



Prime Minister

Jarrett

Encouraging signs that things are at last moving the right way.

W
S/S

PRIME MINISTER

FINANCIAL MANAGEMENT

When I introduced the presentation on running costs at No. 10 on 24 February, I referred briefly to the initiative which the Treasury intends to take in this field. I think I should now give you a slightly fuller account of it, especially as it is relevant to the meeting you are to hold on 16 March with the Association of Management Consultants.

You are aware of the recent work in the Department of Environment, and John Nott has told you of the "Reeves Report" on the Ministry of Defence. In addition, we now have the two reports by consultants on the Ministry of Agriculture, Fisheries and Food and the Department of Industry, on which Peter Walker and Patrick Jenkin are reporting to you. While these and other studies have been in progress, the Financial Management Co-Ordination Group of officials, led by the Treasury, have been working on a formulation of general doctrine for government departments generally.

I asked MAPP and got to report to you before the meeting with the MCA.

W
S/S

These various pieces of work can now be pulled together and a general programme of action derived from them.

There is a common message coming out of all this work, including the Treasury's. It is repeated in the paper sent to you by the Association of Management Consultants. It is likely to reappear in the forthcoming report by the Treasury and Civil Service Sub-Committee on civil service efficiency. One must recognise that there are important differences between departments, in size, complexity, in the nature of the job; and that the realities of the political field often limit or complicate the application of

the structures and practices of commerce, a point of which the consultants' reports do not always show sufficient understanding. Nevertheless the common message is broadly valid.

5. The message is that departments need both an organisation and a system in which managers at all levels have:-

- a) a clear view of their objectives; and a means of assessing, and wherever possible measuring, their outputs;
- b) comprehensive information about the costs of their operations;
- c) well-defined responsibility for making the best use of their resources;
- d) suitable training and access to expert advice.

6. There is a close correspondence between this and what Derek Rayner has been saying to us all. Much has been going on in various departments to push it forward. The time has now come for a more systematic campaign.

7. The Treasury sees the development of the management accounting approach as a central feature of this campaign. It is not the accounting itself that is crucial, but the discipline of breaking down a department's activity between managers whose responsibilities can be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more accurately assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up a management accounting system, if properly planned and carried through, imposes that discipline.

8. We need:-

- a) to advance in planned stages;
- b) to take care that, once the overall structure has been established, the detailed component parts provide the information which managers at successive levels really need for the purpose of their particular jobs;
- c) to ensure that the accounting system is used for planning and control and is not relegated to the status of an optional extra; the Treasury will need to consider with departments how best to integrate their new systems with the systems of the public expenditure Survey, Estimates etc, which may need some modification;
- d) to put more effort into the development of output measures and indicators of performance;
- e) to develop training and career management so that managers can put the improved systems and techniques to good use.

9. This is a major development in civil service management, and a difficult one. As was mentioned at your seminar the other day, there can be tension, both concerning the central and other departments, and within a department, between the theme of more responsibility for line managers, and that of a more prescriptive role for the centre. The change will affect management practices, and in many cases organisational structure, quite widely. It is most readily applicable to field operations and self-contained units and establishments. Both the concept and its application are more difficult in relation to divisions at headquarters concerned with policy making and advice to Ministers; but even here there is scope for useful advance, as Michael Heseltine's presentation showed.

10. To push this through fully, learning and modifying as we go, will take time, perhaps 5 years or more. It will involve a heavy call on resources, both in skilled staff and in money eg for computerisation. We shall do no good by hastily cobbling up mechanistic devices which fall into disuse because they do not in the event help the managers to manage.

11. But we can make a start by a central effort now to encourage and push forward and spread what is already in hand in the lead departments.

12. Within the next few weeks, the Treasury intends to issue a paper, after consultation first with selected Permanent Secretaries. This will set out the objectives just outlined, and describe the relevance of management accounting, for which more detailed suggestions for implementation will be promulgated in a separate document. All major departments will be invited to draw up their own programmes of development and discuss them with the Treasury in the course of 1982.

13. The programmes will vary from one department to another. They should build on the work already done or planned, for example as part of the efficiency strategy for 1982 on which Sir ^{Derek Rayner} [Robert Armstrong] recently put proposals to you.

14. You have also called for a progress report on internal audit. A sound audit system becomes even more necessary as authority is delegated to line managers, and the improvement of audit is therefore a part of the programme I have outlined. The Treasury are reviewing the progress made so far. I hope to report to you very soon.

15. A number of departments will need external help, eg from consultants. Not, I think, in the shape of more general studies on the lines of the MAFF and Industry reports; Whitehall is now awash with documents that tell the Government what to do. But help may well be required with how to do it.

You should see Sir Derek Rayner's commentary which is about the value of management accountants (attached) wh
5/3

16. Copies of this minute go to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Industry and the Minister of Agriculture, Sir Robert Armstrong and Sir Derek Rayner.

L.B.

LEON BRITTAN
5 March 1982

100

MAR 1952

100
MAR 1952

100

100



W. J. J. J.

10 DOWNING STREET

From the Private Secretary

Financial Management

The Prime Minister was grateful for the Chief Secretary's minute of 5 March, which she very much welcomed, and for the Chancellor of the Duchy of Lancaster's note of 10 March.

On internal audit, the Prime Minister looks forward to receiving the Chief Secretary's report. She is glad to hear that he will be able to let her have this very soon.

On external help, the Prime Minister agrees entirely with the Chief Secretary that the first priority must be getting action, not further general studies. She would like Sir Derek Rayner to be closely associated with the Treasury's work on management accounting and on the other aspects of financial management. She would also like to have the Chief Secretary's advice on the possible association of other outside helpers, with either or both of the central and departmental efforts to which he refers (in paras. 11 and 12). Some light may be thrown on this, including the possible cost, at the meeting with representatives of the Management Consultants Association.

The Prime Minister was interested in and encouraged by the Chief Secretary's analysis (paras. 4 and 5) and his proposed systematic campaign (paras. 7 - 13). She would very much like to have a chance to see the paper on financial management, including management accounting (para. 12), before it is issued to departments, and she hopes that Sir Derek Rayner can be given the opportunity to comment. She would also welcome a little more detail on how the effort to be made by the central departments is to be arranged, and how it will take into account the other work to which it relates (para. 13).

The Prime Minister would also welcome the Chief Secretary's advice on whether it would be a good idea to give Parliament a comprehensive statement on the various exercises in hand to improve the quality of financial management.

/ Finally,

Finally, the Prime Minister noted the Chief Secretary's references to investing in people and methods, including computing (paras. 8e and 10). She understands that work is in hand to extend the provision of training, including that of senior financial managers, and she would be very grateful for a report on what is intended.

I am copying this letter to John Kerr (Chancellor of the Exchequer's Office), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Jonathan Spencer (Department of Industry, Robert Lowson (Ministry of Agriculture, Fisheries and Food), David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office).

WR

Terry Mathews, Esq.,
HM Treasury

DRAFT OF 12 MARCH 1982

T F Matthews Esq
HM Treasury

FINANCIAL MANAGEMENT

The Prime Minister was grateful for the Chief Secretary's minute of 5 March, which she very much welcomed, and for the Chancellor of the Duchy of Lancaster's note of 10 March. ~~She has asked me to reply as follows, dealing first with the questions of internal audit and external help.~~

2. On internal audit, the Prime Minister ~~would be glad to know when the report to which the Chief Secretary refers will be available.~~ ^{notes that he hopes} She would like it before Easter if possible as she recalls that it is nearly a year since Sir Ian Bancroft and Sir Douglas Wass launched their ~~initiative with Departments in response to the Comptroller and Auditor General's criticisms.~~

3. On external help, the Prime Minister agrees ^{entirely} with the Chief Secretary that the first priority must be getting action, not further general studies. She would like Sir Derek Rayner to be closely associated with the Treasury's work on management accounting and on ^{also} other aspects of financial management. She would like to have the Chief Secretary's advice on the possible association of other

looks forward to receiving the Chief Secretary's report ~~which she is glad to hear that he will be able to let her have this very soon.~~

~~knows a little more detail~~

outside helpers, with either or both of the central and departmental efforts to which he refers (in paras. 11 and 12). Some light may be thrown on this, including the possible cost, at the meeting with representatives of the Management Consultants Association.

4. The Prime Minister was interested in and encouraged by the Chief Secretary's analysis (paras. 4 and 5) and his proposed systematic campaign (paras. 7 - 13). She would *very much* like to *have a chance to* see the paper on financial management, including management accounting (para. 12), before it is issued to departments, *and she hopes that* ~~to have~~ Sir Derek Rayner's *views*; *can be given the opportunity to* ~~and to be~~ *consult.*

~~informed how it is intended that the effort to be made by the central departments (para. 11) is to be arranged. She thinks it important that the programme should be well presented to Ministers, taking into account the other work to which it relates (para. 13), and she will want to give it a fair wind.~~ *She would also welcome a little more detail on how the effort to be made by the central departments can be arranged, and how it will be given effect.* *Chief Secretary's* ~~The Prime Minister also thinks that it would be wise to give Parliament a comprehensive statement in due course of the various exercises in hand to improve the quality of financial management.~~ *would also welcome the advice on whether it ~~is~~ it would be a good idea*

5. Finally, the Prime Minister noted the Chief Secretary's references to investing in people and methods, including computing (paras. 8^e and 10). She very much agrees that thoroughness will be needed, but is well persuaded in principle of the need for investment. She understands that work is in hand to extend the provision of training,

including that of senior financial managers, ^{and} She would be *very*
for a report on what is intended. grateful if ~~she might be informed of what is intended, so~~
~~that she can take a view on it.~~

6. I am copying this letter to John Kerr (Chancellor of the Exchequer's Office), Jim Buckley (Chancellor of the Duchy of Lancaster's Office), Jonathan Spencer (Department of Industry), ~~Kate Timms~~ *Robert Lawson* (Ministry of Agriculture), David Wright (Cabinet Office) and Clive Priestley (Sir Derek Rayner's Office).

PRIVATE SECRETARY

PERSONAL

Prime Minister 1

PRIME MINISTER

Yes
no

Content that I should write
to the Chief Secretary's Office
on the lines of the Draft at A?

The Chief Secretary's minute
is at B.

FINANCIAL MANAGEMENT

Wn
12/3

The Chief Secretary's encouraging minute to you of 5 March springs from the Government's programme of "lasting reforms" in the field of financial management. It spells out succinctly the range of work that has to be done to strengthen the structure of Government accounting. The clarity of the presentation encourages me to think that the Treasury means business. So I believe that the main need for you is to be encouraging in response and to ensure that the details of the "campaign" are sound. I attach a possible draft reply for your consideration; I think you will find that it explains itself.

2. Lady Young's minute of 10 March points out we have in balance two sorts of exercise this year. On the one hand practical reviews and on the other a combination of practical and more theoretical work contribute to getting "lasting reforms" translated from pious words into actual changes:

<u>Reviews</u> (intended to lead to action on scrutiny lines, MPO-led)	<u>Practical and theoretical work</u> (Treasury-led but MPO involved)
Control of departmental running costs Management of self-contained executive operations ("response control reviews")	The nature, purposes and objectives of financial management }* The framework of Govt. accounting } *See Mr Brittan's para. 12 Training for financial management



3. There is also other highly relevant work in hand, in or between the Treasury and MPO, including internal audit and the development of management audit.

4. I suggest that you should welcome the Chief Secretary's minute and offer the "systematic campaign" he envisages your support. The essential conditions are these:

- (1) As Lady Young says, the central departments must collaborate. If you decide to have a "management unit" of your own, I believe that one of its tasks should be making sure they do. If not, I think that you should require the Joint Heads of the Civil Service to agree a plan of action with you.
- (2) The campaign must be practical. The accounting framework is quite a good place to start the effort to make managers responsible, but the centre will be wise to be modest, to take good account of the differences between departments and - above all - to share the lead with the best of the Permanent Secretaries. Nor must anyone scorn the simple - great complexity and sophistication are not necessarily right. I believe I can contribute here and I hope that you will associate me with the central effort.
- (3) If we are indeed to have a campaign it must be planned, coherent, intelligible and sustained. And it must make sense in relation to everything else Ministers have in hand. Therefore it needs a designated leader. But I think that you might take that point on the next round when you have the Chief Secretary's reply to the letter I propose.



(4) The campaign must be about action. Therefore, the leader should establish in agreement with yourself and the central Ministers benchmarks for the measurement of progress and he should report to you regularly. That point too can be taken on the next round.

5. Finally, training for financial managers. There has been something of a heave forward here and the College has a new course for senior people next academic year. But as far as I can see, this is a first step. I suggest that you ask for a report on progress, so that you can take a view on this.

DEREK RAYNER

12 March 1982

CONQUEROR



Chancellor of the Duchy of Lancaster

Prime Minister 2

WM

10/3

Govt Machinery

mt

PRIME MINISTER

FINANCIAL MANAGEMENT

I greatly welcome the initiative by the Treasury which Leon Brittan describes in his minute to you of 5 March. There has been a great deal of work on financial management over the last couple of years and it is clearly right to use what has been learned to generate a powerful new thrust towards improved financial management in Departments generally.

Moreover the objectives of the initiative reach well beyond financial management into basic questions about the way Departments are organised and managed. Leon brings this out clearly in paragraph 5 of his minute, and he is right to connect it to the work of Derek Rayner (paragraph 6). This emphasises the importance of what is proposed.

The main task of the Management and Personnel Office is efficiency. This year we are co-ordinating 3 reviews: running costs; the control of resources in some executive operations; and personnel management arrangements. All 3 bear directly on this initiative on financial management, as well as on the development of managers, clarification of the responsibilities of line and central management in departments, and in relations between central and the other departments. Training is of critical importance here, and especially training in financial management itself.

We are therefore committed to the same central objectives and we shall be working together on this new initiative, on a collaborative basis, with the Treasury. Mr Cassels is in touch with Sir Douglas Wass to this end.

I am sending copies of this minute to the Chancellor of the Exchequer and the Chief Secretary, the Secretary of State for Industry, Minister of Agriculture, Sir Robert Armstrong and Sir Derek Rayner.

Tarset Young

BARONESS YOUNG

10 March 1982

0 MAR 1968

WIR 25
1
98765

121



Sort.
Machiesy Wh
9/3

Treasury Chambers, Parliament Street, SW1P 3AG

Michael Scholar Esq
10 Downing Street
London SW1

8 March 1982

Dear Michael,

FINANCIAL MANAGEMENT

Paragraph 13 of the Chief Secretary's minute of 5 March to the Prime Minister referred, in error, to Sir Robert Armstrong. The proposals recently put to the Prime Minister for the 1982 efficiency strategy came of course from Sir Derek Rayner. *with a R*

I am copying this minute to John Kerr here, to Jim Buckley (CDL) Jonathan Spencer (DOI), Robert Lawson (MAFF) and to David Wright and Clive Priestley.

Yours sincerely
Terry Mathews

T F MATHEWS

Private Secretary

9 MAR 1982

12 1 2 3 4
9 8 7 6 5

COMPTON



Prime Minister

Jarrett

Encouraging signs that things are at last moving the right way.

WR
5/3

PRIME MINISTER

FINANCIAL MANAGEMENT

When I introduced the presentation on running costs at No. 10 on 24 February, I referred briefly to the initiative which the Treasury intends to take in this field. I think I should now give you a slightly fuller account of it, especially as it is relevant to the meeting you are to hold on 16 March with the Association of Management Consultants.

You are aware of the recent work in the Department of Environment, and John Nott has told you of the "Reeves Report" on the Ministry of Defence. In addition, we now have the two reports by consultants on the Ministry of Agriculture, Fisheries and Food and the Department of Industry, on which Peter Walker and Patrick Jenkin are reporting to you. While these and other studies have been in progress, the Financial Management Co-Ordination Group of officials, led by the Treasury, have been working on a formulation of general doctrine for government departments generally.

I asked MAPP and got to report to you before the meeting with the MCA.

WR
5/3

These various pieces of work can now be pulled together and a general programme of action derived from them.

There is a common message coming out of all this work, including the Treasury's. It is repeated in the paper sent to you by the Association of Management Consultants. It is likely to reappear in the forthcoming report by the Treasury and Civil Service Sub-Committee on civil service efficiency. One must recognise that there are important differences between departments, in size, complexity, in the nature of the job; and that the realities of the political field often limit or complicate the application of

the structures and practices of commerce, a point of which the consultants' reports do not always show sufficient understanding. Nevertheless the common message is broadly valid.

5. The message is that departments need both an organisation and a system in which managers at all levels have:-

- a) a clear view of their objectives; and a means of assessing, and wherever possible measuring, their outputs;
- b) comprehensive information about the costs of their operations;
- c) well-defined responsibility for making the best use of their resources;
- d) suitable training and access to expert advice.

6. There is a close correspondence between this and what Derek Rayner has been saying to us all. Much has been going on in various departments to push it forward. The time has now come for a more systematic campaign.

7. The Treasury sees the development of the management accounting approach as a central feature of this campaign. It is not the accounting itself that is crucial, but the discipline of breaking down a department's activity between managers whose responsibilities can be more clearly distinguished and objectives more clearly defined; whose costs and outputs can be more accurately assessed; and to whom greater authority can then be delegated to choose the best way of using the resources allocated to them in pursuit of the defined objectives. The process of setting up a management accounting system, if properly planned and carried through, imposes that discipline.

8. We need:-

- a) to advance in planned stages;
- b) to take care that, once the overall structure has been established, the detailed component parts provide the information which managers at successive levels really need for the purpose of their particular jobs;
- c) to ensure that the accounting system is used for planning and control and is not relegated to the status of an optional extra; the Treasury will need to consider with departments how best to integrate their new systems with the systems of the public expenditure Survey, Estimates etc, which may need some modification;
- d) to put more effort into the development of output measures and indicators of performance;
- e) to develop training and career management so that managers can put the improved systems and techniques to good use.

9. This is a major development in civil service management, and a difficult one. As was mentioned at your seminar the other day, there can be tension, both concerning the central and other departments, and within a department, between the theme of more responsibility for line managers, and that of a more prescriptive role for the centre. The change will affect management practices, and in many cases organisational structure, quite widely. It is most readily applicable to field operations and self-contained units and establishments. Both the concept and its application are more difficult in relation to divisions at headquarters concerned with policy making and advice to Ministers; but even here there is scope for useful advance, as Michael Heseltine's presentation showed.

10. To push this through fully, learning and modifying as we go, will take time, perhaps 5 years or more. It will involve a heavy call on resources, both in skilled staff and in money eg for computerisation. We shall do no good by hastily cobbling up mechanistic devices which fall into disuse because they do not in the event help the managers to manage.

11. But we can make a start by a central effort now to encourage and push forward and spread what is already in hand in the lead departments.

12. Within the next few weeks, the Treasury intends to issue a paper, after consultation first with selected Permanent Secretaries. This will set out the objectives just outlined, and describe the relevance of management accounting, for which more detailed suggestions for implementation will be promulgated in a separate document. All major departments will be invited to draw up their own programmes of development and discuss them with the Treasury in the course of 1982.

13. The programmes will vary from one department to another. They should build on the work already done or planned, for example as part of the efficiency strategy for 1982 on which Sir ^{Derek Rayner} [Robert Armstrong] recently put proposals to you.

14. You have also called for a progress report on internal audit. A sound audit system becomes even more necessary as authority is delegated to line managers, and the improvement of audit is therefore a part of the programme I have outlined. The Treasury are reviewing the progress made so far. I hope to report to you very soon.

15. A number of departments will need external help, eg from consultants. Not, I think, in the shape of more general studies on the lines of the MAFF and Industry reports; Whitehall is now awash with documents that tell the Government what to do. But help may well be required with how to do it.

You should see Sir Derek Rayner's commentary which is about the value of management accountants (attached) wh
5/3

16. Copies of this minute go to the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Secretary of State for Industry and the Minister of Agriculture, Sir Robert Armstrong and Sir Derek Rayner.

L.B.

LEON BRITTAN
5 March 1982

100

MAR 1952

100
MAR 1952

100

100