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10 DOWNING STREET

From the Private Secretary

26 March, 1982

Dear David

MINIS

The Prime Minister was grateful for your Secretary of State's minute of 15 March. As Mr Heseltine already knows, she was also pleased with the part played by him and his officials at last month's presentation to launch the reviews of the management of large operations and of the control of departmental running costs.

Mrs Thatcher feels that better progress is already being made across the Government than some of the comments and questions on 24 February may have suggested. Whatever the precise state of affairs in departments now, the Prime Minister expects the measures already in hand for this year to result in a general advance. She has in mind the improvement of the annual scrutiny of running costs; the Government-wide review of systems for controlling these costs (building on your Secretary of State's MINIS and "Joubert" exercises); and the Treasury's impending proposals for a substantial and extensive development of management accounting.

The Prime Minister thinks that these measures, which will build in part on other work which some Ministers have undertaken on their own account, offer a good prospect for accelerating the change already in train and for encouraging more departments to take action. She will wish these measures to be well co-ordinated and she hopes that the Chief Secretary will be able to take on this task with Sir Derek Rayner's help, and consulting the Chancellor of the Duchy as necessary.

As far as publication is concerned, the Prime Minister favours openness so long as it does not inhibit reporting officers from complete honesty in discussing the performance of their units and their plans for the future. Certainly, there should be no objection to publication of factual material about manpower and resource allocations generally, and the Prime Minister agrees this should be encouraged.

I am copying this letter to Terry Mathews and Adrian Carter (HM Treasury), Jim Buckley (MPO) and Chris Joubert (Sir Derek Rayner's Office).

Yours ever

Robin Ridley

D.A. Edmonds, Esq.,
Department of the Environment

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10 DOWNING STREET

From the Private Secretary

26 March, 1982

Dear Terry

MINIS

I enclose a copy of a letter from the Secretary of State for the Environment to the Prime Minister and a copy of the reply I have sent on her behalf.

The Prime Minister is confident that this year's exercises will be made to have the general good effect referred to in my letter to David Edmonds. But she does not believe this can happen without a clear view of what the Government wants to achieve, how and by when. She therefore attaches much importance to making the necessary connections between the different strands in this year's work, not least with a view to the response to the Treasury and Civil Service Committee's expected recommendation that MINIS should be adopted generally. She hopes that the Chief Secretary will be able to take on this task.

The Prime Minister has already arranged for the Minister of State (Commons) to discuss with her on 20 April the development of the annual scrutiny of running costs. Having considered Mr. Heseltine's letter, Mrs Thatcher believes that it would be useful to widen the scope of that meeting to consider the objectives and coordination of the scrutiny, the running costs review and the proposed campaign on management accounting. She would therefore be grateful if the Chief Secretary and Mr. Cassels could join her on 20 April. If that is inconvenient for the Chief Secretary, we can of course rearrange the meeting. Sir Derek Rayner cannot be present but his office will be represented and the Prime Minister has asked them to prepare a short paper as the basis for discussion in consultation with the Treasury and MPO.

I am copying this letter to Adrian Carter (HM Treasury), Eleanor Goodison (MPO) and Chris Joubert (Sir Derek Rayner's Office), and to Jim Buckley (MPO).

Yours ever

Robin Rickett

T.F. Mathews, Esq.,
H.M. Treasury.

PRIME MINISTER

Financial Management

I have spoken to Sir Derek Rayner's office about the attached minute from Mr. Heseltine, and they advise:

a) The MINIS system and the DOE's method of controlling non-staff running costs will not suit all Departments. Sir Derek Rayner in particular has some doubts about their general applicability. (Their doubts are set out in greater length in the note at c)).

b) That Mr. Heseltine is absolutely right to ask how you can be assured that your commitment to reform has lead to action, and not just words.

c) Apart from the Annual Scrutiny Programme and the exercises on internal audit and financial training, we have three main initiatives in this area:

- The Annual Scrutiny of Departmental Running Costs. This was intended to provide Ministers and senior officials with information to enable them to challenge the movement of staff and non-staff costs. It was also intended to draw Cabinet's attention to the total sums involved in the administration of Government. The danger is that Ministers and senior officials will not use this information, and that it will not inspire managers lower down the line to be cost-conscious. You have asked Mr. Hayhoe to see that the Annual Scrutiny actually helps the business of each department. You are seeing him on 20 April to reinforce this message.

- The Six Departmental Exercises on the Control of Running Costs These will no doubt draw on MINIS and the DOE's method of controlling non-staff running costs (the "JOUBERT" system).

/ The reviews

The reviews will be coordinated by Mr. Cassels, with the support of a team from the Rayner Unit and the Treasury. Part of the Central Team's job is to help ensure that the lessons learnt are applied across Whitehall more generally.

- The Chief Secretary's Initiative on Financial Management
The aim of this will be to give managers at all levels clear objectives; the means of assessing and if possible measuring their outputs; information about the costs of their operations; and clear responsibility for making the best use of their resources. Improving management accounting throughout the Service will be a central part of this campaign.

All these initiatives need coordinating. Mr. Heseltine is right to say that one Minister should lead. Sir Derek Rayner suggests, and I agree, that you should nominate the Chief Secretary to lead for you on the three initiatives outlined above, assisted by Mr. Hayhoe on the first and third, and by Mr. Cassels and his team on the second. I understand that the Chief Secretary would be willing to take on this responsibility. We will need to make clear that he is expected to consult the Chancellor of the Duchy, since it is really her responsibility to oversee the six departmental exercises on running costs.

For these reasons, I suggest that we expand the meeting that you were going to hold with Barney Hayhoe on 20 April to include the Chief Secretary, Mr. Cassels, and Sir Derek Rayner (or a representative of his office) and that

a) I should write to the Chief Secretary's office as at Flag A;
and b) I should write to Mr. Heseltine's office as at Flag B.

Content that I should proceed in this way? Yes MT

The letter to Mr Heseltine's office also accepts his proposal that more publicity should be given to what the Government achieves in the way of controlling staff and non staff costs, as a way of making Departments more accountable, and as a discipline on managers.

25 March 1982

CR 25/3

CONFIDENTIAL

Mr RICKETT

MINIS AND FINANCIAL MANAGEMENT

I attach a draft reply to Mr Heseltine's minute to the Prime Minister of 15 March and a draft letter to Mr Mathews (Treasury). They are based on the advice of Sir Derek Rayner and this office, requested in your minute to me of 16 March.

2. The main elements of our advice are these.

3. Mr Heseltine has made a unique personal contribution to the Government's policies for good management in Whitehall. Both MINIS and the later "Joubert" approach to the control of running costs by "cost centres" are entirely consistent with the Prime Minister's wish that Ministers should be managers and the principles advanced by Sir Derek Rayner. Last year's "Joubert" scrutiny opened the way for this year's Government-wide review of controlling running costs (see below). And it is true that as MINIS has had a very high profile, the Treasury and Civil Service Committee report on efficiency to be published on 1 April will recommend that it, or its clear equivalent, should be adopted by departments generally and by their fringe bodies. The Committee will also recommend the publication of MINIS-type documents.

4. But MINIS is very paper-intensive. It would not suit everyone, Sir Derek Rayner included. The attached note by Mr Joubert, based on his recent experience in DOE, is a useful insight into this.

5. Nor is the DOE record in controlling costs beyond reproach. While the Department has achieved the highest proportionate reduction in staff (to a degree by hiving off and privatisation) and a star billing in the annual scrutiny of running costs for wages and salaries, personnel overheads and accommodation, it is near the bottom of the table for non-staff costs (up 28% in 1981-82). There might be some risk in pushing DOE too far into the limelight.

6. Nonetheless, Mr Heseltine puts his finger on an important point: how can the Prime Minister be assured that her own strong commitment to reform is being translated into action?

7. It is true that far more is going on than might be supposed from Ministers' response at the presentation on 24 February* and that we have current action on the annual scrutiny of running costs, the Government-wide review of controlling running costs and the Treasury's "systematic campaign". But I do not think that the Prime Minister would or should be satisfied with simply referring to that in her reply to Mr Heseltine's suggestion that she should authorise someone on her behalf to make things happen.

8. The Prime Minister might well be asking herself whether it is a matter of all study, and no action, all words, and no deeds. I think it helpful to survey briefly where we now are and consider whether more needs to be done to bring things together.

9. If we look back to 1979, we can see that two large stones were then dropped into the pool and that their ripples are still widening. They were first retrenchment, including the Civil Service manpower target which does concentrate the mind and make some people think the unthinkable and secondly the Rayner exercises. To cut a long story short, the two together have shown that the general standard of financial management in departments is low and have produced a broad consensus about the right approach

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* Including implementation by MAFF and DOI of the recommendations made by Coopers & Lybrand (as a result of the Prime Minister's anxiety last year about internal audit); the review just completed by Peat Marwick and Mitchell of the control of running costs in DHSS; the work now in hand in MOD to strengthen financial accountability following last year's scrutiny; and the Government-wide review of the management of large, self-contained executive operations (eg RAF Support Command).

to adopt towards the management of any large organisation. But the consensus has not formed itself clearly and sharply. At the moment therefore we have an amalgam of separate departmental exercises (including MINIS); the annual scrutiny of running costs; this year's Government-wide review of running costs (son of "Joubert"); and now the Treasury's proposed "systematic campaign" on management accounting. There is a riskof all this getting out of hand. Leaving aside the departmental exercises, and such other central "financial management" exercises as those on internal audit and training, let us recapitulate how we got where we are now:

(1) Knowing and responding to costs: the annual scrutiny of departmental running costs

The annual scrutiny was recommended by Sir Derek Rayner, and adopted, in 1980. It was intended to provide Ministers and senior officials with information they could use to challenge the movement of staff and non-staff costs. It became clear last year that the scrutiny itself was too top down: it was not producing the desired results. It was then recognised that the new habits and practices required must be developed by an exercise directed to practical change. Hence this year's review of running cost control (see below). But the scrutiny itself will continue and the Prime Minister has asked the Minister of State (Commons) in the Treasury (Mr Hayhoe) to take the lead in ensuring that it is apt for its purpose, ie that it reflects and helps with the actual business of each department. This "bottom-up" approach is consistent with the Treasury's acceptance of management accounting (see below).

(2) Better systems for cost control: the Government-wide review of running costs

This review originated partly as noted above and partly with Mr Heseltine's scrutiny of the possible use of "cost centres". The six departmental exercises, co-ordinated by a central team representing the Rayner unit and the Treasury on behalf of the Second Secretary, MPO (Mr Cassels), will follow up the Joubert report in DOE with the important difference that their terms of reference include

"the setting of objectives and measurement of outputs against which budget can be planned and controlled".

The systems/review will recommend will undoubtedly draw on the MINIS approach. The effects will not be limited to the six departments taking part, since the central team is tasked to help ensure that arrangements are strengthened across Whitehall more generally.

(3) Organisation for management and control (Treasury initiative on management accounting)

In response to Sir Derek Rayner's proposals for a lasting reform of financial management and to other developments, the Chief Secretary intends to consult Ministers about setting on foot a systematic campaign. The aim of this will be to give managers at all levels clear objectives; means of assessing and if possible measuring their outputs; comprehensive information about the cost of their operations; and clear responsibility for making the best use of their resources. The Treasury sees management accounting as central to this campaign.

10. I am bound to say that in a well-ordered world, the Government-wide review at (2) above would have been devised after and as one expression of (3) above. But the Treasury have made rather hesitant progress along the road to Damascus and we must be grateful that the light has shone on them now, with the result that (3) was brought into being well after (2). Moreover, there are strong intellectual connections between (1), (2) and (3) and the staff officers involved, whether in my office (Mr Joubert and Mrs Thoms) or in the Treasury (Mr Wilding and his people) have or are developing good working relationships.

11. Where does all that leave the Prime Minister? Our advice is this:

(1) The centre has been down the "monitoring" road before. Mr Channon, when Minister of State, CSD, wrote round Ministers in Autumn 1980. Some sort of round-up will be necessary in order to respond to the Treasury and Civil Service Committee (para.3), but anything more heavy-handed would be resented.

(2) But the Prime Minister has got a clear interest here, namely in getting progress through the proper co-ordination of and leadership for this year's work as summarised in para. 9 above. Her own top management function is to satisfy herself that objectives are being set, with milestones for monitoring and reporting progress. This will be best achieved

(a) by nominating the Chief Secretary to lead for her across 9(1) - (3) with the help of Mr Hayhoe and Mr Cassels and

(b) by getting Sir Derek Rayner and this office to help by contributing to the work in hand (which it is already doing) and doing the necessary staff work for her.

12. I will not extend this minute by going into detail on (a) above. It is probably sufficient to let you have the attached digest of Sir Derek Rayner's advice to Mr Brittan on the "systematic campaign".

13. If the Prime Minister agrees with the line I have suggested, I will brief for the meeting with Messrs Brittan and Hayhoe on 20 April. She might think it appropriate for Mr Cassels also to be present, but it would be wise to keep the meeting small.

cp

C PRIESTLEY
24 March 1982

Encs: Draft letters to Messrs Edmonds and Mathews
Background note on MINIS
Digest of Sir D Rayner's advice to Mr Brittan

DRAFT OF 24 MARCH 1982

D A Edmonds Esq
Department of the Environment

MINIS

The Prime Minister was grateful for your Secretary of State's minute of 15 March. As Mr Heseltine already knows, she was also pleased with the part played by him and his officials at last month's presentation to launch the reviews of the management of large operations and of the control of departmental running costs. ~~At least one Minister [Mr Rickett: this is Mr Lawson] went away convinced that he wished to take a firmer hold of his departmental costs than he had so far. The Prime Minister has asked me to reply on her behalf as follows.~~

~~2.~~ Mrs Thatcher feels that better progress is already being made across the Government than ~~the tone~~ some of the comments and questions on 24 February may have suggested. Whatever the precise state of affairs in departments now, the Prime Minister expects the measures already in hand for this year to result in a general advance. She has in mind the improvement of the annual scrutiny of running costs; the Government-wide review of systems for controlling these costs (building on your Secretary of State's MINIS and "Joubert" exercises); and the Treasury's impending proposals for a substantial and extensive development of management accounting.

~~3.~~ The Prime Minister thinks that these ~~developments~~ measures, which will build in part on other work which some Ministers have undertaken on their own account, offer a good prospect for accelerating

the change already in train and ~~inducing it where it is not~~ for encouraging more Departments to take action.

She will wish ~~them~~ these measures to be well co-ordinated and she ~~will look~~ hopes that ~~to~~ the ~~central departments~~ Chief Secretary ~~to see that this is~~ will be able to take on this task so, with Sir Derek Rayner's help, and ~~in consultation with~~ consulting the Chancellor of the Exchequer as necessary.

~~4.~~ As far as publication is concerned, the Prime Minister favours openness ~~as~~ so long as it does not inhibit reporting officers from complete honesty in discussing the performance of their units and their plans for the future. Certainly, there should be no objection to publication of factual material about manpower and resource allocations generally.

~~[5.~~ I am copying this to Terry Mathews and Adrian Carter (HM Treasury), ~~[~~Jim Buckley MPO)~~]~~, and Chris Joubert (Sir Derek Rayner's office. ~~[OR BLIND COPIES.]~~

W F S RICKETT

DRAFT OF 24 MARCH 1982

T F Mathews Esq
HM Treasury

MINIS

I enclose a copy of a letter from the Secretary of State for the Environment to the Prime Minister and a copy of the reply I have sent on her behalf.

2. The Prime Minister ~~expects~~ is confident that this year's exercises will be made to have the general good effect referred to in my letter to David Edmonds. But she does not believe this can happen without a clear view of what the Government wants to achieve, how and by when. She therefore attaches much importance to making the necessary connections between the different strands in this year's work, not least with a view to the response to the Treasury and Civil Service Committee's expected recommendation that MINIS should be adopted generally. She hopes that the Chief Secretary will be able to take on this task.

3. The Prime Minister has already arranged for the Minister of State (Commons) to discuss with her on 20 April the development of the annual scrutiny of running costs. Having considered Mr Heseltine's letter, Mrs Thatcher believes that it would be useful to widen the scope of that meeting to consider the objectives and co-ordination of the scrutiny, the running costs review and the proposed campaign on management accounting. She would therefore be grateful if the Chief Secretary [and Mr Cassels] could join her on 20 April. If that is inconvenient for the Chief Secretary, we can of course rearrange the meeting. Sir Derek Rayner cannot be present but his office will be represented and ~~I have~~ the P-M-Gov asked them to prepare a short paper as the basis for discussion in consultation with the Treasury [and MPO].

4. I am copying this to Adrian Carter (HM Treasury), [Eleanor Goodison (MPO)] and Chris Joubert (Sir Derek Rayner's Office).

W F S RICKETT

SIR DEREK RAYNER'S ADVICE TO THE CHIEF SECRETARY ON THE "SYSTEMATIC CAMPAIGN"

1. The Prime Minister is unlikely to be satisfied unless the following arrangements are made, including a regular report back to her.

2. The Chief Secretary should be the Ministerial leader of the "systematic campaign". He might be assisted by the Minister of State (Commons) (whom the Prime Minister has already asked to take a personal responsibility for making progress on running costs); Mr Hayhoe might undertake whatever "negotiation" with departments that was necessary.

3. Success in the campaign depends on departments actually making the changes in arrangements that are agreed upon as necessary. For this purpose, an action plan is needed to deliver the Treasury philosophy in terms of realities.

4. People make things happen. Accordingly:

(1) The Treasury should put a senior official in the lead. He should devote a considerable part of his time to the "campaign", especially seeing on the Chief Secretary's behalf that progress was made in accordance with the agreed plan. His/her name should be known to the Prime Minister.

(2) The Treasury should settle with each department the objectives of the "campaign" as applied to it.

(3) Each department should appoint a leader charged with ensuring that the agreed progress was in fact made.

5. The centre (Treasury/MPO/Rayner unit) should (against the scheme just outlined) not merely ensure that the general prescription for financial management was right, but also:

(1) Equip itself to help departments where necessary and audit the progress made.

(2) Inform departments about the progress made.

1 Mr Whitmore 15 Mar
2 Prime Minister 1

You will remember that you agreed that Mr Hayhoe should come and report to you on the value of the annual scrutiny of departmental running costs. You might like to take that opportunity to ask him for his reactions to Mr Heseltine's proposal at A below. A Treasury minister would be the natural candidate for the task Mr Heseltine describes. I will however ask Sir Derek Rayner for his views on this minute.

MT 15/3

PRIME MINISTER

A B

MINIS

I much appreciated the opportunity to present to colleagues and their officials the concept and workings of the management system operating in the Department of the Environment. I was quite unsurprised by the reaction - and totally unconvinced!

Any detailed management system imposes a work burden on its operators and - much more important - it penetrates defences thus removing from Departments the ability to defend their manpower levels by generalised reference to high sounding causes.

As a result of the pressure you are applying work is proceeding and an awareness is growing that there must be change. The great danger comes when the argument is advanced approving MINIS in principle but explaining that it is not the right system for another particular Department. You will appreciate that this is mainly the second line of defence. Effectively it is saying "If we have to have management systems let us at least limit the damage - and the effectiveness - by so designing our own system which will be much watered down."

There may be other ways of doing what we are doing but I have yet to see it. If I may be indiscreet, so have any of the junior ministers who have come into or gone out of my Department as a result of your changes!

The conclusion is quite clear. Left to itself very little will actually happen.

A There is only one way to change this. Someone acting on your authority has to actually get into the process of negotiating Department by Department the way forward. If there are equally effective ways forward let us all learn from them. But the onus of proof should be on each Department to prove that their system is better. Perhaps Derek Rayner would be the right person or the MPO to conduct such a monitoring exercise. Whoever it is, it must be a continuing process, the equivalent to PESC but for manpower, otherwise the old habits will live on. Further the process if properly worked gathers momentum. As one operates at lower levels of manpower things that didn't seem credible become possible.

B Most controversial of all I believe that the details should be published. We have found ways of protecting the classified activities but everything else is freely available. By and large very little that government does in manpower terms needs to be protected and it is a great discipline.

The next opportunity to establish a systematic advance will be the government's reply to the Treasury select committee who have considered these matters and are, I understand, going to urge more positive action.

M.H.

15 March 1982

MINISTERIAL INFORMATION SYSTEM, DOE(CENTRAL)

A background note based on recent experience

MINIS has undoubtedly been useful as a system for analysing the activities of the department, for assessing their effectiveness, and for measuring the resources (including particularly manpower) devoted to them. MINIS has enabled the Secretary of State to streamline his department by identifying and cutting low-priority activities and allocating manpower cuts more rationally than an across-the-board approach would have done.

2. MINIS is nevertheless a highly personal creation of the Secretary of State and one that takes up a disproportionate amount of his and other Ministers' time. It has some features that cause it to fall short of its potential as a tool of resource management. Because it preceded the development of a computerised management-information system, it fails to take advantage of modern technology, and much of the cost information is inaccurate.

3. These deficiencies will be corrected in time, but the cumbrousness of the manual system, combined with indifference and even hostility on the part of some reporting officers, and limited staff resources in the unit administering it, means that much of the qualitative information falls short of being adequate. A particular obstacle to its effectiveness as a reporting mechanism is the general perception that officials have of it as a staff-cutting tool, rather than a positive instrument of management.

4. However, there is enough awareness of the potential of MINIS as a management tool for senior officials in the DOE to be considering ways of ensuring that its survival does not depend on a particular Ministerial team. The development of a MINIS-type mechanism as part of a comprehensive management-accounting system is an aspect of the Government-wide running costs reviews

that should therefore be of considerable interest to the DOE and no doubt its officials will be watching for the outcome of the reviews with interest.

5. My own view is that MINIS as it now stands is too cumbersome, idiosyncratic and manpower-obsessed, to be readily transferable to other departments, but it embodies correct principles whose extension to other departments is to be supported.

C J P JOUBERT
23 March 1982