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15 January 1980

Sir Peter Preston KCB
 Overseas Development Administration
 Eland House
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R. Pattison

Peter

MANAGEMENT REVIEW

1. I have looked through the preliminary survey report circulated by the team and have skimmed the preparatory notes on the scientific units. (If I may say so, the team are to be congratulated on providing an ample opportunity to read the papers before the meeting on 17 January.)
2. This is to offer comments on three things, the possible implications of my letter to Mr Hurd of 8 January on the FCO/ODA merger; on the report itself; and on its possible implications for the scrutiny programme, to which Clive Priestley's letter of 10 December to the Foreign Secretary's private secretary refers.

The FCO/ODA merger

3. My letter to Mr Hurd suggested that there were several issues which the "Rayner project" had addressed but with which it had been unable to deal, that they required further study and that the management review might be a suitable means for this.
4. I see that paragraph 10.2 of the report says that Ministers have considered the Adams/McCulloch report and that their "conclusions" have been taken into account in planning the main stage studies of aid policy and of bilateral aid.
5. I assume that these "conclusions" are provisional in the sense that Ministers have not yet discussed the Adams/McCulloch report with me. However, I feel no great difficulty over the "policy" study in the management review team's paragraph 10.3. It seems wholly sensible to take the few weeks suggested by the preliminary survey report (mid-January to mid-March) to think through and to design the two "single" departments dealing with Aid Policy and Economic Relations. And I very much agree with

the team's view that they would have to range outside the ODA proper in order to do this work.

6. On bilateral aid (paragraph 10.4), I agree with the proposition that there should be further work on the roles and organisation of the ODA geographical departments, the Development Divisions and the advisory staffs. I very much hope, however, that this will extend beyond the ODA end of FCO/ODA working relationships on aid. In the light of my letter to Mr Hurd, I think that the team should be tasked to identify and make recommendations on overlap between those separate and several functions of both wings of the Department having to do with advice to the Foreign Secretary on aid and the implementation of the aid programme on his behalf. I also think that it would be very helpful to consider the way in which aid projects are managed.

Comments on the text of the preliminary survey report

7. Subject to what is said below about the Directorate of Overseas Surveys, I think the recommendations made in paragraph 10.5 for a study of the management of the Scientific Units and the outhoused units and for a factual survey of the administration of technical co-operation reasonably sound. However, I find the description of the proposed work on the latter in paragraphs 8.23 and 10.6 rather tentative; perhaps the steering committee can sharpen up the issues on which the team should concentrate?

8. I think the references in paragraphs 10.7 and 10.8 to a structural study sound, not least deferring the specification of the remit until the outcome of earlier studies is apparent.

9. That remark of course relates to a management review of the ODA as it is now. It is qualified by the references in my letter to Mr Hurd to an analysis of overlap between the FCO and ODA in areas other than aid policy and its implementation. But I do not take the view that that analysis would necessarily have to be carried out within the period of the management review.

10. The best plan might be a two-stage one. It might be preferable to treat as the first necessity establishing the nature of the primary functions to be discharged by the combined department on behalf of the Foreign Secretary (ie policy and execution) and the most economical and effective way of organising these; and to treat as the second necessity, to be addressed next, the implications of this for such secondary functions as common services.

11. It would however be essential, in the work covered by the team's recommendation in paragraph 10.8, to avoid the implication that the "main organisational framework of the ODA" was an inviolable entity. And I would hope that this study would consider how resource planning and control should operate in the aid wing

as it emerges from the "policy" and "bilateral aid" studies recommended in paragraphs 10.3 and 10.4.

12. I have set out in the attached note some points which struck me on reading through the rest of the report.

The scrutiny programme

13. Clive Priestley's letter of 10 December records the Prime Minister's view that it would be appropriate to undertake a scrutiny as well as the management review and her agreement with the Foreign Secretary's suggestion that the choice should be made in consultation with me after the preliminary survey. The Prime Minister thought too that the Directorate of Overseas Surveys might provide a suitable topic.

14. Perhaps we can discuss this. My own provisional view is that the extension of the management review in the way I have suggested, together with the analysis of the "non-aid" overlap between the FCO and ODA, might provide sufficient radical and searching questions for the ODA, and to some degree, for the FCO in coming months.

15. I should qualify this in respect of the Directorate of Overseas Surveys (Annex C of the Preparatory Study). I know nothing about the DOS other than what I have read in these papers. The main relevant points which struck me were these. First, I note that the dispersal programme caused staff instability, whose effects are expected to persist for some time (paragraph 8, p.50); secondly, I note that there have been two (as it appears) "machinery of government" reviews, in addition to the dispersal exercise, in 1971 and 1977. I can see that there is some force in the view that the DOS has been worked over enough in recent years, but the Prime Minister's concern related less to its size or its character as an institution than to the way in which its services to the Land Resources Development Centre, the ODA and others are costed. In reporting back, I shall need to be able to say something convincing about the costing of services.

16. As you are meeting on Thursday, I am taking the liberty of copying this letter to Sir Edward Youde, Mr Barratt, Mr Pearce and Mr Hudson.

Yours ever
Derek

Derek Rayner

Enc: Comments on the preliminary survey report

COMMENTS ON THE ODA MANAGEMENT REVIEW PRELIMINARY SURVEY REPORT

III Organisation of Policy Formulation and Review

1. I am very interested by the references in paras. 3.5-3.7 to lack of clarity over the Finance and Economic Planning Staff roles. I hope that the team's work in their policy study (para. 10.3) will help to establish the correct balance of responsibilities as between the central finance, EPS and administrative department roles.

2. I do not know how big an Economic Planning Staff the ODA needs. The present one seems large. No doubt the policy, bilateral aid and top structure studies will throw light on this.

3. The anonymity of the remarks from outside the ODA (para. 3.11) is vexing; it is hard to know what weight to attach to them.

IV The bilateral aid programme

4. I suspect that identifying unproductive work (para. 4.3) is going to be one of the main themes of this Government's policy on efficiency and waste. If there is a justifiable doubt about the "country papers", perhaps the simplest course is to try doing without them.

5. I was interested in para. 4.4's references to the use of geographical department staff and to their relationships with professionals and also in para. 4.6's and para. 4.8's reference to the use of FCO and ODA staff abroad. I think there are three themes here, first clarifying the nature of the task in hand and the contributions to be made to it by different staff, second, pushing responsibility for doing the work as far down the hierarchy as it will go, and third, getting the work done by as few people as possible.

6. I found paras. 4.10-4.17 on Advisers especially interesting. They raised in my mind not only the questions just stated, but also the questions

- a. How does one know whether aid projects are effective (para. 4.10)?
- b. Why can't professional staff run projects or have responsibility for departments (para. 4.14 and 4.17)?
- c. Why are respective responsibilities unclear?

7. Similar points occur in section V (the multilateral aid programme).

VI Finance (and Annex F)

8. I note that the team have reservations about inhibitions on effective financial management.

9. I also see that in para. 21 of Annex F the ODA is said to have "well developed appraisal procedures", presumably in the bilateral aid area, but apparently "much less rigorous" procedures in technical co-operation and multilateral aid.

10. The team do not propose a study of financial control per se. I would in general prefer management reviews to include a study of financial control as it works in practice, but this is of course for the Minister to decide in the light of the advice given him by the steering committee. If the ODA review does not include a study specifically of financial control, I hope that the steering committee would nonetheless take a view of all the evidence available to it on financial management, since the ODA's responsibility for the Aid Programme is represented as the main justification for having a separate Administration, and that the evidence included some practical illustration of financial control at work.

11. For the purposes of that "illustration", I think that a few case studies showing how the existing arrangements for planning, control and evaluation actually work would be helpful and it may be for consideration whether, if necessary, the team should be extended to enable such studies to be provided.

12. I see that the Chief Internal Auditor reports to the PFO rather than (as I would prefer) to the Accounting Officer and that the team has the impression that all is well, despite their further impressions that there is delay in implementation and uncertainty about the IA and Management Services roles (Annex F, paras. 27 and 28).

13. Given the size of the Aid Programme (Annex F, para. 1) I think the IA Unit small. The steering committee should, I suggest, satisfy itself that the Unit is appropriately staffed and led and that it works effectively.

VII Manpower and Personnel Management

14. I should make a general comment on some Departments' tendency to refer to themselves as "small" (para. 7.4).

15. The ODA consists of 2,500 people, some of them very highly qualified (Annex C, Table 3). The annual cost to the taxpayer is £14m (Annex F, p.1). While the ODA may be small compared with the DHSS, say, it still represents a very substantial commitment of manpower.

16. I think the conclusion on personnel (para. 7.16) diffident, and I am not very happy that the team propose no manpower study per se (para. 7.17).

17. I doubt whether the suggestion for the Organisation Department to resume the old practice of making line managers review their objectives and staffing requirements annually (para. 7.6), would be sufficient in itself. Presumably that practice fell into disuse because it was cumbersome for line management and

ineffective (for whatever reason) as an instrument of central control. It seems to me that the practice, if recommended, could only be justified as an integral, usable and useful part of a control system. So the question is perhaps what arrangements that system would consist of and how they would work.

18. This is relevant to the treatment of the audit machinery in paras. 7.8-7.10. Should it be accepted that "the cyclical programme of inspections can only provide a periodic audit of the use of manpower" (para. 7.8)? What does CSD mean when it says that "generally [it has] no major misgivings about domestic staff inspection in ODA" (para. 7.9)? What do the team mean when they say that they "think that the PEO may wish to consider the scope for strengthening the [staff inspection] team" (para. 7.9)?

19. I see that the role of the PEO will be considered during the structural study. That will be helpful, but I suggest that the steering committee might also interest itself in the instruments he and line management will be using. I myself would like to see in operation a policy for making the best use of the staff needed and progressively reducing the number needed, alongside a requirement that heads of department should know what their units cost and should account for their use of resources.

Gvt Mach ✓ MAD

cc for information/optional
comment*

Sir Derek Rayner

Mr F R Barratt, HM Tsy
Mr Pearce, CSD
Mr Widdup, HM Tsy

* without copy letter to Mr Hurd

[Blind copy: Mr Pattison
also copy of letter to Mr Hurd]

ODA MANAGEMENT REVIEW

1. I attach the MR team's preliminary survey report and its "preparatory" report on the Scientific Units. They are for Steering Committee discussion on 17 January.
2. I also attach a draft letter to Sir Peter Preston, addressed to the "Rayner project" and the scrutiny programme, as well as to the content of the reports attached and to the team's proposals for the main stage. This is self-explanatory. (A copy of your letter of 8 January to Mr Hurd is attached for reference.)
3. Comments on the text of the preliminary survey report, for enclosure with the draft letter to Sir Peter Preston, follow immediately behind it.
4. If the Treasury or CSD wish to comment on the draft letter, it would be helpful if they did so on Monday, so that we can get the letter to Sir Peter Preston in reasonable time for Thursday's meeting.

CP

C PRIESTLEY
11 January 1980

Encs: Preliminary Survey Report
Preparatory Study of the Four Scientific Units
Draft letter to Sir P Preston
Comments on report
Copy letter to Mr Hurd

DRAFT OF 11 JANUARY 1980
MANAGEMENT - IN CONFIDENCE

Sir Peter Preston KCB
Overseas Development Administration
Eland House
Stag Place
London SW1

cc Sir Edward Youde, KCMG OBE
FCO
F R Barratt Esq, CB HMTsy
J B Pearce Esq, CSD
N B Hudson Esq, ODA

MANAGEMENT REVIEW

1. I have looked through the preliminary survey report circulated by the team, who, if I may say so, are to be congratulated on giving those concerned an ample opportunity to read it before the meeting on 17 January. I have also skimmed the preparatory notes on the scientific units.

2. May I offer you comments on three things, the implications of my letter to Mr Hurd of 8 January on the FCO/ODA merger; on the text of the report; and of the implications of the report for the scrutiny programme, to which Clive Priestley's letter of 10 December to the Foreign Secretary's private secretary refers?

The FCO/ODA merger

3. My letter to Mr Hurd suggested that there were several issues which the "Rayner project" had addressed but with which it had been unable to deal, that they required further study and that the management review might be/^asuitable means for this.
4. I see that para. 10.2 of the report says that Ministers have considered the Adams/McCulloch report and that their "conclusions" have been taken into account in planning the main stage studies of aid policy and of the organisation and management of bilateral aid.
5. I assume that these "conclusions" are provisional in the sense that Ministers have not yet discussed the Adams/McCulloch report with me, but I feel no great difficulty over the "policy" study in the management review team's para. 10.3. It seems wholly sensible to take the few weeks suggested by the preliminary survey report (mid-January to mid-March) to think through the implications of and design the two "single" departments dealing with Aid Policy and Economic Relations. And I very much agree with the team's view that they would have to range outside the ODA proper in order to do this work.
6. There is a difficulty about the study of the organisation and management of bilateral aid, as proposed

MANAGEMENT - IN CONFIDENCE

in para. 10.4. While I agree with the proposition that there should be further work on the roles and organisation of the ODA geographical departments, the Development Divisions and the advisory staffs, as the team recommends, it is not clear how far this would extend beyond the ODA end of FCO/ODA working relationships on aid. In the light of my letter to Mr Hurd, I would like to think that the team would be tasked to analyse and make recommendations on those separate and several functions of both the foreign policy and overseas development wings of the Department bearing on the provision of advice on aid to the Foreign Secretary, the implementation of the aid programme and UK relationships with developing countries. In other words, I would not like to think that the steering committee and the team felt constrained to take as the starting point for their analysis of the overlap issues merely the "two joint geographical departments" recommended by the Adams/McCulloch report; I would prefer a fresh start on this front, taking the "Rayner project" report as just one input.

Comments on the text of the preliminary survey report

7. Subject to what is said below about the Directorate of Overseas Surveys, I think the recommendations made in para. 10.5 for a study of the management of the Scientific Units and the outhoused units and for a factual survey of the administration of technical co-operation reasonably sound. However, I find the description of the proposed

MANAGEMENT - IN CONFIDENCE

work on the latter in paras. 8.23 and 10.6 rather tentative; perhaps the steering committee can sharpen up the issues on which the team should concentrate?

8. I think the references in paras. 10.7 and 10.8 to a study of top structure sound, not least deferred the specification of the remit until the outcome of earlier studies is apparent. This remark of course relates to a management review of the ODA as it is now. The references in my letter to Mr Hurd to an analysis of the degree of overlap between the FCO and ODA in areas other than aid policy and its implementation are relevant, but I do not take the view that that analysis would necessarily have to be carried out within the period of the management review. It might be preferable to treat as the first necessity establishing the nature of the primary functions to be discharged on behalf the Foreign Secretary (ie policy and execution) and the most economical and effective way of organising these; and to treat as the second necessity, to be addressed next, the implications of this for the nature and organisation of such secondary functions as personnel management and common services. It would however be essential, in the work covered by the team's recommendation in para. 10.8, to avoid the implication that the "main organisational framework of the ODA" was an inviolable entity.

MANAGEMENT - IN CONFIDENCE

9. I have set out in the attached note some points which struck me on reading through the rest of the report.

The scrutiny programme

10. Clive Priestley's letter of 10 December records the Prime Minister's view that it would be appropriate to undertake a scrutiny as well as the management review and her agreement with the Foreign Secretary's suggestion that the choice should be made in consultation with me after the preliminary survey. The Prime Minister thought too that the Directorate of Overseas Surveys might provide a suitable topic.

11. Perhaps we can discuss this. [My own provisional view is that the extension of the management review in the way I have suggested, together with the subsequent analysis of the "non-aid" overlap between the FCO and ODA, would provide sufficient radical and searching questions for the ODA, and to some degree, for the FCO in coming months.]

12. [I should qualify this by reference to the Directorate of Overseas Surveys (Annex C of the Preparatory Study),] I know nothing about the DOS other than what I have read in these papers. The main relevant points which struck me were these. First, I note that the dispersed programme caused staff instability, whose effects are expected to persist for some time (para. 8, p. 50);

MANAGEMENT - IN CONFIDENCE

secondly, I note that there have been two (as it appears) "machinery of government" reviews in addition to the dispersal exercise, in 1971 and 1977. I can therefore understand the view that has been put to me that the DOS has been worked over enough in recent years, but the Prime Minister's concern related less to its size or its character as an institution than to the way in which its allied services to the Land Resources Development Centre, the ODA and others are costed. In reporting back, I should need to be able to say something convincing about the costing of services.

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1. I am very interested by the references in paras. 3.5-3.7 to lack of clarity over the Finance and Economic Planning Staff roles. I hope that the team's work in their policy study (para. 10.3) will help to establish the correct balance of responsibilities as between the central finance, EPS and administrative department roles; as there is, I note, to be no study of financial control per se, what might help in this, and with the study of bilateral aid (para. 10.4) and subsequently of the top structure (para. 10.8), would be a case study or two showing how the existing arrangements for planning, control and evaluation actually work.

2. I do not know how big an Economic Planning Staff the ODA needs. The present one seems large. No doubt the policy, bilateral aid and top structure studies will throw light on this.

3. The anonymity of the remarks from outside ODA (para. 3.11) is vexing; it is hard to know what weight to attach to them.

IV The bilateral aid programme

4. I suspect that identifying unproductive work (para. 4.3) is going to be one of the main themes of this Government's policy on efficiency and waste. If there is a justifiable doubt about the "country papers", perhaps the simplest course is to try doing without them.

5. I was interested in para. 4.4's references to the use of geographical department staff and to their relationships with professionals and also in para. 4.6's and para. 4.8's reference to the use of FCO and ODA staff abroad. I think there are three themes here, first clarifying the nature of the task in hand and the contributions to be made to it by different staff,

second, pushing responsibility for doing the work as far down the hierarchy as it will go, and third, getting the work done by as few people as possible.

6. I found paras. 4.10-4.17 on Advisers especially interesting. They raised in my mind not only the questions just stated, but also the questions

- a. How does one know whether aid projects are effective (para. 4.10)?
- b. Why can't professional staff run projects or have responsibility for departments (paras. 4.14 and 4.17)?
- c. Why are respective responsibilities unclear?

7. Similar points occur in section V (the multilateral aid programme).

VI Finance (and Annex F)

8. I note that, despite their reservations about the inhibitions on effective financial management, the team do not propose a study of financial control per se.

9. I do not object to this, provided that at some stage the steering committee can take a view of all the evidence available on financial management in the round, since the ODA's responsibility for the Aid Programme is represented as the main justification for having a separate Administration (see also para. 15 below) and that the evidence includes some practical illustration of financial control at work.

VII Manpower and Personnel Management

10. I should make a general comment on some Departments' tendency to refer to themselves as "small" (para. 7.4).

11. The ODA consists of 2,500 people, some of them very highly qualified (Annex C, Table 3). The annual cost to the taxpayer is £14m (Annex F, p.1). While the ODA may be small compared with the DHSS, say, it still represents a very substantial commitment of manpower.

12. I am not very sympathetic with the suggestion that the Organisation Department should resume the old practice of making line managers review their objectives and staffing requirements annually (para. 7.6). What was the effect of this when it was done before, and why was it discontinued? I would rather see the establishment of a policy for making the best use of the staff needed ~~and~~ progressively reducing the number needed, than an essentially paper exercise as before, alongside a requirement that heads of department should know what their units cost and account for their use of resources.

13. This is relevant to the treatment of the audit machinery in paras. 7.8-7.10. Should it be accepted that "the cyclical programme of inspections can only provide a periodic audit of the use of manpower" (para. 7.8)? What does CSD mean when it says that "generally [it has] no major misgivings about domestic staff inspection in ODA" (para. 7.9)? What do the team mean when they say that they "think that the PEO may wish to consider the scope for strengthening the [staff inspection] team" (para. 7.9)?

14. I am not happy that the team propose no manpower staff per se (para. 7.17). I also think the conclusion on personnel (para. 7.16) diffident. I believe that the steering committee should be in a position to satisfy itself by the end of the review about the points I mention in paras. 5, 6 and 12 above.

Annex F (Finance and Accounting)

15. I see that in para. 21 the ODA is said to have "well developed appraisal procedures", presumably in the bilateral aid area, but apparently "much less vigorous" procedures in technical co-operation and multilateral aid (para. 21). Those

two points make it all the more important that the steering committee should satisfy itself that the arrangements for financial control are sound by reference to some study of it in operation.

16. As for Internal Audit (paras. 27 and 28), I see that the Chief Internal Auditor reports to the PFO rather than (as I would prefer) to the Accounting Officer and that the team has the impression that all is well, despite their further impressions that there is delay in implementation and uncertainty about the IA and Management Services roles.

17. Given the size of the Aid Programme (Annex F, para.1) I think the IA Unit small. The steering committee should, in my view, satisfy itself that the Unit is appropriately staffed and led and that it works effectively.