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CABINET

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

Note by the Secretary of the Cabinet

Last year at the Prime Minister's request the Efficiency Unit carried out a scrutiny to review progress with the reform of management in Government Departments and to consider the way forward. A Group of Ministers under the Prime Minister's chairmanship has met three times to consider the Unit's report, which is attached at Annex A.

2. The Group of Ministers concluded that the Government should endorse the following recommendations of the report -

a. To the greatest possible extent the executive functions of Government, that is service delivery undertaken by Departments rather than Non-Departmental Public Bodies, should be carried out by executive units clearly designated within Departments, referred to in the report as 'agencies', with responsibility for day-to-day operations delegated to a Chief Executive responsible for management within policy objectives and a resources framework set by the responsible Minister.

b. Ministers should commit themselves to and put in hand a programme for completing the implementation of this objective progressively, agency by agency.

c. Staff should be properly trained and prepared for management of the delivery of services whether within or outside central Government.

d. There should be a force for improvement at the centre of Government which would maintain pressure on Departments to improve and develop their operations, and in particular a 'Project Manager' at a senior level to ensure that the programme of change took place.

The Group agreed that these recommendations should be implemented according to procedures designed to ensure the proper control of public expenditure, running costs and pay. At the same time the arrangements should be operated in a manner which will encourage a greater sense of responsibility for the achievement of value for money, and bring about a

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release of greater management energy to this end. At Annex B is a note by the Treasury outlining a procedure for setting up the initial agencies and their subsequent control.

Some particular aspects which the Group discussed include -

a. Legislation

Creating agencies within Departments to handle distinct executive functions will not generally require legislation, though it may in particular cases. Privatising or converting into Non-Departmental Public Bodies (or vice versa) usually would. Some changes in Parliamentary financial controls could need legislation if it were decided to implement them.

b. Accountability

Ministers' formal accountability to Parliament will be unchanged by these proposals, although their detachment from day-to-day operations would entail changes in the way in which it is discharged. Parliamentary Questions will always be answered by the responsible Minister. He may want to encourage MPs to address operational inquiries first to agency managers but MPs will keep the right to approach the Minister direct, if they are dissatisfied with the reply.

c. Privatisation and Quangos

When deciding how best to deliver executive functions, privatisations should always be considered as a prior option. This has the merit of bringing natural commercial pressures for efficiency and effectiveness. In cases where this is not possible, setting up an agency within a Department can provide a rigorous basis for control, while distancing Ministers from day-to-day operations. This can be a more appropriate arrangement for discharging some functions than a Non-Departmental Public Body (quango).

d. Agency Chief Executive Appointments and Terms of Service

In some cases it will be appropriate to recruit chief executives to some agencies from outside the Civil Service, in others a career civil servant will be the best choice. In either case the appointment would be for a fixed term, and remuneration would include a suitable performance-related element linked to defined performance objectives.

4. Subject to Cabinet's agreement, the Prime Minister proposes to make an Oral Statement in the terms attached at Annex C. It is also proposed to deposit the published report, and the list of initial agencies attached at Annex D in the Library of the House of Commons. The Statement will be repeated in the House of Lords by the Lord Privy Seal.

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5. The Cabinet is asked to endorse the conclusions of the Ministerial Group as described in paragraph 2 above, and to invite the Prime Minister to announce these conclusions to the House of Commons.

ROBIN BUTLER

Cabinet Office

12 February 1988

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ANNEX A

IMPROVING MANAGEMENT IN GOVERNMENT: THE NEXT STEPS

SCRUTINY REPORT

<u>Contents</u>	<u>Page</u>
REPORT	
I: Introduction	3
II: Findings	3
III: Conclusions	6
IV: Recommendations	8
V: The Next Steps	14
ANNEXES	
Annex 1: Accountability to Ministers and Parliament on operational matters	16
Annex 2: Findings	19
Appendix A: Previous reports on the Civil Service	30
Annex 3: Terms of reference and working method	32

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I. INTRODUCTION

1. As a result of initiatives taken since 1979, the management of government business is much improved, especially in those parts of government where there are clear tasks to be performed and services to be delivered. But there is still a long way to go; in particular there is insufficient sense of urgency in the search for better value for money and steadily improving services. There is wide agreement in Departments themselves that substantial further improvement is achievable, but that this depends heavily on changing the cultural attitudes and behaviour of government so that continuous improvement becomes a widespread and in-built feature of it. This report makes recommendations on the structure and management needed for the better delivery of services both to the public and to Ministers, the experience that staff need to be given and how sustained pressure for improvement can be developed. This should bring the changes needed in attitudes and behaviour and with them progressive improvement in performance.

II. FINDINGS

2. As part of this scrutiny we have spent 3 months in discussions with people in the Civil Service throughout the country. We have also reviewed the evidence from other scrutinies in the central programme since 1979 and looked at earlier reports on the management of the Civil Service. The themes which have emerged during the scrutiny have followed a broadly consistent pattern, whether in discussions in a small local benefit office or in a Minister's room. Some are also common themes in earlier scrutinies and in reports on the Civil Service (see Annex 2). There are seven main findings.

3. First, the management and staff concerned with the delivery of government services (some 95% of the Civil Service) are generally convinced that the developments towards more clearly defined and budgeted management are positive and helpful. The manager of a small local office in the north east said that for the first time in 20 years he felt that he could have an effect on the conditions under which his staff worked and therefore on the results they produced. But this kind of enthusiasm is tempered by frustration at constraints. Although there is a general acceptance of the importance of delegating meaningful authority down to the most effective level, diffused responsibility still flourishes, especially in offices away from the sharp end of delivery of services to the public. Middle managers in particular feel that their authority is seriously circumscribed both by unnecessary controls and by the intervention of Ministers and senior officials in relatively minor issues. People who had recently resigned from the Civil Service told us that frustration at the lack of genuine responsibility for achieving results was a significant factor in encouraging them to move to jobs outside.

4. Second, most civil servants are very conscious that senior management is dominated by people whose skills are in policy formulation and who have relatively little experience of managing or working where services are actually being delivered. In any large organisation senior appointments are watched with close attention. For the Civil Service the present signals are, as one senior Grade 2 told us, that "the golden route to the top is through policy not through management". This is reflected in the early experience and training of fast-stream recruits. This kind of signal affects the unwritten priorities of a whole organisation, whatever the formal policy may be.

5. Managing large organisations involves skills which depend a great deal on experience; without experience senior managers lack confidence in their own ability to manage. Although, at the most senior levels, civil servants are responsible for both policy and service delivery, they give a greater priority to policy, not only because it demands immediate attention but because that is the area in which they are on familiar ground and where their skills lie, and where ministerial attention is focused. A proper balance between policy and delivery is hard to achieve within the present framework, even though taxpayers are becoming increasingly conscious of what they should expect from public expenditure on health, education and other services and hold Ministers to blame for their deficiencies.

6. Third, senior civil servants inevitably and rightly respond to the priorities set by their Ministers which tend to be dominated by the demands of Parliament and communicating government policies. In this situation it is easy for the task of improving performance to get overlooked, especially where there is, as we observed, confusion between Ministers and Permanent Secretaries over their respective responsibilities for the management of service delivery. This confusion is made worse when short term pressure becomes acute. Nevertheless the ability of Ministers supported by their senior officials to handle politics and political sensitivities effectively is a crucial part of any government's credibility. Changes in the management process should therefore aim to increase rather than diminish this crucial skill.

7. Fourth, the greater diversity and complexity of work in many Departments, together with demands from Parliament, the media and the public for more information, has added to ministerial overload. Because of other pressures on Ministers, and because for most of them management is not their forte and they don't see it as their function, better management and the achievement of improved performance is something that the Civil Service has to work out largely for itself. It is unrealistic to expect Ministers to do more than give a broad lead. Most Ministers who are worried about overload are of the view that while changes in management that reduced the ministerial load would be welcomed, provided they entailed no major political risks, Ministers themselves do not have the time or the experience needed to develop such changes.

8. Fifth, the pressures on Departments are mainly on expenditure and activities; there is still too little attention paid to the results to be achieved with the resources. The public expenditure system is the most powerful central influence on departmental management. It is still overwhelmingly dominated by the need to keep within the levels of money available rather than by the effectiveness with which they are used.

9. Sixth, there are relatively few external pressures demanding improvement in performance. The Prime Minister has given a valuable lead and holds seminars to discuss value for money in individual Departments. Her Adviser on Efficiency and Effectiveness has annual discussions with Ministers about their priorities for getting better value for money. These are useful but occasional rather than continuous pressures. Pressure from Parliament, the Public Accounts Committee and the media tends to concentrate on alleged impropriety or incompetence and making political points, rather than on demanding evidence of steadily improving efficiency and effectiveness. This encourages a cautious and defensive response which feeds through into management. On the positive side, the Treasury and the NAO are developing work on value for money. But the process of searching for improvement is still neither rigorous nor sustained; it is not yet part of the basic institution of government.

10. Seventh, the Civil Service is too big and too diverse to manage as a single entity. With 600,000 employees it is an enormous organisation compared with any private sector company and most public sector organisations. A single organisation of this size which attempts to provide a detailed structure within which to carry out functions as diverse as driver licensing, fisheries protection, the catching of drug smugglers and the processing of Parliamentary Questions is bound to develop in a way which fits no single operation effectively.

11. At present the freedom of an individual manager to manage effectively and responsibly in the Civil Service is severely circumscribed. There are controls not only on resources and objectives, as there should be in any effective system, but also on the way in which resources can be managed. Recruitment, dismissal, choice of staff, promotion, pay, hours of work, accommodation, grading, organisation of work, the use of IT equipment, are all outside the control of most Civil Service managers at any level. The main decisions on rules and regulations are taken by the centre of the Civil Service. This tends to mean that they are structured to fit everything in general and nothing in particular. The rules are therefore seen primarily as a constraint rather than as a support; and in no sense as a pressure on managers to manage effectively. Moreover, the task of changing the rules is often seen as too great for one unit or one manager or indeed one Department and is therefore assumed to be impossible.

12. In our discussions it was clear that the advantages which a unified Civil Service are intended to bring are seen as outweighed by the practical disadvantages, particularly beyond Whitehall itself. We were told that the advantages of an all-embracing pay structure are breaking down, that the uniformity of grading frequently inhibits effective management and that the concept of a career in a unified Civil Service has little relevance for most civil servants, whose horizons are bounded by their local office or, at most, by their Department.

III. CONCLUSIONS

13. The main themes which have emerged from our discussions in the course of the scrutiny suggest that the changes of the last 7 years have been important in beginning to shift the focus of attention away from process towards results. The development of management systems, particularly those which cover programme as well as administrative areas, forces senior and junior management to define the results they wish to achieve. But this also produces frustrations because of the lack of freedom to vary the factors on which results depend. The new systems are demonstrating how far attitudes and institutions have to change if the real benefits of the management reforms, in the form of improvement in the way government delivers its services, are to come through. It was striking that in our discussions with civil servants at all levels there was a strong sense that radical change in the freedom to manage is needed urgently if substantially better results are to be achieved.

14. Five main issues have emerged from the scrutiny. First, a lack of clear and accountable management responsibility, and the self confidence that goes with it particularly among the higher ranks in Departments. Second, the need for greater precision about the results expected of people and of organisations. Third, a need to focus attention on outputs as well as inputs. Fourth, the handicap of imposing a uniform system in an organisation of the size and diversity of the present Civil Service. Fifth, a need for a sustained pressure for improvement.

15. These are serious problems which need leadership, and commitment to change, from Ministers and the senior Civil Service if they are to be dealt with. Our conclusions are that to begin the process of change three main priorities are necessary:

First: The work of each Department must be organised in a way which focuses on the job to be done; the systems and structures must enhance the effective delivery of policies and services.

Second: The management of each Department must ensure that their staff have the relevant experience and skills needed to do the tasks that are essential to effective government.

Third: There must be a real and sustained pressure on and within each Department for continuous improvement in the value for money obtained in the delivery of policies and services.

These three priorities apply equally to all aspects of government. In our recommendations we apply them to the delivery of services, the tasks of Departments and the centre of Whitehall. Simultaneous action is needed on all three.

16. It is important to recognise that the changes implied by these conclusions, although straightforward, are quite fundamental in the overall impact they will have if carried forward as we suggest. Some fairly radical decisions and a tightly-knit timetable will be required if the necessary momentum for change is to be built up. But the process, although it must be quite rapid to maintain that momentum, will need to be evolutionary so as to gain full advantage from the favourable climate we observed, and to build on moves of the right kind already taking place in some Departments. It will also need to be tightly managed so that the acute problems of transition are properly handled, and so that the drive for more positive management and more freedom for local decision is not undermined by vested interests or lack of confidence.

IV. RECOMMENDATIONS

1. FOCUSING ON THE JOB TO BE DONE

17. Greater priority must be given to organising government so that its service delivery operations function effectively. This must be backed by supporting changes in the attitudes and day-to-day behaviour of Ministers and their officials.

18. Changes of the kind we are proposing are so fundamental that they can be brought about only with the lead and support of Ministers. Without this lead they will falter partly because of the inertia of any very large organisation and a natural tendency for fine details to be discussed at length, but partly because it is Ministers who will have to explain, promote and defend them in Parliament as and when the difficulties are encountered.

a. The Delivery of Services

19. We recommend that 'agencies' should be established to carry out the executive functions of government within a policy and resources framework set by a Department. An 'agency' of this kind may be part of government and the public service, or it may be more effective outside government. We use the term 'agency' not in its technical sense but to describe any executive unit that delivers a service for government. The choice and definition of suitable agencies is primarily for Ministers and senior management in Departments to decide. In some instances very large blocks of work comprising virtually a whole Department will be suitable to be managed in this way. In other instances, where the scale of activity is too small for an entirely separate organisation, it may be better to have one or even several smaller agencies within Departments.

20. These units, large or small, need to be given a well defined framework in which to operate, which sets out the policy, the budget, specific targets and the results to be achieved. It must also specify how politically sensitive issues are to be dealt with and the extent of the delegated authority of management. The management of the agency must be held rigorously to account by their Department for the results they achieve.

21. The framework will need to be set and updated as part of a formal annual review with the responsible Minister based on a long-term plan and an annual report. The main strategic control must lie with the Minister and Permanent Secretary. But once the policy objectives and budgets within the framework are set, the management of the agency should then have as much independence as possible in deciding how those objectives are met. A crucial element in the relationship would be a formal understanding with Ministers about the handling of sensitive issues and the lines of accountability in a crisis. The presumption must be that, provided management is operating within the strategic direction set by Ministers, it must be left as free as possible to manage within that framework. To strengthen operational effectiveness, there must be freedom to recruit, pay, grade and structure in the most effective way as the framework becomes sufficiently robust and there is confidence in the capacity of management to handle the task.

22. Once the framework had been set the head of the agency would be given personal responsibility to achieve the best possible results within it. He or she must be seen to be accountable for doing so. In due course formal accountability, before the Public Accounts Committee for example, might develop so that for significant agencies the Permanent Secretary would normally be accompanied by the head of the agency. The Permanent Secretary's role would be to justify and defend the framework; the manager would have to answer for his or her performance within that framework.

23. Placing responsibility for performance squarely on the shoulders of the manager of an agency also has implications for the way in which Ministers answer to Parliament on operational issues. Clearly Ministers have to be wholly responsible for policy, but it is unrealistic to suppose that they can actually have knowledge in depth about every operational question. The convention that they do is in part the cause of the overload we observed. We believe it is possible for Parliament, through Ministers, to regard managers as directly responsible for operational matters and that there are precedents for this and precisely defined ways in which it can be handled. If management in the Civil Service is truly to be improved this aspect cannot be ignored. In view of its importance it is considered in more detail in Annex 1, where it is suggested that to achieve changes in the arrangements for formal accountability would generally require legislation and that in suitable instances this should be considered.

24. The detailed nature of the relationship between a Department and an agency will vary with the job to be done or the service to be delivered. The agency structure could be used to cover a substantial proportion of the activities of the Civil Service. It is clear from our discussions with Permanent Secretaries that some Departments are already moving towards this concept. What is needed is a substantial acceleration and broadening of this trend through a major initiative. Ultimately some agencies could be in a position where they are no longer inside the Civil Service in the sense they are today. Any decision of this kind should be taken pragmatically - the test must always be adopting the structure which best fits the job to be done.

b. The Tasks for Departments

25. The setting up of agencies has substantial implications for the staff of Departments, for Ministers, and for Parliament. Departments have two main functions - ministerial support including policy development and evaluation, and managing or influencing the delivery of government services. Where the Department is directly responsible for service delivery their task will no longer be the detailed prescription of operational functions: it will be the definition of a rigorous policy and resources framework within which the agency management is set free to manage operations, and is held to account for results.

26. The setting of a policy and resources framework is needed not only for agencies but also in situations where the Department has to proceed by influence rather than by direct control. It applies therefore to the relationship with any organisation which is providing services for which the Department carries some responsibility, whether agency, nationalised industry, local authority, or public body, although the detail and the structure will vary with the precise relationship and the job that has to be done.

27. In any of these relationships the Department's task is to set a framework, tailored to the job to be done, which specifies policies, objectives, the results required, and the resources available. It will also need to ensure that indicators of effective performance are developed and used for regular monitoring. For directly managed agencies Ministers and civil servants must then stand back from operational details and demonstrate their confidence in the competence of their managers and the robustness of the framework by leaving managers free to manage.

28. Although setting a framework is not a new task for government Departments, it is one which has not generally attracted the attention it deserves. To do it successfully requires a balanced expertise in policy, the political environment and service delivery which too few civil servants possess at present. Operational effectiveness and clarity need to be given a higher priority in the interpretation of policy objectives and the thinking of Ministers.

29. We have already emphasised that, for the successful operation of any agency, politically sensitive issues must be handled effectively. Ministers and Departments will have to ensure that this happens if difficulties are to be sorted out without shattering the position and confidence of executive managers. Unless the inevitable political crises are handled well, while safeguarding the effectiveness of the agency, the benefits of giving more independence to management and so getting better performance will not emerge. In some instances legislation may be necessary to establish a framework within which the agency can operate with sufficient independence on behalf of the Secretary of State.

30. In order to direct the tasks of a Department effectively, senior management will need the same kind of flexibility that we consider necessary for agencies. In particular they must have greater freedom about how the Department is staffed and structured to ensure that they are able to give priority to the main tasks for which the Department is responsible.

31. We have concentrated on the role of Departments in relation to their service delivery agencies, but the management of the policy areas of Departments, although on a smaller scale in terms of the staff numbers employed, is no less important than managing the big executive areas. Precision about the results required and the resources involved is crucial when large programme resources are at stake.

c. The Centre of Government

32. The identification of agencies and providing the necessary framework within which they can be managed effectively are essentially tasks for Departments, but the cultural changes implicit in these simple ideas will only take place if a strong lead is given from the centre. Moreover the centre has to have confidence in the new pattern before it can responsibly start relinquishing some of the present constraints on Departments. We are convinced that our recommendations can be implemented successfully only if the centre takes a leading role in managing the change.

33. It is important to distinguish the task of managing change, from the longer term role of the centre when the new situation has been brought about. Once the change has been established we see four continuing tasks for the centre which no-one else can do. First, to allocate resources; second, to ensure there is rigorous external pressure on Departments continually to improve results; third; to ensure that the overall shape of the Civil Service continues to respond to changes in the needs of government and the country; fourth, to set and police essential rules on propriety for the public service in carrying out its essential functions. The centre has to be authoritative, demonstrably efficient and low cost, and a helpful resource to Departments not a handicap. Our specific recommendations are given at paragraphs 40-42.

2. THE RIGHT PEOPLE

34. Our first recommendation - the establishment of agencies for government services - has implications for the functions and organisation of Departments and may need a legislative framework in some instances. Its success depends critically on the people working in Departments and the skills they bring to the task. We recommend that Departments ensure that their staff are properly trained and experienced in the delivery of services whether within or outside central government; the staff will then be in a position to develop and interpret government policy and manage the agencies in a way that can maximise results.

35. Departments must ensure that they have people who have the managerial skills necessary to run agencies. This will mean that experience of managing the delivery of services must be built up at all levels in a Department. It is most important that there should not be two classes of people in Departments - those in agencies and those at the centre. The aim must be to have senior managers who at more junior levels have had substantial experience of the skills and practical reality of management as well as effective experience of the political and policy aspects of work in a Department. They must be prepared to show real qualities of leadership, the ability to back their judgement and to take and defend unpopular decisions. Hitherto relatively few civil servants have had an opportunity to learn or exhibit these skills. A wide range of new arrangements will be needed, including training and secondments to give the required experience, and the promotion of some younger people.

36. One of the benefits that will come as senior managers in Departments obtain greater experience of management is that the policy areas of Departments will also become better managed. There will be an increasing need for these senior managers to have greater freedom about how the Department is structured and staffed to ensure that they can give effective priority at any time to the most important tasks.

3. PRESSURE FOR IMPROVEMENT

37. The aim of our first two recommendations is to ensure that the organisational structure and the skills of the Civil Service are adapted to deliver government services as effectively as possible. The radical changes entailed for Departments will not happen without some pressure external to the organisations directly involved. That pressure must be both for change and for continuous improvement in the delivery of services.

38. The responsibility for setting the management strategy for the Civil Service and ensuring that there is pressure for change and improvement inevitably rests with the Prime Minister and the Head of the Civil Service. They need the commitment of Ministers and of Permanent Secretaries to ensure that the changes are pursued with urgency and are not sacrificed to other priorities. The pressure for change from within the government must also be sustained by understanding and support from Parliament for the long-term benefits which are being sought.

39. For each of these groups - for Parliament, for Ministers and for civil servants - a precise means of ensuring their support needs to be developed. The Civil Service must own the changes as they evolve; it must not feel that ill-considered change is being thrust on it. Ministers must be confident that they can influence political aspects of the changes, and that one of the benefits will be their being able to concentrate more on their main political task. Further consideration needs to be given to what arrangements would best ensure that each group plays the right role in directing and sustaining the changes.

40. However, pressure at the highest level will only be effective if the centre of the Civil Service is organised with certain essential characteristics. It must be authoritative, and able to ensure that its authority is recognised and acted upon. It must be "slimline": the development of a new bureaucracy would be disastrous. It must be seen to be competent and helping rather than obstructing the delivery of effective service by operational Departments. It must be cohesive and not as apparently diverse and fragmented as at present.

41. Our recommendations on changes in the way Departments operate are fundamental and radical. They will only be introduced successfully if there is an extremely senior official who has unequivocal personal responsibility for achieving the change. The Head of the Civil Service has to be personally committed to the change; but with his other responsibilities he cannot be expected to devote the time and energy to managing the change that the task demands. We recommend that a full Permanent Secretary should be designated as "Project Manager" as soon as possible to ensure that the change takes place. He will need to work with the authority of the Prime Minister and the Head of the Civil Service, to whom he should report.

42. The Project Manager will be responsible for planning and supervising the process of change. The Prime Minister will regularly receive reports from him, via the Head of the Civil Service, on the progress made by Departments in setting frameworks for their agencies and on the timetable for relaxing the constraints on management. The Project Manager will also have to ensure that Departments have enough flexibility to handle their tasks effectively. To do this, he will have to make certain that obstacles to change are removed and that the totality of the centre is helpful to the management of change. The need to have a very high level project manager cannot be overemphasised. A more junior project manager will not carry weight with Departments. The slow rate of progress on so many of the changes since 1979, even with ministerial support and an abundance of small units, is ample evidence of this.

V: THE NEXT STEPS

43. This report is concerned with identifying the fundamental changes needed to achieve a further major step forward in the delivery of services and the management of government. We have avoided detailed prescription because so much depends on the individual tasks of different Departments. Generalised solutions have been the bane of previous attempts at reform and have led to the structural rigidities that are now part of the problem. It will be the job of the Project Manager to check that each Department develops these concepts in the way that best suits its particular needs, and to indicate how far and how fast the changes are progressing.

44. The aim should be to establish a quite different way of conducting the business of government. The central Civil Service should consist of a relatively small core engaged in the function of servicing Ministers and managing Departments who will be the 'sponsors' of particular government policies and services. Responding to these Departments will be a range of agencies employing their own staff, who may or may not have the status of Crown servants, and concentrating on the delivery of their particular service, with clearly defined responsibilities between the Secretary of State and the Permanent Secretary on the one hand and the Chairmen or Chief Executives of the agencies on the other. Both Departments and their agencies should have a more open and simplified structure.

45. The early changes should be in the management tasks at the centre. The first new feature should be a Project Manager working on the planning and early implementation of the service wide changes. As these come about, the management function at the centre will diminish. The Cabinet Secretariat and the expenditure functions of the Treasury will remain and there will still need to be provision at the centre for determining directions, keeping up pressure on Departments, and setting standards. Many of the detailed management functions now carried out at the centre will disappear, though transitional arrangements will be needed. For example the central responsibility for pay and conditions of service, and the associated negotiations with national Trade Unions, will be progressively and substantially reduced, though pay determination will be carried out within running cost controls. The aim will be to pursue as rapidly as possible an evolutionary approach, so that the Project Manager harnesses those developments which are already taking place in some Departments and which are in line with what is now proposed.

46. Within two years at the most, Departments should have completed the identification of areas where agencies are the most effective way of managing and should have changed their own internal structures to implement this change. In some cases legislation may be necessary to effect the change. Departments will need to move, train and promote their staff far more flexibly and, where necessary, develop their specialised management skills while reducing the existing establishments and finance functions, as the agencies take full management responsibility.

47. Once these changes have taken place Ministers and senior civil servants should have enough confidence in the system they have set up to be able to concentrate on their proper strategic role of setting the framework and looking ahead to plan policy development. Greater freedom to manage should be delegated progressively to individual agencies, depending on the robustness of the framework and their capacity to put the freedom to good use.

48. It is difficult to put a figure on the benefits which should become available from our recommendations but the potential is obvious. 5% of Civil Service running costs amounted to £630m in 1986/7 and experience elsewhere certainly indicates that when good management has the opportunity to perform well, percentage improvements larger than this are achieved. Where accountability on the lines we suggest is in place, substantial and quantifiable benefits are coming through. But a primary aim of the recommended changes is to improve the delivery of services both to the public and to Ministers. With total programme expenditure of £128 billion (1985/6), there is an immense opportunity to go for substantial improvement in outputs, with better delivery of services and reduced delays as an alternative to savings.

49. The recommendations we have made should ensure that authority and responsibility for operations will be clear and Ministers will know who is accountable to them. The confusion we observed about the role of Ministers in management should be substantially resolved. Inevitably and rightly it is open to a Minister to get involved in any part of his or her Department's business, but in a well managed Department this should normally only be necessary by exception.

50. The substantial gain we are aiming for is the release of managerial energy. We want to see managers at all levels in the public service:

- eager to maximise results
- no longer frustrated or absolved from responsibility by central constraints
- working with a sense of urgency to improve their service.

ACCOUNTABILITY TO MINISTERS AND PARLIAMENT ON OPERATIONAL MATTERS

1. Evidence we gathered in the scrutiny suggested that when individuals had to answer personally to Parliament, as well as to Ministers, their sense of personal responsibility was strengthened. The accountability of Permanent Secretaries to the Public Accounts Committee, as Accounting Officers, is long established. It includes direct personal accountability for financial propriety. Another instance of officials having specific functions which may require them to answer directly to Parliament (though on behalf of their Minister) is the case of principal officers, and of bodies with independent or delegated authority, answering to the Select Committee on the Parliamentary Commissioner for Administration.
2. In paragraph 23 we point out that if the concept of agencies developed in the report is to succeed, some extension of this pattern of accountability is likely to be necessary. The principal reasons are, first, that the management of an agency is unlikely in practice to be given a realistically specified framework within which there is freedom to manage if a Minister remains immediately answerable for every operational detail that may be questioned; and second, that acceptance of individual responsibility for performance cannot be expected if repeated ministerial intervention is there as a ready-made excuse.
3. The precise form of accountability for each agency would need to be established as part of drawing up the framework for agencies. Any change from present practice in accountability would, of course, have to be acceptable to Ministers and to Parliament. It is axiomatic that Ministers should remain fully and clearly accountable for policy. For agencies which are government Departments or parts of Departments ultimate accountability for operations must also rest with Ministers. What is needed is the establishment of a convention that heads of executive agencies would have delegated authority from their Ministers for operations of the agencies within the framework of policy directives and resource allocations prescribed by Ministers. Heads of agencies would be accountable to Ministers for the operations of their agencies, but could be called - as indeed they can now - to give evidence to Select Committees as to the manner in which their delegated authority had been used and their functions discharged within that authority. In the case of agencies established outside departments, appropriate forms of accountability to Ministers and to Parliament would need to be established according to the particular circumstances.

4. There is nothing new in the suggestion that Ministers should not be held answerable for many day-to-day decisions involving the public and public services. Apart from services delivered by local authorities, there are large numbers of central government functions carried out at arm's length from Ministers. The main categories are:

- decisions on individual cases, where these need to be protected from the risk of political influence, eg tax cases, social security cases
- some management and executive functions, eg in Customs and Excise, Regional and District Health Authorities, Manpower Services Commission (MSC)
- quasi-judicial or regulatory functions, eg Office of Fair Trading, Immigration Appeals
- nationalised industries.

5. A variety of different structures exists to cover these functions, for example:

- Customs and Excise and the Inland Revenue are non-ministerial Departments with Boards which have statutory responsibility for their management.
- The MSC and the other main bodies in the Employment Group (Health and Safety Executive and ACAS) are non-departmental public bodies. The Chairman of the MSC is Accounting Officer for the MSC's expenditure.
- HMSO and some other internal service bodies (eg Crown Suppliers) are established as trading funds and work on a commercial basis.
- the PSA, the Procurement Executive and the NHS Management Board are agencies within Departments.
- a range of quasi-judicial functions is carried out by statutory tribunals (eg Rent Tribunals, Industrial Tribunals).

6. Agencies outside Departments generally operate within a statutory framework which lays down the constitution of the particular agency and the powers of Ministers in relation to it. In answer to Parliamentary questions about matters within the control of the agency Ministers often preface their reply by saying "I am advised by the Chairman of the Board that....". Most operations currently carried out within Departments operate under statute. Where it is necessary to change the arrangements for formal accountability for operations currently carried out within Departments, legislation (normally primary legislation) would generally be required and in instances where this is needed it should be considered. Provided that the objective of better management is clearly explained and understood, and that an appropriate form of accountability to Ministers and to Parliament is retained, the government should be able to present such proposals in a positive light.

7. As regards the Public Accounts Committee, as explained in paragraph 22 of the report, the modification of accountability we propose should not immediately affect accountability to the PAC. This would remain, as now, with the Accounting Officer, who may still be, but need not be, the Permanent Secretary. (Of the 76 Accounting Officers appointed by the Treasury, only 18 are First Permanent Secretaries.) However, the practice might develop of the Accounting Officer being accompanied at a PAC hearing by the manager of the agency. The Accounting Officer would answer questions about the framework within which the agency operated; the manager would answer questions about operations within the framework. This would give the PAC the ability to question in detail the person who had first hand knowledge of the operation in question. It would also in the process put a clear pressure on the agency head to be responsible for his agency and to strive for good value from his spending.

8. In the case of other Select Committees it is existing practice for officials with operational responsibility to give evidence before them. It would be normal in the future for the agency head to give evidence before a Select Committee about operational matters within his or her responsibility.

9. The powers of the Parliamentary Commissioner for Administration could continue to apply to agencies, so there would be a direct form of accountability in matters of maladministration.

10. Quite apart from the issue of improving Civil Service management, there is a good case for trying to reduce the degree of ministerial overload that can arise from questions about operations, as distinct from policy. For example, Social Security Ministers receive about 15,000 letters a year from MPs, many of which are about individual cases. In the future, MPs could be asked to write about operational matters directly to the Chairman of the Board or the local office manager. This should have the advantage of putting the accountability clearly on the agency head or local manager, as well as reducing greatly the amount of correspondence which Ministers have to deal with. Arrangements of this sort could be promulgated by a letter from the relevant Minister or the Leader of the House to all MPs. (In the past the Chancellor of the Exchequer has written to all MPs asking them to refer questions about constituents' tax to local tax offices, and the Secretary of State for Social Services has written similarly about referring social security cases to DHSS local office managers.) If an MP writes to an operational manager about matters which are essentially political, it is already normal practice for the manager to refer the letter to the Minister.

11. It would be part of the framework drawn up between the Department and the agency to have specific targets for promptness in dealing with correspondence with MPs. It should be possible for MPs to get a quicker answer when dealing direct with the responsible person, because the intermediate stage of a Headquarters branch calling for a report from a local manager before drafting a reply for the Minister will have been cut out.

FINDINGS

1. This annex sets out the main findings from our fieldwork.
2. Our terms of reference asked us:

- to assess progress in improving management
- to identify successful measures in changing attitudes and practices
- to identify obstacles to better management and efficiency that remain
- to report to the Prime Minister on what further measures should be taken

I. SUMMARY OF FINDINGS

3. Our main findings are that:

- some progress has been made: civil servants are now more cost conscious, and management systems are in place
- budgeting systems and manpower cuts are the two measures which have been most effective in changing attitudes and practices
- but substantial obstacles to further progress remain:
 - . there is insufficient focus on the delivery of government services (as opposed to policy and ministerial support), even though 95% of civil servants work in service delivery or executive functions
 - . there is a shortage of management skills and of experience of working in service delivery functions amongst senior civil servants
 - . short-term political priorities tend to squeeze out long-term planning
 - . there is too much emphasis on spending money, and not enough on getting results
 - . the Civil Service is too big and too diverse to manage as a single organisation.
- while the introduction of systems is a start, real changes in attitudes and institutions are needed to get the full benefits of better management.

4. The findings from our fieldwork about obstacles to progress are consistent with the main themes which come out of earlier scrutinies. They also echo the findings of some earlier reports on the Civil Service, eg the Fulton Report (Appendix A).

II. DETAILED FINDINGS

5. We held extensive discussions with civil servants in London and the regions. A list of those we saw and where we went is in Annex 3.

A. PROGRESS IN IMPROVING MANAGEMENT

6. Everybody we talked to said that there had been progress. Most people were enthusiastic about measures which gave them more responsibility and some control over how they did their job. They welcomed the principles of the Financial Management Initiative, if not always the way the principles were applied.

7. A striking impression we got was that most civil servants now know how much their activities cost. The local office manager has at his fingertips his staffing, accommodation and other costs; the Headquarters policy Grade 5 can tell you the cost of his unit.

8. When asked what they meant by progress, most people identified FMI and the systems developed under it (top management systems and budgeting systems) as the main difference. They also commented on changes in personnel management systems, particularly linking open appraisal of performance with the achievement of objectives.

Top Management Systems

9. All Departments now have Top Management Systems. These systems are intended to force management at all levels to take clear decisions about the direction of activities in a Department. Strategic objectives can then be translated down the line to provide individuals with personal objectives.

10. Our evidence suggests that Top Management Systems are seen as having more relevance in executive functions and in the regions, than in Headquarters or policy functions. One good example we saw was the use of MINIS in DOE regional offices. The system is precise and directed towards things which matter in the outside world (not just internal bureaucratic processes). There are good systems of delegation to go with it. The Grade 7 in a regional office handling claims for derelict land grant has a minute from his Permanent Secretary telling him precisely what his delegated authority is. One Grade 7 we talked to said "having a personal minute from the Permanent Secretary really brought it home to me that I was responsible".

11. There was more scepticism in some Headquarters and policy divisions about the value of Top Management Systems as they were being operated. Very few people said to us that setting objectives did not apply to policy work. However, in many Departments it was not clear how far the use of management systems had become an integral part of the work of policy divisions, rather than a one-off form filling exercise. A number of people commented on the weight of paper

surrounding the systems and the number of forms to be filled in - or as one person said "typical Civil Service: management has been bureaucratised". We heard trenchant views in some Departments, especially from Grades 5-7, about the absence of feedback from top management, and the failure of top management to face the decisions which the systems confronted them with.

Budgeting Systems

12. All Departments now have budgeting systems which delegate financial responsibility to specified levels of authority in the hierarchy. This gives managers some control over how they spend the money allocated to them. Over 7,000 line managers now manage budgets which account for about three quarters of the Civil Service's running costs.

13. The range of costs covered and the flexibility allowed within budgets vary from Department to Department. For example, Customs and Excise Collectors have authority over 96% of their running costs and authority to switch money between one item and another. In practice, however, staffing costs amount to about 70% of running costs and the margin in which managers have immediate flexibility is very small. A persistent complaint of budget holders was the inflexibility caused by the annuality rule, and by restrictions on their ability to move money between different items. (These are dealt with in paragraphs 46 and 49 below.)

14. Budgeting has been applied mainly to administrative expenditure (some 13% of total public expenditure). Its spread into programme spending has been slow.

Personnel management systems

15. The main changes in personnel management in the last 5 years have been:

- a. the introduction of an open appraisal system based on reviewing performance against personal objectives
- b. the development of performance related pay
- c. the prospect of a new pay agreement with professional civil servants which offers much greater flexibility
- d. more delegation of clerical recruitment to local office managers
- e. the introduction of unified grading down to Grade 7 (Principal) level

16. Appraisal systems are now based on performance, not on the possession of particular intellectual qualities. Everybody we spoke to welcomed this. Most people like having a clear set of objectives which tells them what they are there to do and having their performance judged against whether they achieved these objectives - not against some hidden agenda in their manager's bottom drawer. Open reporting encourages managers to talk about an individual's performance face-to-face.

17. Two schemes for relating pay to performance have been developed. First, an experimental performance bonus scheme was introduced in 1985. A formal evaluation after the first year showed that while the bonus scheme in its present form had not been successful, 70% of civil servants supported the principle of rewarding good performance with better pay. Second, the Treasury and the MPO are now developing proposals for discretionary pay for staff at all levels.

B. MEASURES EFFECTIVE IN CHANGING ATTITUDES AND PRACTICES

18. The two measures which have had most effect in altering the climate and the way the Civil Service works are manpower cuts and budgeting.

Manpower cuts

19. As a result of government policy, the Civil Service was reduced in size by nearly 15% between 1979 and 1984. It will have been reduced by nearly 20% by 1 April 1987. The cuts were imposed as simple outline targets. Departments then had to decide how to reach the targets. There is evidence that in some Departments top management was forced to take hard decisions about whether to continue particular activities, and to think about different ways of doing things. So the cuts were useful in making some Departments "think the unthinkable". In other Departments, however, cuts were imposed across the board, without regard to the functions affected. A view we heard in a number of Departments was that the manpower cuts had "taken the fat out of the system" and that further large reductions would harm the quality of services delivered by government.

20. Controls on running costs were introduced in 1985/86 on top of manpower controls. We saw a number of examples where the control on staff in post on 1 April together with controls on cash were causing distortions. One local office manager was running down his staffing levels at the end of the year by 12 people to meet his 1 April headcount limit. In early April he planned to recruit another 10 people. He had enough money in his budget to have kept 6/7 people on over the year end.

21. In the course of our scrutiny the Treasury announced that from 1 April 1988 formal controls on manpower would be lifted, and the main control on Departments would be exercised on running cost totals.

Budgeting systems

22. Where budgeting systems are working well there is evidence that they change the way people behave. Specifically they enable budget holders to save money or make better use of money; and encourage forward planning of activities and spending, and setting of priorities.

C. OBSTACLES TO FURTHER PROGRESS

23. The main concern of most people we met was with the obstacles which stood in the way of management improvement.

a) Top management is dominated by the policy and political support tasks

24. The business of top managers in many Departments is still dominated by the policy and political support tasks. However 95% of civil servants (about 570,000, costing some £12 billion a year) are involved in collecting taxes, paying benefits, providing support to the armed forces and other executive functions. Some of the operations are very large. In DHSS, for example, over 80,000 staff are involved in paying benefits. It was made clear to us that these organisations need highly skilled top managers who can devote most of their time to the business of running them. One top manager of a very large executive organisation told us that at present 90% of his time was spent dealing with Ministers and other pressures from the top and only 10% on managing the organisation.

25. The skills of top civil servants are still policy oriented. Promotion to senior jobs is given to those whose main skills and experience are in policy and ministerial support. Very few have had direct experience of management in large executive organisations. This is reflected when senior civil servants are suddenly put in positions which do have management responsibilities. Either they neglect management, because the immediate pressures are to deal with day-to-day ministerial business; or they go about the management task in a way which lacks confidence and conviction. Many people commented to us that too few senior civil servants showed the qualities of leadership which would be expected from top managers in organisations outside the Civil Service.

26. The Top Management Programme, a six week training course, is an attempt to change the balance of skills of those entering the senior ranks of the Civil Service. But it is not a substitute for real experience of running an organisation. At middle levels the Senior Management Development Programme sets out a range of individual "competencies" which should be developed through job experience and training. The first two core competencies are management of resources/organisations and the management of staff. There are few indications so far that the perception that middle ranking civil servants should get management experience has affected the way Departments post their staff.

27. The younger staff we spoke to told us that they wanted to get experience of management. The FDA confirmed that ATs and HEODs were clamouring for management jobs. Departments agreed in principle that younger staff and fast streamers should get management experience, but said that in practice they could not spare their good staff from policy jobs. There is an automatic assumption that fast streamers go into Private Office jobs, but no equivalent assumption that they should also do management jobs. The majority of the next generation of senior civil servants will still not have been tested in or gained experience from working in large service delivery organisations.

b) Responsibilities for management at the top of Departments are unclear

28. Most Ministers told us that they were answerable for both the policy and the management of their Departments. But they said that in practice they were so overloaded that they looked to their Permanent Secretaries to do the management. A few said candidly that they did not have the skills to manage their Departments. The government has accepted the recommendation of the Third Report of the Treasury and Civil Service Select Committee (1982) that the relationship between Ministers and Permanent Secretaries on the management of Departments should be clarified, but has not yet acted on it.

c) The main pressures at the top are short term

29. The main pressures on Ministers stem from Parliament and coping with crises. Together with routine business from Departments this creates an extremely heavy workload. In addition Ministers have Parliamentary and constituency duties. The resulting overload tends to squeeze out the ability to look to the long term. Some Ministers said to us that they would like to be able to spend more of their time dealing with longer-term strategy, but just did not have the time to do so.

30. The pressures on Ministers are reflected onto top civil servants, who may have to spend much of their time giving policy and presentational advice to their Ministers.

31. It was suggested that whilst there were some tasks which Ministers could not delegate to officials, there were others where this could be done. One example was dealing with correspondence from MPs. Correspondence about individual cases could in many cases be dealt with effectively by local office managers.

d) Outputs are neglected

32. Whilst the introduction of management systems has helped make civil servants cost conscious, there is less consciousness about results. Departments regard the major central influence on them as the PES process. However, many people told us that the PES system gave the wrong signals. They felt that the emphasis was on inputs, not outputs or value for money.

33. This is not surprising. The Treasury has two goals with the PES round: to ensure that public spending does not exceed a specified total and to press Departments to achieve maximum output from the resources they are allocated. The two are not mutually exclusive, but as the PES round progresses, attention inevitably focuses on the absolute levels of spending. Furthermore, at the later stages, the debate is about spending at the margin of the total bid. The combination of these two factors - emphasis on inputs and "marginality" - leads Departments to feel that although increased stress is being put on results and outputs, it is inputs which still really matter.

34. There are, however, encouraging signs of change. The 1986 Public Expenditure White Paper included 1200 output measures; the 1987 White Paper cites some 1800 measures of output. The April 1987 guidelines for PES will ask Departments to provide the Treasury with a full statement of output and performance measures to support their baseline expenditure. These will be discussed between the Treasury and Departments. Any proposals for additional resources must be supported by information on what indicators and targets for outputs will be used to evaluate their use.

35. There are also some signs in particular areas of government of an increasing awareness of the importance of outputs. For example, in 1986 the Foreign and Commonwealth Office undertook a scrutiny of existing output measures to see to what extent they could be improved and applied systematically to the full range of work of the FCO at home and overseas.

36. It is apparent that the closer staff are to the sharp end, the more conscious they are of outputs. In many areas staff are strongly motivated by a wish to serve the public. A common source of frustration in many local offices is the inadequacy of the service staff feel they are giving. Our evidence suggests that very few Departments set themselves formal targets for improving the quality of service to the public.

e) There is little support or pressure for value for money

37. Most pressures on government are to spend money, not to get good value from it. Parliament and the media often reinforce this by judging the government on how much money goes in, not what comes out (eg more hospitals, or better education). The National Audit Office (NAO) now has a specific remit to do value for money investigations. For example, it has looked at value for money in the National Health Service. However, the response of Departments to the NAO and the Public Accounts Committee tends to be cautious and defensive, probably because the main role of these bodies is seen as being to find fault with what has happened in the past rather than to apply pressure for improvement for the future.

f) The organisation at the centre of government is fragmented

38. Many of those to whom we spoke, particularly Permanent Secretaries, told us that the centre of government was fragmented. They complained that the centre, either the Treasury, the MPO, or the various central units, pursued their own initiatives without regard to Departments' own priorities; and that sometimes the messages from the centre conflicted. There was no single voice of authority.

39. At the same time the centre created little effective pressure on Departments to deliver better results. Some people suggested to us that the centre's reliance on detailed control of the way Departments organised and managed themselves was totally at odds with the principles of good delegated management as set out in the FMI.

g) The Civil Service is too big and too diverse to be run as a single rigid organisation

40. The Civil Service is vast (600,000 people) and the diversity of activities which civil servants perform is immense. Yet it is run as one organisation with common rules for financial management and personnel management.

41. One problem inherent in trying to bind a very large and diverse organisation in one set of central rules is that the rules fit no particular part of the organisation. For example, a service wide pay agreement to give certain computer specialists an extra allowance may be what one Department needs to retain those specialists, but simply an unwelcome addition to running costs for another which has no difficulty at all in keeping them.

42. Civil Service wide grading and promotion structures create problems for some Departments. For example, there is no direct recruitment above EO level. The structural needs of some Departments are to take staff in at a higher level.

43. All recruitment above clerical level is conducted centrally by the Civil Service Commission (with the exception of some limited experiments in direct recruitment of Executive Officers by Departments). The personal qualities which DHSS requires for its Executive Officers, who may be dealing with the public in a local office or investigating benefit fraud, are very different from the qualities required of an EO for a Whitehall policy job. Some Departments told us that central recruitment prevented them from getting the staff they wanted, though the Civil Service Commission is now attempting to distinguish the different types of quality needed amongst recruits at EO level.

44. The justification for service wide terms and conditions has traditionally been in terms of ensuring fairness between different groups of people doing the same work, and making it possible for people to move easily between Departments. Evidence we gathered suggests that many groups of staff in the Civil Service are doing very different types of work; and that most staff spend their career within their own Department.

h) Central rules take away the flexibility managers need to manage

45. Many managers told us that central rules were acting as a constraint on good management and taking away their scope to do things which would be sensible in terms of their own organisation.

46. One example of a rule constraining good management which was mentioned to us by nearly all budget holders we met was annuality - the lack of flexibility at the end of the financial year to carry unspent money over or to anticipate next year's spending. This has two effects. First, there is often a major effort to spend money in the final months of the year so as not to be underspent. Last minute spending often means spending on things which are useful, but not a top priority. Second, a huge management effort goes into coming in on budget. In 1985/86 Customs and Excise underspent a budget of £400m by only £40,000.

47. Most people accept that controls on Departments' running costs are effective and necessary. However, the reliance on gross running cost controls has caused problems for some fee-earning businesses: when demand has grown for their services, they have been prevented from taking on more staff to cope with demand, even though the extra cost would have been met from increased fee revenue. This is an area where it has been shown possible to change the controls. For example, from 1 April 1987 the Driver Testing and Training Organisation of the Department of Transport will be moved to a new financial regime which will enable the Department to recruit more examiners to cope with the increased demand. One effect in the past of being unable to take on extra staff to meet increased demand was queues for driving tests of six months or more in some areas.

48. A further problem mentioned to us was that of hidden controls. The best example is the use by the Treasury of an inadequate assumption for pay increases when setting running cost totals. In the last six years the Treasury has reached the pay settlement after the start of the financial year, and in each year the actual settlement has been at least 1.3% higher than the pay assumption. Departments have had to fund the difference.

49. Sometimes the "central" rules about which managers complained to us are rules imposed by the centre of their own Departments (eg Finance Branches), not rules imposed by the Treasury or OMCS. For example, there are marked differences in the flexibility which budget holders in different Departments have to move money from one item to another. The main rule imposed by the Treasury is that there should be no movement of money from non-running costs to running costs. Rules about moving money between different running costs items are generally imposed by Departments themselves.

i) Delegation is not always happening

50. Most people we met welcomed delegation where it was happening. However, many pointed out to us the strong pressures which acted against effective delegation:

- the public accountabilities of Departments through Ministers to Parliament tend to suck up decisions on matters of detail
- central controls, whether from the centre of the Civil Service or the centre of Departments, restrict people's ability to operate (eg a manager may have money in his budget to buy a photocopier, but a central branch in his Department has laid down rules which prevent him from having the machine)
- civil servants are generally reluctant to risk delegating and do not understand that interference in detail destroys effective delegation. We saw examples in the budgetary field, where at the first sign of trouble in a particular area the reaction of the centre of the Department had been to draw back responsibility from all budget holders instead of getting the difficulties of the individual area sorted out.

j) The culture of the Civil Service is cautious and works against personal responsibility

51. The culture of the Civil Service puts a premium on a "safe pair of hands", not on enterprise. It does not reward the person who says "I have saved money". It does not penalise the person who ignores the opportunity to get better value.

52. There will always be limits on individual ownership when civil servants are fulfilling their ministerial support function. However, more could be done within the existing framework to encourage personal responsibility. The group of people who had left the Civil Service all told us that while pay was an important reason for leaving, as important was the fact that they had had little personal responsibility, and saw little prospect of getting more as they rose through the hierarchy.

k) Working and career patterns have changed relatively little

53. The working patterns of Departments have changed relatively little in the last seven years. Chains of command still tend to be long; little use is made of special task forces to cut across hierarchies and to take policies forward in a given timescale; the emphasis on consultation across various interests in a Department is always time consuming and often leads to compromise decisions; the system is still paper dominated; there is insufficient awareness of the possibilities of information technology in Whitehall Departments.

54. Departments have paid insufficient attention to managing relationships with organisations who are delivering services. In some cases the relationship is direct; in other cases indirect (as with local authorities). In both cases Departments have the ability to control or influence the delivery of services. A number of Departments are beginning to take this task more seriously. In the DHSS a Division, headed by a Grade 3, is responsible for managing the relationship with the National Health Service. This includes, for example, performance reviews with Regional Health Authorities.

55. The career pattern of civil servants is relatively predictable through the hierarchy. In practice seniority is usually a requirement for promotion at certain levels (for example, very few people are promoted to Grade 5 under the age of 35). It is almost unheard of for people of that age to be promoted to the top grades in the Civil Service. One Permanent Secretary argued to us that the Service should have the courage and the flexibility to promote the occasional outstanding young person very fast.

III. CONCLUSIONS

56. The changes which civil servants are most aware of are the introduction of systems. There is enthusiasm for the benefits the systems can bring in terms of greater flexibility, more personal responsibility, and more precision about what the job is they are there to do. At the same time many civil servants question whether the underlying assumptions which mould the way in which government does its business have changed sufficiently to realise the benefits. The key themes which emerge as obstacles in the way of real change are:

- (i) the lack of focus of top management on the service delivery and executive functions of government
- (ii) the effects of treating the Civil Service as a single organisation
- (iii) the lack of effective pressure to get better results.

PREVIOUS REPORTS ON THE CIVIL SERVICE

General

1. The Northcote-Trevelyan report (1854) identified for the first time some of the principles which underlie the development of the modern Civil Service. Its main recommendations fell into four categories:

- a. recruitment by competitive examination rather than patronage
- b. a division between intellectual and mechanical work
- c. promotion by merit
- d. measures to unify the Civil Service, including a common basis of recruiting across Departments

2. It took nearly 20 years to implement open competition. The other principles of the Report were not fully developed and applied until the 1920s. Commissions after Northcote-Trevelyan up to 1931* and the Reconstruction Period immediately following the First World War established the basis of the Civil Service for the next 45 years. These developments included uniform systems of recruitment; the class division of officials; Whitley machinery; and the central power of the Treasury over the Civil Service.

3. From 1931 until the establishment of the Fulton Committee in 1966, there was no major Commission on the Civil Service as a whole (the Priestley Commission in 1953/55 was largely concerned with pay).

4. The Fulton Report (1968) recognised the need for the Civil Service to change in line with the changed external world. Its opening words were: "The Home Civil Service today is still fundamentally the product of the nineteenth-century philosophy of the Northcote-Trevelyan Report. The tasks it faces today are those of the second half of the twentieth century".

5. The Committee noted six main deficiencies which it attributed to the fact that the structures and practices of the Civil Service had not kept up with changing tasks:

- the Service was based on the philosophy of the amateur
- the division into classes made for a cumbersome structure
- specialists had no authority
- too few civil servants were skilled managers
- Whitehall had too little contact with the outside world
- there were deficiencies in personnel management.

* The Playfair Commission (1874-1875), The Ridley Commission (1886-1890); The MacDonnell Commission (1912-1915), The Tomlin Commission (1929-1931)

6. The Report set down one basic principle, which was intended to ensure that the Civil Service should keep up with the changing world:

"One basic guiding principle should in our view govern the future development of the Civil Service. It applies to any organisation and is simple to the point of banality, but the root of much of our criticism is that it has not been observed. The principle is: look at the job first. The Civil Service must continuously review the tasks it is called upon to perform and the possible ways in which it might perform them; it should then think out what new skills and kinds of men are needed, and how these men can be found, trained and deployed. The Service must avoid a static view of a new ideal man and structure which in its turn could become as much of an obstacle to change as the present inheritance."

7. Fulton recommended that the principles of accountable management should be introduced into the Civil Service, and recommended further study of "hiving off" functions as a means to ensuring accountable management. In the meanwhile the report made proposals

"a. to distinguish those within Departments whose primary responsibility is planning for the future, from those whose main concern is the operation of existing policies or the provision of services;

"b. to establish in Departments forms of organisation and principles of accountable management, by which individuals and branches can be held responsible for objectively measured performance."

8. Other significant Fulton recommendations were for the creation of a Civil Service Department and the Civil Service College; and unified grading between administrators and professional groups.

9. The major reports on the management of the Civil Service after Fulton were the Eleventh Report for the Expenditure Committee (1977) and the Third Report of the Treasury and Civil Service Select Committee "Efficiency and Effectiveness in the Civil Service" (1982). Lack of accountable management was as a common theme of both these reports.

TERMS OF REFERENCE AND WORKING METHOD

Terms of reference

1. The terms of reference for the scrutiny were:
 - to assess the progress achieved in improving management in the Civil Service;
 - to identify what measures have been successful in changing attitudes and practices;
 - to identify the institutional, administrative, political and attitudinal obstacles to better management and efficiency that still remain; and
 - to report to the Prime Minister on what further measures should be taken.
2. The scrutiny was carried out under the supervision of Sir Robin Ibbs by three members of the Efficiency Unit (Kate Jenkins, Karen Caines and Andrew Jackson). Other members of the Unit (Graham Cawsey, David Tune and Richard Hirst) joined in the fieldwork and specific studies.
3. The Action Manager for the scrutiny was Sir Robert Armstrong (now Sir Robin Butler).

Timetable

4. The scrutiny started on 3 November 1986 and was completed on 20 March 1987 (90 working days).

Method of working

5. The evidence on which the report is based is derived from:
 - interviews with Ministers and a wide range of officials
 - field visits to regional and local offices, and some major installations outside London
 - a cross section of past scrutinies undertaken with the help of the Efficiency Unit
 - studies of three organisations outside government and discussions with a number of outside observers of Whitehall

Interviews

6. We conducted over 150 individual interviews with Ministers and officials in Whitehall, including:

- . 21 Ministers
- . 26 Permanent Secretaries (or equivalent), including all Permanent Secretary heads of major Departments
- . 26 Grade 2s (1 or 2 in most Departments)

7. In addition we held a number of group discussions:

- . 5 for grade 3s (involving 35 people)
- . 7 for grades 5 - 7 (involving over 50 people)
- . 1 for Heads of Treasury Expenditure Groups

8. We talked to a group of people who had left the Civil Service recently.

Field trips to regional and other offices

9. We talked to meetings of Regional Directors of the following Departments:

Departments of Environment and Transport
Property Services Agency
Department of Employment
Manpower Services Commission
Department of Health and Social Security
Department of Trade and Industry
Inland Revenue

10. Members of the Efficiency Unit made a series of visits to regional and local offices in Birmingham, Manchester and Leeds.

11. In our visits to Birmingham and Manchester we talked to staff at various levels in the regional offices of the following Departments:

Departments of Environment and Transport (Manchester)
Property Services Agency (Birmingham)
Department of Employment (Birmingham)
Department of Health and Social Security (Birmingham)
Customs and Excise (Manchester)

12. In Leeds we talked to the Regional Directors of Departments to get a view of the links between Departments. We visited the following offices:

Departments of the Environment and Transport
Property Services Agency
Department of Employment
Manpower Services Commission
Department of Health and Social Security
Department of Trade and Industry
Lord Chancellor's Department
Ministry of Agriculture, Fisheries and Food
Export Credits Guarantee Department

13. We visited the following local offices and talked widely with staff:

DHSS ILO (Erdington)
Inland Revenue (Birmingham, Newcastle)
DE Unemployment Benefit Office (Birmingham, Newcastle)
Customs and Excise (Birmingham Airport)
Manpower Services Commission (Birmingham)

14. We visited the following large installations outside London and talked to staff at all levels:

Inland Revenue, Telford Development Centre
DHSS North Fylde Central Office
DHSS Newcastle Central Office
RAF Support Command Headquarters (RAF Brampton)

Scrutinies

15. Over 300 scrutinies have been conducted since 1979. Their reports provide valuable evidence about change in the Civil Service over the last 7 years and a detailed view of some of the workings of particular aspects of individual Departments. A special survey of a cross section of 50 scrutinies was undertaken to draw out the lessons for this scrutiny.

Organisations outside Government

16. Members of the Unit visited the following organisations to look at major management changes which had been brought about in the last few years. Each organisation is essentially a career organisation:

British Rail (Network SouthEast)
Halifax Building Society
ICI Fibres Division

Central Reports

17. The Unit has kept closely in touch with developments in the Treasury and Cabinet Office (OMCS), in particular over progress on personnel management changes and the implementation of the Wilson report on Budgeting. We have also examined previous reports on the management of the Civil Service.

Trade Unions

18. We held two formal meetings with the Council of Civil Service Unions.

Cost of the scrutiny

19. The estimated cost of the scrutiny was £50,000.

Next Steps: Establishing and Administering AgenciesINTRODUCTION

This note sets out the steps to be taken by those responsible for the management of executive functions in Departments in setting up agencies. It describes the arrangements for the establishment of the great majority of agencies which will remain within the Civil Service; modifications will have to be considered case by case for non-Civil Service agencies. The arrangements will be kept under review and modified as necessary in the light of experience. No change affecting expenditure controls or pay controls as they exist at present will be introduced into the operational management of the agencies without the specific agreement of the Treasury. Similarly, changes in recruitment procedures must have the agreement of the Office of the Minister for the Civil Service (OMCS).

2. Subject to these essential safeguards, the Treasury and the OMCS hope to be able to work closely with Departments in a constructive and flexible way so as to encourage the exercise of responsibility and the release of energies which it is the purpose of the 'Next Steps' recommendations to achieve. As alternative procedures are developed and tested, it should prove possible progressively to relax some of the conventional controls, including some of the more detailed arrangements set out in this note. Both the central Departments will, of course, be ready to give any further advice or help they can to Departments contemplating setting up agencies.

3. The Project Manager will be responsible for assisting with the process of setting up the new agencies, for promoting the resolution of any difficulties that arise in the course of that process, and for ensuring that the establishment of each agency is successfully completed within whatever time-scale is agreed.

MANAGEMENT IN CONFIDENCE

Identification

4. Provisional identification of potential agencies will be the responsibility of Departments, or Treasury Expenditure Divisions. The criteria will develop over time in the light of experience with the pilot agencies, but common features will be that the prospective agencies are, or can be made:

- a. discrete administrative units, sufficient in size to justify major structural change;
- b. wholly concerned with the delivery of services to the public or the Government;
- c. independently accountable within their parent s.

Areas of work where the day-to-day involvement of the Department or its Minister is inevitable, or where policy and its execution are inextricably linked, are unlikely to be suitable candidates for agency treatment, at least initially.

Alternatives to Agency Status

5. In initial consideration of potential agencies, the parent Department should consider the following alternatives:

a. Privatisation

Privatisation provides all the managerial freedoms and disciplines sought by the agency approach, and should normally be regarded as the preferred route unless there are compelling reasons to the contrary. If privatisation is not immediately practicable, but might become so later on, the Department will consider whether agency treatment is an appropriate transitional measure;

MANAGEMENT IN CONFIDENCE

b. Contractorisation

If it is decided that a particular block of work is not a candidate for immediate privatisation in its entirety, consideration should be given to contracting out its management to the private sector;

c. Public Corporations

Large executive operations which already have an arm's length relationship with their parent Departments may be candidates for conversion into public corporations, especially where they are currently established as Trading Funds, whether under the 1973 Act or otherwise. This may be a good route to eventual privatisation.

d. Abolition

Closer examination of particular services as part of the preparation for setting up any agency may call into question whether they are needed at all, and, if so, whether their provision needs to be organised as a separate activity of the Department.

Analysis

6. Once a Department has satisfied itself that the work concerned is prima facie suitable for agency treatment, it will need to carry out a more rigorous analysis. The essential facts to be brought out at this stage are:

- a. the prospective agency's aims and objectives, and the functions to be covered;
- b. the adequacy of the agency's internal management and financial systems;
- c. the type of organisation best suited to ensure the desired results;

MANAGEMENT IN CONFIDENCE

- d. the benefits sought from the agency approach;
- e. the resources currently employed in the areas to be covered by the agency;
- f. the inputs/outputs/unit costs now achieved in those areas; and proposed changes;
- g. any new or modified functions to be carried out by the agency;
- h. existing and planned performance measures;
- i. the pay and expenditure regime;
- j. the state of industrial relations within the agency;
- k. any legislation likely to be required;
- l. the arrangements for answerability to Parliament and individual Members;

Departmental Approval

7. Assuming that the analysis is satisfactory and does not suggest that immediate privatisation or some other structure would be a better solution, the Department will submit outline proposals to its own Minister.

First Stage Review

8. The Department will discuss its outline proposals with the Project Manager. The Treasury will then consider the outline scheme, paying particular attention to the proposed pay, running

MANAGEMENT IN CONFIDENCE

cost and public expenditure control arrangements, and any possible repercussive effects within the public service and the economy generally. Other Departments and agencies likely to be directly or indirectly affected will be consulted at this stage.

Preparation of Framework

9. The Department, will draw up the key elements of the policy and resources framework for the agency. The framework will set out:

a. the relationship with the Department, including the circumstances in which the Minister will issue directions to the agency, and the extent to, and the arrangements under, which the agency will contribute to policy formation;

b. the agency's aims and objectives;

c. the conventions which the Department would wish to establish regarding answerability to Parliament and individual Members on the activities of the agency.

d. the nature of the resources to be provided, and of the outputs to be achieved, and how they are to be measured;

e. the machinery for accounting, audit, monitoring and reporting, both within government and externally;

f. the arrangements for setting objectives and financial targets for the agency, where appropriate, and the arrangements for their periodic revision;

g. the expenditure classification and control mechanisms agreed with the Treasury for the agency when first established and any change which might be proposed subsequently;

MANAGEMENT IN CONFIDENCE

- h. arrangements for recruitment, pay, and other personnel management responsibilities, and the extent to which these are delegated to the agencies.
- i. the expenditure provision proposed for the agency in its first year, and the scale of the savings and performance improvements expected subsequently.
- j. the terms of reference for the Chief Executive;
 - i. the method of recruitment and basis of remuneration for the Chief Executive and his key staff;
 - ii. reporting arrangements for the Chief Executive;
- k. the industrial relations structure.

Approval of Framework

10. The framework as agreed with the Treasury and OMCS will be submitted to the departmental Minister for approval. It will be for the Minister to clear his framework with the Chancellor of the Exchequer, the Minister of State Privy Council Office, and, as necessary, the Prime Minister.

Staff Interests

11. The Department, in consultation with the Treasury, will consider when and how to consult its departmental trade unions on arrangements for staff representation; the conduct of industrial relations within the agency, including the establishment of Whitley machinery, and its relationship with the Departmental Whitley Council; and any proposed changes in terms and conditions of service.

MANAGEMENT IN CONFIDENCE

Legislation

12. Any necessary legislation should if practicable be introduced at this stage. If that would unacceptably delay the implementation timetable the agency may have to be set up with a temporary framework within existing powers. A note on the legislative implications of the "Next Steps" approach in relation to Parliamentary financial control is available; this has been drawn up by the Treasury in consultation with the Treasury Solicitor's Department.

IMPLEMENTATION

Recruitment of Chief Executive and Key Staff

13. The terms of appointment and the terms and conditions of employment of the Chief Executive and, where appropriate, his key staff will be agreed between the Department, the Treasury and the OMCS. The Prime Minister will need to be consulted at this stage about the more important appointments. Appointment will be by either:

a. Open competition on fixed contract; existing civil servants would be free to apply, but, if appointed, on terms providing substantially higher rewards than normal scales might be required to resign from the career Civil Service. Reinstatement at the end of the contract would be a possibility, but there would be no guaranteed right of return; or

b. Internal selection:

i. from within the Department; or

ii. by Service-wide advertisement.

MANAGEMENT IN CONFIDENCE

Those appointed by this method would continue to be subject to Civil Service pay and conditions, including eligibility for performance related increments, and any agreed bonus arrangements.

All agency staff (including the Chief Executive) will, at any rate initially, be civil servants, the main difference between the two methods of appointment being that method a. will offer high rewards in return for high risks, while method b. will balance lower remuneration against greater security of tenure.

Performance of Chief Executive

14. The essence of the "Next Steps" approach is that the agency's responsibility for delivering the agreed services in accordance with the framework should rest squarely on the Chief Executive. He or she can only be absolved from that responsibility by certain actions of the Department (eg by failing to provide the agreed resources) or by some form of force majeure.

15. The Chief Executive's remit must set out precisely what is expected of him and the circumstances in which performance related awards will be given and penalties, including termination of appointment, enforced. Drawing up 'satisfactory contracts of this kind for outside appointments is extremely difficult, and the assistance of the Department's legal advisers should be sought from the outset.

16. Chief Executives and other agency staff would be subject to the Civil Service Pay and Conditions of Service Code. Sanctions against an under-performing Chief Executives or key staff on fixed term contracts would include:

- a. Termination of contract. This is unlikely to be a practical remedy except in cases of gross incompetence or impropriety;
- b. non-renewal of contract; and

MANAGEMENT IN CONFIDENCE

- c. withholding or reduction of any terminal bonuses.

17. The Prime Minister should be consulted where it is proposed to terminate the contract of a Chief Executive whose original appointment was approved by her.

Assessment of performance

18. The judgement on whether or not a Chief Executive has met the agreed targets for costs and performance should rest in the first instance with the agency's parent Department. The assessment will be made by the Permanent Secretary after consultation with the departmental Minister. It may well be necessary to provide for a formal appeal procedure where an adverse assessment leads to termination of contract; possible options, which would be written into the contract and would depend on the status of the Chief Executive concerned, would include appeal to:

- a. the Head of the Home Civil Service;
- b. an independent advisory panel;
- c. the Civil Service Appeal Board.

None of these options would necessarily preclude subsequent recourse to an industrial tribunal, judicial review, or other legal process, but should reduce the frequency with which that was likely to occur.

Recruitment of Staff

19. The method of agreeing terms and conditions for the agency's staff will be set out in the framework. Agency staff will be appointed from those already doing the work, transferred from elsewhere in the Civil Service, or recruited by a special

exercise carried out by the Commission (or by the agency in accordance with a scheme agreed by them), or by a mixture of the three. There will be a presumption that pay, grading and superannuation will normally follow Civil Service models, unless alternative arrangements have been centrally negotiated, or negotiated by the agency with the approval and within guidelines laid down by the Treasury. Positive performance incentives will be considered in devising such arrangements. In considering requests for special treatment, the Treasury will need to be satisfied that it is necessary for the achievement of the agency's aims, that the cost can be contained within the agency's agreed resources, and that it can be ring-fenced. Other Departments and agencies will be consulted if there is a risk of repercussions elsewhere.

Modification of Framework

20. Shortly before or shortly after the appointment of the Chief Executive, the framework will have to be reviewed by the parent Department in consultation with the Treasury and the OMCS as appropriate to take account of his or her view of what can be delivered. One of the Chief Executive's first tasks will be to supplement the framework with a medium term corporate plan to be agreed by the departmental Minister after consultation with the Treasury.

Establishment of Agency.

21. With the completion of these steps the agency regime would have come into existence.

RUNNING

Annual Planning

22. Each year, the Chief Executive will prepare a draft policy and resources plan in informal consultations with the Department and the Treasury. This will roll forward the corporate plan by a further year, and deal in greater detail with targets for the first year of the revised plan. The first three years of the plan will form the basis of the agency's input to the Department's PES submission.

Approval

23. The plan will be subject to approval by the departmental Minister, after consultation with the Treasury.

PES

24. The resources sought in the annual plan will be considered during the Department's PES discussions. They could be negotiated either as part of the Department's programme (or formal block budget where such an arrangement applies), or as a separate ring-fenced item. Whichever course is to apply must be agreed with the Treasury in advance. The agencies will be expected to deliver at least the general level of efficiency savings required in the PES settlement, and, given the nature of their operations, it will in most cases be reasonable to set higher efficiency targets.

Running costs

Where activities are classified as running costs now, they will continue to be so classified. Their treatment will be based on the same principles as for resources overall: similarly, the relationship of the agency's running costs to those of the parent Department must be agreed with the Treasury in advance.

MANAGEMENT IN CONFIDENCE

26. Claims for exemption from gross running cost control will be considered by the Chief Secretary against the criteria, agreed by Ministers from time to time.

In-year Adjustments

27. It will be up to Departments to ensure that the framework is sufficiently stable to make the need for in-year adjustments very unlikely. Any increases will have to be met from within departmental programmes, and Departments should not expect to seek claims on the Reserve in respect of their agencies.

Reporting

28. At the end of each year, the Chief Executive will submit a report to the departmental Minister detailing performance against plan and the use made of the resources provided. The report will be accompanied by the draft rolling forward of the corporate plan. The report may be submitted to the Prime Minister after discussion with the Treasury and the Minister and will normally be published.

29. Careful monitoring of the agencies' performance will be essential, particularly while the concept is new, and will call for close consultation between parent Departments and the Treasury.

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DRAFT ORAL STATEMENT BY THE PRIME MINISTER

Mr. Speaker, with permission I should like to
make a statement on the management in the
Civil Service.

I asked the Efficiency Unit to report to me on
the progress of management reforms in the
Civil Service.

They have produced a report - 'Improving

Management in Government: The Next
Steps'.

The report finds that many Civil Service
managers want to see further changes
giving more room and flexibility for the
exercise of personal responsibility.

The report recommends:

first, to the greatest extent practicable,

the executive functions of Government - as distinct from policy advice - should be carried out by units clearly designated within Departments, referred to in the report as 'agencies'.

Responsibility for the day to day operations of each agency should be delegated to a Chief Executive who would be responsible for management within policy objectives and a resources

framework set by the responsible Minister,
in consultation with the Treasury;

second, the Government should commit
itself to a progressive programme for
attaining this objective;

third, staff should be properly trained
and prepared for management of the
delivery of services whether within or

outside central Government;

fourth, a 'Project Manager' at a senior level should ensure that the programme of change takes place.

The Government has accepted these four recommendations, which will set the direction for further development in the programme of management reform.

Each agency will be accountable to a Minister, who will in turn be accountable to Parliament for the agency's performance.

These agencies will generally be within the Civil Service, and their staff will continue to be civil servants.

The Government will develop a continuing programme for establishing agencies, applying progressively the lessons of the

experience gained.

The Civil Service unions will be consulted

about the setting up of particular

agencies.

They will also be consulted if any change

in terms and conditions of civil servants

is contemplated.

The centre of the Civil Service must be

organised in a way which is helpful to bringing about change.

A Permanent Secretary in the Office of the Minister for the Civil Service will be responsible through the Head of the Home Civil Service to me for managing the process of change needed to implement the recommendations.

I have placed copies of the Efficiency Unit's

report, together with a list of executive functions which appear promising candidates as initial agencies, in the Library and Vote Office.

AGENCIES UNDER CONSIDERATION

Annex D

The Government will be examining all its executive functions. But Departments have already been able to identify a number of areas which may be promising candidates for establishment as agencies. Examples of these are:

- Her Majesty's Stationery Office (Chancellor's Department)
- Employment Services (DE)
- Passport Department (Home Office)
- Driver and Vehicle Licensing Directorate (DTp)
- Vehicle Inspectorate (DTp)
- Meteorological Office (MOD)
- Non-nuclear Research Establishments (MOD)
- Resettlement Units (DHSS)
- Companies Registration Office (DTI)
- Royal Parks (DOE)
- Historic Royal palaces (DOE)
- Queen Elizabeth II Conference Centre (DOE/PSA)

Not all of these will necessarily become agencies, nor has the form and timescale of any changes been decided. Ministers will make decisions on each area in the light of further work which is now being put in hand to draw up appropriate policy and resources frameworks.