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8 January 1980

The Hon Douglas Hurd CBE MP
Foreign & Commonwealth Office
Downing Street
London SW1

Dear Douglas

THE MERGER OF THE FCO AND THE FORMER ODM

1. When you wrote to me on 6 July, you said that the "Rayner project" was an ambitious one with considerable implications for the machinery of government and the future management of the aid programme. I very much agree. You also kindly said that you looked forward to receiving my "guidance".
2. This letter contains my comments on the report by Messrs Adams and McCulloch, with whom I had a very useful and interesting talk about their initial draft towards the end of October. I should make it clear however that I have little direct knowledge of either the FCO or the ODA and that my "guidance" can therefore hardly consist of suggestions as to matters of detail. My main personal experience over the last 10 years or so has been that the FCO's industrial and commercial work has been improved out of all recognition, which suggests that things can be made to change and do change over the years. The other points I have had in mind in reading the report are these.
3. It is obviously the Government's wish that the Foreign Secretary should be supported by a single Department in carrying out his responsibilities, including overseas development, and that the operational relationship between foreign and aid policies should be very close. As I understand it, the ODA is now part of the FCO and so I do not know what significance to attach to the statement in paragraph 2 on page i that the ODA is a "subordinate but administratively autonomous unit within the FCO", as opposed to the statement in Circular 0 93/79 (paragraph 7) that it is "self-contained for administration purposes".
4. Secondly, the organisation of the "single department" is very much a matter for Ministerial judgment, but the emphasis placed by Ministers generally on economical administration suggested to me that the optimum solution would be one which clearly defined the functions to be carried out on behalf of the Secretary of State and proposed the slimmest possible administrative structure for them.

5. Thirdly, while recognising the important differences between the FCO and ODA regimes, not least those between what is required of Diplomatic Service staff on the one hand and of Home Civil Service staff on the other, the analysis should have in mind that question in the terms of reference about "the ideal structure if we were starting afresh". (This matches your reference to an "ambitious" project.)

6. Finally, one need not envisage that extensive re-organisation, should that be the outcome, must be introduced overnight. Time would be needed and should be allowed.

7. Against that background, what follows should be seen as the comments of the devil's advocate.

General

8. I thought that the report contained some good work and some sensible proposals, but that it was too much the prisoner of the existing organisation and that its treatment of the cost of administration was somewhat limited. However, the authors had a very large job to do in a very short time and I recognise that the need to produce an agreed report, likely to commend itself to the FCO and the ODA, was and was bound to be at the front of their minds. As a result, I think that the report should be regarded as a useful but necessarily limited review of the issues and that while it should be possible to agree on some of its recommendations now it would be wrong to regard it as a definitive treatment of the issues.

Comments on principal recommendations

9. I comment below on the preference for Option C ("closer integration") as against Option D ("complete integration"). Here I deal with the points set out in paragraph 13 (a) and (b) on page vi and more fully in paragraphs 13.2-13.7, 13.9 and 13.10 on pages 38-40.

10. I agree with the proposals at 13 (a) i-iii for single Aid Policy and Economic Relations Departments and for consequential adjustments in the ODA's Development Co-ordination Department and the FCO's Trade Relations and Export Department. The suggested timing is "as soon as possible", but I hope that a reasonably short timetable can be set as part of the "proposed action" document (with which I deal below).

11. I note that the three United Nations Departments should be co-located eventually (paragraph 13(b)i) and have read the brief discussion in paragraphs 5.19 and 5.20. The treatment of the possible rationalisation of these Departments is not conclusive; I cannot help feeling that it should be possible to simplify the structure for handling UN business in a more closely integrated organisation.

12. Similarly, I note that it is proposed to reduce the four Information Departments to two "joint" Departments "eventually" (paragraph 13(b)ii and paragraphs 5.24-5.26). Timing is obviously related to such other factors as accommodation, but I suggest that "eventual" rationalisation should be expressed in more definite terms.

13. I note that the savings attributable are estimated at 11 posts and some £114,000 (paragraph 6.1 and Annex N). They are welcome, if much more modest than I had supposed possible. I agree that a full staff inspection would be needed and I suggest (this is my suggestion, not the CSD's) that the Civil Service Department should be associated with it to provide an independent view.

Comments on organisation generally

14. The report recommends that two further single geographical Departments should be established on an experimental basis (paragraph 13(c) on page vi, paragraphs 5.42-5.48 on pages 22-25 and paragraph 13.8 on page 40). I do not regard this as a robust solution in that particular area and there are other areas, not I think sufficiently considered in the report, in which it seems to me that there could be sizeable scope for improving efficiency and reducing costs. I should be grateful if you would kindly consider the following points.

15. The recommendation concerning geographical departments has obviously to be seen against the background of the report's rejection of "total integration" (Option D). Forgive me for saying that the coarse outsider would undoubtedly see the rejection of Option D and the tentative recommendation of more experimental joint departments as the bureaucrat's solution. The report comments here and there on arrangements before 3 May. It reflects, naturally and fairly enough, the different points of view of staff in the FCO and the ODA. But it has great difficulty in reaching a conclusion freed from the fact that there are at present two institutions and two sets of staff.

16. Some of the main characteristics of the existing separate-ness which stuck me and pointed me towards at least testing a more radical view were these:

a. If there are links between aid policy and foreign policy, I recognise that there are also major differences between them. But the aid function is now vested in the Foreign Secretary, and it is plainly the intention that this should be marked by new arrangements affecting both policy formation (where the single aid policy Department recommended in the report will be important) and administration.

b. I very much recognise the need for effective control on behalf of the Foreign Secretary of the money to be disbursed through aid programmes and the fact that the ODA is responsible for managing expenditure to an extent and in a way that FCO is not. The logic of this seems to me to point towards a senior official responsible for the aid programme within the combined Department and answering on the Foreign Secretary's behalf to the Public Accounts Committee. But one need not conclude that the only way of expressing this in organisational form is an Administration headed by a full Permanent Secretary.

c. I found the discussion of FCO/ODA working relationships in paragraphs 5.36-5.38 and elsewhere very interesting. Paragraphs 7.1 and 10.2-10.4 seemed to me especially valuable and persuasive. The implication of the former is that the deepened "contact and co-operation" between the FCO and the ODA could have happened much earlier, while that of paragraphs 10.2-10.4 is that institutional separateness has a momentum of its own which would tend to push the FCO and ODA apart, despite the measures recommended by the report for joint policy making.

17. In addressing myself to Option D (paragraphs 11.1-11.6) therefore I began with the view that continued separateness must carry with it at least some costs, in terms of both duplication of services, working relationships less effective than they might be and, as the report says in paragraph 10.2, "lost opportunity". The report is not informative on costs, since it concentrates on aid and economic relations administration (paragraphs 2.12 and 2.13), so that I cannot deal with actual cost data which would throw a brighter light on the extent of duplication and overlap between the FCO and ODA, on both aid matters and matters of more commonplace administration. However, simply looking at the organisation charts in Annex F, I am impressed by the fact that the FCO and ODA each equip themselves to undertake the following functions, as well as the policy, geographical and other functions dealt with in the report:

Economic Planning Staff (ODA)/Economists (FCO)

Establishments & Organisation (ODA)/Relevant parts of the Chief Clerk's organisation (FCO)

Science & Technology, Health & Natural Resources (ODA)/Energy, Science & Space, Maritime, Aviation & Environment (FCO)

Financial staffs other than those covered by the report (ODA and FCO, eg Internal Audit)

18. The treatment of such functions in the report is slight, as indeed is the discussion of Option D. I am not an "all or nothing" unification man, but I am bound to say that paragraphs 11.1-11.6, while helpfully bringing out some of the main points to be considered, do not provide a model of organisation which

one can test on cost or other criteria. I agree with the assumption that unification would make for some important structural changes (paragraph 12.3, Option D) and that its implementation should be well timed (paragraph 11.5), but I think that the criteria selected for judging the options (paragraph 12.2) are insufficiently cost-conscious and that the reference to adverse effects on staff (paragraph 12.3) is too deferential to the legitimate interests of the staff associations in preserving the status quo.

19. The different difficulties of separate staff regimes and separate accommodation have some force, although I suspect that they can be over-played, but I am left with a strong feeling that the compromise solution of experimenting with two more single geographical departments avoids the main issue and is not the best way forward.

20. I see the main issue as how best to organise the functions now combined under the Foreign Secretary in a single framework. This appears to have two parts - first, the degree to which the FCO and ODA duplicate and overlap each other on aid policy at points not covered by the Report's recommendations and, second, the degree to which they also do so in such non-policy areas as economic, scientific and common services. This second part, of course, carries with it implications for the scale of the staff the Foreign Secretary needs.

Next steps

21. I think it would be helpful to discuss this letter and the report, with a view to letting the Prime Minister know this month what is to happen next and therefore with a view to agreeing on a "proposed action" document on the measures to be taken subsequently. May I suggest that the agenda might be as follows?

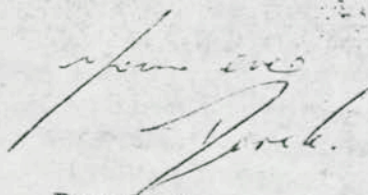
a. To settle on those decisions which can be taken now.

b. To settle how work on aid overlap/duplication can best be carried forward. I suggest that the team's geographical recommendations should be subsumed in a wider study of the interface between FCO and ODA on aid and the UK's relationships with developing countries. I assume that it would also be necessary to take into account the relationship between the FCO/ODA and other Departments in these matters. One possibility might be to adapt the Management Review of the ODA, which is now considering what work should be done during its main stage, to cover these issues.

c. To settle how the remaining "overlap/duplication" issues (paragraphs 17 and 18 above) should be handled. Some would no doubt fall within the work I envisage in b. above, but others (notably perhaps on the support and common services fronts) would at first sight warrant a study geared to the possibility of establishing a FCO/ODA

"fully merged" to take effect at about the time that Richmond Terrace becomes available to house what is left of the ODA in London (report, paragraphs 2.11 and 11.6). (I should make it clear however that I do not regard housing in one place as critical to the success of a merger, desirable though it would be; as with other departments in London one might have to settle for a second best in which sections of the department were housed apart from the main building, or even next to it.)

22. I am copying this to the Foreign Secretary and also to the Minister for Overseas Development, Sir Michael Palliser, Sir Peter Preston and Messrs Adams and McCulloch whose application and hard work I am glad to acknowledge.

A handwritten signature in cursive script, appearing to read 'Derek Rayner', written in dark ink.

Derek Rayner