

PRIME MINISTER

THE ORGANISATION OF THE TREASURY AND CIVIL SERVICE DEPARTMENT

1. On my return from Japan, I have seen the report of the Treasury and Civil Service Committee and Sir Ian Bancroft's minute to you of 10 December. I had also been reflecting on the issues since your meeting on 14 November.

The Committee's report

2. It is interesting that the Committee's report is about "the future of the CSD". To my mind, the real issue is the effectiveness of the centre which, as the Chancellor indicated in his minute to you of 13 November, has been damaged over the last 12 years by

- divided responsibility for financial systems, impairing the centre's work on promoting efficiency
- the diffusion of policy on public sector pay between the Treasury and the CSD
- divided responsibility for public expenditure control, impairing the totality of control over public expenditure.

3. The Committee concludes that the weight of argument is against a merger "at the present time" (paras. 23 and 27) - it means the weight of numbers, it seems to me - but recommends substantial measures of informal as against formal unification (co-location, joint common services and cross-posting). These I find paradoxical. It also recommends the measures to "revitalise" the CSD already summarised in Sir Ian Bancroft's minute. These I think more indicative of the Committee's desire to have its cake and eat it than of a thorough analysis of the issues.

4. If you wished, I should be glad to offer a more detailed appraisal of the Committee's report, perhaps as part of the work you may want to commission from others, but I should like to make two points now.

5. First, although the Committee concedes that all its witnesses have some connection with the Civil Service, it was disposed to align itself with the views of those who criticised the analogy I drew with business in my evidence as "seductive" but "false" and "misleading" (para. 14). I do not apologise for taking my experience in business into account in giving evidence. I do not feel that I am criticising a success story from a position of ignorance: unlike most witnesses, I have had the good fortune to be both a Permanent Secretary and Accounting Officer and a managing director. From that experience, I can assure you that there is a world of difference in the attitudes of those who manage and control resources provided "free" by the taxpayer or by borrowing and of those who manage and control resources which have to be earned, not just to stay in business but for investment and growth. And a very senior and experienced Permanent Secretary has recently told me that in his view, "value for money" is conspicuous by its absence from the Service.

6. Secondly, the unwillingness to get down to brass tacks of those who should know better is demonstrated by the Committee's view that the "revitalisation" of CSD as an instrument of change should include the recruitment of a "limited number of specialists" from the private sector (para. 20). I regard that as more truly demoralising for the CSD and the Service than many other things said to be so. The crying need is to make the Service itself and its systems excellent, not to import reluctant heroes from somewhere else. I am deeply opposed to abating the alleged amateurism of the Service by bringing in people who, although specialists outside, are themselves amateurs in Whitehall. I know of no responsible

organisation which would not choose to rear its own specialists in all the fields that mattered to it.

Is merger relevant to the real issues?

7. I originally raised this issue as part of the "lasting reforms" programme, a résumé of which is annexed. When we met on 14 November, you were unconvinced that merging relevant parts of the CSD and Treasury would make any radical difference to:

a. the management of this year's expenditure, in particular avoiding the breaching of certain cash limits; and

b. the attitudes of departments, including their Ministers, Permanent Secretaries and Principal Finance Officers, towards spending and control.

8. You are right, if I may say so. Change by itself achieves nothing. The point of changing organisation is to enable one to carry out policy better than through existing structures. The main needs are accordingly:

a. to be clear about one's policy aims; and

b. to decide whether existing organisation is achieving them.

9. The aims of policy seem to me to be both short-term and long-term.

Policy for the short term

10. The main relevant aim is to hold to cash limits in the rest of the current financial year and to those fixed for the next. This aim may be vulnerable to defects in departmental systems or attitudes or to changing circumstances, eg the tendency of suppliers to deliver and want to be paid earlier than hitherto.

11. Systematic or attitudinal defects should be foreseeable by the centre and preventive action should be possible. If not, such defects should attract a severe response from the centre when they do occur (for example, pressure for premature retirement or withheld honours) and, much more important, a thorough scrutiny and repair of the departmental system at fault.

12. Changes in circumstances may be harder to deal with. Recession has brought the private sector, including my firm, problems similar to those faced by the public sector. There may be no complete answer to every problem but our own case shows that careful planning with contractors and a rigorous monitoring both of agreements made with them and of cash flow go a long way towards mitigating the worst effects.

13. In other words, one needs a policy for the here and now which is to a degree independent of organisational considerations: it is a policy for management, especially in and by departments, to anticipate problems. If it would be helpful, I should be glad to offer you and those of your colleagues who are the most concerned such advice and assistance as I could.

Policy for the long term

14. As I see it, the essential aim of policy for the long term is fourfold:

- a. to plan, control, retrench and manage the big volumes of public expenditure;
- b. to get the maximum value for money from each programme of public expenditure;
- c. to accelerate the improvement of the techniques and methodology of resource control; and

d. to accelerate the reform of the Civil Service so as to provide Ministers with an instrument of management adapted to present and future needs.

15. The front-line troops for carrying out much of this policy are of course the "spending", not the central departments. There is a greater concentration of power there than at the centre. Indeed, we have to recognise some important realities here:

a. The policies and programmes funded by the Chancellor are made and operated by people and in all that follows it is people who need to be seen as the great opportunity for good as well as the targets for reform.

b. Most departments are cohesive, powerful machines, with control over everything brought together at the top. Whereas their top managers have a single source of information and integrated opportunities for management, the centre divides its information and its opportunities.

c. The system as a whole is to a degree private and privileged. The taxpayer has no choice but to pay the bill presented to him and of course to meet the consequences of any implicit decision taken by Ministers or their officials not to manage well. He must rely on each Minister to satisfy himself that his departmental systems and operations are sound.

d. But Ministers can only spend a little of their time on the quality of their systems. Like the taxpayer, they have to rely on the Civil Service.

16. The centre nonetheless has power. For example it can:

- refuse approval to departmental Estimates
- be highly critical if not negative in its response to new spending proposals
- require a review as a condition of approving such proposals
- require a review of particular, existing expenditures
- require a review of departmental resource control machinery
- be stringent in advising you on the selection of Permanent Secretaries and Deputy Secretaries, as well as in its function of approving the appointment of Principal Finance and Principal Establishment Officers
- be stringent in advising you on honours for officials.

17. Partly because of our conventions, those powers have been used modestly. And the pull round from the habits of spending to those of retrenchment and economy has been slow. The Financial Information System and Cash Limits are important but comparatively recent moves towards better financial management. Procedural and other improvements will follow in the wake of the Treasury's recent scrutiny of FIS and its review of its arrangements for central control as part of the "lasting reforms" programme.

18. Even so, we still confront very large problems of technique and of attitudes. I think it fair to say that

central Ministers remain worried about the interest in and capacity of some Ministers to restrain public expenditure and get value for money and about the effectiveness of the centre. (The Chancellor will be bringing forward a paper on central control presently.) During the summer, the Treasury was said by one of its senior officials in a paper on the General Expenditure Divisions to be still insufficiently aware of the sort of control systems it should encourage in departments, while its ability to judge their effectiveness was uneven.

19. The paper said that (as of August this year):
- a. The natural direction of future development for the Treasury was to take a more active interest in the systems of control operated within spending departments and their effectiveness.
 - b. But there was no single point of responsibility or piece of machinery for encouraging efficiency in the management of Government expenditure.
 - c. There were some things which helped:
 - squeezing expenditure totals;
 - Treasury Specific Expenditure Divisions were attentive to the quality of financial management in departments but (at that time) had no definite responsibility going beyond their concern with programme totals;
 - the Treasury had some technical services, but they tended to be responsive and advisory rather than harnessed in a deliberate and active operation;
 - the CSD had extensive machinery for efficiency but this was very loosely,

if at all, linked with the Treasury.

d. There was no concerted approach to the problem of tackling value for money and cost in Whitehall.

20. Moreover, there remain fundamental questions about the basis on which forward expenditure should be planned (the "cash v volume" issue) and about the effect on the control machinery of the centre of the multiplicity of revaluation indices in use by departments. We are therefore at a stage of development, learning and struggle which will continue for some time. The critical question is whether simply co-ordinating the work of the centre across the institutional gap between CSD and the Treasury will serve central Ministers as well as or better than a merger.

Is co-ordination a better answer than merger?

21. Very recently, the Treasury has taken an initiative, which I greatly welcome, to promote improved financial management. The instrument is a group of officials with Treasury, CSD and departmental representatives, as well as someone from my office. Among other things, it will assist me with my work on certain lasting reforms. This group, which would be needed and useful whether the departments were merged or not, will provide valuable co-ordination of thinking and action in relation to the principles and practice of financial management.

22. The Select Committee has also opted for co-ordination (on the spot rather than across the physical gap). Co-ordination can be made to work, but is it enough?

23. You may well decide that merger is not on, for a variety of reasons, and that co-ordination is to be preferred. If so, I shall do my best to help devise the best possible forms of co-ordination and, for example, through the "lasting reforms" programme, to offer you and your colleagues other relevant

advice. My own preference remains very strongly for merger for these reasons:

a. I regard the decision to split the CSD from the Treasury as wrong in principle. It gave credence to a fundamental misconception, namely treating manpower, organisation, personnel and indeed "management" as different in kind from the policies, programmes and operations which in fact dictate the use of resources. This tended to suppress the importance of money as the critical factor in management, but the same, or very similar, systems should ensure the good management of "policy expenditure" just as of administrative expenditure.

b. I also regard it as malign in some of its consequences; it

- confused and retarded the development of effective resource control, because "systems" (including financial systems) have been too much regarded as part of "organisation" and therefore for CSD, not the Treasury;
- diminished the centre's knowledge of and influence over departmental programmes, personnel and organisation;
- reinforced the power of departments as against that of the centre.

c. While it is for others to comment on the political history of the CSD, it is clear that it has had a strong Ministerial team only under this Government. For most of its life, although vested (mistakenly, in my view) with the responsibility for

promoting the overall efficiency of the Civil Service, CSD has lacked clout save at times of crisis.

d. There have already been attempts, not very successful, at co-ordination. Two departments, each headed by a Cabinet Minister and a "super" Permanent Secretary, are more likely to pursue divergent policies than a single department, no matter what the co-ordination arrangements. So there is no guarantee that co-ordination will succeed in future. If it does not, CSD will continue to be put on trial, which will be constantly debilitating, as well as (in my view) unfair.

e. More important, central Ministers and the Service need a powerful engine for reform at the centre. The component parts are there. They need linking in such a way as, for example to:

- specify the marks of good systems for controlling resources in departments
- ensure that they are adopted
- put every available pressure on the recalcitrant and give every encouragement to good managers
- run a vigorous and determined policy to improve the quality of key managers in departments, especially those responsible for large resources.

f. There is a possible cash saving of £500,000 and a possible saving in senior posts of one "super"

Permanent Secretary, one Deputy Secretary and two Under Secretaries. These are savings well worth having.

24. I would therefore hope that, as a minimum, the Manpower Divisions of the CSD would be brigaded with the Expenditure Divisions of the Treasury on the basis of Option A in the Hawtin-Moore report and that the CSD's Divisions dealing with efficiency, organisation and systems would also be moved into the Treasury. That would be in line with the proposal in the Chancellor's minute of 13 November. Although not an ideal solution, it would go a long way towards producing the single piece of machinery for and the concentrated approach to efficiency referred to in para. 19 above.

25. I think that it would also be right:

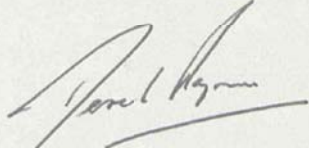
a. to move the post of Head of the Government Accounting Service from the Department of Industry into the Treasury; and

b. to establish a "Common Services Agency" from the PSA, HMSO, COI and parts of CSD, the study of which was recommended in Sir Ian Bancroft's minute to you of 31 October (para. 23).

26. Finally, I have heard it said that one argument against merger is that officials would use this as an excuse for not doing other things. From my knowledge of the people concerned, I believe this to be quite untrue.

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27. I am copying this to the Chancellor of the Exchequer, the Lord President, Sir Ian Bancroft, Sir Douglas Wass and Sir Robert Armstrong.



Derek Rayner

15 December 1980

Enc: Résumé of lasting reforms relevant to the merger
issue

ANNEX

RESUME OF LASTING REFORMS RELEVANT TO THE MERGER ISSUE

CENTRAL CONTROL

1. A paper is in preparation by the Chancellor of the Exchequer, taking account of reviews conducted earlier this year of:

The Treasury's Specific and General Expenditure Divisions

The CSD's Expenditure Control Function.

MANAGERIAL AUTHORITY OF MINISTERS AND OFFICIALS

2. I am to prepare a paper on the relative managerial responsibilities of Ministers in charge of departments and of their officials, covering:

Ministerial responsibility and delegation

The duties of Permanent Secretaries*

The duties of Principal Finance and Establishment Officers/

Line managers

* The Treasury has done a lot of very valuable work this year on re-defining the additional duties of "Accounting Officer" which attach to those of Permanent Secretaries.

/ The CSD has prepared useful memoranda on the functions of these posts.

3. The official group mentioned in para. 21 of my minute will help with much of this work.



THE FRAMEWORK FOR ACCOUNTABILITY IN DEPARTMENTS

4. The official group will also carry forward work aimed at increasing responsibility and accountability for resources in the body of departments.

ORGANISATION OF THE CENTRE

5. My purpose in raising this issue was to establish whether Ministers would be better served in the management of resources and of the Civil Service by providing a single co-ordinating and regulating department at the centre in place of two.