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Treasury Chambers, Parliament Street, SW1P 3AG

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12 June 1981

William Rickett Esq
Private Secretary
Prime Minister's Office
No.10 Downing Street
LONDON SW1

Dear William,

CONTROL OF EXPENDITURE: DEPARTMENTAL RESPONSIBILITIES

The Chancellor was grateful for the Prime Minister's agreement, conveyed in your letter of 21st May, to the circulation to the Cabinet of the paper on departmental responsibilities in regard to the control of expenditure. As you will no doubt have seen from the version circulated last week, he and the Lord President amended paragraphs 10, 11 and 20 of the earlier draft to take account of the Prime Minister's concern that the memorandum might give unnecessary hostages to fortune.

The Chancellor strongly agrees with the Prime Minister that the definition of the responsibilities of the Centre makes it all the more necessary to ensure that the relevant parts of the Treasury and the CSD are sufficiently well equipped to make their role both credible and effective. The reorientation of some of the activities of the two central departments which is envisaged in the memorandum has clear implications for the qualities, experience and training of staff in those departments.

Initially, and perhaps for some little time, the scarcity of resources will impose some limits on the extension of the prescriptive role of the central departments. It will take time for staff to gain experience and training in the relevant skills. And it will hardly be possible to contemplate recruiting additional staff on any scale when the two central departments, like others, are having to cut down their numbers to make their contribution to the meeting of the Civil Service manpower target for April 1984. Nevertheless, the fact that it will take time to develop the expertise of the centre makes it all the more necessary to press ahead with the job of preparing the central departments for the role now to be allotted to them.

/That said, the Chancellor

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That said, the Chancellor would not like the Prime Minister to suppose that the central departments do not already have a quite significant capability to guide and direct departments in the field of financial management. The transfer to the Treasury of the Accountancy Finance and Audit Division of the CSD brings under one roof the responsibility for prescribing and disseminating best standards of financial control. The combined AFA Division and the Treasury AP Group will have a useful nucleus of professionally qualified staff who should be able to contribute significantly to the strengthening of financial management throughout Whitehall. The Treasury is intending to develop the professional side of the Group still further and recruitment is in hand. Moreover the aim will be to promote an interchange of staff between the AFA Division and the rest of the Treasury, to the benefit of each side.

More generally, the Treasury are mounting a review of what now needs to be done by way of instruction, training and changes of organisation so as better to equip Treasury staff for their role in promoting efficiency in Departments. The review is being conducted on the lines of a "Rayner scrutiny", in consultation with Sir Derek Rayner.

The Prime Minister is, I think, aware of the work recently embarked upon by the Financial Management Co-ordination Group under Treasury Chairmanship. This too is considering important changes in the Government's accounting framework with a view to promoting improvements in financial management. Another development which may well point the way to a more positive role on the part of the Treasury is the pilot study on systems of financial control in the MAFF which has just been agreed and which is to be accompanied by one on the Department of Industry. These studies were the result of a Treasury initiative and, although the Treasury is not directly involved, we are closely associated with the terms of reference, the choice of consultants and we shall be involved in the follow-up action.

The Chancellor does not rule out the possibility that, even with the developments described in this letter, the Treasury will find it necessary to develop its skills more quickly and acquire a wider means of experience than they presently foresee. Training of our own staff will of course make a big contribution to the making good of any deficiencies that emerge, but it may also be necessary to seek help from external sources, eg management consultants, accountants etc. The Treasury has for some time had a programme of secondments from leading firms of accountants and this has proved invaluable in strengthening our financial expertise.

/This letter is primarily

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This letter is primarily about the Treasury. The Lord President may wish separately to describe to the Prime Minister the steps the Civil Service Department have taken and will be taking to strengthen their capacity to provide assistance to Departments in management matters.

I am sending a copy of this letter to Jim Buckley, David Wright and Clive Priestley.

Yours sincerely

John Wiggins

A J WIGGINS
Principal Private Secretary