

SUBJECT  
C. Master Set



CC HD MAFF CDO  
LCO SO WPSO CO  
HM/T DOE D/N EU  
F/O WO D/M  
DES DTI CBL  
NIO DOT CWO  
MOD DTES Lord Gowrie

FILE  
BM

10 DOWNING STREET

From the Private Secretary

10 May 1984

Dear Janet,

PRESENTATION ON VALUE FOR MONEY

At the request of the Prime Minister, Sir Robin Ibbs gave a presentation to Cabinet Ministers today on the subject of value for money. A transcript of Sir Robin's talk is being circulated separately, together with copies of the illustrations he used.

The following were the main points to arise in the subsequent discussion:

- i) Even systems for resolving disputes between departments which were themselves rational and defensible could on occasions produce nonsenses. It was at this point that Ministers needed to intervene to ensure a sensible outcome, consistent with the Government's overall objectives. The Secretary of State for Trade and Industry drew attention to one example in his Department relating to accommodation, where there was in his view a danger of his programme expenditure being cut to "finance" a net saving to the public sector.
- ii) Whilst it was true that motivation could be improved by targets which gave rise to "a sense of shame" when they were not achieved, a system of appropriate rewards and advancement for effective staff was equally necessary. Moreover, departments had a special obligation to keep track of junior staff who had demonstrated at an early stage in their careers the ability to promote improved value for money.
- iii) In the last resort, proposals for improved efficiency had to be judged by the action which

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/ Ministers themselves

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flowed from them. Whilst it could be argued that Ministers themselves were too busy to take charge of implementation directly, it was essential for them both to demonstrate the necessary determination and to make a clear allocation of managerial responsibility.

- iv) In addition to the value for money offered within the public sector, a programme of efficiency reviews could usefully look at the "compliance costs" of Government procedures - that is to say, the costs which they imposed on those who had dealings with Government.
- v) Notwithstanding the reductions in manpower which had been made, there was a widespread feeling that the Government estate could be managed much more effectively. As in other areas, much depended on the quality of the individual manager in overall charge.
- vi) Although there was a theoretical limit to how far value for money could be improved, there was in practice a great deal further to go. For example, contracting out the management of some public sector activities, as was done in the United States, could bring significant benefits. The limit for reductions in Civil Service manpower had by no means been reached.

Summing up, the Prime Minister said that she was most grateful to Sir Robin Ibbs for his presentation, which had underlined both the importance of value for money within the Government's overall objectives, and the central role which Ministers themselves could play in sustaining momentum. She proposed to hold regular meetings with small groups of Ministers and Permanent Secretaries to discuss the actual improvements in value for money which their departments had made in the recent past, and the prospects for further progress.

I am copying this letter to the Private Secretaries to members of the Cabinet, to Murdo Maclean (Chief Whip's Office) and Paul Cann (Lord Gowrie's Office), and to Sir Robert Armstrong and Sir Robin Ibbs.

*Yours ever,*  
*David*  
(David Barclay)

Miss Janet Lewis-Jones,  
Lord President's Office

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PRIME MINISTER

After my presentation to you and your colleagues last Thursday you asked me to circulate a copy of the text of my talk, the slides I used, and the charts showing the procedures necessary to take on an employee and to set up a business (I am indebted to Mr Trippier for the information in these charts). The last two pages of the text consist of a checklist and some practical suggestions for action on value for money that I hoped Ministers might find useful.

This text is as near a verbatim record as I can manage to produce, and I have not attempted to write a more polished paper.

I am copying this minute and its attachments to Cabinet Ministers, to the Minister of State, HM Treasury, the Minister of State, Privy Council Office, and to Sir Robert Armstrong.

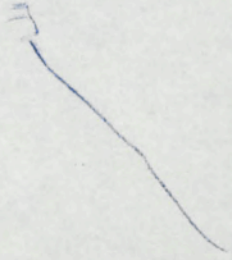
ROBIN IBBS  
15 May 1984



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Large, faint, mirrored text in the center of the page, appearing to be bleed-through from the reverse side.

16 MAI 1984



SIR ROBIN IBBS' PRESENTATION TO CABINET MINISTERS: 10 MAY 1984

It's sometimes said, you get what you pay for; and that advice is worth what you pay for it. Mine comes free so it may not be worth much. I shall therefore speak with some hesitation and modesty. On the other hand, if you do gain anything from it, it will be good value for money.

I am not here to tell people running large Departments how to suck eggs. Rather I am going to offer some suggestions based on experience of large organisations in the private sector. If it sounds like a lecture, I apologise in advance. I believe it is better to produce positive suggestions, however mundane, than to waffle.

I have now spent 9 months looking at and being involved in the drive for efficiency in Government. What I have to say is perhaps elementary and obvious. The excuse for saying it is that 35 years' experience has taught me that without constant reminders and positive suggestions, although people mouth the right words on efficiency, too little is achieved. I should hate that to happen to this Administration which has made such a good start in this area.

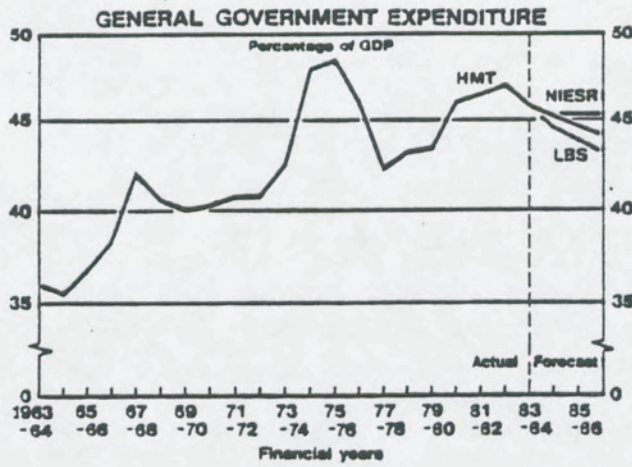
I have made 6 key observations:

1. Value for money is a good concept

- It is hard to argue against it.
- It has not yet gathered the coldness and emotional overtones of efficiency and cuts.
- It's positive.
- The aim is to improve performance, not just cut numbers.

2. Public Expenditure has to be held - better value offers greater output

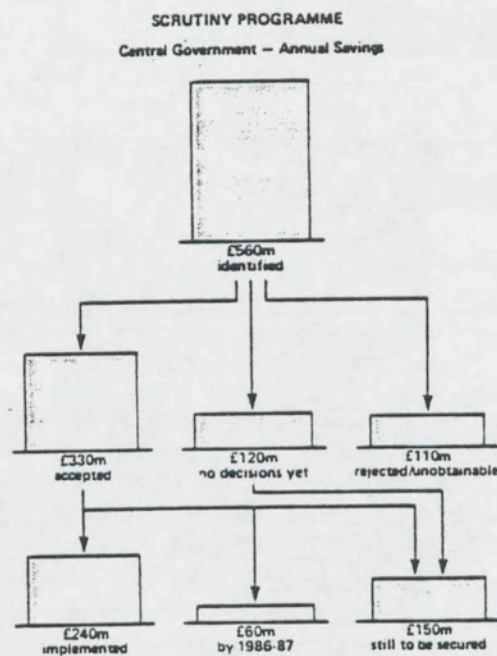
You have set the policy - Public Expenditure totals to be flat for the next 3 years. There will be an inevitable clamour and pressure for more services. The only way to provide these is by getting better value from the financial resources already available. This is what we have learned to do in industry - get more output from the available income. It is quite amazing how fresh improvements can continue to be achieved, long after the initial easy objectives have been tackled. But I do not underestimate the struggle that will be involved in holding public expenditure after its remorseless growth for many years.



### 3. Much already achieved

The achievements already of this government on efficiency are notable. Civil service numbers are down, on target, by 100,000 to 630,000. Running costs are down by £330 million a year. Even local authority numbers have turned down slightly. NHS numbers are just about stabilising at 1,007,000 and some bold stands and new initiatives have been taken by Ministers on the NHS.

Across all Departments the scrutinies typically have saved 5-10% of the running costs reviewed. What has been achieved by scrutinies can be shown as follows:



The least satisfactory feature is the £120 million of identified savings still waiting decisions, and the consequent figure of £150 million still to be secured. It is wasteful and demotivating if savings are clearly identified but not followed up.

Saving £330 million is small in relation to total public expenditure, but:

The saving is worthwhile and not trivial

It demonstrates:

- improvements can be made
- your determination is succeeding
- there is a good foundation for more ambitious value for money targets - whether these are achieved by scrutinies or other means does not matter.

Examples of current targets include:

- Initiatives in the NHS
- The RAF Support Area Economy Review
- The Reorganisation at the top of Defence.
- The progress on improved efficiency in the prison service.
- The review of the effectiveness of the urban programme.

The progress so far shows the commitment to action, not just reviews and reports. That is good news.

BUT what is still to be done is vastly greater than what has been achieved. The running costs of central government and the armed forces still amount to £5.50 a week for everyone in the country. There is evidence that last year running costs went up by 6.3% - significantly more than the rate of inflation.

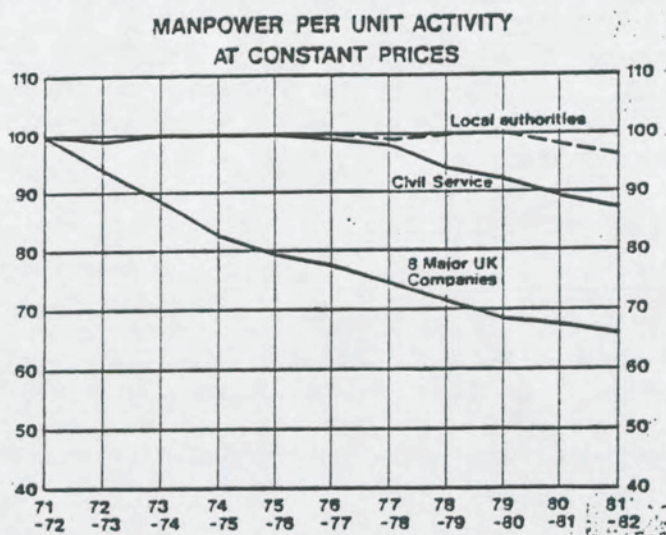
There are plenty of examples of the burdens that are still around. For instance, in an area with which I have personal contact, I wanted to show you what is still involved if you want to employ somebody. I am grateful to Mr Trippier who has had the information collected. I wanted to put it on a slide, but the items are so numerous I couldn't get it on a slide, or two slides, or three. So I put it on a chart, but it still has to be so compressed that you cannot see it.

I also wanted to show you what is still involved if you want to start a business. I had exactly the same problem.

[Reduced copies of the charts are annexed]

By contrast, a minor anecdote. In one Department there is a room set aside for trainees to drink coffee in. About 2000 cups a year are drunk there. The room is used for nothing else. The accommodation charge is £18,000. That is £9 per cup of coffee, without even considering the cost of materials or of making it.

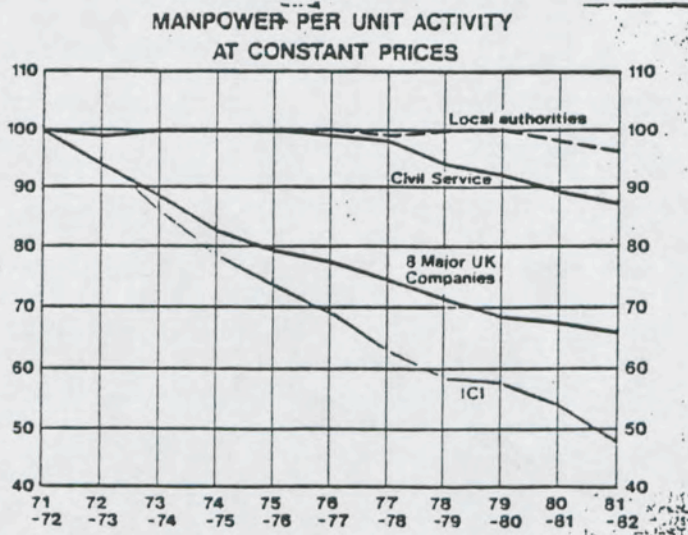
There is immense potential for improvement. If we consider manpower, the classic concept of productivity is output per man, or the inverse. In the public sector output is often difficult to measure, but I have attempted for demonstration purposes to indicate activity in terms of "final consumption of resources". We have compared this with the productivity gain by a sample of 8 large private sector organisations:



It is possible to quibble over the finer points of this comparison, but some things are quite clear:

- nothing much happened in the public sector until 1979.
- the downward trend since then does not compare too badly with that in the private sector.
- the private sector experience shows that the process can go on and on - resist the cry "we got the big savings last year - there's not much left". It's the easy savings that are obtained first, not the lot or the greatest. The process can continue for years: there must be an eventual limit but you are not near it yet.

The eight private sector companies do not include ICI - I did not want to push ICI at you. Then I thought somebody might think "What poor performance is he trying to hide?". So I have also put ICI on.





#### 4. Far more still available

There's plenty to go for on improved value for money in the public sector - in programme money as well as running costs. Just 1% improvement offers:

EVERY 1% IMPROVEMENT ON FINAL EXPENDITURE  
(EXCLUDING TRANSFER PAYMENTS) IS WORTH £690 MILLION

£million, 1983 - 84

115	Central Government Wages
75	Warlike defence procurement
85	Other Central Government procurement
190	Local authority wages
80	Local authority procurement
80	NHS wages
65	NHS procurement
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690	TOTAL
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Of course, getting even 1% is not easy. It's painful. It means change. And it is change that people resist, not efficiency. Getting it successfully demands political skill; but there is an obvious political pay-off.

#### 5. Senior civil servants are ready to deliver better value for money

My discussions with them convince me of this. They do not want the civil service to be seen as "the last bastion of inefficiency" in a country that is otherwise steadily improving. The culture is to provide what is asked for. The concept of being concerned with value as well as service is less familiar, but it is not rejected.

The big change that is needed is to see money as a resource to be made the most of - not as a constraint to be moaned about. There needs to be widespread recognition that the best brains can properly be deployed on using money to best effect - rather than concentrating the best brains on trying to get more (which then ensures that the best brains in the Treasury concentrate on stopping them: there's something wasteful about that process).

Civil servants, in my view, will do what is asked of them. They need to be convinced you mean it. If you want better value for money and are prepared to steer the necessary changes over the inevitable political hurdles, you will get it. But Departments must know you are determined. They will spot instantly if it is just talk.

## 6. Motivation and leadership are crucial

This is the lesson from industry. What the boss thinks matters, gets done. The interest you display is vital. You do not have to manage the process of getting better value, if lack of time and other pressures rule this out. (If you give yourself too big a role and then have not the time you can actually slow things down). You do have to demand that the process of getting better value shall be managed. I have been impressed by the role junior Ministers play in this in some Departments. But this is no substitute for the boss being obviously interested.

One key is the time you devote to it. If you devote time regularly, it does not need to be a lot. But it must be a keen interest, not perfunctory.

Another key in the leadership role is the prevention of cosiness:

- reviews in which interested parties wield major influence
- reviews where the terms of reference are constructed to exclude the nub of the problem
- reviews where vague recommendations are allowed to be sufficient.

You have to insist that action must be the outcome. If there is no action, nothing much is achieved.

I should also stress the importance of targets. In the private sector we have profit as the spur, and other targets are less important. You need targets (realistic not ridiculous - you can always come back for more next year):

- to concentrate attention
- to induce a sense of shame (nobody wants to be seen to have failed)

You need targets for value for money improvement and for running costs. I have corresponded with you all on this. Your department's targets represent a useful start but they need more sharpening. Targets need to be specific, quantified if possible. I want the central scrutiny programme to be selected to back up your targets.

Finally the Financial Management Initiative. This is at the heart of an important management change in the civil service. I believe Ministers have to insist that Departments make the Financial Management Initiative work.

Since it is only action that matters, I have produced out of all that the following checklist and some simple practical suggestions.

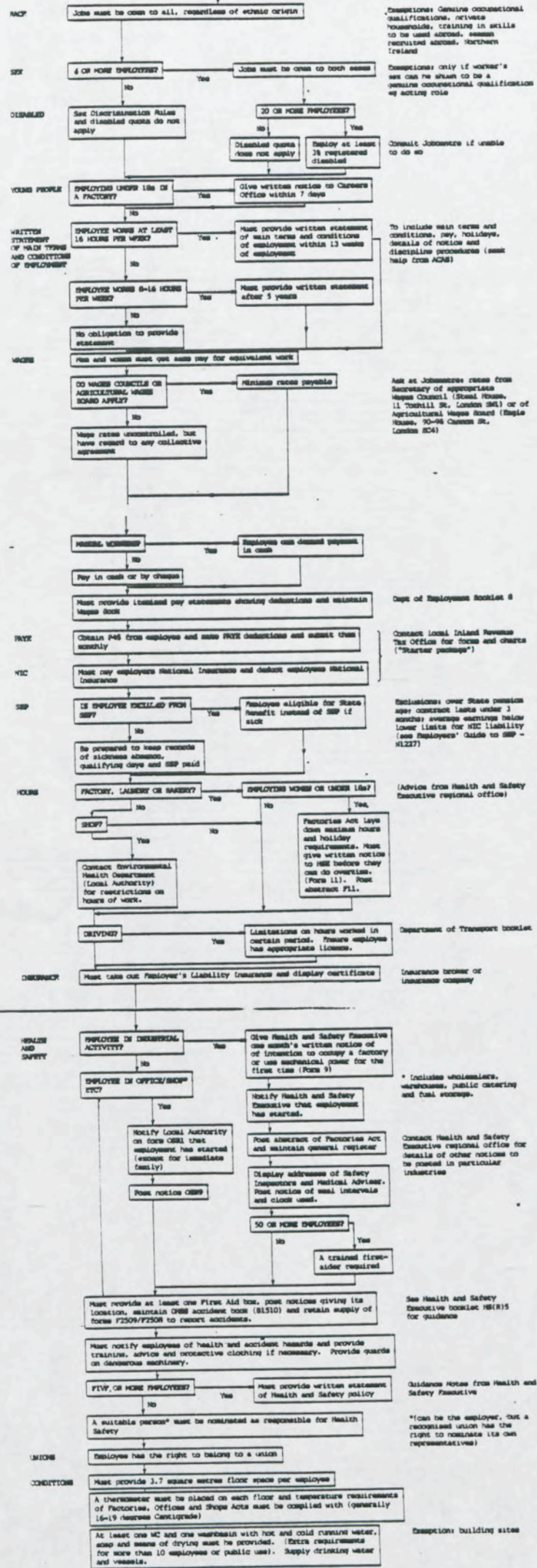
#### CHECK LIST

1. IS YOUR DETERMINATION TO ACHIEVE SUBSTANTIALLY BETTER VALUE FOR MONEY KNOWN THROUGHOUT THE DEPARTMENT?
2. DO ALL LINE MANAGERS ACCEPT THAT SECURING BETTER VALUE FROM THE LARGE SUMS OF MONEY SPENT IS PART OF THEIR JOB? PROGRAMME MONEY AS WELL AS RUNNING COSTS.
3. ARE YOUR TOP MANAGEMENT SYSTEMS REVEALING THE OPPORTUNITIES FOR BETTER VALUE, AND PROVIDING EVIDENCE OF IMPROVEMENTS? IS THE FINANCIAL MANAGEMENT INITIATIVE ALIVE AND WELL?
4. ARE REVIEWS AND THE MANAGEMENT COSY? ARE TARGETS AND ACHIEVEMENTS QUANTIFIED? IS ATTENTION CONCENTRATED ON THE RICHEST OPPORTUNITIES?
5. DO REVIEWS RESULT IN SUBSTANTIAL POSITIVE EFFECTIVE ACTION?
6. DO YOU HAVE A WEEKLY SESSION (OR EQUIVALENT) TO SET TARGETS AND EXAMINE PROGRESS SO THAT YOUR DEPARTMENT NEVER FORGETS YOUR DETERMINATION TO ACHIEVE BETTER VALUE?

## SOME SUGGESTIONS

1. INSIST on the best opportunities for improvement being selected.
2. CHALLENGE every review for cosiness:
  - in the terms of reference
  - in the recommendations
  - in the suppression of good options
3. INSIST that serious efforts are made to quantify outputs for all new proposals.
4. ENSURE that accepted recommendations are implemented rapidly.
5. DEVOTE, say, half an hour a week to better value for money.

TERMS OF AN EMPLOYEE



NOTES  
 Exemptions: Genuine occupational qualifications, private households, training in skills to be used abroad, seasonal agricultural workers, Northern Ireland  
 Exemptions: Only if worker's sex can be shown to be a genuine occupational qualification of a particular role

Consult Jobcentre if unable to do so

To include main terms and conditions, pay, holidays, details of notice and disciplinary procedures (seek help from ACAS)

Ask at Jobcentre rates from Secretary of appropriate Wages Council (Steel House, 11 Torrill St, London SW1) or of Agricultural Wages Board (Staple House, 90-96 Cannon St, London EC4)

Dept of Employment Booklet 8

Contact local Inland Revenue Tax Office for forms and charts ("starter package")

Exemptions: over State pension age; contract lasts under 3 months; average earnings below lower limit for NIC liability (see Employers' Guide to SSP - H1227)

(Advice from Health and Safety Executive regional office)

Department of Transport booklet

Insurance broker of insurance company

\* includes wholesalers, supermarkets, public catering and fuel storage.

Contact Health and Safety Executive regional office for details of other notices to be posted in particular industries

See Health and Safety Executive booklet HSR15 for guidance

Guidance notes from Health and Safety Executive

\* (can be the employer, but a recognised union has the right to nominate its own representative)

Exemption: building sites

