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PRIME MINISTER

THE MACHINERY OF GOVERNMENT AT
THE CENTRE

Earlier this year you commissioned Sir Ian Bancroft, with the help of Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner, to examine the case ^{for} restoring the central elements of the CSD to the Treasury and for creating a new Common Services Agency, comprising the PSA, HMSO, COI and the service functions of the CSD.

In the attached minute Sir Ian Bancroft submits the reports of these two studies. The conclusions of the study of the possible reunification of the Treasury and the core of the CSD are at paragraph 29 of the report (Flag A). They do not come down decisively for or against a merger. This is because there was disagreement amongst those carrying out the study. As Sir Ian Bancroft's covering minute makes clear, he is against reunifying the Treasury and the CSD and Sir Derek Rayner is strongly in favour: Sir Douglas Wass and Sir Robert Armstrong take the same view as Sir Derek Rayner though this is not made clear in Sir Ian Bancroft's minute.

The conclusions of the report on the possible merger of common services are set out in paragraph 22 of the report of that study (Flag B). Again, there is not a firm recommendation for or against the proposal and instead it is suggested that the case for reorganising common services functions should be re-examined when a number of reviews which are already in hand have been completed. This uncertainty does not matter too much, since the decision on the possible reorganisation of common services is not critical to the proposed merger of the Treasury and the CSD.

I suggest that you defer reading the two reports in full until the weekend. The decisions which you need to make immediately are:-

/(a) Should copies

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(a) Should copies of the reports be sent to the Chancellor of the Exchequer and the Lord President, as Sir Ian Bancroft suggests? They, together with Mr. Channon, are the only Ministers who know that these studies have been undertaken. I suggest therefore that they should get copies of the reports. Agree?

Yes not

(b) When you have had a chance to study the reports and you have seen the further notes from Sir Robert Armstrong and Sir Ian Bancroft promised in paragraph 6 of Sir Ian Bancroft's minute, would you like a meeting with the Chancellor, the Lord President, Sir Ian Bancroft, Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner?

Yes not

(c) Do you agree that I should tell Mr. Heseltine's office to go slow on whatever they are doing on the future of the PSA (paragraph 8 of Sir Ian Bancroft's minute)?

Don't. Speak
to David
Hendricks. I
expressed my
view. The next
to be expressed
was I was told
him.

JMH
8/2

JMH. Yes not

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PRIME MINISTER

THE MACHINERY OF GOVERNMENT AT THE CENTRE

... I attach two reports on the machinery of Government propositions in your minute of 3 April to the Chancellor of the Exchequer. I have prepared the reports in close consultation with Sir Robert Armstrong, Sir Derek Rayner and Sir Douglas Wass. The first one is about the propositions for the unification of the Treasury and the core of CSD and the relocation of the Head of the Government Accountancy Service in the Treasury: its conclusions are summarised in paragraph 29. The other report is about the proposition for a new common services agency comprising the PSA, HMSO, COI and the "service" functions of CSD: its conclusions are summarised in paragraph 22. Neither report discusses the proposition for an Inspector-General of the Civil Service. This is because Sir Derek Rayner wishes to develop further his ideas about the Inspector-General; and the proposition, while relevant, is not crucial to the decision whether to unify the Treasury and CSD.

THE TREASURY AND CSD

2. The agreed view of the four of us is that the practical choice is between:

a. unification of the two departments, beginning at the Ministerial level and moving forward step-by-step to closer integration at the official level (paragraph 17 of the first report); or

b. to keep the two departments separate but improve the coordination between them and clarify their respective responsibilities (paragraph 28 of the first report).

3. The case for unification is that CSD has insufficient "clout"; and that the drive on public expenditure, manpower and efficiency could be pursued more effectively if the two departments were merged. I personally find difficulty in accepting the first of these propositions and I do not think the second is self-evident.

4. My own (as it happens, extensive) experience of machinery of government changes has taught me that the costs of re-organisation are usually under-estimated and that policies and personalities are more important than organisational theories. The penalties of disruption - even if minimised as suggested in paragraph 17 of the report - are immediate and substantial: the benefits come in the longer term and are inevitably speculative.

5. Sir Derek Rayner believes that the two departments should be merged and that the risks of disruption should not be over-emphasised. He accepts that it is not out of the question to leave things as they are, with or without minor improvements; and, indeed, as he

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suggested in his minute to you of 26 March, changes in organisation cannot of themselves produce either savings in public expenditure (except the possibility of producing a slimmer organisation at the Centre) or improved performance by spenders and controllers. He believes that there has to be a driving force bringing with it changes in policy and practice and enabling those now divided by the separateness of the Treasury and CSD to be more effective. Sir Derek Rayner's view remains very firmly that, since the policy of the Government is to control and manage public expenditure and the Government's own operations much better than in the past, you and "central" Ministers are entitled to a firm base from which to be briefed and supported in leading your other colleagues in managing the consumption of resources. He believes that this should be provided by a single department, bringing together in one organisation the theory, practice and knowledge needed both to support "central" Ministers and to underpin the collective management role of the Cabinet. Sir Derek does not believe that it is sufficient or effective to try to coordinate central control across the separation of two departments.

6. The balance of the arguments for and against merger can be struck only as a matter of your personal judgement, and I recognise that organisational considerations are not the only ones. Sir Robert Armstrong will be sending you a separate note about the implications of merger at Ministerial level and I will be sending you a note about the arrangements at Permanent Secretary level. You might find it helpful to supplement this written material by a discussion at some stage with the four of us who prepared the reports.

THE COMMON SERVICES

7. All four of us see the attractions of unifying the common services; indeed, Sir Derek Rayner's view goes beyond seeing its attractions - he is for it in principle. Naturally, there would also be some disadvantages. But we all believe it would be best to await the results of the reviews on privatisation and the financial framework before reaching a final view. This need not delay your decision on the unification of the Treasury and CSD; that decision is not dependent on the future organisation of the common services. You will, however, presumably want to have the views of the Select Committee on the Treasury and Civil Service before making up your mind on unification of the central departments.

8. I should mention, too, that the Secretary of State for the Environment appears to be developing proposals for obtaining independent advice - perhaps from a new and high powered advisory board - about PSA's operations. Your office may wish to suggest to him that he defers further work on this for the time being (ie until you have had time to consider the report on common services).

9. Finally, the creation of a new common services agency would probably require a Transfer of Functions Order and possibly even primary legislation, depending on how the powers were to be vested and what the financial arrangements were to be. This is a matter on which it would be necessary to obtain legal advice before a

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final decision on the propositions was taken. It would also be necessary, of course, to bring into consultation the agencies concerned.

10. I am copying this minute and the reports to Sir Robert Armstrong, Sir Douglas Wass and Sir Derek Rayner. Spare copies of the reports are enclosed, as I imagine you will wish to send them to the Chancellor of the Exchequer and the Lord President.

JAB

IAN BANCROFT
30 June 1980

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