

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

At the end of January you raised the question of the siting of the Head of the Government Accountancy Service in the machinery of government. In order to offer advice, I have had to take into account work in hand, and its progress, including the transfer of Accountancy, Finance and Audit Division (AFA) from CSD to the Treasury.

2. This minute is therefore submitted to you in the context of continuing work to improve the quality of financial management in Government. I have consulted Sir Ian Bancroft, Sir Douglas Wass and Sir Peter Carey during its preparation and I have also had a personal word with the Chancellor of the Exchequer.

BACKGROUND

3. The HOTGAS post was created in 1973 at Second Permanent Secretary level but it took two years to fill it (see below). It is primarily non-executive. It has two main functions, to provide a "head of profession" for the Government Accountancy Service (on similar lines to the Government Economic and Statistical Services) and an Accountancy Adviser to the Department of Industry, where it is located. More details are given in the Annex, should you need them.

4. When the post was created, two years of advertising failed to produce a suitable candidate. Sir Ian Bancroft recalls the relief felt when the present incumbent, Mr Kenneth Sharp, came forward in 1975 "with glowing references from his professional peers". Mr Sharp had been a partner with a firm of accountants (Messrs. Armstrong, Watson and Co of Carlisle) for 20 years and was president of the council of the Institute of Chartered Accountants in 1974-75.

5. Sir Ian Bancroft tells me that the memory of the original difficulties in filling the post was still strong when the question came up whether Mr Sharp's contract, initially for 5 years, should be renewed. The offer of appointment made to Mr Sharp in 1975 had held out the expectation that the appointment could be extended, while making no commitment. Sir Ian Bancroft and Sir Peter Carey say that the problems of attracting a good outside applicant at Civil Service pay rates, coupled with Mr Sharp's own desire to see his organisational changes through, pointed towards the renewal of his contract for another three years. This was done last October.

"FINANCIAL MANAGEMENT" IN THE CIVIL SERVICE

6. Sir Douglas Wass and I are at the moment addressing some fundamental questions in this area, namely, "What is financial management in Government? Who are the financial managers in departments? What skills do they need? How are these best provided through training and experience?"

7. Put in the simplest terms "financial management" in Government consists of:

- (1) the common rules and procedures of public expenditure control and Parliamentary accounting which apply to all departments alike; and
- (2) the many different businesses which take place in departments. For example, the social security side of DHSS, the procurement side of MOD and the industrial sponsorship side of DOI or DEN are as different from each other as are insurance, manufacturing and retail in the private sector.

8. The staff of the central finance branches in spending departments are not and cannot be the only "financial managers". A Minister in charge of a department has to look to the staff of his policy and operational branches to take the main responsibility in such matters as:

- assessing the likely cost and "value added" of new policy proposals
- assessing the "value added" by existing policies
- saving Ministers from getting taken for a ride by private or public sector organisations seeking funds for investment or survival
- getting and responding to their own running costs
- monitoring and controlling the outflow of cash
- securing the timely delivery to Government of the goods and services it is procuring.

9. The professional accountant has an important part to play in devising and in running a good system of financial management, especially with regard to the supply of management information. But accountancy and the accountant do not have all the answers. In a private company, the Chief Accountant will be auxiliary to the finance director. Although in Britain the finance director will usually have trained as an accountant, his function now clearly extends to contributing to profits and the creation of wealth, rather than being limited to historical accounting. No responsible board could now accept that their collective financial duties could be serviced only by a technician.

WHAT IS HOTGAS'S PART IN FINANCIAL MANAGEMENT?

10. The Treasury is leading for you on your policy of better financial management, one key aspect of which is training. I myself would now look for a strong development of financial management as a specialism within the civil service.

11. The emphasis placed on accountancy over recent years is valuable. But it has blurred the primary importance of analysing the skills needed for financial management in the special circumstances of government and of providing a strong corps of financial managers.

12. I have commissioned a statement of training policy and a plan, consisting of particular objectives for giving it effect. Although the Treasury is the leading department, I envisaged that HOTGAS should have a part to play because:

- (1) Accountancy is an important part of financial management for which the Treasury has the overall responsibility.
- (2) As indicated in the Annex, HOTGAS's remit includes advising departments on financial management and control.
- (3) His position as "head of profession" should give him such a wide overview of financial management in practice - its strengths, weaknesses and the skills needed for success - that the Treasury could only benefit from his help and could not afford not to put its weight behind him.

13. I therefore invited HOTGAS to draft the statement and plan, which he gladly and enthusiastically agreed to do. I saw this somewhat unorthodox approach as one which had the

merits of leaving the Treasury in charge but also of tapping HOTGAS's particular knowledge and experience, which I believed should be in the Treasury in any case.

14. Unhappily, HOTGAS's approach to the policy statement and plan, although prompt, does not suggest that he finds it easy to look beyond the role of the accountant or to describe in practical terms the skills required for good financial management which can be taught or otherwise acquired.

15. The stage now reached is that the Treasury will instead draft the statement of policy, beginning with an analysis of "financial management" and "financial managers" and that HOTGAS will draft on training objectives.

16. This experience has left Sir Douglas Wass and me with these thoughts:

- (1) The policy lead on financial management is correctly placed in the Treasury
- (2) Within the Treasury, the responsibility is correctly placed on the Public Services Sector, now headed by Sir Anthony Rawlinson, since it has both the practical job of exercising control over public expenditure and the important complementary job of promoting developments in the field of financial management.
- (3) Within the Public Services Sector, the responsibility is correctly delegated to Mr J G Littler, Deputy Secretary; his charge includes the Treasury's accountants in the Accounts and Purchasing Group, and more recently those in the Accountancy, Finance and Audit Division (AFA) transferred from CSD.

- (4) The Treasury has a need for a strong input from professional accountants, not only in the field of overseeing and advising on the financial systems maintained by Departments, but also of approving public sector projects, vetting the disbursement of public funds on commercial activities etc. In recent years it has been stepping up this input. But the level at which it is best made is broadly Assistant Secretary or Principal.
- (5) The head of the GAS should be in charge of developing the profession, as now, and of a group of accountants, so that he has management responsibilities and his feet stay on the ground.
- (6) Because accountancy is one part of financial management, a case can be made for putting the head of profession in the Treasury, where he should help the Specific and General Expenditure divisions in their work; take responsibility for the Accounts and Purchasing Group and AFA; take the lead in developing internal audit; and contribute to the general improvement of financial management.
- (7) The function summarised in (6) is not that of a Second Secretary in the Treasury. It is nearer that of an Under Secretary. This makes the appropriate job comparison with private sector practice (see para. 9 above); the "head of accountancy" must, in our view, look to the Second Secretary Public Services for policy direction and guidance.

THE FUTURE OF THE HOTGAS POST

17. Judging by the contribution it appears to be making and indeed could make the HOTGAS post is over-graded by at least one grade. But the heads of the Government Economic and Statistical Services are also at Second Secretary level. Downgrading the post might cause morale problems in the GAS and markedly adverse criticism outside Government. This is not an overriding consideration, but it should be recognised. Sir Ian Bancroft also believes that, presentational points apart, downgrading the HOTGAS post by one or perhaps two grades would make it harder to push through the re-structuring of the Government Accountancy Service, on which Mr Sharp has spent much of his time and which represents a degree of achievement by him.

18. The present incumbent is ill-fitted to make a bigger contribution by his business experience, which is limited to a provincial professional practice. Although personally agreeable and pleasant, he lacks the intellectual edge needed at his level and by the importance of the subject. But his contract was renewed last autumn and does not expire until October 1983.

19. There are three possible courses as follows.

(1) Leave things as they are

20. We could clearly leave things as they are and make the best of them. This is the least troublesome course. It would require that, although left in the Department of Industry, HOTGAS should be brought into closer touch with the Treasury and encouraged to make a contribution to financial matters generally but that he should mainly concentrate on the management of the GAS and offer advice on policy when it is needed.

(2) Termination of contract

21. At the other extreme, we could grasp the nettle and end Mr Sharp's contract. This would be difficult, as it would have to be done on the grounds of a personal failure less than a year after renewing his contract until October 1983 and within a year of bringing the GAS into being (in 1982). It would certainly mean compensation, possibly a tribunal, although the sweetener of an honour appropriate to the rank of Second Secretary might help.

22. The full logic of this second course would be to remove the HOTGAS post to the Treasury; downgrade it by two grades to Under Secretary; re-title it "Director of the GAS"; and put it in charge of the Accounts and Purchasing Group, including AFA. As that Group is now headed by a generalist Under Secretary, it would be desirable either

(1) to recruit from outside the Service a temporary occupant for the post with appropriate qualifications and experience, in the meantime bringing on one of the accountants already in the Service to succeed him; or

(2) to put in the post an existing official with the right qualifications, experience and aptitude. (Such a person might be Mr Peter Kemp, the Under Secretary in charge of the Treasury's central unit, a very able chartered accountant who entered the Civil Service in mid-career. He chaired the official working group which helped me greatly on repayment for property services.)

23. In business, I would favour this second course and putting Mr Kemp in charge. But we are not dealing with a



business here. An apparently tough, apparently unfair, handling of the situation could cause trouble for the Government in Parliament, the media, the accountancy profession inside and outside Whitehall and the relevant civil service trade union, the Institute of Professional Civil Servants. Sir Ian Bancroft believes that, rightly or wrongly, it would be seen as a step backwards and would be attacked as lowering the status of accountants in Government just when it should be raised.

(3) Make a change in 1983

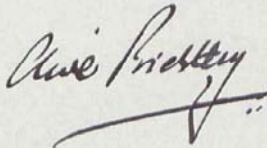
24. We might leave things as they are on the basis noted in para. 20 above but plan a substantial change in arrangements to take effect on Mr Sharp's end of contract in October 1983. The aim would be to have taken a decision well before October 1983 whether there is a continuing need for the post of HOTGAS, in particular for the work now done by Mr Sharp as head of profession.

25. If it was decided that the post was still needed, careful thought would need to be given to its grading and whether it either should or could be filled by an outsider. My own view is that the following steps should be taken:

- (1) Downgrade the post of HOTGAS to Under Secretary and convert it into a post of (say) "Director of the GAS". It would head up the Accounts and Purchasing Group (including AFA) in the Treasury and would be marshalled under the appropriate Deputy Secretary now Mr Littler.
- (2) Give the DOI Under Secretary who heads up the Secretary of State's accountants the duty of being his "Accountancy Adviser".

26. In the circumstances the correct course is one such as that outlined in para. 25 above. If you agree, Sir Douglas Wass will make the necessary arrangements in consultation with Sir Ian Bancroft and Sir Peter Carey.

27. I am copying this to the Chancellor of the Exchequer, Sir Ian Bancroft, Sir Douglas Wass and Sir Peter Carey.



*DR*  
Derek Rayner  
16 July 1981

Prepared by Sir Derek Rayner before his departure for Canada and submitted on his instructions.

Enc: Annex

FUNCTIONS OF THE HEAD OF GOVERNMENT ACCOUNTANCY SERVICE

1. The post has two main functions, to be "head of profession" for the Government Accountancy Service and Accountancy Adviser to the Department of Industry.

2. The aspect of "head of profession" work which has taken most of HOTGAS's time and energy has been bringing the "Government Accountancy Service" into being. The plan is, next year,

- (1) to merge the Professional Accountant Class (consisting of nearly 400 qualified accountants) with the Administration Group (which includes some 250 management accountants, mainly in MOD);
- (2) so to establish within the Administration Group a functional specialism, to be called the "Government Accountancy Service", consisting of staff who are now or usually employed in jobs making use of their professional qualifications; and
- (3) to give HOTGAS a small management unit to promote co-operation between departments on recruitment, training, personnel management and similar issues.

3. The proposals for an "Accountancy Service", so headed, derived from a report by Sir Ronald Melville and Sir Anthony Burney on the use of accountants in the Civil Service (published July 1973). The report, and the job specification, also envisaged that HOTGAS would advise departments on such functions of financial management as the provision of financial information in the formulation of policy; the internal control of expenditure; and the financial aspects of procurement.

4. In fact, that part of the role has not developed strongly. Nor, as I understand it, has the role of Accountancy Adviser to the Department of Industry. This job was intended to consist of:

- advice on accountancy and related management techniques
- contributions to high level planning and policy work
- responsibility for the department's 80 accountants, now deployed as a common service for the Departments of Trade and Industry, under an Under Secretary.



FILE

ds

## 10 DOWNING STREET

*From the Principal Private Secretary*

SIR DEREK RAYNER

Location of the Head of the Government Accountancy Service

The Prime Minister has seen your minute of 16 July 1981 about the location of the Head of the Government Accountancy Service. She has also seen Sir Ian Bancroft's minute of 17 July.

The Prime Minister agrees with your recommendation that we should leave matters as they are until October 1983 when Mr. Sharp, the present Head of the Government Accountancy Service, comes to the end of his contract and that we should then proceed as you propose in paragraph 25 of your minute. She takes, however, the point made by Sir Ian Bancroft in his minute of 17 July and she would therefore like to review her decision in the autumn of 1982.

I am sending copies of this minute to Mr. Wiggins, Sir Ian Bancroft, Sir Douglas Wass and Sir Peter Carey.

**G. A. WHITMORE**

26 July 1981

PERSONAL AND CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

*NBSM per.  
S. J. Bancroft min. in  
response  
KJ  
30/7/83*

LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

I have seen a copy of Derek Rayner's minute of 16 July and like you I agree with the proposals in paragraph 25 of his minute concerning the location of the post of Head of the Government Accountancy Service. It seems to me right to take the opportunity when Mr. Sharp's contract expires to seek to unify the post with that of the Under Secretary post now in the Treasury in charge of Management, Accountancy and Purchasing Policy. No doubt if we appoint an outsider we shall need to recognise that he will expect a salary considerably in excess of that of Under Secretary, but that should not present an insuperable difficulty.

2. I note that in his minute of 17 July to Clive Whitmore Ian Bancroft suggests that it is not necessary to commit ourselves now to the precise arrangements to be introduced in 1983. I must say I have misgivings about this. If the post is to be located in the Treasury, it should be, as Derek says, to do the job he has identified and this is unquestionably an Under Secretary job. It would be quite wrong in my view to contemplate the Treasury having a post at a higher level and being unable to give the incumbent the line responsibilities he needs to make the contribution we would be expecting from him. Although the accountancy contribution to financial management is important, I am convinced it must be fitted within the overall responsibilities of the Second Permanent Secretary handling public expenditure, and should therefore be subordinate

/to him.

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to him. If it were thought desirable to leave open the grading issue - which I recognise raises political difficulties - I think we should also leave open the final decision on whether the post should be transferred from the Department of Industry to the Treasury.

3. I am sending copies of this minute to the recipients of Clive Whitmore's minute of 26 July.

(G.H.)

28 July 1981



MR C A WHITMORE

LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

I have seen Sir Derek Rayner's minute of 16 July.

I am grateful to Sir Derek for reflecting my views in his minute, especially on the difficulties that would be caused by an immediate downgrading of Mr Sharp's post from Second Permanent Secretary to Under Secretary. I share his preference for the third option - a change in 1983, when the post would be relocated in the Treasury. I also agree that we should need to think carefully about the grading of the post and whether it should be filled by an outsider.

I have one additional comment. I doubt whether it is necessary to commit ourselves now to the precise arrangements to be introduced in 1983. As you know, a good deal of action is taking place to improve financial management in Government and to raise the status and impact of accountants. Developments over the next year may influence the shape of the 1983 solution. I therefore suggest that a final, precise decision on this point should be left open until the autumn of 1982.

I am copying this minute to the Chancellor of the Exchequer, Sir Derek Rayner, Sir Douglas Wass and Sir Peter Carey.

MB

IAN BANCROFT  
17 July 1981



Mr RICKETT

LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE  
(HOTGAS)

1. Sir Derek Rayner would not regard the attached minute as having a strong claim to very early attention by the Prime Minister. It results from Mr Pattison's minute to Mr Colman of 30 January (on the CSD/Treasury merger). It follows a brief word Sir DR recently had with the Chancellor and consultation with Sir Ian Bancroft, Sir Douglas Wass and Sir Peter Carey, who is the official boss of HOTGAS, Mr Kenneth Sharp.

2. You will see that the issues are both personal and intellectual. The key points are these:

(1) The development of financial management in Government, which has generally been slow, is gathering momentum. The Treasury is the obvious lead Department. A good HOTGAS would help - and would help better if he were located in the Treasury.

(2) In fact, however, we have double faulted:  
a. The emphasis placed on accountancy over the last ten years has to a degree been right, but it has blurred the primacy that should have attached to financial management, of which accountancy is only one part.

b. Although the post of HOTGAS was created in 1973 at Second Secretary level, it took two years for an acceptable candidate (Mr Sharp) to come forward. The post was not then and probably would not now be attractive to accountants of good success in the private sector. Mr Sharp himself,

although likeable and well-being<sup>meaning</sup>, is not very good. He has neither the professional background nor the intellectual capacity to make a substantial contribution to the development of financial management. Although the Service has almost certainly not helped him as much as it should, there is little prospect that Mr Sharp will become more effective.

- (3) The substantive question of the function and location of the HOTGAS post is therefore tied up with the personal question of Mr Sharp himself. His contract was renewed last autumn and runs through to October 1983. Experience suggests that his post is over-graded by at least one grade. It should almost certainly be in the Treasury rather than in the Department of Industry as now. But the option of ending Mr Sharp's contract and putting his post, much down-graded, into the Treasury would both seem and be unfair to him as well as causing trouble for the Government outside.
- (4) There are two other options:
- a. To leave things alone until October 1983, but to take Mr Sharp more firmly under the Treasury's wing; or
  - b. To decide not to renew his contract in 1983 (when he will be nearly 57) and plan to move the post, if still needed but almost certainly re-graded, into the Treasury.
- (5) The minute asks the Prime Minister to authorise Sir Douglas Wass to implement option (b) above.



3. If the Prime Minister agrees, you might like to reply somewhat as in the attached draft.

SP

: C PRIESTLEY  
17 July 1981

Encs: Minute to the Prime Minister from Sir Derek Rayner  
Draft minute from you to Sir Derek Rayner

CONQUEROR

DRAFT OF 16 JULY 1981



PERSONAL AND CONFIDENTIAL

Sir Derek Rayner

LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

1. The Prime Minister was grateful for your minute of 16 July.
2. The Prime Minister believes that the fairest course would be to retain Mr Sharp's services until the end of his contract in October 1983 and to consider in the interim what arrangements should be made thereafter. She would be grateful if Sir Douglas Wass would undertake this as you suggested.
3. The Prime Minister is in general agreement with the course suggested in para. 25 of your minute, namely that the post of Head of the Government Accountancy Service should be transferred to the Treasury and be down-graded, but she would like the matter to be referred to her again before decisions are taken so that she can see how the change fits in with the broader strategy for developing financial management.
4. I am copying this to Mr Wiggins in the Chancellor's office and to Sir Ian Bancroft, Sir Douglas Wass and Sir Peter Carey.

W F S RICKETT

CONFIDENTIAL

ms

PRIME MINISTER

HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

Earlier this year you raised with Sir Derek Rayner the question of where the head of the Government Accountancy Service should be placed in the machinery of government, and the attached folder contains his response to that remit (FLAG A). His recommendation is that we should leave things as they are until October 1983 when Mr Sharp, the present Head of the Government Accountancy Service, comes to the end of his contract and that then the post should be downgraded from its present level of Second Permanent Secretary to Under Secretary and transferred from the Department of Industry to the Treasury where, with the title of Director of the Government Accountancy Service, it would head the Accounts and Purchasing Group. At the same time the Department of Industry Under Secretary who heads up the Secretary of State's accountants would be given the duty of being his accountancy adviser.

dated  
17/7.

— Sir Ian Bancroft, whose views are at FLAG B, goes along with Sir Derek Rayner's solution, but he suggests that because there is a good deal going on already to improve financial management in Government and to raise the status and contribution of accountants in Whitehall, it would be wise not to decide now on the precise arrangements to take effect when Mr Sharp goes in 1983 but rather to leave over settling the details until the autumn of 1982. I think that this is sensible advice and I suggest therefore that your decision might take the form of agreeing with Sir Derek Rayner's recommendation but subject to its being reviewed in the autumn of next year. Agree?

JW

Yes  
ms

24 July 1981

CONFIDENTIAL



*NSPM yet.*

*The Chancellor*

*will be replying.*

*AKL*

MR C A WHITMORE

THE LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

Perhaps I could comment briefly on one point in the minute that the Chancellor of the Exchequer sent the Prime Minister on 28 July.

There is undoubtedly a strong case for the post to be graded at Under Secretary level when it is transferred to the Treasury in October 1983 on the expiry of the contract of the present Head of the Government Accountancy Service. But a lot can happen in the next two years, particularly in view of the intense Parliamentary interest now being taken in all aspects of Government accountancy. It is for this reason only - and not because of any doubts about the Treasury being the correct eventual location of the post - that I still believe that it would be prudent to review the detailed arrangements in the autumn of 1982.

I am sending copies of this minute to the recipients of your minute of 26 July.

*IB*

IAN BANCROFT  
4 August 1981



*NBPM. A review in autumn  
1982 will give us plenty of time to sort this out.  
JWJ  
Gao.*

MR WHITMORE

THE LOCATION OF THE HEAD OF THE GOVERNMENT ACCOUNTANCY SERVICE

The Chancellor saw Ian Bancroft's further minute of 4 August before he went on holiday. He asked me to record that while he does not dissent from the view that it would be prudent to review the detailed arrangements for the transfer of the post in the autumn of 1982, he feels that should the conclusion be reached that it would not be right to down grade the post to Under-Secretary, the corollary should be that it should remain in the Department of Industry, and not be transferred to the Treasury, for the reasons set out in his minute to the Prime Minister of 28 July.

2. I am sending copies of this minute to recipients of your minute of 26 July.

*PJ*  
P S JENKINS  
12 August 1981