



Chancellor of the Duchy of Lancaster

PRIME MINISTER

CENO

Peter Rees and I have been considering the effectiveness of the arrangements for reviewing quangos and other public bodies on which I report to you each year. The reviews have produced impressive results. Since 1979 we have abolished, rationalised or substantially cut the spending of nearly 700 bodies, producing annual savings of nearly £120m. But abolitions are declining and the review process has become such a routine in some departments that we are missing what is arguably the now more important target of value for money in the bodies themselves.

The 440 executive bodies employ over 200,000 staff and last year spent over £5bn. of government grants. That would put them towards the top of the manpower and expenditure league if they were a single department, and one in which we should expect significant progress by now in using new management systems and setting efficiency targets. But when the Financial Management Unit looked at a selection of bodies recently they found that the FMI had hardly touched the surface of many of them. Some bodies still lack proper mechanisms for defining objectives, setting targets and assessing what they are actually achieving. Even the arrangements for forecasting and controlling expenditure are poor.

We therefore propose what would in effect be an FMI for quangos and other public bodies. Our detailed proposals are set out at Annex 1. Departments would agree with the Treasury a programme for reviewing and improving the financial management systems of their major bodies by April 1987. The aim would be to put the bodies in a better position to secure value for money, and sponsor Departments to see that they do. In some cases this would build on work departments and bodies have already set in hand, in others it would be a new start. Departments should start using the new systems to produce tangible benefits as soon as they are installed. Sir Robin Ibbs - who supports the new proposals - suggests that Ministers should aim for practical results from 1985-6 onwards, from when at least the more important bodies should be expected to have targets for improving value for money year by year.

Colleagues have welcomed the proposed change in emphasis and are generally content with the suggested timetable. (One case where we do need to make an exception is the Scottish Office, who sponsor an exceptionally large number of quangos, and would therefore find it difficult to get systems in place and in use in all their bodies by the target date. We think they should aim to cover the most important and the largest spenders by the target date.)

This new programme of work would be offset by changes in the existing review regime. We still need regular and centrally monitored reviews of the case for the continued existence of each body, the functions it carries out, the scope for privatisation, and so on. Pressures for new quangos are always with us. If we

relax we could find the numbers rising again, which would run counter to our general aim of cutting the size of the public sector. But we can simplify the existing arrangements, because departments' reviews of financial management should ask many of the same questions, and provide sharper answers.

We would report progress on both fronts to you from time to time, with the first report in mid 1986. We could at that stage review the need for central reporting in the light of progress with the financial management work.

... If you agree this new approach, you might like to announce it when Parliament reassembles, in the form of the attached PQ. The draft - which has been agreed by colleagues - would give us an opportunity to reaffirm our tough policy on quangos and take credit for the substantial savings so far achieved. You might like to invite Sir Philip Holland to table the PQ, given his long-standing interest in quango policy.

I am copying this minute to Ministers in charge of departments, and to Willie Whitelaw, Peter Rees, Barney Hayhoe, Sir Robin Ibbs and Sir Robert Armstrong.



GOWRIE
15 October 1984

NON-DEPARTMENTAL PUBLIC BODIES: PROPOSED CHANGES IN REVIEW ARRANGEMENTS

Note by the Cabinet Office and the Treasury

Present arrangements

1. The Cabinet Office (MPO) guide to NDPBs provides for two, linked, review cycles:

(i) Financial reviews, focusing on each body's financial system, internal controls, and arrangements for forecasting and monitoring expenditure. Reviews - which have not been centrally co-ordinated - should be carried out every 3 to 5 years, according to whether the body receives more or less than 50 per cent Exchequer funding.

(ii) General or "Pliatzky" reviews, with objectives similar to the original Pliatzky scrutiny: namely to consider each body's continuing justification and role; and to examine economy of administration and scope for savings. For executive and judicial bodies the Guide recommends a 3-5 year cycle, linked to financial reviews. In practice Departments have worked to a centrally-co-ordinated 5-year programme. Advisory bodies are reviewed annually.

Recent review results: reasons for considering change

2. As in 1982, the 1983 round of reviews led to relatively few quango reductions. Five advisory bodies were abolished (compared with 8 advisory and 2 executive bodies last year). A further ~~2~~¹ advisory bodies disappeared following decisions taken independently of review. A few reviews led to amendment of a body's constitution, and/or to resource savings. (Details are attached.) Overall, the 1983 results confirm the impression gained last year that most "dead wood" has been cut out; there seems no reason to expect more numerous abolitions in the next few years.

3. A valuable innovation in 1983 was action by a number of departments - in some cases assisted by the Financial Management Unit (FMU) - to use reviews to consider how better systems and skills could be brought to bear to strengthen the management of their quangos. Some substantial exercises of this kind were as follows:

- A study has been completed of the financial management of, and within, the Science and Engineering Research Council. DES are acting to apply the recommendations to all the Research Councils, with significant results expected in 1985.
- DOE have reviewed their financial management in relation to 18 bodies (including the 2 regional water authorities and 2 urban development corporations). A programme of improvement work is going forward, and progress in achieving targets will be reported to Ministers for their annual review meetings with the bodies' Chairmen.
- Scottish Office have piloted arrangements for financial scrutiny on the lines of the financial management initiative for Government departments, through reviews of the Scottish Sports Council and the Scottish Council of Educational Technology.

More recently, the Office of Arts and Libraries have invited the national museums and galleries, and other sponsored bodies, to collaborate in a 2-year programme to explore scope for improvements in working relationships and in the bodies' own management systems.

4. The FMU drew on their experience of participating in Departmental reviews to produce a report on "The Implications of FMI for the Sponsorship of NDPBs". Key conclusions included the following:

(i) Some bodies lack adequate mechanisms for defining objectives, setting targets, and assessing what they are actually achieving.

Arrangements for forecasting and controlling expenditure could also in many instances be improved. It follows that there is considerable scope for adopting improved management practices designed to ensure good value for money.

(ii) There is some confusion, and overlap, between the objectives of financial and "Pliatzky" reviews. Even taken together the two systems do not cover fully or sharply enough all the questions raised by the Financial Management Initiative.

Proposed changes

5. The rationale for present arrangements was described by the Prime Minister in the House of Commons on 3 December 1980 as follows:

"We shall keep all existing bodies under regular scrutiny. Those which continue to undertake valuable work and remain appropriate will be retained but we shall keep under close control the money which the Government spends on them. Whenever bodies are no longer needed they will be wound up"

6. This dual purpose of reviews - to examine basic justification and value for money - still seems valid. But present arrangements need to be brought up to date with the drive for better management and greater efficiency in the Civil Service. There should be more emphasis in future on specific actions to improve the quality of quangos' financial management, and Departments'

capacity to oversee this. To achieve this, we propose that the present financial reviews, and economy and efficiency aspects of Pliatzky reviews, should be subsumed in a system of wider "financial management surveys" based on FMI principles. The other "Pliatzky" questions - justification, and policy framework - would also continue to be posed, separately where necessary.

7. Financial Management Surveys. The questions to be covered are indicated in the "FMI check-list", included in the FMU report. This would be for selective use by Departments who would need to focus on priority areas for review, taking account of the varying circumstances of their bodies. These would include, for example any statutory provisions governing the body's relationship with Government and its operational autonomy. The detailed approach to planning surveys should also be flexible. In some cases the bodies themselves could be expected to do most of the work. In other cases Departments would have to play a larger role, although reviews would still need to be planned and carried out in close co-operation with the bodies concerned. Unless they saw themselves as willing partners, full commitment to necessary improvements might be difficult to achieve. In all cases, the intention is that the approach should in principle be similar to that adopted by Departments in reviewing their own systems and procedures in the light of the FMI. Surveys would need to look both at bodies' internal financial management and at the relationship with their sponsor Departments. The aim would be to produce specific plans designed to put NDPBs in a better position to secure good value for money and sponsor Departments to satisfy themselves that this is happening. Adequate systems once in place, their continuing effectiveness could be monitored through less intensive reviews from time to time.

8. The first step should be for each Department to draw up a timetable of financial management surveys. In determining the order of priorities, criteria would include the NDPB's total expenditure, the amount of Government funding it receives, and other factors such as charges to the public or contingent liabilities. Priorities would also need to be decided in the light of the availability of resources to carry out reviews, both in departments and in the NDPBs. Departments with very many bodies would, on the whole, take longer to survey them all. The timetable should also take account of any work programmes already existing which cover financial management in these bodies; surveys should be tailored as far as possible to fit in with such plans, rather than requiring changes to be made to work which is already planned. The final timetables which departments agree with the Treasury should, however, provide for reviews of all major bodies to be completed by April 1987, with a significant number completed by April 1986. The aim would be to begin realising the benefits of improved systems - in terms of better value for money - from 1985/6 onwards.

Policy Reviews

9. Specific arrangements would continue to be needed for the present to ensure that the justification for each body, its broad structure, functions and objectives and its relationship with its sponsor department, are regularly re-examined - the basic "Pliatzky" concept. Central guidance would be issued in the form of key questions to be posed.

10. Pliatzky reviews of executive bodies and tribunal systems have hitherto been largely self-contained exercises carried out on a 5-year "rolling" timetable. Increasingly, however, Departments will find it most convenient

to pose the questions during wider Departmental reviews. Where a financial management survey is planned for a particular body it will normally be sensible to integrate the "policy review" process with that. Other opportunities to trigger reviews will include the top management systems which are increasingly being used to select programmes for review and to commission efficiency scrutinies.

11. To encourage this approach, departments would not in future be asked to agree to a separate programme of policy reviews. Instead, they should be invited to inform the central Departments, before each review period, which bodies they expected to be covered by the various kinds of review activity mentioned above; and to confirm that the opportunity would be taken to pose those of the policy questions which are relevant.

12. In practice this approach means planning more provisionally, and to a shorter timescale, than under "Pliatzky". The gain would be greater realism, flexibility and economy. Duplication of demands on limited review resources should be avoided. Central departments would as now monitor in broad terms the quality of the policy review process, and overall results (ie reflecting answers to relevant policy questions) would be reported annually to the Prime Minister.

13. Experience suggests that the present requirement for annual reviews of advisory bodies is too frequent. Circumstances typically change little in such a short time, so that inevitably the approach tends to become superficial. We therefore propose changing to a 3-year review cycle. Precise arrangements would need to be agreed with the central departments - and would vary between Departments - but results would be included in the annual report to the Prime Minister.

Implementation

14. Departments would be asked to submit to the central departments by November 30:

(i) a programme of financial management surveys covering the period to 1.4.87, indicating which would be completed in the first year (ie by 1.4.86);

(ii) a list of executive bodies and tribunals to be subject to policy review during the corresponding periods. This would normally be as part of wider review activity, as discussed above. In addition Departments should say how they propose to tackle reviews of advisory bodies during the two periods, bearing in mind the need to cover all such bodies by 1.4.88.

15. Where the two types of review are not actually integrated, the aim should be to achieve closest possible co-ordination between planning for Financial Management Surveys and for the policy review process. Wherever possible the central Departments would consider sponsor Departments' proposals in parallel, and respond jointly.

Report to the Prime Minister

16. The first report to the Prime Minister would be made in mid-1986, describing the results of review activity up to 1.4.86. (In other words it would cover a period rather longer than a year; thereafter, there would be annual reports, corresponding with financial years.) The 1986 report would recommend whether to amend the system, or to roll it forward, largely unchanged, for 1987/88.

1. EXECUTIVE BODIES AND TRIBUNAL SYSTEMS

Reviews carried out (total 51):

Ministry of Agriculture, Fisheries and Food (3)

Apple and Pear Development Council

*Eggs Authority

Milk and Dairies Tribunals (England)

Office of Arts and Libraries (5)

British Museum

Crafts Council

Sir John Soane's Museum

Department of Education and Science (5)

Council for National Academic Awards

Science and Engineering Research Council

Central Bureau for Educational Visits and Exchanges

National Youth Bureau

Genetic Manipulation Advisory Group

Department of Employment (4)

Advisory, Conciliation and Arbitration Service

Central Arbitration Committee

Employment Appeal Tribunal

Industrial Tribunals

Department of the Environment (1)

London Housing Staff Commission

Foreign and Commonwealth Office Overseas and Development Administration (3)

Foreign Compensation Commission

Marshall Aid Commemoration Commission

Crown Agents

Department of Health and Social Security (6)

Council for Postgraduate Medical Education (England and Wales)

Medical Boards

Medical Appeal Tribunals

National Biological Standards Board

NHS Tribunal

Public Health Laboratory Service Board (England and Wales)

Home Office (4)

*Commission for Racial Equality

*Equal Opportunities Commission

Police Disciplinary (Senior Officers) Tribunal

Police Appeals Tribunals

Lord Chancellor's Department (2)

Pensions Appeal Tribunal

Lands Tribunal

Northern Ireland Departments (5)

Compensation Appeals Tribunal

Compensation Tribunal for Loss of Employment through Civil Threat

Tribunal under Article 5 of the Health and Personal Social Service Order 1972

NI Arts Council

NI Council for Educational Development

Scottish Office (10)

Crofters Commission

Edinburgh New Town Conservation Committee

Glenrothes New Town Development Corporation

Newbattle Abbey College - Board of Governors

River Purification Boards

Scottish Council for Educational Technology

Scottish Council for Research in Education

Scottish Crop Research Institute

Scottish Institute of Agricultural Engineering

Scottish Sports Council

Department of Trade and Industry (1)

English Industrial Estates Corporation

Department of Transport (1)

Transport Tribunal

Welsh Office (3)

Development Board for Rural Wales

Sports Council for Wales

Welsh Development Agency

Decisions on rationalisation short of abolition

Cost savings pa
£m

1. Genetic Manipulation Advisory Group (DES)
Reconstituted as the Advisory Committee on Genetic Manipulation and responsibility transferred to DEM.
The Committee will advise the Health and Safety Commission and Ministers rather than, as formally, merely "maintaining contact" with other interested departments while reporting to DES. -
2. Central Bureau for Educational Visits and Exchanges (DES) rising to
Scope identified for management improvements and 0.35
significant expenditure and staff savings.

Decisions to abolish

No abolitions were decided as a result of reviews. Decisions were however taken independently of the review to wind up the following bodies (not included on the preceding list):

	Cost savings pa £m
1. Land Settlement Association (MAFF)	1.000
2. National Water Council Water Space Amenity Commission } (DOE)	0.610
3. Toplis and Harding (Middle East) Ltd (FCO)	0.003
4. Committee of Management of the School for Dental Therapists Ltd (DHSS)	0.645
5. Manmade Fibres Producing Industry Training Board (NIO & Depts)	0.007

2. ADVISORY BODIES

All existing advisory bodies were reviewed (apart from those with a finite life or where a decision had already been taken to abolish). They numbered 1,074 on 1.4.83. Bodies abolished or reconstituted as a result of 1983 decisions are listed below. (Unless otherwise stated, the decision was to abolish. Only where bodies are marked * were decisions as a result of review.)

	Cost savings pa £m
<u>MAFF</u>	
1. Committee on the Artificial Insemination of Cattle	0.016
2. Food Standards Committee and Food Additives and Contaminants Committee - amalgamated to form the Food Advisory Committee	-
3. Joint Consultative Organisation for Research and Development in Agriculture and Food	-
4. Kew Scientific Advisory Panel	0.001
5. Scientific Panel for Fertilisers and Feedingstuffs (Method of Analysis)	0.006
6. Wakehurst Place Consultative Panel	-
<u>DEm</u>	
* 7. Careers Service Advisory Council for England	0.009

	Cost savings pa £m
<u>DOE</u>	
8. Building Research Establishment Advisory Committee	-
<u>FCO</u>	
9. Advisory Committee on Selection of Low-Priced Books	-
<u>DHSS</u>	
* 10. Advisory Group on Cardiothoracic Equipment	}) }) }) }) 0.009
* 11. Advisory Panel on Anaesthetic Equipment	
* 12. Advisory Committee on Audiological Equipment	
* 13. Advisory Panel on Orthopaedic Implants	
14. Committee on Radiation from Radioactive Medicinal Products	-
15. Joint Committee on the Medical Aspects of Water Quality	0.015
16. Laser Safety Working Party	0.005
17. Pacemaker Advisory Group	0.001
<u>HO</u>	
18. Joint Committee for Refugees from Vietnam	0.024
19. One New Town Licensed Premises Committee	-
<u>LCD</u>	
* 20. Advisory Council on Public Records - Membership broadened to include scientists and social scientists. Effectiveness will be improved by the Department in future proposing more topics for advice	-
<u>NIO and Depts</u>	
* 21. Central Medical Advisory Committee - reconstituted with a smaller membership and more effective infrastructure	-
* 22. Central Nursing Advisory Committee - effectiveness increased by simplified structure	-

	Cost savings pa £m
23. Disablement Advisory Committees (7) - to be renamed Committees for the Employment of Disabled People and reduced to 3.	-
 <u>S0</u>	
24. Council for Tertiary Education in Scotland - wound up in December 1983 to be replaced by Scottish Tertiary Education Advisory Council, which would have a wider remit including the Scottish universities, and collaborating with bodies in England and Wales.	-
25. Scottish Advisory Committee to Central Council for Education and Training in Social Work	-
 <u>DTI</u>	
26. Advisory Committee on Wireless Telegraphy	-
27. London Transport Users' Consultative Committee - reconstituted as the London Regional Passenger Committee	-
 <u>W0</u>	
28. Welsh Nurse Training Committee	-



+ CWO
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10 DOWNING STREET

From the Private Secretary

22 October, 1984.

Dear Paul,

Non-Departmental Public Bodies

The Prime Minister was grateful for Lord Gowrie's minute of 15 October proposing a new initiative to obtain better value for money from those quangos and other public bodies which have been retained.

The Prime Minister welcomes Lord Gowrie's proposals, and will be minuting her colleagues about them. She also agrees that they should be announced as soon as possible, and we will be in touch with you about the arrangements.

I am sending copies of this letter to the Private Secretaries to Ministers in charge of Departments, Janet Lewis-Jones (Lord President's Office), Richard Broadbent (Chief Secretary's Office, HM Treasury), Mike Corcoran (Mr. Hayhoe's Office, HM Treasury), Ian Beesley (Sir Robin Ibbs' Office), and Richard Hatfield (Cabinet Office).

Yours ever,

David

David Barclay

Paul Thomas, Esq.,
Office of the Chancellor of the Duchy of Lancaster.