

Mr RICKETT



MEETING WITH MANAGEMENT CONSULTANTS ASSOCIATION, 16 MARCH

I attach a brief for the Prime Minister. It seems rather long for such a short meeting (45 minutes), for which apologies.

2. I am copying this minute and the brief, but not the supporting material to Mr Mathews (Chief Secretary's office), Mr Buckley (Chancellor of the Duchy's office), Mr Carter (Mr Hayhoe's office), Sir Robert Armstrong, Sir Anthony Rawlinson, Mr Cassels and Mr Wilding.

3. Sir Derek Rayner cannot be present, but his views are available (his letter to you of 1 March).

SP

C PRIESTLEY
15 March 1982

Enc: Brief

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MCA

The PM held a meeting with me at 1545 with the following reports of the meeting: PWB ; ;

Re C

CS LY BH ATA AR JL RW CP
Banks Hancock Brooks and Walts

PRIME MINISTER

MEETING WITH REPRESENTATIVES OF THE MANAGEMENT CONSULTANTS
ASSOCIATION, 3.45 PM, TUESDAY 16 MARCH , 10 DOWNING STREET

PURPOSE OF THE MEETING

1. This is in short:
 - (1) to update you and your colleagues with recent experience of MCA member firms in Whitehall departments; and
 - (2) to share thoughts on how to get the practical changes to which the Government's as well as the MCA's analysis points.

ATTENDANCE

2. The MCA's representatives are as follows. (The list gives examples of the recent assignment work undertaken by their firms in Whitehall.)

<u>Name</u>	<u>MCA office/firm & office</u>	<u>Recent assignment work</u>
<u>Mr Philip BANKS</u>	Chairman, MCA Council; Managing Director, A T Kearney	Department of Industry and Monopolies and Mergers Commission
<u>Mr Ian HANCOCK</u>	Member, MCA Council; Managing Director, Coopers & Lybrand Associates	Ministry of Agriculture: Financial Control Systems (see Mr Peter Walker's letter of 9 March).* Department of the Environment: trading accounts in Directorate of Ancient Monuments and Historic Buildings, cost cutting in Ordnance Survey. Department of Transport: aspects of Heavy Goods and Public Service Vehicle Testing.

<u>Name</u>	<u>MCA office/firm & office</u>	<u>Recent assignment work</u>
Mr Bernard <u>BROCKS</u>	Member, MCA Public Sector Working Party; Executive Director, Price Waterhouse Associates	Department of the Environment: <u>Regional Water Authority</u> charges (with C&L and Arthur Andersen) Department of Health and Social Security: <u>Development of a Budgetary Control System.</u>
Mr Vincent <u>WATTS</u>	Member, MCA Public Sector Working Party; Partner, Arthur Andersen	<u>Ministry of Defence:</u> participation (by Mr Watts) in study of cash control and financial accountability. <u>Department of Employment:</u> Computer manpower.

* One of two studies conducted at your request in 1981, the other being by Touche Ross in the Department of Industry.

3. All four of these gentlemen are rather quiet characters. All will be somewhat nervous, Mr Banks perhaps most of all. Messrs Hancock and Watts are probably the ablest. Messrs Brocks and Watts have the most recent personal experience of Whitehall, Mr Brocks in DOE and Mr Watts in last year's seminal studies by a team in MOD of cash control and financial accoutability.

4. You will be supported by:

HM Treasury: Chief Secretary and Minister of State (Commons), Sir Anthony Rawlinson and Mr Richard Wilding

MPO: Chancellor of the Duchy of Lancaster, Sir Robert Armstrong and Mr John Cassels

DOCUMENTATION AND BACKGROUND

5. I have attached relevant papers (all flagged). Some you may want to read again, while others are for optional reference on the footing that your colleagues or their officials can deal with points raised. SEE READING LIST, (flagged).

6. The MCA letter and paper argue that Ministers must take "clear and unambiguous policy decisions", to overcome "established practices and attitudes" which impede progress towards lasting reforms. They welcome signs of change but argue that fundamental reform could fail if the effort concentrated too much on methodology as against ensuring that people have allotted to them responsibility and accountability, with clear criteria for acceptable performance.

7. Other "people" points are:

- (1) The lack of trained and experienced financial managers to direct and co-ordinate the finance function within departments (para. 3).
- (2) The difficulty of getting and keeping good accountants (para. 13) which deprives the government of the expertise to design adequate management accounting systems and interpret their results. There are similar problems about ADP staff (paras. 14 - 16).
- (3) "High flyers" are almost exclusively routed through "policy" rather than "management" (para. 17).

8. The MCA's broadly drawn prescription for putting things right is summarised in para. 18 of their paper. It is about methodology on the one hand and people on the other:

<u>Methodology</u>	<u>People</u>
<p>18(1) Re-organise responsibility by <u>delegation</u> to line management. Get senior civil servants to use <u>management accounts</u>.</p>	<p>18(3) Recruit <u>professional accountants</u>/train civil servants to use modern accounting systems so as to ensure proper design/execution of the system and interpretation of the results.</p>
<p>18(2) Place accounting responsibility well down the line (the "<u>cost centre</u>" approach as in DOE).</p>	<p>18(4) Similarly employ enough <u>ADP</u> staff to design/operate effective computer systems and apply new technology to office administration.</p>


9. There is a substantial harmony between the MCA's paper and both "classic good management practice" and "the various priorities that have been defined as the lasting reforms that are necessary to achieve effective systems of management in Government" (Sir Derek Rayner's letter of 1 March). Indeed, there is unprecedented activity in and by Government to reform financial management, whether arising out of central or departmental initiatives. For example:

- The roles of the central departments, "spending" departments, Accounting Officers, Principal Finance and Establishments Officers have all been re-defined, especially with regard to controlling public expenditure: this is in line with the "definition" argument.
- The centre itself has been re-organised so as to consolidate control over expenditure.
- The Treasury has taken an initiative - highly relevant to the MCA's paper - to establish

management accounting as the informing principle in the organisation of departments management.

- Departments themselves are already going down this road, eg DOE (MINIS and Joubert), MAFF (post-Coopers & Lybrand), MOD (post-Reeves).
- Internal audit is being strengthened and the Government's accountants are being re-organised.
- The training of financial managers is being much extended.


10. This year will see all the initiatives in hand brought together in a long-term strategy for reform. The "efficiency strategy" already agreed for 1982 - combining the scrutiny programme and three Government-wide reviews, of the management of large operations (eg the Prison Service, RAF Support Command), of running costs and of personnel work - is looking for practical and substantial contributions to change as some of the first steps in that direction.



HANDLING AND SEQUENCE OF EVENTS

Introduction

11. The MCA's diagnosis is much the same as yours and that of the central Ministers. So the need is (in Sir Derek Rayner's words) "not to identify what is wrong, but to harness the necessary resources to help bring about the desired reforms".



12. You might begin by thanking the MCA for their paper; by introducing your colleagues, and suggesting that Mr Banks should introduce his in a moment. You might then say that when the MCA have spoken to their paper, the Chief Secretary and the Chancellor of the Duchy can update them with developments in Whitehall (see below), after which there can be general discussion. You might also say that the purpose of the meeting

should be to help identify the PRACTICAL ACTIONS necessary to get the changes the MCA and the Government want.

MCA's comments on their paper

14. The MCA team would like to speak briefly as follows, if you agree:

- (1) Mr Banks: What is the MCA? Origins of the paper.
- (2) Mr Brocks: Why do we see the needs set out in the paper?
- (3) Mr Watts: What are the barriers to change?
- (4) Mr Hancock: What do we need to do first to get change?

15. The MCA will probably be looking for a piece of the action, a part in running/guiding the Government's "systematic campaign" (see below) and assignments in individual departments. This will no doubt figure in their opening statement, perhaps with some idea of cost (see below).

Discussion

16. In opening discussion, you might say that the Government is strongly committed to reform but that this cannot be done at large. It is a matter of addressing particular things, both methodology and people and deciding on the action needed to bring about practical changes. The theme of discussion might be this: What are the most important things to do now, in relation to both systems and organisation of financial management and financial managers and their specialist helpers? What would make the greatest difference fastest? How can it be achieved?

17. The Chief Secretary can describe the Treasury's proposal for a systematic campaign on management accounting (his minute to you of 5 March refers). This covers 18(1) and (2) of the MCA memorandum, ie delegation of responsibility and identification of cost centres.

18. The Chancellor of the Duchy can describe the "efficiency strategy" for 1982. Both she and the Chief Secretary can take questions on accountants and ADP, where the Treasury has responsibilities as to substance (what these staff do) and pay, the MPO as to personnel management, including recruitment and training.

19. On the involvement of the MCA and individual MCA and other consultancy firms, you might like to have these points in mind:

- (1) The MCA would almost certainly like to contribute in some way to the running/guidance of the Treasury campaign on management accounting. They may mention a "steering group" or something of that kind. You need to do little more than take delivery of this suggestion if made (on which the Chief Secretary may have views). Some sort of "steering" will be needed, but the best way of consulting the MCA might be to get them to nominate a panel of people who might be consulted ad hoc.
- (2) The MCA would have an obvious interest in departmental assignment work. This is a matter for departmental Ministers to decide on. Experience is a bit mixed. Coopers & Lybrand and Arthur Andersen have done a good job in MAFF and MOD, Touche Ross less well in DOI. Generally, consultants are better at diagnosis than at action (see Sir Derek Rayner's letter), although this is by no means an absolute rule.

- (3) What is certain is that management consultants are relatively expensive. The C&L assignment in MAFF cost £165,000, the Touche Ross assignment in DOI £200,000 - that is the price of 23 Rayner scrutinies. The C&L rates for example compare unfavourably with the rates for an Assistant Secretary or Principal, the customary grades of scrutiny officers:

<u>C&L</u>	<u>£</u>	<u>Civil Service</u>	<u>£</u>
Director	70 per hour	AS*	33 per hour
Partner	60 per hour	P	19.25 per hour
Supervising Consultant	375 per day	AS*	239.15 per day
		P	138.55 per day

* Including personal secretary

CONCLUSION

20. You might close the meeting by:
- (1) Thanking the MCA for their paper and their observations.
 - (2) Saying that you are encouraged to find so much commonality in their thinking and that of your colleagues and indicating your personal determination to press on with the cause of good management.
 - (3) Saying (if appropriate) that you have noted the MCA's interest in taking part in a "steering group" to put their/the Treasury's ideas into

effect. That will be taken seriously, although the arrangements for "steering" have yet to be finalised.

- (4) Saying (if appropriate) that you have also noted their interest in departmental assignments. That will be a matter for individual Ministers to decide on: you would be surprised if there was no place for management consultants. You attach particular importance to getting ACTION which would mean something different from the classic management consultancy assignment.

CP

C PRIESTLEY
15 March 1982

Encs: As indicated

READING LIST

For looking at again if there is time

- Mr Banks's letter and paper, 15 February
- Sir Derek Rayner's letter to Mr Rickett, 1 March
- The Chief Secretary's submission on the "management accounting" initiative, 5 March
- The Minister of Agriculture's letter on the Coopers & Lybrand review of financial management in MAFF, 9 March.

(This accepts the criticism that MAFF's arrangements should be more directed to the optimum allocation of resources, the definition and attainment of clear objectives and the measurement of performance and a prescription - much in line with the MCA's paper - for the definition of responsibility, accountability, policy objectives, and performance indicators, with associated changes in management information and planning, estimating and audit procedures.)

- The Secretary of State for Industry's minute on the Touche Ross review of financial management in DOI, 12 March.

(This is more guarded about the consultants' prescription, which Mr Jenkin found to a degree insensitive to the nature of a Government department, bureaucratic and costly in implementation. But he is accepting proposals for the strengthening of the machinery for financial control and of internal audit.)

For optional reference (notes prepared by MPO)

- Accountants in the Civil Service
- Automatic Data Processing (ADP) staff in the Civil Service
- Financial management training.



Treasury Chambers, Parliament Street, SW1P 3AG

W F S Rickett Esq
10 Downing Street
London SW1A 2AL

15 March 1982

Dear Willie,

MEETING WITH THE MCA ON 16 MARCH

The penultimate paragraph of Sir Derek Rayner's letter of 1 March suggested that we provide you with information on the cost of using consultants over, say, the last three years.

... Such information as is available centrally is set out in the attached table. You should note that the consultancy studies included in this list cover a wide range of Government activity. They are by no means limited to financial planning and control systems. So it does not follow that all or any of this work can be given up in favour of temporary secondments as suggested in the final paragraph of Sir Derek's letter. But it is clearly a point to be taken into account when departments assess how they will implement the work outlined in the Chief Secretary's minute of 5 March.

The cost of the MAFF study by Coopers and Lybrand was £165,000, the Touche Ross study in DOI cost £236,000 (both figures inclusive of VAT).

I am sending copies of this letter and enclosure to the recipients of Sir Derek Rayner's letter.

*Yours sincerely
Terry Mathews*

T F MATHEWS
Private Secretary

EMPLOYMENT OF CONSULTANTS IN GOVERNMENT

MANAGEMENT CONSULTANCY ASSIGNMENTS

(Excluding computer consultancy and the employment of consultants to supplement departmental teams).

	<u>1979</u>	<u>1980</u>	<u>1981</u> (provisional)
Number of assignments:-			
MCA firms	12	18	16
Other	<u>23</u>	<u>22</u>	<u>11</u>
Total	<u>35</u>	<u>40</u>	<u>27</u>
Cost of assignments:-		£'000s	
MCA firms	301	693	898
Other	<u>464</u>	<u>607</u>	<u>208</u>
Total	<u>765</u>	<u>1,300</u>	<u>1,106</u>



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B/K

FRONT DOOR

The following will be attending a meeting with the Prime Minister at 1545 on Tuesday 16 March.

Chancellor of the Duchy of Lancaster
Chief Secretary + 1 official

Sir Robert Armstrong)
Mr. John Cassels) Cabinet Office
Mr. Clive Priestley)

Mr. Philip Banks)
Mr. Ian Hancock) Management
Mr. Bernard Brocks) Consultants
Mr. Vincent Watts) Association

CS

12 March 1982



MANAGEMENT
CONSULTANTS
ASSOCIATION
LIMITED (BY GUARANTEE)

23-24 CROMWELL PLACE LONDON SW7 2LG : TELEPHONE 01-584 7283

Registered No. 772318

Miss Caroline Stephens,
10 Downing Street
London

March 10, 1982

Dear Miss Stephens,

As agreed, during our recent telephone conversation, I am writing to confirm the names of the MCA party that will be meeting the Prime Minister on Tuesday 16 March at 3.45 pm.

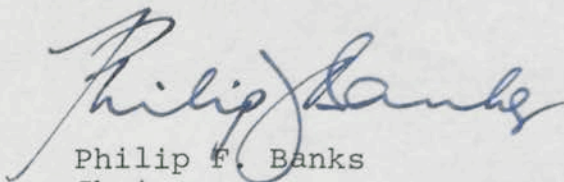
The names are:-

Philip F. Banks	Chairman MCA Council
Ian C.W. Hancock	Member of MCA Council
Bernard J. Brocks	Member of the MCA Public Sector Working Party
Vincent Watts	Member of the MCA Public Sector Working Party

On an accompanying sheet I have summarised very briefly some key facts regarding their company, position and recent central government experience.

Thank you for your assistance with our forthcoming meeting.

Yours sincerely,



Philip F. Banks
Chairman

Enc.
PFB:aoc

PHILIP F. BANKS

Managing Director
A.T. Kearney Limited

Kearney's recent consultancy assignments for Central Government Departments includes:-

Department of Industry and
Monopolies and Mergers Commission

IAN HANCOCK

Managing Director
Coopers & Lybrand Associates Limited

Coopers' recent consultancy assignments for Central Government Departments includes:-

Ministry of Agriculture Fisheries & Food
Central Policy Review Staff
Department of the Environment
Inland Revenue
Monopolies and Mergers Commission and
Department of Transport

BERNARD J. BROCKS

Executive Director
Price Waterhouse Associates

Price Waterhouse' recent consultancy assignments for Central Government Departments includes:-

Department of Environment
Department of Health & Social Security
Department of Transport
Foreign & Commonwealth Office
Manpower Services Commission
Home Office
H.M.S.O. and
Monopolies and Mergers Commission

Continued ...