CC NO

PRIME MINISTER

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

Pt 13.

You said in your minute of 28 June 1983 that you would like to have a further progress report this summer on the work being done in departments to improve financial management. We are also committed, in the White Paper published last September (Cmnd 9058), to publish a further White Paper this July.

2. I asked each department to prepare a report on the work it has been doing in the past year. These have been discussed with the Treasury, the Cabinet Office (MPO) and the Efficiency Unit, and they are now included in Part 2 of the attached draft of the forthcoming White Paper. Part 1 of the draft draws out the main points and gives examples of what is being done.

Recent Developments

3. A great deal is being done to implement the plans which were set out in last September's White Paper:

i. Each department is developing its MINIS or some similar system tailored to its own needs. This will give colleagues an essential tool for ensuring that the work of their department conforms with our priorities as a Government. (Paragraphs 7-9 of the attached draft White Paper)

ii. Work to get better value for money in the running costs of departments is now being broadened out to tackle also expenditure on programmes. Responsibilities of managers are being more sharply defined, and more measures of performance are being developed so that they can be given clearer targets. (Paragraphs 10-14)

iii. Budget holders are being given progressively more authority over the resources they manage, so that they can be held more accountable for the result. (Paragraphs 15-18)

4. This work is being underpinned by steps to improve personnel management and

training. The aim is to introduce a more managerial and cost-conscious approach to all government business, and this requires a change in attitudes at all levels, which the Personnel Work Action Programme will help to foster. (This section of the White Paper, paragraphs 20-21, also contains a reference in square brackets to merit pay. This will need revision if a statement is made on the subject before the White Paper is published).

5. So far activity has necessarily concentrated on setting up new systems - eg MINIS-type systems, better management information systems, performance measures and so on. There is a great deal of development work still to be done. But we now need to get the benefit of all this work in terms of practical results and better value for money. Some early benefits are already showing, for example where the new systems have pin-pointed areas which need review, either in programmes or in departmental administration. Part 1 of the White Paper picks out some of these. Further gains should be achieved as the work gets under way.

6. There is also an important link between the work on the FMI and the efficiency studies which were the subject of the presentation by Robin Ibbs on 10 May. The detailed FMI work provides the essential information and means to take action to obtain better value for money and greater efficiency.

Costs

7. The specific costs, which departments have been able to identify as related to the initiative, totalled some £20 million in 1983-84. However, there can be no clear-cut distinction between the cost of this work and other costs incurred on financial administration generally. The cost of the work in improving financial management should be offset in due course by the better value for money which it helps departments to obtain in both running costs and programme expenditure.

Follow-up

8. Good progress has been made in the past year but much remains to be done. I shall be continuing, with Grey Gowrie and Robin Ibbs, to follow up progress on this during the coming year; and the central departments will continue to give advice and support. The White Paper does not commit us to publish a further general report of the present kind by a specific date. I would prefer to keep our hands free to report progress in whatever way we consider most appropriate at the time.

9. I would underline the importance of the priority which individual colleagues give to this work in their own departments. It is only in that way that we will get full value from

this considerable investment in effort and resources. The meetings which you propose to hold with Ministers and their senior officials to consider progress on value for money will also provide evidence of the progress made in financial management.

Publication of the White Paper

10. We are committed to publish the present White Paper in July. The attached draft has been prepared in close consultation with the departments concerned and Grey Gowrie and Robin Ibbs. I should be glad of your agreement and that of other Cabinet colleagues, if possible by 14 June, to its publication. The precise date for publication can be settled in consultation with your office in the usual way.

11. I am copying this minute and the draft White Paper to Ministers in charge of departments and to Sir Robert Armstrong and Sir Robin Ibbs.

PR

PETER REES

7th June, 1984.

Civil Service: Long-Term Management ....

PH3

With PR

10 DOWNING STREET

From the Private Secretary

13 June 1984

Financial Management in Government Departments

The Prime Minister has considered the Chief Secretary's minute of 7 June about the financial management initiative.

Subject to the views of colleagues, the Prime Minister is prepared to agree that the draft White Paper should be published in July in accordance with the Government's commitment. She hopes however that it will be possible even at this late stage to include in the published text some more concrete examples of improvements in essential public services, or of cost savings, which have stemmed from improved management systems.

More generally, the Prime Minister has some misgivings about the course which the Government's management initiative appears to be taking. She has noted, for example, that the costs associated with the initiative in 1983/1984 alone amount to £20m., and she wonders what the public has gained in return for this expenditure. The Prime Minister feels it is important to guard against the criticism that Departments may merely have mastered the jargon of management systems, without delivering the results. She hopes all these points will be borne in mind as the initiative develops.

I am sending copies of this letter to the Private Secretaries to all Ministers in charge of Departments and to Richard Hatfield (Cabinet Office) and Sir Robin Ibbs (Efficiency Unit).

David Barclay

John Gieve Esq
Chief Secretary's Office.

JC

Prime Minister (1)

Agree a response on these lines?

I agree this approach.

What have we gained for £20 million?

CONFIDENTIAL

MR BARCLAY

Dwg 12/6

12 June 1984

PROGRESS IN FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

The draft White Paper describes the management systems which Departments are adopting (Minis, ARM etc). Installing these systems and getting civil servants to think in managerial terms is uphill work. It is disappointing however, that the paper can say so little about the benefits which the public has received. £20 million are being spent on these systems. What are the savings? By how much have essential services been improved?

I share these doubts about our management initiatives MT

The cynical journalist (and which is not?) will probably comment that the report shows that Government Departments have mastered the jargon of management systems, in a way which is acceptable to their political masters, and are using it as a way of justifying what they want to do - regulating, helping, sponsoring, promoting. Paragraph 8 tells us that "Departments are getting useful results even from the first round of such systems". It cites examples such as:

- Plans for visual display terminals in Unemployment Benefit Service offices.

- The selection of areas for review in MoD.

- "A framework for decisions on resources" in DTI and Energy. The boosting of the staff for Energy Efficiency Office is claimed as a benefit of this system.

These are hardly achievements which mean anything to the public. Are we actually improving essential services? Or even the inessential ones? We learn, for example, that MAFF is "developing a top management system on a programme basis to provide a planning tool giving a clear, complete and consistent map of the Ministry's activities..." but we know that MAFF is unable to say what effect their capital grants have, in terms of promoting investment; whether the additional investment is of any economic value; how many jobs are preserved by less favoured area allowances?

What we would like to see emerging from this exercise is a simple score card which shows, for each Department, how much has been spent on management systems, and the size of the benefits achieved, in terms of costs savings, scrapping of inessential functions, improvements in essential services to the public. It is the only way in which departmental performances can be monitored. We should aim for a paper in 1985 which explains these changes to the public.

CONFIDENTIAL

DATABE

Meanwhile the best we might hope to do with the present draft, which we are committed to publishing in July, is to strengthen the references to useful results at paragraph 8. We recommend that the Prime Minister replies along the lines that:

1) She is encouraged that the Government's concern for efficiency is being reflected in better management systems.

2) She had hoped that the paper could include some concrete examples of improvements in essential public services, or cost savings. The draft fails to draw a connection between the improved management systems and tangible benefits for the public. This should be an essential feature of future policy.

NICHOLAS OWEN

DATABE

CC NO

nbpm
DMB
18/6

QUEEN ANNE'S GATE
LONDON SWIH 9AT

18 June 1984

Dear Peter,

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

Thank you for copying to me your minute of 7 June to the Prime Minister. I am content with your proposals for the publication of the White Paper, subject to some small drafting points on the Home Office chapter about which my officials will be in touch with yours. My only comment on Part I concerns the first sentence of paragraph 3. In a document which emphasises the importance of, among other things, clarity of responsibility I think it is important to avoid the slight suggestion in the first sentence that it is only central Government which has the job of getting value for money from public expenditure. Other bodies are mentioned at the end of the paragraph but you may agree that an earlier reference to them would be sensible and tactful.

I am copying this to the recipients of your minute.

Yours,

Leon

The Rt Hon Peter Rees, QC, MP

CS: Long term policy: Pt 15

CONFIDENTIAL

CC MO

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

nbpm DMB 2/7

29 June 1984

Dear David

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

My Secretary of State has seen your letter of 13 June to John Gieve in which you record the Prime Minister's misgivings about the costs of work on the Financial Management Initiative in relation to the benefits to the public. He has asked me to let you know that in this Department (including the PSA) the drive for better value for money (of which FMI is part) has resulted in an aggregate net saving of nearly £200m since 1979 in staff costs alone. There have been corresponding savings in other overheads - for example in 1979 DOE (Central) occupied all or part of eleven buildings in Central London: now it occupies four.

Administrative costs are, however, only a very small part of our public expenditure responsibilities. We are following policies, based on the FMI, which will show similar results for our spending programmes. In the water industry, for example, we have abolished the National Water Council (saving £600,000 a year) and reformed the Regional Water Authority Boards to make them more businesslike. We have agreed performance aims with the nine English Boards which provide for a real reduction of about £80m (8%) by 1986/87 in annual operating costs (partly offset by growth in output).

I am sending copies of this letter to recipients of yours.

Yours sincerely

John Ballard

J F BALLARD
Private Secretary

David Barclay Esq

Civil Service : Long Term. A15

JBMTD2

FCNO

DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1P 3AG

wkpm
Sub
20/6

20. June 1984

Dear Peter.

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

Thank you for sending me a copy of your letter of 7 June to the Prime Minister and the accompanying draft White Paper.

I understand the Prime Minister's misgivings about costs and agree that we shall need to monitor the benefits as the initiative develops. Some of these will only become apparent over time and I am glad to note as you mention that the draft White Paper does not commit us to a specific date for a further general report.

Having said this, I am content with the way that progress has been presented in the draft White Paper. It is not easy to report on this subject so as to interest those who are not directly concerned and I think that the examples in the main part of the draft would help to make the message clearer to any general reader. In particular, paragraph 13, which refers to non-departmental public bodies, could, I believe, be made more informative in this way. Peter Brooke and I attach particular importance to the application of the FMI to the Research Councils and we should welcome the addition of the following extra sentence after the second sentence of the present draft of this paragraph with a consequential amendment to the next following sentence as follows: "For example, the Department of Education and Science has been considering with the Research Councils how best the initiative might be extended to their operations. The results of this type of work by Departments have been brought together ....."

My officials are in touch with yours about a few detailed points of correction mainly to bring the draft report on DES in Part 2 up-to-date.

I am sending copies of this letter to the Prime Minister, Sir Robert Armstrong and Sir Robin Ibbs.

Yours ever
Keith

Civ Service Long term
Pt 15

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
Parliament Street
London SW1 3AG

14 June 1984

Noted
DMB
14/6

FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

I am content with the draft White Paper attached and pleased to see that it does not commit Departments as to the amount of detail which will eventually be published about the results of their management reviews. Rigorous internal examination of objectives and performance will not be facilitated if it has to be exposed to the different pressure groups with which we all have to contend.

A copy of this letter goes to the Prime Minister and other colleagues, to Sir Robert Armstrong and to Sir Robin Ibbs.

Yours

MICHAEL JOPLING

CIVIL SERVICE C-T

19/1h

NO
11/6/84

PROGRESS IN FINANCIAL MANAGEMENT IN GOVERNMENT DEPARTMENTS

PART 1

Introduction

1. This White Paper describes the progress made by government departments in improving their financial management. It should be read in conjunction with the previous White Paper on this subject(1) published in September 1983. Part 2 contains detailed reports by departments on progress.

2. The Government's Green Paper on public expenditure into the 1990s(2) showed that firm control over public spending is an essential condition for bringing the burden of tax back to tolerable levels. Over the past 20 years, real public spending(3) has risen by 90 per cent, while real national income has risen by 50 per cent. As a proportion of GDP, general government expenditure rose from 36 per cent to around 46 per cent. This massive growth of public spending has driven up the burden of taxation. The Government believes that we must break away from this pattern by establishing a clear view of what can be afforded, setting spending plans accordingly, and then sticking to those plans. The principal instrument for establishing public spending plans and controlling total expenditure is the public expenditure survey. The Government's decisions on total expenditure and on the size of the main spending programmes are set out in the annual public expenditure White Papers, the latest of which was published in February 1984(4).

3. It is vital that the Government not only controls the total amount of public spending but gets value for money for every pound spent. Better planning and management which increases value for money year by year is the sound way to improve essential public services while reducing the tax burden to more tolerable levels. It means starting with clear objectives for each programme and then pursuing them in the

most efficient way. Getting better value for money in each service is critically dependent on the quality of financial management within government departments and in other bodies which spend **public money.**

4. That is why the Government launched in 1982 a special initiative(5) to improve the allocation, management and control of resources throughout central government. The previous White Paper described the plans made by 32 departments and the progress they had then made to meet the objectives of the initiative, which were defined as "to promote in each department an organisation and a system in which managers at all levels have:

(a) a clear view of their objectives; and means to assess, and wherever possible measure, outputs or performance in relation to those objectives;

(b) well-defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and

(c) the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively."

5. The good progress departments have made in the past year is described in this White Paper under three main heads:

(a) meeting the needs of Ministers and senior managers to:

- decide strategic objectives and priorities

- allocate resources within a department's programmes

- make managers more accountable for their perfomance

- question the need for work

- launch reviews and scrutinies (including those monitored by the Efficiency Unit) to achieve greater efficiency or better value in particular programmes or in running costs

(Paragraphs 7 - 9)

(b) **managing programmes** with:

- sharper definitions of particular objectives for each programme and for the individual manager

- better measures of what programmes achieve and cost

- better appraisal of spending proposals

(Paragraphs 10 - 14).

(c) **budgetary control systems** which are:

- increasing awareness of costs

- giving managers greater authority to manage their budgets

- turning priorities into practical action

- sharpening the incentive for all managers to get better value for money

(Paragraphs 15 - 18).

6. This report necessarily concentrates on what departments are doing in order to strengthen their management systems. But for the initiative to be successful attitudes needs to change as well. The aim of better value for money requires a more managerial approach to government business. A greater sense of cost-consciousness needs to be fostered by the way in which departments set about planning, organising, communicating and

motivating. **Training** for managers is preparing them for more professional and knowledgeable financial management. Action on **personnel management** is reinforcing this process of change. (Paragraphs 20 - 26).

DEVELOPMENTS SINCE THE LAST WHITE PAPER

Meeting the needs of Ministers and senior managers

7. Each department has now taken steps to introduce a top management system for Ministers and senior managers. All are designed to enable Ministers and senior officials to review regularly the department's aims, examine its "businesses" and the "customers" they serve, set objectives, and establish priorities.

8. Departments are getting useful results even from the first round of such systems. The main benefits of the new arrangements are:

(a) **ideas for greater efficiency or value for money:** for example

in the Department of Employment, where each manager was required to put forward proposals for improving efficiency and effectiveness. Arising from this the department's senior management endorsed plans for achieving substantial possible benefits by introducing computer-linked visual display terminals in each office of the Unemployment Benefit Service (UBS), and also set in hand action to streamline procedures for redundancy rebate claims.

(b) **Selecting areas for scrutiny or review:** for example

the Ministry of Defence used its MINIS exercise to select a number of areas for efficiency audit and review (for instance the Directorate General of Defence Accounts). The Home Office launched a number of scrutinies including one of expenditure in the Immigration Service.

Departments have also used their top management discussions to identify subjects for the efficiency studies which are monitored by the Efficiency Unit: the programme of these studies for 1984-85 is outlined in Appendix 1.

(c) **a framework for decisions on resources**: for example

the Departments of Trade and Industry and Employment are extending their systems to enable Ministers to review plans for the whole period of the public expenditure survey. In the Department of Energy it provided the framework for the decision to reallocate staff to strengthen the Energy Efficiency Office

(d) **changes in organisation**: for example

the Department of Employment identified a problem at regional level where managers were accountable to the managers of the UBS but had tasks specified, or resources controlled, by different divisions at headquarters. It decided that headquarters branches should be made responsible for both the resources for the tasks and their performance, so that regional managers have clear targets. In the case of the UBS it decided to transfer to the manager of the UBS full responsibility for personnel, accommodation and some other central services. The Ministry of Defence's MINIS stimulated proposals for major organisational changes(6).

9. The report(7) by the Financial Management Unit gives more information about these arrangements and their benefits; and about the work needed to make them more effective. Objectives and responsibilities for programmes need to be defined as clearly as for administrative costs. More measures of achievement are needed to translate objectives for improved management into targets for individual managers who can then be held accountable for achieving an agreed level of performance. The systems need to be linked with the arrangements for public

/1h

expenditure planning and control, and with delegated and decentralised budgeting and management information systems. Departments will pursue these points in the development of their arrangements for Ministers and senior managers in the coming year.

Managing programmes

10. Many departments initially concentrated on improving the management of their own operations. In the past year they have turned their efforts increasingly to the handling of programme expenditure and to including it within the top management systems for Ministers and senior managers.

11. The following are some examples of improvements in the management of expenditure, and of the new arrangements that are helping managers to handle it better:

The Home Office is developing and piloting a framework of information about activities and costs to help HM Inspectors of Constabulary assess efficiency and performance.

The Department of Health and Social Security is working with the Treasury and Government Actuary's Department to improve methods of monitoring and forecasting expenditure on social security benefits.

The Department of Energy is developing improved indicators for the effectiveness of its energy efficiency programme such as the net saving from improved use of energy associated with each pound spent on advice to consumers.

The Inland Revenue has added targets for the accuracy of PAYE codes and assessments to the existing measures of volume and timeliness.

Wider reviews will also help to secure improvements. For example the Department of Health and Social Security has

announced fundamental reviews of four areas of social security expenditure, each of which provides an opportunity to examine the management of complex programmes.

12. The Government similarly initiated a review of the management of the National Health Service in England by a team with extensive management experience in the private sector (the Griffiths Inquiry[8]). The Government has recently announced its decision to implement in full in England the Inquiry's proposals and in particular the identification of individual general managers at the different levels of the service. It has also announced changes in the management of the NHS in Scotland and in Wales based on the same principles. This programme of action will, along with other measures already taken by the Government, contribute to a National Health Service in which objectives are clearly defined, responsibility for achieving them is properly identified, and progress towards them is systematically monitored.

13. The drive to improve the management of programme expenditure is also relevant to expenditure programmes run at arm's length from government departments by non-departmental public bodies (NDPBs). Over the past year several departments, working with the Financial Management Unit, have reviewed their relations with bodies they support, particularly their financial management. The results have been brought together in a report from the Financial Management Unit[9]. The lessons learned will be incorporated in revised guidance on the management of NDPBs[10] which will be available later this year to help with the work in progress in departments.

14. Departments have discussed with the local authority associations ways in which particular central government systems and procedures for managing expenditure on local authority services might be improved. Individual departments have also been taking suitable opportunities to make progress in their own areas. For example the Department of Education

and Science's policies for raising educational standards and the new specific grants, which will permit innovatory projects to be directly funded, will help to achieve better value for money from spending on education (about half of all current spending by local authorities). These and other issues will be taken forward in discussions with the local authority associations during the coming year. The work of the Audit Commissions will also help authorities in making the best use of their resources.

Budgetary control systems

15. The last White Paper described how departments were planning to develop a more decentralised style of budgetary control by dividing work into appropriate blocks and into "cost centres" within each block, by identifying budget holders who would be accountable for the management of the costs they can control in meeting specified targets, and by establishing the information and procedures needed to underpin and operate these arrangements.

16. Departments have developed, or bought from outside suppliers, accounting systems to collect and report the information about costs and budgets they will need for budgetary control. Many either began pilot schemes in the second half of 1983-84 or prepared to launch them for 1984-85.

17. Until now budgets have generally been given to managers from the centre of departments, by allocating its total resources among budget holders. This year many departments are working on procedures (sometimes on a trial basis) for line managers to prepare budgets for the resources they believe they will need in 1985-86. These proposed budgets will be put to their senior managers for review, revision and approval.

18. Appendix 2 summarises the position in many departments and indicates their plans for the future. It brings up to date the summary in the report by the Financial Management Unit[11]

which looked at developments in 1983-84 and their likely course in the future.

Work of the central departments

19. The implications for the work of the Treasury and the Cabinet Office (Management and Personnel Office) were set out in paragraphs 45-47 of the last White Paper. They have continued to promote and monitor changes in departments and to identify and disseminate good practice, both directly and through the Financial Management Unit. The Efficiency Unit, now under Sir Robin Ibbs, keeps in close touch with the central departments, so that there is a concerted effort to push forward improvements in management.

The **Treasury** has continued to provide guidance to departments on the development and application of output measures and performance indicators; on the need for and techniques of economic appraisal of investment and other expenditure decisions; on the setting of fees and charges for services provided by government departments; and on the development of staff inspection and internal audit(12). It is reviewing with departments the arrangements for monitoring and forecasting public expenditure on demand-led programmes. The Central Computer and Telecommnications Agency has reviewed its activities and will be putting more emphasis on advice to departments on how information technology can serve their objectives.

The **Cabinet Office (Management and Personnel Office)** has been in the lead in the major areas of training and personnel management described in paragraphs 20-26 below.

The **Financial Management Unit,** set up by the Treasury and Cabinet Office (Management and Personnel Office), continues to advise individual departments, to

disseminate useful lessons and good practice, and to bring common problems to the attention of the central departments. It comprises both civil servants and consultants from some major firms of management consultants.

The **Efficiency Unit's** main aim is to encourage and assist individual departments to make their top management systems thoroughly effective in setting targets for improving value for money year by year. It continues to provide a supporting framework for departmental scrutinies, although it has been increasingly selective since the publication of the last White Paper in the number in which it takes an active part.

Personnel work

20. The Government is carrying through a complementary set of improvements in personnel management, based on the Review of Personnel Work in the Civil Service published in July 1983,[13] and other related work. The objective of the personnel work action programme is better value for money, by making the best use of the talent and expertise in the Civil Service. The basic needs are improved career management and training; getting more emphasis on job performance into personnel procedures; and making sure that there are no impediments to selecting the best person for each job. Managers at all levels must be clear about their responsibilities for monitoring and appraising the work of their staff. There needs to be more delegation to line managers of responsibilities in the personnel field now often exercised by central personnel staff in departments.

21. Key elements in the programmes are:

improved <u>career management and training</u> - plans for those with the potential to rise to senior positions are being extended to lower levels. The aim will be to identify

staff in good time to prepare them for such positions and to give them relevant experience by postings, by training, by secondments and by other means. A new course for those entering the senior management of the service will start early in 1985:

more effective staff appraisal and reporting procedures - staff assessments will be more closely related to performance, measured against agreed objectives, and to managerial achievement. New basic principles have been developed centrally and, subject to trials, departments will move progressively in 1984 and 1985 to introduce arrangements more tailored to their own needs;

incentives to good performance - the Government is preparing a set of experiments in rewarding staff who perform exceptionally well. [It is also considering ways to introduce individual merit pay arrangements;]

dealing with inefficiency and poor performance - new procedures were promulgated in April 1984;

early retirement arrangements - the conclusions of a review are being considered by the Government. A special scheme for the early retirement of certain senior staff to assist with bringing on the best of the younger talent in the civil service is in operation for 1984;

simplifying the grading structure of the civil service - a system of unified grading down to Assistant Secretary (Grade 5) and Senior Principal (Grade 6) came into operation in January 1984 following the unification in 1972 of the most senior grades. The costs and benefits of a further extension of unified grading to Principal and equivalent levels are being considered; in addition the need for structural changes in other key areas including that of clerical and data processing work is being reviewed;

a comprehensive statement of personnel management policy - which each department is charged to produced by the end of 1984, reflecting the need for greater delegation to,

and accountability by, line managers for responsibility in personnel as well as financial matters.

Training

22. Departments are greatly increasing financial management training. Most have drawn up a training strategy involving awareness training for senior and more junior staff, detailed training for staff with new budgetary and managerial responsibilities, and increased general financial training. Many have completed, or are well advanced with, series of awareness courses, and the training for new budget holders reflects timetables for introducing delegated budgets. In the Department of Trade and Industry, for example, in the year to September 1984 some 2,700 staff will have received training, including instruction about the department's management information system.

23. At the Civil Service College the senior finance course, introduced in 1982-83, now comprises 8 modules which run twice a year. All the many courses in financial skills and in related areas such as information technology, management services and performance indicators have been well attended. In the 1983-84 academic year the College total of student days will again show a significant increase. In 1983-84 a series of one-day awareness seminars was held for senior staff together with a "value for money" course for staff at Under Secretary level (Grade 3). A senior personnel course (on the lines of the senior dinance course) is being planned.

24. The Training Division of the Cabinet Office (MPO) promotes and supports financial management training in departments by providing training aids and helping to spread good practice through its training liaison officers. Training material collected from departments and the College were exhibited to departmental training officers at their annual conference in November 1983.

25. 1983-84 was the first full year of the major training programme in internal audit announced in last year's White Paper. Since September 1983, 370 students have started the 2-year programme, which involves courses at selected polytechnics as well as the Civil Service College.

26. Complementary work by departments and the acting head of the Government Accountancy Service is identifying needs for accountancy training and reviewing the arrangements for encouraging staff to seek professional qualifications. There is greater recognition of the contribution that qualified and experienced specialists of many kinds can make. Many departments have used outside consultants for immediate tasks, with useful interchange of ideas and experience.

Costs

27. Departments have been asked to quantify those costs which can be directly related to steps taken under the financial management initiative. These are shown in the separate chapters in Part 2. For 1983-84 they total about £20 million, including £2 million for computer systems, £2 million for consultants and £2 million for training. This total represents about 0.1 per cent of departments' running costs.

28. Many departments have already found that there can be no clear-cut distinction between the costs of this work and other costs incurred on financial administration and indeed on the general management of each department. The distinction will become increasingly artificial as departments' plans are put into full effect. The cost of the extra investment in improved financial management should in due course be offset by the better value for money which it helps departments to obtain in both running costs and programme expenditure.

Meeting the needs of Parliament and the public

29. The new approach to financial management has already begun to improve the information provided in the Government's key

publications about public expenditure plans, the annual public expenditure White Paper and the Supply Estimates through which Parliamentary approval is sought. Last February's White Paper included more information about output and performance - over 500 indicators, an increase of a quarter over the previous edition.

30. Departments are also providing more information following paragraph 51 of last year's White Paper. Examples of the kinds of publication and departmental papers in which this information is included are given in Appendix 3.

31. Further progress in financial management will be shown in future publications. For example the next Public Expenditure White Paper will have more improvements in information about output and performance; and the structure of more Supply Estimates will be changed to reflect better how expenditure is managed in departments.

Conclusion

32. Last year's White Paper said of the plans it contained "It is a programme for the life of a Parliament and beyond". A good start has been made. The Government intends to maintain the momentum of this programme.

(1) Financial Management in Government Departments (Cmnd 9058), September 1983.

(2) The Next Ten Years: Public Expenditure into the 1990s (Cmnd 9189), March 1984.

(3) defined as general government expediture, the principal measure of public expenditure used in the national accounts.

(4) The Government's Expenditure Plans, 1984-85 to 1986-87 (Cmnd 9143), February 1984.

(5) Efficiency and Effectiveness in the Civil Service (Cmnd 8616), September 1982.

(6) MINIS and the Development of the Organisation for Defence, Defence Open Government Document 84/03.

(7) Top Management Systems: Report by the Financial Management Unit, February 1984.

(8) The report of the NHS Management Inquiry, October 1983.

(9) Financial Management in Non-departmental Public Bodies: Report by the Financial Management Unit, [July] 1984.

(10) Non-Departmental Public Bodies: A Guide for Departments, Cabinet Office (MPO), first published 1981, Third impression 1983.

(11) Budgetary Control Systems: Implementation Report by the Financial Management Unit, February 1984.

(12) The bibliography at Appendix 3 includes guidance and other material provided by the Treasury.

(13) Review of Personnel Work in the Civil Service: Report to the Prime Minister, by J S Cassells CB, HMSO, 1983.

PART 2
PROGRESS IN DEPARTMENTS

Each report in this part has been prepared by the department concerned as a summary of developments in its programme of work.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

1. The Ministry of Agriculture, Fisheries and Food (MAFF) has continued to implement and further develop its plans for improving financial management. The main developments since the last White Paper are summarised below.

Top management system

2. MAFF is developing a top management system on a programme basis to provide a planning tool giving a clear, complete and consistent map of the Ministry's activities, linked closely to the public expenditure survey process and timetable. A pilot round of the system of Ministerial information in MAFF (MINIM) was conducted in 1983. The results were submitted to Ministers during the summer and reviewed through the autumn.

3. A second round was commissioned by Ministers in February 1984. It continues to be based primarily on programmes, showing for each of them the objectives and the use of resources (both of manpower and expenditure) over the past year and for the next two years. In addition to the main programme returns, supplementary material is this year being prepared on certain of the larger organisational units.

4. The 1984 MINIM returns will cover MAFF contributions to the work of the Intervention Board for the Agricultural Produce (IBAP) and will show the resources deployed by IBAP on the common agricultural policy where MAFF, along with the other agricultural departments, has the main responsibility for European Community negotiations. The MINIM returns will also show MAFF payments to non-departmental pubic bodies (NDPBs) and the additional accountant mentioned in Cmnd 9058 has begun to strengthen the financial input into MAFF's oversight of these bodies.

Financial information systems

5. Following the design work outlined in Cmnd 9058 and an evaluation of commercial software packages, the department took delivery of a commercial general ledger system in March 1984. Work is now in hand to test and develop this (using the Ministry's mainframe computer at Guildford) into a Management Accounting Information System (MAIS). This will replace the existing bookkeeping system from April 1985 and, also,

provide an organisational analysis of running costs. The department has been assisted in this work by independent management consultants. In addition, a post in Finance Group, with support from economists, is being devoted to the systematic application and development of investment appraisal in the Ministry.

Control of administrative expenditure

6. The Ministry plans to move from budgeting and control by central divisions to a system under which line management commands, and budget centres within them, will have the prime responsibility for budgetary control. A first step towards this objective has been to bring within a single vote (Class III, Vote 5 of the 1984-85 Estimates) the expenditure which is expected to feature within such a new system. Pilot work has explored methods of informing managers more fully about the cost of the resources they use, including, for example, typing and telephone services. Managers involved in the work have found that such information has, by increasing their awareness of the cost implications of their decisions, influenced the decisions themselves. This work is continuing, and is being expanded, in order to cover manpower and related costs more fully, to the whole of the Eastern Region. Plans are also in hand to decentralise substantial budgetary responsibility to the Central Veterinary Laboratory at Weybridge from April 1985. The possibility of instituting further small scale pilot work to cover particular issues not so far addressed is under consideration.

7. Subject to the satisfactory development of the MAIS (which will provide the information base for decentralised budgeting and control) and to the outcome of the work described in paragraph 6 above, it is intended to make the major move towards decentralised budgeting and control for the department as a whole in April 1986. The detailed arrangements are still under discussion; but it is envisaged that for 1986-87 a fully decentralised budgeting and control system will apply to the majority of the department's running costs. Thereafter further development will be needed on internal charging arrangements and on the degree to which it will be cost-effective to apply such methods; consideration will also be given later to the handling in management accounts of costs which are not directly reflected in Ministry votes.

Other management information systems

8. Alongside that described above, work is under way to

(a) develop a general management information strategy;

(b) co-ordinate the development of management information systems;

(c) establish what output measures and performance indicators are available or might be developed.

Management consultants have reviewed central management information systems in MAFF and a strategy for implementation of their recommendations is being developed. It is envisaged that full implementation could extend over several years on a step-by-step approach. Apart from the development of the MAIS, high priority is being given to work relating to time allocation and recording so that manpower costs may be more accurately attributed to programmes and projects. In particular, studies are being undertaken to assess the information needs of managers in the regional administration; these studies, which cover both time allocation systems and possible performance and output indicators, should be completed by mid-1985.

Staffing and training

9. The central team of staff directly responsible for carrying out the work is being built up and has received increasing support from computer specialists. There have been difficulties in recruiting qualified accountants for this work.

10. Members of the Ministry's financial management team have spoken to many groups of staff during the year often at their request, to explain their work and staff across the Ministry are now increasingly aware of the implications for their work of developments in financial management. Activity is now under way throughout the Ministry to press home this awareness of these developments and of their implications. Systematic training has so far been directed mainly to dedicated staff and those involved in pilot projects. With consultancy assistance, plans for a major training effort, to be undertaken when the various changes - in particular those linked with the development of the MAIS - are about to take place, are now laid; they will be implemented over the coming year. A training programme on investment appraisal methods has also been initiated.

Costs

11. The cost of the work described above in MAFF in 1983-84 is estimated at £525,000 of which £450,000 relates to the cost of Ministry staff engaged (full or part time) in the work and the remainder to payments to consultants. The great majority of these costs relate to the development of new systems rather than to their operation. As the systems become routine working tools, it will be both more difficult and less meaningful to identify their costs. Development work will be continuing in 1984-85; the costs for that year are likely to approach £1 million.

INTERVENTION BOARD FOR AGRICULTURAL PRODUCE

1. The role of the Intervention Board for Agricultural Produce (IBAP) is largely executive. It is responsible for the operation of market organisation measures under the common agricultural policy (CAP) for which policy responsibility lies with the agricultural departments. That role is reflected in the overall objective of maximising the benefit of the CAP to the national economy consistently with national and Community accounting standards.

2. Since publication of Cmnd 9058 the workload and accountability of the department have continued to grow rapidly. Staff numbers have increased from 600 to 620 whilst annual expenditure and receipts are currently aggregating about £2 billion compared with the figure of £1.5 billion mentioned in Cmnd 9058. Annual turnover per head of staff has increased from £2.5 million to £3.2 million. Further increases in workload are expected as a result of transfers of certain functions from the Ministry of Agriculture (MAFF) and changes agreed in the context of the CAP price fixing decisions taken at the beginning of April.

3. The main opportunity for improvement in the department's effectiveness and efficiency remains the implementation of the five-year computer development plan drawn up by outside consultants in 1982 and projected to produce savings of about 60 staff by 1988. A start was made during 1983 on all the scheduled new projects, including the installation of some microcomputer facilities. There was some slippage in the timetable for a variety of reasons including a shortage of experienced specialist staff, the unpredictability of Community requirements and the need to maintain and update existing systems whilst new and replacement systems are being developed. Important lessons have been learned and many of the problems overcome. Modest additional resources have been found for the development work particularly in the department's computer support unit; and the project control structure recommended in the consultants' plan has been fully implemented with clear definitions of responsibilities and enhanced participation by users of the facilities. High priority will continue to be given to implementation of the development plan.

4. Work on the department's financial management programme has continued broadly under the headings in the previous White Paper viz:

(a) Management information

(b) Cost centres

(c) Agents

(d) Internal audit

(e) Staffing and training

Management information system

5. As well as contributing manpower and expenditure figures to the second round of MAFF's MINIM the department has set up its own Ministerial information system (the Intervention Board Information System or IBIS) on which it is expected that a report will go to the Board and to the four agricultural Ministers early in the summer of 1984. IBIS will break down the programme information in MINIM to sub-programmes, showing expenditure and also resource use for individual measures.

6. The report on round 1 of IBIS will include expenditure and manpower figures for the years 1983-84 to 1985-86 together with objectives and plans for the years ahead against which performance can eventually be measured. Work on the identification of suitable performance indicators, which started with a pilot study of a limited number of measures in 1983, will now continue in the context of IBIS. In addition some of the basic data on which performance indicators for particular measures may be based will continue to be identified in the programme of reviews of individual Community schemes, which make an important contribution to the achievement of the department's overall objective.

Cost centres

7. The department has been split into 19 cost centres for the purposes of monitoring and controlling administration expenditure during 1984-85. The cost centre managers will generally be Principals in charge of branches although, in order to provide complete coverage, some outstations and smaller units have also been made cost centres.

8. Costs which can be directly controlled by the cost-centre manager such as travelling and subsistence and printing will be allocated in the

form of a budget for the year in question; in addition the manager will be informed of other costs such as accommodation, fuel and utilities in order to increase general awareness of the total resources consumed. Monthly reports to the managers of cost centres will show both sets of costs. The ultimate aim is that managers should be free, subject to any overriding constraints such as manpower ceilings, to re-allocate the resources which they control within their cost-centre budgets. Experimental budgets for 1984-85 have had to be allocated on a fairly arbitrary basis for many items and the system will not be fully operational until 1985-86. Budgets in 1985-86 will be set on the basis of outturns recorded in 1984-85.

9. Managers of cost-centres will play a full part in the process of estimating requirements for 1985-86. In the meantime a study will be carried out into the feasibility and desirability of recording and subsequently allocating other costs such as telephone charges for which budgets may be appropriate but for which there is at present no means of allocation.

Agents

10. The department relies to a considerable extent on services provided by other departments and by non-governmental agents. The costs of these services, or the manpower numbers employed, will be recorded against the support measures to which they relate in IBIS reports. For those paid agents (mainly the Department of Agriculture for Northern Ireland, the Meat and Livestock Commission (MLC) and the Home Grown Cereals Authority) which account for about two-thirds of the department's total administrative costs, arrangements have been made for 1985-86 bids for the public expenditure survey in 1984 to be accompanied by information which will relate costs more closely to the functions carried out. A major staff inspection of the MLC by Treasury inspectors began towards the end of 1983.

Internal audit

11. The department's internal audit branch was reorganised during 1983 to give greater emphasis to account and systems-based audit.

Staffing and training

12. In the light of experience during 1983 additional staff have been provided for computer support and a qualified accountant for financial management which will increase the cost of staff directly engaged on the initiative to £25,000 to £30,000 in 1984-85. Emphasis in training has been given to computer and audit related courses.

Further work

13. 1984-85 is an experimental year for cost centres and IBIS. In both areas a considerable amount of work is expected to arise, once the first year's results are available, in refining techniques and developing the systems to maximise their usefulness as management tools particularly for planning purposes.

CABINET OFFICE (MANAGEMENT AND PERSONNEL OFFICE)

1. The Cabinet Office (Management and Personnel Office) (MPO) made good progress during 1983-84 on the implementation of the programme of work outlined in Cmnd 9058. The emphasis throughout the period was on experimentation and development and that approach will continue during 1984-85. The MPO's new financial management arrangements will become fully operational on 1 April 1985.

Top management system

2. The top management system was reorganised in 1983 to clarify responsibility not only for the tasks to be performed but also for budgeting, monitoring and controlling costs. The changes cleared the way for a full trial run during the autumn of a new system of activity planning and resource allocation. For the first time, both functions were brought together into a single exercise.

3. The planning exercise for the 1984-85 financial year was based on a set of major MPO objectives for the year that had been agreed provisionally by the Minister: these were subsequently developed into a full range of activity plans and targets for the component parts of the department. In the light of this work, responsibility, budget and cost centre managers were required to bid through their line management chains for the total resources (including centrally provided services such as accommodation, telecommunications, typing and reprographics) they would need to carry out their proposed activities in 1984-85. As well as providing the major input to the preparation of the 1984-85 Estimates, the exercise resulted in each centre manager starting the financial year with an agreed set of activities, an agreed manpower profile, and an agreed budget for the year. In general, the trial run was a success. The experience gained is now being put to good use in designing the 1985-86 planning exercise.

4. Monthly cost statements, showing actual costs against budgets, have been provided to all MPO budget holders and to senior management since the beginning of 1984-85 via the Treasury's computer-based management accounting system (MAISY). As a major user of MAISY, the MPO worked closely with the Treasury throughout 1983-84 to redesign the system.

Senior management's arrangements for monitoring performance on the work of MPO have also been reviewed and streamlined. High priority is now being given to the development of a range of key ratios and performance indicators for the MPO; the work is scheduled for completion by 31 December 1984.

Budgetary delegation

5. The introduction of the new budgetary arrangements with effect from 1 April 1984 will be complemented during the course of the year by a series of revised delegations from the Permanent Secretary/Accounting Officer. The intention is that responsibility for a range of staffing and budgeting matters will be transferred from the Principal Establishment/Principal Finance Officer to responsibility centre managers. The aim will be to give responsibility centre managers the maximum amount of freedom to manage their own affairs within their approved overall budgets. In particular, and subject to a limited number of constraints, they will be empowered to switch spending between cost elements within budgets and between budgets within a responsibility centre.

Typing and reprographic costs, time-logging and zero base budgeting

6. Trials were conducted during 1983-84 into:

(a) **recharging central typing and reprographic costs to users.** The trials established that significant differences would occur in the results achieved from a budgeting and costing system based on actual usage as opposed to one based on pro rata allocations. An accurate, reliable and inexpensive system of recharging was developed during the trials. Senior MPO management has decided that central typing and reprographic costs should continue to be allocated to users on an actual basis in the future;

(b) **time-logging.** The trials were conducted in 7 responsibility centres and the logging of time to activities was tested in varying degrees of detail. The results of the trials are now being assessed;

(c) **zero base budgeting.** The technique was tested in the MPO's Management and Efficiency Group at the end of 1983-84. The results are now being assessed.

Programme expenditure

7. Although the MPO is not directly responsible for any programme expenditure, it makes grants of £2.1 million net (1984-85) to a number of organisations, mainly in the welfare field. The basis on which these grants are assessed and the associated control systems are being reviewed. The work is due to be completed during the summer of 1984.

Staffing and training

8. A succession plan has been drawn up for the Open Structure and for key posts at Assistant Secretary level, paying particular attention to those posts that have significant financial or resource management responsibilities. In addition, an internal survey is being conducted into the MPO's requirements for particular management and specialist skills. The survey is due to be completed by the end of the year.

9. A start has been made on securing specialised training for the MPO's 40 or so responsibility and budget centre managers; this programme will continue throughout the next 18 months. A series of one-day awareness seminars about the Government's initiative and its application within the MPO were held in late April and May 1984 for all staff with budgetary responsibilities, broadly at Senior Executive Officer level and above. Sessions on financial management are now regularly included in departmental training courses for middle and junior managers.

10. In addition to formal training, Finance Division staff provide direct assistance to centre managers in the exercise of their newly acquired financial responsibilities. Detailed guidance notes have been issued to all budget holders.

Other groups within the Cabinet Office

11. The various organisational groups within the Cabinet Office (Secretariat, Cental Statistical Office, MPO etc) are served by a single Establishment Officer's Group. Consideration will be given during 1984-85 to the extension of the MPO's new management accounting system, as appropriate,

to the rest of the Cabinet Office. Decisions will be taken by December 1984.

Office of Arts and Libraries

12. The main impact of the initiative on the Office of Arts and Libraries (OAL) is in its financial and other relationships with non-departmental public bodies. In the course of 1984-85, the OAL will review with the bodies concerned:

(a) the arrangements for the retention and spending by the National Museums and Galleries of the additional revenue generated by their own fund-raising activities;

(b) in collaboration with the Property Services Agency (PSA), the relationship between the National Museums and Galleries and the PSA;

(c) more generally, its own relationships with the non-departmental public bodies which it supports financially.

Implementation

13. To facilitate full implementation of the new system, the implementation team was combined with Finance Division in January 1984 to form a new Senior Principal command. A good working relationship is being developed with the new internal audit branch which was established in February 1984 to cover the whole of the Cabinet Office and the Privy Council Office.

14. The total cost of the department's improved financial management programme during the period November 1982 to March 1985 is estimated at about £500,000. Approximately £290,000 of this relates to the implementation team itself.

HM CUSTOMS & EXCISE

1. The three main businesses in the department are Customs, VAT and Revenue Duties. It employs some 25,150 staff of whom nearly 20,000 work in the Outfield a network of 22 regions which deal with the operational aspects of the department's work in geographical areas. The Outfield is headed by one of the ten Commissioners; these, including the Chairman, comprise the Board which manages the department. It is estimated that, of the total manpower, 9,590 are devoted to work on VAT, 7,340 to Customs, 2,620 to Excise, 1,245 to fraud work, 995 to accounting and 3,350 to administrative support services including personnel, common office services and the provision of training. All these figures include the associated computer services and operational legal work. The net cash limit for 1984-85 is £342 million of which 70 per cent relates to salaries and associated costs.

Approach to improving financial management

2. Work has continued on 4 broad fronts:

(a) management planning;

(b) measuring achievement;

(c) control of resources (accounting, budgeting, costing);

(d) information systems;

and particular progress has been made on management planning and control of resources.

Management planning

3. The Board have identified the further development of their management plan and management planning down the line as one of the key elements in improving financial management. Planning in the department is based on the concept that managers at all levels will work within a broad framework prescribed by the Board and endorsed by Ministers which is progressively refined into specific objectives and targets. In this way resources are concentrated on those activities which senior management consider important. The Board's management plan together with the annual scrutiny of running costs forms a report to Ministers comparable to MINIS. The plan is an annual statement by the Board of

the department's priorities and general aims, and the resources to be directed to each area of work. It is the basis on which senior managers, especially in the Outfield, prepare their own plans in the light of local circumstances and communicate them to their staff.

4. The 1984-85 plan is a sharper, clearer document than the 1983-84 plan. The main benefit of the 1983-84 plan was that it gave everyone in the department an explicit statement of what the department was attempting to do and, especially for the Outfield, the ordering of priorities helped Collectors to allocate resources on the ground to best advantage at times of pressure. It makes clear what is to be achieved, by whom and when. It also identifies more clearly those objectives requiring complementary action by other headquarters offices or by the Outfield and it lists those areas to be reviwed formally to see if the need for the work is still justified. A practical example of the system is in the priority given in the 1984-85 plan to the collection of VAT which is reflected in the decision to allocate 200 additional posts to local VAT offices. This was translated into objectives to improve the efficiency of VAT control by achieving an overall 4 per cent increase in visit sessions to registered traders and a 7½ per cent increase in additional revenue in real terms. These objectives have been reflected in targets in the Outfield against which achievement will be able to be measured.

5. By early summer statements will be prepared assessing the extent to which the department achieved its objectives in 1983-84. This assessment, progress to date in 1984-85, and the prospects for the remainder of that year and beyond will be considered by the Board when they carry out a formal review of the management plan in the autumn. It will also be the starting point for the formulation of priorities and objectives for the 1985-86 plan. It will be more than a simple holding to account, important though that is. It will enable top management to identify any areas where responsibility is unclear and, where necessary, to strengthen authority and accountability. It will also consider ideas for improving economy, efficiency and effectiveness, whether they come from the bottom or from the top.

6. To ensure that the Board's plan is translated into appropriate operational plans, 6 pilot Collections have helped to develop planning. They have been given guidelines which give examples of the required level and detail of objectives, activities and measurable performance targets necessary to put the Board's plan into practical effect. The project team concentrated this year on planning in VAT. The 6 pilot Collections have produced plans which will enable the team to construct models from which all 22 Collections can prepare plans from April 1985. Meanwhile the team is preparing further guidelines and examples for the other major businesses of the department, to be used by Collections from April 1985.

Measuring achievement

7. The project team has examined the general characteristics of measures to determine the overall scope for development and to identify the key elements for inclusion in a comprehensive development plan. It has concentrated initially on VAT and has examined that area in detail and identified the main decision areas, management concerns and measures currently in use. It has used the management information systems which the department has had for some years and confirmed the value of key measures suitable for use by all levels of management such as the average value of underdeclarations per VAT visit; an analysis of the number of visits made which indicates the attention given to revenue risk factors on the one hand and the output per man day of visiting staff on the other. It has also identified measures suitable for local use, and measures to be discarded. This work has been combined with the development of management planning in VAT, and objectives in this year's plans are more sharply focused on improving economy, efficiency and effectiveness. Work in the other major work areas of Excise and Customs is being approached in the same way and operational research staff will assist with development.

Control of resources

8. The programme of delegation to Collectors of the responsibility to assess the manpower and grading needed to do the work (other than in VAT control) and operational management generally is largely complete.

9. This financial year all Collectors (heads of regions) have delegated to them budgetary control for many items of expenditure: for example,

travel and subsistence, overtime, telecommunications, postage, HMSO small stores, car parking, fuel and utilities, furniture and minor new works. Four of the six pilot Collections have also been given on a trial basis an accommodation rental budget and two have been given a manpower budget in cash terms as well. These two Collections each have about 1,000 staff. For them it means that virtually all of their administrative expenditure has been delegated. This delegation process and the greater cost-consciousness which it has engendered already appear to be paying dividends. During 1982-83 and 1983-84 very worthwhile savings have been made by local managers on for example, overtime, travel and subsistence, telecommunications and postage which might not have been achieved without the delegation of these budgets.

10. In parallel with the delegation of responsibilities described above it is planned to sharpen central scrutiny by monitoring the running costs of Collections and developing key ratios to assist in this process.

11. One of the pilot Collections, Manchester, has used a microcomputer to control its budget in 1983-84 and following successful experimental work the Board have decided that all Collections in the Outfield will receive a microcomputer during 1984-85, primarily to help them control their delegated budgets. The initial microcomputer was also used to provide management information on the costing of activities and this has prompted examination of the way certain activities are organised to achieve greater economy and efficiency. As a result all Collections will also have suitable computer software to help them develop this initial thinking on activity costing. This is an interim system and work is in hand to provide a more sophisticated management accounting system for the whole department. The department's computer division is already exploring options which will satisfy the need which has been established.

Information systems

12. Work on financial management is being co-ordinated with other important projects being developed in the department. For example, by June 1985 each local VAT office will have a visual display unit enabling it to interrogate the central VAT computer. In Customs it is proposed to give most customs offices some form of electronic access to a mainframe

computer. Through these links managers will eventually have access to better and more timely information to enable them to cost activities and measure performance.

Training and awareness

13. 5 regional and 4 HQ seminars have been held on the development of financial management, for all the senior management of the department, each led by the Board member responsible for implementing the plans in the department. In the 6 pilot Collections seminars and meetings have included all middle management. The departmental trade union side has also been given 3 seminars led by the Board member responsible.

14. The monthly staff newspaper and weekly bulletins which go to all staff and regular management newsletters which reach all middle and junior managers have been used to give information about the plans to development financial management, including details of the Board's management plan and an explanation of why it has been created and how it was compiled. Collections have supplemented this information with their own local information systems explaining, especially in the pilot regions, how and why specific changes are being made to local procedures. Awareness of financial management, especially in the Outfield, will be increased in a very practical way in the autumn as all Collections prepare for their formal planning activity and the use of their microcomputer.

15. Departmental management training courses will reflect the need for a greater concentration than before on results and the costs of achieving them. Meanwhile work in the pilot Collections is identifying training needs required in the Outfield in preparation for the wider implementation during 1985-86.

Incentives

16. As an incentive to the improvement of efficiency in the department the Board have extended the staff suggestions scheme by widening the scope for monetary awards for ideas which for example, reduce costs, improve office methods, simplify forms, improve the department's relations with the public or improve efficiency by other means, including increased morale and job satisfaction.

Work in headquarters

17. Although much of the project work has been done in the Outfield, important work is taking place in headquarters offices. They are involved in the planning process and make direct contributions to the Board's plan. Only two budgets, travel and subsistence and overtime have been delegated so far to divisions (Assistant Secretary commands), but divisions have constructed cost centre structures to allow tighter control of those budgets and to prepare the way for any further delegation considered suitable. Pilot work with the department's Computer Division has concentrated on producing a system which costs their work to users based on the real expenditure incurred calculated from activity analysis procedures. When fully developed this system will provide an accurate cost for each man or machine hour.

Costs

18. It is estimated that over the course of three years' development work (1983-1986) the manpower requirement for staff engaged wholly as part of the central project team will be about [32] man years and for other staff, including operational managers, training staff and budget centre managers, about [70] man years. During 1983-84 10 members of staff were engaged full-time on development work at a cost of about [£224,000]. The involvement of other staff was equivalent to about [16] man years in 1983-84, at an approximate cost of [£250,000]. The cost of developing computer systems, including the involvement of specialist staff, is estimated to be about [£300-£400,000].

MINISTRY OF DEFENCE

1. Since the publication of Cmnd 9058, important decisions have been taken by the Secretary of State which are designed to create organisational and accounting structures more suited and receptive to the department's programme for improved policy and financial management as well as to give a much stronger thrust to the development of a comprehensive responsibility budget strategy within the MINIS framework. These changes are described under the relevant headings below as part of the department's general progress report.

MINIS

2. The first round of MINIS, introducing this top management information system into the department, continued into the early months of 1984. At its conclusion returns produced by some 90 senior officers at about Under Secretary or equivalent level had been discussed at meetings with Ministers. In the course of MINIS 1 a number of management principles to be pursued through the continuing MINIS process were identified. They were aimed for example at clarifying responsibilities and objectives, matching authority with responsibility, and extending the accountability of managers with responsibility for resources. This general approach, and the search for improvements in efficiency, will be continued in MINIS 2 which was set in train in March and extends coverage to the headquarters of front-line Commands. The system is also being developed to link closely with the introduction of delegated responsibility budgets.

Reorganisation

3. As a result of MINIS 1, the Secretary of State drew up proposals for major changes in MOD procedures and organisation, published on 12 March as "MINIS and the Development of the Organisation for Defence" (Defence Open Government Document 84/03). There are three major elements. A fully unified and integrated Defence Staff, reporting to Chief of the Defence Staff and Permanent Under Secretary, will be created: its responsibilities will include advice on military priorities in the allocation of resources and on operational requirements for equipment. The principal function of the Service Chiefs of Staff, chairing Executive

Committees of their Service Boards, will be the oversight of the management of their Services. An Office of Management and Budget will be established under the Second Permanent Under Secretary to strengthen central control over MOD corporate planning, the commitment of resources and the monitoring of departmental financial and management systems.

4. The details of the changes required are now being worked out. In addition, a review of the organisation of the Procurement Executive is in hand, drawing on expertise from the private sector.

Staff numbers

5. Across the department staff reductions have recently been achieved through general streamlining, the dropping or curtailing of functions and contracting out and privatisation. Substantial further reductions are planned to achieve the published target of 170,000 by 1 April 1988 (which includes the change in status of the Royal Ordnance Factories organisation) and the department will seek further to improve on these figures. The Government's efficiency strategy aided by the MINIS system will assist in making these further savings.

Responsibility budgets

6. Two major features of the reorganisation plans described above are the further development of the concept of accountable management and the devolution of day-to-day management responsibility as far down the line as possible. Both these objectives will be realised through the introduction of responsibility budgets which are of two kinds: executive responsibility budgets (ERBs) which will cover all types of expenditure attributable to individual units or establishments, and staff responsibility budgets (SRBs) which are expressed in terms of staff numbers and the associated financial provision.

7. As indicated in Cmnd 9058 the department instituted trials at a number of locations with the object of evaluating the first of these two systems. Sufficient progress has been made, particularly in the structuring of programmes of work and associated budgets, to justify a decision to adopt executive responsibility budgets on an extensive scale within the support field in the UK. These new arrangements will cover a wide variety of activities, including supply and repair, Service

hospitals, the individual training of Service personnel, and research and development and will involve some 300 units with annual operating costs of over £3 billion. Such a fundamental change in the way the Services and the Procurement Executive account for their support functions will inevitably take time to complete. Although many units already have cost and management accounts of one kind or another there is a great deal of work to be done in terms of preparing comprehensive budgets which can be related to the Estimates; of ensuring that there are adequate arrangements for the monitoring of expenditure; of setting appropriate performance targets, preferably in the form of physical programmes; and of developing output and performance measures which are applicable to particular types of activity and relevant to the targets set.

8. All this adds up to a formidable task which will make heavy demands on the department at various levels of management. To assist with the work a special development branch has been established within the Directorate General of Defence Accounts. In addition more management accountants will be deployed at the local level to develop and operate the budgets. Accordingly it has been decided that ERBs should be introduced progressively over a three-year period, with the first phase in 1985-86 covering units with operating costs of approximately £1.2 billion.

9. A system of SRBs came into operation on 1 April 1984. Some 90 per cent of MOD civilians are covered and it is the intention to extend coverage to Service personnel outside the front line from 1 April 1985. Budget holders are MINIS senior officers, generally at two star level (equivalent to Grade 4). Authority has been given to managers to vary class and grade mix (up to Higher/Senior Executive Officer level) within their staff ceiling and to switch cash resources within their allocated budgets - eg between casual labour and overtime, where a permanent labour shortfall exists. However, 1984-85 will be an experimental phase and these aspects will require further consideration as the system is developed. As ERBs are developed they will incorporate any SRBs which are already in place, together with the associated delegated powers.

10. Whether a particular activity is covered by an ERB or SRB will depend on its nature. For example when the expenditure is mainly on pay

and other staff related costs - eg office based functions - SRBs will in most cases be more appropriate. But whichever system is operated it is the intention that the budget holder should enter into an agreement with his senior manager to achieve a specified level of performance with the resources made available to him.

11. Both systems will be linked with the MINIS procedure, which, as explained in Cmnd 9058, will also be linked in with the Long Term Costing arrangements. With SRBs the initial allocation of resources is made to senior officers, both Service and civilian, with the aim of enabling them to meet their objectives and carry out their tasks as summarised in their MINIS documents. They in turn are encouraged to allocate responsibility and delegate authority for managing the associated resources as far down the line as possible. Similarly, there will be a hierarchical structure of ERBs. Unit budgets, with budget holders at one star level (equivalent to Grade 5) or below, will be aggregated in larger blocks under the control of MINIS senior officers. Objectives agreed in MINIS will help to determine the performance targets set for budget holders. The assessment of budget holders performance will contribute to subsequent MINIS reviews of individual areas of activity.

Other measures

12. The outcome of the major reorganisation outlined in paragraph 3 above will have an important effect on the way financial responsibilities within the department are allotted and defined. But some improvements do not depend on these changes and a number of specific steps have been taken to improve financial control eg in Army training. New and comprehensive guidance has been issued on the application of investment appraisal techniques and a formal course of instruction is being introduced. Work continues on the development of performance indicators both for ERB's (paragraph 7 above) and for more general use; and there is a focal point for advice in the department. It will be the aim to achieve consistency in the application of indicators in comparable areas of activity.

13. Progress has also been made in the department's management of cash at the end of the financial year. This have always been a difficult area

for the MOD: the margins for forecasting error have been, and remain, significant. Flexibility to carry forward unspent funds up to a maximum of 5 per cent on capital expenditure has substantially helped with the management of cash. But the department has also been greatly assisted by closer consultation with its major suppliers in industry on forecasts of cash flow throughout, and at the end of, the financial year.

Training

14. The department's programme to improve financial management is being brought to the attention of staff through training courses, seminars and conferences as well as through the normal administrative processes. In addition, information and guidance has been widely disseminated on specific items such as responsibility budgets.

15. The major changes which are taking place call for greater professionalism among finance staff and more knowledge and understanding of financial matters among line managers, both Service and civilian. In response to these new demands the department's own financial training programme is being substantially expanded and, following a comprehensive review of future needs, further measures are planned, including the provision of training for staff who will be involved in the operation of the ERBs. The department's financial training school will be training some 800 students in 1984-85 compared with 400 in 1983-84.

Costs

16. In Cmnd 9058 the immediate cost of the initiative to the MOD was put at rather more than £500,000. This was an initial estimate which covered in particular the costs associated with the setting up of a MINIS unit and the trials of ERBs. Since then, there has been a considerable expansion of activity as further decisions have been taken and this trend will continue. In 1983-84 actual expenditure attributable to the initiative amounted to about £1 million while the comparable figure for 1984-85 is estimated at £2.8 million. These figures cover the costs involved in both developing and operating new arrangements and also in the provision of training. In the main they consist of staff costs and the associated overheads but there are also capital and other costs arising from computer support requirements. All the resources which are

devoted to the initiative are being found within defence budget limits and staff ceilings.

DEPARTMENT OF EDUCATION AND SCIENCE

1. The Department of Education and Science (DES) has about 2,400 staff and domestic expenditure of about £50 million a year. But it is responsible for annual programme expenditure of £13 billion, over four-fifths of it by local authorities.

2. The department's principal objectives, which guide its financial management development programme, are to raise standards throughout the education system - where appropriate in ways that can be measured. For the schools, the aim is that 80-90 per cent of pupils should reach at age 16 at least the level of attainment now achieved by the average pupil in a range of skills over a number of subjects; and to plan for a smaller but better teacher force as pupil numbers fall. In higher education, the major aims are to raise standards, to make the system more responsive to the needs of employers and to adapt it efficiently to the fall in student numbers towards the end of the decade. In non-advanced further education, again the aim is to increase the responsiveness to the needs of employers, while providing a sound education for those young people who have chosen this particular route in preference to staying on at school. The aim of science policy is to maintain the quality of funded scientific research; to encourage more technology transfer from basic science research to industry and commerce; and to increase responsiveness to changed opportunities.

New arrangements for policy development

3. In August 1983, a new flexible System for Policy Evolution and Review (SPER) replaced the DES' former Departmental Planning Organisation. The lead responsibility for keeping educational policies under review and for planning their development lies with the relevant policy branches. A steering committee chaired by the Permanent Secretary supervises the functioning of the system and establishes as and when necessary working groups drawn from the relevant branches. Examples are a working group considering innovatory projects to be supported through Education Support Grants (see paragraph 8 below) and another which considers issues affecting the development of a more effective teacher force.

The Trident management review system

4. The three elements of the DES' management review system, now drawn together under the title Trident, comprise the annual Staffing of Functions exercise, the annual Ministerial Priorities Review and the Branch Programme meetings which take place from February to October.

5. The Staffing of Functions exercise consists of a scrutiny of the relative staff costs of the department's functions in relation to Ministers' priorities and objectives. The exercise also provides early warning of changes in staffing requirements and helps senior management to reallocate staff where necessary. The Ministerial Priorities Review gives Ministers the opportunity to satisfy themselves that the department is correctly interpreting their policy priorities, and also to judge whether the allocation of staff is consistent with these priorities. For 1984 new arrangements have been established for the Branch Programme meetings under the chairmanship of the Permanent Secretary to ensure in particular that agreed objectives are set by branches for the following year which are consistent with Ministerial guidance. Branches are required to consider ways of improving value for money. In future years the meetings will review the degree to which each branch achieves the objectives set the previous year.

Control of administrative expenditure

6. Experimental cost centres have been established for the department's Darlington Office, the University Grants Committee, Her Majesty's Inspectorate and a sample of 5 out of 14 Branches in the department's headquarters. The experiment thus covers 75 per cent of the department's staff. Each cost centre has been given a cash-limited budget covering manpower and some non-manpower costs, and managers will be accountable for keeping expenditure within this limit. Switching between different types of expediture will be allowed in certain circumstances. The objective of delegating financial control to "users" is to make them more cost-conscious in their use of resources, and so to encourage better financial control and value for money. The costs and benefits of the experiment will be evaluated carefully. A new information system is being developed with the help of consultants so that all running costs can be attributed to individual centres throughout the department and to cost units within these centres.

Management of programme expenditure

7. Rather more than £2 billion of the DES programme expenditure goes to the universities, Research Councils and other grant-aided bodies. The bulk of this money is not spent or distributed directly by the department. The further development of the financial management of this expenditure therefore requires the active co-operation of the recipient bodies. The following action is being undertaken:-

(a) the report on the financial management in the Science and Engineering Research Council and on the Council's relations with the department and the Government has been completed. Steps are in hand to implement the recommendations for improving the management system in the Council itself and for streamlining communications between the Council and the DES and central departments. The application of the recommendations to other Research Councils and fringe bodies is being explored. Further more general efficiency exercises on each of the Research Councils' activities are being considered;

(b) efficiency studies are to be undertaken in selected universities (under a steering group appointed by the Committee of Vice-Chancellors and Principals with a senior industrialist as chairman and the head of the Efficiency Unit a member), and in the Open University. It is hoped to have these studies completed by March 1985;

(c) the Secretary of State has set up an enquiry into the academic validation of first and higher degree level courses in the public sector: this exercise should be completed by March 1985. The Committee of Vice-Chancellors and Principals launched last year a study into academic quality and standards at under-graduate level in the universities: the first of a series of reports has issued. The Council for National Academic Awards has engaged consultants to look at the efficiency of its operations, and to report during summer 1984;

(d) systematic procedures for appraising directly funded policy initiatives are now in operation and will be applied, inter alia, to projects financed under the specific powers granted to the Secretary of State under the Education (Grants and Awards) Act 1984. The procedures concentrate on the need systematically to specify objectives clearly; consider

alternative means of achieving them; estimate all relevant costs accurately; and build in from the beginning monitoring and evaluation arrangements.

8. The remainder of the DES programme, nearly £11 billion (including mandatory awards to students, on which DES pays 90 per cent grants), is spending by local authorities. Much DES policy work is directly or indirectly concerned with improving value for money from this expenditure. In particular this objective is implicit in all the policies aimed at raising educational standards. The new specific grant powers (paragraph 7(d) above) will enable the Secretary of State to fund innovatory projects promoting the re-deployment of a small part of spending by local authorities in line with national policy objectives. The first grants will be made in 1985-86. Subject to the approval of Parliament the activities to be supported will include the development of records of achievement for school leavers, improved management of the school teacher force by local authorities, and the improvement of mathematics and science teaching in schools. A report on arrangements for allocating capital expenditure has been drawn up in consultation with the local authority associations. It recommends a simplified and manpower-saving approach which is being discussed with the associations for implementation in 1985-86. The department expects to take account of any recommendations the Audit Commission makes as a result of its examination of non-teaching costs in secondary schools and aspects of expenditure on further education. The department is funding the development of the Further Education Management Information System, which will improve efficiency in further education colleges.

9. Work continues on the form and use of possible output measures to assist the development of education policy. In higher education, data on the cost per graduate are being refined and information about the demand for graduates and their salaries is being analysed. The graduate cost data allow comparisons to be made across subjects and sectors, and such indicators assist in the development of the future strategy for higher education. The employment market information about graduates is a useful complement to impressionistic evidence available from employers about the economy's need for different types of graduates. The department is carrying out a pilot study of factors affecting examination results in a sample of individual schools. This should yield some insight into the

relative importance of variables such as the socio-economic grouping of a school population and expenditure per pupil. Good progress is being maintained in the development of the relationship between authorities' expenditure and the Government's assessment of their needs for the purposes of rate support grant; and in the development of computerised financial information systems for local authority as well as vote expenditure.

Staffing and training

10. The DES has increased the financial management component of the general training courses for its staff and is strengthening its internal audit capability. Training courses are being developed for key members of cost centres, and the development of training packages tailored to meet the requirements of particular branches has begun on a pilot basis. Awareness training is being expanded by the inclusion in much general training of a financial management session and by a programme of branch training seminars, designed to relate the branch's work to the principles of the department's financial management development programme.

Implementation

11. A co-ordinating unit has been set up for the department's programme to develop financial management, and extra staff have been allocated to work on the implementation of the financial information system. Outside consultants continue to be employed on this part of the programme.

12. The total cost of the department's work is estimated to have been about £300,000 in 1983-84, and is likely to be of the order of £400,000 in 1984-85.

THE DEPARTMENT OF EMPLOYMENT GROUP

THE GROUP

1. The Group consists of the Department of Employment, the Advisory Conciliation and Arbitration Service (ACAS), the Manpower Services Commission (MSC) and the Health and Safety Commission (HSC). Employment Ministers are answerable for expenditure throughout the Group, and the Accounting Officer of the Department of Employment, in addition to his responsibilities for the department's own expenditure, has responsibility for ensuring that MSC and HSC have adequate systems of control.

DEPARTMENT OF EMPLOYMENT

2. Substantial progress has been made in implementing the main elements in the department's programme. These are:-

(a) working through the Senior Management Group (SMG) to secure improved management of both administrative and programme expenditure;

(b) developing cost centre accounting and a resource information system (RIS); and

(c) introducing devolved budgeting (including appropriate training).

Senior Management Group

3. The first round of SMG reviews, chaired by the Permanent Secretary, was completed in October 1983 and an account of its results was published in February. The SMG examined each management command on a statement of its organisation, performance and efficiency, focusing on accountable organisation, output and performance measures and use of resources, including future plans. The Secretary of State accepted the SMG's general conclusions and indicated that he

would be taking a continuing detailed interest in the SMG's activities.

4. The SMG identified two major issues on the organisation of the department. The first concerned the accountability for resource use in the Unemployment Benefit Service (UBS). Responsibility for and to some extent control over the major elements of resources (including premises, personnel and some staff complementing authorities) fell at Headquarters, not to the manager of the UBS but to central common service branches which also provided these services for other activities in the department. The SMG decided that the UBS, with 27,000 staff, was sufficiently large and coherent to justify transfer of these responsibilities to UBS branch.

5. The second issue concerned the allocation of responsibility at headquarters for executive functions in the regions. Regional offices are mainly concerned with managing the payment of benefits to the unemployed, but also administer redundancy payments and some special employment measures. Regional office managers stand in direct line management responsibility to the managers of the UBS, but their additional functions are the policy responsibility of separate branches at headquarters. The SMG concluded that regional managers should be given clear performance standards by the headquarters policy branches responsible and these are being developed for application in 1984. This means that the headquarters policy branch becomes responsible for monitoring and controlling both inputs and performance, but day-to-day control of the executive function is delegated to the regional managers.

6. The SMG is currently undertaking a second round of reviews, in which Ministers are closely involved. It focused initially on examining the three commands with major expenditure programmes: UBS, special employment measures and employment protection/redundancy payments. This enabled the SMG to consider performance and prospects in these areas before submission of the department's 1984 public expenditure survey.

All commands are being required to pay particular attention to the measurement of output and efficiency. The UBS for example in developing the use of indicators to show the speed and effectiveness of computer handling of claims and adjudication decisions; and a new operational planning system is being introduced in the Race Relations Employment Advisory Service. The Secretary of State is receiving up-to-date reports on the progress towards implementing the plans to develop financial management throughout the Department of Employment Group.

Cost centre accounting and a resource information system

7. The department is on course to introduce cost centre accounting to provide management at all levels with the detailed information on resource use that is needed to support both future SMG reviews and delegated budgeting. Cost centres will be serviced by a system of management accounts - the RIS - which will record the cost of each centre's resource use and in some cases for example manpower, the amount employed. The process of evaluating, selecting and procuring a computer package (RTZCS's GL Plus) was completed in January. The intention is to complete the implementation substantially by November 1984 and to complete test running in March 1985. If this programme is fulfilled, the system will run live in 1985-86, producing both management and financial accounts. The RIS will be used in financial and management planning to assist in the preparation of PES plans, annual estimates and budgets; in financial accounting to summarise vote expenditure against estimates and cash limits and assist in producing the department's Appropriation and White Paper accounts; and in management accounting to help line management to assess the costs of their activities. It will be possible to make comparisons between cost centres, and of in-house costs with external suppliers. The SMG will also be better able to assess the cost-effectiveness of different activities and programmes and to cost alternative means of attaining objectives.

8. The development and running costs of the RIS up to April 1985 will be some £1.4 million.

Devolved budgeting

9. The department's plans for devolving budgeting responsibilities to line managers were described in Cmnd 9058. All budget holders will prepare trial budgets for 1985-86 with both line managers and central divisions scrutinising budget submissions and monitoring subsequent performance. Information derived from the RIS will assist managers in preparing budgets for 1985-86 and beyond. The pilot studies initiated in 1983-84 showed that the process of constructing and operating budgets had stimulated managers to consider ways of achieving greater efficiency and effectiveness. Suggestions that emerged from the pilot studies and were subsequently acted upon included the modernisation of local office switchboard equipment, and local negotiation and acceptance of contract cleaning tenders.

10. The SMG has approved the principles upon which the budgeting system will be based. These provide for responsibility, in terms of specific managerial authorities, to be transferred to line managers wherever it is sensible and possible to do so; for budgets to cover the full range of resources that can sensibly be allocated to line managers (including programme expenditure); and for the key level of budget responsibilities to be that of the management command, ie mainly grade 5. Grade 4 managers will have power to switch funds between the commands for which they are responsible; and the SMG will have power to switch funds between divisions. It is recognised that budgeting will need to take account of central controls on both spending and staff, and the substantial proportion which staffing costs represent of total administrative costs. There is considerable variation between the size of the largest and smallest commands and the approach adopted needs to be flexible enough to accommodate this.

Management of programme expenditure

11. Control of programme expenditure is an important element of the SMG review process. Commands with programme expenditure have included in their statements details of objectives,

targets, outputs and performance measures. In some cases the SMG has requested that commands should review whether improvements are needed in the arrangements for monitoring the achievement and performance of these programmes and the SMG will be looking carefully at progress in this area. The SMG has also asked appropriate commands to consider, in consultation with the MSC, whether improvements are needed in the arrangements for monitoring the achievement and performance of programmes operated by the Commission.

Training

12. The department has focused its initial training effort on raising staff awareness of the principles of financial management and its plans for further developments. A series of headquarters seminars was attended by over 500 staff and it is planned to hold a further series shortly to bring staff up to date on implementation of the department's programme of work. It is intended that financial management training should take place as close as possible to the time managers actually become involved in developing plans and constructing budgets. In the UBS, some 180 budget holders, 800 cost centre managers and about 1,000 other staff will require specific training and a series of residential seminars is being held to help prepare budget holders for the planning and budgeting process. A Regional Budget Adviser has been appointed in each region.

MANPOWER SERVICES COMMISSION

Corporate Management Information System

13. The first, exploratory, round of the Corporate Management Information System (COMIS), took place in the autumn of 1983. The reviews, conducted by MSC senior management, identified a number of points for action which are now being pursued: they covered management and efficiency questions, management information and monitoring, issues of organisation and responsibility and the evaluation and review of policy areas.

14. Experience of the first round of reviews has led to revised arrangements for the COMIS process:-

(a) a major round of divisional review meetings in the late spring covering the MSC's past performance, general efficiency and plans for the coming years. The reviews will form a background for MSC's public expenditure proposals as well as providing an opportunity for top management to maintain the pressures for administrative efficiency and effective expenditure on programmes across the board. The main reviews will be supported by scrutiny of PES and Estimates proposals using the agreed COMIS programme structure which brings together all expenditure appropriate to a particular area of activity; and

(b) a series of meetings spread throughout the year to examine efficiency in pre-selected programmes in greater depth. All MSC activity would be covered in a 3 year cycle.

15. The total cost of the autumn 1983 COMIS exercise was approximately £125,000, £25,000 of which related to the cost of the COMIS team. For the current year the cost of the COMIS team is expected to be around £90,000.

Computerised financial and management accounting systems

16. The planned installation of mini-computers in Training Division's regional and area offices has been successfully completed and has led to staff savings of around 200 and savings in salary costs of £1.4 million per annum. They have considerably speeded up the processing of payments and the transmission of expenditure details to the central processor and the range of payments they cover is being gradually extended. Their introduction also facilitates the use of the Bankers Automated Clearing Service (BACS). Money transmission

costs via BACS are some 6p lower for a payable order and 30p for a Girobank cheque and MSC volumes of payments by the latter methods are over 4 million per year. It is intended to convert these payments to the BACS method wherever possible; the system is already operating for payments on the Enterprise Allowance Scheme (650,000 payments a year) and pilot projects are in progress to prove the feasibility of the system for paying major programme sponsors. Significant savings in money transmission costs should accrue.

17. The user requirement and package evaluation have been completed for a revised central financial and management accounting system (FMAS). The user requirement specifies a system which will provide an interactive on-line facility between some 180 terminals throughout the country and a central processor, and will also provide financial control information on MSC's relations with several thousand external service providers, eg YTS managing agents, colleges, including details about future commitments on for example course places planned, approved and filled. Costs of the project in 1983-84 were some £220,000. In 1984-85 estimated costs of some £2 million will be incurred, of which around £1.2 million is equipment cost. Running costs thereafter, including staff costs, are put at some £0.9 million per year. Ministers decided that in the interests of developing a DE Group computing and accounting policy MSC should develop its FMAs on the package and computer used for the Department of Employment's own Resource Information System. This means that FMAs will be substantially implemented in 1985-86 and all stages completed by 1987-88

Budgetary control

18. In Training Division, salary and manpower budgets are now held at regional level, and travel and subsistence budgets at area level. Programme expenditure budgets for the division's 2 major programmes, YTS and TOPS, have also been devolved to area level under regional control. Budgets for other items of current expenditure are being introduced at both regional and area level during the current year, eg postage,

telecommunications, minor works and utilities to areas, with major premises costs and major new works being retained at regional level.

19. Similar arrangements have been introduced in Employment Division, with salary, manpower and major premises budgets being held at regional level and budgets for such items as travel and subsistence, post, telecommunications and utilities being held at HEO manager level. In conjunction with these measures, Employment Division has introduced an integrated planning and resourcing system, which encompasses operational planning, complementing, and decentralised budgeting. The system involved successive levels of management in bidding for resources on the basis of their forecast outputs; stimulates the consideration of productivity and cost-effectiveness improvements; and provides feedback on resource utilisation.

20. In Head Office, budgets for salaries, manpower and travel and subsistence have been devolved to branch head (Assistant Secretary) level. Moves towards direct recharging for central services are under way, so that each command is fully informed of its true costs of operation.

21. The overall cost of operating devolved budgets in the current year is estimated at around £1.5 million. This is higher than originally forecast, partly because some items have been devolved earlier than anticipated.

Performance measures

22. The range of performance measures now in regular use in the MSC has been extended to include indicators of efficiency in the management of the Commission's employment and training programmes: for example, output per staff unit in the Employment Service. The monthly meetings of the Chairman's Management Committee are provided with a variety of measures relating principally to the main operating divisions' performance in cost/output terms. The first COMIS round identified a number of gaps in such measures in several areas

and those gaps are now being filled. Major improvements are anticipated when various staffing (eg in Training Division) and costing (eg in central service areas) reviews are complete, and once the revised financial and management accounting system comes on stream.

Skillcentre Training Agency

23. In its first year of operation as a separate management unit the Skillcentre Training Agency has made considerable progress towards meeting its self financing target within 3 years. A full management team is now in post and implementation of consultancy reports on marketing strategy and initiatives and financial management accounting systems is proceeding. A major effort is under way to reduce costs and to increase training sales, especially in the field of new technology. The financial system incorporates devolvement of operating budgets - both expenditure and revenue - to the 68 skillcentre managers, and a computerised management accounting system will be introduced [shortly]. Cost reductions of some £4 million were achieved in 1983-84 over 1982-83. Further significant reductions are anticipated in the current and succeeding 2 years.

Training

24. In the past year a training strategy has been drawn up to support the development of financial management. All staff at Senior Principal level and above have attended seminars, Area Managers in Training Division have had separate seminars and Employment Division Managers have undergone relevant training to support their integrated planning and resourcing system. Those staff directly involved with financial budgeting and monitoring have received appropriate financial training. Further training in, for example, costing, trading accounts and investment appraisal is being given to staff at EO level and above. A wide range of staff are receiving more specific training about particular aspects of MSC's response to the Financial Management Initiative that are relevant to their work. Financial awareness training for all levels is being

arranged. The cost of this financial management training in 1983-84 amounted to some (£400,000) and the estimate for 1984-85, reflecting the increased coverage of training, is around (£900,000).

HEALTH AND SAFETY COMMISSION

25. Progress has been maintained on each of the items forming the Health and Safety Executive's future programme in response to the Financial Management Initiative as set out in Cmnd 9058. As in previous years, divisional work plans are submitted to the 3-man executive and form the basis for resource allocation. They allow progress and performance to be monitored.

Financial and management accounting system

26. Work has been going ahead on replacing the accounting system which provides outturn information for HSE management. At present the main budget holders in HSE are Under Secretaries/Chief Inspectors. The new system will produce cost information on major items such as salaries for smaller management groups, for example to section level and its equivalents in HSE's field organisation. From this HSE will be able to build up budgets for these units and it will then be possible to devolve budgetary responsibility below division head level where this is considered appropriate.

Budgetary control

27. In the past budget holders in HSE have been given budgets for each specific item within their control and have been expected to keep within that budget for each item. From 1984-85 certain items - for example travel and subsistence, permanent transfer expenses and training and conferences - will be grouped together and budget holders will be required simply to keep within the total sum allocated for each group. This should be a considerable improvement in terms both of additional flexibility and devolved responsibility.

Manpower database and project register

28. The new computer database covering manpower figures came into operation as planned in April 1984. It provides much better information than had been available hitherto for manpower planning and control in HSE and will provide a basis from which manpower costs can be calculated for financial management. The development of HSE's project register which gives a detailed account of work in progress continues and it is planned to computerise the system during 1984-85.

Efficiency scrutiny

29. The report of the recent scrutiny of the efficiency of the field activities of the Inspectorate and the Medical Division found that salary expenditure accounts for over 85 per cent of the total costs associated with visit related activities and pointed to the need to record the time spent on these activities. The report made a number of recommendations on performance indicators and HSE is pressing ahead to implement them. This implementation will be carefully tied in with the organisation's overall planning and monitoring arrangements and the new accounting system will provide the necessary cost information. HSE is also studying ways in which the effectiveness of compliance-oriented activities can be measured. A number of retrospective studies are underway and arrangements are being made to evaluate all major new policy developments. The timescale for this work is inevitably fairly long but preliminary studies of particular aspects of HSE's work produced useful results.

Training

30. HSE's training programmes for staff at all levels continue to include an increasing amount of material on financial management. Both the senior management course for staff at mainly Principal level, and the management of resources seminars for higher level management include sessions dealing specifically with the objectives of the financial management initiative and its implementation in HSE and elsewhere.

DEPARTMENT OF ENERGY

1. The Department of Energy has continued the development of its financial management programme along the lines set out in Cmnd 9058, especially in four main areas:

(a) improvements to the management information system;

(b) control of programme expenditure;

(c) further devolution of responsibility for administrative expenditure; and

(d) staffing and training.

DEMIS

2. The department's Management Information System (DEMIS) provides the material for an annual review by top management of the deployment of manpower and other resources. It is timed to precede and inform the formulation of the department's annual Estimates.

3. The 1983 DEMIS had two principal aims: to review what line managers had achieved during the past year compared with what they set out to do; and to define the main tasks to March 1985 as a basis for decisions on the allocation of staff resources. It proved a valuable framework for decisions such as the allocation of additional staff to reflect the priority given to the work of the Energy Efficiency Office.

4. While retaining its basic format for these purposes, further development of DEMIS in 1984 will concentrate on clarifying tasks and objectives, thereby enhancing its usefulness as a management tool, particularly for line managers.

Programme expenditure review

5. A comprehensive review of the department's programme expenditure was conducted in 1983. The aim was to enable divisional forecasts for the annual public expenditure survey to be considered in the light of stated objectives for each programme and an assessment of its value for money, and to provide a coherent background against which the department's top management and Ministers could consider future expenditure plans. This comprehensive review of programme expenditure was used by Ministers as a

basis for commissioning full reviews of policy in particular expenditure programmes.

6. A similar programme expenditure review has been undertaken this year. Effort has been concentrated on further clarification of objectives and on assessing progress over the past year. In addition, divisions were asked to support their forecasts for this year's public expenditure survey with an indication of the output of their programmes where practicable. The department received assistance from the Treasury and Financial Management Unit in identifying possible improvements in the measures used by the Energy Efficiency Office in assessing the progress of their various programmes. The Energy Efficiency Office will pursue the ideas discussed.

7. Expenditures on nuclear and non-nuclear research and development are borne on separate departmental votes. Although brought together in the formulation of Estimates and the public expenditure survey, they are subject to different methods of control and review. In order to subject all the research and development funded by the department to consideration within a common framework, it has been decided to set up a single departmental budget for research and development, to handle all the expenditure on a single vote and to broaden the remit of the Advisory Council on Research and Development to cover advice to the Secretary of State on the content of nuclear, as well as non-nuclear, research and development.

8. The department is conducting a general review of the role and activities of the Atomic Energy Authority with the objective of establishing a long term framework for the Authority's activities and for public expenditure in this area.

9. Authority to give financial approval to non-nuclear research and development projects (other than those on energy efficiency) hitherto concentrated in one division, will in future be exercised by all the divisions concerned. The managers responsible for research and development programmes will thus carry responsibility for the best use of the resources allocated to them within the departmental budget mentioned in paragraph 7 above.

10. In the light of a report by consultants in 1983 on the efficiency of operation and the structure of management of the Government Oil Pipeline and Storage System, the department is reviewing policy on the future control, financing and management of the system: privatisation is amongst the options.

Responsibility for administrative costs

11. From 1 April 1984 the budgets for which divisions have administrative responsibility have been broadened to include official entertainment, expenses of independent members of committees, and conference fees, as well as their existing responsibility for expenditure on travel and subsistence.

12. The department has decided to treat the Gas and Oil Measurement Branch (previously Gas Standards Branch) as a cost centre from 1 April 1985. The aim is to achieve a better attribution of costs to services and the charges made for them, and to secure operation at maximum efficiency. Preparatory work is now in hand.

13. A group on management of resources has been set up under the chairmanship of the Permanent Under Secretary of State to scrutinise the department's administrative expenditure and to make cost savings and improve efficiency in the day-to-day running of the department. The group's remit covers all areas of administrative expenditure; it complements the system of delegated responsibility in those areas where it is not cost effective to introduce divisional budgeting. Scope to cut expenditure on subscriptions to publications has already been identified. Savings here should allow investment in new technology to be accelerated.

14. The department already makes considerable use of computers, notably for statistics, energy modelling and petroleum resource analysis. The need for computer facilities continues to expand. Independent consultants were therefore appointed in 1983 to study its working methods and to recommend a co-ordinated strategy for further cost-effective computerisation. Their report last February identified a number of ways of meeting this objective and forms the basis for decision-making by the department's top management in this field.

Staff and training

15. The department has carried out an analysis of all posts from Executive Officer to Assistant Secretary to establish the skills which they require with particular reference to the financial management and of business, commercial and financial expertise. With the same aim, the programme of inward and outward secondments and attachments to industry is being carried forward as part of the normal career management of staff. An in-house training programme is being developed which places major emphasis on resource management.

Costs

16. The annual running cost of implementing the department's response to the Financial Management Initiative is estimated at £200,000.

DEPARTMENT OF THE ENVIRONMENT

1. Progress in the last year and plans for the next year fall into four main areas:

(a) consolidation and further development of top management systems;

(b) clarification and development of line management accountability;

(c) increasing staff awareness and training; and

(d) the department's relationship with external spending bodies.

A major theme in each of these areas has been to establish clearer objectives, quantified wherever possible. Attention has increasingly been directed to programme expenditure in addition to administrative expenditure.

Top management systems

2. Cmnd 9058 indicated that it was intended to develop the management information system for Ministers (MINIS) so as to give greater attention to the definition and measurement of objectives and to relate it more closely to the planning and monitoring of public expenditure. The most recent MINIS reports by commands in the department have accordingly contained much more material on those matters. In addition a new set of reports on programme expenditure (Performance Review Reports, PRRs) have been prepared by each responsible directorate. These internal management reports were introduced to enable Ministers to review the aims and objectives of all of the department's main expenditure programmes. Where possible these reports identified the scope for using quantified performance indicators to set targets and to monitor performance.

3. The new reports were considered by Ministers and senior management together with the MINIS reports and enabled top management to review the objectives and effectiveness of expenditure in a systematic manner. This review process is beginning to provide a significant input into the department's work for the public expenditure survey. Quantification of objectives and performance will be further developed in future years.

4. The MINIS and PRR systems will be reviewed during 1984. A range of issues will be examined, including the selection of material and its

presentation; the closer definition and pursuit of objectives; and the relationship between the needs of top management and of line management.

Line management accountability

(a) administrative costs

5. A main objective of the plans to develop financial management has been to delegate greater financial responsibility and accountability to individual line managers. For administrative expenditure by the department (staff costs and overheads) responsibility is increasingly being delegated in this way to cost centres. During the past year the department has established a computerised system of budgetting and accounting for cost centres: the Management of Administrative Expenditure Information System (MAXIS).

6. Considerable progress has been made in implementation and development of MAXIS. A review of this system with a view to possible improvements is planned for the current year. Managers' freedoms to switch resources between different items of administrative expenditure in order to achieve greater value for money are gradually being extended, within the constraints of vote control.

(b) programme expenditure

7. Accountability for the department's programme expenditure was reviewed in the study of the role of Finance Divisions mentioned in paragraph 9 of Cmnd 9058. The main conclusions of the review, which have been endorsed by the Permanent Secretary's Policy and Management Group, were that a further impetus should be given to the development of better financial management; that the policy line is best placed to exercise effective day to day financial management; that there must be a capacity for critical external questioning, which can most effectively be provided by a separate finance organisation; and that there is a need to instil an even greater sense of cost-consciousness more widely through the department.

8. A steering group, chaired by the Second Permanent Secretary, has been set up to oversee the implementation of the main recommendations. This will involve the systematic application of current best practice in financial management; and changing attitudes towards financial

management through increased effort in training and dissemination of guidance on financial matters.

9. The development of management accounting for programme expenditure is now being considered. A review was carried out last year of flows of monitoring information to senior managers, covering both physical and financial information. This work is being taken forward with a new study to establish the management accounting needs of the department.

Staff awareness

10. A series of seminars on financial management was held last Autumn, chaired by the Permanent Secretaries. Most senior managers with financial management responsibilities attended, and there was a final key-note session with the Secretary of State and Ministers.

11. Training for financial management in both finance and policy divisions is being given the highest priority as the department implements the recommendations of the review of the role of Finance Divisions, and in parallel the wider recommendations of a recent internal report on overall training strategy. In addition to formal training, it is envisaged that finance divisions will hold more regular bilateral discussions with financial managers and their staff in the policy line. A basic presentation of the department's finance framework is also being produced for general circulation amongst officers who have or will have responsibility for financial management.

External spending bodies

12. As indicated in Cmnd 9058, most of the executive non-departmental public bodies (other than local government) sponsored by the department have been invited to produce and update each year corporate plans following a broad model, but tailored to suit the needs of each body. Some 21 bodies are involved, covering expenditure of £1,135 million. Most are now producing or proposing to produce plans focussing on 1985-86. Among other things Ministers intend to use these plans each year as a basis for discussing and agreeing objectives and targets for for future years with each body (with quantified measures wherever possible) and for reviewing the past year's performance against previous objectives. The plans will be prepared or updated to a timetable related to the public expenditure planning cycle. The plans will come to the

department in the spring; and the official level and Ministerial discussions will be held during the summer in time to inform public expenditure decisions in the autumn for the following year. A sponsored bodies forum has been established under the Second Permanent Secretary to co-ordinate the department's approach to relationships with its sponsored bodies. The forum will be considering a range of issues over the next year, including the clarification of responsibilities within the department for these bodies (sponsoring divisions, finance, internal audit, accountants, establishments, manpower); progress on corporate plans and objectives; and the development of performance indicators.

13. The issues in relation to local government identified in Cmnd 9058 (para. 16) have been discussed by the government departments primarily concerned and the Local Authority Associations. The four main issues discussed were:

(a) ways of improving medium term expenditure planning for long capital programmes;

(b) the operation of the general systems for influencing current expenditure and for controlling capital expenditure;

(c) the scope for review of how specific controls and specific grants are administered;

(d) the development of more quantified measures of output and achievement.

Individual departments have been taking these themes forward in thir own areas where appropriate. The Audit Commission has also separately been addressing economy, efficiency and effectiveness questions for local authorities. The Department of the Environment will take the general issues forward as opportunities arise over the next year.

Costs

14. In addition to the costs of work in finance divisions and throughout the policy line, the present costs directly attributable to the development of financial management within the department are about

£385,000 for MINIS/PRRs (this represents a similar MINIS cost to last year with an extra £70,000 for new PRR work); about £900,000 for MAXIS (this reflects the peak of implementation work in 1983-84 and should not represent the eventual annual cost of the system); and about £130,000 for the specialist unit co-ordinating and carrying out financial management reviews: a total of about £1.4 million.

DEPARTMENT OF THE ENVIRONMENT (PROPERTY SERVICES AGENCY)

1. Over the last year much of the work of the Property Services Agency (PSA) on future management information, accounting and budgetary control systems has been associated with consideration of the major proposals for structural changes referred to in Cmnd 9058. The Government has now decided not to proceed at present with these proposals for reorganisation, but the need for new systems to improve control remains. A start has been made on the major programme of development work required; meanwhile, steps are being taken to improve and strengthen existing arrangements.

2. The urgency of such developments was underlined by the Wardale Touche Ross (WTR) report on recent cases of fraud and corruption in the PSA. Apart from specific systems recommendations, the WTR report called for changes in managerial attitudes to achieve clearer identification of individual responsibilities, improved financial control and better value for money - themes in line with general thrust for better financial management. Since the publication of the report in October, the Agency's senior management has undertaken a substantial programme of meetings and discussions with regional and local managers to ensure the lessons of the report are fully disseminated and absorbed throughout the management structure.

MINIS

3. The system designed to help top management to review the performance of individual PSA directorates against their stated objectives is now in its fifth year. Three important changes to improve the effectiveness of the system have been made in the current round:

(a) the timing of preparation of the annual MINIS statements has been changed from the autumn to January to use more up to date information;

(b) the format has been revised to sharpen the supporting information on administrative costs and expenditure programmes; and

(c) a summary MINIS statement has been prepared covering the PSA as a whole, to focus attention on the most important issues affecting the Agency.

4. The results of this round will be evaluated to see what further improvements in format and procedures can be introduced for next year. The Agency will also consider how best to link MINIS more explicitly with detailed operational objectives for lower levels.

Management information systems

Long term developments

5. To provide a framework for the long-term development of new systems the Agency commissioned two studies from consultants. Their first report in December 1983 defined the broad information needs of management in the light of PSA's overall objectives. The second, completed in May 1984, provides costed recommendations for a technical data processing and telecommunications strategy to satisfy these needs.

6. The Agency's Executive Board are reviewing these proposals. Decisions will be taken this summer on action, including the future organisation needed to manage such major developments in information technology.

7. These decisions should give the Agency a firm foundation on which to press ahead with a major series of projects to define in detail the systems and databases needed to support particular PSA functions. Full implementation of comprehensive information systems will require substantial investment in computers and telecommunications links phased over a number of years.

Interim developments

8. In parallel with the longer term work, good progress has been made on two initiatives to achieve early improvement in the Agency's management information on programme expenditure:

(a) an interim works systems (WIS) will help to control total annual maintenance spending of about £550 million. This

micro-computer system will provide local managers with up-to-date information, about the level of commitments on total defence and civil maintenance expenditure and progress on each job exceeding £2,500. Following pilot studies, the micro-computers and associated equipment was ordered in February 1984. Installation in the Agency's 156 District Works Offices has been accelerated, and is due to be completed by April 1985; and

(b) an on-line interim system for civil estates management (CERIS), initially using a commercial bureau, will give estates staff access to a centralised property data base, thus speeding response to enquiries and the production of reports. CERIS will hold information on the assessed rental values of individual properties as well as details of space occupied by departments. It will facilitate the development of the Property Repayment Services (PRS) scheme, under which PSA charges departments for the space they occupy. CERIS is now being introduced progressively: the 30 terminals across the Agency should be installed by July 1984.

Budgetary control

9. In the context of the work on management information described above the Agency is concerned to improve budgetary control of both programme and administrative expenditure.

Programme expenditure

10. Work is now in hand to develop enhanced budgetary control arrangements, as recommended in outline by the WTR report, for bulk maintenance expenditure. These are jobs costing less than £2,500 which are not individually recorded; the total expenditure involved is about £250 million. A pilot study is being designed to test the value and cost effectiveness of budgetary control of bulk maintenance on a property by property basis, and to consider how the work done to establish the unit costs of maintenance might be incorporated. The study will run in selected District Works Offices from August and cover the 1985-86 budgetary cycle.

Administrative expenditure

11. In the short term the Agency is extending its arrangements for delegated budgeting of administrative costs - some £300 million. Local budgets for telecommunication services in the regional organisation will be introduced from October 1984.

12. A longer term aim is a better integrated mechanism for reporting actual expenditure against budgets. At present the monitoring of actual costs by the PATOCAP system primarily spreads administrative costs over the Agency's operational activities and organisation units. It does not readily relate actual costs to budget.

13. Stage I of the review of PATOCAP by a joint PSA/CCTA team was completed in September 1983. This confirmed the broad technical feasibility of breaking down the current centralised system into inter-locking parts to make costing and budgetary control information more readily accessible to all levels of line management. It is intended, within the framework of the overall information strategy described in paragraph 7, to put proposals for replacement systems to senior management in September 1984.

Integrating programme and administrative costs

14. Controls over administrative costs and programme expenditure need to be better integrated. A joint PSA and Ministry of Defence working party is considering the possibility of a single vote for defence works and associated administrative costs to enhance the overall awareness and control of the full costs of providing these services. The aim is to introduce new arrangements in April 1985.

Consultancy, inspection and review capabilities

15. The Agency participated in a multi-departmental review of Consultancy, Inspection and Review Capabilities (CIRC). The report of the PSA study recommended organisational and other changes to provide better services with a more clearly defined relationship to line management. Senior management will take decisions on the report in the light of the central report being prepared by the Efficiency Unit.

Other developments

16. Progress in other areas noted in Cmnd 9058 includes work on monitoring the quality of the Agency's investment appraisals by a central team set up last year (the review of the team's work in April 1984 recommended continuing with a central unit for a further year) and changes in the methods of work of internal audit. Appropriate training is being undertaken in conjunction with the development of individual systems.

Costs

17. 1983-84 costs for the areas of work discussed above are estimated as follows:

Operating Costs	£
MINIS	250,000
CERIS	50,000
Other additional costs, including central investment appraisal monitoring unit	75,000
	£375,000

One-off Costs	
Consultant studies on information strategy	160,000
WIS and CERIS equipment	300,000
Other costs; including CIRC study and consultancy advice on FMI matters	125,000
	£585,000

18. In 1984-85 and 1985-86 the Agency anticipates substantially higher costs in the areas of computing hardware and software, associated telecommunications links and systems development, but the scale of these costs has not yet been precisely defined.

THE CROWN SUPPLIERS (formerly PSA SUPPLIES)

19. The Crown Suppliers operate on a full trading fund basis. A change of title to The Crown Suppliers (from PSA Supplies) was announced on 18 January 1984. Seminars with suppliers and customers were held to publicise these changes.

20. The plans described in Cmnd 9058 have been taken forward. During the year a detailed marketing plan has been developed with the help of consultants. A Sales and Marketing Division has been created utilising

existing staff, with some key posts filled as necessary by people recruited from outside the Crown Suppliers. Efforts are continuing to attract further orders from the public sector. Purchasing work was re-organised in October 1983 by amalgamating some of the sections responsible for the administrative and technical work in placing contracts. The new teams are placing contracts faster without extra resource costs. It is hoped to introduce further amalgamations during 1984.

21. Accounting systems for the Crown Suppliers were finally separated from the rest of PSA on 1 April 1984. Consultants' proposals for improving and replacing management information systems are under examination. They are more extensive than envisaged but decisions on them will be taken before the end of 1984. Improved systems would be introduced progressively and full implementation could take at least 5 years. The proposals include the establishment of a directly controlled computing facility to replace the service presently provided by PSA. The equipment, software, and hire of bureaux facilities during the development stages is estimated to cost about £5 million. Implementation would also absorb a large amount of staff resources. Meanwhile the planned short-term changes to improve the stock control part of the system and to speed up the response to orders from customers are being introduced by the installation of terminals providing access to central computer records of stock, current contracts and past demand. Implementation began in February 1984 and will be completed by the end of 1984.

EXPORT CREDIT GUARANTEE DEPARTMENT

1. The Export Credit Guarantee Department is improving its financial management on two fronts. Its existing management accounting system is being enhanced to pave the way for a system of cost and budget centres; and an improved management information system is being introduced, not only to give top management better information on the department's trading performance, but also to provide line managers (particularly underwriters) with better information on which to base decisions. Good progress is being made on the department's plan. In relation to the summary plan in Part 2 of Cmnd 9058, developments are as follows.

Objectives

2. Work on developing more specific measures of ECGD's basic financial objective of operating at no net cost to public funds has continued during the past year. Agreement in principle with the Treasury has now been reached on the adoption of a number of indicators of the department's financial performance. It is expected that these will be published in the Trading Accounts for the current financial year.

3. Discussions are also well advanced with the Treasury on the content of a business plan for the department which will be reviewed annually by Trade and Treasury Ministers. This plan builds upon existing work which forecasts future cash flow and outturn of the department's trading activities and will provide the framework within which decisions can be made for example on future premium rates and the allocation of resources to enable the department to meet its newly defined financial objective. The plan will also take account of PSBR and public expenditure implications.

4. In addition to the work on the financial objective and the business plan more precise operational objectives will be set during 1984-85 for the Comprehensive Guarantee Group, which handles the bulk of the credit insurance business.

Underwriting performance

5. A key feature of the plan is the improvement of underwriting and risk control by more effective management information systems for the

operational divisions. The new computer facilities referred to in Cmnd 9058 are now fully operational and have facilitated a considerable improvement in the production of statistical information. Planning is well advanced for an enhancement of the existing computer database which records information on claims payments and recoveries. By the Autumn of 1984 this sytem will begin to include records of cases of probable loss, and claims under examination; amongst other things these additional records will form the basis of a computerised system aimed at providing underwriters with early warning of future market difficulties.

6. Two underwriting divisions have been selected as pilot areas in which to develop a management information system designed to improve underwriting performance by providing underwriters with detailed and up-to-date information about the performance of the facilities and markets for which they are responsible, thus enabling better-informed decisions to be reached. These pilot studies will be completed during 1984-85. A new range of statistics is being produced which, when fully evaluated, will be extended across the department and in aggregated form will provide the basis of a management information system for middle and senior management.

7. A top management information system is also being designed. A new monthly report for senior management has been produced since February 1984 which gives, in a highly aggregated form, key statistics on the department's performance. This will be supplemented by detailed cash flow information on the business as a whole, and on the performance of particular facilities.

Administration costs

8. A computerised management accounting system is now being developed to support the network of budget, cost and responsibility centres which are to be introduced throughout the department at line manager level. Although the full system is not expected to be ready before 1985-86 an interim system has been introduced for 1984-85. The feedback from this interim system will assist in the design of the full system.

9. As a parallel exercise, work is proceeding in two pilot areas to consider what output measures can be devised so as to measure performance more effectively.

Programme expenditure

10. A project for the computerised system for processing and monitoring the Fixed Rate Export Finance facility is now at the detailed specification stage. The new system will improve public expenditure forecasting and audit control and give more information about the way in which the scheme is being used. It is expected that this system will be implemented during 1985.

MINIS

11. The proposed business plan will fulfil some of the functions of the MINIS-type systems being introduced in other departments. The information deriving from the management accounting system, and from the management information system, will enable supplementary information to be made available to Ministers: the scope and format of such a reporting system is currently under review.

Training

12. A series of seminars has been conducted for middle and senior managers at which the department's plan was explained. At the beginning of this year an information note was issued to these staff describing the planned system of cost and budget centres. The interim management accounts system will be introduced by a series of training seminars for heads of divisions. More generally, the department is moving the emphasis of its training effort to the provision of courses more specifically designed to meet specific and specialist needs. Particular importance is attached to financial training with the use of Civil Service College courses and the sponsorship of staff for accountancy training.

Costs

13. Work to develop and operate the management accounting system cost some £160,000 in 1983-84 and will cost an estimated £370,000 in 1984-85. Other developments reported above were planned before the initiative in 1983 and have been taken forward as part of the

department's programme of work on financial management at no additional cost.

FOREIGN AND COMMONWEALTH OFFICE

1. The nature and extent of the expenditure of the Foreign and Commonwealth Office, Diplomatic Wing (FCO), was set out in last year's White Paper. Since then the FCO has assumed financial responsibility for about £20 million of publicity services overseas commissioned from the Central Office of Information and has transferred to the Home Office the responsibility for the Passport Office which also involves some £20 million. Improved methods of assessing the worldwide costs of providing consular services, including the issue of passports, led to fees being raised in November 1983 to cover these costs fully.

2. The main features of the FCO's financial management plan remain those mentioned in last year's White Paper:

(a) Top management. A Financial Planning Group, chaired by the Permanent Under-Secretary, was set up to consider the deployment of FCO financial resources. Plans were initiated for a Management Information System (MIS) to come into operation by 1 April 1986.

(b) Delegated budgeting. To delegate responsibility to overseas posts for an increasing proportion of their costs, thus moving away from a tighly centralised financial administration. Some 20 per cent of all local costs were devolved to posts in 1983-84 under a new local budget system.

(c) Programme expenditure. Though responsible for relatively little programme expenditure, FCO decided to review its methods of applying the principles of good financial management in this area, without infringing the independence of institutions such as the BBC External Services and the British Council.

(d) Staff and training. The FCO accepted the need for higher calibre staff to be associated with financial work and to increase training in financial management.

Top management

3. The Financial Planning Group has held regular meetings to discuss financial management and resource allocation. It has prepared a set of strategic objectives which have been approved by FCO Ministers. Work is in hand on adopting detailed objectives for individual FCO departments for the year 1985-86. These are likely to take the form of general aims

of long-term validity and specific objectives capable of achievement in the short-term. For FCO posts abroad there already exists a system of confidential country assessment papers outlining British objectives. These papers will be adapted to take account of developments in financial management. Work continues in securing output measurement standards which will overcome the difficulty of assessing work (such as political reporting, negotiation and the provision of advice to Ministers) which does not readily lend itself to measurement techniques.

4. The Financial Planning Group has paid close attention to monitoring the rate of spend in the FCO's 214 posts overseas. Talks have been started with the Treasury with the aim of establishing a system of dealing with the degree of uncertainty in long-term planning caused by the fluctuations in sterling and overseas inflation which affect 40 per cent of the FCO's financial provisions. A decision was taken to make a financially advantageous purchase of the freehold of Hanslope Park, the centre of the FCO's communications network, thus saving future costly expenditure when the lease was due to expire in a few year's time.

5. The Financial Planning Group intends to study the overall distribution of FCO resources in the light of information to be provided by the MIS. A pilot study covering Diplomatic Service expenditure throughout South-East Asia is now complete. The study has established more precisely the costs of the 9 posts which report to the FCO's South-East Asian Department, breaking these costs down by function - consular, commercial and so on. Pending the introduction of a fully coomputerised MIS in 1986, an interim broadbrush system will be introduced in 1984 based on the pilot study. This will produce a presentation of worldwide costs by country and function to enable management at all levels to take informed decisions in drawing up their priorities.

6. It is intended that the MIS will take full advantage of a computerised internal communication system known as FOLIOS which the FCO is pioneering, and for which plans are well advanced. FOLIOS would provide a rapid and effective range of electronics office and information retrieval facilities that should prove particularly useful for a department such as FCO which is spread over so many different buildings.

Delegated budgeting

7. The first year of the new local budget system for overseas posts was complicated by the weakness of sterling and the unpredictable nature of many overseas costs increases. Nevetheless, useful experience was gained in overcoming these difficulties and in some cases it was possible to absorb at least part of the adverse effects of the high inflation prevailing in certain overseas countries. For 1984-85 the scheme has been extended to take in new areas of local delegation, including local staff overtime and casual labour, and to allow certain types of receipts to be offset against expenditure. The ability to switch resources between component parts of the local budget has been considerably extended. By 1 April 1985 the knowledge gained by posts should enable them to prepare their local budget estimates themselves instead of having quotas allocated from London. The incentive to save in certain areas in order to expand higher priority activity should encourage posts to seek new ways of securing better value for money.

8. As a means of further devolution from the centre a system of travel budgets delegated to Under Secretaries was also introduced in 1983-84. Since the Under Secretaries concerned with the various sectors of the world are taking decisions about travel abroad by London-based staff and official visits to the United Kingdom by staff serving overseas (instead of all such journeys being approved by one central department), there has been an incentive to look for cheaper means of travel and a more structured weighing up of priorities. This has enabled FCO to fulfil its essential travel requirement with no increase in resources in spite of a worldwide increase in air fares and subsistence payments.

9. In April 1983 responsibility for the management of the Diplomatic Estate overseas was transferred from the PSA to FCO. It is in accordance with the principles of sound financial management that the FCO should have full responsibility for all the resources which it uses. FCO is actively seeking ways to rationalise the estate to suit modern operational needs and to save running costs in the long term by more efficient use of resources and by spend-to-save policies. Examples include the decision to build embassy offices in the garden of the Ambassador's residence in Vienna. Several under-used or otherwise unsuitable properties have been sold. The proceeds of some £1 million of these sales which arose during the course of the last financial year were

used to purchase a smaller and more modern house for the Ambassador in The Hague, thus yielding savings on the rent, repairs and other running costs of the existing house.

Programme expenditure

10. The FCO's programme expenditure is mainly in the form of international subscriptions, military aid and grants-in-aid to non-governmental bodies. Considerable efforts are made to ensure zero real growth in international organisations to which the Government makes assessed contributions. FCO works closely with the Ministry of Defence to ensure value for money in contributions to peace-keeping forces. A Resource Management Committee, chaired by the Principal Finance Officer, carefully assesses the justification for all grants to the smaller non-government bodies. Application of the principles of good financial management to the two major grant-aided bodies, the BBC External Services and the British Council, involves a balance between the need to ensure that value for money is being achieved and the need to respect the constitutional autonomy laid down by their Royal Charters. The Permanent Under Secretary is a member of the British Council Board. For some years the Council has possessed a computerised management information system involving activity analysis and has delegated most local spending to its overseas representations.

Staffing and training

11. In accordance with the FCO's own Rayner study on running costs, undertaken in 1982, a qualified management accountant has been recruited and further professional accountant posts agreed. FCO training now involves an increased financial management input. A specially recorded video presentation has been made to introduce the principles of good financial management, the local budget system and responsibility for the overseas estate to members of the Service at all levels.

Costs

12. The costs of the FCO's response to the initiative continue to be met from existing resources. These consist of 6 full-time staff, some

17 man years' effort by various other staff and a training input costing approximately £30,000. This will be supplemented by the MIS extension of the FCO's computer facilities which is likely to cost £100,000. Total costs for 1983-84 were approximately £517,000; these are expected to rise to at least £600,000 in 1984-85.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

1. Good management in accordance with the principles of the initiative in 1982 has been of importance to the Department of Health and Social Security (DHSS) for many years, particularly in the social security operational commands, but these principles have now been given new emphasis at headquarters. Since last year's report DHSS has made further progress both within the department itself and in the programmes, including those of the non-departmental public bodies (NDPBs), for which it has lead responsibility. The department has initiated major reviews in both the health and social security programmes. These are outlined in more detail below. The common theme is a re-examination of the purpose and effectiveness of particular policy areas in the light of an assessment of present and future needs.

Top management: priority setting

2. The mechanisms by which Ministers and senior officials manage the department and its programmes have been strengthened by work on the implementation of the recommendations of the Report of the Inquiry into NHS Management (the Griffiths Report, see paragraph 12) which related to setting strategies for and the management of the health service. A Health Services Supervisory Board has been established within the department under the chairmanship of the Secretary of State to strengthen arrangements for the oversight of the NHS and wider health care arrangements. Under the Supervisory Board will be a new Management Board set up within the department, with responsibility for the NHS management programme. In the interim period before the Board is established and its new chairman appointed a multi-disciplinary management group is handling this responsibility. On the social security side a director has been appointed to manage the operational strategy (see paragraph 9).

Divisional management accounts

3. The second annual cycle of the divisional management accounts (DMA) system has been completed. This round aimed to provide a more explicit mechanism for linking priorities and functions with the necessary manpower resources. It allowed a stronger element of stewardship : Ministers and senior managers were able to scrutinise performance by Under Secretary-led divisions towards the objectives set in the first

experimental round. Ministers were better able in this round to judge priorities and assess objectives within particular divisions and in the department as a whole. The DMAs also helped management to identify policy areas for review and to set realistic manpower levels for headquarters.

Budgetary control and delegation

4. The department now has a computer-based financial information system with the details of expenditure reported monthly to over 800 cost centres and summaries for higher levels of management. A limited number of items of expenditure were subject to delegated budgetary control in 1983-84 and, although it is difficult to assess the extent to which budgets were the cause, the year has seen significant savings on all of these items totalling about £8 million compared with forecast expenditure of over £90 million. Further developments for 1984-85 gave individual managers the opportunity to bid for their requirements, budget for a wider range of expenditure and a degree of flexibility to switch funds betwen budget headings. The intention is to devolve further items as the system develops until all major blocks of expenditure are charged out to identified budget holders.

5. The DHSS is working towards the development of financial management by:

(a) looking for ways to delegate more authority to line managers to reduce central control;

(b) completing implementation of the report in [1981] of the department's traffic study of the flow of work between headquarters, regional offices and social security local offices. All but a few of the recommended changes in organisation and methods to devolve responsibility for handling business have now been implemented, with their consequent staff savings, and the remainder will follow soon;

(c) experimenting in 34 local offices and in part of one of the central offices with budgets for a much wider range of administrative expenditure (including manpower) and greater authority for managers for staffing and switching resources

between budget headings to obtain better value for money;

(d) a 2-year experiment in social security local offices which provides cash incentives for offices which achieve

(i) good or improved overall performance; or

(ii) administrative savings.

Initial developments have been encouraging, with some significant savings.

Management information

6. The management information in use and the links with the DMA and budgetary control systems continue to be improved. Key developments in the department and in the NHS include:-

(a) continued progress on the work of the Steering Group on Health Services Information (the Körner Committee): development proposals covering hospital and community health activity, finance and manpower are now being completed; an implementation time-table has been agreed and announced. The proposals are being piloted in the Bromsgrove and Redditch Health District;

(b) the development and publication of performance indicators for health authorities. A joint NHS/DHSS working group is improving the system;

(c) improved manpower planning and control within the NHS. Health authorities are now required to submit for approval annual manpower targets as part of their service plans. Progress in achieving targets is monitored by quarterly returns;

(d) extended use of microcomputers in the department's regional offices.

Social security reviews

7. Social security expenditure in 1983-84 was over £35 billion, more than 29 per cent of all public expenditure. Effective management of this complex and diverse programme requires clear analyses of objectives and assessments of success. It also calls for periodic reappraisal of policies, particularly in the light of economic and social developments; and it imposes on those who manage this vast programme a duty to ensure

that the resources consumed are used to best effect where they are most needed. The department has therefore set up a series of wide-ranging reviews covering the bulk of social security expenditure. These reviews constitute the most fundamental and co-ordinated examination of the benefit system since the Beveridge Report 40 years ago. They are:

(a) Inquiry into provision for retirement. An inquiry chaired by the Secretary of State to study the future development, adequacy and costs of state, occupational and private provision for retirement including the portability of pension rights. The inquiry will consider possible changes taking account of the recommendations of the Parliamentary Select Committee on Social Services on retirement age;

(b) Housing benefit. A review under an independent chairman to examine the structure and scope of the scheme to ensure it is as simple as possible, that help is concentrated on those most in need and to improve its administration by local authorities;

(c) Supplementary benefit. To review, under Ministerial chairmanship, the structure of the supplementary benefits scheme and to consider the scope for easing its administration;

(d) Benefits for children and young people. To review under Ministerial chairmanship the present social security arrangements for giving financial help to families with children and to young people above school leaving age.

A central review unit has been established in the department to co-ordinate the work of the review teams and to examine issues which go across the board.

Operational strategy

8. These programme reviews are complemented by continuing work to streamline operations. Information technology systems already play an important part, for example in the payment of benefits, and their role is being further co-ordinated and developed within the social security operational strategy. The main objectives of the strategy are more efficient and cost-effective administration of the social security system, better service to the public, and better jobs for staff. A

directorate has been established to manage the staged implementation of this strategy over the coming decade.

Social security evaluation

9. Output measures are being developed for social security benefits and work is in progress on criteria for appraising the effect of policy changes. Chapter 2.12 of the latest public expenditure White Paper (Cmnd 9143 - Vol II) lists the main measures and criteria used currently and illustrates their application to various benefits.

Forecasting

10. The department (with assistance from the Treasury and the Government Actuary's Department) is improving the method of forecasting of social security expenditure. Work is in hand to introduce by the end of 1984 an improved computer based system to monitor expenditure. It is planned to extend this to cover forecasting year's outturn by the start of the 1985-86 financial year. Improvements are also being made in the forecasting of benefit expediture for the three year public expenditure survey period. Substantial steps have been taken to improve the monitoring and forecasting of expenditure on the demand-led family practitioner services, in order to improve budgeting and reduce the scale of in-year adjustments to financial provision.

Newcastle Central Office (NCO)

11. A new management services branch has been formed with responsibility for the financial management plans of the NCO, including budgetary control, manpower control, management accounts, staff inspection and organisation and methods. The branch will be directly responsible to the Office's controller. Steps have also been taken to improve the decision making processes for major managerial and operational issues.

Progress in the NHS

12. Significant improvements have been made in the management of the NHS:

(a) Regional and district reviews. The review system is designed to ensure accountability for the performance of health authorities within a framework of clearly defined and delegated

management responsibility. The second round of regional and district reviews has been completed and the system is being extended to unit level.

(b) Planning and manpower control. Health authorities are now required to produce annual programmes and strategic plans which reconcile projected improvements in services with financial and manpower inputs, and which contain substantial cost improvement programmes. Authorities are now required to submit for approval annual manpower targets as part of their annual programmes. Progress in achieving targets is to be monitored by quarterly returns.

(c) Scrutiny programme. The first four reports of the NHS Rayner scrutinies have been published. These point to ways in which money can be made available for patient care by economies in other directions. For instance savings of up to about £9 million a year might be possible on non-emergency ambulances;

(d) the works function within the NHS is being reviewed;

(e) Competitive tendering. Health authorities are requested to test the cost of their support services by putting them out to competitive tender. The purpose is to identify savings which can be made and thereby release resources for improved patient services.

(f) NHS audit. Health authorities have in the last 10 months taken substantial steps to increase their internal audit capability and to raise its status. Ministers will shortly consider the results of consultation on the report of the Salmon Committee on NHS audit. There has been strong support for its broad thrust and Ministers are likely to issue guidance to health authorities at an early date. In the meantime, the experimental use of private firms by DHSS to undertake external audit has been expanded from 8 health authorities accounts in 1982 to 14 in 1983.

Inquiry into NHS management

13. The Griffiths' report endorsed the action taken by the Government to improve NHS management, and proposed a further programme of management action. In particular the report identified the need for a clearly defined general management function in the NHS to draw together responsibility for planning, implementation and control of perfomance. After wide consultation the decision to implement the report's recommendations in full was announced recently and guidance for this purpose has been issued to the NHS. In particular, the Government is requiring health authorities to identify individual general managers at regional and district level, and in hospital and other units. This will be the key to seeing through successfully the management improvements already in hand and the further action recommended by Griffiths.

14. One specific area of improved financial management in the report and already underway is the development of management budgeting. This involves clinicians at unit level, who are reponsible for determining the use of resources, being brought in as budget holders in the management of resources. A national steering committee, which includes a member of the inquiry team and five NHS members, will ensure that guidance on successful developments and good practice, and on false trails, is given to other health authorities.

Family practitioner services

15. Reports have been received from consultants on the administation and the financial management of the family practitioner services.

Other developments

16. Work has started on producing an operational requirement for the computerisation of the central vote accounting system for all health and personal social services votes within the department. Action has been initiated to ensure that budgets for services financed centrally from these votes (in total some £400 million a year) are prepared in accordance with the principles of the initiative. Work has continued on drawing up a programme under which all centrally financed services (other than those provided by NDPBs) will be subjected to an in-depth review - including an examination of financial management systems - at intervals

of between three and five years. Services provided by NDPBs are already reviewed in accordance with guidance issued by the Cabinet Office (MPO).

Spreading awareness and understanding

17. A concerted effort has been made to promote the importance of good financial management throughout the department by special circulars, seminars, training arrangements etc. These have included seminars given to headquarters staff by the Principal Finance Officer and the Principal Establishment Officer, attended by about 700 senior staff, a presentation to the departmental Trade Union Side and a series of awareness seminars for senior and middle management staff in the central offices and social security regional organisations. A conspectus detailing relevant training courses provided by the department, the Civil Service College and outside institutions has been widely circulated and the department has it in mind to prepare a video illustrating the 3 basic objectives of the financial management development plan. This commitment to staff training will continue. "Value for Money in Administration" has been selected as one of two departmental priorities for 1984-85 for the social security regional orgainisation and staff at all levels will be encouraged to develop tasks and initiatives in support of this priority.

Costs

18. The promotion of good management, which includes good financial management, is intrinsic to the administration of the department: implementation is regarded as a fundamental element of each line manager's responsibility. The costs of the programme of work outlined above cannot, therefore, readily be isolated. The main identifiable costs for 1983-84 include:-

(a) the implementation and operation of the budgetary control system - £400,000;

(b) the production and scrutiny of the divisional management accounts - estimated at £100,000;

(c) the NHS management inquiry (including expenses of the team and staff costs of the secretariat) - £100,000;

(d) some £25,000 on co-ordination of the department's response to the initiative.

HOME OFFICE

1. Public expenditure provision for Home Office services is rather more than £4 billion. Some £3½ billion (80 per cent) is incurred in the first place by local authorities, on a variety of services of which the police is the largest. Of the remainder, two thirds (£½ billion) is spent on the Prison Service. The rest (about £¼ billion) is expenditure on central administration (including the Immigration Service, the Forensic Science Service and telecommunication services for the police and fire services). The department employs about 36,000 civil servants, of whom all but 9,000 are in the Prison Department.

2. Since the publication of the last White Paper in September 1983 a number of projects have moved from the planning stage to implementation. They include the setting up of the prison costing system, introduction of a delegated budget in the Immigration and Nationality Department and piloting of financial information systems for HM Inspectors of Constabulary and the Probation Inspectorate. The work in these and other areas, described below, continues to be given high priority.

Annual performance review

3. The Annual performance review (APR), which has now completed its second cycle, is the Home Office's top management information system under the personal direction of the Permanent Secretary. The APR has provided a structured approach to the review of performance and progress toward defined objectives within Ministerially determined strategy, the formulation of which it has also assisted. It has also provided useful cost information and been the starting point for a number of special studies and scrutinies designed to signal ways of obtaining better value for money.

4. The internal scrutinies launched as a result if the 1983 APR include a progressive scrutiny during 1984-85 of expenditure in the Immigration Service, including a study of options on methods of control at points of entry. The main objective of the study is to identify ways of making more effective use of manpower - the 1,700 staff are by far the most important item of expenditure in the service. A study of the scope for developing performance indicators in various parts of the Home Office is nearing completion with the objective of promoting the improved use of such indicators in those parts of the central administration of the Home

Office in which regular administrative and executive operations are carried out. A review of the way in which the research programme of the Scientific Research and Development Branch is planned, managed and monitored is about to begin with the aim of ensuring that the research programme reflects the requirements of the police and other services it is designed to help, and is managed effectively and economically.

Expenditure planning and performance review

5. Besides the developments for resource planning which have arisen from the APR internal arrangements for public expenditure planning have been improved. An experiment with computerised facilities has considerably assisted the work of Finance Division in marshalling financial information in different ways and at different levels of aggregation so as to enable senior management and Ministers to reach decisions on resource allocation on the basis of information which is both more comprehensive and more easily considered, and to provide better feedback to line management.

Prisons

6. The Prison Department's management strategy continues to give priority to establishing the systems by means of which more efficient use of resources and hence better value for money will be achieved. There are two main strands to this activity. On the one hand, the lines of accountability between the various levels in the Prison Service are being clarified, within the general context of devolving as much responsibility as far down the management line as possible. On the other, a specially created Efficiency Unit at the Prison Department's headquarters is co-ordinating the development of control systems to ensure that the responsibilities which are devolved are properly exercised. This comprehends not only the follow up to several major resource control studies but also the introduction of local budgetary control mechanisms, based on the developing prison costing system, on 1 April 1986. Improved forecasting, within the PES context, of future Prison Service expenditure and, as an interim measure until local budgets are introduced, tighter control of current expenditure under the present vote management arrangements are also being addressed.

Other directly incurred expenditure

7. The appraisal of the existing arrangements for managing administrative expenditure, referred to in the last White Paper, has resulted in the establishment for 1984-85 of a delegated budget for the Immigration and Nationality Department (IND). As from 1 April 1984 IND has been given a share of the central Home Office Estimates provision for 1984-85 and PES provision for later years. The initial allocation represents the attributed costs of IND's share of almost all central services, including manpower. Within the budget and manpower ceiling the IND Under Secretary has a significant degree of flexibility to vary the amount spent on individual items, these include changes in the fields of manpower, personnel and accommodation. Below the Under Secretary there are five other experimental budget holders with lesser but nonetheless significant freedom to manage the resources for which they are responsible. Further work includes experiments testing the idea of further delegation within IND, and a project to improve management information about IND's functions and activities. The reduction in most nationality fees from 1 April 1984 was the result of the preparation of a budget for 1984-85 for the nationality operations and the increased emphasis on the financial aspects of their management which include an improved accounting system. The potential for similar changes in the Directorate of Telecommunications is under consideration in the context of the development of a new management accounting system and a revised structure of accountability. After evaluation of the IND experience, consideration will be given to how similar arrangements might be extended to other parts of the Home Office.

8. The review of expenditure has also resulted in the creation of a simplified and more managerially relevant vote structure for the 1984-85 Supply Estimates, designed to show more clearly how financial provision is allocated and managed. The nature of divisional responsibilities for budgets is being addressed in the preparation of a finance manual for divisions and will be of direct relevance for the APR system. In addition a study of divisional responsibilities in relation to grants to voluntary bodies is being conducted in order to clarify the nature of the sponsoring funtion involved. A project has also been launched, aimed at exploring ways of enabling and encouraging line managers to secure greater economy in the use of office services, such as telephones, stationery and reprographic facilities.

Local authority services

9. In relation to the police service, a Home Office circular on manpower, effectiveness and efficiency in the police service was issued in November 1983. [A cash limit has been imposed on the net revenue expenditure of the Metropolitan Police]. A financial management information system has been devised for HM Inspectors of Constabulary, to help them to make an analysis of an individual force's expenditure by functional category and type of spend. The system was piloted in the inspection of six forces during the first half of 1984. The system should assist HM Inspectors to assess, with chief officers, the extent to which the allocation of resources is consistent with national and local objectives and priorities, and the efficiency with which resources are being used. Other work relating to police expenditure has included a review by the Home Office Research and Planning Unit of the literature on the use of output measures for non-profit service agencies and their scope for applying them to the measurement of police efficiency and effectiveness; this work is being followed by further study.

10. The Home Office has appraised the potential for applying the methodology developed in the police context to the other local authority services in which it has an interest. A financial management information system for the probation service has been developed, on the lines of the police model, which relates its functions and activities to the resources consumed. The Probation Inspectorate have used the system on a pilot basis to explore resource use and priorities in twelve probation areas in the early part of 1984 with a view to extening the coverage of the system to all probation areas in 1984-85. Work is also under way on the development of management information systems for magistrates' courts, and advice has been issued to them on improving fine enforcement and is shortly to be issued on reducing waiting times.

11. The preparation of plans for organising, staffing and managing the proposed new independent prosecution service, and of the legislation which will be needed to implement them, is being undertaken by an interdepartmental steering group under Home Office chairmanship. This work is providing an important opportunity to establish a new service taking the principles of good financial management into account from the outset.

Internal audit

12. An audit committee has been formed to oversee the strategic development of internal audit. Satisfactory progress has been made towards the required complementing, training and computer audit standards.

Staffing and training

13. The development of the programme of financial training continues with:

(a) further seminars on general financial matters for senior staff. Over 300 senior staff have now attended such seminars. A two day middle management course on finance has also been introduced as part of the full time Home Office training programme. Over 200 staff have now attended these courses;

(b) training in investment appraisal, both in-house and using the Civil Service College. Guidance has been given to divisions on the appraisal of proposals with cost implications, including the application of investment appraisal techniques. More general guidance of financial matters will be covered in a new finance manual which is in preparation; and

(c) training in the general principles of good financial management and on the use to be made of the data becoming available through the prison costing system for groups of headquarters staff. This will be extended into the Prison Service as circumstances require. Training in options appraisal techniques for those involved in top level policy and operational decision making is also planned.

14. The review of requirements for <u>specialist finance and accountancy skills</u> within the Home Office is nearing completion and the recommendations will be considered in the autumn.

Costs

15. It is estimated that the direct staff costs of the programme for 1983-84 were about £716,000 of which £466,000 was for the prison costing system. In addition the computer cost for the prison costing system for the same period was £300,000.

CENTRAL OFFICE OF INFORMATION

1. The Central Office of Information (COI) moved to a repayment service on 1 April 1984, with a financial target of breaking even year on year. An annual trading account will be produced.

2. Preparation for the move to repayment began before the Financial Management Initiative was launched, but the requirements of the two were sufficiently similar for the objectives of improving financial management to be taken into account. This was especially so in the areas of organisation and budgetary control.

Management organisation and systems

3. The review of the management structure of the COI mentioned in Cmnd 9058 has been completed. On 3 October 1983 the activities of the department were brought together in 4 main groups: Home Publicity; Visual Media and Radio; Overseas Publicity; and Client Services. The group directors were included in the new management committee.

4. The main aims and objectives of the COI have been clarified and articulated. Within the overall financial target of breaking even, sub-targets are being set and work is continuing on the setting up of performance indicators.

Budgetary control

5. The COI's new computerised management accounting system went live on 1 November 1983. The system involves the setting up of managerial budgets, consisting of: the cost of staff (salaries, superannuation, etc) directly employed on the activity; the cost of services provided by other budget holders (including staff and non-staff costs); direct non-staff costs (accommodation, telephones, etc) based wherever possible on measured usage; depreciation of assets and other notional costs; and direct operational programme expenditure with public and private sector suppliers. Each budget holder has to match income with expenditure over a 12 month period.

6. Monthly reports on the performance of COI as a whole are sent to the Director General, Deputy Director General and Principal Finance Officer. These three together with the Principal Establishment Office and the four

group directors form the management committee for the department. The group directors receive reports summarising the performance of their divisions. Below them divisional directors, service managers and job managers each receive suitably disaggregated reports on their areas of responsibility for the performance of which they account to their immediate superiors.

7. The five months of live running of the management accounting system before the introduction of repayment on 1 April gave managers little time to understand and use the figures produced. However the second set of budgets showed a marked increase in the level of understanding. It is too early to draw general conclusions from experience to date, but already accommodation holdings are being reduced and the need for and cost of other resources are being critically examined. The use of cost-saving items of new technology is also being actively explored.

8. The management committee reviews the overall trading position each month and makes policy decisions on the viability of particular activities taking account of demand for services, the resources devoted to them and the prices charged for them.

9. Each manager controls direct spending within his budget and against prices quoted when work was commissioned by the client. The propriety of this expenditure is monitored after the event by Finance Branch. Monitoring of the efficiency of expenditure is being considered as part of the work on the development of performance indicators.

10. Decentralisation of financial control is the first major step towards combining the responsibilities of the Principal Establishment and Finance Officers. This is expected to be achieved by 1986.

Staff training and attitudes

11. The COI is a specialist-led department. About half of its staff are specialists recruited direct at all levels, mainly from the private sector. Apart from a small administrative cadre, the remainder of the staff are engaged in providing support services. Traditionally specialists within COI have had to concern themselves largely with the skills for which they were recruited (journalism, design, film production, etc), with resource control exercised from the centre. The

disciplines of repayment and the department's programme to develop financial management have caused specialists to become more resource conscious and attitudes have changed considerably over the past year, as indicated in paragraph 7 above. There has been a series of seminars for all staff at Executive Officer/Assistant Information Officer level and above, whilst more junior grades have had elements of the disciplines introduced into more generalised training. Senior staff have attended Civil Service College courses on financial management and conferences of senior staff have been organised. Further training will take place as more specific needs are identified.

Costs

12. The full cost of introducing repayment and developing financial management has been identified, but because the two are so closely related it is not possible to separate them. Much of the work carried out for one would have been necessary for the other. The estimated combined cost is now £380,000 before 1983-84 (of which £189,000 was for consultants); £820,000 in 1983-84 (including £230,000 for consultants and £150,000 for computers); and £250,000 in 1984-85. It should be noted that the estimated cost in Cmnd 9058 was only in respect of the management accounting systems.

INLAND REVENUE

1. The Inland Revenue administers the direct taxes and duties and provides rating and other valuations. It employs nearly 70,000 staff mostly in some 1200 local offices, which are organised into regions.

2. The department's programme of work described in Cmnd 9058 is now well underway, and is on time. The main aspects are discussed in more detail below. They comprise four major areas of work:

(a) the introduction of a senior management system (SMS);

(b) improvements to management information systems (MIS);

(c) a new budgetary control and financial information system (FAMAS); and

(d) developments in the field of management audit.

The senior management system (SMS)

3. The SMS is the main means by which the Board reviews the plans and achievements of each major command, usually at about Under Secretary level. It provides the opportunity to look systematically at the department's priorities for future years, and to set targets and objectives for levels of management down the line. The first annual SMS review took place last autumn. The Board discussed each return with the head of division responsible. Their plans were amended where appropriate and a number of reviews were commissioned. The returns were published on 30 April.

4. While the SMS already contains detailed information about outputs, targets and performance at operational levels, it will be enhanced in future years to give a better picture of the current position and of future plans, at all levels in the department. In the second round of the SMS, in Autumn 1984, the department will carry forward the process of integrating the management and financial information systems discussed below. Following the introduction of FAMAS for example it should be possible to provide more financial information in the SMS than was practicable in the first round and to make progress in allocating costs more precisely to specific functions.

Management information systems (MIS)

5. The department's target remains to have in place a fully operational management information system by 1986-87 for each of its main areas of operations, which include the three networks of local offices - Tax Districts, the Collection Service (including the Accounts Offices and local offices with PAYE audit and recovery functions) and the Valuation Offices.

6. The aim is to provide systems which enable line managers to define specific areas of responsibility, to set targets for output, and to measure progress against those targets, including some measure of quality. The systems will also provide information about the use of staff resources, and the efficiency or performance of an operational unit. The plans to computerise PAYE and Schedule D now offer the opportunity within the next few years to capture much of the MIS data automatically and in more detail. The department will look at ways of using information technology to improve the flow of management information in other areas of the department.

7. Substantial progress has been made to date in all operational areas:

(a) Taxes network

the MIS introduced in 1983-84 marked a significant advance over the previous approach, which concentrated on the level of work arrears, by sharpening the measurement of key outputs (or work done) and the deployment of staff. The plans for the next two years will focus on extending its coverage to new work areas such as PAYE/Schedule E compliance and also on determining the best way to monitor clerical performance and the quality of technical work.

(b) Collection service

(i) PAYE audit: a new MIS was introduced in April.

(ii) recovery network: an interim MIS was introduced in April, and there will be further substantial improvements from November 1985.

(iii) Accounts Offices: an interim MIS will be introduced in November, with a full system from November 1985.

(c) Valuation Office

(i) professional work: a MIS is already in operation. Significant progress has been made in closer monitoring of inputs, outputs and the timeliness of the services provided. Quality controls already introduced are being further developed.

(ii) clerical work: performance indicators have been introduced, and are to be refined.

(d) Other large operational units

Plans are being produced for each of these offices (eg the Capital Taxes Office), with the intention of introducing initial systems by April 1985.

Financial and management accounting system (FAMAS)

8. The development of FAMAS is progressing to plan. The general ledger software package, on which it is based, has been implemented successfully and monthly production of management accounting reports to local managers began in May 1984. In addition, the new system reports monthly actual costs, compared with estimate, to the head office staff responsible for controlling expenditure under each vote subhead, as well as to those managers taking part in the budgetary control pilot exercise described in the next section.

9. Plans for 1984-85 include the improvement of information flows into the new system; the development of functional costings; and work on the development of the financial planning and control cycle (PES, Supply Estimates and budgets).

Delegated budgeting

10. A new system of budgetary control will become operational throughout the department in 1986-87. Line managers from local offices upwards will hold budgets covering all costs which they can influence, and will be responsible for the effective use of the resources under their command. They will make regular critical scrutinies of the results that are being obtained in relation to the costs. There will be a clearer definition of responsibilities throughout the management structure, together with greater delegation of authority to line managers. The new system will

build on the cost-reporting facilities already provided by FAMAS which will help to overcome the problems of data capture and reporting encountered in the previous manual schemes of delegated budgeting for specific categories of expenditure such as travel and subsistence and telephones.

11. In April 1984, the department started a pilot scheme in 15 tax offices in the South East region to test all aspects of the new system before seeking to extend it further. The managers involved have more scope than their counterparts in the rest of the department to decide on the precise mix of their resources. In particular they now have the ability to switch resources from the pattern shown in the budget in order to achieve a more effective deployment to meet changed circumstances. They will be accountable to their line manager for all budgetary decisions.

Management audit

12. The operational review of the Enforcement Office review has been completed. Decisions have been taken on the proposals to be implemented, and implementation is under way. A second review, of secretarial and typing services, is now nearing its conclusion. These reviews, which will be followed by others and are part of a departmentally agreed programme of work, under the direction and control of the Principal Finance Officer. This also includes the remainder of the department's management services projects, together with the internal audit programme and Rayner scrutinies.

Staffing and training

13. The departments plans mean that many traditional attitudes and assumptions will have to be changed fundamentally. The department accordingly attaches high priority to the training of all staff, particularly those who will become directly involved with the new systems in their day-to-day work.

14. Since Summer 1983 financial management seminars for senior line managers have been taking place regularly. Sessions are now included in the departmental management courses which reach about 250 staff a year at HEO level and above. The main effort, however, has been geared to

providing introductory training on the department's plans for financial and management information to local office managers up and down the country in time for the arrival of the cost-analysis reports from FAMAS in May. It was felt that the most appropriate way to carry out this training was by 'cascading' it down through the line management structure. Seminars were held for senior regional management in the three networks, who in turn then held similar sessions with their local office managers thereby reaching at the end of the day over around 2,500 staff. Similar techniques were used in the non-network offices. In order to communicate the initiative a variety of training aids have been used, ranging from conventional explanatory literature through professionally produced slides to a dramatised video film.

15. In addition staff have been made aware of the department's plans through the departmental news letter. There have also been a number of sessions with the Trade Union Side to discuss various aspects of the initiative, in particular the delegated budgeting pilot scheme. Finally a user panel, consisting of representatives drawn from the major parts of the department, has been formed to provide consumer reaction to the details of the impact of the programme of work.

Costs

16. The use of consultants will continue, and there will be a continuing need to invest in computer hardware and software. In addition, substantial resources will continue to be devoted to financial management training for staff at all levels. During 1984-85 the total commitment will be around 170-200 staff, principally for the operation of MIS and FAMAS.

17. The total cost is estimated to have been about £250,000 in 1982-83, increasing to slightly over £2 million in 1983-84. For 1984-85 as the full costs of implementation are felt, the figure is likely to be about £3 million, about two-thirds of which represents use of Revenue manpower.

Benefits

18. It is too early to assess fully the benefits flowing from these developments. But the evidence so far is encouraging. Regional taxes

management involved in the MIS trial covering technical work welcome the additional information. Senior managers found the SMS useful in identifying a number of problem areas and in generally sharpening up the management process. As the new management and financial information systems become bedded in, and developed, they should help all levels of management to deploy the department's resources to the best effect.

HM LAND REGISTRY

1. The main thrust of the Land Registry's work on financial management has been threefold:

(a) to develop a more responsible organisation structure at senior levels to ensure a continuous forward look at policy, strategy and priorities;

(b) to clarify objectives at all management levels throughout the Department; and

(c) to enhance the existing resource allocation and control systems to promote a greater awareness of costs and better financial management throughout the organisation.

Management responsibility

2. The Land Registry Policy Committee, under the chairmanship of the Chief Land Registrar, is now well established. This Committee provides the overall direction for medium and long-term planning, for policy and for all matters affecting the department, in particular the evolution of conveyancing practice in England and Wales.

3. The department's Management Committee, under the chairmanship of the Chief Executive, meets monthly to co-ordinate the operational tasks of the Land Registry by establishing appropriate strategies and priorities, reviewing results and directing action.

4. Following the internal review of its existing systems, the Land Registry standardised, throughout its regional offices, its system of managers' guides. With the publication of 'Accountable Management in the Land Registry' in August 1983, all offices undertook a programme which set out the aims and objectives of all managers. Regular reviews of performance are carried out throughout the management line to monitor progress. Managers' guides operate at all levels up to Assistant Secretary.

Management information

5. The new micro-computer based financial accounting system went live on 2 April 1984, one year earlier than had previously been planned. Computerisation of the financial records has provided management with far greater flexibility and a more detailed and timely analysis. It has also

been possible to introduce financial modelling to aid decision making. By integrating both vote and management accounts into one data base, it will be possible to produce at short notice regular memorandum trading accounts showing expenditure compared with fee revenue and also detailed reports of receipts and payments compared with the vote. Incorporated into the accounting structure is the delegation of responsibilities for budgets to accounting centre managers. Work is scheduled to start in early summer on incorporating standard costing with full variance analysis. The new system also replaces the manual production of payable orders and all payments can now be generated automatically.

6. A review of the existing management accounting system (which was essentially a means of manpower control only) has led to the following basic changes. These are designed to improve the ability of managers at all levels, to monitor actual performance against targets, using financial as well as non-financial performance measures:

(a) identifying and separating discrete management functions;

(b) identifying the 'inputs' which generate work in each of the discrete functions so that the various overall and intermediate workloads can be quantified;

(c) establishing a system of resource allocation whereby managers submit resource bids in terms of manpower and of money for each function and for each quantified input;

(d) ensuring that evaluation of bids and the monitoring and controlling of actual performance throughout the year is based on reliable yardsticks expressed in terms of output standards and cost; and

(e) providing the incentive for managers to look for ways of achieving more effective results within the limits of their overall manpower and financial budgets.

7. The new system will operate during 1984-85 on a trial basis, in parallel with the existing system which will be phased out at the beginning of 1985-86.

8. The department's system of budgetary control was fully extended to the Land Charges Department during 1983-84, and standard costing was introduced on target in October 1983.

9. The policy of extending the range of 'direct' work standards for budgetary control purposes has continued with the creation of performance standards for filing branches, registration rooms and map stores. Since the introduction of the department's first management accounting and information system in April 1975, the number of staff engaged on activities which are measured by output standards (ie 'direct' work) has increased from 42 per cent to 74 per cent of the total complement.

Internal audit

10. The creation of a strong internal audit team has played an important role in measuring the effectiveness of operational and financial systems and controls, with special emphasis on value for money. Twice yearly visits are made to all accounting centres and all major activities are to be reviewed over a two-year cycle. Recommendations already made and accepted will improve and strengthen existing control systems and result in lower costs even on such mundane matters as travel and subsistence claims and checking deliveries of supplies.

Staffing and training

11. High priority is being given to ensuring that the main thrust of the policy for good management is understood at all levels of management. All centrally conducted courses include sessions related to achieving the aims of the initiative. At the more senior level, a series of 2 or 3-day seminars will commence this autumn and will include contributions by the Principal Establishment and Finance Officers and Head of Internal Audit.

12. In recognising the need for improved skills in financial accountancy, the department currently has four staff who are training for a professional qualification.

Costs

13. The only separately identifiable costs of work in response to the initiative are £45,000 for the microcomputer for computerising the financial accounts.

LORD CHANCELLOR'S DEPARTMENT

1. Work is proceeding in the Lord Chancellor's Department (LCD) along two lines, with the development of separate but complementary financial management systems. The first covers the operational requirements and cost of the courts where the main administrative task is to provide the framework within which the independent judicial processes can work efficiently and effectively. The second covers the policy formulation and programme expenditure requirements and cost of headquarters.

Courts administration

2. As reported in Cmnd 9058, some 400 courts have been established as cost centres and are given information about costs incurred under individual expenditure items. The six Circuits, into which the administration of the courts is divided in England and Wales, have now been given greater delegation and have powers to switch general administrative expenditure, covering travel and subsistence, postage and telephone charges, within their total budgets.

3. Work has continued during the past year on rationalising the collection and dissemination of information. As Cmnd 9058 recognised, there was some danger that management information systems, especially those which have been developed in response to specific demands, might duplicate the collection of information already in existence. Vital information has sometimes been obscured by a mass of less relevant detail. An exercise was therefore mounted to establish specific objectives for the various functions associated with court administration, including targets which were agreed by each of the Circuits in accordance with its own circumstances. These will provide a uniform measure of performance, for example waiting time between committal and trial in the Crown Court, and between an application for an appointment and a hearing before a Registrar in the County Courts. Information systems are being devised to highlight basic measures of effectiveness.

4. As part of the preparatory work in the cycle of annual Supply Estimates, the Circuit Administrators will in future make an annual report to the appropriate Deputy Secretary on how effectively they met their targets during the preceding year and on their assumptions about

work in the forthcoming year in the light of which agreed targets and bids for a share of the department's resources will be settled. These targets will be translated by Courts Administrators (who are responsible for groups of courts) into more specific requirements of the performance expected of the chief clerks in charge of the courts. The system will begin operating in its new form in September.

Management of headquarters

5. The second development is of a management information and resource allocation system for headquarters. This has been based on the well-tried systems introduced successfully in other Government departments, appropriately modified to cater for LCD's specific requirements. It is designed to identify and establish the objectives and cost of each function currently being discharged. The system will assist management to justify and accord appropriate priority to all functions and to enable a management board, chaired by the Permanent Secretary, to make informed recommendations to the Lord Chancellor on priorities and the allocation of resources.

6. The system identifies actual (as opposed to notional or apportioned) costs for each headquarters command headed at Grade 5 (Assistant Secretary or equivalent) level and allows the development of cost centres with specific budgets for which the heads of command will be accountable. A pilot run was conducted in April. The system will be extended to the whole of LCD headquarters by September.

Cost effectiveness

7. A management scrutiny section headed by a Principal and located in a newly established Organisation and Planning Branch has been created since the publication of Cmnd 9058. It applies an efficiency unit-type approach to various structural and management questions within LCD and seeks to improve cost-effectiveness. The following four management

scrutiny reports have been completed (and recommendations in the first two have already been implemented):

(a) conveyancing in the Official Solicitor's Department;

(b) the structure of the Law Commission;

(c) the functions of the Listing Officer in the Crown Court; and

(d) the structure of the Central Office in the Royal Courts of Justice.

8. In addition, a scrutiny of the handling of private moneys (£1,000 million) within the LCD was undertaken by the Efficiency Unit; an action plan, which takes into account the views of interested parties, is in the course of preparation. A scrutiny of the Law Society's administration of the legal aid fund is being conducted by a private firm of management consultants. A report is expected by the middle of the year.

Programme expenditure

9. Significant developments in this area are as follows:

(a) as part of an exercise to improve control over legal aid and its administration, the management scrutiny mentioned in the previous paragraph was commissioned. From 1 March 1984 control of legal aid in matrimonial proceedings has been tightened through administrative changes made by the Law Society.

(b) the Government's announced intention of introducing a national, centrally-funded, independent prosecution service in 1986-87 will have major implications for costs from central funds. Detailed work is in hand on a new system of payments to reflect changed responsibilities in future.

Awareness

10. The department recognises the importance of fostering a positive approach to its development of financial management by raising awareness and, where necessary, changing attitudes. Training is central to this. In the light of the reaction to the training programme originally envisaged, LCD's approach to training is being reconsidered and a programme of locally based financial awareness seminars is planned and will concentrate on the use which managers should make of the new

financial information they receive and the responsibilities they carry for managing their affairs within a cash limit.

Costs

11. As foreshadowed in Cmnd 9058, a Principal has been appointed to a new post with responsibility for taking forward the LCD's work on financial management. The post has been established in the new Organisation and Planning Branch, referred to in paragraph 7 above, headed by an Assistant Secretary, who reports to the Principal Establishment and Finance Officer. To the cost of the new team (about £33,000) should be added the additional (but often hidden) costs of developing and implementing the improved management systems for the Circuits and headquarters described above. An estimated £200,000 was spent on all of these related activities in 1983-84. More will be spent in the current year. Such costs are small in comparison with the benefits which should accrue from a fully developed management system.

DEPARTMENT FOR NATIONAL SAVINGS

1. The functions of the Department for National Savings (DNS) are unchanged from those shown in Cmnd 9058, as are the broad outlines of the departmental financial arrangements. However the stock of savings has grown from £23 billion to about £26 billion whilst manpower has continued to be reduced. The DNS vote is entirely administrative with no programme expenditure in the sense in which the term is used for most government departments. Managing the stock of savings, together with inflows and outflows of savings money, can be regarded as in some ways equivalent to programme expenditure for DNS.

2. Cmnd 9058 set out the main areas in which development would take place to improve financial management. The progress on each is reported below. In some cases plans have changed from those originally envisaged this time last year, in other cases better progress has been made than was thought possible.

Top management system

3. The third round of MINIS has been completed. Each of the rounds has provided top management with statements of objectives and achievements and of the disposition of resources. Now that the third round has been completed information is beginning to accumulate on which strategic decisions can be made. For the future the improved management information emerging from the system outlined in paragraph 5 below, together with the output measures in paragraph 6 below, will feed into MINIS and will provide an improved basis for the development of resource priorities and for examining the need for individual areas of work.

Budget and cost centres

4. Five budget centres were established on an operating basis from 1 April 1984 and the department's vote has been restructured to show the separate running costs of each. These centres are operating quarterly budgets within a rolling 12 month budgetary system. A computerised vote accounting system has been developed on a mainframe computer at Marton (Blackpool) and each budget centre is linked by an on-line terminal network. Within each budget centre a microcomputer system has been reporting the cost of running the 72 cost centres since

January 1984. Control of manpower and finance has been unified in the Finance Officer since the introduction of the budgetary control system.

Management information

5. The cost centre microcomputer system mentioned above is an interim measure. It will be replaced as soon as possible by a comprehensive management information system now being developed to run in conjunction with the vote accounting system already mentioned. This will start coming into operation by January 1985 with complete implementation by the end of 1985-86. Instead of relying on aggregate figures already available, further development has shown that the new system can be designed to identify workload, performance and cost information for each cost centre and to produce individual and aggregate cost and performance information which can be used in the department's MINIS as well as for most other management information purposes.

6. Intermediate and final measures of output have been identified with the help of the Treasury and the system is scheduled for full implementation by the end of 1985-86.

Internal audit

7. The strengthening of internal audit is continuing; six of the department's internal audit staff are undergoing training for formal qualifications. This is in addition to the five members of staff who are undergoing training leading to accountancy qualifications.

8. Consultants have been employed to advise on audit aspects of the computer system being developed for National Savings Certificates.

Post Office

9. The department has reviewed the standard of service provided by the Post Office to the DNS and to national savings customers. As a result they are working with the Post Office to raise:

(a) the standard of display of national savings products in post offices;

(b) the awareness of national savings products amongst staff operating the 20,000 post office outlets; and

(c) the level of post office accuracy in the handling of national savings transactions.

This is likely to be a continuing aspect of the department's work.

Transaction accounting

10. As mentioned in the introduction, the stocks and flows of money in and out of DNS are regarded for the purpose of financial management as the equivalent to the department's programme expenditure. Work on the clarity and comprehensibility of the accounts has started and recommendations will be available by the end of the year. This will be followed by a comprehensive review of the accuracy and efficiency of the department's transaction accounting systems; this will be commissioned in the autumn and is seen as a major exercise for consultants extending over a year or so.

Training

11. In addition to increased audit and accountancy training, two senior finance staff have attended the Senior Finance Course at the Civil Service College, and one further person has been earmarked for the next course. Other staff have attended financial management seminars at the College. The Director of Savings has chaired a series of seminars attended by all cost centre managers and other senior staff. These have been followed up by detailed discussions between the leader of the financial management project team and cost centre managers, and also by one-day departmental training courses aimed at giving a wider picture of financial control in government. All management personnel down to EO level are now attending financial management seminars which are being conducted by DNS management training branches.

Costs

12. The costs remain difficult to estimate but expenditure spread over 1983-84 to 1985-86 may be around £725,000. This includes the direct running expenses arising in those years, which are estimated at £50,000 for a full year. The increase above the estimate put in Cmnd 9058 is caused by provision of £250,000 for the consultancy fees mentioned in paragraphs 8 and 10 above, together with increases in training and in the number working in the implementation team; and increased expenditure on computer hardware and software. No allowance has been made for expenditure arising from changes which may in due course be recommended by the transaction accounting study.

NORTHERN IRELAND OFFICE

1. The Northern Ireland Office (NIO) is responsible for expenditure of some £400 million a year, of which almost two-thirds consists of grants to non-Governmental bodies. The largest is to the Police Authority for Northern Ireland with a 100 per cent grant of £255 million. The department itself employs some 4,500 staff (including over 2,900 Prison Service grades). Its running costs amount to £103 million a year (including some £80 million for the Northern Ireland Prisons).

2. The majority of the NIO's resources and expenditure are employed in maintaining law and order and relate to security policy, policing, the treatment of offenders, compensation and related subjects. The Office also assists the Secretary of State in constitutional and political matters and in his general oversight of Northern Ireland affairs. The NIO bears the costs of four Ministers who assist the Secretary of State in supervising the six Northern Ireland Departments.

Programme for improving financial management

3. The NIO has developed a management accountancy structure under which the work of the Office is divided between 8 responsibility centres, which are subdivided into a total of 27 cost centres. It is intended that this structure, which is already in use for the annual Management Information System (MIS), will be adopted for the NIO vote (Class XVII,1) from 1 April 1985, the related Financial Information System and the NIO's public expenditure planning in the 1985 Public Expenditure Survey. It will then be possible to relate all budgeting, analysis and monitoring of costs and performance to the same structure.

Management information system

4. The NIO's Management Information System (MIS), introduced in 1983, has been developed further with the second annual report (MIS 2) produced in March 1984. Like its 1983 predecessor (MIS 1) the report covers both programme and administrative expenditure, summarises departmental objectives down to cost centre level, provides output measures and performance indicators where practicable and gives details of resources consumed and controlled. Statements of objectives have been refined. The system has been extended to fringe bodies and the report includes a review of performance against MIS 1 targets. MIS 2 also

provides a more detailed breakdown of administrative costs and suggestions for policy and efficiency reviews. As a further stage towards reallocation of resources, and integration with the Estimates process, cost centre reports now specify desirable tasks that require additional manpower and the tasks that would have to be reduced or discontinued if further resource savings were to be made. During 1984 further progress will be made in aligning the MIS with the Public Expenditure Survey and Estimates procedures.

5. The MIS has already begun to prove its value in sharpening awareness of cost, and identifying areas for programme and policy review, for example a review of the security staff grant scheme. It has also assisted senior management to monitor the work of responsibility and cost centres. For example, in MIS 2 the Permanent Under Secretary has held review meetings with heads of responsibility and cost centres and, where appropriate, follow-up work designed to provide a more effective use of resources has been put in hand.

6. Management consultants have been engaged to assist in computerising the largely manual financial and accounting systems by 1 April 1985 and subsequently to develop management accounting systems for introduction in 1986. These changes will provide central and line management with better and more immediate information and allow increased delegation of financial responsibility.

7. A pilot study into delegations of financial and other responsibilities is in progress at the Northern Ireland Forensic Science Laboratory. Information obtained from the study will also be valuable when extending delegation to other areas of the department.

Progress in major expenditure areas

8. Development in MIS and PES will continue to improve the quality of resource management in all expenditure areas whether under direct NIO management control or grant aided. Progress has also been made in designing an activity/functional costing system for prison establishments which, in the first phase, will provide headquarters management with greatly improved information about costs and enable them to establish more effective budgeting systems. Such enhancements depend upon computerised prisons payroll and stores systems which are expected to

become operational during 1986-87. The management consultants will also assist in these developments.

9. The statutorily independent Police Authority for Northern Ireland has drawn up a detailed work programme extending over several years for achieving more effective financial management. Their plans provide for a structure of cost and responsibility centres to improve budgetary control within the Authority which will be linked ultimately to a system of activity planning, resource allocation and financial monitoring for the RUC. These improved financial information systems will be used in inspections by HM Inspectorate of Constabulary, who will play an increasingly important role in monitoring the effectiveness and efficiency of the Force. They will carry out annual inspections aimed at assessing the RUC's performance and identifying scope for civilianisation and for more effective use of resources. This process will begin with a full inspection of the RUC in spring 1984. Other significant features include the initiation of a pilot scheme based upon four police cost centres; a training programme to improve the financial awareness of senior police officers; and a scrutiny to improve the management of the police building programme.

10. Work programmes for improving financial management have also been agreed with the Probation Board for Northern Ireland and the Police Complaints Board. In both, computerised systems will be introduced to improve budgetary control and the availability of management information.

Training

11. An extensive programme of training is underway for both Home and Northern Ireland civil servants to develop financial awareness and understanding, and to acquire specific skills (for example in investment appraisal). This training is provided both in-house and with the help of the Civil Service College and the NI Department of Finance and Personnel. By 31 March 1984, over a hundred managers had attended courses in financial management and related matters.

Expected costs

12. The best available estimate is that the cost of the programme of work for improving financial management in the NIO will be about

£0.85 million for the three years 1982-83 to 1984-85. Of this project team staff and training (including staff for the prisons project team) will represent £460,000, consultants £130,000 and computer costs £100,000. The total figures also takes some account of additional work falling on operational divisions (notably on MIS) and of the costs of the general programme of in-house financial training.

13. The above figures do not include implementation costs incurred in the Police Authority and the RUC. Those costs are estimated at some £0.25 million over the same period.

ORDNANCE SURVEY

Future Status

1. The future status of Ordnance Survey (OS) has now been resolved. Following a report from the Ordnance Survey Advisory Board (OSAB) the Secretary of State for the Environment announced to Parliament on 24 January 1984 that the OS would continue to be a civil service department financed by vote instead of becoming either a trading fund or given grant-in-aid status.

Changes in responsibilities since Cmnd 9058

2. The Directorate of Overseas Survey (DOS) was transferred to the OS from the Overseas Development Administration (ODA) on 2 April 1984. ODA will be charged the full cost of its work - an estimated £4.4 million in 1984-85.

Long term planning

3. The OS five year rolling plan continues to be the primary tool for planning for the longer term. After approval by Ministers and consultation with the OSAB the rolling plan will be published. As a first step the 1983-84 plan, which had been held back pending the resolution of OS future status, was published earlier this year. The 1984-85 and future plans will be published in the following autumn.

4. Although remaining vote financed the OS is being set revised financial targets with the object of minimising its dependence on Exchequer support and has a clear remit to be an efficient, business-like operation with performance targets against which it will report achievements.

Annual accounts etc

5. Commencing with the financial year 1984-85 the OS annual trading accounts, including statements of revenue and expenditure, will be published in addition to the normal vote account. The annual reports of the Director General of the OS and the OSAB will also be published.

Finance and planning

6. A general ledger software package was introduced on 1 April 1983. This has enabled earlier presentation of financial reports to budget

and cost centre managers and senior management than the previous clerical system. As foreshadowed in Cmnd. 9058 this will provide a financial modelling capability which is planned to be developed early in 1985.

Marketing and sales

7. The marketing and sales systems have been strengthened with improvements to statistical and financial reports and more efficient debtor control. In the longer term it may be more cost-effective to buy commercial software packages than to devise further in-house systems. Decisions in these areas will be made at the end of 1984-85.

Survey and production control

8. The development of the department's survey and production control systems is continuing. The field control system, which provides management information on regional survey costs and which will link with headquarters' systems was introduced on 1 April 1984. An on-line production control system is now working. This system enables the monitoring of work-in-progress and is used for the planning of work schedules and the efficient use of production capacity. It will be further enhanced to permit the monitoring of production standards and the identification of turn-round times, process times etc. The system is targetted for completion by December 1984. The headquarters' information system, which is used to provide management information on performance, is due to be fully revised by October 1986. In the short term it has been enhanced to make it compatible with the on-line production control system.

9. The department has reviewed the possibility of computerising its map information. It found that a computer database would be more cost-effective, and would lead to more efficient use of staff than the present manual system. Accordingly a new computerised system will be introduced during 1984-85 and 1985-86.

Staff and training

10. Efforts to improve financial, general management and specialist skills have been maintained. An in-house study into the control of delegated authority has been initiated. A micro-computer is used to sift staff records to assist in manpower planning, career development and succession planning.

Costs

11. OS has not incurred extra operating costs nor recruited specialist staff to support its programme for improving financial management. The developments reported above would have taken place in any event.

OVERSEAS DEVELOPMENT ADMINISTRATION

1. The bulk of the funds for which the Overseas Development Administration (ODA) is responsible is devoted to programme expenditure for development programmes overseas. Long-standing financial management systems, centred on rolling four-year plans which are reviewed annually, enable Ministers to determine the allocation of programme resources. Well-developed systems exist for appraising monitoring and evaluating the use of programme resources. Decisions to integrate and computerise the flow of management information covering programme resources were taken some years ago and this process should be completed within the next two years.

2. The paragraphs below report the results of the work, described in Cmnd 9058, which was completed during 1983 and early 1984 on:

(a) improving management information in the area of administrative costs and linking these by means of a MINIS-type system, to programme spending;

(b) delegating more authority over the use of aid programme resources from the Treasury to ODA and, within ODA, to and down line management;

(c) setting quantified targets and timetables for individual managers.

(a) improved management information and administrative costs

3. The department has decided, as a result of the pilot study announced in Cmnd 9058 and the work on running costs, that data should be assembled annually showing the costs of administering the delivery of aid for individual elements of aid programmes. The costs of related aid administration work being carried out by the FCO Diplomatic Posts overseas, the British Council both in London and overseas and the Crown Agents will be incorporated into this framework when data becomes available in a suitably disaggregated form. Each of these organisations has this in hand.

4. The information will be widely available in ODA and will be reviewed in late summer of each year by an ODA senior management group, chaired by the Permanent Secretary, in the light of Ministerial decisions on the detailed allocation of aid programme resources for three years ahead.

The review will assess changes in the cost of delivering the aid programme, will take account of assessments made by line managers at Under Secretary level of the staffing position in their divisions and will determine for the coming year the allocation of administrative resources, particularly administrative and advisory manpower, between ODA departments and development divisions.

(b) greater delegation and decentralisation of authority

5. The department has reached agreement with the Treasury on the essential features of generally increased and substantially simplified delegation of authority to ODA over the use of aid programme resources. This new agreement has been codified and is now in operation. Formal delegations of authority within ODA, which are already well developed, are currently being reviewed. The aim will be to increae the scope for line managers to take decisions about the use of funds without reference to senior managers or central ODA departments. Such delegated authority would continue to be subject to the existing requirements to seek specialist advice and assistance to ensure that what is financed meets the required standards.

6. Authority over travel and subsistence expenses which are important for ODA will be delegated to line managers responsible for managing the staff undertaking the travel. The allocation of travel funds will thus be handled by each responsible Under Secretary.

(c) setting objectives and targets

7. In parts of ODA the work has a high policy and advisory content for which it is extremely difficult to formulate quantified targets; further the task of using aid funds effectively is continually affected by events outside the control of ODA or the Government. Nevertheless the department intends to make a significant effort during 1984 to develop quantified and time-bound targets and set these for individuals in administration and advisory grades. The aim of these and the more rigorous and systematic approach they involve is to ensure that line managers at each level agree priorities in the work programme, have a clear understanding of the role of each individual in implementing them, and have an agreed basis for monitoring the performance of individual departments and officers. The main responsibility for defining objectives and identifying and specifying targets and monitoring

performance would fall to each line manager and his or her subordinates on the basis of discussion between them. The targets and progress towards them would need to be reviewed at regular intervals.

work previously under way

8. Testing of Phase I of the computer-based Management Information System (MIS) is in progress. This covers records and payments for personnel on overseas assignments, and much of ODA's accounts work; it is expected to be operational later in 1984. Phase II is scheduled to be operational in 1985 and will handle inter alia financial information on aid programme expenditure. It will help improve financial control, forecasting and planning, as well as strengthening information required for decision making by enior management and Ministers. A third phase will add statistical tasks and further enhancements are under discussion.

9. The reorganisation of the scientific units has been completed and the planned reduction in size will be implemented by April 1986. Memorandum trading accounts have been introduced.

Training

10. A comprehensive review of training needs has been completed and its recommendations accepted in principle by the department. These are that training should be regarded as essential for all staff and therefore mandatory in principle; that line managers should be responsible for planning the training of staff within their commands; that central management will still be able to advise on and control individual staff training to take account of career development plans; and that training profiles will be prepared for all grades. Computer facilities are being obtained to assist with the more systematic approach. Implementation of some of the proposals in the review has begun. Outline training profiles have been developed for each grade. Financial management awareness seminars have been attended by most staff in all grades and further financial management training is under way. The training required for the new MIS is well advanced.

Costs

11. New work in response to the initiative cost £68,000 in 1983-84, and consisted entirely of manpower costs. Approximately 20 per cent of the

financial management unit's time has been spent on providing training for the rest of the office. The costs in 1983-84 of work already under way on the MIS was £1,021,000. In 1984-85 costs of refining and introducing the expanded running costs exercise are estimated to be [ ]; the expected cost for MIS in 1984-85 is £860,000.

PAYMASTER GENERAL'S OFFICE

1. The Paymaster General's Office (PGO) has made steady progress in implementing its plans described in Cmnd 9058. The PGO is a small agency department with no programme expenditure, so its plans are concentrated on administrative expenditure and, in particular, on co-ordinating existing information systems to provide timely reports to the various levels of management from a central database. The intention of the department's top managers is that the managers of cost centres will be aware of the costs incurred in their areas of responsibility and that they will be able to compare efficiency and cost-effectiveness between similar cost centres.

Top management system

2. A MINIS-type top management information system has been developed and a trial run covering the first period of output was completed manually in March 1984. The results are being evaluated and it is expected that the first full round will benefit from the lessons learnt. MINIS reports will be twice yearly and from 1 April 1985 information from the computerised financial management system will replace the present manual input.

3. The MINIS statements show each cost manager's agreed objectives, achievements (including measurement by performance indicators), staff complement and costs. MINIS will stimulate control of all resources by strengthening the responsibility and efficiency of cost centres in reporting commands.

Other developments in the department

4. A cost centre structure at Senior Executive Officer level has been established. A pilot scheme for the control and monitoring of computer projects using project management techniques was introduced in February 1984. Various commercial software packages for financial and management information systems were evaluated and a suitable package has been purchased. An automated personnel analysis system was introduced in April 1984 replacing the manual recording system. These elements together will ensure that an automated budgetary control system for monitoring vote and full cost expenditure will be provided by 1 April 1985.

5. Developments of the financial management system will continue: enhancements such as management statistical suites, computer usage and stock control systems will be introduced progressively to achieve a fully integrated financial accounting and management system by 1990.

6. By January 1985 the department should have completed its purchases of hardware. As the system is developed, so the internal audit team are being involved. Annual system reviews and regular progress reports to the Economic Secretary to the Treasury, who is currently carrying out the functions of the Paymaster General, will be made once the system is fully in operation.

Training

7. The department recognises the need to make staff aware of good financial management. Top management keeps line managers in touch through regular briefing and departmental circulars. Training meetings held to explain the MINIS-type system have also helped to promote the financial management concept. In addition, a user committee provides a common platform for discussing system design and any problem areas.

8. Training is seen as a major contributory factor towards the success of the introduction of the financial management system. The department's trainers are preparing a training plan with the necessary training modules so that training of users and awareness for other staff can begin in January 1985.

Trade union side involvement

9. The departmental trade union side (TUS) has been kept up to date with developments, and a sub-committee of the departmental Whitley Council has been set up to give members of TUS the opportunity to discuss any points from the initiative which might cause them concern.

Costs

10. The initiative, taking account of basic staff costs, common services, hardware/software procurement, training, travel and subsistence is now expected to cost in all about £196,000. This includes about £65,000 for computer hardware and software.

OFFICE OF POPULATION CENSUSES AND SURVEYS

1. The Office of Population Censuses and Surveys (OPCS) outlined its programme of work to improve financial management in Cmnd 9058. Further progress on this is set out in the following paragraphs.

Top management system

2. Senior management in all nine divisions of OPCS have been involved in the development of a top management system. It will provide a formal framework for reviewing long-term objectives and plans, linking them with the Public Expenditure Survey (PES), setting short-term targets, planning the size and allocation of divisional budgets, setting the Supply Estimate and monitoring results. In all divisions managers down to Principal level have set out their objectives. These will be reviewed regularly in future as part of the process leading to the annual PES submission to Treasury. Work has been done to identify specific targets for 1984-85 in each division, again down to Principal level. This process follows the review of objectives and sets the pattern for 1985-86 and later years.

Budgetary control

3. OPCS plans to develop budgetary control in stages. The manager in charge of each of 45 responsibility centres receives regular monthly budget statements of administrative expenditure. From 1 April 1984 managers have also received monthly budget information on staff numbers and costs. The next stage should include the more rigorous application of control procedures to departmental computing. In the 1984-85 Supply Estimate for OPCS, salaries and general administrative expenditure have been combined in one vote subhead to allow more flexible use of resources by managers.

Management information

4. The new computerised accounting system mentioned in Cmnd 9058 has been installed. This has reduced by four weeks the time taken to report expenditure to managers.

5. For PES and Estimates, and other management information work, the department is now using two microcomputers linked to a computer bureau service. These are proving to be of considerable value in the

development of information systems. Benefits obtained to date include financial and development staff being able to process work at the same time, and burea time and cost being reduced.

Performance measurement

6. In collaboration with a Treasury operational research specialist a pilot project on output measurement has been set up in a statistical unit. Although the results are not yet available it is hoped the pilot project will provide guidance for measuring performance which can be applied in other statistical areas of the department.

Training

7. Training is being approached with two aims:

(i) to improve general awareness of the principles of good financial management and its objectives, and;

(ii) to improve skills and the understanding of specific aspects.

8. Particular attention has been given to ensuring that staff are aware of the plans to develop financial management and how they affect them. Internal seminars for senior management were held in May 1983. These were followed by a programme of one-day awareness seminars which have been attended by over 80 per cent of staff of Executive Officer level and above.

9. Further seminars will be held later this year to deal with specific problems such as the clarification of objectives, and the use of output and performance measures and budgetary control. The OPCS is making extensive use of financial courses provided by the Civil Service College and is also encouraging financial staff to study for professional accountancy qualifications. One member of the financial management team recently passed the final examinations of the Institute of Cost and Management Accountants and another has started his training.

10. As a further aid to increasing awareness and reinforcing commitment a regular newsletter is distributed throughout the department, informing staff of developments in financial management as they occur.

11. A financial guide has been produced and distributed to managers. The guide contains information on all relevant financial matters

including the PES, Estimates, the role of the Finance Branch in the department and advice on charging policy. It also includes the department's own ready reckoner for staff costs.

Costs

12. The estimated cost of developing financial management in OPCS in 1983-84 was £197,000 (including £93,000 for use of computers and £21,000 for training). The corresponding estimate for 1984-85 is £229,000 including £50,000 for computers and £22,000 for training.

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SCOTTISH OFFICE

1. The main features of the Scottish Office's work on the plan set out in Cmnd 9058 were:

(a) a comprehensive review of arrangements for financial management of programme expenditure, to improve decision-making and objective setting and provide output measures;

(b) the introduction of a departmental running costs information system and pilot studies in budgetary control;

(c) a further round of management plans, aimed at improving planning and control of resources and identification of areas requiring specific review;

(d) development of a budgetary control system for the Scottish prison service and improved financial management in the national health service;

(e) pilot studies on the review of financial management of non-departmental public bodies; and

(f) a new financial management training programme.

Meeting the needs of Ministers and top management

2. The redesigned management planning system now serves as a basis for annual presentations to the Secretary of State through his junior Ministers identifying the main issues and objectives for the work of each department. Subsequent discussion with Ministers confirms priorities for policy review. In 1983 these included higher education and list D schools. Further changes in the format of management plans were introduced for the 1983-84 round to focus attention more sharply on the relationship between manpower, organisation and budgeting and programme expenditure objectives and make the material easier to arrange and disseminate rapidly. The new-style plans have already proved useful by showing where reviews of performance, plans or general management are needed.

Programme expenditure

3. The work on financial management of programme expenditure has been taken forward and a common information base (in the form of detailed programme narratives) established for the internal conduct of the Public Expenditure Survey. This base will be improved as further work is carried out on objectives and output measures. It has already led to a

better presentation of issues to Ministers and an improved commentary on the Scotland programme (published in March 1984) which expands upon the information about the Scotland programme in Part 2 of the Public Expenditure White Paper and serves as a comprehensive account of the Scottish Office's stewardship for the resources it controls. Following a 1983 survey by questionnaire of the financial management of programme expenditure, work is proceeding on programme objectives, output measures and procedural guidance. Areas in which detailed work is taking place include further education, social work, selective financial assistance to industry and the motorway and trunk road programme.

4. Particular attention has been devoted to devising a methodology for the conduct of financial reviews of non-departmental public bodies in view of the prominent role they play within the ambit of the Secretary of State's responsibilities. Pilot studies have been carried out in the Scottish Sports Council and the Scottish Council for Educational Technology, and a pilot scheme to develop improved financial planning is in progress in a number of bodies grant-aided by the Scottish Education Department.

5. Discussions have begun with the Convention of Scottish Local Authorities on aspects of financial management. In relation to the police service, the role of HM Inspectorate has been strengthened by the development of policy guidelines for inspections and the appointment of a second Inspector of Constabulary; and consultations are well advanced about a draft circular on value for money in the police service.

6. Within the NHS, a programme of regular monitoring of the progress made by Health Boards in moving resources to priority services identified in national guidelines is now established. A system of monitoring and analysing costs in relation to output at hospital level is operating effectively and is being developed further. Measures have been taken to reduce the relative cost of NHS administration, to improve the flow of statistical information and to raise the standard of internal audit. Consideration of how best the principles of management set out in the management inquiry ("Griffiths") report should be applied has involved an extensive analysis of management and budgetary structures in the NHS; the implementation of these principles should result in more efficient and effective management of the service.

7. The management accounting system for prisons expenditure is being developed in two ways. The pilot budgetary control system has produced interesting results in 1983-84 and is to be extended from three to six institutions for 1984-85 and eventually to all. Secondly, more detailed unit cost statements are enabling the central management to contrast and compare running costs at different establishments to identify areas of potential saving.

Control of administrative expenditure

8. Good progress is being made with developing the Financial Information and Control System (FICS) which by autumn will cover all administrative expenditure. In conjunction with the Scottish Office's management planning system this will form the basis for the extension of a system of budgeting to most of the more important elements of operational expenditure. At its core is a powerful on-line general ledger package which is expected to have wide application beyond FICS itself. Since April 1984 FICS has provided managers in all divisions with monthly expenditure statements covering most of the principal items of operational costs. A pilot study on the operation of budgets is being carried out in 1984-85 using a representative sample of six diverse budget centres and will be extended to the whole department from April 1985. Experience with budgeting for travel and subsistence, with the reporting of photocopying costs and with telephone extension logging, indicates that useful savings can be expected.

Consultancy, inspection and review capabilities

9. A scrutiny has taken place covering staff inspection, management services, advisory services related to new technology, assistance available for policy review work and internal audit procedures. The report emphasised the importance of linking the various capabilities more closely into management of the Scottish Office and proposed organisational and procedural changes to that end. Action following the scrutiny will proceed in the light of a central report by the Efficiency Unit. The Scottish Office Management Group approved in March the reviews to be undertaken by the agencies covered in the scrutiny.

Training

10. Specialised training in the operation of FICS and in the principles of budgeting for administrative expenditure has already been given to

budget centre managers and their staffs and this will continue as the system develops. In addition, a comprehensive training programme has been devised to introduce all other staff (some 350) exercising direct and indirect expenditure responsibilities to the principles of the financial management initiative.

Costs

11. Total expenditure, including development and operating costs, on all the aspects of the programme of work described above is estimated at about £0.56 million in 1983-84 and about £0.73 million in 1984-85.

Impact on the Scottish Office

12. Staff have been made aware of the principles of the Government's initiative and of the plans for the Scottish Office itself through the issue of management circulars, the circulation of descriptive papers and management briefs, the provision of training courses and discussion sessions between divisions and the relevant finance division and the financial management review team. The main effort up to March 1984 was on management plans and programme expenditure but since April every division and unit has received full information about administrative costs and is now preparing to operate the new budgeting system. The trade union side have been kept fully informed of developments and have discussed them with the official side.

13. There is one important aspect of the financial management initiative - the acceptance by line management of responsibility for decisions on the allocation of resources - to which the Scottish Office has found itself well placed to respond. The federal structure is described in Cmnd 9058 - with five functional departments and central services each headed by a Deputy Secretary, with the Management Group under the chairmanship of the Permanent Under Secretary of State ensuring co-ordination across and between them, subject to the general approval and direction of the Secretary of State and his Ministerial team. Each departmental head and the head of central services is thus already accustomed to exercising a wide range of managerial authority including control of manpower resources, programme expenditure, personnel management, analysis of the output of each department's management plans and the allocation of travel and subsistence budgets. It is thus possible to build on the existing role of the Deputy Secretary and the

well-established channels of line management responsibility within his command, when introducing most of the main features of the initiative. These structural features have made it possible to introduce and to develop a reasonably uniform approach to most of the main features of financial management work, despite the fact that the Scottish Office is responsible for a wide range of subject matter and contains within it divisions and units which differ widely in size, structure, function and mode of operation.

DEPARTMENT OF TRADE AND INDUSTRY

1. In the past year the Department of Trade and Industry (DTI) has concentrated on establishing integrated management systems following the merger of the separate departments in June 1983.

2. The first step was for DTI Ministers to formulate a new set of departmental aims for the DTI as a whole. These were published in January 1984. There are 16 sub-aims underpinning the department's central aim "to encourage, assist, and ensure the proper regulation of, British trade, industry and commerce; to increase the growth of world trade and the national production of wealth". Particular attention is being given to the integration of export and sponsor work.

Activity and Resource Management system (ARM)

3. This is a Management Information System for Ministers which was formed from the two separate systems in the Department of Industry and Department of Trade before the merger. The ARM system is an annual exercise, the purpose of which is to examine the department's current and future use of resources in finance and manpower in the light of the department's policy aims. In the 1984-85 exercise this involved:

(a) Ministerial scrutiny of the work programme of each division;

(b) each division submitting against its work programme bids for both finance and manpower over the public expenditure survey (PES) period.

(c) consideration by Ministers of the total proposed resource allocation throughout the department, and adjustments to divisional work programmes in the light of the overall picture and policy priorities.

The work programmes of divisions will be monitored during the course of the year by Ministers.

4. At the management level the ARM exercise also identified issues for in-depth review, including an examination of the department's library services and the level of office support services.

Performance measurement

5. An important element in the ARM exercise has been the development of performance measures for programme expenditure. Thus for selective financial assistance schemes (which absorb 27 per cent of the department's finance and 7 per cent of its manpower), divisions have been required to set targets covering the proposed impact of the scheme (eg number of jobs to be created/safeguarded, amount of investment to be assisted) and also the efficiency with which a scheme is run (eg average case processing time, number of monitoring or follow-up visits). Performance will be reviewed against targets during the year. The evaluation effort of the department on the overall benefits, including the cost effectiveness, of programme expenditure is also being strengthened. This will be co-ordinated by the Finance and Resource Management Division with a major input from the department's economists and those running selective assistance schemes.

6. To strengthen management efficiency, units of the department carrying out similar tasks (eg the Regional Offices and Regional Development Grants Offices) or ones with a regular pattern (eg the Companies Registration Office and Patents Office) have been encouraged to introduce or develop management ratios. Regional Offices' targets and activities are being scrutinised on a comparative basis for significant variations; Regional Development Grant Offices have introduced ratios per member of staff for case loads and case processing time. The results are reviewed monthly on a comparative basis.

Administrative expenditure

7. Since 1 April 1984, over half the department's staff have been in Responsibility Cost Centres (RCCs). The RCCs are all discrete units - the 7 Regional Offices, the 4 Research Establishments, the Business Statistics Office, the Patents Office, the Companies Registration Office and the Insolvency Service. From 1 July 1984, the 4 Regional Development Grants Offices will also become RCCs. Each RCC is given a budget covering its administrative costs (salaries, accommodation, postage, telecommunications etc) and is required to live within it. These new responsibilities have been accompanied by additional freedom from the centre. Thus, for example, within their guidelines, they can transfer savings they make in one area of their budget to another. Those units

which have been RCCs for some time are enthusiastic about the new responsibility and the benefits of decentralised management. Significant savings have already been made in the fuel and utilities, printing and telecommunications costs of some Regional Offices. The RCC system is seen as evolutionary and further consideration will be given to its development during the coming year.

8. Headquarters Divisions pose separate problems because their administrative costs are not always readily separable. It is however the intention to introduce as far as practicable cost centre principles. Travel and subsistence and entertainment budgets have already been devolved to them.

Improvements in information supply

9. If full advantage is to be taken of the various management developments in the DTI, improved information is required for staff at all levels. The department has drawn up an information systems strategy supported by computerisation. This is known as the Management Information System (MIS); it has five elements which are being developed as an integrated whole:

(a) Financial Resource MIS: in addition to replacing existing separate computer systems dealing with the general ledger and PES and Estimates, the new integrated system will provide greater facilities to attribute expenditure to organisational units within the department. This will be particularly important in monitoring the existing RCCs and extending budgetary control. Parallel running with existing systems will begin in Autumn 1984;

(b) Sponsorship MIS: the use of computer models will permit better monitoring and forecasting of financial assistance to industry together with information on results. To date, work has concentrated on regional assistance. Information on schemes under the Science and Technology Act (currently processed by a commercial bureau) is also to be brought in-house;

(c) Human Resources MIS: this involves automated records of posts and people in the department. It will also, in due course, help more accurate estimates of manpower costs. A core system

was implemented in early 1984 and a fuller system will be operational by the end of 1984;

(d) Physical Resources MIS: its purpose is to monitor the acquisition and use of accommodation and other assets. A pilot system will be implemented by mid-1984;

(e) Departmental MIS: a pilot has been set up to support ARM. Further work will be done on bringing together information from the other MIS systems to provide analyses for senior management.

10. In addition, the DTI is developing telecommunications and software strategies to maximise the benefits of interlinking computer mainframes, microcomputers and word processors.

Training

11. The DTI's training branch has launched a training programme on the FMI/MIS covering:

(a) staff at all levels who need a general awareness of developments;

(b) staff who require specialised training eg line managers in RCCs who have been given new responsibility for the control and use of resources and the users of new computer systems.

12. As a result of this programme, 2,500 staff in the department will have received FMI/MIS training in the year ending September 1984.

Costs

13. The principal costs of the development plan are:

(a) the operation of the ARM system: this is principally the costs of the ARM team (three full-time staff for part of the year) and staff in divisions concerned with completing the annual returns. The costs of the 1984-85 exercise were £86,000;

(b) Responsibility Cost Centres: a consultant and an accountant are currently engaged in the development of RCCs. Costs of the RCC programme are rising from £94,000 in 1983-84 to £156,000 in 1984-85;

(c) The implementation of the Management Information System: costs to date have been £1.3 million and in the next three years

(ie between 1984-85 and 1986-87) are estimated at a further £4.7 million (including hardware, software, operational costs and consultants but not DTI manpower). Of this £4.7 million £2.5 million are one-off capital costs;

(d) Training: costs are currently estimated at £350,000 a year.

DEPARTMENT OF TRANSPORT

1. Cmnd 9058 outlined 3 main areas of development in the Department of Transport:

(a) review by Ministers of objectives and costs of the department's activities;

(b) financial management of administrative resource use; and

(c) review of systems for controlling financial management of programme expenditure and adaptation of existing practice where appropriate.

2. Progress with the development work is described in the following paragraphs. The new systems will fit into a single framework for review and control. Their nature and the degree of detail involved will match the nature of different parts of the department and of its operations. The approach is therefore selective, concentrating most on areas where the principles of sound financial management can be readily applied with good prospects of securing benefits.

Top management review

3. The Secretary of State will shortly begin a systematic review of the objectives and costs of the activities of the department. The first areas to come under scrutiny are the Highways and Road Safety Directorates covering both a large programme cost and a large administrative cost element in the department's total expenditure. The review is covering activities, objectives, achievements and targets, costs and policy options in these areas. The programme of reviews will then continue so that the whole department is covered during the course of the year. This format for the reviews has been chosen so as to be as economical as possible and to fit in with existing control and review mechanisms in the department.

4. At a more detailed level, the Permanent Secretary's Resource Management Committee (RMC) has in hand a programme of reviews concentrating initially on the use and management of administrative resources. For each of the major administrative activities the RMC will consider objectives, demand forecasts, projections of workload and resource requirements. It will also review arrangements for planning,

monitoring and control, including developments in management accounting and the use of performance indicators; and plans for changes in financial management arrangements. The RMC has so far reviewed the driver and vehicle licensing and the driving test organisations and the department's Traffic Area and Regional Offices, covering together some 65 per cent of running costs. It has considered, for example, objectives for levels of service, (such as turnround times for licence applications or waiting time for driving tests) and arrangements for meeting these, taking account of the uncertainties involved in forecasting demand and making provision for staff and resource requirements with appropriate scope for flexibility. In 1984, the RMC will be extending these reviews to cover the vehicle and component approval and research areas and probably one of the marine, aviation and shipping directorates transferred to the department in June 1983.

Resource management

5. The department's systems for managing administrative costs include manpower budgeting, the computer-based MAXIS cost centre budgeting and monitoring system and eleven separate management accounting systems (MASs) based on MAXIS but tailored to the requirements of the main executive and fee-earning activities. For MAXIS, 1983-84 was a trial year and some major difficulties were encountered, particularly in relating MAXIS to the department's existing accounting and payroll systems. Development is continuing and the system will operate in a more complete form for 1984-85 and will be used as the basis for allocating and monitoring administrative expenditure and for monitoring the department's fee income and related costs.

6. Similarly, the MASs are still at an early stage of development. As more and better information becomes available through MAXIS, their structures will be individually adapted to meet more effectively the operational requirements of managers in the executive activities they cover. They will also provide improved information for memorandum trading accounts and for the revision of fees as well as a basic structure of functional costing for the department's activities.

7. In July 1983 the then Secretary of State decided that the goods and public service vehicle testing organisation should not be transferred to the private sector. As a result, the organisation and management of the

department's vehicle testing activities have been the subject of a major review to see how they could be run on more commercial lines within the department. The intention is to set up a management board responsible to a directing group within the department and with suitable delegations to allow a keener response to customer demand. This will have implications for the department's vote structure and accounting practices and these are being discussed with the Treasury.

Programme expenditure

8. Considerable attention has been given to clarifying objectives and assessing performance in relation to programme expenditure. Section 2.6 of Cmnd 9143 (The Government's Expenditure Plans 1984-85 to 1986-87) presents some initial results. For motorway and trunk road construction and renewal, objectives are set out together with output in terms of annual mileage and expenditure. Similarly for local transport, objectives are specified with information on expenditure and on outputs in terms of local bypass and relief road schemes started each year and passenger miles, fare levels and operating costs for local bus services. This work will be continued with detailed reviews of each expenditure programme. Consideration is being given to more detailed specifications of objectives and the scope for greater delegation of financial responsibility in the highways organisation.

Organisation

9. The Finance Management division established to develop and co-ordinate the development of financial management continues to perform this role but, in order to implement effectively the developments in programme expenditure, a Central Finance division has been established which will act as a focus for co-ordination of the department's PES proposals. A professional accountancy adviser has been appointed to the finance organisation at Assistant Secretary level who will be substantially concerned with developments in all aspects of financial management. The strengthening of internal audit is continuing; the consultant assignment to develop audit, particularly computer audit, at the Driver and Vehicle Licensing Centre has been completed.

Training

10. Specific training of cost centre managers and liaison officers in support of MAXIS is continuing. The broader implications of the

development of financial management are being given attention in general training at all levels and by way of specific courses provided internally or by the Civil Service College. Some internal audit staff are following professional training courses, and senior staff in the Finance Management division have attended relevant courses at the London Business School.

Costs

11. The cost of work in the Principal Finance Officer's command directed specifically to the development of financial management was around £150,000 in 1983-84 and is likely to rise to £250,000 or so in 1984-85. The Department of Transport accounts for about half the cost of MAXIS for which costs in 1983-84 were estimated at £1.4 million and for 1984-85 are expected to be £1.7 million, including some of that identified above. These figures exclude the very considerable efforts of staff throughout the department directed to implementing and operating the new arrangements in cost centres. Even though these developments replace to some extent previous efforts directed to resource management, a substantial net increase is involved.

20/1m

H M TREASURY

1. The main elements of the Treasury's programme of improvements in the management of its domestic resources as set out in Cmnd 9058, are:-

(a) a top management system to enable Ministers and senior management to consider future work and resources together more systematically;

(b) clear responsibility for costs to rest with those best placed to control them;

(c) full costing of operations to ensure maximum cost awareness;

(d) a more flexible and comprehensive accounting system.

The top management system covers the whole Treasury. The detailed application of other elements will vary according to the circumstances and work of different parts of the department.

2. Many of the changes will take effect in the coming year with the first full round of work planning and resource allocation; a more comprehensive costing of different parts of the Treasury's operations; and, in the Civil Service Catering Organisation (CISCO) and the Central Computer and Telecommunications Agency (CCTA) implementation of Ministerial decisions on their roles and responsibilities. Good progress has already been made.

Top management system

3. The first step towards establishing an effective information system for top management was an experimental round of work planning last Autumn. Aims and priorities were reviewed for each command, together with the deployment of staff. The results were reviewed across the Treasury as a whole by senior officials and by Ministers. The main function of this experimental round was to establish what scale and style of information best meet the needs of top management.

4. The first full round of work planning will begin in the summer of 1984. It will be extended so as to review progress over the past year and allocate resources for the year ahead. The aim has also been to devolve control of expenditure to the line where possible. In the central Treasury, for example, Under Secretary commands on the overseas side will have budgets for foreign travel, which has hitherto been controlled centrally. The scope for devolved control is greater in CCTA, CISCO and Chessington Computer Centre (CCC). Detailed arrangements for CISCO and CCTA are to be finalised in the light of the Government's decisions about the future role and responsibilities of both organisations.

New accounting system

5. Better cost information is essential to improved financial management. The Treasury's improved accounting system came into operation on 1 April 1984, on time and within budget. It provides for the more accurate, timely and flexible production of vote and management accounts direct from payments made, including automatic comparison of actual expenditure with budgets and cash limits. Periodic reports will go to managers, and on-line enquiries can be made from all locations. Extensions for such applications as financial modelling, commitment accounting and stock control are currently being evaluated.

Central computer and telecommunications agency

6. The fundamental review of CCTA undertaken by its Director has recommended changes to the role of the Agency which will make departments responsible for identifying and meeting their own information technology (IT) requirements while the CCTA's role changes from control and monitoring to the provision of strategic advice and specialist support. CCTA will continue to provide a procurement service as agent for departments. The costs of this, as of other services provided at the request of departments, will be recovered from them according to the effort involved in each. Treasury expenditure divisions will control departmental expenditure on IT projects. The transfer

of responsibilities involved in these changes will be completed by 1 April 1985, and the new charging basis will come into operation from 1 April 1986.

7. The changes will clarify responsibility for the approval, development and management of IT projects; speed up the processing of projects to procurement and implementation; and ensure that departments integrate consideration of individual projects more closely with their information strategies and the departmental objectives which they serve.

8. The changes in the CCTA's role and objectives will be the worked out by means of a formal corporate plan. It will set out the strategic direction for CCTA over the next few years; subordinate objectives for each part of the business; the resources within which CCTA will work; and the development of effective management and personnel policies. The corporate plan, revised annually, will form part of the Treasury's top management system. The first outline plan will be submitted to Treasury Ministers in the autumn of 1984. Meanwhile, the plans in Cmnd 9058 for a system of effort recording, and the budgeting and monitoring of resources, are being implemented.

Chessington computer centre

9. The major thrust of improved financial management at CCC has been the further development of performance indicators, and the further delegation of budgetary control. In April 1984 responsibility for Chessington office services was transferred to the Director (CCC), giving him day-to-day control of all CCC's resources. Within CCC, control of most expenditure has been deleted to Assistant Director (Principal) level, and some further. The new cost management structure will enable cost information to go to all who manage large numbers of staff.

10. Thirty-eight performance indicators have been identified, covering each operational and functional area. Along with budgetary information, performance trends are reviewed at

monthly meetings of the Director and his senior staff. The performance indicators will continue to be refined in the light of experience. Systematic cost comparisons are being developed with similar operations elsewhere.

Civil Service catering organisation

11. Major changes in civil service catering policy were announced in the House of Commons on 23 December 1983 (Hansard, WA cols 379-80). They included the introduction of greater competition; the conversion of CISCO to a trading fund; and a simpler subsidy arrangement which will be equally applicable both to in-house caterers and private contractors. These changes are to be made by 1 April 1985.

12. CISCO already uses indicators to assess the trading performance and operational efficiency of its restaurants. From 1 April 1984 the measurement of business volume has been improved by substituting a more comprehensive transaction account for the daily meal count.

National Economic Development Office

13. The financial position of NEDO (National Economic Development Office) has been clarified by the introduction of a grant-in-aid, with defined conditions of grant.

Training

14. The experience and training required by those with the main responsibilities for the operation of the financial management system has been identified, and where there are needs outstanding a programme to meet them is in hand. For the future these needs will be taken into account in succession planning for the posts concerned.

15. Besides the existing and planned training designed for staff on public expenditure work, which will help them to

respond to developments in financial management in departments, all staff in the central Treasury from Executive Officer to Principal are attending seminars on the principles of the Government's financial management initiative and on the particular plans to improve financial management in the Treasury. This programme will be completed this summer. At CCC those responsible for controlling expenditure have received comprehensive guidance, backed up by local seminars, and monthly briefings have kept staff generally up-to-date with developments. In CCTA, introductory presentations were given to staff down to HEO level in 1983; further presentations will be arranged in the light of the Government's decisions on the future role and responsibilities of CCTA. The training of CISCO restaurant managers is already geared to strict cost control within budgets for its trading operations. Staff in headquarters directly involved in operating the management accounting system have all received detailed training. All CISCO staff from SEO upwards have been given an appreciation of how the Government's financial management initiative affects not only CISCO's own operations but also those of its customer departments.

Costs

16. The cost of implementing these improvements in financial management was just over £500,000 in 1983-84. Of this, £145,000 represents capital expenditure, the remainder the time of staff, much of it dedicated full time to the improvement of the computer-based management accounting system (which also serves a number of other small departments). Now that the bulk of this development work is complete the numbers involved are being reduced, but there will be a continuing additional commitment in staff time to support the new management information and resource planning systems.

WELSH OFFICE

1. The last White Paper explained the many functions of the Welsh Office, and that a significant proportion of its total expenditure is accounted for by local authority services. It also set out the department's general approach to financial management, noting what had already been achieved and what it intended to do to improve matters further. Since then work has continued much as planned. The main themes have been maintained, with clarification of aims and objectives and much detailed work on an improved system of management information. Policy reviews of ancient monuments work and management of the NHS in Wales have resulted in proposals for substantial changes in organisation.

2. The following paragraphs give brief accounts of progress in various areas.

Aims, objectives, and measures of achievement

3. The framework of aims mentioned in the last White Paper has now been defined, and approved by the Secretary of State. A first series of shorter-term objectives has been formulated by line management in consultation with Finance Group and senior management. Progress in achieving them will be considered in November. This will be in conjunction with the conclusion of the 'internal survey' of the allocation of public expenditure resources to services within the Wales programme. This year, for the first time, this annual exercise will include objectives. This will be provided by an analysis of reported costs against objectives over the past six months, which will be compared with the costs forecast at the time of setting the objectives. New forecasts will be made for the ensuing six months with any adjustment of objectives considered necessary. It is intended that this process should be repeated every six months. The work done in formulating objectives has highlighted the paucity of meaningful output measures and performance indicators. The search for better measures and indicators, and work on refining the largely inadequate ones which exist, will continue. An initial set of statistical indicators has been developed and published for the health service in Wales, and discussions have begun with local authority associations about measures and indicators for local authority services. The November review is expected to provide pointers to avenues for further exploration.

Information for managers

4. From the beginning of the financial year 1984-85, improved monthly reports are being provided to managers containing details of the programme expenditure for which they are responsible, together with elements of administration expenses that are within their control. Abstracts of these reports are provided to the Business Group mentioned in the last White Paper. The reports will be developed further as subsidiary systems are produced for monitoring and allocating personnel and office costs that are centrally controlled at present. Memorandum trading accounts for operations to which fees and charges are relevant will be assembled directly from information coming out of the new system, and will be used for management control as well as for the annual setting of prices. The data in the new system will also be used to indicate costs associated with the pursuit of objectives. These developments have been carried out in close collaboration with managers, and a forward programme of video-based seminars is to be provided to managers at all levels, setting out financial management principles as applicable in the circumstances of the Welsh Office and giving practical training in the use of reports for control and decision making, in appraising options for deployment of resources, and in estimating and preparing budgets.

Delegation and budgeting

5. The formal delegations to officers in policy divisions in respect of programme expenditure, reported in the last White Paper, are now virtually complete. As regards budgets for running costs, the Welsh Office has had for some years a system covering travel and subsistence. It presently operates at Under Secretary level and has proved very effective in controlling this expenditure. The scope of budgets will be progressively enlarged by the inclusion of those items of administrative expenditure which are within the control of line managers. These will be set at Assistant Secretary level in the autumn of 1984 for the financial year 1985-86, taking into account figures in the new monthly reports.

Equipment

6. As an interim measure updated accounting equipment was installed in the early months of 1984. Meanwhile a study by commercial consultants of the possible installation of an in-house mini-computer facility is covering future financial management applications. The results of this study will form a firm base for the phased introduction of computerised facilities for financial management throughout the department.

Management reviews

7. Following a review of ancient monuments work it has been decided to establish a new unit, jointly staffed with the Wales Tourist Board, to carry out the Secretary of State's responsibilities for the preservation of ancient monuments and historic buildings in Wales. The unit (to be called CADW: Welsh Historic Monuments) will be headed by a director recruited by open competition. He will report to a steering committee including members from inside and outside the civil service and chaired by the Secretary of State. It is intended that the new unit should pay greater attention to the effective presentation of monuments to the public and related commercial activities than had previously been the case. Sound financial management will be essential to the success of the new arrangements.

8. Improved management arrangements for the health service in Wales are to be introduced following the Griffiths report on NHS management in England. The NHS management function within the Welsh Office will be separated into a new Directorate, headed by a Director recruited by open competition. The Director will be a member of a new Health Policy Board, chaired by the Secretary of State and including some members from outside the civil service. He will chair an Executive Committee of the Board which will assist him in his management role. He will also be the Accounting Officer for the NHS in Wales.

Outside bodies

9. Following considerable changes initiated by the Welsh Office and being carried through by the newly appointed Board, the Welsh Water Authority is achieving notable increases in efficiency. The Authority is required to meet a specific financial target and a performance aim based on its total operating costs. Financial targets have also been set for

the Welsh Development Agency in respect of its investment and site development/factory building functions. Work is continuing within the Consultative Council framework to devise appropriate output measures for local authority services, though this is clearly a long-term exercise. Discussions are also continuing on the best method for determining capital allocations.

Costs

10. The total resource costs for the Welsh Office's financial management activities up to the end of 1982-83 were about £130,000. In 1983-84 the costs were £200,000, taking account of the time spent by managers and the costs for staff dedicated to development work, studies, reviews and training as well as operation. Future annual costs for further development and for operation of Welsh office financial management systems are likely to be of the same order as those in 1983-84. In 1986 there will be additional capital cost, which cannot at present be estimated, in acquiring sophisticated computer facilities to be used throughout the department to operate financial management systems.

APPENDIX 1

EFFICIENCY UNIT - PROGRAMME OF WORK FOR 1984-85

During the current year the Effciency Unit will be working with departments in a number of scrutinies, selected from their programmes of reviews and studies. This work will cover the following main areas:

Foreign and Commonwealth Office	Development divisions of the Overseas Development Administration.
Home Office	Police National Computer Unit.
Inland Revenue	Repayment procedures. Inland Revenue archives.
Customs & Excise	Service to the public.
Department of Education & Science	Efficiency study of the Universities. Open University.
Northern Ireland Office	Arrangements for RUC buildings.
Ministry of Defence	Manpower control. Marine services.
Department of the Environment	Urban programme.
Department of Health & Social Security	Liable relative procedures.
Office of Population Censuses & Surveys	Registration of births, marriages and deaths.
Department of Employment	Arrangements for dealing with European Social Fund claims. Relationship of Jobcentres and the Careers Service on recruitment to the Youth Training Scheme.
Ministry of Agriculture, Fisheries and Food	Veterinary Investigation Service.
Attorney General	Litigation by the Treasury Solicitor's Department
Cabinet Office (MPO)	Identification of internal talent in the civil service. Management procedures in departments for managing accommodation (multi-department Review).

Note: further scrutinies and reviews may be added during the remainder of the year.

BUDGETARY CONTROL: PROJECTS IN DEPARTMENTS

The table below shows the main features of projects in the departments covered by the Financial Management Unit's report on implementing budgetary control.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Agriculture, Fisheries and Food	Throughout Ministry.	From 1 April 1984 existing delegations for casual and overtime merged to permit switching; and existing delegation arrangements for travel, subsistence and removal expenditures improved.	Management Accounting Information System (MAIS) being developed to operate from 1 April 1985 as a replacement bookkeeping system and to provide budget/cost centre analysis.	
	Eastern Region (5 budget centres headed at Grade 5/6 level with 1,700 total staff)	Pilot from spring 1984 to cover manpower (including casuals and overtime), travel and subsistence, office equipment and some other costs.	Ad hoc reporting systems until MAIS available.	
	Norwich Division (6 of the cost centres within Eastern Region)	Pilot running since 1983, co-ordinated with the regional pilot but covering all resources controlled in the Division, including internal recharging between the cost centres in the Division.		

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Cabinet Office (MPO)	Throughout department.	Trial under way. Delegation of a full range of costs to Responsibility Centre Managers (usually Grade 3) and to lower levels where appropriate, from 1 April 1984.	Administrative costs broken down to the appropriate level by the Treasury's new computer-based management accounting system (MAISY) since 1 April 1984.	Budgeting system linked into annual activity planning procedure.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
HM Customs and Excise	Headquarters	Responsibility for items of administrative expenditure progressively delegated to regional Collectors and HQ Heads of Office.	A management accounting system (currently being developed) which will be used for setting and operating budgets, analysing costs and attributing them to cost centres throughout the department.	Development will be co-ordinated with major operational systems for VAT, Customs, Excise and revenue accounting and the developmentof key output measures and performance indicators.
	Pilot Collections	Delegation of extensive range of costs to 3 pilot Collections from 1 April 1983 increased to 6 pilot Collections from 1 April 1984 including manpower on a trial basis to 2 of them and accommodation rental to 4 of them.	Financial information system currently being developed for use on microcomputers to analyse costs and attribute them to cost centres in each Collection. System will include facility for development of management information and costs by Collectors locally.	Collectors allowed some freedom to transfer expenditure across budget headings. For manpower there is also a numbers and monetary target. Budgetary trials will be co-ordinated with work in pilot areas on setting of work plans and targets and monitoring achievement.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Ministry of Defence	Throughout department.	Delegated responsibility for travel and subsistence expenditure since 1982.	Wide range of financial information and management accounting systems currently in existence and being further developed.	General development of management accounting and information systems will continue.
	i) 2 Naval Hospitals (Haslar & Stonehouse and Institute of Naval Medicine) ii) Royal Naval Aircraft Yard, Fleetlands iii) DGEME Central Workshops, Donnington iv) 3 RAF basic flying training stations (Cranwell, Linton on Ouse and Church Fenton) v) Royal Signals Research Establishment, Malvern	<u>Executive Responsibility Budgets</u> Trials (except (iv)) to become 'live' pilot schemes in 1984-85. Full scale implementation plan covering support area now being drawn up for phased introduction between 1985-86 and 1987-88.		Precise demarcation of responsibility between Central Finance Division and senior line management not yet fully determined.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Ministry of Defence (cont)		Staff Responsibility Budgets Budgets were introduced on 1 April 1984 covering some 90% of civilian staff. Responsibility for staff costs delegated to line managers subject to cash and manpower ceilings. Budgets to be based on MINIS objectives and to be progressively extended to cover military staff.		

DEPARTMENT	PROJECT	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Education and Science	5 HQ Branches (Under Secretary commands) covering nearly 20% of the department's staff, excluding HM Inspectorate of Schools.	On an experimental basis, budgets have been set for 1984-85 and responsibility delegated for a number of items of running costs, including salaries and wages, with freedom to switch between different items of expenditure	Budgets have been set on the basis of actual staff complements and historic expenditure levels in relation to non-staff items. A computerised financial information system (FMIS) designed by management accountants is being developed which will permit expenditure to users and generate monthly reports of expenditure against budget.	The experiment is being co-ordinated by a Central Liaison Unit which has developed criteria for evaluation.
	University Grants Committee (80 staff)	Has been operating as a self-contained cost centre with responsibility for all administrative expenditure since June 1983.	Most UGC expenditure already separately identified in DES accounting system; hence-forward will be covered by new financial management information system (FMIS).	Report on benefits/ disbenefits of first year's experience being considered.
	HM Inspectorate of Schools (440 + 190 support staff) Darlington Office (600 staff)	Operating as self-contained cost centres since 1 April 1984 with responsibility for all administrative expenditure.	Much HMI and Darlington expenditure already separately identified: henceforward will be covered by FMIS.	Central Liaison Unit co-ordinating and helping to evaluate operation.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Employment	5 HQ Branches (Staff Inspection, Information, Industrial Relations, Staff Discipline and Special Employment Measures). 9 Unemployment Area Benefit Offices (total approx 3,000 staff).	Delegation of responsibility for full manpower costs and GAE. Budgets drawn up by pilot budget holders. Head Office pilots began on 1 April 1983. UB pilots commenced on 1 October 1983.		Delegation currently from central division to budget holders but with FMI team co-ordinating.
	Throughout department.	Planning underway to introduce devolved budgeting covering manpower costs, GAE and recharges for material services from 1985-86.	Work on the development of a management accounting system to attribute costs to organisational units currently underway. Present pilots depend on manual extraction of data.	Budgeting system to be linked to top management review process.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Environment	Throughout department.	For 1983-84, 200 cost centre managers were involved in the preparation of their budgets (all real costs including manpower and some internal recharges). Intention is to give them greater responsibility for controlling costs against budgets later this year.	MAXIS (Management of Administrative eXpenditure Information System) introduced in April 1983, which analyses costs by individual cost centres.	

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Foreign and Commonwealth Office	i) Overseas Establishments	Delegated budgets covering 20% of local costs introduced from 1 April 1983. System extended from 1 April 1984.		Further delegation of local costs to follow from 1 April 1985.
	ii) Home Departments	Delegated travel budgets introduced from 1 April 1983.		
	iii) General		Pilot study management information system now complete. Interim MIS to be operational in 1984 to break down all FCO costs by department or post and by function (political, consular etc). Interim system to be developed into fully computerised system by 1986.	

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Health and Social Security	Throughout department.	Responsibility for travel and subsistence delegated to all cost centres and for postage and telecommunications to local office cost centres from 1983.	Management Accounting and Information System installed 1 April 1983. Analyses all costs by cost centre.	Manpower costs may be delegated during 1984-85.
	2 Group Managers (Grade 6) Commands in North Eastern and London North Regions (some 40 local offices) and 1 Principal Command at Newcastle Central Office.	Delegation of manpower on trial basis started in autumn 1983. From April 1984 additional budgets covering a wider range of administrative expenditure have been included and further delegation of authority given (switching), head-count removed).		Grade 3 heads of regional organisation and central office do have their own decentralised budgets for numbers and money. Further studies under way on the feasibility of delegating manpower costs to cost centres in HQ and central offices.
	Outstation of Newcastle Central Office.	Experiment in operation of full budgetary control during 1984-85.	Overseen by line manager and monitored by Management Services Branch, with quarterly reports to the Central Office Management Team.	Wherever possible budgets are to be established; where not possible expenditure data will be provided. After initial monitoring state, manager will be able to switch between all budgets except accommodation.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Home Office	Immigration and Nationality Department (Grade 3 level)	Separate budget from 1 April 1984, with substantial delegation of authority (grade mix, switching etc) to the head of IND and lower level experiments with budget centres.	Initially integrated with departmental FIS, but programme of work includes development of fuller activity costing information.	Scheme will be linked with development of better output information.
	Prison Department	Already considerable delegation to Prison Department HQ. Plans to develop budgets for individual prison establishments, with some delegated authority.	Computerised costing system operational since 1 April 1983.	

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Inland Revenue	Throughout department.	Delegated authority on an experimental basis for a limited number of administrative costs (telephones, travel etc) since 1982.	New financial management and accounting system operational from April 1984. Meets all current budgetary control requirements and will be extended as necessary.	
	One Group Controller command of 15 tax districts (Grade 5 level).	Delegation of full range of costs including manpower on trial basis from April 1984.		Depending on the outcome of the evaluation, the intention is to extend the scheme throughout the department from 1986-87.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Scottish Office	5 Grade 5 commands and one Scientific Services Unit covering 450 staff and approx. £7 million administrative expenditure.	Delegation within guidelines of full range of costs on a trial basis from April 1984.	A management accounting system which began initial running on 1 April 1984 is currently under development. This will form the basis by which delegated budgets will be operated.	
	Prison Service.	Pilot budgetary control scheme at 3 penal establishments extended to 6 establishments in 1984-85. Plans for service-wide extension in 1985-86.	Management accounting operational since 1972; providing functional analysis since 1 April 1981.	

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Trade and Industry	Since 1 April 1984 6,700 staff (about half the department's total) have been in Responsibility Cost Centres (RCCs). These are all discrete units: the 7 Regional Offices, the 4 Research Establishments, the Business Statistics Office, the Patent Office, the Companies Registration Office, and the Insolvency Service. The 4 Regional Development Grant Offices have also been RCCs since 1 July 1984.	All manpower and GAE costs are delegated subject to certain remaining constraints including manpower numbers targets, cash limits and staff inspection.	To date dealt with by existing reporting system but a new computerised financial information system is being developed with enhanced monitoring and forecasting abilities covering both programme spend and running costs. Intended to commence parallel running in October 1984.	As far as practicable cost centre principles are planned to be extended to HQ divisions - HQ travel and subsistence and entertainment budgets have already been delegated.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
Transport	Throughout department.	For 1983-84, 130 cost centre managers were involved in the preparation of their budgets (for all direct costs including manpower, and some internal recharges). In 1984-85, the arrangements will operate in a more complete form and be used as the basis for allocating and monitoring administrative expenditure and for monitoring fee income and related costs.	MAXIS (Management of Administrative Expenditure Information System) introduced April 1983 (jointly with Environment). MAXIS analyses all costs by individual cost centres. Linked with this, 11 separate management accounting systems are being developed to cover the main executive and fee-earning activities.	The number of cost centres increased to 190 in 1984-85 primarily because of the transfer of functions from Trade during 1983-84.

DEPARTMENT	PROJECT AREA	DESCRIPTION	REPORTING SYSTEM	COMMENTS
HM Treasury	Throughout department (mainly Grade 3 level).	Budgets to operate from April 1985 covering manpower, overtime and most travel and subsistence expenditure in central Treasury. More comprehensive budgeting in operational areas.	New computer system introduced April 1984 to improve timeliness and flexibility of cost information for managers.	Managers will be made aware of all costs including those (eg overheads in central areas) where devolved control not considered feasible.

NOTE (NOT FOR PUBLICATION)

The table below is intended to provide a bibliography of material relating to the development of financial management during the past year or so. A few examples have been entered to show the kinds of documents we have in mind. These include both:

a) published reports; and

b) documents made available to the public;

and cover:

a) documents arising from (new) management systems;

b) reports from departmental scrutinies, reviews, committees etc; and

c) consultative documents.

Departments are asked to provide references for material they have made available, including in particular reports etc mentioned in their chapters in Part 2 of the White Paper.

RELATED PUBLICATIONS AND DOCUMENTS

Department	Publication/Document	Available From
Office of Arts and Libraries	Financial Scrutiny of the Royal Opera House, Covent Garden Ltd, February 1984, ISBN 0 11 630482 0 (£18.00)	HMSO
Cabinet Office (Management and Personnel Office)	Review of Personnel Work in the Civil Service: Report to the Prime Minister by J S Cassels CB, 1983 (ISBN 0 11 630468) (£5.40)	HMSO
	Economists and the Financial Management Initiative: Civil Service College Working Paper No 36, Civil Service College, October 1983 (£1.00)	CS College Library Sunningdale Park, Ascot Berks SL5 0QE
	Management Documents 1984-85, 1984	Central Management Library Cabinet Office Room 130D/4 Government Offices Great George Street LONDON SW1P 3AL
HM Customs and Excise	Customs and Excise - Board's Management Plan 1984-5, placed in the libraries of the House of Commons and House of Lords	FMI Project Team Room 508M King's Beam House LONDON EC3R 7HE
Ministry of Defence	MINIS and the Development of the Organisation for Defence 1984, Defence Open Government Document 84/03	Ministry of Defence Man S (Org) Northumberland House Northumberland Ave LONDON WC2N 5BP
Department of Employment	Financial Management Initiative: Implementation in the Department of Employment in 1983 (£2.00)	Department of Employment FFI Caxton House Tothill Street LONDON SW1H 9NF

Department	Publication/Document	Available From
Manpower Services Commission	COMIS Handbook for 1984.	Manpower Services Commission Central Planning Branch Moorfoot Sheffield S1 4PQ
Department of the Environment (Central)	MINIS 4 statements, July 1983 (11 volumes for £64.50; individual volumes from £3.25 to £9.00)	MINIS Unit Room N10/19a DOE 2 Marsham Street LONDON SW1P 3EB
	DOE Annual Report 1982-83, October 1983 (£4.00)	MINIS Unit (as above)
	Review of the Role of Finance Divisions in DOE, November 1983	FACT Room N10/06 DOE 2 Marsham Street LONDON SW1P 3EB
Department of the Environment (PSA)	Wardale Enquiry Final Report to the Secretary of State to the Environment, 1983.	PSA Library Sales Office Whitgift Centre Wellesley Road CROYDON CR9 3LY
Department of Health and Social Security	Report of the NHS Management Inquiry, 1983	DHSS Library Alexander Fleming House Elephant and Castle LONDON SE1 6BY
Home Office	Criminal Justice: A Working Paper, May 1984, ISBN 0 86 252148 3	Home Office Library 50 Queen Anne's Gate LONDON SW1H 9AT

Department	Publication/Document	Available From
Inland Revenue	Senior Management System, April 1984 (£13.00)	Room 8, New Wing, Somerset House, Strand LONDON WC2R 1LB
Scottish Office	Public Expenditure to 1986-87: A Commentary on the Scotland programme (£5.00)	Scottish Office Library New St Andrew's House EDINBURGH EH1 3TB
Department of Trade and Industry	Department of Trade and Industry Aims, January 1984	The Library Department of Trade and Industry 1 Victoria Street LONDON SW1H OET

Department	Publication/Document	Available From
HM Treasury	Government Accounting: A Guide on Accounting and Financial Procedures for the Use of Government Departments, 1974, ISBN 0 11 630668 8 (£6.60). Four supplements have been issued: No 1, 1976, ISBN 0 11 630669 6 (£0.85); No 2, 1977, ISBN 0 11 630670 X (£1.25); No 3, 1979, ISBN 0 11 630671 8 (£1.50); No 4, 1982, ISBN 0 11 630462 6 (£4.15).	HMSO
	Government Internal Audit Manual, 1983, in three parts: ISBN 0 11 630293 3 (£3.95); ISBN 0 11 630294 1 (£3.00); ISBN 0 11 630295 X (£4.50); Binder ISBN 0 11 701117 7 (£2.50 plus VAT).	HMSO
	Explanatory and Technical Notes in Part 5 of The Government's Expenditure Plans 1984-85 to 1986-87, Cmnd 9143-II, February 1984, ISBN 0 10 191431 8 (£11.50).	HMSO
	Guide to the Supply Estimates in Supply Estimates 1984-85, Memorandum by the Chief Secretary to the Treasury, Cmnd 9161, March 1984, ISBN 0 10 191610 8 (£7.00).	HMSO
	IT Series No 5: Strategic Study of Government Administrative Telecommunications, March 1984 ISBN 0 11 630723 4 (£6.70)	HMSO
	Investment Appraisal in the Public Sector: A Technical Guide for Government Departments, 1982, ISBN 0 9502890 6 X (£1.00)	Committee Section HM Treasury Parliament Street LONDON SW1P 3AG
	Investment Appraisal in the Public Sector: A Management Guide for Government Departments, 1983, ISBN 0 9502890 8 6 (£1.00)	Committee Section HM Treasury
	An Introduction to Staff Inspection, June 1983 ISBN 0 947819 00 2 £1.50).	Committee Section HM Treasury
	Examining the Need for Work, January 1984, ISBN 0 947819 01 0 (£1.50).	Committee Section HM Treasury

Department	Publication/Document	Available From
Treasury/Cabinet Office (MPO) Financial Management Unit	Top Management Systems, May 1984, ISBN 0 7115 0058 4 (£2.50) Budgetary Control Systems: Implementation Report, May 1984, ISBN 0 7115 0059 2 (£3.50) FMI: Non-Departmental Public Bodies, July 1984, ISBN (£)	Central Management Library Cabinet Office Government Offices Great George Street LONDON SW1P 3AL