

FROM: CHIEF SECRETARY

DATE: 2 AUGUST 1983



Prime Minister:

The Chief Secretary  
wishes to publish the  
Report on the Financial  
Management Initiative. The Efficiency  
Unit approve. Agree? A 9/8.

PRIME MINISTER

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS: DRAFT WHITE PAPER

... I attach the draft of Part 1 of the promised White Paper. Part 2 will consist of summaries of the plans of each of the 32 departments taking part in the Financial Management Initiative. My predecessor sent you a copy of these summaries with his minute of 9 May. They have since been amended slightly but I do not think that I need trouble you to look at them again.

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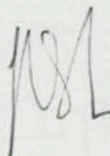
2. As promised in the White Paper on Efficiency and Effectiveness in the Civil Service of September 1982 (Cmd 8616), this is a progress report. Part 1 summarises the aims of the initiative, describes the common features of the departmental plans and outlines what is to be done at the next stage. It has, I believe, a good story to tell about what has been done so far, but makes clear that there is a great deal still to do. As it says in paragraph 10, this is a programme for the life of a Parliament and beyond. Paragraph 41 gives an undertaking that the Government will publish a further progress report in July 1984. That fits well with the timing of the progress report which you have called for yourself, and Grey Gowrie and I hope you will agree that we should give a further account to Parliament and the public next year.

3. There was not time to publish the White Paper before the Recess. But, as a progress report, I think that it can quite properly be published while Parliament is not sitting (as was Cmd 8616). I suggest that we should aim to clear the text and send it to the printers as soon as possible; subject to your and colleagues' views, I suggest a publication date of Thursday 22 September.



4. You presented Cmnd 8616 to Parliament as Prime Minister and Minister for the Civil Service. I hope that you will think it appropriate to do the same again, but jointly with the Chancellor of the Exchequer on this occasion to mark his special interest in the handling of central government finance.

5. I am sending copies of this minute and the draft to Cabinet colleagues, Lord Gowrie, Sir Robin Ibbs and to Sir Robert Armstrong. I should be grateful if they could let me know whether they are content with it and with the proposals I have made for publication, by 12 August.



for PETER REES  
2 AUGUST 1983

(approved by the Chief Secretary  
& signed in his absence).



**FMI WHITE PAPER**

**FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS**

**Introduction**

Central government disposes of a substantial proportion of the national resources, and there is constant pressure to increase expenditure as demands for many public services continue to rise. Total public expenditure in 1983-84 is expected to be 43½ per cent of the gross domestic product. It is the Government's aim to contain its growth in order to curb taxation and borrowing. It is thus essential that resources should be used efficiently and public money spent wisely. Departments need to win public and political confidence that they are pursuing relevant and feasible policies - policies which work, which provide the greatest benefit to the public at least cost and which are consistent with the Government's economic and monetary objectives. A sense of responsibility for achieving value for money must be widely disseminated in the Government service.

2. Against this background the government launched, in May 1982, a Financial Management Initiative to improve the allocation, management and control of resources throughout central government. This programme was announced in the White Paper on "Efficiency and Effectiveness in the Civil Service" (Cmd 8616) in response to a Select Committee report with the same title. That White Paper dealt with a wide range of measures to improve management in government. The work continues, and will be reported to Parliament from time to time.

3. The present White Paper concentrates on financial management and contains the promised report on the work in 32 departments set in hand last May. It describes progress already made and the plans for the next few years. Financial management, as the term is used here, is the essential link between the government's overall economic policy and the day-to-day pursuit of efficiency and effectiveness in government departments and other public sector bodies.

4. In May 1982 the objectives of the programme were defined as: "to promote in each department an organisation and a system in which managers at all levels have:



- (a) a clear view of their objectives; and means to assess, and wherever possible measure, outputs or performance in relation to those objectives;
- (b) well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- (c) the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively."

These improvements are intended to support the control and management of expenditure policy at all levels, from Ministers in Cabinet, and as the heads of their departments, to the managers of individual units, large and small. The initiative drew on experience and improvements which Departments had already made or set in hand. Useful advances were made in the 1960s and 1970s, especially following the Fulton Report of 1968<sup>(1)</sup>, in introducing new management techniques and information systems into government. The new plans represent a more far-reaching and comprehensive approach. They cover both administrative expenditure (that is, resources which government consumes itself) and programme expenditure (that is, expenditure which, apart from defence, is largely external to government departments, like procurement contracts, social security benefits, road construction or grants to health authorities, other public authorities and companies).

5. Better use of resources requires a clearer definition of the objectives of expenditure and of the results it is hoped to achieve. Measurement of outputs, wherever this is possible, helps to specify objectives more precisely, illuminates choices between competing claims on resources and provides a means of monitoring efficiency and effectiveness. High-level information systems are being developed primarily to help departmental Ministers and senior management to form a clearer view of priorities and value for money. This greater clarity should also help Treasury Ministers in advising the Cabinet on how to deploy resources overall; and Parliament in assessing the resulting decisions.

6. The management of expenditure, once budgets have been allocated, requires a more detailed specification of objectives and useful measures of performance wherever possible. Managers need to know how much they may spend; why they should spend it; and how their expenditure and results through the year compare with the plan. While the centre of the department receives regular information about the use of resources and the effectiveness of activities, individual managers can then be

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(1) The Civil Service: Cmnd 3638



held accountable for their performance, and provided these conditions are met, can have more say in the composition of their budgets and greater freedom to manage within them. This delegation of authority should help them to improve the efficiency and effectiveness of their units, and to be more accountable for so doing.

7. An essential element in departments' plans is therefore better information as a basis for action. Parliament needs good information to vote the necessary funds and to understand how they are spent; the Cabinet, for the annual process of allocating resources; the Treasury, for managing the government's cash flow; Departmental Ministers, to allocate their programmes at the start of the year and subsequently to control expenditure within them; local managers, to plan and run their operations in a cost-effective way and to deliver the best services they can while meeting, or making savings on, their budget targets.

8. But better information is of little value without effective arrangements to handle it or the skilled managers to use it. So one essential feature of these plans is the development or improvement of departmental machinery for the regular review of administrative and programme expenditures, their objectives, the resources devoted to them and their success. Another is the progressive training and development of managers at all levels so that they possess and use all the appropriate skills of financial management.

9. The cost of the work so far which can be specifically attributed to the Financial Management Initiative is relatively small. It has mainly been spent on investigation and planning. From now on, larger sums will be involved - on a preliminary estimate, the plans described in Part 2 will involve direct costs of about £35 million over the next two years. (Some of this will go on computers, terminals and software; some on staff.) The cost has to be found within the total already provided for public expenditure. The Government believes that this deliberate diversion of resources will improve the way in which public money is spent. It will help to identify and eliminate waste, to concentrate resources where the benefits can be seen to be greatest and to give a clearer display of how the money is spent.

10. The work which has begun will take time to implement. New systems have to be constructed in detail, run in and modified as early experience shows to be necessary. Staff have to be made familiar with new approaches and trained in the necessary techniques. It is a programme for the life of a Parliament and beyond. Part 1 of this



White Paper describes the common features of the plans and the work of the next two years. It describes these under four heads:

- (a) better information for Ministers and top officials
- (b) managing administrative expenditure
- (c) managing programme expenditure
- (d) policies for staff management and training.

Part 2 comprises a summarised account by each department of its plan.

## PART 1

### THE COMMON FEATURES OF DEPARTMENTS' PLANS

#### Better information for Ministers and top officials

11. The plans concentrate on the information system and machinery needed to support departmental Ministers and top managers in setting objectives, establishing priorities, and allocating resources - all in the knowledge of what the activities cost, and what they are achieving. The aim is to secure the maximum value for money in the allocation of the resources available to the department, and to ensure awareness of changing priorities and fast adaptation to them at all levels.

12. The Management Information System for Ministers (MINIS) in the Department of the Environment was the forerunner in this field. It was initially developed to enable its Secretary of State to probe "who does what, why and what does it cost?" The system has been continuously developed in its four years of operation. Its three key features are the preparation of statements summarising performance and plans for all the department's activities and their cost; the examination of these at meetings between each Director and senior management and Ministers; and the requirement to follow up with agreed action.

13. Part 2 shows how other departments are developing similar high-level procedures and information systems. MINIS is now being developed in the Ministry of Defence to cover all MOD functions and manpower, service and civilian, except at present for the front-line. Like the original MINIS, it starts with statements of the objectives, functions, costs and achievements of the various parts of the department (and will be complementary to the annual "Long Term Costing" process of resource allocation and policy and programme review). A similar approach has been adopted by some others, including the Department of Health and Social Security with its system of Divisional



Management Accounts. Others, like the Department of Trade and Industry and Customs and Excise, have started "top-down" by identifying the aims and objectives of the department as a whole to provide a basis for allocation of resources and the development of annual work plans for the component units. The former approach has been found more appropriate by very large departments with a wide spread of discrete responsibilities. Both lead into an annual cycle for monitoring progress against objectives, reviewing priorities and reallocating resources accordingly.

14. Figure 1 overleaf shows the main features of the systems which some major departments are adopting. All cover the department's administrative expenditure. Most also cover programme expenditure. Each department needs satisfactory arrangements for monitoring and reviewing programmes as well as administrative costs, but the nature of its business will determine whether a single system should cover both, or separate but linked procedures are needed for external programmes. The thorough re-appraisal of a programme will often have to be handled as a separate task in parallel because of the amount of special analysis required.

15. Many departments are introducing new or improved machinery for reviewing these systems and handling what they produce. A common pattern is the establishment of a top-level board or committee chaired by the Permanent Secretary which prepares advice for the Minister and supervises the implementation of his decisions.

16. These planning cycles must be closely related to the annual public expenditure survey and the annual Supply Estimates presented to Parliament. Devising effective links will be one of the tasks for the next phase.

#### Management of administrative expenditure

17. The plans are generally directed towards dividing departments' work into appropriate blocks, and into "cost centres" within each block; making their managers accountable for the management of the costs within their control and for the results they achieve; and establishing procedures, information systems and measures for setting the targets and budgets against which performance will be judged.

18. A review of the control of running costs in six departments co-ordinated by the MPO in 1982, has helped to show the way forward. The report of the review has been made available to Parliament<sup>(2)</sup>.

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<sup>(2)</sup> Written Parliamentary Answer on 26 April 1983 (Official Report Col 278)



Figure 1  
DEPARTMENTAL HIGH LEVEL MANAGEMENT INFORMATION SYSTEMS

	Name given to its System	Type of expenditure covered	Timespan Covered forward/back	Level at which statements produced	Cost inf. given to line managers	Provision for showing objectives	Provision for performance measures	Timing of introduction
Agriculture	MINIM, supported by MAIS	Administrative and programme	2 years forward and 1 year back	Under Secretary	MINIM not designed to do this; MAIS will give monthly/quarterly information	Yes; to be developed further	Yes; to be developed further	Initial run of MINIM in 1983; MAIS complete by 1985-86
Customs	Board's Management Plan supported by PES and Review of Running Costs	administrative (department has negligible programme expenditure)	1 year forward and back	Under Secretary	varies at present; future system to be decided	Yes	Yes - to be developed further	Initially 1983- to be developed
Defence	(a) MINIS (Management Information System for Ministers and Top Management)	administrative (except front line) and programme	2 years forward, 1 back (perhaps 1½ years forward, 6 months back on 2nd round)	Under Secretary and military equivalent	Annually (quarterly or monthly cost or management accounts available for most programme areas)	Yes - at both U/S and A/S (and military equivalent) levels	Yes	First round, January - September 1983. Then annually.
	(b) Long Term Costing	all expenditure, in line detail	10 years forward	Project and programme managers provide inputs; coordinated at Deputy Sec level	Annually	Future force levels and policy assumptions shown in detail	No	Early 1960s
Employment	Senior Management Group supported by RIS (Resource Information System)	Administrative (detail on non-staff costs to be developed) and programme	1 year forward and back, longer if necessary, eg for PES purposes	Assistant Secretary or Senior Principal	Monthly to all cost centres	Yes	Yes - with special attention in first SMG round	SMG run in 1983 without RIS information, which should be available for 1985.
Environment	(a) MINIS (Management Information System for Ministers) operating with	reviews functions including programme costs	1½ years forward, 6 months back	Under Secretary	-	Yes	Yes - to be developed further	Running since 1979. 5th round starts autumn 1983
	(b) MAXIS (Management of Administrative Expenditure Information System)	Covers administrative costs	Financial years	Varies: cost centre manager (SEO to Deputy Secretary)	Quarterly or monthly reports, plus on - line interrogation	-	-	Progressively from April 1983
Health and Social Security	DMA	administrative and programme	1 year forward and back	Under Secretary	monthly to 800 cost centres	Yes	Yes	initially run in 1982-83
Home Office	APR	administrative and programme	1 year forward and back	Assistant Secretary (heads of division)	Annually in APR (expenditure information available monthly)	Yes	Yes	initial run in 1982



Inland Revenue	SMS	Administrative (department has little programme expenditure)	1 year forward and back	Under Secretary	will be provided by FAMAS	Yes	Yes - but to be developed further	pilot run 1983-84
Scottish Office	Scottish Office management planning system (with associated management information and budgeting system)	administrative and other expenditure on directly- managed depart- mental operations	1 year forward and back	Assistant Secretary or Senior Principal	monthly for costs controlled by line managers	Yes	not yet - under development in 1983	management planning system revised from 1983; information system to start from 1984-85
Trade and Industry	ARM supported by MIS	administrative and programme	1 year forward and back	Under Secretary	monthly (to divisions) quarterly (at departmental level) as MIS advances permit	Yes	Yes	First ARM run in 1983-84
Transport	(a) Review of Objectives and Costs	administrative and programme	Concentrates on 1 year forward. Broad look further ahead	Under Secretary	-	Yes	Yes-being developed	Currently being developed
	(b) MAXIS (Management of Administrative expenditure Information System)	administrative	Monitors current year. Budgets 1 year forward	Cost centre manager, level varies, Principal to Under Secretary	Quarterly or monthly reports, plus on-line interrogation	-	Yes-being developed	Progressively from April 1983



19. The timetables set out in Part 2 involve a major effort over the next two years. More pilot schemes are being prepared. Budget holders are being identified. The necessary management accounts and information systems are being developed (where they do not exist already) so that the costs and results of each unit can be reported regularly. The procedures for setting budgets and monitoring performance against them at each level are being established. Managers are to be familiarised with the new approach and trained in the necessary skills.

20. The development of better information systems will generally be accompanied by some development of local budgeting so that more decisions about the use of administrative resources can be taken by the manager on the spot within the policies and procedures that apply to his part of the work.

21. These arrangements will involve the manager more fully in the process of setting his administrative budget and sharpen his responsibility for controlling his costs and delivering results once the budget has been fixed. He will need a clear knowledge of the money and other resources available for his operations; the prompt reporting of his costs so that he and his superiors know what is being spent in each period; and suitable measures of performance to which these expenditures can be related. He will then be able to report, assess and improve the value for money achieved by his unit.

22. Part 2 shows a variety of approach. For example, the Department of the Environment and the Department of Transport are going straight to a complete array of responsibility and cost centres, with budgets allocated to each, covering all administrative costs. The system began live running in April 1983. Arrangements for the centres to take a full part in developing their budgets will be put in place ready for 1984-85 and ground rules will be established to govern the discretion of budget-holders to vary the mix of their expenditure within the year. Building on the results of pilot schemes, the Department of Trade and Industry is extending arrangements for delegating considerable and specific discretion to the heads of certain large and physically freestanding units. In April, the Ministry of Defence inaugurated trials of "responsibility budgets" at nine establishments and further trials are now being put in hand; these cover programme as well as administrative expenditure. Other departments have started by placing some, but not all, cost elements within the authority of line managers, with the intention of moving to a fully-fledged budgetary system by stages. This is the majority approach; the Department of Health and Social Security, for example, is building a budgetary control system on to the arrangements



security offices<sup>(3)</sup>.

23. The number of budget-holders in a department and the extent to which responsibility for resources can sensibly be delegated down each management line will reflect the nature of its business. In DOE, for example, where a typical HQ Under Secretary has less than 150 staff, cost-centre managers range in level from Senior Executive Officer to Deputy Secretary - the typical manager being an Assistant Secretary with between 10 and 40 staff. By contrast, the DHSS Under Secretary in charge of the network of local social security offices has some 60,000 staff in over 500 offices. In this command, therefore, DHSS are taking the local office as the basic unit for budgetary control purposes. In the Department of Employment the Senior Principals and Senior Executive Officers who are the regional and area managers in the unemployment benefit offices are likely to be budget holders rather than the Higher Executive Officers in charge of local offices, which are much smaller than those of DHSS.

#### Management of programme expenditure

24. Programme expenditures are much more varied than administrative expenditures. Some are handled directly in departments, while others are the responsibility of local authorities, public corporations and non-departmental public bodies. The Government's expenditure plans in total are reviewed and rolled forward each year in the public expenditure survey. But this process cannot accommodate detailed re-examination of each part. Part 2 shows that many departments plan additional arrangements to sharpen their scrutiny.

25. The common lines of development in managing programme expenditure are as follows:

- (a) Clarifying the nature and extent of each departmental manager's responsibility for controlling or influencing the expenditures with which he is concerned, and their results. This theme is reflected in several plans, for example those of MAFF, the Scottish Office, Department of Energy, Department of the Environment and the Home Office. It is coupled in some cases with the systematic assembling of basic information about the objectives of existing policies, criteria or targets against which to assess results and the costs of both the programme itself and of running it. The

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(3) "Development of a Budgetary Control System for the Administration Vote", Price Waterhouse Associates for the DHSS, DHSS 1982.



information will be used both in the running of the programme where it is directly handled by the department, and for the periodical review of all expenditure programmes, whether as part of the planning cycle described in paragraphs 11-16 or separately. Some departments, such as MAFF, plan a cyclical scrutiny of their policy programmes over about ten years. The Ministry of Defence already has a well-established system of this type.

- (b) Improving project appraisal and the analysis of cost-effectiveness. This is crucial for obtaining better value for money. Thus the plan of the Department of Trade and Industry includes more emphasis on cost-effectiveness analysis, especially for industrial assistance schemes, and the introduction of quantified objectives with the aim of assessing after the event how well a scheme has met its objectives. Revised guidance by the Treasury on the techniques of investment appraisal has recently been supplemented by a further guide on its management in government departments<sup>(4)</sup>.
- (c) Clarifying responsibilities and relationships where the spending authority is outside the department. On non-departmental public bodies, guidelines have been published by the MPO<sup>(5)</sup> following the Pliatzky Report in 1979<sup>(6)</sup>. The prime responsibility for executing programmes lies with the body concerned, within a suitable planning arrangements to ensure that the body's objectives are consistent with Ministers' objectives. Departmental programme managers should agree these arrangements, ensure that the body has effective management systems, and review its performance in relation to the objectives. The plans of the Home Office, the Department of the Environment, the Department of Education and Science and the DHSS include action on this. For example the Department of the Environment is developing a more clearly articulated and regular framework of financial planning and monitoring as a basis for its relations with such bodies, and encouraging them to develop corporate planning processes and MINIS-type systems. The Department of Education and Science is undertaking a pilot examination of its relations with the Science and Engineering Research Council as a prelude to considering its links with its many other non-departmental organisations.

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(4) Investment Appraisal in the Public Sector: HM Treasury 1982; and Investment Appraisal in the Public Sector: A Management Guide for Government Departments HM Treasury, 1983

(5) Non-departmental Public Bodies: A Guide for Departments, CSD, HMSO 1981

(6) Report on non-departmental public bodies: presented to Parliament by the Prime Minister, Cmnd 7797, HMSO 1980



26. The recent DHSS report on Health Care and its Costs<sup>(7)</sup> describes the measures that have been taken to strengthen financial management and improve the efficiency of the NHS. These include streamlining the management structure and a new system of accountability reviews backed by the development of performance indicators and improved management information systems. The NHS Management Inquiry will advise on how the principles of the Financial Management Initiative should be applied to NHS management.

27. Local authorities are accountable to their own electorates and ratepayers for ensuring that their services are provided economically and efficiently. But central government is also concerned with many aspects of local authorities' work and its activities affect local authorities in many ways. Central government therefore needs to do whatever it properly can to encourage and assist local authorities in the steady improvement of their efficiency and effectiveness. It also needs to ensure that its own means of influencing local authorities through controls, grants, borrowing approvals etc, are operated in such a way that both individually and collectively they promote good practice, efficiency and effectiveness in local government.

28. Over the past four years central government has encouraged authorities to monitor their own performance more closely, for example, by comparing and publishing costs for particular services. It has also established the Audit Commissions<sup>(8)</sup> to promote good practice in local authorities and to develop value for money audit and comparative studies. It has reformed the rate support grant and capital expenditure control systems. Attention continues to be paid to improving the flow of information about local authority financial matters to central government so as to improve macro-economic management of the national economy.

29. Department of the Environment and the Scottish Office are currently discussing with other government departments and local authorities how central and local government practice can be further improved. Matters for attention include the strengthening of medium-term financial planning for capital expenditure; the efficiency of arrangements for the operation of specific grants; and the development of output measures.

30. Central government has more specific powers and duties in relation to certain services. For example, although police authorities have primary responsibility, the Home Secretary has a statutory duty to promote the efficiency of the police. The

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<sup>(7)</sup> Health Care and its Costs, HMSO 1983

<sup>(8)</sup> The Audit Commission in England and Wales and the Commission for Local Authority Accounts in Scotland



Home Office's plan includes improvements in the way it discharges this task, notably by enhancing the resource information system for HM Inspectors of Constabulary.

31. Such direct involvement would not be appropriate in other local authority services where central government support is given through the non specific rate support grant, such as education. There is still however scope for improvement in the handling of central government's side of this relationship. Thus the plan of the DES includes further work on (a) the relationship between individual authorities' expenditure on education (which accounts for half of total local authority current expenditure) and the Government's assessment of their needs for the purposes of rate support grant; (b) the means of assessing output and value for money (a problem of special difficulty where social programmes are concerned).

#### Implications for staff management

32. The plans summarised in part 2 concentrate on systems and procedures. But these will not be effective without complementary changes and improvements in the management and training of staff.

33. For many managers staff are the most important resource, and the largest cost, for which they are responsible. The MPO has just published the Report of a Review of Personnel Work in 9 Government departments, conducted in parallel with the preparation of the plans for financial management. The Report of the Review<sup>(9)</sup> supports the thrust of the Financial Management Initiative in its emphasis on giving line management at all levels much greater responsibility for the day-to-day management of their staff and sharpening their accountabilities in this as in other respects. This and other current developments are more fully described at Appendix 1.

#### Training for financial management

34. The three major target groups for fuller training in financial management are:-

- (a) staff likely to reach senior management posts which require an understanding of financial principles and practice, the Government-wide financial system and the particular systems operated by their own departments;
- (b) staff working in finance divisions and related activities who must be the experts in these systems;
- (c) staff with significant responsibility for managing resources.

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<sup>(9)</sup> Written Parliamentary Answer on 14 July, 1983 (Official Report Col 390-391)



The needs of these groups will be met as appropriate by departments directly, by the Civil Service College, or by external bodies.

35. The Civil Service College concentrates on broadening the awareness of basic concepts of general application in government, the training of senior staff, and the organisation and some provision of training in accountancy and audit. Demand for College courses in investment appraisal, finance, accountancy and internal audit has increased greatly and the number of student days provided for will have doubled in two years; growth will continue. Courses with a "value for money" theme are in particularly high demand.

36. For senior management, the College introduced the Senior Finance Course in 1982-83, now mandatory for those appointed to be the Principal Finance Officer of a department. It is being further developed and now includes the following modules:

- developments in financial management in Government
- government accounting
- commercial accounting
- management accounting
- resource allocation and investment appraisal
- performance measurement
- use of computers in financial management
- sponsorship responsibilities.

In addition the College is arranging a series of seminars to bring together senior staff who have significant responsibilities either for administrative expenditure or for programme expenditure. These will help officers in different departments to share ideas and plans, thus supplementing the cross-fertilising role of the Treasury and the MPO and their joint Financial Management Unit.

37. A major programme of training in internal audit has been established to a standard set by the Treasury<sup>(10)</sup>. To meet demand quickly, a number of polytechnics are setting up courses in conjunction with the Civil Service College. For professional accountancy training, places have been arranged at polytechnics and in some accountancy firms, and the places available to other departments at the Ministry of Defence training centre at Worthy Down have been expanded.

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(10) The standards are reproduced in the Government Internal Audit Manual, see paragraph 47



38. Most of the necessary training however will be provided by departments for their own staff, concentrating on the application of financial management skills to departmental systems. In the Department of the Environment and the Department of Transport, for example, seminars have been held for all cost-centre managers and for the cost-centre liaison officers who will be responsible for the day-to-day running of the system. In DHSS, the introduction of cost-centres was preceded by an educational process flowing outwards and downwards from headquarters; and training will be continued as necessary as the scope of the budgetary controls is extended to more elements of costs.

39. Training within departments on specific skills and techniques is also being stepped up: for example the Home Office has begun training in the techniques of investment appraisal in conjunction with the Civil Service College, and a major training programme in financial management has been mounted in the Lord Chancellor's Department for both the appropriate staff in the Courts Service throughout England and Wales and the staff at headquarters.

#### THE NEXT STAGE

40. The next stage is for departments to make further progress in implementing their plans to the timetables set out in Part 2. The Government will publish a ~~final~~ *furthe* report in July 1984.

41. The Treasury and MPO will continue to keep closely in touch with departments as their work goes forward, both directly and through their joint Financial Management Unit<sup>(11)</sup>. Some departments have invited the Treasury to join steering committees and working groups. Generally the aim will be to monitor progress and to help spread ideas and best practice between departments. Formal reporting will be kept to the necessary minimum so that departments are not deflected from getting on with the job. Civil Service Trades Unions will be consulted as appropriate, by departments or by the Treasury and MPO.

42. Other related work will be carried forward in the following areas, described more fully below:

- (a) Work on common practical problems and issues;
- (b) Implication of the developments in financial management for staff inspection, internal audit, and management services advice to managers;

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(11) This unit was set up in the summer of 1982 for one year in the first instance. It consists of civil servants and consultants working in a joint team to advise individual departments and bring common problems to the attention of the Treasury and MPO. It will be kept in being until the spring of 1984.



- (c) Implications for the work of the Treasury and MPO;
- (d) Implications for meeting the needs of Parliament and the public for financial information.

#### Common practical problems

43. Some problems are being tackled which are common to all or most departments. Perhaps the most important are those that bear on the extent of the authority that can be delegated to managers consistently with maintaining the necessary degree of departmental control. For example:-

- (a) how best to integrate controls over Civil Service numbers with managers' budgets for expenditure. Since staff costs are by far the largest element in administrative costs, it is desirable to include them in each budget, but necessary to do so in a way which maintains taut control over the size of the Civil Service;
- (b) striking the best balance between flexibility within each budget (thus increasing the responsibility of the budget-holder for his use of resources) and flexibility between budgets (thus preserving some room for manoeuvre for the department as a whole within the year);

Other common problems include:-

- (c) achieving the best timing of the budget cycle;
- (d) developing adequate indicators and measures of performance;
- (e) where there is a network of local offices, how best to ensure that local staff get their priorities right when their tasks are specified by a number of different divisions at headquarters.

The Treasury and MPO will keep in touch with progress over these problems and ensure that useful experience is disseminated. They will be helped in this task, as in others, by the Financial Management Unit.

#### Staff inspection, internal audit, and management services

44. Confidence in the competence of managers and the soundness of systems is a condition for the delegation of greater authority: changing the lines of control must not mean loss of control. Some departmental plans include further action to develop inspection and advisory services. Staff inspection is concerned with the numbers and



grading of staff in relation to the work to be done. Internal audit is concerned with the effectiveness of a department's internal controls, financial and otherwise, supplementing the primary responsibility of the managers in each line of command. Both provide assurance to the Accounting Officer of a department (usually its permanent head) and thus have an inspectorial role. Both also provide advice and recommendations to line managers; in this role they complement other management services. Management services units in departments have often been closely associated with the work of Rayner scrutinies and other reviews.

45. One theme in the plans is closer co-ordination of the units concerned, to maximise their effectiveness. The Ministry of Defence has drawn the three functions together in its new management audit organisation. The Inland Revenue has set up a co-ordinating committee of the heads of each unit under the chairmanship of the Principal Finance Officer to harmonise individual work programmes and arrange for inter-disciplinary studies where necessary; a similar arrangement has operated in Customs and Excise for some 2 years. In many cases action had already been set in hand before the present initiative began and is not specifically covered in Part 2. Action to improve staff inspection began in 1980, and to improve internal audit in 1981.

46. Many departmental internal audit units have already been restructured; the professionalism of the staff is being improved, partly by establishing a major training programme; and the Treasury has begun to publish a Government Internal Audit Manual, prescribing standards and giving guidelines for good practice. It is also issuing guidelines of good practice in staff inspection.

47. The 1983 efficiency programme<sup>(12)</sup> includes a centrally co-ordinated review in six departments of their consultancy, inspection and review capabilities. This review will be completed early in 1984. Like the review of running costs, it is expected to yield conclusions useful to many more departments than those taking part.

#### Implications for the work of the Treasury and the MPO

48. The Treasury has to advise the Cabinet on the total sums that should be made available for public expenditure and its distribution in accordance with the economic policies of the Government. It also has to ensure that expenditure through the financial year conforms as closely as possible to the plans. For these purposes it needs

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(12) The programme was outlined in a written Parliamentary answer on 20 December, 1982 (Official Report Cols 303-305)



the best possible analysis of the costs and outputs of particular expenditure programmes, and accurate and timely information about the flow of expenditure. The plans described in Part 2 will support the Treasury's role on both counts: the results of the reviews of expenditure should be made available to the Treasury, and work has been set in hand to consider how the financial information systems set up in departments can help to improve the timeliness and reliability of the data and forecasts which are already provided to the Treasury on cash flow.

49. The dialogue between the Treasury and the spending departments over the public expenditure survey and significant new proposals for expenditure should be made more fruitful by the improved information which new departmental systems produce. At the same time however, as these systems improve, both the Treasury and the MPO in their respective fields should be able increasingly to rely on their effective operation to reduce the need for prior consultation over more minor matters. The existing rules and limits of authority delegated by the Treasury and MPO to spending departments are being reviewed with this in mind, and the process will continue as departmental systems develop, subject to the maintenance where necessary of common rules and standards across the Civil Service.

50. It follows that the Treasury and MPO will be increasingly concerned with the effectiveness of departmental systems and the flow of accurate information rather than with detailed casework on minor matters. In key areas, such as investment appraisal, staff inspection and internal audit standards or guidelines are being developed for the guidance of departments in making their own managerial decisions. The Treasury and MPO will follow through to see that they are applied. This process will continue.

#### Meeting the needs of Parliament and the public

51. The introduction of decentralised budgetary control arrangements in a department may make it desirable to alter the detailed structure of its Supply Estimates presented each year to Parliament. When further work in departments has established what is needed the Treasury will (if the changes would be significant) make proposals to the appropriate Parliamentary Select Committees.

52. Developments in the structure, content and form of the annual Public Expenditure White Paper and of the Supply Estimates will take into account the recent



report<sup>(13)</sup> of the Select Committee on Procedure (Finance) and the needs of the departmentally-related Select Committees in playing their growing part in Parliament's consideration of Supply Estimates as well as those of the Exchequer and Audit Department and the Public Accounts Committee. These documents should so far as possible become a ready starting-point for examining the performance of a department in more detail.

53. In particular, it is intended to develop the White Paper to contain clearer statements of the policy objectives to which expenditure is directed; and these will in turn be related to progress and performance indicators wherever possible. The intention is that there should be the closest possible relationship between both the Public Expenditure White Paper and the Estimates and the information systems which departments are developing for the management both of programmes and of their own activities and costs.

54. The general aim is to disclose as much information as possible from departments' internal management information systems. There are however clearly some areas where publication is not appropriate, for example because the material has security implications, or because it would disclose management intentions where this would be self-defeating, such as in action against fraud or tax evasion. Each Minister in charge of a department must make his own decisions about these matters.

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(13) First Report from the Select Committee on Procedure (Finance), Session 1982-83, 4.c. 24-1



## COMPLEMENTARY DEVELOPMENTS IN STAFF MANAGEMENT

The Central Report of the Review of Personnel Work focusses on the respective personnel responsibilities of central and operational departments and, within departments, of personnel and line managers. It includes a number of detailed recommendations on recruitment, probation, staff appraisal, career management, promotion and inefficiency procedures.

2. A main theme is that there should be greater decentralisation of personnel work both from the centre to departments and within departments. In general line managers should take more direct responsibility for the management of the staff under them so that personnel work becomes an integral part of their duties. The balance between the centre and the line will vary according to function and departments circumstances; the division of accountability between line managers and personnel divisions needs to be clearly defined.

3. The recommendations of two other Management and Personnel Office reports commissioned during the year, the Fraser report on Management Development in the 1980s (14) and the Atkinson Report on the Selection of Fast Stream Entrants (15), are also concerned with improving personnel management in the Civil Service. Both should improve the processes of recruiting and bringing on senior managers for the future.

4. The Report of the Review of Personnel Work has particularly important implications for the staff reporting system, and for the training of line managers. The priorities of the Cabinet Office (MPO) for action in the coming year, jointly with the Treasury as appropriate are:

- (1) Sharpening the incentives to good performance - it is a prime function of line managers to ensure that staff

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(14) Written Parliamentary Answer on 14 July, 1983 (Official Report Col 390-391).

(15) "The selection of fast stream graduate entrants to the Home Civil Service, the Diplomatic Service and the Tax Inspectorate: and of candidates from within the Service", report by Sir A Atkinson, published by MPO, 20 April 1983.



under their control perform well. The annual staff reporting system is being reviewed to make the basis of staff assessment more performance-orientated. Revised procedures are being developed. Following the report of the Committee of Inquiry into Civil Service Pay (16), consideration is being given to ways of introducing a performance-related pay system as an additional spur to good performance. The development of management systems with clear indicators of objectives and performance would also help to provide a firmer basis for any late move to performance-related pay systems. Some forms of performance-related pay could require a substantial recasting of the basic pay structures of the Civil Service. Early action is however possible, and will be pursued, in sharpening the management response to inefficiency and poor performance by individual members of staff.

(2) Improving career development for managers - new succession planning arrangements are already in place and working. Career management for those likely to become senior managers will be improved, with less frequent job changes and postings and improved training. The training effort of the Civil Service College and departments will be reinforced, especially for senior management and staff concerned with financial management. A new training course will be introduced for those entering the Open Structure (ie the grades of Under Secretary and above).

(3) Extending unified grading - the choice of grades in which staff are employed and the pay structures applicable to them are among the most important tools of management. There is widespread recognition that the present pay and grading structures of the Civil Service are capable of improvement. Major reform can, however, be costly and progress is necessarily limited by the resources available. Nevertheless, steps are being taken this year towards a more unified grading structure to help break down the

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(16) Inquiry into Civil Service Pay, Report of an inquiry into the principles and the system by which the remuneration of the non-industrial civil service should be determined. Chairman, the Rt Hon Sir John Gore CBE TD Cmnd 8590 (2 volumes) July 1983.



barriers between the main occupational groups - administrators, scientists and professional and technical staff - down to Assistant Secretary, Senior Principal and equivalent levels. The possibility of a further extension of this process will be examined in due course.



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HL

11 August 1983

The Prime Minister has seen the Chief Secretary's minute of 2 August covering a draft White Paper on Financial Management in Government Departments. Mrs. Thatcher has agreed that the Chief Secretary may now proceed to publication of the White Paper on the timetable proposed. She has also agreed that she will present the White Paper to Parliament.

Tim Flesher

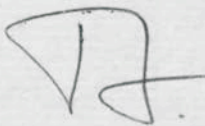
John Gieve, Esq.,  
Chief Secretary's Office.



PRIME MINISTER

Attached is a draft of the White Paper on Financial Management in Government Departments. You will want to have a look at this a bit more closely on your return but, since you have already approved the White Paper in principle, you may agree that the Chief Secretary can proceed to make arrangements for publication in late September. If you have made your reservations, later on the process can be stopped. I gather, however, that the Efficiency Unit is happy with what is proposed. Agree?

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TIM FLESHER

10 August, 1983





cc Press

Chief  
Service

Treasury Chambers, Parliament Street, SW1P 3AG

Tim Flesher  
No. 10 Downing Street  
LONDON  
SW1

TF 5/9

2 September 1983

Dear Tim

The Chief Secretary was grateful for the Prime Minister's approval of the draft White Paper on Financial Management in Government departments. He was grateful also for her agreement that it should be published on 22 September. However, he has become committed to a number of other meetings on that day which cannot be avoided so, provided she is content, he would now propose to publish the White Paper and hold a Press Conference on Tuesday 27 September.

Yours sincerely

J.G.

JOHN GIEVE



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Civil Service

Dr  
2/7

MR STUBBS

cc Mr Wilding (HMT)  
Mr Russell  
Mr Beesley ✓  
Mr Hall (HMT)

FMI WHITE PAPER - PUBLICITY

*will request if you can*  
Thank you for your minute of 10 August about the handling of publicity for the FMI White Paper when it surfaces on 22 September. I have also seen Martin Hall's minute of 11 August on this subject.

I am quite sure that we should give Lord Gowrie an opportunity to get in on the action if he wishes to take it. I could also see advantage in you and Martin having a brief word with Bernard Ingham to make sure that we have No 10 on board.

Can I leave it to you to take this forward from the MPO end, please?



P Le Cheminant

12 August 1983

Mr Fletcher (10 Downing Str)

You may care to see this. Sir Robin  
Ibbs will be ministering the Prime  
Minister shortly about the next  
steps on the FMI. If you agree,  
the Efficiency Unit could represent  
the Prime Minister's interest when  
the White Paper is published.

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