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PRIME MINISTER

THE MACHINERY OF GOVERNMENT AT THE CENTRE

Sir Ian Bancroft submitted with his minute of 30 June 1980 (attached) two reports on machinery of Government issues - one examining the case for restoring the central elements of the CSD to the Treasury and the other dealing with the possible creation of a new Common Services Agency comprising the PSA, HMSO, COI and the service functions of the CSD. These reports will be before your meeting at 1500 tomorrow, Wednesday 23 July, with the Chancellor of the Exchequer, the Lord President, Sir Ian Bancroft, Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner.

I suggest that you concentrate at the meeting on the basic question of the future of the CSD and the Treasury and leave on one side for the time being the report on common services which is not critical to the decision about the CSD and the Treasury. The essential issue to be decided (though you may not necessarily reach a conclusion at what is your first meeting on this topic tomorrow) is whether to continue with two separate departments or whether to bring the key elements of the CSD back into the Treasury. The main arguments for and against the merger are fairly simple. The case for rests first, on the lack of drive and impact by the CSD on the rest of Whitehall and second, on the belief that an amalgamation of the core of the CSD and the Treasury would permit tighter Government control of public expenditure and improved efficiency in the Civil Service. The arguments against the merger and for leaving the Treasury and CSD as separate departments turn mainly on the failure of the Treasury in the 1950s and 1960s to give adequate attention to those of their functions which became the heart of the new CSD following the report of the Fulton Committee. Ironically, many of the criticisms now levelled against the CSD are the same as those that were made about the Treasury 12 years ago. I think that we have to recognise that much of the rest of Whitehall would not welcome the re-integration of the core of the CSD with the Treasury simply because they would be sceptical about whether the new arrangements would be

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better than the existing ones and the pre-1968 ones. Nonetheless, there is so much dissatisfaction with the performance of the CSD that something has to be done. I do not believe myself that it would be enough to improve coordination between a separate Treasury and CSD, as Sir Ian Bancroft proposes: rather, I think that we have to go for the merger, in the hope that the Treasury have grasped the lessons of their own failures in the 1950s and 1960s and of the CSD over the last 12 years.

If you reach a decision at tomorrow's meeting in favour of the merger of the Treasury and the CSD, you will then need to take a view on how you want this done, so that the necessary planning can be set in hand. The options are set out in paragraph 29 (c-e) of the first report (Flag A), with the recommendation that we should adopt a step by step approach to integration. This seems right, but you will wish to ask Sir Ian Bancroft and the other officials how best to set about the detailed work that would be necessary if this option is adopted.

This in turn leads on to the question of public presentation. So far these studies have been confined to a very small circle of people and nothing has leaked. But once we get into detailed planning, many more people will be involved and leaks<sup>will</sup> become much more likely. This points to a public statement once the basic decision has been taken.

I do not think that tomorrow's meeting need get into the subsidiary issues of the proposed Inspector General post and the arrangements at Permanent Secretary level in any integrated Treasury/CSD (about which Sir Ian Bancroft minuted you on 4 July). These are matters to be followed up once you have made the fundamental choice between a merger and going on with two separate departments.

JWH.

22 July, 1980

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