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10 DOWNING STREET

THE PRIME MINISTER

Personal Minute

No. *M 9*

CHANCELLOR OF THE EXCHEQUER

The Efficiency of Central Government

As you know, there will be a special meeting of the Cabinet on 25 April to discuss Civil Service manpower policy on the basis of papers by the Secretary of State for the Environment and the Minister of State, CSD. I am much encouraged that you are involving yourself in the preparatory work Paul Channon is undertaking for his paper in consultation with Sir Derek Rayner.

I have also asked Sir Derek Rayner to attend the Cabinet meeting and to circulate beforehand a paper containing his observations and further suggestions on efficiency generally. This should help our colleagues and us to consider what are the lessons of our first year's experience, now nearing completion.

The main purpose of this minute is, however, to ask for your help in work I have now commissioned from the Minister of State, CSD, the Head of the Civil Service, the Secretary of the Cabinet and Sir Derek Rayner with the aim of producing substantial and lasting reforms. Useful as the scrutiny programme and other efficiency exercises are, I believe that they do not reach down to the underlying causes of inefficiency.

My aims are therefore a strengthening of management by and under Ministers in their departments; a strengthening of resource management by Ministers in the central departments; and changes in the managerial culture of the Civil Service.

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The third of those aims is mainly for the Minister of State, CSD, to lead on in the first instance. I have asked him for advice on the following, which he will prepare in consultation with you as appropriate and with Sir Derek Rayner:

- (a) Means of giving special recognition, through pay or personal promotion, for success in grade; the accelerated advancement of individuals; and whether the entitlement to automatic annual increments is still justified.
- (b) A "model succession policy" for the Civil Service, so as to promote to management posts, especially the senior ones, individuals with the right track record.
- (c) A possible requirement that heads of department should give a regular, personal account of what they have simplified, eliminated or saved and that departments should publish an annual statement of their achievement in this respect.
- (d) A policy for enabling staff, especially those in staff-intensive departments, to give of their best.
- (e) Whether it would be likely to provide useful information to ask a department on a pilot basis to keep a record of the cost of resources committed in support of its Parliamentary work.

On departmental management, and the financial framework within which it operates, I have asked Sir Derek Rayner for advice on the matters set out below. I should be grateful if you would give him your support and help; he will also consult the Minister of State, CSD, and the Head of the Government Accountancy Service in the Department of Industry as necessary:

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- (a) How best to define the managerial authority of Ministers in charge of departments, so as plainly to establish their management function vis-a-vis that of their officials. This should include the good habits that Ministers need to practise as managers, for example the value of looking back at the reasons why resources were committed to particular policy objectives and of comparing performance with the results intended.
- (b) Defining the responsibility and accountability of officials to Ministers, especially that of Accounting Officers and those who occupy key management posts. (Sir Derek Rayner would here, as elsewhere, hope to draw on work already going on in the Treasury.)
- (c) Clarifying the responsibility and authority of and the qualifications needed by Principal Finance and Establishment Officers. I should like to see a steady progression towards the employment of those qualified in financial management and management accountancy.
- (d) The strengthening of the financial framework, with particular reference to the structure of Public Expenditure Survey programmes; the relationship between these and the organisation of departments; and the presentation of information and departmental expenditure in the Supply Estimates.

I understand that there is already work going on in and between the Treasury and the CSD on the financial framework (6(d) above). I very much welcome this. I hope that, with Sir Derek Rayner's help, it can be brought together in the shape of proposals for endorsement by Ministers later this year.

In addition, I should be grateful if the need for and application of the "annuality rule" could be examined and also the possible need for greater cost-consciousness in the imposition and application



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of regulations and standards. I am asking Sir Derek Rayner to get in touch with you about these and the other points listed above.

As far as the central Ministers are concerned, I see two main requirements.

First, as we face the public expenditure problems of this and succeeding Administrations, I am certain that it is necessary to consolidate recent experience (notably with Cash Limits) and to be specific about the aims and methods of central control and the balance between this and departmental control. I do not intend by this a change in the fundamental idea of partnership between spending departments and the centre, but that we should be absolutely clear about what must be left to Departmental Ministers and what must remain within the interest and responsibility of central Ministers - for example the development and monitoring of consistent, reliable and effective systems of planning and control in departments.

There is relevant work already in hand in the Treasury and CSD, for example on the Public Expenditure Survey, the current scrutiny of public expenditure monitoring in the Treasury and the scrutiny of expenditure control intended by the Treasury for the autumn. I should be grateful if you would consider with the Minister of State, CSD, as appropriate and with Sir Derek Rayner how this work can be expedited and brought to Ministers in the shape of recommendations later in the year.

Secondly, I can see a good case in principle for ending the separation of Treasury and CSD control and related functions. I should accordingly be grateful if Sir Douglas Wass, Sir Robert Armstrong and Sir Derek Rayner would assist the Head of the Civil Service in preparing advice for me in his capacity as my adviser on machinery of government on the following propositions:

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- (a) that the relevant parts of the CSD (e.g. manpower, personnel management) should be brought back within the framework of and re-formed with the relevant parts of the Treasury;
- (b) that the office of Head of the Government Accountancy Service should be relocated in the Treasury;
- (c) that parts of the CSD not relevant to the control and related functions (e.g. the Civil Service Catering Organisation) should be combined in a service agency under the re-formed Treasury;
- (d) that the Property Services Agency should be relocated with this new agency; and
- (e) that there might be a new office of "Inspector General of the Civil Service", reporting to me, perhaps from within the re-formed Treasury, but available to all Ministers on the efficiency and effectiveness of Civil Service operations - its role, were it created, would be mainly one of quality assurance rather than inquisition.

I have asked Sir Derek Rayner to let you have a resume of his views on all these matters. I should be glad to discuss them with you and him at some stage if that would be helpful. I quite accept that there are no perfect or ready-made solutions; for example, the re-formed Treasury/CSD could, without taking great care over the design and working arrangements, impose excessive burdens on its Ministers. But I am sure that on the basis of our experience so far, we must strengthen the foundations for resource management by reforms of a lasting nature.

I have asked for advice on the scheduling of the work I have commissioned, but I intend to press it to a conclusion at the earliest feasible date. Knowledge of the work affecting the machinery of government should be restricted to the Treasury and the Civil Service Department on a strictly "need to know" basis.

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I am copying this to the Minister of State, CSD, Sir Ian Bancroft, Sir Robert Armstrong and Sir Derek Rayner.

*Ian Bancroft*      *Robert Armstrong*

3 April 1980

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