentary Questions. Yet all 600,000 are subject to common structures for pay, grading, recruitment and other management areas. This has two effects. First, many of the structures have developed in a way which fits the needs of no single organisation. Second, the freedom of any manager to manage is severely circumscribed.

III CONCLUSIONS

10. The management reforms of the last 7 years show how far attitudes and institutions have to change if the real benefits are to be achieved. Three main priorities are necessary to achieve a further step change in the rate of improvement:

First, the work of departments must be organised to focus on the job to be done; the systems and structures must enhance the effective delivery of policies and services.

Second, the management of each Department must ensure that their staff have the relevant experience and skills needed to do the tasks that are essential to effective government.

Third, there must be real and sustained pressure on and within each Department for continuous improvement in value for money obtained in the delivery of policies and services.

11. In our recommendations we apply these principles to the delivery of services, the functions of departments, and the centre of Whitehall. The changes will require the full commitment of Ministers and senior civil servants. The changes will have to be managed so as to build on developments already happening in departments.

IV RECOMMENDATIONS

1. FOCUSING ON THE JOB TO BE DONE

a. The Delivery of Services

12. We recommend that "agencies" should be established to carry out the executive functions of government within a policy and resources framework set by a Department.

13. Ministers and senior management will have to choose and define agencies. Some will be very big, comprising a whole department or a large part of a department; others may be very small. Agencies will operate within a framework of policy, targets, results to be achieved, and a budget. This framework will be set and updated as part of a rigorous annual review with the responsible Minister. The review should be based on a long term plan and an annual report. A crucial feature of the framework would be agreement with Ministers about the handling of sensitive issues and lines of accountability in a crisis. The presumption should be that within the framework of policy and resources set for it, the agency should have as much independence as possible in how it achieves its objectives. To strengthen operational effectiveness agencies should be given progressively greater freedom to recruit, pay, grade and structure in the most effective way for their business.

14. The head of the agency should have clear personal responsibility to deliver results within the framework set by the department and must be accountable for doing so. In due course arrangements for formal accountability might develop so that the head of the agency normally accompanies the Permanent Secretary to the Public Accounts Committee and answers before the PAC for his performance within the framework.

15. Placing more responsibility for performance on the agency heads has implications for the accountability of Ministers to Parliament. We believe that it should be possible for Parliament, through Ministers, to regard managers as directly responsible for operational issues. The arrangements for accountability would be an important part of the initial framework for each agency, and would need to be devised according to the specific needs of each particular activity. At present there are executive functions funded by central government where Ministers do not answer directly for detailed operational matters. In the case of agencies put outside Departments, consideration would need to be given to changes of this kind in formal accountability (which would generally require legislation). In the case of agencies which were whole Departments or parts of Departments, what is needed is the establishment of a convention that heads of agencies would have delegated authority from their Ministers for operations within the framework of policy and resources.

b. The Task for Departments

16. Setting up agencies has considerable implications for Departments. Departments have two main functions now: Ministerial support (including policy work) and managing or influencing the delivery of services. The change will be that where a Department is now directly responsible for the management of service delivery, in

future it will be responsible for the rigorous management of the framework within which a separate agency operates.

17. This will involve defining the policy and resources framework, monitoring the performance of the agency through key indicators, and holding the agency management to account for results. Although this is not a new task it is one which has not received the attention it deserves: the skills it requires from civil servants require a balance between policy, politics and service delivery. Operational effectiveness needs to be given a higher priority in the interpretation of policy and the thinking of Ministers. Ministers, with the support of civil servants in departments, must be able to handle political crises without compromising the independence of the agencies.

c. The Centre of Government

18. The centre of government has to take a lead role in ensuring that the changes to departments and agencies take place. When the change has taken place, the long term tasks of the centre will be: (a) to allocate resources; (b) to ensure a rigorous external pressure on departments for continuous improvement of results; (c) to ensure that the shape of the Civil Service continues to respond to changes in the needs of government; and (d) to set and police any essential rules on propriety. The centre has to be authoritative, demonstrably efficient and low cost, and a helpful resource to Departments, not a handicap.

2. THE RIGHT PEOPLE

19. The success of Departments and agencies will depend on the skills of their people. We recommend that Departments ensure that their staff are properly trained and experienced in the delivery of services whether within or without central government; the staff will then be in a position to develop and interpret government policy and manage the agencies in a way which can maximise results.

20. Experience of managing the delivery of services must be built up at all levels in departments. Senior managers must have spent time in an agency at more junior levels. There should not be two classes of people - those in agencies and those in departments. A wide range of arrangements, eg secondments, training and promoting some younger people, will be needed.

3. PRESSURE FOR IMPROVEMENT

21. Changes in organisational structures and the skills of people will not alone bring about radical change. Pressure for continuous improvement external to the organisations directly concerned is also needed. The Prime Minister and the Head of the Civil Service are responsible for setting the management strategy of the Civil Service. They need the commitment of Ministers and Permanent Secretaries to ensure that changes are pursued with urgency. The pressure for change must also be supported by Parliament.

22. Implementation of these recommendations will need the undivided attention of an extremely senior official who has personal responsibility for achieving the change. We recommend that a full Permanent Secretary should be designated as "Project Manager" as soon as possible to ensure that change takes place. He will need to work with the full authority of the Prime Minister and the Head of the Civil

Service, to whom he should report. The Project Manager will be responsible for planning and supervising the process of change, including the progress made by Departments in setting frameworks for their agencies and ensuring that Departments progressively obtain managerial freedoms to carry out their tasks effectively.

23. As these changes come about, the management functions of the centre of government will change. The Cabinet Secretariat and the expenditure functions of the Treasury will remain. There will need to be provision at the centre for determining direction, keeping up pressure on departments and setting standards.

V THE NEXT STEPS

24. The report has identified the changes needed to achieve a further major step forward in the delivery of services and the management of government. We have avoided detailed prescription because so much depends on the individual tasks of different Departments and because generalised solutions in the past have failed. The job of the Project Manager will be to ensure that each Department develops these concepts in a way that best suits its particular needs.

25. The aim should be to conduct government business in a substantially different way within five years. There should be a small core of "headquarters" staff servicing Ministers and acting as sponsors of particular government policies and services. The majority of the staff - not all necessarily civil servants - will be in agencies responsible for the delivery of services. There should be clearly defined responsibilities between the Secretary of State and the Permanent Secretary on the one hand, and the agency head on the other. Departments and agencies should have a more open and simplified structure.

26. The first task for the Project Manager will be to oversee plans to establish initial agencies. As the initial agencies come into operation, Departments should work up their plans for more widespread changes and a timetable for implementing the changes over four years. One result should be increasing confidence in the ability of agencies to deliver services, thus allowing Ministers to concentrate on their strategic role of setting the framework and planning policy development. As confidence increases in the robustness of the management framework, so greater freedom to manage should be progressively delegated.

27. The potential benefits which should come from these recommendations are substantial. Each 1% of running costs represents £125m. Experience elsewhere indicates that significant percentage improvements can be achieved when good management has freedom to deliver. There are enormous improvements to go for on programme spending; these could come in the form of better services to the public and reduced delays as well as savings.

28. The recommendations should ensure that clear lines of authority and accountability for management are devised, and that the involvement of Ministers in detail becomes the exception. We want to see managers

throughout the Civil Service eager to maximise results; no longer frustrated by central constraints and able to push the blame for failures onto them; and working with a sense of urgency to improve their service.

10 DOWNING STREET

Prime Minister [2]

You may like to see this note, which Peter Kemp sent me on a personal basis. It is intended as an annotated agenda for a meeting with the Chancellor.

DLW
3/7.

PRIME MINISTER

IMPROVING MANAGEMENT IN GOVERNMENT

We are due to have a discussion with you on Friday morning in preparation for the meeting of the small group of Ministers which has been arranged for 9 July to discuss my report. The Efficiency Unit will let you have a brief before that meeting. I should like to use our meeting on Friday to explain the key conditions which we have to meet for it to be worthwhile taking the report further.

You will recall that our Report had three recommendations. First that departments should organise their service delivery in executive units which we referred to as 'agencies'. Second that they should reorganise the way in which staff are trained and deployed. Third that a senior project manager should be appointed at Permanent Secretary level to ensure that the changes proposed take place successfully and without chaos.

What we are proposing is not merely an organisation change, still less the setting up of a further "unit" at the centre. Our recommendations are a package aimed at changing attitudes and behaviour. To achieve this the right key appointments will be crucial. First, the Head of the Home Civil Service, i.e Robert Armstrong's successor, must give a strong lead and regard achievement of the changes as part of his task. Second, because he cannot have the time personally to plan and control the process of change and the transition period during which greater freedom has to be given to agencies without damaging the control of public expenditure, a competent "Project Manager" has to be appointed. This needs to be somebody with some flair for management and with sufficient credibility with Permanent Secretaries generally so that they will follow the lead he gives. Third there will only be real change in Departments if the senior positions are held by people who have grasped the essence of the change that is necessary and are prepared to move forward with it to obtain the real benefits.

In addition to the need to get the right people in some key jobs, I am convinced that success will also depend on slimming down and tidying up present arrangements at the centre. Unless this is done there will not be a clear signal that change is for real and that good management and value for money are truly in the ascendant.

At our meeting I should also like to refer briefly to the discussion of these proposals with the Cabinet. If Ministers agree at the meeting on 9 July the plan is to go to Cabinet on 30 July. There may be advantage in having an informal gathering before then with those members of the Cabinet who are not part of the smaller group, to give them an opportunity to explore some of the issues, so that before a final decision is taken, they have a better understanding of what is envisaged.

I am copying this minute to Robert Armstrong.

ROBIN IBBS
2 July 1987

CONFIDENTIAL

DRAFT OF 30 JUNE 1987

THE CIVIL SERVICE AND CURRENT CHANGES

There are a number of things which are wrong with the Civil Service today, or which are perceived to be wrong with it. Both the number of things that are wrong and the perceptions can be and usually are overstated; there is much that is excellent about the Civil Service today and its functioning.

2. However one can identify a number of problems real or perceived. These include a number of areas where pay is inadequate, although there are also a number of areas where is pay is too high. There is the absence of any settled pay determination system. There is the perception and in many cases the reality of poor working conditions in local offices. There is the perception that Ministers and top civil servants are not interested in the Civil Service and that it is not "managed" in any thoughtful sense from the top; this contrasts with the equally strong perception that where there are pressures on "management" and efficiency locally these are themselves overpressed and not well taken forward. There is a disenchantment of many staff both with their regular unions and with management. Finally and perhaps most disturbing of all, and in a sense stemming from all of this, there is the very worrying growth of Militant and other political factions. One way or another all these factors contributed towards the recent industrial unrest.

3. This picture has to be seen against the very real changes and improvements that have been brought about over the last 8 years. The Civil Service has been cut by 20 per cent, and its efficiency enormously increased. Pay levels are in general more realistic and former inflexibilities eg in pay and pay systems, recruitment and career management have been tackled. The unions have diminished in power and effectiveness. And so on. But it can be argued that these changes have been at least in part at the cost of creating the sort of situation,

or perception, described. Both for its own sake, and in order to continue with the process of change in a constructive and orderly way, it is worth considering whether this picture can or should be rectified.

4. Across the board solutions are not the answer. It is not to be expected, nor indeed would it be justified, for either the Government or the unions or staff to put on some kind of hair shirt and admit that they had got things wrong over the last 8 years. Nor do we need the help of some third party intervention - a Committee, a Commission or "wise men"; these give birth to unresponsible, unrealistic, and probably expensive ideas. What is wanted is the less glamorous but more effective approach of attention by management to the separate often day to day decisions that have to be made in particular areas, against the background of a consistent approach to the management of staff.

5. As it happens, there is at the moment a window of opportunity where a number of things come together which without any loss of principle on the Government's side could be so managed as to help to put straight some of these problems. Alternatively, if these developments are mismanaged, they could make them worse. It thus seems worthwhile to look comprehensively at the various changes and other developments now on the table, on which decisions may have to be taken in the very near future, to consider how they fit together against the background of the troubled state of our workforce; and to indicate a way in which similar decisions may be tackled in the future.

6. These immediate factors include; the return of the Conservative Government with a substantial majority, the fizzling out of the current dispute, the PESC Survey and the setting of running costs for 1988-89 onwards, the momentum which there is for changes in pay and pay systems (the IPCS deal, performance and regional pay, etc), new technologies and working methods, the Ibbs report and "agencies", the future of the centre and the growth of Militant.

7. The following paragraphs sets out the possible extremes of ways in which each of these developments might be approached :-

Return of the Conservative Government

Extreme A

A "new start" in relation to the workforce and an effort to demonstrate this.

Extreme B

More of the same, as perceived.

Ending of the dispute

Extreme A

A civilised return to normality, including not ruling out pay deals this year with the Society and/or CPSA.

Extreme B

Pressing home our advantages, with no concession or move at all.

PESC and running costs; manpower, working environment

Extreme A

Realistic provision for running costs, including realistic provision for pay increases and other necessary work, (eg painting of offices). Loose (or no) manpower targets.

Extreme B

Unrealism, leading at best to an outcome in 1988 like this year, or at worst a really damaging strike and/or many bust running cost limits. Tight manpower targets

Changes in pay and pay systems; career management

Extreme A

Constructive development with the unions of these ideas coupled (as with IPCS) with pay increases where these are justified.

Extreme B

Foot dragging and/or continued attempts to get new system and flexibilities on the cheap and/or continued tolerance of eg recruitment problems in London and the South East.

New technologies etc

Extreme A

Sensible negotiation of introduction of new developments; willingness to share productivity benefits; constructive no redundancy arrangements in particular cases.

Extreme B

Forcing changes into place.

"Ibbs"

Extreme A

Sensitive handling, on the basis that this is a worthwhile development and expansion of what is already happening, for the benefit amongst other people of the staff.

Extreme B

A "new start" designed to look at though it is the FMI etc in spades, with pursuit of "efficiency" and a breaking up of the Civil Service at the expense of all else, and with the inference that the effects of the last 8 years have been misdirected or wasted.

Future of the centre

Extreme A

An organisation that brings together and is perceived to bring together all central management issues; headship in a position which while still remaining powerful is not perceived to be so "part time".

Extreme B

Continuation of the split; a perceived part time headship; "not caring".

Militant

Extreme A

Get to the root of the trouble through better management, thus avoiding the creation of extremists.

Extreme B

Deal with the symptom not with the cause; bear down on vetting etc, proscribe unwanted organisations, and risk creation of "martyrs.

8. These elements are discussed in deliberately polarised terms, and of course in real life what actually happens is more likely to fall between the two extremes in every case. But in every case Ministers would need to take decisions, and there will be future decisions of the same kind. The present system does not ensure that these decisions are seen as a whole, or interlinked, which from the point of view of industrial relations they are; this is a dimension which tends to be missing.

9. Difficult and necessary things have been done; the objective now must be to consolidate these and build on them. This is not to say that this dimension should always rule. Obviously other considerations remain crucially important and may often have to take precedence; thus not letting up on the gains of the past 8 years, facilitating and moving towards further desirable change, and economy effectiveness and control of public expenditure. Also vital will be not to strengthen the unions as against individual members of staff. But while admitting these considerations, at the same time specific attention could be given on an explicit and consistent basis to the need to restore relationships with staff members, not only for its own sake but to encourage them to welcome and work towards the new environment. This will be hard work, but it is not impossible and it is probably the only way to stabilize the present position, let alone make progress.

pa NBPM

PRIME MINISTER

Thank you for your minute M8/87 of 22 June.

2 Kenneth Clarke and I fully support the principle that we must give the taxpayer the best value for money we can and we intend, with our Ministerial colleagues here, to give the clear lead from the top which you seek. I know that my predecessors took an active interest in this subject and I am keen to see the Department make further progress.

3 Your proposal that Brian Hayes and I should have an early meeting with Sir Robin Ibbs to discuss the way forward is therefore very welcome and my office will be in touch with his to make the necessary arrangements.

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

D Y

2 July 1987

DEPARTMENT OF TRADE & INDUSTRY

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GOLT MACH

KAYNER

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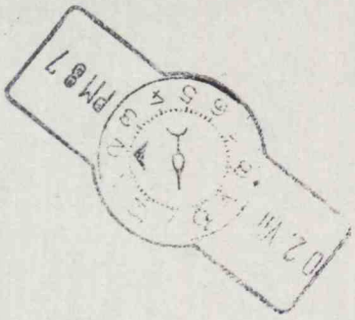
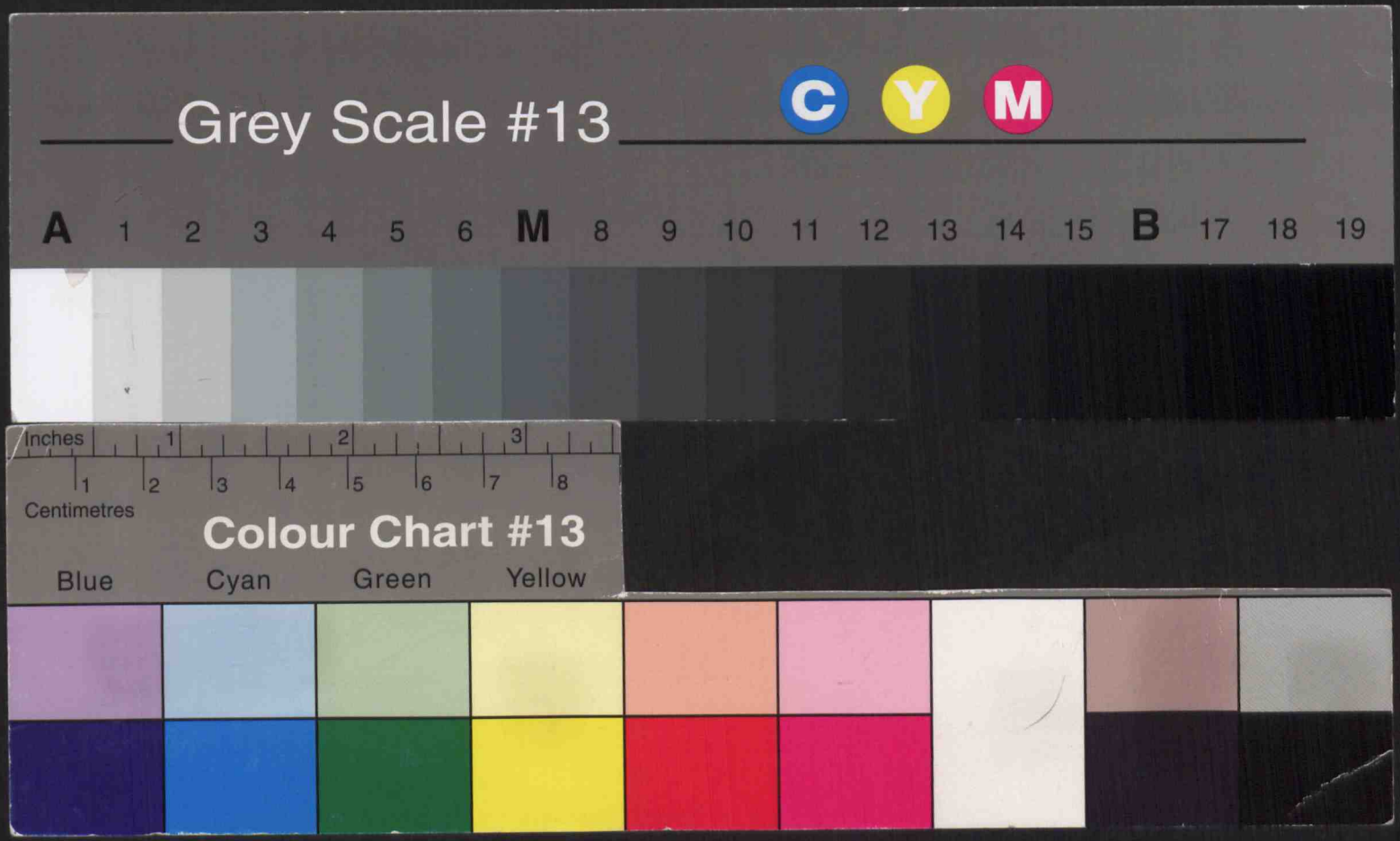


PART 23 ends:-

NLW TO MOD 26.6.V7

PART 24 begins:-

SS/DTI TO PM 2.7.V7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