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# CABINET

## EFFICIENCY AND WASTE IN CENTRAL GOVERNMENT

Note by the Secretary of the Cabinet

Following the brief discussion at Cabinet on 13 September (CC(79) 15th Conclusions, Minute 9) the Prime Minister has asked that the attached minute from Sir Derek Rayner should be circulated to the Cabinet for discussion at the meeting on 4 October, when Sir Derek Rayner will be in attendance.

Signed JOHN HUNT

Cabinet Office

17 September 1979

E MINISTER

CIENCY AND WASTE IN CENTRAL GOVERNMENT

Starting Point

The annual cost of running central Government is some £5,882m made up follows:

| | £m | |
|---|---|---|
| Staff and administrative costs in major departments | 3,706 | (ie staff in departments other than those at b. - d plus general administrativ expenditure) |
| Common Services and Pensions | 1,452* | |
| Revenue collection and debt servicing (Customs & Excise, Inland Revenue, Driver and Vehicle Licensing Centre, Department for National Savings) | 681 | |
| Central Departments (Treasury, CSD, Cabinet Office) | 43 | |

rce: Supply Estimates 1979-80, Cmnd. 7524 (April 1979).

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ide up as follows, but excluding Defence Accommodation Services, most of which relate to Armed Forces installations:

| | £m |
|---|---|
| fice and General Accommodation Services, PSA | 402.3 |
| rseas Representation Accommodation Services &c | 31.6 |
| inistration and Miscellaneous Services, PSA | 173.0 |
| tionery and Printing, HMSO | 106.3 |
| puters and Telecommunications | 57.9 |
| licity, COI | 35.6 |
| il Superannuation | 534.6 |
| es on Government Property | 104.8 |
| il Service Catering | 1.1 |
| master General's Office | 5.2 |
| | 1,452.4 |

2. The Conservative Manifesto included a firm commitment to reduce the total level of Government activity and to making the activity which remains efficient:

> "The State takes too much of the nation's income; its share must be steadily reduced ..... The reduction of waste, bureaucracy and over-government will also yield substantial savings." (pages 8 and 9)

3. The media have given expression to public feeling about bureaucracy at all levels and will continue to do so. To disappoint the expectations aroused would confirm the view of many that the bureaucracy will always wear out the new broom.

The way forward

4. There are two main ways in which Ministers can enable themselves to do what is really important and stop the squandering of staff and other resources. First, each Minister can reduce the number and scale of his departmental activities where this does not impair the country's health and wealth. Second, he can improve the methods by which that activity is carried out.

5. My general recommendations to achieve those aims are that Ministers should -

a. regularly review the scale and the efficiency of their operations;

b. regularly review the cost of their overheads; and

c. develop their management function in respect of the resources placed in their charge, eg through a flow of key information needed to monitor the use of staff and other departmental facilities.

It is relevant to c. above that the "Rayner project" (see paragraph 6 below) suggested by the Secretary of State for the Environment for his Department concerns an improved system for the provision of management information to Ministers but also that Ministers and their officials would not be starting from cold if the Government adopted the programme I recommend: it would rather be a matter of developing from existing techniques of appraising the cost of operations.

A programme of action

6. In your Minute to Ministers of 4 June on the Rayner Project you commissioned a series of projects on functions or activities which might be unnecessary or too costly and wasteful. It is likely that some major reorganisation proposals will emerge from

the projects now under way in the Departments. I have kept in touch with a number of officials engaged on this work and have been able to see at first hand how some of the work is done, which enables me to say with confidence at this stage that there will be opportunities of substantial savings in staff in some areas and a considerable simplification of the way work is carried out.

7. Such reforms will be more obvious to the public and to Parliament than general reforms in respect of, say, the management of the Civil Service, important as those will be (see paragraph 23 below). A programme of action which permits Ministers to make regular announcements that activities have been dropped, reduced or reformed will do much to convince the public that the Government not only means but is in business.

8. I recommend that the programme of action should include -

a. Tests of specific functions to establish whether activity is still necessary at all, whether the intended purposes can be achieved through less activity and whether there is duplication of the activity of other Departments or agencies, for example, whether Government needs all the statistics it collects; whether the procurement of non-warlike stores by and on behalf of the Armed Forces can be further rationalised; and whether the organisation and methods by which social security and unemployment benefits are delivered can be further simplified.

b. Tests of ways of doing things, for example whether in collecting the revenue or delivering social security we make effective use of staff and enable them to feel loyalty and commitment.

c. Tests of the cost of running the Government, for example of housing, furnishing, equipping it and so on.

9. Any scrutiny of how a a department does its job begs the prior question of why it does it. This means looking at policy, since the questions "Does the job need to be done at all?" and "Can it be done more efficiently?" are logically inseparable. Any activity should be regarded as disposable or improvable if it does not produce a benefit worth having at the price paid for it. The examinations I recommend should therefore be designed to show whether the policy objectives of expenditure are clearly identified and are still valid, in effect whether the activity bought by the expenditure is one that the Government must carry out, wholly or partly; what is the cost of the activity; whether the responsibilities and accountability of staff are clearly specified; and whether activity is so carried out as to achieve its objectives effectively and economically. Activities engaging large

numbers of staff offer obvious scope for such examination not, I suggest, with the simple intention of reducing numbers but of establishing whether the activity is conducted effectively. In terms of staff morale it is important to make clear that simplifying or mechanising or computerising work improve both the service and the satisfaction of staff delivering it. In all areas of work, it is important that the scrutiny should be seen not as accusatory or inquisitorial, but as seeking in the general public interest thoughtful contributions from staff. This would acknowledge that responsible Civil Servants want to deliver cost-effective services and also that line managers are already expected and should be further encouraged to recommend ways in which the resources in their charge can be better used.

10. The programme will serve its purpose only when action is taken as a result of examination. It should not therefore be allowed to become too formal or bureaucratic. That said, I envisage that the first year's scrutinies should be conducted on a pilot basis, taking into account experience with the "Rayner projects" now under way, so that methods and procedures for the second year can be considered in the light of experience. In order to give my general recommendations substance and to take account of the points made above, I make the following detailed recommendations.

Scrutiny of overheads

11. I recommend that each Minister in charge of a Department should, at the appropriate point in the PESC/Estimates cycle, scrutinise the overheads* of his Department as well as his staff costs and that for this purpose he should make one of his Ministerial team responsible for an annual examination of the relevant expenditures. A regular flow of management information about the use of resources will be essential for this and I shall offer advice in due course, eg on the importance of reviewing past performance and of informed realism in setting targets for the future.

Scrutiny of specific functions

12. I recommend that in order to increase their Department's efficiency and effectiveness, Ministers should examine in detail during the course of each year specific functions and the associated use of staff, administrative expenditure and overheads

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* The footnote on page 1 details the overheads additional to staff costs. I shall want to comment on the general question of repayment for common services now provided on "allied service" terms in my "conventions" project (see paragraph 23 below).

13. The Civil Service has traditional means of examining work, staff inspection and O & M. While these have an important place in the programme, I believe that they should be ancillary to a new approach. The basic questions to be asked are, "What value is added, to the public good and to efficient administration, by this activity (or procedure, or practice or convention)? Should it be kept at all? What has constrained or now constrains greater effectiveness?" For this purpose, I recommend that Ministers should employ some of their ablest officials to scrutinise the selected activity radically and searchingly. I do not envisage that there should be more than one or two officials for most scrutinies, but they should be able to call upon the Department's resources to help; I generally oppose the committee style in work of this kind.

14. The number of scrutinies to be conducted by Ministers each year depends on the size and character of each Department. I recommend that each Department should have at least one a year and that the executive and larger departments should have, say, three or four a year; no Department should be automatically excluded.

15. The scale and nature of subjects for scrutiny will vary according to the functions of departments. The most obvious but far from the only topics will be likely in Departments bearing directly on the public, eg through the collection of revenue or the delivery of benefits or employment and training services, in which areas several issues have been raised with me. I recommend that early scrutinies be mounted in such areas. Similarly, there are areas of interface or overlap or duplication with other agencies, particularly local government and the nationalised industries; I recommend that exercises be done here also, with the general intention of reducing such duplication or double-banking or excessive monitoring as may be found and of clarifying the purpose and method of such activity as may be necessary.

16. In order to make for consistency as between Departments and to identify subjects which affect the interest of more than one Minister, I recommend that the programme of each year's scrutinies should be decided upon after you have been informed of the proposals for it. To begin with, I recommend the submission of the first pilot proposals, and the notification of arrangements to be made under my recommendations in paragraphs 11 - 15 above, by 23 November.

Parts to be played by the central Departments

17. I recommend that the central Departments (HM Treasury, the CSD and the Cabinet Office (CPRS)) should play the following parts:

a. The CSD, with such assistance from the Treasury and CPRS as may be appropriate, should prepare for you and

for Cabinet an annual statement on the cost of Government, dealing in particular with the main elements of cost, with movements in them and with matters on which the collective interest of senior Ministers should be brought to bear. This might most conveniently be done as part of the PESC process, with the statement being considered at some time in the period July-October.

b. The CSD should collate for you the proposals made by Ministers in charge of departments for scrutinies (see paragraph 16 above) with a view to advising you and senior Ministers whether the most important subjects are included; whether the annual programme is coherent across departments; how problems (identified by departments or the central Departments) which span the interests of more than one Minister should be handled; and also with a view to your indicating those scrutinies in which the intended outcome should be reported to you.

c. The CSD, HM Treasury and CPRS should be authorised to associate themselves with particular scrutinies and to suggest ones additional or alternative to those proposed by Departments. (The degree of "association" would vary according to circumstances between appointing staff to join in an exercise and receiving and commenting on the draft report. The purposes of "association" would be to lend support when necessary; to promote consistency of treatment as between Departments; and to ensure that points of concern to the Minister for the Civil Service and the Chancellor of the Exchequer were properly reflected in the programme of action.)

d. The CSD, with such assistance from the Treasury and CPRS as may be appropriate, should be authorised, whether jointly with them or on its own, to carry out scrutinies of particular activities in collaboration with the Departments concerned and to report to you and to the Ministers in charge of those Departments.

e. The CSD should continue with its programme of assignments, some of which are interdepartmental in character, aimed at producing quantifiable savings (eg in transport, office support services, office machinery and in general "cost consciousness"), but the programme of work for each year should be approved by you in your capacity as Minister for the Civil Service.

Programme Analysis and Review; Management Review

18. The last Conservative Administration introduced new forms o

examination, Programme Analysis and Review and Management Review. Despite the goodwill which has gone into the design and conduct of PAR, it has become over formal and cumbersome in procedure, has not engaged and kept the truly collective interest of either Ministers or officials and has tended to produce reports which are too bulky, tardy and impracticable. As for management review, you have indicated that the planned reviews of the Ministry of Agriculture and the Overseas Development Administration should proceed, but that you would need to be convinced that they produce positive results before authorising further reviews. In my view, the scrutinies I envisage would render the PAR approach unnecessary and I think that it could cease without serious loss; they might replace management reviews in their present form, but I should like to offer you advice on this next Spring, in consultation with the Ministers and senior officials concerned.

Publicity

19. I recommend that the main features of the programme of action should be announced as early as possible, together with examples of the areas which are the first to be examined.

20. It may be objected to this that it would be far better to announce specific changes, savings or reforms. In fact, the decisions on public expenditure and Civil Service manpower will have been announced by the time the programme is ready. But the main point to emphasise is that this Administration is committed to long-term reform and that this means developing the managerial role of Ministers; looking for further savings by eliminating, simplifying or rationalising areas of work; and taking the time and committing the effort to identify these savings, not least by challenging past conventions.

Relationships with other exercises

21. The content of the programme would be influenced by the outcome of the exercise on medium-term options for reducing the size of the Civil Service and of the current "Rayner projects" in Departments (cf paragraph 6 above), on which I shall be reporting to you at the end of October, but these do not affect the general principles outlined above. Nor would these principles be affected by concurrent exercises on Circulars to and statutory controls over local authorities or by the review of Quangos.

22. My project on the burden of Government's requests for information* is relatively free-standing, but I shall probably want to recommend to certain Ministers follow-up exercises for inclusion in the programme of action.

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* cf paragraph (a) on page 1 of your Minute to Ministers in charge of Departments, 4 June.

23. My project on the conventions of Whitehall which discour... or inhibit the effective management of business and resources ... Ministers[1], an outline of which I shall let you have shortly, ... complementary to the programme. Its main purpose is to make ... recommendations aimed at strengthening the capacity of Minist... to manage their Departments. It is likely to be completed nex... Spring.

Finding the right people for top management jobs

24. In conclusion, no organisational changes nor improvements ... methods will, by themselves, ensure lasting success. The only ... I know to get to grips with a complex activity is to put somec... in charge whose background and experience suggest that he/she i... qualified to do the job. This is one of the messages of recen... criticism of the Service; I saw it when I was last in Whitehal... and I am seeing it again now.

25. Managers will not be motivated to show initiative in brin... down costs and eliminating waste, unless promotion and recogni... follow success. Their staff will not be inspired to do better ... unless they understand what their tasks are for and can respect ... their leaders. Those leaders must not merely take an interest ... their suggestions and complaints but actively promote the ... conditions necessary to the delivery of services in a manner wh... inspires loyalty, pride and commitment. Things go wrong if ... outstanding middle managers are passed over by the promotion to ... top positions of people without management experience, or with ... interest in the work which will be directed by them in their ne... appointment.

26. I intend to pursue the questions of appointments to senior ... management posts and of related matters during my project on ... "conventions" in consultation with the CSD and other Departments.

DEREK RAYNER
30 August 1979

[1] Your Minute of 4 June, paragraph (b) on page 1