

CONFIDENTIAL - MANAGEMENT IN CONFIDENCE

PRIME MINISTER

INSPECTION AND MANAGEMENT CONSULTANCY IN DEPARTMENTS

Under my guidance the Efficiency Unit has just completed an investigation of management support in departments, based on scrutinies in MOD, DTI, DHSS, Scottish Office, HMT, and PSA. I commend to you the attached report by Kate Jenkins, Brian Morris and Charlotte Caplan of the Efficiency Unit.

2. There are over 5000 staff involved (costing around £100 million a year). They include:

- 1000 Internal auditors
- 850 Advisers on computing
- 550 Internal management consultants
- 400 Staff inspectors
- 300 Statisticians
- 250 Management accountants
- 150 Economists
- 150 Scientists
- 100 Operational researchers
- 1900 Support staff

These staff variously advise on, audit or control the use of resources within departments. Such expenditure is well justified if departments use them to good effect.

3. On the basis of the scrutinies there is evidence of good work in many areas but there are also worrying signs of overlapping work, gaps, confusion and lack of purposive planning and monitoring of results. Only staff inspection has readily available data about results and there the average is for 8 posts to be saved for each man-year of effort. (This compares with about 60 posts per year of effort from scrutinies - though the crude comparison probably exaggerates the difference.) Implementation rates for staff inspection are about 70% on average and have been declining.

4. This alone would justify radical re-appraisal. The position is more serious, however. Your government has started a fundamental reform to modernise management in the civil service. If, as a result, we do not get substantially better value for money - and with some urgency - a great deal of effort will have been wasted. I have therefore considered how these inspection and consultancy services should support the financial reforms at the heart of your policies for better value for money.

5. The reforms rightly put the brunt of improvement on line management. Line management will not be able to deliver the full potential of the changes unless they are supported imaginatively by those at the top of the departments and the services covered by this review.



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6. I have discussed this with senior Treasury officials and understand their worries about the effectiveness of the budget based management. We are not yet in a position to say with certainty how rapidly the balance between traditional inspection, control through budget setting, and support for the line manager in his new responsibilities for achieving results should change. But I see these as transitional problems. We need clear targets to ensure that we get the budget system working and that we are seen to want to help line managers be successful.

7. What we need, and must aim for, is a system which supports line managers and yet works for top management in its job of setting targets and investigation. For example, one of top management's jobs is to create for the public sector an equivalent discipline to competition in the business sector through setting ambitious but realistic targets for improving value for money. At the same time as enabling this to happen, however, I am convinced that we will not achieve good results unless we break the tendency for line managers to aim at surviving the attention of these services rather than at using them positively.

8. Some departments are thinking hard about this difficult transition. But consideration needs to be more widespread and more visible.

9. With that in mind I recommend in summary (further details are given in chapter 4 of the report): → in attached folder (2 copies)

1. Ministers in charge of departments ensure that Permanent Secretaries make it clear generally in the department that line managers are primarily responsible for improving efficiency and that the budget system will increasingly become the main method of monitoring and controlling their performance.
2. Ministers seek recommendations for action from their Permanent Secretaries to organise inspection and consultancy services in each department in the light of the needs of modern management in the civil service, and the recommendations in the report.
3. Internal audit should have an independent programme of work and its organisation be reviewed in about 3 years' time.
4. The work programmes for the forces covered by this report should be approved by the Permanent Secretary who should ensure that:
 - for the next two years at least, their principal task should be to handle the period of change to control by budget; and
 - investigations instituted by top management concentrate on areas of wide significance.



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5. You invite Treasury Ministers and the Minister of State (Privy Council Office) to :
- monitor all departments' progress (including their own) in putting this report into effect and to report back to you in 12 months' time;
 - review by 31 December 1984 the organisation and roles of their central services to reflect the multi-disciplinary approach recommended for departmental management support groups.

ROBIN IBBS
27 July 1984

conqueror

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cc DB.

10 DOWNING STREET

From the Private Secretary

SIR ROBIN IBBS

Inspection and Management Consultancy in Departments

The Prime Minister gave preliminary consideration over the weekend to your minute of 27 July, to which was attached a report by the Efficiency Unit on consultancy, inspection and review services in Government departments. The Prime Minister has also seen a copy of the Chief Secretary's minute of 3 August commenting on this report.

BS
The Prime Minister proposes to hold a meeting after the holidays to discuss the issues raised in the above correspondence. We will be in touch to arrange a time.

I am sending copies of this minute to John Gieve (Chief Secretary's Office), Mary Brown (Lord Gowrie's Office) and Richard Hatfield (Cabinet Office).

(David Barclay)

6 August 1984

MR. REDWOOD

You will have received a copy of Sir Robin Ibbs' letter to the Prime Minister of 27 July about inspection and management consultancy in Departments. But you may not have seen the Chief Secretary's minute of 3 August, a copy of which I attach.

The Prime Minister has agreed to hold a meeting with those most closely involved to discuss Sir Robin's proposals. This has been arranged for 10 a.m. on Wednesday 17 October.

I am sure that the Prime Minister would find it helpful to have the Policy Unit's advice, and perhaps you or Mr. Owen could be available to attend the meeting.

DB

8 August 1984

PRIME MINISTER

INSPECTION AND MANAGEMENT CONSULTANCY IN
DEPARTMENTS

Sir Robin Ibbs' minute proposes some fundamental changes in the way the management support services operate.

He favours a shift of emphasis towards budget-based management, under which the central services would support line managers rather than fight them.

The Chief Secretary is not happy (see minute at Flag A). He fears a weakening of control, particularly of manpower, if responsibility is delegated too far to line managers.

The differences between Sir Robin and the Chief Secretary are probably wide enough to need a meeting.

Agree a meeting after the holidays?

Yes not

Iub

3 August 1984



FROM: CHIEF SECRETARY
DATE: 3 August 1984

PRIME MINISTER

INSPECTION AND MANAGEMENT CONSULTANCY IN DEPARTMENTS

I have just seen a copy of Sir Robin ^{with AP?} Ibbs' minute to you of 27 July, with the Efficiency Unit report on the organisation of management support services.

This is a vital area of civil service management. Line managers require specialist advice so that they can carry out effectively the new responsibilities devolved to them under FMI. But top management also need to draw on the skills of the management support services, to carry out the investigations and scrutinies needed (as the report recognises) to allocate resources and ensure value for money.

I have not had a chance yet to study the report and discuss it with officials here. I will let you have my considered views soon and you may wish then to discuss the issues with some of us. But I thought you might find it helpful if I made some preliminary comments on three points in which the Treasury has a particular interest.

(i) Internal audit (Recommendation (3)). Over the last few years a good deal of effort has been put into raising the standard of internal auditing in departments. This is important, to provide top management with an independent assurance on propriety, regularity and value for money, and the systems to secure these. So I agree with the emphasis, in recommendation (3), on the need to retain internal audit as an independent function with its own standards, though of course properly coordinated with other management services.

(ii) Staff inspection (Recommendation (6)). However much responsibility is delegated to line managers, the top management in each department will need to keep up the pressure for economy in use of cash and manpower resources. At present staff inspection provides a check for top management on whether particular areas of the department are over-staffed or over-graded (or the contrary). Recommendation (6) argues against top management continuing to insist on "regular detailed inspection"; the suggestion is that manpower allocation problems can all be "resolved as part of the budget-setting process", relying on "a basic assumption of productivity growth". I fear that this would weaken the Government's control of manpower. I have written recently to colleagues encouraging them to improve their departments' staff inspection performance. I am still receiving their replies and I would like to consider them alongside the report's recommendation before giving you my considered view.

(iii) The role of the centre (Recommendation (7)). I would be very ready to join with the Minister of State (Privy Council Office) to monitor departments' progress and report as proposed in recommendation (7)(a). (7)(b), which proposes a review of our central management support services aimed at a "multi-disciplinary approach", may be more difficult. The Treasury has been bringing its specialists to bear on the twin problems of resource allocation and value for money by integrating their work more closely with the expenditure divisions. Of the management support functions (conveniently listed in paragraph 2 of Sir Robin Ibbs' covering minute), the Treasury has central teams concerned with most - internal audit, computing advice, staff inspection, management accountancy, micro-economics and operational research. Each of these groups needs to keep its identity as a central source of professional advice to departments - for example the internal auditors and management accountants will report to our new Accountancy Adviser

and will indeed comprise the bulk of the staff reporting directly to him). It seems to me that to lump all these together with the internal management consultants from MPO in a large "multi-disciplinary" group might well break useful links and risk a good deal of confusion. So I hope that the proposed review can examine all the relevant organisational options before we reach a conclusion.

I am sending copies of this minute to the Minister of State (Privy Council Office), Sir Robert Armstrong and Sir Robin Ibbs.

T. Green
J. P. R.
[Approved by the Chief Secretary]

**CONSULTANCY, INSPECTION
AND REVIEW SERVICES
IN GOVERNMENT DEPARTMENTS**

**Report to the Prime Minister
by the Efficiency Unit**

July 1984

CONSULTANCY, INSPECTION
AND REVIEW SERVICES
IN GOVERNMENT DEPARTMENTS

REPORT BY THE EFFICIENCY UNIT

Kate Jenkins
Brian Morris
Charlotte Caplan
Les Metcalfe

July 1984

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1. INTRODUCTION

1.1 Between September 1983 and March 1984 six departments carried out scrutinies of their internal consultancy, inspection and review (CIR) services. The departments were:

Ministry of Defence
Department of Health and Social Security
Property Services Agency
Scottish Office
Department of Trade and Industry
HM Treasury

The terms of reference are set out in Annex 1.

1.2 The scrutiny teams looked at:

- the full-time services whose primary function is to improve the internal administration of departments. These are staff inspection, management services and internal audit. This was the main focus of the review;
- professional and semi-professional specialists such as operational researchers, computer specialists, accountants, economists and statisticians who advise on the effectiveness of operations and of programmes;
- the contribution of task forces set up to tackle specific reviews, including efficiency scrutinies;
- the use of external consultants.

The central team in the Efficiency Unit also carried out a survey by questionnaire of CIR resources and organisation across the whole Civil Service and looked at practice in the private sector.

1.3 This report uses the evidence from the departmental scrutinies as a basis on which to make recommendations about the ways in which departments should now be restructuring their consultancy, inspection and review services to support the management reforms which were initiated in May 1982*.

1.4 The cost of the entire review was about £152,000.

* "Financial Management", note to departments by the Treasury and MPO dated 17 May 1982; published as appendix 3 to "Effectiveness and Efficiency in the Civil Service", Cmnd 8616, HMSO, 1982.

2. THE EXISTING ORGANISATION OF CIR SERVICES

2.1 Consultancy, inspection and review in departments involves about 5,000 staff and costs about £100m a year. The details of the organisation of CIR services are set out in:

- Annex 2: Staffing and cost;
- Annex 3: Functions of the four main services;
- Annex 4: Survey of existing services in all departments.

2.2 The CIR services are used in departments for three main purposes:

- (a) to advise line managers on internal administration (for example O&M advice on re-organising a registry) or designing and running programmes (for example specialist advice on computerising benefit payments);
- (b) to audit line management operations for top management to review the effectiveness of controls or value for money, for example through internal audit;
- (c) to control the use of resources, for example setting new complements by means of staff inspection or vetting applications for new equipment, often with reference to centrally set standards.

2.3 The present CIR services may become involved in all or any of these purposes. For example staff inspection and management services units commonly contribute to all three. The precise use departments make of their CIR services depends on:

- the way the services are organised;
- the quality of their staff and the way they see their role;
- the demands made on them by customers;
- the interest and support they get from top management;
- prescription and guidance from the central departments.

2.4 These factors are inter-related. For example, a critical PAC report on internal audit in 1981*, followed up by increased

* "Internal Audit in Central Government", 9th report from the Committee of Public Accounts, Session 1980-81, HMSO, 1981.

prescription and guidance from the Treasury, stimulated top management concern in departments and led to the development of greater independence of internal audit units, improved selection and training of staff and new working methods. The quality and effectiveness of CIR staff also influences the demands made on them - their work is to a large extent "quality-driven". The MOD scrutiny noted that, in the central management services unit:

"Virtually no assignments are now suitable for HEOs and an increasing number require full-time participation by Principals with SEO or HEO(D) assistance."

2.5 A significant common feature is that the fragmented organisation and specialised training of the different CIR services tends to isolate them from each other and focuses their attention on specific aspects of management rather than on the process of management as a whole. The DHSS scrutiny identified at least 20 separate units which contribute to CIR work. Despite this fragmentation, a general and increasing emphasis on improving value for money has led the work of different services to converge on many similar issues.

2.6 The departmental scrutiny teams all reported examples of sound and constructive work by CIR units. For example, the central management services unit in DHSS had estimated that the potential savings from its recommendations in 1982-83 were 1,540 posts. But the scrutiny teams also found evidence of:

- overlaps;
- gaps;
- confusion among customers as to what help was available;
- problems in monitoring effectiveness;
- lack of coherent planning.

2.7 Overlaps occurred when different CIR units carried out projects in the same work area within a short space of time:

"We found that issues relating to Statutory Sick Pay have been investigated by the Social Security Policy Inspectorate, five Regional Survey units and Internal Audit." (DHSS)

Overlaps of a different kind resulted from the focusing of attention on common issues:

- the Scottish Office report described an uneasy split of work on information technology between its computer services, management services and office services divisions;

- challenging "need for work" is a prescribed part of staff inspection, but is also an essential part of efficiency scrutinies and management services projects.
- all CIR services are concerned with performance indicators, but the examining teams found no evidence of a co-ordinated approach.

2.8 Gaps in coverage were noted mainly in:

- contributions to policy and programme review;
- the review of sponsored bodies;
- in the ability to mount multi-disciplinary audits to examine value for money in all aspects of the management of an operation or programme.

The DHSS team estimated that 99% of CIR capacity was devoted to the 3% of expenditure represented by administrative costs. MOD was the only department developing multi-disciplinary audits.

2.9 Many line managers are unsure about what specialist advice is available. For example:

"notwithstanding its effectiveness in specific parts of the Department the majority of DTI remains only very vaguely aware of the capabilities of the Operational Research Unit." (DTI).

"We found a fair degree of uncertainty among line managers as to what is on offer from CIR and who to turn to for help with a particular problem." (DHSS)

2.10 Few of the CIR units monitored their own effectiveness.

"None of the capabilities could tell me the value added to PSA's operations as a result of their activities." (PSA).

"All three MS units regard their objectives as comprising increased operational efficiency and effectiveness, cost and manpower savings, improved management controls and more effective planning ... It is impossible to quantify their success in these respects." (MOD).

In many cases individual projects were neither costed nor subjected to any assessment of their success. There was some evidence of wide

variations in effectiveness, as measured, for example, by the extent to which recommendations were actually implemented and the time taken in implementation.

"Many assignments take longer than they should. In staff inspection, the average length of time between the start of an inspection and the publication of a report was eight months. Two reports on assignments conducted in 1982 have not yet been published ... where reports are available on the staff inspections carried out in 1982, I estimate that only 30% of these staff reductions have been implemented." (PSA)

2.11 With the exception of MOD, where a Management Audit Board co-ordinates most CIR work, the examining teams found central planning of the CIR services to be absent or inadequate. For example the DHSS Regional Directorate produced a "shopping list" of 51 areas of concern to HQ branches, but regional survey teams picked up only six of these:

"clearly the priorities of line management at regional level were not co-incident with those of headquarters, but this is not being picked up as an issue for concern and resolution in any central mechanism seeking to ensure that CIR capacity is being used on those areas of highest departmental priority." (DHSS)

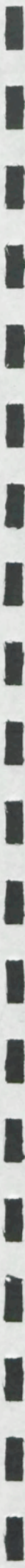
2.12 A vital element in central planning is the quality, experience and training of the staff in CIR units. The received wisdom is that staff, apart from professional specialists, do spells of three to five years before returning to line management posts where their skills will also be highly relevant. In practice senior staff tend to have spent far longer continuous spells on CIR work than this (Annex 4). The ability of the CIR services to change themselves and promote change in others must be influenced by a lack of fresh blood and fresh ideas. It is particularly worrying that in some departments there has been little staff turnover in internal audit, above the EO training grade, in spite of the heavily critical PAC report in 1981.

2.13 These problems led the examining teams to propose a number of changes. Annex 5 is a summary of each report's recommendations. They centre around:

- re-organisation to bring most of the CIR units together in one or two managerial groups; MOD have already established such a pattern and their scrutiny recommends its further development;

- new arrangements for co-ordinating CIR programmes and planning its longer term role;
- better control of individual projects through costing and assessment of effectiveness; use of risk analysis in audit planning;
- broader-based training for staff in the main CIR services, for example, training in basic O&M techniques, staff inspection techniques and microcomputer applications for all staff;
- attribution of costs to customers.

2.14 The survey of relevant practice in the private sector (summarised in Annex 6) provides a substantial contrast to the pattern found in the government departments. The picture is of limited, decentralised services whose work is largely led by the demands of line managers. Some differences are inevitable - businesses, even nationalised industries, are not accountable to Parliament as government departments are - but the survey's findings are significant, particularly now that, with the changes in management structures, departments are becoming in many ways more "business like". The remaining sections of this report concentrate on what these management changes will mean for the CIR services.



3. THE CHANGES IN CIVIL SERVICE MANAGEMENT

3.1 The departmental recommendations (paragraph 2.13) arose mainly from the evidence the examining teams collected of how CIR services operate at present. They are a sensible and practical approach to the deficiencies which were identified. However, these services have to operate in organisations which are in the process of substantial change. In the terms of reference for the scrutiny it was made clear that the teams should also look at the implications for the CIR services of the new structures which are being set up as a result of the Financial Management Initiative (FMI). This posed some difficulties for the scrutiny teams - departments are at different stages in implementing their FMI organisation and the teams found that line managers were far from clear about what the pattern of their responsibilities would be in the future.

3.2 The FMI has given shape and impetus to a change in management responsibilities that was already under way in parts of the Civil Service. The emphasis on lines of responsibility that are clear, objectives that are stated and agreed and activities that are monitored and assessed has encouraged the development of management structures on similar lines in many departments - for example:

- a top management group responsible for planning and allocating major resources on the basis of an annual review of functions, priorities and achievements (eg the Activity and Resource Management review in DTI; MINIS in MOD);
- annual budgets extending down each vertical line of command to individual cost centres (eg local offices in DHSS; Under Secretary commands in central Treasury);
- management information systems to enable managers to monitor their costs and outputs during the year.

3.3 The examining teams found these structures in place or in an advanced state of planning. But it was less clear to them whether line managers below the most senior levels fully understood what the changes meant for the way they do their jobs.

"Until the publication of Cmnd 9058* (which has not been widely distributed in the Department) and the distribution in November 1983 of an office notice on Financial Management ... it is clear that the relationship between the various

* "Financial Management in Government Departments", Cmnd 9058, HMSO, September 1983

departmental activities and the government-wide FMI was really understood only by a small group at the centre of the Department ... Indeed, even now we suspect that at, say, Principal level the general understanding of the FMI remains hazy." (DTI)

3.4 The budget-setting process and the discipline of working to explicit targets within a set budget will provide top management with a new and powerful resource control system. The system not only provides a means of tightening financial controls, but should also provide a means of improving and monitoring the function of management year on year to produce continuing improvements in value for money in each management area.

3.5 Line managers will have more power to choose how to deploy their resources but will have to be more accountable for their achievements. This in itself means a substantial change in the approach and the skills line managers need to bring to their jobs. Managers at all levels have to see themselves as part of a dynamic process in which the challenge and re-appraisal of their own functions and resource needs will become a routine part of their job, not one to be left to central resource controllers or occasional external reviews.

3.6 The new controls and responsibilities of the FMI go wider than the management of running costs. For example, a recent review of the role of finance divisions in DOE* concluded that day-to-day control of programme expenditure should be the responsibility of policy line divisions, while finance divisions should concentrate on central co-ordination with additional responsibility for challenging and auditing line management's performance. This report is mainly concerned with the central services in departments which deal with organisational and manpower issues; the DoE report suggests a similar approach to the finance organisation.

3.7 Departments are now beginning to develop the managerial skills and attitudes that will bring the new management systems to life. The budget and target setting process is at the heart of this. This process puts responsibility both for resource control and for achieving results firmly within the line of command from cost centres at one end to the top management group at the other. The development of managerial initiative and responsibility for value for money must be encouraged by redefining the central controls exercised by finance and establishments divisions to ensure that budgetary controls exercised down the line are real. As the same time the centre of departments will need to develop the capacity to monitor performance.

* "Review of the role of Finance Divisions in the Department of the Environment", Sally Booth and David Hampson, DOE, November 1983

3.8 The systems of control in departments go well beyond the scope of this review. But some of the CIR services affect the activities of line managers in a very direct and visible way. The way in which manpower and financial controls are handled - most notably the extent to which the budget setting process is regarded as a serious one - will be of crucial importance in encouraging line managers to accept that the primary responsibility for improved efficiency is theirs.

3.9 As a result of the FMI, line managers should become the main resource controllers once the size of their budget has been agreed and set. They will be responsible for organising their money and manpower, authorising and monitoring their own detailed complements and expenditure and, at the margins, they should be able to switch expenditure between manpower and other resources. Top management should be the internal resource allocators within the department. They should be responsible for determining how the department's total cash and manpower should be deployed between different functions, subject to the votes approved by Parliament. This shift in responsibilities will mean that the pattern of demand for CIR services will alter as the functions of the customers alter.

Line Management

3.10 Line managers will, for the first time, combine responsibility for management and policy development with responsibility for resource control. They will need training to ensure that the information used for their budgets is accurate and relevant. Their training should include:

- the rudiments of staff inspection and management skills, so that organisation, numbers and grading can be properly assessed;
- finance and budgeting;
- the use of new technology.

There is an important role for staff inspectors and management services staff working with training divisions to ensure that line managers are properly equipped to carry out their responsibilities.

3.11 The departmental scrutiny teams felt that, once this training had taken place, line managers could manage without the more routine external advice and inspection available now:

"The main source of expertise about a job lies, as has frequently been pointed out, in the people who actually do it; and once line managers have the knowledge, the powers and the

motivation to improve their performance, we think that for the most part they will prefer to use their own skills, and those of their staff, rather than call in outside CIRC experts." (DHSS)

However, in some circumstances, departmental CIR staff would continue to offer advantages of independent appraisal and an extra pair of hands when needed, as well as expertise not available in the line.

3.12 There is a good case for line managers heading large executive operations developing some specialist support of their own, but they and other managers will still need access to other specialist advice from time to time. Management services, staff inspection and computer advisory staff within departments should be able to provide much of the extra support line managers need, but it will have to be at an expert level.

3.13 All the departmental reports recommended grouping or closely co-ordinating the main advisory services. This opens the way to:

- ironing out the gaps and overlaps which the teams found;
- offering the line manager a single point for advice in identifying his problem and the skills needed to tackle it;
- providing the right mix of skills to deal with each issue.

The creation of a single unit to advise and support line management would also have the advantage of flexibility. A single unit which is responsible for meeting all demands for internal consultancy can adapt itself to fit changing needs in a way which separate units, organised to provide separate skills, cannot. While skills are supplied by separate units, the practitioners' own definition of what they are there to supply will tend to get in the way of matching their customers' real needs.

Top Management

3.14 The senior management of a department has a dual role. It includes the senior line managers each with continuing responsibility for his or her line management command. The development of the FMI has also given them a strategic role in planning and resource allocation for the department as a whole. This role requires them to act in a corporate manner as a group, not as individuals, looking across all the operations of their department. The top management group will need to be certain that it has support staff with the right expertise to brief it collectively, to ensure that it can exercise a firm grip on departmental operations.

3.15 The organisation and the skills of the support staff will need to be capable of changing over time as the organisation of the department changes. The main functions of the support staff for top management should be to:

- encourage the development of the FMI in the department, and to plan future strategic initiatives;
- act as secretariat in the annual round of budget-setting and reviews;
- advise on the setting of objectives and targets;
- identify particular areas for detailed investigation, audit or scrutiny;
- carry out investigations.

3.16 The scrutiny teams found that these functions are at present split between different units dealing with the FMI, with policy planning, manpower allocation and other CIR services. There are obvious advantages in having as many of these functions as possible in a single unit which is directly responsible to top management. All the functions except detailed investigations could be done by a small central unit. It should be staffed at a sufficiently high level to ensure that the advice given to top management and the discussions with line management are constructive and realistic.

3.17 Many departments have already developed a central unit which provides support for the top management system. But the relationships between the FMI systems and the existing audit, staff inspection and management services activities are often far from clear.

3.18 There will be occasions when top management wants a particular area of a department investigated by someone outside the line management chain. In a small department this kind of investigative capacity might be provided from within a top management secretariat, but in the larger departments different skills and different mixes of skills will obviously be necessary. It is never easy to combine a requirement for a special investigation with the proper use of the expensive staff resources involved.

3.19 There are a number of possibilities:

- to develop a separate investigating unit within the top management unit;

- to draw on staff from the management support unit (and elsewhere) to carry out investigations on behalf of top management;
- to combine within a single unit all the functions of the secretariat, management support and audit.

3.20 Maintaining a separate field force of investigators working only to top management is unlikely to be an economical solution and risks perpetuating problems of overlap and duplication of effort. On the other hand, combining all the functions within a single unit could damage the relationship between line managers and the support function. Line managers may be reluctant to seek advice from staff who are also seen to be involved in the central budget-setting and review process. The second option will probably be preferable in most departments, though mounting large investigative assignments will need close co-ordination between the top management and line management support units.

3.21 The scrutiny teams recognised that there is a need to maintain the role of internal audit in giving independent assurance to the Accounting Officer that the internal controls within his department are adequate. The internal auditors tend to guard their professional independence fiercely; this independence is essential but should not be carried to organisational extremes. There is a need for internal audit's work programme to be properly co-ordinated with other activities and for internal auditors to contribute to other investigative or review work on behalf of top management.

The Central Departments

3.22 Both the Treasury and the MPO have a co-ordination role for the CIR services. The Treasury's Staff Inspection and Evaluation Division maintains close contact with departmental staff inspection units and monitors and issues guidance notes on professional aspects of staff inspection. A similar central function is performed for internal audit. The MPO is responsible for the co-ordination of management services.

3.23 The central departments should look critically at their role in relation to management support in departments. At present the centre has some 120 staff employed in the co-ordination and monitoring functions for staff inspection, management services and internal audit, plus a large proportion of the 500 staff in CCTA who perform similar functions on the ADP side. The central groups provide valuable co-ordination and a means of disseminating new techniques, skills and ideas as well as providing training. The development of a small management support unit at the centre, with close links with the

departments and with the Treasury and the MPO, may be the most sensible way of approaching the need for co-ordinating the centre's activities. It is particularly important in this area of the development of management skills that the centre should not be seen to be dragging its heels in developing its own organisation while encouraging departments to be more innovatory.



4. CONCLUSIONS AND RECOMMENDATIONS

4.1 Management in the Civil Service is undergoing substantial change. It is inevitable that the next few years will be a transitional period. It is impossible to be sure what will be the best arrangements for consultancy, inspection and review in each department. These services need to be ready to stimulate and encourage the change and to plan for the consequential changes within their own organisations as well as across their departments. The people doing CIR work will have a strong influence on the success of the management reforms which were begun in May 1982.

4.2 Line managers in the Civil Service still need to be informed and reassured about their future role. Senior management in departments must make a reality of the FMI principles which emphasise line management's real responsibility. This change is both the most important and the most difficult of the governments' management reforms. The existing culture is one in which civil servants have been trained to work to central procedures with relatively little scope for personal initiative or accountability. Line management must be told unequivocally what is expected of them, and the nature of their new responsibilities, in a way which is honest and unambiguous. It must be clear how accountability will flow through the line management chain, and that senior management gives a high priority to helping line managers to be successful.

4.3 The recommendations that follow are aimed at three main objectives:

- To ensure that line management understands the implications of the management changes that are under way;
- To plan and manage the CIR services to support these changes, starting immediately with the change to resource management by budget;
- To monitor and co-ordinate the changes in the central departments.

The Implications of the Management Changes

4.4 Recommendation (1) Ministers in charge of departments with their Permanent Secretaries should ensure that line managers throughout their department understand that:

- (a) the primary responsibility for resource management and control and for achieving improvements in value for money lies with line managers;

(b) the cycle of budget and target setting and review through the year will become the main method of monitoring, assessing and controlling line management's performance;

(c) line managers will be given the authority they need to discharge their responsibilities, in the expectation that their activities may be audited but that the control mechanism is the budget;

(d) there will be arrangements for line managers to be helped by specialists, within their own organisation, or within the department, or from outside;

(e) CIR staff (except for Internal Audit) will be accountable primarily for how far they have helped line management improve its performance.

Organisation of CIR Services

4.5 Detailed organisational structures cannot and should not be prescribed centrally. They must be designed by each department to fit its own structure. Some re-organisation will be inevitable and the pattern may differ between departments.

4.6 Recommendation (2) Ministers should seek proposals from their Permanent Secretaries, within the next six months, for action to re-organise their CIR services. Options to be considered should include:

(a) regrouping the existing specialists to create a multi-disciplinary management support group, including staff inspection, management services, operational research and computer experts, and with access to other specialists; this support group should provide expert advice to both line management and to the top management group;

(b) developing a small top management secretariat which works directly for the senior management group and can co-ordinate the investigations and scrutinies commissioned or authorised by that group. The secretariat should draw on whatever source of expertise, within or outside the department, is most appropriate for the work it commissions.

The heads of large executive organisations which have their own CIR services should also review them on the lines of sub-paragraph (a).

4.7 Recommendation (3) Internal audit should be maintained as an independent function, but internal auditors should work in close co-operation with the management support group. How best to organise this co-operation will vary from department to department. Hitherto a majority of departments have emphasised the independence of internal audit by keeping a separate unit. That has obvious merit, provided that co-ordination with work to improve value for money is satisfactory and there are no artificial barriers which hinder joint working with other services where this is appropriate. On the other hand, departments should be free to group internal audit with other functions where the Accounting Officer is satisfied that there are advantages in this and that the independence and central standards of internal audit will be maintained. These organisational arrangements should be further reviewed in three years time.

4.8 Recommendation (4) Career planning for internal audit and management support staff, outside the functional specialisms, should ensure that spells of continuous service are no more than five years, and that senior staff have real line management experience in addition to experience in their specialism.

The Transition to Budget-based Controls

4.9 Recommendation (5) For the next two years at least, the principal task of the management support group should be to handle the difficult period of change to resource control by budget. They will need to work directly with line managers and with training divisions to ensure that line managers have the resource control systems and the skills that they will need. Once the new budget structure is in place, the management support group should have the resources to develop as an expert advisory service for line management.

Investigations by Top Management

4.10 Recommendation (6) Work programmes for the services covered by this report should be approved by the senior management group. Investigations sponsored by senior management itself should concentrate on problem areas of wide significance. Although from time to time the senior management group may want to sample the position on a particular management issue, for example grading standards in one organisation of the department, it should not use its assignment staff for detailed second-guessing. These issues should be resolved as part of the budget-setting process and the responsibility for putting any deficiencies right should lie within the line.

4.11 One way of ensuring that line managers have an incentive to make efficiency improvements could be through a basic assumption of productivity growth reflected in the budgets. There may be transitional problems, but in the end, if there continue to be regular detailed inspections, the sense of responsibility that the FMI is intended to engender in line management will not emerge because line managers will not see themselves as having the final responsibility to seek improvements in value for money for themselves.

4.12 This report has not dealt with the responsibility for central resource control and budget-setting in departments. The roles of the PFO and PEO are already altering as management structures alter. In changing the role of the CIR services, senior management will obviously have to take into account these other changes to the finance and personnel functions, and ensure that the central organisation of the department is properly co-ordinated.

The Central Departments

4.13 The fundamental issue for the central departments, as for the centre within each department, is that to secure better control they must relax control of detail. That is a difficult thing to do. It is crucial, if the new style of management is to succeed, that the centre is seen to accept and fully endorse its principles. The key role here falls to the head of the Treasury and to the head of the Civil Service through their leadership of the service and their departments' sponsorship of Finance Officers and Establishment Officers respectively.

4.14 Recommendation (7) Treasury Ministers and the Minister of State (Privy Council Office) should jointly ensure that their departments:

- (a) monitor all departments' progress including their own in putting this report's recommendations into effect and report on progress in July 1985 and July 1986;
- (b) review by 31 December 1984 the organisation and roles of their central CIR services to ensure that they are able to reflect developments in departments and, in particular, development of the multi-disciplinary approach recommended for departmental management support units; this will include their role in training, practical support and co-ordination, monitoring effectiveness and participation in individual assignments.

THE TERMS OF REFERENCE

1. The terms of reference for the departmental scrutinies were:

"to examine internal consultancy, inspection and review (CIR) capabilities to establish how well they meet current and foreseeable departmental needs, having regard to the Financial Management Initiative and service-wide requirements and standards. The review will consider in particular how well such capabilities provide:

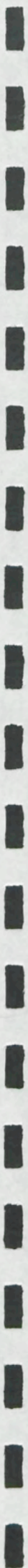
(1) assistance to senior management in reviewing and monitoring the execution of policy and the management of programmes;

(2) monitoring, inspection and audit services to Accounting Officers to enable them to exercise "arm's length" controls over delegated management;

(3) consultancy services to help line managers;

(4) for the promotion of particular managerial practices and developments, such as information technology, and promulgating guidance and standards as appropriate;

The study will consider how best to meet such needs cost-effectively, and will make recommendations for improvement as appropriate."

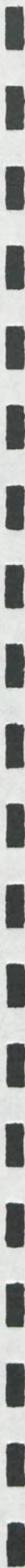


THE EXISTING CIR SERVICES - STAFFING AND COST

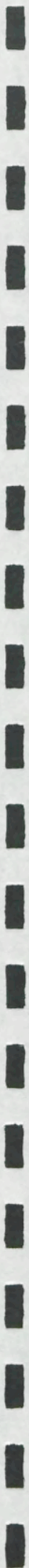
<u>Function</u>	<u>Assignment Staff (Main grade)</u>	<u>Total Staff</u>	<u>basic staff cost (£m)</u>	<u>total cost (£m)</u>
Internal Audit	982 (HEO/EO*)	1,308	17.9	23.1
Staff Inspection	415 (SEO/HEO)	559	8.9	12.4
Management Services	560 (SEO/HEO)	778	12.0	14.8
Operational Research	92 (SSO/HSO)	139	2.6	3.9
ADP Advisory Services **	833 (SEO/HEO)	1,185	15.1	18.9
Management Accountancy **	248 (Prin/SEO)	519	6.1	7.7
Statistics **	297 (Prin equiv.)	657	10.5	13.9
Economics **	165 (Prin equiv.)	307	4.8	6.0
Other (eg scientific advisers)	155	229	6.7	9.8
Totals	3,747	5,681	84.6	110.5

* EO is a training grade for internal audit.

** Figures for these functions may overstate the numbers of staff, particularly in support grades, who are involved in consultancy and review. They may include some staff engaged in other specialist activities such as collecting statistics, enhancing existing computer systems and routine accountancy work.



<u>Function</u>	<u>Mode of work</u>	<u>Customer</u>	<u>Control</u>	<u>Out-turn</u>
Staff Inspection	Rapid method of work survey to assess need for work, organisation, staff numbers, grading. Works on a fixed or partly selective cycle; sometimes acts at line management request.	1) Treasury - for controlling manpower ceilings and grading standards. 2) Departmental top management - for adjusting complements. 3) Line managers - for deploying staff more efficiently.	1) Treasury - through prescribed standards, annual report-back, right of entry by SIED inspectors. 2) PEO.	In 1982 staff inspectors recommended net savings of 3,500 posts; actual savings of 2,700 (£30m a year) were agreed.
Internal Audit	1) Identifies and evaluates internal control systems and compliance with them. 2) Routine checks on transactions (being phased out). 3) Value for money audit concentrating on aspects of effectiveness, efficiency and economy (increasing but not yet common). Works on a fixed or partly selective cycle; some use of risk analysis for selection.	1) Accounting Officer - to assure him of adequacy of controls and protect him against adverse external audit. 2) Line managers - advice on specific weaknesses in systems. 3) National Audit Office - provides background for effective choice of NAO audit topics.	In theory AO (sometimes through an audit committee); day-to-day usually PFO. Treasury provides guidance on standards and training. PAC takes close interest.	Not usually measured. Qualitative criterion is degree of assurance that can be given to AO. The number of implemented recommendations is sometimes monitored.
Management Services	Uses mainly work study and O&M techniques to advise on organisation, procedures, office technology, forms design etc. Work planned mainly in response to customer demand.	1) Departmental central management - to promote good management practice and review particular operations. 2) Line managers (mainly US/AS level) - to advise on improving efficiency of operations.	PEO or PFO; but individual assignments may be wholly under control of customer. (MPO provides some guidance and specialist assistance when requested).	Seldom measured but where resulting cost savings are monitored, MS units are often shown to pay their way several times over.
ADP Advisory	Advice on scope for new technology and appraising and developing new systems.	Departmental and line management.	1) PEO or PFO. 2) Treasury (CCTA) controls all procurement, sits on departmental strategy committees, prescribes standards eg on project management.	Not often measured, though long term payoffs can be very large.



SURVEY OF EXISTING CIR SERVICES IN DEPARTMENTS

Introduction

1. In addition to the detailed investigations of six departments, a questionnaire survey was conducted into the current use of CIR services in the central government departments covered by the FMI. The purpose was to provide a broad picture of the scale, cost and organisation of existing CIR capabilities. Before this review, information was only available on some of the services concerned.

2. Questionnaires are blunt instruments; they provide breadth rather than depth. In interpreting the results of this survey two particular points need to be borne in mind.

- Departments were asked to respond on the basis of readily available information and not engage in substantial primary data collection.
- Defining the scope of the survey was difficult. While some capabilities such as internal audit, staff inspection and management services fall clearly within any definition of CIR, the extent to which other specialist resources are used for CIR purposes is less easy to define.

Main Findings

3. The main findings of this survey are:

(a) The supply of CIR services is significantly greater in terms of manpower and costs than was originally thought;

(b) The distribution of effort is more towards central control and assurance than performance improvement. The increasing scale of resources in the ADP area may be modifying this;

(c) There is little evidence of positive co-ordination of CIR work in relation to departmental objectives or line management needs;

(d) In total, departments are not large users of external consultants. But there is great diversity in their use. A few departments account for most of the expenditure on external consultants.

Staffing

4. Each department was asked to provide information about the numbers and the distribution of staff in CIR services. Annex 2 summarises the results.

5. The most significant figure in Annex 2 is the total number of staff. In the early stages of the review, informed guesses about the total numbers of staff engaged in CIR work put the total at about 3,000. The total of more than 5,500 may be due to the inclusion of support staff and the broad definition adopted. But excluding support staff still gives a total of over 4,000 management and assignment staff and a broad definition is appropriate in the context of the FMI.

6. There is a distinction between the services found in all, or virtually all departments and those which are not. The former category includes internal audit, staff inspection and management services. ADP advisory services are found in more than half the departments covered (18) but management accountancy (15), statistics (13), economics (11) and operational research (10) occur in less than half. There are also a few capabilities specific to particular departments.

7. In staff numbers, internal audit is closely followed by ADP advisory services. This is important for the future insofar as it reflects a relatively recent but substantial government commitment to developments in information technology. However, ADP is not established in all departments.

External Consultants

8. Departments were asked to indicate the extent to which they use external consultants. A few departments are heavy users, but most use outside consultants very little or not at all. The total expenditure on outside consultants is estimated at £15.5 million, of which £12.9 million is accounted for by DTI, PSA and DHSS. If anything, these figures are underestimates because not all departments separately record this type of expenditure. For example, DTI reported that some external consultancy work is borne on programme expenditure budgets.

Organisation and Accountability

9. There are strong similarities in the organisation of CIR services across departments. Virtually all staff are located in central units or in units subject to central co-ordination via PEO or PFO. Variations in the form of organisation are due mainly to differences in scale or geographical dispersion. Line management control is very much the exception.

Co-ordination and Planning

10. Only a minority of departments reported overall co-ordinating arrangements with regular planning meetings covering all CIR services. Independent planning was more common. Work programmes are developed by a combination of regular cycles of investigation, self selection of areas for scrutiny, responses to line management needs and investigations mounted as part of departmental planning.

Value Added

11. Assessing value added by CIR services is difficult because of the indirect contribution they make to departmental performance. Nevertheless, performance is monitored and assessed in a number of ways including:

- cost savings;
- staff reductions;
- numbers of recommendations implemented;
- measureable increases in output;
- improved management controls.

Other criteria that were quoted infrequently were training and improved performance through read across from demonstration projects.

12. The results suggest that efforts to measure value for money are patchy. Measures of economy are more common than measures of efficiency or effectiveness. Measures are most developed in the management services, staff inspection and internal audit areas. There are systematic efforts in some, but not all departments, to evaluate the performance of ADP advisory services. Specific measures of performance in the areas of management accounting, operational research, economics and statistics are least frequent.

13. So far as it is possible to ascertain, performance criteria have been developed internally within CIR units. They are not based directly on client appraisals of performance.

Recruitment, Training and Length of Service

14. The patterns of recruitment and training in CIR services contain few surprises. In management services and staff inspection, recruitment is through normal career postings or trawls with no specific required qualifications, but with good background in the department and preferably some line management experience. For internal audit, recruits to the training grade (EO) are selected on general aptitude, but for more senior posts internal audit experience (and increasingly qualification) is required.

15. The requirements for management accounting and ADP are more stringent. Trawls and career postings are open to people with relevant professional qualifications; ICA, ACA, ICMA, CIPFA, in the case of management accounting. ADP candidates must pass a test at an appropriate level. For recruits to both of these functions relevant experience prior to entry is required. For operational research,

economics and statistics, the normal path is direct entry with a relevant degree for professional qualifications. Relevant field experience is also considered desirable depending on the level of appointment.

16. Initial and in-service training for management services, staff inspection, internal audit, management accounting and ADP are provided through combinations of on-the-job training, departmental background courses and Civil Service College courses. Staff inspectors take the Treasury Staff Inspection course (nine days). Entrants to internal audit undertake a longer period of training. Completion of a course leading to the IIA professional qualification is now usually required (16 weeks of formal tuition spread over a two year programme).

17. The training needs of operational researchers, economists and statisticians are largely met at the pre-entry stage. However, they are expected to participate in relevant seminars and undertake some specific training at the Civil Service College or elsewhere.

18. Accurate data on length of service of existing staff proved difficult to assemble. Nevertheless the information available showed that conventional wisdom about length of service in CIR functions should be treated with scepticism. Where data proved difficult to obtain, respondents quoted the expected period of continuous service as about three to five years. But actual information revealed a different pattern.

19. The pattern is grade-related. Existing staff at EO and HEO levels have been in post on average for quite short periods of time, say, one to three years. Staff in Assignment Officer grades: HEO, SEO, Principal have been in post for longer than the expected period of three to five years. Staff in management posts at Senior Principal and Assistant Secretary levels often have substantially longer periods of continuous service: 10 to 15 years or more.

20. If further examination confirmed that senior staff tend to have stay longer in all CIR functions than the three to five year norm, personnel management arrangements should be reconsidered. Greater stability might justify a greater investment in training. On the other hand if, for motivational reasons and because CIR functions can act as a training ground for future line management, more rapid turnover were desired, changes in career development practice, if not in policy, are needed.

MAIN RECOMMENDATIONS FROM THE DEPARTMENTAL SCRUTINIES

A. DHSS

The main recommendations were (in summary):

1. Early steps should be taken to provide line managers, at appropriate levels, with an up-to-date and positive description of the CIR facilities on offer.
2. The Department should accelerate the process of viewing and managing its CIR services capacity as a whole, with a view to developing its capacity to respond to FMI needs as effectively as possible.
3. More positive steps should be taken to establish the cost-effectiveness of various CIR services and to build up or cut back the amount of this capacity as appropriate.
4. The number of man-years available to assist in programme review should be trebled, from about 10 to 30, subject to -
 - (a) ensuring that this resource is a capacity on which line management can draw, and is not treated as a substitute for line management's own responsibility for programme review;
 - (b) qualities of mind - particularly the ability to handle conceptual and numerical issues - being recognised as more relevant than formal professional qualifications;
 - (c) aiming to supplement this "programme CIR", whenever appropriate, with data-collecting and observational skills drawn from "administrative CIR" resources.
5. That the Department notes the need to continue to improve the quality of administrative CIR to meet the likely needs of the FMI.
6. The work of Management Services, Staff Inspection and Internal Audit should be planned as a whole with the aim of eliminating both overlaps and work of relatively low cost-effectiveness.
7. That the Department should aim to bring all its CIR as quickly as possible under the control and management of a single Under Secretary (or equivalent grade), with the aim of managing and monitoring CIR as a whole, making CIR fully responsive to the developing needs of the FMI, adjusting the amount of specific CIR resources in response to those developing needs, and encouraging the development of inter-disciplinary working wherever appropriate.

B. THE SCOTTISH OFFICE

The main recommendations were (in summary):

1. To merge staff inspection and management services into a Scottish Office Efficiency Unit whose staff would receive basic training in both disciplines. It would provide a comprehensive service to management aimed at improving efficiency and effectiveness, but would give up:
 - detailed work on new technology;
 - office equipment approvals;
 - work for fringe bodies except on behalf of sponsoring policy divisions.
2. To reduce staff on central complementing and grading functions.
3. To improve control of assignments eg prior costing, cost attribution, monitoring results.
4. To keep the Internal Audit Unit separate, but take specific steps to improve co-ordination with the efficiency unit.
5. To set up a new Information Technology Development Unit to operate as an agent of change by promoting and developing the use of new technology; to have a separate identity within the computer directorate, but to develop close links with the efficiency unit and basic expertise in management services techniques.
6. To develop policy and programme review within the PES and (along with efficiency work generally) within the management planning framework under direction of the Management Group; line managers to be responsible for policy and programme review work with a strengthened role for Finance Divisions in challenging and assisting them; available specialist assistance to be drawn to line managers' attention.
7. To co-ordinate all efficiency and review work under a single committee which would also keep under review the role and organisation of the CIR capabilities as the FMI develops.

C. DTI

The main recommendations (in summary) were for:

1. Closer liaison between all current CIR capabilities and better awareness of each other's skills.
2. Continuing improvement in recruitment and training standards, especially in management advisory services.
3. Better education of potential clients in the capabilities of internal CIR services.
4. Attribution of costs to clients wherever feasible, with any subsequent moves towards full repayment guided by Departmental studies already in train.
5. Pilot studies of the use of auditable manpower control systems by line management and, if these prove successful, extension of the practice to the whole Department, with the phasing out of traditional staff inspection in favour of selective systems audit based on best Internal Audit practice.
6. Placing full responsibility for the employment of consultants on line management, but with a strengthened central capability for advice on good practice and evaluation and for monitoring of total expenditure and trends.

D. MOD

The main recommendations (in summary) were that:

1. The direction of staff inspection units for all parts of the Department should be brought together under the Director General of Management Audit (DGMA) - at present only the Central Staffs and the Procurement Executive inspectorates are under the DGMA's control.
2. The DGMA should not be responsible for complementing or the allocation and control of manpower ceilings. These functions should become the responsibility of line management and their exercise should be co-ordinated by the part of the Department which is responsible for allocation and control of defence expenditure.
3. In the Headquarters and Procurement Executive areas, staff inspection, internal audit and management services should be integrated to form two Directorates of Audit and Consultancy. For the services in the field, on the other hand, these disciplines should for the time being remain separate.
4. The concept of Special Manpower Audit should be developed. Under this, selective efficiency scrutinies should be mounted into the utilisation, organisation and grading of manpower in comparable areas (eg catering, flying training, stores) across the department as a whole rather than within individual management areas.

E. PSA

The main recommendations were (in summary):

1. To establish a high level committee structure to control the implementation of future developments and systems in PSA, advise the Executive Board on priorities, staffing resources and levels of capital investment.
2. To organise all CIR activities so that they are co-ordinated at a level below the Chief Executive.
3. To set up a Directorate of Information Technology Services to provide a comprehensive, multi-disciplinary, consultancy service to line managers; and a capability to implement the computer and telecommunications strategy on which a consultant's report is expected shortly.
4. To develop plans for an audit and efficiency unit to be fully operational when certain key budgetary control systems are available and suitable staff have been recruited and trained.
5. To establish budgetary control concepts for CIR activities including charging clients for the services provided.
6. To determine and set annual performance targets by CIR management for its own staff so that better quantitative and qualitative measures of achievement can be established.

F. HM TREASURY

The main recommendations were (in summary):

1. Some complementing work at present done by Management Services Division which does not fit in with its consultancy and inspection role under the new financial management systems should be transferred to Finance Division.
2. CIR services should cost all individual assignments, and develop output measures for their own work, quantified wherever possible.
3. For as long as staff inspection continues in its present form, it should fully carry out that part of its terms of reference which requires it to test the need for work before advising on organisation, staffing and grading.
4. Managers of responsibility centres should in future be asked to include in their annual work programme returns, any bids they have for CIR assignments, so as to enable CIR services to plan their own work programme better.
5. The 2 main elements of CIR - Internal Audit and Management Service Division - should work more closely together in support of the PEFO and the Planning Board. The Head of Internal Audit should have his headquarters in the Parliament Street building.
6. The unit in Finance Division which services the Planning Board - the Treasury's top management committee - should form part of CIR and work directly to the PEFO.
7. The terms of reference of Management Services Division should be extended to include responsibility for supporting the PEFO in his roles as adviser to the Planning Board and as promoter of good management practice throughout the Department.
8. The head of Management Services Division should, ex officio, be a member of the top management boards of CCC, CCTA and CISCO. There should be two-way traffic in information and advice between his and the three organisations.
9. The Treasury should be linked with another of the Departments for which the Chancellor is responsible, so as to be able to borrow (on repayment) CIR capabilities which the Treasury needs but has not got. If the arrangement is successful, the link might be developed further, so as to provide better career prospects within CIR for staff in the small Treasury unit.

COMPARATIVE SURVEY OF PRIVATE SECTOR PRACTICE

Introduction

1. As part of the CIR review, the central team conducted a survey of business practice. The purpose was to identify best business practice in the use of CIR services and draw from it lessons relevant to government.

2. The findings are based on confidential interviews with senior managers in a number of private businesses and nationalised concerns including Bass Charrington, British Rail, British Steel, IBM, ICI, Trust House Forte and Unilever, supplemented by information from other businesses, from Arthur Young, McClelland Moores, management consultants with public and private sector experience, and more general discussion with informants at the City University Business School and the London Business School.

The Role of CIR: Improving Performance and Assuring Accountability

3. Comparisons between management in business and government sometimes encounter difficulties because of differences in culture and context. However, in the case of CIR, the differences provide pointers to the role specialist services should play in implementing the FMI. CIR services are used in business and government to improve performance and assure accountability. Most of this report is devoted to improving performance which is the primary emphasis in business.

4. It must be borne in mind that there are grey areas between improving performance and assuring accountability. The special status of internal audit in assuring accountability is reflected in its independence of line management and a general practice of direct reporting to board level. But in business it also plays a role in safeguarding performance standards and reducing risks and may play an advisory role in designing control systems.

5. The basic attitude to the use of specialist services in business was summarised by one respondent as follows: "Nothing is perfect. We expect managers to be looking for ways of improving performance as part of their normal job and to call in specialist help when they need it."

6. Specialist help is deployed in two ways. Within an existing framework of policy and organisation it is used by line management to assist them in tightening up the day-to-day management of the business and to reduce or correct deviations from operating plans. This depends on well developed planning, budgetary control and management information systems which prompt line management to take corrective

action where needed and also to identify opportunities for improvement. Specialists can also have an important role in designing organisation structures and management systems.

7. There are significant differences among businesses in the use of specialist services, reflecting among other things, how diversified the business is and how interdependent are its component parts. Businesses are also more flexible and varied in the specialists they use. The nature of the business and the opportunities to improve performance are the critical determinants of specialists used.

8. Despite the diversity, three common themes emerged from interviews that are relevant to the future management of CIR in government departments.

(a) The use of services is demand-led.

(b) The supply of services is limited.

(c) There has been a shift to decentralised organisation aimed at making specialist services more responsive to line management.

In addition, business practice offers alternatives to the conventional model of the role of the centre as a source of detailed prescription.

A. Demand-led Use

9. People interviewed did not start from descriptions of resources currently committed by their business to CIR functions. They began with demand rather than supply. They stressed that the need for specialist services arose within the management process as line managers considered how to improve performance.

10. Demand is determined by managers at all levels in the course of setting objectives and attempting to achieve them. Specialist help is targeted on problem areas where managers responsible for achieving results feel there are significant opportunities for improving performance, or where important gaps or weaknesses in existing systems have been identified.

11. For example, expertise may be needed to deal with actual or anticipated deviations from planned output and cost levels. In the first instance it is for line management at the appropriate level to take corrective action. If they need specialised inputs to do so, it is up to them to decide what skills are required and how to deploy them. They are also expected to take into account the cost of using specialists to help solve operational problems.

12. In addition to these trouble-shooting functions, CIR services play a part in diagnosing more general weaknesses in management systems beyond the competence of individual managers. This may involve efforts to simplify procedures, to develop measures of performance and to create key indicators which provide more appropriate and useful flows of information to management.

13. While line management responsibility for performance is a governing principle, specialists are not totally subordinate to line management. In some businesses, specialists have an acknowledged role in the formulation of objectives. Top management takes account of the views of specialists on the feasibility of objectives and the timescale of implementation before setting specific targets or initiating strategic changes.

B. Limited Capabilities

14. The supply of CIR services in the businesses investigated was limited and in some cases almost non-existent. In line with the cut-backs that have taken place in recent years there has been a trend towards scaling down the supply of specialist services. Differences in provision are attributable in part to variations in business characteristics. Although the evidence is not conclusive, businesses retaining the largest capabilities appeared to be those whose activities are more interdependent and less standardised. There is more scope for specialists to improve performance in those circumstances.

15. Limited capabilities reflect a trend towards reducing the size and importance of centralised corporate planning staffs. Responsibility for planning has been shifted to line management and decentralised. Limited capabilities therefore reflect an assumption that line management will not only keep the show on the road, but also identify where improvements in performance can be made and take the initiative in securing them.

C. Decentralised Organisation

16. Decentralised organisation of specialist services is consonant with, and partly reflects, the division of most large businesses into units defined around profit or cost centres. The main advantage of decentralisation is to provide an efficient and flexible way of matching supply to demand. Specialists are either integrated into the line management structure or, if organised separately, the costs of their services are charged out to specific budgets. Often, they work in teams and task forces with line management.

17. The emphasis on decentralisation does not preclude the use of some specialists by top management. Particular types of expertise, for example financial, legal, tax or economic forecasting expertise

are required primarily by top management. The design of new management systems, the introduction of new technology, organisation and management of major change are also functions which call for centrally located expertise.

18. Central capabilities are concerned with helping top management establish the framework within which line management operates and address longer term issues of business strategy. They do not provide a pool of common services that line management can draw on at will.

The Role of the Centre

19. As well as these implications for the internal organisation of departments, business practice is also relevant to the structuring of relations between the centre of government and departments. The conventional centre/periphery model is basically one of centrally promulgated standards with monitoring arrangements to assume compliance. But, particularly in the transitional phase of the FMI, ways are needed of promoting better management rather than regulating behaviour according to established standards.

20. Business practice offers alternative models which do not involve detailed central prescription or even a centrally located unit.

- A single advisory unit available to individual units on a contract basis is sometimes economical. The benefits are increased if it has a remit and the credibility to accelerate the introduction of, say, advanced information technologies more rapidly.
- An agency model is another alternative. One sub-unit is given a leadership role and acts as an agency on behalf of others which lack its expertise in for example purchasing or design. The agency may also acquire a training function.
- Another possibility is a specialist network which functions under the aegis of the centre, but with a wide measure of discretion. Where there is a need to produce a co-ordinated response to a general problem, such as establishing a common set of accounting standards, a temporary network of specialists drawn from the relevant organisations may be the best way to secure agreement and rapid implementation.

21. None of the models detract from the role of the centre in safeguarding standards once they are established. Their importance is that they provide ways in which the centre can draw on and use expertise in departments to develop standards and contribute to improving performance.

Conclusions

22. Although there are identifiable common themes, business practice in the use of specialist expertise is diverse. Even if it were more uniform, drawing inferences about its relevance to government would not be straightforward. Aside from general differences in context, there are also differences of function and organisation among departments, which make it important that they formulate their own solutions. However, business practice does underline the need to base solutions on a realistic assessment of current management capabilities and as clear as possible a picture of future needs.

23. The difficulties of doing this in government should not be underestimated. One danger of a snapshot survey such as this is that developments over time are ignored. Current business practice in the use of specialists depends on past investments in management systems and line management competences. Government is at a much earlier stage in the process of developing appropriate management systems and competences. The problems are more complex and there is less departmental experience to draw on. This makes it doubly important that the potential contributions of existing specialist services are carefully evaluated.